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Enterprise Policy

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**the Faroese Parliament
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TO DO WHAT YOU ARE BEST AT

**Ministry of Trade and Industry
2005**

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Enterprise Policy

TO DO WHAT WE ARE BEST AT

Preface

The goal of the Faroese Government is that the Faroes will be numbered among the foremost countries in the world by 2015. This enterprise policy is as an integral part of the work to clarify and refine this vision and shall provide the foundation for the drafting of more definitive sub-goals and the related implementation strategies to achieve these goals.

If the Government's vision is to become a reality, it is, of course, necessary to focus on those aspects of the country's development that have an economic impact and that can stimulate growth. All the on-going affairs of state addressed by Parliament, the Office of the Prime Minister, the various ministries and municipalities, as well as the many issues that private industry and civil society organisations deal with on a daily basis, are naturally important components in the growth and advancement of a society and contribute to making a community a better place in which to live and work. Nevertheless, making this vision a reality will necessitate concentrated work on certain selected issues related to the overall development of Faroese society.

In this report, several important aspects of society are explored that are not generally related to governmental commerce or enterprise policy. It is well acknowledged that if business shall prosper, it is vital to address the needs of individual workers and their competence levels. Good education, among other factors, is therefore critical.

Various factors addressed in this report are of extreme importance and, in one way or another, will be included in the Vision 2015 plan. However, it is important to note that certain other aspects will also be explored in the report, concepts that generally are not addressed in drafting an industrial or enterprise policy.

In the period 1998 - 1999, the Ministry of Trade and Industry published five white papers exploring enterprise policy issues. The fifth was the actual enterprise policy. Since that time, specific industrial policies have been developed for the travel industry, the ICT industry, sea farming, and agriculture.

The 1999 enterprise policy inaugurated the principle of an on-going review of policy. The enterprise policy has now been revised. An all-encompassing, ever-expanding globalisation is one reason behind this current revision. In short, globalisation effaces borders and distance becomes less important for economic endeavors, and therein resides a major challenge for our society.

Globalisation is sometimes perceived to have a harmful impact on the economic and commercial conditions of a country. However, with the right enterprise policy, increased globalisation can actually yield greater advantages than disadvantages for the Faroese people.

The goal of the enterprise policy is to ensure a sustainable economy in the Faroes and to raise the living standards of each and every member of our society, while continually strengthening the social welfare infrastructure of the country. This enterprise policy statement sets forth the guidelines as to how these goals can be achieved.

Enterprise policy is based on the concept of a market economy with functional competition within the marketplace where the political authorities lay down the regulatory framework. This model is well known, but the new policy points out that certain conditions must be changed before the marketplace in the Faroes can function in top form.

Of special importance is an increase in productivity and innovation. The structural policy, which is a part of the enterprise policy, shall ensure efficient markets, and the adaptability and flexibility of companies and their employees must be as good as possible.

In order to facilitate change – and to reach the goal of enhancing the living standards of each individual – the proposed policy outlines concrete plans. The proposal is detailed in this white paper report, which covers specific steps to eliminate untoward consequences that might prove prejudicial to a fully functional market economy. The plans cover nearly all aspects of our market.

The policy proposal outlines in general the enterprise framework, but it also addresses areas of special responsibility for the Minister of Trade and Industry. It is hoped that this enterprise policy may serve to stimulate in all of us the desire to strive to achieve our very best.

In anticipation that this enterprise policy
shall be well received by the Members of Parliament,
and shall stimulate a positive and comprehensive debate,

Bjarni Djurholm

Minister of Trade and Industry

Executive Summary

The Government intends to elevate the living standard of the Faroese people. The vision is to raise the standard of living equal to that of the best economies in the OECD – and to ensure that the Faroes remains at that level. The second goal of the Government is to ensure a sustainable economy and to enhance the social welfare structure of the entire society.

In order to reach these progressive goals it is necessary to initiate various measures. The actions articulated in this white paper report are based upon principles to be generally followed in matters of enterprise policy. Further, the aim of the enterprise policy is to provide the impetus for all of us to strive to achieve our very best.

Below are the main headlines of the proposed measures to be promoted:

- The labour market
 - Better opportunities for lifelong learning and upskilling of the unemployed.
 - Establish a programme of work-related courses designed to strengthen the competencies of unskilled workers, who would receive a leave-of-absence stipend while attending.
 - Applications for work and residency permits shall be processed expeditiously.
 - Establish a process to quickly resolve labour disputes as they arise.
 - Establish a new labour mediation structure.
 - Establish a personal pension programme for workers that shall function in collaboration with the National Pension System and the Labour Market Supplemental Pension Fund (AMG).
 - Establish a process that ensures a flexible and smooth exit from the labour market both before and after the retirement age of 67.
- Education
 - The aim is to make international contact a natural part of education and of the education system. All schools shall be encouraged to enter into formalised co-operation with schools in other countries and the learning of foreign languages, English in particular, shall be granted a higher priority than it is today.
 - Higher business education shall be strengthened and placed within the University of the Faroes system.
 - More emphasis shall be placed on PhD and business-affiliated PhD programmes in co-operation with the Faroese business community.
 - The range of vocational lifelong learning programmes shall be improved.
 - Facilitate co-operation between the University of the Faroes and the pending research park.
- Taxation
 - Promote tax reform whereby personal and corporation tax rates are lowered, while broadening the tax base.
- Insurance market
 - Rescind current restrictions on the insurance market, enabling residents to obtain insurance abroad and Faroese insurance companies to operate in foreign countries
- General commercial legislation
 - Update fundamental business-related legislation, including, *inter alia*, the company law and the accounting law, consistent with international standards.

- Privatisation of government-owned enterprises
 - A systematic process of privatisation shall be established. A comprehensive privatisation plan is in place for those enterprises the political coalition agrees shall be sold in the coming years. In addition, a guiding timetable has been developed that indicates how the privatisation process shall be conducted, including the sales rounds.
- Natural resources
 - Develop a plan on how to ensure a balanced competition for production resources and that the most productive companies manage the sea farm resources.
 - Organise a work group to develop a proposal for the updating of the fisheries industrial policy.
- Processed food products
 - Promote scientific research and development (R&D) and innovation in fish products.
 - Ensure that the regulations governing and the oversight monitoring of the food production industry comply with international standards.
- Goods and services
 - Place on the political agenda exploration of an arrangement similar to the European Economic Area (EEA) with the intent of entering into negotiations with the EU on the matter.
 - Examine the possibility of Faroese membership in EFTA.
 - Arrange for the inclusion of the Faroes in the European Common Aviation Area.
 - Update the Competition Act.
 - Draft regulations on government purchases.
 - Draft a marketing law.
 - Update the consumer protection laws.
- Transport network
 - Draft a new transport plan for the Faroes.
 - Extend the runway at Vágur Airport; implement other transport network development consistent with the transport plan of 2006.

In the enterprise policy, many political initiatives have been set forth for discussion as well that are designed to stimulate innovation within the Faroese business community:

- Research and knowledge diffusion
 - The Faroes should participate in the research and innovation framework programmes of the European Union.
 - Establish a research park.
- Entrepreneurship
 - The education system shall actively promote an attitude of entrepreneurship within Faroese society.
 - Encourage those with advanced degrees to create their own businesses or to seek work in the private sector to a greater extent than presently is the case.
 - Counselling on entrepreneurship shall be concentrated in one centre and an entrepreneur network founded.
 - Investigate the possibility of establishing a physical facility for entrepreneurial activities (innovation centre) in the vicinity of existing educational facilities as these are expanded.
 - Create a good framework for a venture capital market, and research and seed capital funds.

- Seek to amend the bylaws of the Business Development Fund [Framtaksgrunnurin] so that the fund is able to finance new business initiatives to a greater extent than today.
- Co-ordinate the various public support/subsidy schemes.
- Create a flexible administrative framework for entrepreneurial activity.
- Found an entrepreneurship web portal.
- ICT usage
 - Ensure optimal competition within the telecommunications market, also in connection with the privatisation of Faroese Telecom.
 - Stimulate accelerating penetration of broadband via specific measures and otherwise follow the course of the market and take the necessary measures, if needed.
 - Put the necessary resources into the digital signature project.
 - Integrate ICT into the education system.
 - Create a Faroese IT education at the Master's degree level.
 - Determinedly work toward eGovernment.
- Market the Faroes abroad, especially in these areas:
 - The Faroes as a tourist destination.
 - The Faroes as a test bed and showcase for ICT innovation.
 - Privatisation of government-owned enterprises.
 - Offshore activities.
 - Faroese Ship Registry.
 - Sea farming and fish processing.
 - Genetic research.
 - Comprehensive service centre for ships in the North Atlantic.
 - Faroese products and services.

Because these plans and measures are especially comprehensive and far-reaching in perspective, and because, at the same time, the financial and administrative resources of the Government are limited, these goals have been prioritised based on 1) the importance of each measure or undertaking, 2) how quickly they could be implemented, and 3) cost. The list of priorities may be found at the end of this white paper report.

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1. GUIDING PRINCIPLES OF THE ENTERPRISE POLICY

The aim of the new enterprise policy is to elevate the living standards of each individual citizen of the Faroes, and to improve the social welfare structure of the entire society. The vision is that the country will be on a par with the best economies in the OECD with regard to economic collaboration and development – and to ensure that the Faroes remains at that level.

In this connection, two areas are emphasised:

- Enhance international contact by Faroese society and facilitate an efficient marketplace.
- Develop the competence level and the framework for advancement for Faroese business and labour through systematic measures so that they are better prepared to engage in effective competition on the international market.

