

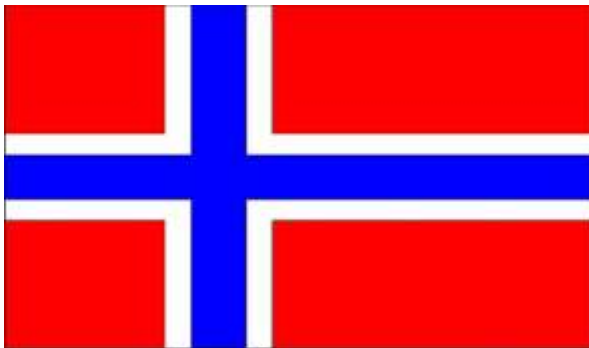
**Embassy of Israel
Stockholm
Economic Department**



**שגרירות ישראל
שטוקהולם
מחלקה כלכלית**

Norway

Economic report 2010



P.O.Box 14006,
104 40 STOCKHOLM
Phone +46-(0)8-528 065 80
Fax +46(0)8-660 44 06

Introduction

Norway is situated in the most northern part of Europe and borders to fellow Nordic countries Sweden and Finland, as well as Russia. It is a constitutional monarchy; King Harald V is the formal head of state. The country is divided into administrative subdivisions, counties (fylker) and municipalities (kommuner), the capital city is Oslo. It is thus a unitary parliamentary democracy with a prime minister, which is currently Jens Stoltenberg. The most recent election for government in Norway was held in 2009, the winners being a center-left alliance. The government has majority and contains the Labour Party, the Socialist Left Party and the Centre Party. The outcome of the elections in 2009 made the government the first Norwegian one to win a second consecutive term in 16 years. Norway was relatively unharmed by the 2008 financial crises due to their oil resources and thus they had a low unemployment rate in 2009 at around 3%.

Prime minister: Mr. Jens Stoltenberg (Labour Party)

Foreign Minister: Jonas Gahr Støre (Labour Party)

Minister of Finance: Sigbjørn Johnsen (Labour Party)

Minister of Trade and Industry: Trond Giske

(www.regjeringen.no)

The currency is Norwegian krone and Norway has the largest capital reserve per capita in the world, being ranked as the second wealthiest country in monetary value. Even through the financial crisis the Norwegian krone has been considered one of the most solid currencies in the world.

Short facts:

- 5.97 NOK /\$1
- Population: 4,8 million
- GDP: \$383 billion
- GDP per capita (current PPPs): \$79 085
- GDP Growth 0,6 %
- Inflation rate: 3,8 % annual growth
- Unemployment: 3,4 %
- Total Exports, 2009: \$ 167,3 (billion)
- Total Imports, 2009: \$ 108,8 (billion)

(<http://www.ssb.no/english> and <http://www.oecd.org>)

Economic synopsis: Norway is one of the richest countries in the world; it is highly developed and continually comes out high in standard of living rankings. Since 1970 the country has had an average annual growth of 3.4 %, and in 2010 the growth is expected to be 2 %. The material success of the country is in large due to the abundance in natural

resources (crude oil and natural gas) as well as access to major markets. Other important factors in Norway's economic growth are a good educational system, a well-organized public administration (taxation, duties and subsidies) and high investments in production equipment. The main incomes for the welfare state are the high taxes and oil revenues. The welfare system includes an extensive public health system, a national insurance scheme and parental benefits among other things. The public sector thus plays a major role in the Norwegian society, regulating especially labor and trade relations. Norway is among the most expensive countries to live in, in the world. Historically, transportation costs and barriers to free trade have caused this, but in recent years, Norwegian policy with respect to labor relations, taxation, etc., have contributed significantly to this as well. (<http://www.norway.org.il/aboutnorway/economy/economy/growth/>)

Norway has a mixed economy, both planned and market, implying it is a capitalist market economy with strong state influences. The state owns and runs some of the major companies and industrial activities as well as regulating the private sector. At the same time the private sector and private property right has governed the expansion of many industries. Statoil and Norsk Hydro, two of the largest corporations in the oil industry, are mainly state owned. The postal service and railways are examples of companies that are monopolized by the state. The government tries to promote industries in remote regions through giving them a more lenient taxation compared to more advanced regions. (<http://www.norway.org.il/aboutnorway/economy/economy/mixed/>)

Norway spends a lot of money on R&D, in 2008 1,62% of GDP. To encourage new industries there is state support for research as well as special tax agreements for research and development expenditures.