In this regard, the intent is to create the best conditions possible to facilitate increased productivity in the Faroes. Increased productivity will result in an increase in real wages for workers and increased profit for Faroese companies.

There are two paths towards increased productivity:

- Increase the productivity of individual businesses in the economy.
- Shift the production resources from less productive businesses to the more productive businesses.

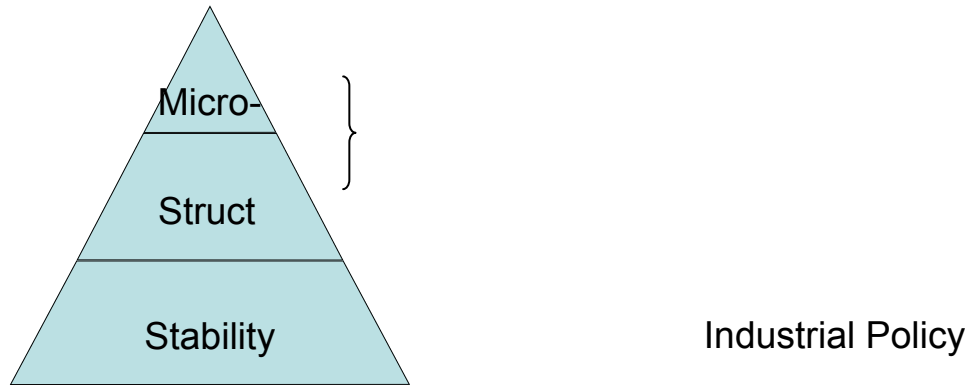
The purpose of the enterprise policy is to structure these courses of action in such a manner as to stimulate the economy. The section of the enterprise policy that focuses on increasing the productivity of individual business sectors in the economy is the so-called 'micro-policy', which focuses on the opportunities for growth of the individual company and the individual employee.

The so-called 'structural policy' section of the enterprise policy focuses on how to ensure that the activities of the most productive industries increase, whilst the less productive industries decrease. This section deals with overall business organisation or structure. Although structural policy focuses on overall economic and market conditions, it also affects productivity in individual business sectors.

The foundation of the enterprise policy is the macro-economic stability policy. Generally, matters involving macro-economic stability are not addressed in an enterprise policy, but nevertheless are very important because, if there is no solid foundation under the policy, then implementation consistent with policy goals proves difficult. Via a macro-economic stability policy, the political authorities are able to ensure economic continuity, which is the fundamental foundation underpinning a market economy and commercial competitiveness. Low inflation, minimal public debt and a stable currency are the foundation stones of a macro-economic stabilisation policy and the mortar is a good fiscal and monetary policy. The Faroese Government administers Faroese fiscal policy, whilst the Danish National Bank is responsible for monetary policy.

The intent of a stability policy is to implement a cautious economic policy in order to create stability for private enterprise. In a fully functional market economy, the market itself optimises resource allocation and competition generates the most value. In this connection, the role of government is to ensure a market-friendly regulatory structure. Therefore, the Faroese Government must ensure that the economy remains stable, because major fluctuations, e.g. inflation, dampens investment interest and undermines the level of investment in the marketplace, even though the economy may be functioning well.

Figure 1. Industrial and Stability Policy



One of the main features of a structural policy is to ensure that the means of production, i.e. labour, capital and natural resources, have the right impetus to shift from less productive industries to the most productive industries. Therefore, one of the core principles of structural policy is to remove any obstacles hindering the means of production from electing to shift to industries producing the most value. There is little doubt that a market economy that is provided the correct framework, including the necessary social structures, shall be the driving force behind the Faroese economy.

Even though a well-functioning market economy is the basis for an enterprise policy, disruptions can occur, however, that might distort the market, such as unforeseen or unintended side effects, monopolistic actions or a scarcity of knowledge or information, whereupon the Government and the Parliament could directly intervene in the market. A concrete example of such a disruption would be environmental pollution from one company reducing the productivity of a sea farm in the vicinity or impacting the health of people in the area. In such circumstances, the Government should attempt to mitigate the negative impact on the economy of the region or of the country as a whole. Other examples relate to infrastructure and to education wherein the market alone cannot be expected to bring these to an appropriate and sufficient level.

As a whole, structural policy is based on three guiding principles:

- Functional competition in an open economy.
- Equal treatment of all industries.
- Well-functioning infrastructure – social, educational, technological and physical.

Micro-policy is another important feature of an enterprise policy. Micro-policy considerations also seek to increase productivity. OECD statistics indicate that the living standard in a country is closely linked to the level of innovation, i.e. how good its citizens and its businesses are at developing and assimilating new products, services, procedures and technology. Innovation plays an important role in economic growth, and micro-policy focuses on ensuring that the framework supporting innovation is as good as possible. The OECD has affirmed that the underpinnings of innovation in a society are influenced by a variety of growth-inducing factors, of which the most important are ICT deployment, entrepreneurship, knowledge diffusion, and a better allocation of human resources.

The foremost task is to implement a good framework and initiate concrete measures that will ensure these growth-inducing factors encourage innovation development in the Faroes so that indigenous companies could become more innovative and that new businesses could take root and flourish.

In this enterprise policy, strategies are presented on how to improve innovation within Faroese industry, including plans regarding entrepreneurship, knowledge diffusion and ICT uptake. The improved allocation of human resources is, first and foremost, the task of each and every business itself.

All things considered, the cornerstone of a well-functioning enterprise policy is a viable stability policy. Given this secure foundation, an industrial policy can be implemented wherein the structural policy facilitates a functional market and infrastructure, and the micro-policy spawns the best framework for innovation in the Faroese business community.

Rather than implementing a variety of enterprise policy measures, the goal is to co-ordinate policy initiatives across the different business sectors so that these initiatives function as a whole. It is difficult to increase productivity significantly without at the same time having a fully functional structural policy for the commercial sector. Furthermore, the development of competencies and business opportunities by both industry and individuals necessitates a dynamic policy, especially when competition stiffens. Set forth below are the proposed enterprise policy recommendations deemed appropriate to create a healthy mercantile environment that will enable businesses and their workers to compete effectively in an ever-increasing globalised market.

2. STRUCTURAL POLICY

2.1 Labour market

2.1.1 Workforce agility enhanced – lifelong learning strengthened

If employees and businesses wish to remain flexible and competitive, it is necessary to have an agile workforce, i.e. workers can easily change jobs – whether within the company, between companies, between different industry sectors or different regions of the country. The national unemployment insurance fund (ALS) ensures workers a certain financial security when they are unemployed, and thus are in a good position to seek other employment. The employment search service of ALS assists the unemployed to locate work. ALS also offers the unemployed short-term, upskilling and reskilling courses.

The unemployed should be offered opportunities for proficiency development and re-education to a greater degree than is offered today and they should receive financial support to take advantage of these re-education possibilities, so that they will have a good chance to become once again an active member of the workforce. However, it is up to the individual person if he or she wants to participate in an educational programme that would lead to enhanced proficiency. Therefore, it is important that it is indeed possible for an unemployed person to participate in such a re-education programme. It is intended that a scheme shall be initiated wherein the unemployed who participate in a short-term re-education or proficiency development course shall receive financial support equal to their respective unemployment benefit. To ensure that the scheme functions for those who truly are in need of re-education and proficiency training, the programme should for the most part support only those over a certain age.

Further, it is necessary to inaugurate certain measures to develop the competency of unskilled workers, especially by making it possible for them to attend vocational courses with an equivalent leave-of-absence stipend. This can be accomplished by creating a special arrangement for vocational training for the entire workforce.

To facilitate easy movement between different parts of the country, it is important that the transport possibilities are first-rate, thus enabling people to commute between home and workplace. In this regard, confer section 2.10 dealing with the transport infrastructure. It is also important that people have good options to relocate their home, meaning that there is an ample and diversified housing market and that there are good child care facilities and schools. Essentially, the local municipalities administer these aspects of community life, but the national government is mandated to ensure that national legislation does not hinder the efficient management of these local community initiatives.

It is very important that the workforce is not only able to shift within the country, but also between countries, because this opportunity enables the workforce and businesses alike to respond more quickly to changing market conditions. Today, labour is able to freely move between the Scandinavian countries, but the Government intends to enter into negotiations with the EU on the "four freedoms" (the free movement of goods, services, capital, and labour within the EU), which would mean that labour could also easily move between the Faroes and the EU. It is also important to have a responsive system to process Faroese work permits for skilled foreign workers.

Recommendations:

- Establish a scheme by which the unemployed, who wish to participate in a re-training programme, may receive a stipend equal to their unemployment benefit whilst obtaining an education.

- Develop a scheme to strengthen workforce competence, especially unskilled workers, via vocational upskilling courses that include leave-of-absence stipends.
- Create a responsive system to process work permits for foreign nationals.

2.1.2 Faster resolution of labour disputes

In the Faroes, there are no special regulations governing workers rights designed to quickly resolve labour disputes and questions regarding breaches of labour contracts, and this is a problem for our society.

The arbitration law is old and outdated and it covers only a part of the labour market.

After consultation with the various players in the labour market, a committee has therefore been established to prepare a proposal for a system by which labour market disputes can be resolved as soon as they arise. Moreover, the committee will draft a labour arbitration/mediation bill that shall cover the entire labour force and that is consistent with the needs of a modern labour market as well as Faroese customs and practices.

Recommendations:

- Establish a procedure by which to resolve labour disputes within the term of the collective bargaining agreements.
- Promulgate a new arbitration/mediation law for the entire labour market.

2.1.3 Pension Schemes

In the Faroes – as in the other countries around us – we must address the issues of an aging population. If people are to enjoy a reasonable living standard in retirement, some measures have to be implemented to ensure this.

Therefore, it is necessary to carry out pension reform, whereby the pension system shall rest on three pillars: the National Pension System, the Labour Market Supplemental Pension Fund (AMG) and a personal retirement savings plan, based on an agreement between the wage earner and the employer.

In addition to the mandated systems, everyone is free to save more. Moreover, the pension system should enable a smooth transition from the workforce, both before and after the age of 67.

For those who, for one reason or another, are unable to save whilst employed to ensure a decent life as a retiree, the country should create or maintain retirement schemes such as the National Pension System and the Labour Market Supplemental Pension Fund.

Recommendations:

- Establish a personal labour market pension scheme that shall be linked into the existing pension systems such as the National Pension System and the Labour Market Supplemental Pension Fund.

2.2 Capital market

The capital market is comprised of the finance, insurance and securities markets. A well-functioning capital market with functional competition in all sectors is a critical prerequisite to ensure that the Faroese living standard remains as high as other advanced economies. This is the reason why excellent, diverse and inexpensive services within the finance and insurance sectors are so important for the public.

Moreover, a fully functional capital market is of indirect importance for each citizen in that it enables businesses to obtain necessary capital for investment plus they can receive financial services as good and as reasonably priced as anywhere else.

The capital market in the Faroes is constrained in several ways. The insurance industry is not liberalised in that in general it is not legal for Faroese to purchase insurance abroad, just as foreign insurance companies are not permitted to offer insurance in the Faroes. These conditions limit competition in the insurance market in the Faroes and hinder the freedom of ordinary citizens and businesses to obtain the insurance that best meets their needs.

One consequence of the above-referenced restrictions on foreign insurance companies in the Insurance Activities Act is that Faroese insurance companies as well have limited options to gain access to foreign markets (e.g., EU/EEA countries) in order to expand their operations. This is due to the fact that the legislation in the referenced countries allows foreign insurance companies to operate within their borders, only if insurance companies in the EU/EEA region have similar access to the respective country.

As a consequence, *inter alia*, of the investment rules set forth in the legislation, nearly all the Faroese pension funds are invested in foreign securities. One special stipulation in the legislation is that the pension funds shall be invested in listed securities, which hinders investment in Faroese enterprises. At present, only a limited number of Faroese companies have listed their shares on a securities market. Therefore, pension fund assets are not available to the Faroese business community. A study is underway as to whether the insurance legislation should be amended so that the life insurance companies and the pension funds could more easily increase their investment in unregistered shares, given the increased risk associated with such placement.

Mortgage-based credit is a financial instrument that is generally little used in the Faroes. The law in this area is old, but it is not certain whether updated legislation would enhance the future development of mortgage-based financing. The Government, however, intends to update the regulatory framework in this area so that there are no obstacles hindering this type of financing in the future.

Recommendations:

Concrete enterprise policy proposals for the capital market include these measures:

Insurance services

- Update the insurance legislation consistent with EU laws.
- Foreign insurance companies should have the opportunity to operate in the Faroes and to offer their services to the Faroese, conditioned on that Faroese insurance companies likewise will have equal access to the respective foreign markets to offer their insurance services.
- The Faroese will have permission to purchase insurance abroad.
- Pension fund assets may be invested in unregistered securities to a greater extent than currently permitted.

Financial services

- Update the mortgage-based financing legislation.

2.3 Taxation

The taxation policy is extremely important for business and for the economic growth of a country. Many countries have systematically used tax policy to develop their economies with good results. The taxation policy can be used as a tool to encourage businesses and workers to come

to the Faroes who otherwise would not have elected to set up in the Faroes, as well as to stimulate growth in indigenous industries.

2.3.1 Tax reform

Focus will continue on lowering the tax burden in the Faroes. In this connection, it will be necessary to reorganise the tax system in order to lower personal and capital gains taxes, whilst at the same time broadening the tax base.

In the Faroes, the corporation tax has decreased significantly in recent years, and the corporation tax should continue to decrease in the future, as a part of overall tax reform, wherein attention is also focused on personal and capital gains taxes. It is important that personal income taxes and the tax on capital, i.e., the corporate tax and taxes on dividends, remain balanced. The aim is to gradually reduce the current corporation tax rate of 20% to 10%.

The personal tax rate and especially the minimum tax level also play a major role in how people are encouraged to increase their personal income. The plan is to decrease the personal tax rate in accordance with the provisions in the coalition government's co-operation agreement.

Recommendations:

- Tax reform will be carried out, focussing on the lowering of personal and corporation taxes, whilst broadening the tax base.
- Corporation tax gradually decreased to 10%.
- The personal tax rate will continue to decrease in accordance with the provisions in the coalition government's co-operation agreement.

2.4 General commercial legislation

It is very important for the Faroese business community that the fundamental commercial legislation – the rules of the game – is equivalent to those countries surrounding us. This often means that our laws, as much as possible, should be consistent with legislation in the EU.

Furthermore, it can be extremely important for Faroese businesses that they have to meet the same conditions as businesses in other countries. The same applies to foreign investors or foreign businesses that wish to set up operations in the Faroes: the commercial regulatory environment and the rules of the game are explicit and standard.

Steps have, therefore, been taken to review, consistent with the comments above, *inter alia*, the accounting law and the Companies Act, and to ensure that this legislation is regularly updated in future so that they are continually consistent with legislation in other countries.

Recommendations:

- Update some of the fundamental commercial laws, *inter alia*, the Companies Act and the accounting law, to ensure that these meet international standards.

2.5 Privatisation of government-owned enterprises

The Government owns a range of commercial enterprises that compete with privately funded businesses. It can be said that the Government to a certain degree is a 'patient' owner, an owner who does not set as high a demand for return on investment as a private investor. On the other hand, it can be extremely difficult for publicly owned companies to increase share capital, which can be easier for privately held companies. Moreover, if the public owns one or more businesses, this can have an adverse effect on competition within a particular sector.

The Government is set to engage in a systematic process of privatisation. An overall plan has been adopted by the government coalition to privatise certain specific businesses in the coming years. Moreover, a guiding timetable is in place that sets forth the milestones in the privatisation process, including the various sales rounds.

Roughly, it is estimated that in the coming years the Government will free up capital equal to some 4,000 and 6,000 million DKK, depending on the extent of privatisation. It can be assumed that over the next ten years the sales income on average stemming from privatisation will be about 500 million DKK annually. It is necessary to keep in mind that such sales income is not equivalent to ordinary tax and VAT revenue. Income derived from privatisation will, for the most part, be used (according to the government coalition agreement) to pay down the national debt load.

The Government has laid out certain guiding principles governing the privatisation procedures. In the guiding principles, the Government has pledged itself to maintain a clear demarcation between the tasks of the Government and those of the business community.

The guiding principles adopted by the Government also safeguard the interests of the consumer. Safeguarding consumer interests is accomplished first and foremost by organising the privatisation of an individual enterprise in such a manner as to not dampen competition, but rather to increase it. Moreover, the strategic interests of the country can be secured via privatisation.

Thirdly, the guiding principles bind the Government to organise the sale of public enterprises in such a manner that ensures that all interested parties have the opportunity to submit a bid, and that the sale will go to the highest price/market price under those conditions or those procedures that are necessary to secure the interests of the country, e.g. that competition will not be diminished.

Recommendations:

- Engage in a systematic process of privatisation. The Government coalition is in agreement on which publicly owned enterprises shall be privatised in the coming years.

2.6 Education

The goals of the educational infrastructure plans are to improve the level and quality of education and to offer a good education to as many people as possible.

Education is an investment in the future. Besides putting funds and resources into education, society also loses the productivity of students whilst they are engaged in getting an education. On the other hand, the country gains a more qualified worker upon completion of an education, which in most cases more than makes up for the investment that has been made.

Better-educated citizens usually earn higher wages and thus enjoy a higher standard of living. Education increases workforce agility and thereby decreases the risk of unemployment. Education can provide a community a social and scientific advantage.

In order to accomplish the goal of becoming one of the leading OECD countries by 2015, it is necessary that the Faroese, to a greater degree than today, receive a solid and quality education. This means that both the quality of teaching must improve and a greater number of Faroese must obtain advanced degrees.

The trend today is that fewer and fewer workers are unskilled and that knowledge is becoming more and more important in all areas of the economy. At the same time, more and more people are working in knowledge-based industries. This has occurred to such a degree that one now

talks of a 'knowledge economy' wherein economic growth is determined by how well a community produces, preserves, disseminates and adopts knowledge.

It is important that the educational system prepares our students for a more and more globalised world, wherein it is a prerequisite that one is able to communicate with people from other cultures who speak other languages. A strengthened programme of instruction in foreign languages, especially English, and enhanced collaboration with other educational and research institutions would help to ensure that the Faroese are not left behind in this area.

From an enterprise policy perspective, the following should be of the utmost priority:

- The aim is to make globalisation a natural part of teaching and the education system. All schools shall be encouraged to establish formalised co-operation with schools in other countries, and a greater emphasis will be placed on instruction in foreign languages, especially English, than is prevalent today.
- Advanced business education shall be strengthened and linked to the University of the Faroes.
- Education at the PhD level and business-affiliated PhD education shall be emphasised in collaboration with Faroese industry.
- Enhance the offerings of business-related continuing education.
- Facilitate co-operation between the University of the Faroes and the forthcoming research park.
- Strengthen the business and management aspects of current maritime education so that one can also use the education on land to a greater degree than at present.