The Norwegian industry

Historically, as previously mentioned in this report, the prosperity in Norway has been largely due to the access to natural resources (crude oil and natural gas). Other major industries that have influenced the economy are fishing, shipping and agriculture. Today more and more of the Norwegian industry is directed towards the production of service. Industries today requires less hands but higher technology, however there has been an annual growth of about 4,5 per cent the last four years both in goods and service sectors. The growth has been stimulated by the fact that household demand has increased at a faster pace than income due to low interest rates. At the same time high oil investments and favorable exports also have played their part in boosting the Norwegian economy.

In general Norway exports energy-intensive products and imports technology and labor-intensive products. It is estimated that the country will be able to have a profitable oil production over the next fifty years and a profitable gas production for the next hundred years.

There has been an increase in the creation of new technology products for the oil and gas industry however a relatively low part of value creation in Norway comes from technology-intensive manufacturing (<http://www.regjeringen.no/en/dep/nhd/tema/norsk-naringsliv/det-store-biletet.html?id=511385>).

Investments

At the end of 2008 investments to and from Norway increased from the previous year. Norwegian direct investment abroad was approximately \$ 154 billion and foreign investments to Norway that amounted to \$ 129 billion. 95 per cent of the Norwegian investments abroad consist of equity capital in foreign companies, while equity capital from foreign direct investments to Norway amounts to 61 per cent. The remaining invested capital is net loan assets.

The EU countries and the USA are the areas in which most of Norway's direct investments comes to or from. The most important European countries are Denmark, France, Netherlands, Sweden and United Kingdom.

Foreign investment in Norway is to about 50 per cent directed towards the oil business and manufacturing industries, the same industries amounts to around 45 per cent of Norwegian direct investments abroad (http://www.ssb.no/english/subjects/09/04/di_en/).

Since oil revenues gradually will decrease and the number of elderly people will increase which leads to higher pension, nursing and care expenditures, the Central Bank of Norway administers the so called Government Pension Fund of Norway (previously called the National Gas and Petroleum Fund). It is funded by the annual oil revenue surpluses; in 2009 the fund was estimated to be \$ 400 billion. The fund is the world's second largest sovereign wealth fund and Europe's biggest stock market investor.

Taxes:

- Basic Income Tax: 37,7%
- VAT: 25 % general rate, 14 % on food and 8 % on passenger transport, accommodation, broadcasting and the cinema
- Flat Corporate Tax rate: 28 %
(<http://www.skatteetaten.no/>)

Labor market; the population was 4 858 199 in 2009. Of person aged 15-74, 65% are in the labor force. The current labor force participation rate is 71, 9% and the unemployment rate is 3, 4%. 68, 8% of women in the labor force are employed. Full time employment is 37,5 hours/ week (Statistics Norway).

Education: Education in Norway is based on the principle that all citizens should have equal rights to it. There is a unified school system with a national curriculum set by the Norwegian national assembly and the Government. The primary and lower secondary education is compulsory in Norway, this is the first 10 years in school and children start at the age of 6. After that comes the upper secondary educations which is either, three years of general education or vocational training. The tertiary educations system follows the Bologna Process which implies three-year Bachelor's degrees, two-year Master's degrees and three-year PhD degrees. Public education up to and including upper secondary level is free and higher education usually has a low fee, if any. In higher education it is also possible for students to receive students' loans and grants to pay for living costs (<http://www.ssb.no/english/subjects/04/02/facts/facts2010.pdf>).

Trade

The Ministry of Trade and Industry and more specifically the Trade Policy Department deals with Norway's trade related issues. Norway is not a member of the EU but through EEA (European Economic Area) and EFTA (European Free Trade Association) the country still participates in the EU common market. Norway is also a member of WTO and OECD.

Import: The primary imports are machinery, transport equipment, chemicals, metals and food products. Sweden, Germany and China are the three largest import countries for Norway.

Export: The main export good is crude oil and natural gas. Other important export goods are fish, ships, machinery and equipment. Most of Norway's exports are to other European countries, the UK receives the largest amount due to their large import of oil and gas. The oil industry accounts for approximately 25 per cent of GDP (http://www.ssb.no/english/subjects/00/minifakta_en/en/).

Companies in Norway have access to two publically supported instruments for export financing. There is the 108-scheme that is managed by Eksportfinans ASA, which provides export loans and there is also Garanti-instituttet for eksportkreditt, GEIK (Guarantee Institute for Export Credits) which offers export guarantees.

The 108-scheme is set up to promote Norwegian exports to be competitive compared to other countries exports. The GEIK works as a supplement to the private market in providing long-term guarantees for export credits. The GEIK guarantees for Norwegian exports to around the whole world. Their warranty includes guarantees for contracts, bonds, investments, lenders etc. They also reveal both political and commercial risk. The main reason for the government's involvement is to ensure that the Norwegian industry is competitive in the world market (<http://www.regjeringen.no/en/dep/nhd/tema/internasjonalt-naringssamarbeid/Offentlig-stottet-eksportfinansiering.html?id=601946>).