2.7 Natural resources

In this context, natural resources relate to the following industries: aquaculture, petroleum, agricultural, and fisheries.

The intent is that these industries shall strive to generate the highest profit, manifest the greatest progress, and realise the most social benefit for society within an environment of free competition, wherein the well being of society and the preservation of the natural environment are of the highest priority. Businesses with high productivity more easily earn a profit from their capital investment. Therefore, they must be allowed to compete freely and equally for the means of production, which in the end will give the highest yield to society.

The task of the Government is to ensure that the framework is in place that provides a stable foundation for industrial progress and economic growth. Therefore, access to the natural resources of the country shall be regulated so that the fish stocks will remain sustainable, the environment surrounding the sea farms is not overburdened, and that the mountain sheep pastures are not over-pastured.

2.7.1 Aquaculture industry

To ensure that the aquaculture industry is profitable, the sea farms must be regulated in accordance with the stipulations in their concessions and in conformity with the veterinary and environmental regulations.

Based on existing conditions, the purpose of the structural policy is to set out the regulatory environment that enables the designated sea farms to generate the highest profits possible, herein that the granted concessions are put to the best use possible. The administrative process should likewise ensure that the most productive enterprises are allowed to administer the fish stocks of the sea farms. Competition between the sea farm enterprises should not be encumbered and there should be as little government interference as possible; enterprises with new sea-farming concessions must not gain a competitive advantage over companies whose conces-

sions will soon expire. Further, there should be consistency between the production time required and the long-term investment already in place. These matters are all regulated by the sea farming act, which is now being revised in its entirety.

Recommendations:

With the understanding that the environment surrounding the sea farms must not be overburdened, and that they must be managed in a biologically sound manner,

- Revise in its entirety the aquaculture legislation with the intent to ensure that competition for the means of production is fair and balanced and that the best-use obligation inherent in the concession is fulfilled.

2.7.2 Petroleum industry

The Government believes that the regulatory framework governing the petroleum industry in the Faroes on the whole is good and there are positive hopes for this industry in the Faroes. Further, the Government believes that the Hydrocarbon Taxation Act, which is a special tax regime regulating the petroleum industry exclusively, is satisfactory. Moreover, built into the regime is the requirement that the oil companies provide training and competency development for the employees of Faroese companies participating in the petroleum industry.

The Government feels that the oil companies should be strictly governed regarding their impact on Faroese culture, the environment and the overall well being of society.

2.7.3 Agriculture

Since antiquity, agricultural land in the Faroes has been divided into allodial land, which is deemed private property and can be freely traded; crown lands, and glebe or mensal property, both of which are today deemed property held in abeyance in the public trust and the freehold managed by the incumbent.

All of the agricultural legislation is now being revised.

Recommendations:

- The objective is to facilitate agricultural development to meet the demands of a market economy.

2.7.4 Fishing industry

The fishing industry is the principal industry of the Faroes and shall manage on its own without public appropriations. The fisheries should be exploited in a rational and commercially sustainable manner. The fisheries policy lays out a framework that enables the fishing industry to realise a high return on their investment, based on a system of fishing days and quotas in Faroese and foreign waters that in the end benefits the entire country.

Recommendations:

- The Minister of Fisheries and Maritime Affairs has appointed a working group to update the fisheries industrial policy. Their updated policy proposal shall be delivered to the Parliament for special review after the working group has submitted their proposal to the Minister.

2.8 Processed food products

As noted above, globalisation is one of the principal reasons necessitating innovation and the advancement of knowledge within business. With regard to processed food products, there are certain trends that directly impact the trading of food.

Competition with low-wage countries is increasing, both with regard to raw materials and the sale of finished goods within the regular market for Faroese food products. Competition encompasses not only price, but also extends to quality, consumer protection, traceability and sustainability.

2.8.1 SPS compliance

According to the Sanitary and Phytosanitary (SPS) Agreement of the WHO, customs duties will have less and less importance in the international trade of food products. On the other hand, animal health standards will play an even bigger role in determining the market access of Faroese fishery and aquaculture products. This means that the Faroese food and veterinary legislation concerning inspection for diseases among farmed fish, sanitation, quality, additives, residue, branding, traceability and sustainability, etc. must be crafted in accordance with the relevant directives prevailing in the countries where the products will eventually be sold, i.e., most notably the EU.

The Faroese food and veterinary policy should be so framed as to ensure that the market access of Faroese fish products shall not be compromised in any way or that any barriers that might restrain competitive pricing are eliminated.

2.8.2 What are the objectives?

In the area of food and veterinary legislation, the goal is to create a framework that ensures that the fishery and the aquaculture industries can develop so that they remain continuously competitive on the market.

Recommendations:

In order to achieve these goals, the intent is:

- To facilitate innovation, scientific research and development (R&D) in the generation of new fish products by, e.g., founding a research park where businesses could initiate projects to develop new fish products, beneficial adaption of by-products for food and the pharmaceutical industry, including the use of biotechnology advances for fish and aquaculture production.
- Investigate the parameters for a food science and technology education in the Faroes. The training could encompass food production and development, as well as the training of chefs and servers.
- To provide the necessary resources and competence for the Food, Veterinary and Environment Agency so that it can ensure the highest of sanitation levels for Faroese fishery and aquaculture products. This is required because it is vital that the international marketplace totally trusts our management of this area.
- To provide the necessary resources and competence for the continuous updating of the regulatory structure within the food and veterinary area, thereby ensuring that Faroese fishery and aquaculture products are not hindered from entering the international market because the requisite legislation is not in place.

If the above-mentioned objectives are to be reached within the next ten years, the fishery and aquaculture industries will be under severe pressure. This pressure will be felt at all levels of production – from catch to market – and includes capital, training, development of products, innovation and adaptation to market changes.

Over the last two years, the EU has updated its regulations regarding the scrutiny of food safety, which extends to the production of fish products as well. A new Faroese food safety law should be consistent with the food and sanitation legislative package of the EU, not only to ensure the export of all of our fish products, but also to ensure that Faroese consumers, at the very least, enjoy the same food safety assurances as consumers in other developed countries.

Advancing knowledge regarding food and veterinary matters and new international regulations and standards means that the revision and updating of our laws and regulations is a dynamic and on-going process. These issues must be continually addressed in order to ensure continued market access of Faroese fishery and aquaculture products.

2.8.3 Competition with low-wage countries

The value of fishery and aquaculture products is especially dependent on how much "know-how" is attached to the product. Unprocessed fish can be a highly valued product, if the quality is outstanding to begin with and product is transported from sea to table as quickly as possible. In this case, know-how applies, in particular, to market knowledge and logistics. In other circumstances, know-how can apply to how the fish are processed, to the distinctive aspects of the product itself, or to the product documentation, e.g., documentation related to traceability and the sustainability of the fisheries, etc.

Within the market for standard products with minimal processing (e.g., fillets), the Faroes faces stiff competition from low-wage countries. The problem is more pronounced in the latter links of the production chain, i.e., the fish processing factories, than in the early links of the value chain, i.e., the sea farms and the ocean fisheries. If Faroese fishery and aquaculture products are to remain competitive on the international marketplace, rationalisation and/or product development must occur. Product development and research might be conducted on many aspects of production, including quality, freshness, processing, consumer safety, traceability and sustainability.

The focus of government is to strive to ensure that the fishing industry can choose among a variety of strategies in order to engage the competition. For example, would enlargement of the airport improve the opportunity to export fresh fish, if it were felt that this option would produce a higher net value for companies who elected to follow this strategy?

2.8.4 Certification

Over the last few years, the large trading chains have put more and more emphasis on sustainability as an integrated part of their branding efforts with regard to food in response to consumer demand and education by environmental organisations. For example, Unilever and the WWF have collaborated on the development of guidelines for sustainable fisheries. The Marine Stewardship Council (MSC) oversees these principles. MSC certifies the sustainability of one or more species of fish or individual fishing enterprises.

The MSC has not yet promulgated guidelines for sustainable sea farming. A certification of sustainability for Faroese sea farming and salmon production/processing could be a competitive advantage not only when compared to other salmon producing countries, but also vis-à-vis other fish products and other food in general. However, the sea farming industry itself must determine if this is an advantage or not. The job of the government is to ensure that the regulatory framework does not impede such certification, if the goal is to follow such a certification strategy.

2.9 Goods and services

2.9.1 Functional competition

In order to enhance the living standard of everyone in the Faroes, a competitive goods and services market is essential.

Regarding the products and services market, the focus of the enterprise policy is to establish a framework for functional competition. In those circumstances where it is not possible to obtain the requisite functional competition, the objective is to provide for oversight. At the same time, there has to be a focus on consumer protection.

From an international perspective, the Faroese goods and services market is small. What distinguishes a small market is that there are few suppliers within each market sector. The economic terms most generally used in such cases are 'duopoly' or 'oligopoly'. Furthermore, some companies might even enjoy a monopoly.

As a consequence, there is little incentive for change or enhanced efficiencies within the market. A market with few businesses often has higher prices than necessary and thereby spins off higher than normal profit to existing businesses.

Even in well-functioning and large market economies, there is a problem of too few businesses in specific markets, thus limiting competition. As a consequence, competition laws and competition oversight have entered the picture. At the same time, a globalised market demands that the Faroes promulgate marketing legislation.

In a small market like the Faroes, it can be difficult to create functional competition in all sectors, and that is why active oversight of competition has such great importance for us.

Recommendations:

- The intent is to submit a competition bill to the Parliament that will later be extended with stipulations governing, *inter alia*, oversight of mergers and acquisitions so that we can have the same competition regulatory framework as most of our neighbouring countries, while strengthening the surveillance of domestic competition.

2.9.2 Same VAT on all goods and services and only well-justified extra duties

Value-added tax (VAT) and other duties are means of securing additional revenue for the national treasury. To the extent possible, VAT shall be the same on all goods and services and, in general, exceptions ought not to be allowed, so that all businesses, goods and services will be placed on an equal footing and the administration of the VAT system made as simple and as easy as possible.

In the main, no other duties should be imposed on any industry. Exceptions, however, will be made for products and services that affect the environment and people's health. In order to allow individuals and businesses to adjust to the altered conditions, this will be put into effect over a certain period of time.

2.9.3 Public procurement portal

The public authorities are an important part of the goods and services market in the Faroes. In 2003, the government purchased some 833 million DKK in goods and services. Thus, the purchasing practices of the government have a major impact on the overall competitiveness and productivity within the local goods and services market.

Therefore, regulations governing public procurement shall be promulgated that ensure transparency, proportionality (i.e., accord between established specifications and what is purchased), and equal and just treatment for all providers.

There has been much discussion about establishing a public webportal to facilitate government purchasing. Representatives from the business community have pointed out a number of critical issues regarding government procurement: no transparency, no competition, no request for tenders, and no co-ordination among agencies.

Recommendations:

- Promulgate regulations regarding government purchasing practices.
- Investigate the possibility of creating a webportal through which all public procurement above a certain value could be let out for tender under the aegis of free competition.

The purpose of a public purchase webportal is not, in the first instance, to rationalise government operations and thus decrease operating expenses, but to create competition within the products and services market. However, a benefit of competition will, no doubt, be reduced public expenses.

2.9.4 Strengthening consumer advocacy associations

In the Faroes, there is no public institution that offers consumer advocacy services. However, both in the Faroes and in Iceland, there are independent, non-governmental consumer associations that address the concerns of consumers.

It has been decided to financially support the consumer associations so that they will be better able to offer advocacy services for consumers and, in collaboration with the Faroese business community, address important consumer protection issues. When this system has been up and running for a while, it will be evaluated and a decision made as to whether or not it is necessary to alter the scheme.

The legislation that regulates consumer issues is very extensive and no one minister administers this area. The legislation covers, *inter alia*, purchases, credit purchases, consumer agreements, competition and marketing.

Recommendations:

- Support non-governmental consumer advocacy associations financially so that they can better serve the advocacy needs of consumers and address consumer issues in collaboration with the business community.
- Submit a new bill on marketing to the Parliament.
- Revise all of the legislation regulating consumer issues.

2.10 Commerce with foreign countries

2.10.1 Trade treaties

In a small society, the economy of necessity must be open in order to achieve expansive economic growth. Trade barriers between countries do more harm to a small economy than to a large one. The objective therefore is to enter into effective international trade treaties and to otherwise abolish any import or export restrictions on goods and services.

Commercial relations with the European Union (EU) have the utmost importance, because the EU is a nearby market of the Faroes and the Faroes is a part of Europe. If the economy is to grow, then it is necessary to have an open economy vis-à-vis the EU. In this regard, it is important that our relationship with the EU be dealt with as a whole, because it often takes a long time to deal with each issue, especially between the Faroes and the EU.

The trade treaty with the EU in force today covers only trade in goods. The treaty cannot be considered a comprehensive free trade agreement, as both quotas and customs duties are stipulated for certain products from the Faroes, while on the other hand, for the most part, the EU enjoys free market access to the Faroese market. Even though the treaty does not include services, there are in essence no restrictions in this area. Capital can freely move, with the exception of the fisheries industry operating in Faroese waters and the insurance industry. There is no freedom of movement for labour. However, the Faroes does have an agreement with the Scandinavian countries regarding workforce freedom of movement.

The EFTA countries have an agreement with the EU concerning the four freedoms as well as other co-operation. Moreover, EFTA has agreements with several other countries. In order to

effectively utilise EFTA administration and in order to join the agreements already in effect for EFTA countries, the possibility of Faroese membership in EFTA is being investigated.

2.10.2 Civil aviation

With regard to civil aviation, efforts are underway to arrange for the Faroes to become part of the European Common Aviation Area (ECCA), which will give the Faroes the possibility of being linked into a common European aviation market. As a consequence, the Faroes will hopefully become a part of the overall aviation market of the EU, as well as other European countries that are signatories to the agreement. It is anticipated that Faroese accession will formally enter into force 1 January 2007.

Recommendations:

- Initiate negotiations with the EU to explore the possibility of entering into a treaty with the EU regarding the four freedoms so that the Faroes could be integrated into the large European common market.
- Investigate the possibility of Faroese membership in EFTA in order to gain accession to existing EFTA agreements.
- Abolish all trade restrictions, such as customs duties and other special fees.
- Work toward gaining Faroese accession to the ECAA treaty thus enabling the Faroes to become a part of the liberalised aviation market of the EU.

2.11 Transport network

2.11.1 Public transport grid

The physical infrastructure of the Faroes, in particular the network of roads and ferries, is well developed. When the tunnel to Gásadalur is complete, it will be possible to drive to all the villages in the Faroes. When the undersea tunnel to Klaksvík is completed in early summer 2006, 85% of the population will be tied together in a single network of roads. Based on the harbour extensions the municipalities intend to carry out, the capacity of the Faroese harbours is also sufficient.

As a consequence, it is a relevant question whether or not it would be advantageous to continue investing money in the public transport system. Given current conditions, it is reasonable to surmise that there would be only marginal use of any additional investments in the transport grid. Given that the land-based transport network is so well developed, it is imperative to carefully prioritise any future investment.

All investment that makes it easier, faster and cheaper to travel increases mobility and enhances communication within the country. It is also evident that infrastructure investment will need to be made in those transport initiatives that do not necessarily provide an immediate positive benefit in relation to cost, as well as those projects that do provide the country considerable benefit in comparison to the investment made.

Strategic public transport network planning is extremely important. The intent is to focus the necessary resources within the Office of Public Works on the development of a new transport network plan for the Faroes. It is infinitely more efficient to focus in a timely manner on a few projects, rather than produce many projects belatedly. Aside from the fact that overall expenses are significantly reduced in this manner, interest costs are less and the entire country will more quickly realise the benefits of such investment.

It is felt that a well-planned prioritisation of infrastructure projects that could gain broad political support would be one mechanism by which to reduce the number of projects currently underway.

Recommendations:

- Develop a new strategic transport network plan. Strive to complete the plan by the end of 2006.

2.11.2 Prioritisation of transport projects

Even though the public roads and port areas are on the whole well developed, there are, however, still certain bottlenecks where it would be advantageous to improve the traffic flow. The Government is in agreement that during the coalition's current term in office certain major projects where investment truly would make a difference should be identified and prioritised.

It is considered crucial that the airport be expanded as soon as possible so that it can accommodate larger and heavier airplanes. A committee, comprised of Faroese and Danish representatives, has been appointed to review prospective plans for expanding the airport. In order to finance the expansion of Vágur Airport, the thinking is to write down the Faroese Investment Fund, which is subsidised by the Danish Government, by a corresponding amount.

It has been decided that a tunnel under Skálafjord shall be constructed and that the company responsible shall be granted a concession. A traffic study shows investment could be financed 100% by user fees. However, the lower the user fees the greater the socio-economic benefits stemming from the investment. Because of the new transport linkage, certain ancillary investments will need to be made in the related transport network.

In addition to these two projects, the intent is to prioritise transport links to the south of Tórshavn at sometime in the future. A report has been written that weighs various options for joining Streymoy and Sandoy, and funds have been appropriated to conduct preliminary surveys. In association with the development of the new strategic public transport plan, the issue of when to undertake the Streymoy-Sandoy tunnel project will be addressed. When the final decision has been made regarding the undersea tunnel to Sandoy, the further question as to whether or not to operate the ferry between Suðuroy and Sandoy and thereby increase the sailing frequency will become relevant.

Recommendations:

- Expand Vágur Airport. Construction should be completed in 2010.
- Concurrently, conduct a study on the location of a future airport in the Faroes.
- The Government has already approved a tunnel under Skálafjord.
- Studies related to the construction of an undersea tunnel to Sandoy will continue. The intent is to begin construction as soon as possible.
- Otherwise, all public road improvements will be undertaken according to the 2006 Transport Plan.

2.11.3 Financing transport infrastructure

Infrastructure investment has historically been financed through taxes, i.e., via appropriations. This is not coincidental. There are sound socio-economic reasons to finance infrastructure investment with tax revenue. Once the investment is in place, it costs society but little extra if another user accesses the transport network. From a socio-economic standpoint, then, it is better not to charge user fees to access the transport network. The advantages for users of the infrastructure investment far outweigh the small amount that an extra user costs the country in additional wear and tear on the infrastructure. As long as the capacity of the public roadways is sufficient, use of the public road network should be free.

Over the past few decades the tax pressure in many countries has become so great that governmental leaders in some countries have thought it inadvisable to raise taxes even higher to finance major investment in the transport infrastructure. The question then becomes, both for the Faroes and other countries, whether to partially or fully fund large projects through usage

fees, particularly because many political leaders consider it difficult if not impossible to cut appropriations for other budget items. Rather than postpone investment in infrastructure for many years because of a lack of tax-based financing, governments have opted for the next-best solution: to finance certain major investments in the transport infrastructure with user fees.

Recommendations:

- Continue to endorse the general principle that investment in the transport infrastructure for the most part should be financed by the national treasury without any user fees. However, if large projects are planned that are difficult for the treasury to finance, then it is conceivable to wholly or partially fund the project from revenues obtained from user fees.

2.12 Energy sector

Access to inexpensive and dependable energy is very important for industry. At the same time, it is extremely important to society as a whole that the production of energy impacts the local and international environments as little as possible.

In the Faroes, there is no formal energy policy or up-to-date legislation that regulates the production, transport or sale of electricity. The current government coalition seeks to put these issues on the political agenda and has appointed a work group to address these issues. In addition to the work group, a specialist committee has been appointed to provide academic expertise to the work group, as well as represent community and business interests in the work.

The purpose of this work is to formulate a proposal for an energy policy and a law on electricity production. There should be special focus on the following: 1) any expansion of energy production capacity should be environmentally friendly, 2) current sources of energy should be utilised in the most efficient manner possible, 3) energy-saving education campaigns should be carried out, and 4) research and development and experimentation within the energy sectors covered by the energy policy should be encouraged.

The formulation of an energy policy and legislation governing the production of electricity is expected to be completed by the summer of 2006. The first progress report was delivered to the Minister of Trade and Industry in the autumn of 2004 for political review. A subsequent report was delivered in 2005.

Recommendations:

- An energy policy shall be drafted and a regulatory framework governing the production of electricity shall be updated with new legislation.

3. MICRO-POLICY

3.1 Innovation: four micro-drivers of growth

A well-organised structural policy is a precondition for economic growth in a country. To a large degree, economic growth is also dependent on the existence of an excellent innovation environment.

Generally, innovation occurs when a company develops or uses a new product, service, procedure or technology or a new marketing strategy that gives a company a competitive advantage over other companies. The term 'innovation' can also apply when a new company is established that offers products or services that were otherwise not available in a community. The common denominator for all innovation is thus to produce something unique or better.

There are generally two innovation strategies. The first is research-driven and focuses on the marketing of the new knowledge or technology derived from the research so that there is an economic benefit. This strategy emphasises research, knowledge transfer and a close co-operation between research centres and industry.

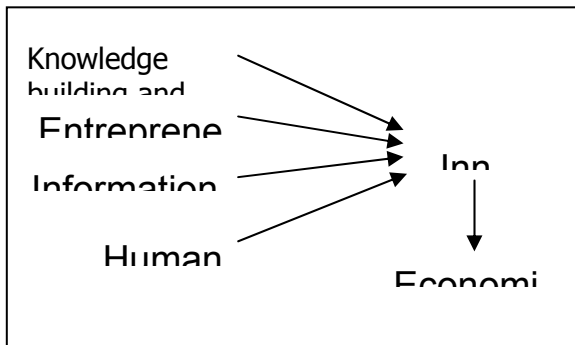
The second is market-driven and focuses on a new combination of existing technologies or enhancement of existing products or services so to best meet the perceived needs of the market and to find new markets for existing goods or services that a company produces. This strategy emphasises market knowledge and how individual companies create the best structure to support initiative, competency development and rapid adjustments in production.

It is possible, of course, to choose other strategies than these, but generally speaking the best result is obtained when a combination of both of these strategies is employed.

In line with these two innovation strategies, the OECD has identified four, so-called micro-drivers of growth that are fundamental for innovation in a society. These factors are:

- Knowledge building and knowledge sharing
- Entrepreneurship
- Information and communications technology
- Human resources

Figure 2: The four micro-drivers of innovation and economic growth



3.2 Knowledge building and knowledge sharing

As discussed above, research and knowledge transfer are fundamental for innovation. This micro-driver is important because of the ideas that spring up as a consequence of the collaboration network between industry and public agencies and institutions that employ individuals with advanced scientific backgrounds and technical expertise.

3.2.1 Research park

Biotechnology research in the Faroes, including scientific research and development in processed food products, public health (genetic research) and animal health, is a sector that has major potential especially when new technology is quickly adopted and implemented. In our neighbouring countries, it is an established fact that the activities in most research parks have enabled faster and more effective transfer of knowledge from universities and other centers of research to industry. Smaller business enterprises that do not themselves have access to the necessary risk capital or know-how especially benefit from the work conducted in research centres. The activities taking place in research complexes can encompass knowledge transfer and knowledge diffusion whether it entails basic scientific research, new research, innovation, product development and/or the creation of entirely new businesses.

Recommendations:

In order to develop the best framework for research and knowledge sharing within the aforementioned sector, the objective is to:

- Establish a research park focusing on technological research that shall generate and share knowledge because researchers and private companies will collaborate and "reside" in the same research environment.

In a research complex, students and researchers from academic institutions, businesses and project groups, either on a short-term or long-term basis, can lease research and administrative space with joint access to common facilities where they could experiment with and develop scientifically based business ideas. When a potential product is completely developed, the project group itself could found a company outside the research park and market the product to other companies. Some projects are more suited to smaller companies whose offices could be maintained at the research complex for an extended period of time.

The primary goal of a research complex is to facilitate:

- Marketing of the results of research
- Advancement of innovation in business
- Enhancement of linkages between and the collaboration of researchers and industry.
- Development of new businesses.
- Creation of an environment that attracts new businesses to the research park.

The lack of research facilities and venture capital in the Faroes are two factors impeding the diffusion and uptake of biotechnology in either new or existing companies.

The establishment of a research park could remedy the first of these challenges. However, one condition is the availability of the necessary funding in order to begin construction of the park. It might be that initially the Government would have to cover any possible operations shortfall, but eventually the research park would be self-financing.

In order to overcome the latter obstacle, it is imperative that the public sector, along with private investors, financial institutions, investment funds, and other venture capital companies, work to create a solid foundation for the financing of the various projects that would be housed at the research park. See also Section 3.3 concerning entrepreneurship.

3.2.2 Participation in international research conferences

In order to stimulate research in the Faroes and to enhance the opportunities to create international collaboration between researchers and industry, it is very important that the Faroes participate in international research co-operation.

Recommendations:

The objective is to:

- Ensure that Faroese companies are permitted to participate in EU research and innovation conferences on an equal footing with other European companies.

3.3 Entrepreneurship

The OECD describes entrepreneurship as the dynamic process by which economic opportunities are identified and as a consequence products and services are developed, produced and sold. Important factors for entrepreneurship within a society are:

- attitude toward entrepreneurship
- fostering entrepreneurship
- financing

- business stimulation
- taxation
- flexible public authorities

3.3.1 Attitude toward entrepreneurship

The attitude of society toward entrepreneurship and entrepreneurs impacts the degree to which individuals choose to become entrepreneurs. In some countries, people from early childhood are encouraged to be entrepreneurial, which tends to reinforce a positive image of innovators, who are held up as examples for others.

In the Faroes, if a more positive entrepreneurial attitude is to be fostered, one approach is to begin in the schools. For example, programmes could be arranged by which students work on entrepreneurial projects wherein they practice being entrepreneurs or they could work on written assignments related to entrepreneurship. One example of this is the European Business Game for secondary school students and the 'Ungt virki' [Youth Enterprise] sponsored by the Business School.

Another important factor is the necessity that university and research institutions remain aware of the potential business applications of their primary research. In addition, individuals with higher education should be encouraged to create their own businesses or seek employment in industry to a greater degree than present.

Recommendations:

- The aim is to ensure that the educational system will play a larger and more active role in fostering an attitude more conducive to entrepreneurial ventures in Faroese society.
- Encourage those with higher education to create their own businesses or seek employment in industry to a greater degree than present.

3.3.2 Fostering entrepreneurship

One question that is often discussed both in the Faroes and in other countries is the degree to which government should establish specific schemes that would foster entrepreneurship and just what should these be. The advantage of such support is that financially weak entrepreneurs gain the opportunity to develop their ideas. The risk of such support is that it can adversely impact competition or inadvertently support initiatives that are not commercially viable.

The financial needs of entrepreneurs should be met by seed and venture capital funds. See also the section below on the financing of entrepreneurs.

Thus, the task of the Government especially is to make it easier for entrepreneurs to gain access to knowledge, capital and potential collaborators, and to ensure that it is not too difficult for entrepreneurs to go into business.

Recommendations:

The intent is that:

- Advisory services for entrepreneurs shall be centralised;
- An entrepreneurial network shall be established whereby entrepreneurs can learn from each other and generate new ideas together. The entrepreneurial network should not only be local, but also international so that Faroese entrepreneurs could gain linkages with entrepreneurs located around the globe.
- Arrange for physical facilities for entrepreneurs in the vicinity of educational institutions as these institutions are expanded.

3.3.3 Financing

One prerequisite for entrepreneurial activity is access to financing. If good ideas shall come to fruition, it is necessary that financing be available to cover the entire development of an idea and/or a business. The Government's task is to develop and create the regulatory framework for a comprehensive financial system that facilitates access to inexpensive capital for all phases of business development – research, seed, venture, bank loans, and eventual IPOs.

There are often several different types of financing within the same phase of project or product development. Further, it can happen that there is but one financing option used, e.g., bank loans. However, it is crucial to have access to financing for all phases of a project, because if financing is lacking at a certain stage there is a danger that the financial needs of the entrepreneur will not be met. Experience shows that financial institutions often hesitate to finance new or unknown endeavours, or in circumstances where there is a long time before there is any positive cash flow in the enterprise.

Risk capital (seed and venture capital) has, therefore, a special role to play in connection with entrepreneurial activity. This is particularly true for entrepreneurs in technology, where it is often difficult to obtain capital via standard bank loans. Therefore, access to risk capital and 'patient financing' is in many cases absolutely critical so that entrepreneurs can begin to develop their ideas.

Seed and venture capital investors often take an active role in advancing the projects and often have a better background for identifying the pitfalls and possibilities than other investors. A venture capitalist often has extensive knowledge regarding business organisation, strategy and marketing. This knowledge is indispensable for entrepreneurs who can therefore focus on their own expertise.

The Government can influence the provision of venture capital, first and foremost, by ensuring a sound regulatory framework for a functional financial market. Furthermore, the Government can make sure that the tax structure and the administrative requirements are not so burdensome as to cause a new enterprise to collapse.

It must be acknowledged that the availability of new venture funding is insufficient in the Faroes. Therefore, the intent is to work toward the establishment of a venture capital market.

Recommendations:

Planning is focused on:

- Seek the amendment of the bylaws of the Business Development Fund [Framtaksgrunnurin] so that, to a greater extent than today, the Fund can enter into the placement of risk capital and long-term investments in new enterprises. The purpose is to create a better entrepreneurial foundation so that in time new businesses will emerge, especially knowledge-based enterprises, that consequentially will have the heightened opportunity to market their ideas and the outcomes of their research.
- Organise subsidy schemes, monitored by the Government, that would facilitate easier access to capital by business projects with market potential.
- Construct a satisfactory framework for a venture capital market, including research and seed capital.

3.3.4 Business stimulation

The Government shall strive to encourage Faroese companies to, *inter alia*, boost their creation of new products and services, and develop value-added goods and services and other enhanced value production. Creative ventures, such as handicrafts and the music industry, should also be

supported. Financial support to these areas will be provided through the Business Promotion Fund [Vinnuframagrunnurin] that, *inter alia*, supports the development of:

- New products and services
- Software, ICT solutions and the creative arts
- Innovative projects
- Marketing endeavours

3.3.5 Taxation

The tax system severely dampens any enthusiasm to invest in new companies, especially where the risk is substantial.

Recommendations:

- The intent is to thoroughly review the regulatory framework regarding entrepreneurial activity and to address the issues that need to be amended in the tax regulations regarding venture funds, investors in venture funds, and employee stock options.

3.3.6 Flexible public authorities

Even though it is important to create the legislative and regulatory framework that fosters a positive business environment, it is equally important that the country's governmental institutions that administer these regulations and programmes operate efficiently and smoothly, and that the country gains as much as possible from the funds these institutions distribute.

Furthermore, it is crucial that all governmental institutions and agencies are well managed so that a company receives the same response, regardless of which office the company might contact initially. Therefore, efforts will be focused on establishing one authority to which businesses can turn to address their specific issues. Strategic digitalisation within the public agencies and enhanced collaboration among the relevant public authorities will greatly assist in this regard.

In this regard, efforts are underway to prepare for the merging of the activities of the Trade Council [Menningarstovan], the Tourist Board [Ferðaráð Føroya] and the Business Promotion Fund [Vinnuframagrunnurin].

Given that, in the main, these agencies have the same goals, a study will be carried out as to how these institutions could best be integrated to create a dynamic environment through which not only the public authorities, but also the business community that these institutions are designed to develop can gain the most from the resources these agencies have at their disposal.

This newly integrated office will no doubt have a multi-faceted collaboration with many different groups – business associations, individual companies, entrepreneurs, various governmental ministries and their respective agencies. The main objectives of this office will be to:

- inspire innovation and entrepreneurship
- coordinate administrative processes that are relevant for entrepreneurs in collaboration with other governmental agencies
- provide advice on entrepreneurship and offer a webportal through which entrepreneurs could obtain answers on how to found a company
- market Faroese products and services and the Faroes as being prime for foreign direct investment
- develop the tourist industry in the Faroes and market the Faroes as a tourist destination.

3.4 ICT usage

OECD research indicates that the use of information and communications technology (ICT) in a society has major significance for productivity within the economy and thus for economic growth.

Increased ICT usage can have these positive effects, among others:

- Existing businesses become more productive by utilising ICT to increase efficiency in production and processes.
- Connection between providers and consumers of a service is made easier.
- Easier to compare prices for goods and services.
- Marketing of products and services on the whole made easier and more unique.
- Collaborative network development. This has special importance in knowledge-reliant businesses.

It is worth noting that ICT usage, which is the focus of this section of the government's project plans, is not just about IT development. However, an increase in ICT usage throughout the country as a whole is anticipated to have positive consequences for the local IT industry as well.

It is well understood that the Government faces a major task regarding the promotion of ICT usage in the Faroes. The Government needs:

- to support the most functional market possible with effective competition among suppliers
- to set into motion initiatives within those areas where the market by itself can not be expected to facilitate optimal socio-economic ICT usage
- to be in the forefront with regard to the effective utilisation of the advantages that ICT usage affords in the production of goods and services.

In this connection, the main principle in the IT industrial policy – that Faroese ICT enterprises should have the opportunity to submit tenders when the Government seeks IT services – shall be emphasised.

3.4.1 Sufficient ICT infrastructure is a prerequisite

First and foremost, the task of the Government is to ensure that the underlying infrastructure is sufficient. Secondly, the Government must ensure that government itself effectively optimises the possibilities that new technological infrastructure provides for the creation of value for not only ICT users, but also for the entire society.

The telecommunications market is of major importance for ICT usage in the Faroes. What ICT solutions are offered, how deep the penetration is of these solutions, i.e., how many people have access to these technical solutions, and what the cost is greatly impacts the diffusion of ICT. The better the IT solutions, the more extensive the coverage, the lower the price the better the conditions for widespread uptake of ICT and in turn the potential for ICT to be effectively utilised by individuals, companies, and thus the Government.

Compared with other OECD and EU countries, the Faroese statistics for coverage, penetration, usage and pricing of most offerings are consistent with the average of all countries combined, with one exception. If, however, we compare our statistics with our Scandinavian neighbours, who are among the global leaders, we are, on the whole, lagging behind with regard to ICT diffusion and usage.

Of all the variables that can impact ICT penetration and usage, the organisation of the ICT infrastructure is the most important individual factor. To ensure functional competition in the telecommunications sector, the intent is to take the necessary steps to ensure that competition is not diminished when Faroese Telecom is privatised.

Recommendations:

- In connection with the privatisation of Faroese Telecom, the Government shall ensure equal access to the infrastructure network for all telecommunications providers so that competition within the telecommunications sector remains fully functional.

3.4.2 Broadband sector

The Faroes has been lagging far behind other OECD countries with regard to broadband access, usage and pricing, but in recent years there have been major advances. The term 'broadband' refers to a type of Internet connection that makes it possible to transfer large quantities of data quickly whether via a landline or a wireless connection. According to international comparisons of throughput rate, a broadband connection is generally regarded as having a transfer speed of 128 Kbit/s.

In terms of Internet connections per capita, the penetration of broadband in the Faroes had reached 6% by year-end 2004, which is somewhat lower than the OECD average. This is considerably less than the 20% penetration found in the leading ICT countries in Europe, such as Denmark and Iceland. However, recently penetration in the Faroes has doubled. At year-end 2005, broadband uptake stood at 12.5%. Given that the average number of people living in each household in the Faroes is larger than in our neighboring countries, it is quite possible that the actual number of people with access to broadband is equal to that in the surrounding countries. The data available, however, is insufficient to draw definite conclusions.

The actual broadband coverage area in the Faroes steadily grows nearer to 100%, and thus in a very short time it will be possible for everyone in the Faroes to access broadband services.

Despite falling prices in 2005, the cost of broadband is still much higher in the Faroes than in the surrounding countries. Further, it is as yet not possible to have a flatrate subscription, where the cost of a connection is not linked to usage.

Recommendations:

The objectives:

- Broadband penetration per capita by year-end 2006 shall be at least 18% and by year-end 2008, penetration shall be among the five best in the OECD.
- Stimulate the spread of broadband by amending the tax regulations so that employers could pay for all or part of the cost for broadband for their employees, without this benefit being calculated as taxable income to the employee.
- Monitor broadband market trends and take the necessary steps if market forces and present regulations do not promote sufficient broadband penetration and price reductions.

3.4.3 Comprehensive ICT objectives

To stimulate the usage of information and communications technology within Faroese society, the Government has established these objectives:

- By year-end 2006, all Faroese citizens should have the opportunity to acquire a complimentary digital signature. By year-end 2007, at least 30% of all Faroese residents should have registered for their digital signature.
- Focus more resources on integrating ICT education into the public elementary school system. This will be accomplished by:

- improving access to computers with high-speed Internet in elementary and secondary schools
 - increasing the ICT competence of new teachers at the teacher's college and ensuring an appreciation of the possibilities to utilise ICT technology in teaching
 - arranging for pedagogical upskilling education for current teachers in ICT, as needed
 - centralising all ICT resource materials in Faroese
- Develop an MA programme in ICT and work toward offering PhD studies, the cost of which possibly could be sponsored, partially or fully, by private businesses.
 - Digitalise systematically the public administration so that citizens and businesses can interact with government offices electronically. The vision is that by 2015 the Faroes is one of the leading countries in eGovernment deployment.

3.5 Better human resource management

As stated previously, the role that the Government can play with regard to labour agility within Faroese businesses is limited. The responsibility ultimately lies with company management. Each individual company needs to hire its own employees, develop their competency and organise their work in such a manner so that the employees can create the most value for the company and for themselves.

The tasks of the Government are especially to ensure that people can acquire a competence-enhancing education, and that the offerings for upskilling and lifelong learning are satisfactory. Furthermore, the Government must strive to be a leader in outstanding human resource management and must ensure that legislation supports effective human resource management in private industry.

Recommendations:

The objectives are to:

- Strive to serve as a role model for effective human resource management.
- Ensure sufficient opportunities for education and upskilling in management, especially human resource management.

4. MARKETING THE FAROES ABROAD

4.1 Marketing Faroese products and services and the Faroes as a country prime for FDI

One of the major characteristics of globalisation is that very little prevents labour and capital from flowing across national borders. Cities and regions that grant labour and capital favourable treatment attract these resources away from less favourable areas. As knowledge of this favourable treatment spreads, even more companies are attracted to this new region of growth. Success breeds success.

The Faroes, therefore, must gain more out of marketing its advantages than those regions known for their ability to attract production resources. The goal of marketing the Faroes is thus to encourage foreign direct investment and to stimulate the formation of business alliances with interested parties here in the country.

From the very first day of their arrival in the Faroes, foreign workers and investors express an interest in the excellent business opportunities here. These international visitors understand the international marketplace and their joint collaboration yields a profit. They are innovators and would undoubtedly utilise the existing possibilities in a different manner than current indigenous

businesses have. The marketing of the Faroes as a country prime for foreign direct investment, therefore, ought not to be built solely on existing industries, but should have a broader focus and should point out the positive socio-economic model that the society can offer.

Recommendations:

To ensure that a campaign to attract foreign direct investment to the Faroes is successful, it is necessary to:

- Compare and develop the most appropriate framework for Faroese business through collaborative discussions with foreign companies and institutions.
- Continue to develop an appreciation within Faroese society that foreign direct investment can make a positive and progressive contribution to the country.
- Produce materials that presents the Faroes in a dignified, credible and positive manner
- Give presentations abroad highlighting the possibilities to be found in the Faroes

Historically, the Faroese have been skeptical about foreign investment, but attitudes are changing. This came to light in the aquaculture legislation and in the proposed bill on gene research. The political will is now in place to undertake the privatisation of Faroese Telecom, Atlantic Airways and Føroya Banki [Faroes Bank] and this creates a favourable environment through which to exploit the potential for further investment in the Faroes.

Recommendations:

The objective is to market the Faroes systematically abroad, especially in these areas:

- Privatisation of public enterprises
- Faroes as a showcase for ICT innovation
- Offshore industries
- Faroese Ship Registry
- Aquaculture and the fishery industry
- Gene research
- Ship resource centre in the North Atlantic

The marketing of Farose products and services shall continue in cooperation with the relevant parties. The marketing efforts shall consist of both a general campaign using the most effective media and a more focused campaign directed toward potential investors.

4.2 Marketing and developing the Faroes as a tourist destination

A good tourist destination is a good place in which to live. This means that a good tourist destination has a good transport and communications infrastructure, the leisure activities are many and diverse, the cultural life is rich and thriving, the history and customs are cherished and the natural environment is cared for and protected – a place where it is safe and pleasant to be; a place that offers superior and exciting recreational possibilities.

Visitors are important for the Faroes because they:

- Bring an international perspective to the Faroes
- Provide incentive to maintain and develop the transport routes and make travelling easier
- Make the Faroes known to the world
- Create personal linkages with people in the Faroes
- Make the Faroese more aware of the value of their own culture, which they may not themselves take notice of, and thus they help to develop Faroese culture
- The tourist industry generates a four-fold increase in secondary business activity

Developments in transport and information technology have fostered a worldwide tourism industry. The world is now one market and more and more countries are marketing themselves as a tourist destination.

Accelerating competition increases the need to market a tourist destination. It goes without saying that to be noticed today and to remain competitive, one must take full advantage of advanced information technologies. In many countries, co-operation between the public and private sectors is promoted in order to facilitate marketing and product development, thus ensuring that growth in the tourism industry takes into consideration the community as a whole, e.g., the natural environment, and is a natural part of the local leisure industry.

Development and innovation in the tourism industry can result in 1) general improvement in local tourist conditions, 2) development of new tourist attractions, 3) improvement in the level of tourist information and services provided visitors, and 4) development of a rating system that shall ensure quality and an enjoyable experience for tourist industry customers. The travel tax surcharge should be rescinded in order to enhance the potential for several airlines to offer service to and from the Faroes and thus stimulate the tourist industry.

Recommendations:

The objective is to:

- Continue the systematic development of the tourist industry and the marketing of the Faroes as a tourist destination, increasing our efforts in the coming years.
- Rescind the travel tax.
- Extra financial resources for marketing can be made available by the Government, designating a certain amount for marketing from current appropriations. In the event that these funds are used by the National Tourist Board for a marketing campaign in collaboration with a private company within the tourism industry, the joint initiative shall be equally co-financed.

The Faroes is expected to join the so-called 'third aviation solution', with the consequence that air travel between the EU and the EEA countries and the Faroes will be liberalised. Further, it is intended that the airport on Vágoy be expanded. Both of these initiatives will result in greater competition and lower prices and should increase travel to the Faroes.

5. STATISTICS

There are two particular reasons why it is imperative to have up-to-date and reliable statistics:

- 1) to monitor implemented policies and change course if necessary
- 2) to serve as a compass for business.

For example, the Government has resolved to implement concrete programmes to stimulate entrepreneurship and ICT uptake in order to establish as sound a foundation as possible for innovation. If we do not have the data in an area, it will be impossible to measure whether the plan of the Government has had the intended result or if it is necessary to set another course. Furthermore, it is important that the statistical data is current, because it is difficult to steer a course based on data that is several years old.

In this regard, the Government has resolved to continually develop the compilation of the country's economic data as a whole, as well as the accounting data of businesses, so that in the coming years these data will be more reliable and will be generated faster.

The Government has also decided to maintain better statistics regarding education, ICT usage, entrepreneurship and innovation so that these data can be used as a guiding compass to a greater degree than today.

At the same time, there is a need for a population census in order to establish base-line demographics, especially regarding the labour market, educational attainment, vocational competencies, home ownership and household circumstances.

Recommendations:

- The plan is to increase the resources of Statistics Faroes so that the statistical foundation will be better and, to a greater extent than today, the data can be use a guiding compass for both the public and private sectors.

6. PRIORITISATION OF GOVERNMENT INITIATIVES

Administrative and financial resources are limited. Therefore, it is necessary to prioritise the various government initiatives. In the first instance, it was decided to prioritise the following initiatives in the structural policy and the micro-policy, respectively:

6.1 Structural policy initiatives

- Initiate systematic privatisation process.
- Update general commercial legislation, including the competition law, the accounting law and the company law.
- Given that the ocean surrounding the sea farms must not be overburdened and that the sea farms must be managed in a biologically sound manner, the aquaculture law shall be thoroughly revised, especially with regard to ensuring that competition for the various means of production is balanced and ensuring full compliance with the concession obligations.
- As a step toward the revision of the fisheries industrial policy, a work group has been appointed to update the policy. The policy will be reviewed in depth when the work group has submitted its proposal for an updated fisheries industrial policy to the minister responsible.
- Tax reform shall lower personal and corporate tax rates, while broadening the tax base.
- Implement measures to increase the opportunities for higher education as well as continuing education and initiate programmes to augment the competencies of unskilled workers.
- Open up the insurance market to international competition.
- Improve the transport options by, *inter alia*, expanding the airport, etc. in accord with the 2006 transport plan.
- Submit for political debate the question of an EEA-like arrangement and membership on EFTA.

6.2 Micro-policy initiatives

- Harmonise the procedures regarding the provision of advisory services and the administration of matters of special interest to entrepreneurs.
- Market Faroese products and services and the Faroes as a country prime for foreign direct investment.
- Market and develop the Faroes as a tourist destination, including the centralisation and specific targeting of the materials and programmes used for this purpose.
- Establish a research complex.
- Strengthen current public research funding institutions and develop the regulatory framework for seed and venture capital funds. This is an aspect of the plan to work toward the

amendment of the bylaws of the Business Development Fund [Framtaksgrunnurin] so that it can offer patience and risk capital to a greater degree than it does today.

- Systematically implement the plan devised to advance the adoption and use of ICT.
- Appropriate funds to consumer advocacy groups so that they might better offer consumer advice and counseling and collaborate with industry regarding consumer concerns.

With regard to implementing programmes designed to stimulate entrepreneurship and to market the Faroes as a country prime for foreign direct investment and as a tourist destination, the aim should be to undertake these initiatives in the most cost-effective manner possible, e.g., to use existing programmes or agencies in new and different ways. Thus, it could be possible to change the marketing strategy and efforts without the costs rising too much. In this way, positive outcomes could come reasonably quickly and concurrently.

The establishment of a research complex, as well as public research, seed and venture capital funds, demands considerable investment capital, plus operating capital, while at the same time one could anticipate that any gains would only come as time passes. However, one cannot exclude the fact that, e.g., gene research could be implemented rather quickly. It is possible that the various public funds, e.g., the Business Development Fund [Framtaksgrunnurin] and the Business Promotion Fund [Vinnuframagrinnurin], could be reorganised so that they could function, wholly or partially, as research, seed and venture capital funds.

Likewise, initiatives to promote ICT adoption and usage in the Faroes could require major investment. In many ways, it might be possible for existing companies to provide this investment.