The table below shows the total trade between Norway and some of their most important trade partners, 2004-2009.

Commodity		TOTAL : ALL COMMODITIES						
Reporter Country		Norway						
Measure		Value USD \$ (million)						
Time		2004	2005	2006	2007	2008	2009	
Partner Country	Flow							
<u>China</u>	Imports	2406.5	3112.3	3662.6	4850.7	5762.4	5309.4	
	Exports	792	908.4	1568	1447	1922.3	2409	
<u>Denmark</u>	Imports	3556.4	4058	4429.2	5141.6	6131.2	4611	
	Exports	2932.4	3684.1	4062.4	4139.8	6196.6	4131.2	
<u>Finland</u>	Imports	1933.4	1745.6	2055.7	2947.8	3013	1992.8	
	Exports	1082.6	1314.1	1731.1	1561.9	2426.7	1404.8	
<u>Germany</u>	Imports	6584.1	7451.4	8641.7	10894.4	11960.1	8741.7	
	Exports	10323.5	13082.6	14491.8	16072.4	51561.2	16170.2	
<u>Sweden</u>	Imports	7597.5	7998	9633	11777.7	12721.5	9432	
	Exports	5088.7	6760.1	7369.1	8315	10790.3	6842.5	
<u>United Kingdom</u>	Imports	3188.3	4001.3	4116	5533.6	5301.6	4095.2	
	Exports	17984.6	25981.2	31966	34883.3	46888.4	28982.9	
<u>United States</u>	Imports	2361.5	2854.5	3434.6	3884.4	4858	4221.7	
	Exports	6133.6	6842.5	6767.8	8242.6	7416	5756.1	
<u>European Union</u>	Imports	34424.7	38563.9	44410.6	55246	60563.3	45127.9	
	Exports	62440.4	83851.1	97266.1	106372.1	144581.1	96215.4	

(<http://stats.oecd.org/index.aspx>)

Innovation Norway (Innovasjon Norge) is a state owned company that since 2004 performs the services of the previous organizations; the Norwegian Industrial and Development Fund, the Norwegian Trade Council, the Government Consultative Office for Inventors and the Norwegian tourist board. The goal of Innovation Norway is to support innovation in Norwegian industry and business nationally, as well as promote Norwegian industry and Norway as a tourist destination, abroad. The have offices in all the Norwegian counties and in thirty countries worldwide. Their main target group is small and medium-sized companies (<http://www.innovasjon norge.no/Om-oss/Innovation-Norway/About-Us/>)

Doing business

In the World Bank Groups (<http://doingbusiness.org/rankings>), “Ease of Doing Business” rank, Norway comes in 7th place out of 183 countries in 2010.

According to the Heritage Foundations’ 2010 Index of Economic Freedom, Norway is ranked as the 37th most economic free country in the world. The table below shows the criteria the foundation use. 100 on the scale imply most free and 0 is the least free.

88.8	Business Freedom	Avg 64.6
89.2	Trade Freedom	Avg. 74.2
50.5	Fiscal Freedom	Avg. 75.4
49.8	Government Spending	Avg. 65.0
74.2	Monetary Freedom	Avg. 70.6
65	Investment Freedom	Avg 49.0
60	Financial Freedom	Avg 48.5
90	Property Rights	Avg 43.8
79	Fdm. from Corruption	Avg 40.5
47.1	Labor Freedom	Avg 62.1

(<http://www.heritage.org/Index/pdf/2010/countries/norway.pdf>)

The limits to Norway’s economic freedom are in the areas of lack of fiscal competitiveness, the large governmental presence in the economy and the rigid labor market. The high income tax rate gives Norway the relatively low score on the fiscal freedom scale. The same applies for government spending, which accounts for over 40 per cent of GDP. A highly regulated labor market gives Norway a relatively low score on the labor freedom scale, it is costly to hire and dismiss employees and working hours are also regulated rigidly.

Israel/Norway relations

Norway was one of the first countries to recognize Israel on February 4, 1949. Norway has an embassy in Tel Aviv and two honorary consulates in Eilat and Haifa. Israel has an embassy in Oslo.

The table below shows imports and exports, excluding diamonds, between Israel and Norway 2008 and 2009. Israel imported for 52 million \$ from Norway in 2008 and for 52,4 million \$ in 2009, thus implying that Norway exported to Israel for those amounts. Israel exported to Norway for 73,7 million \$ in 2008 and for 59 million \$ in 2009, thus implying that Norway imported from Israel for those amounts. There is also information on trade for the first 10 months of 2010, with the same statistics added for 2009 as a comparison.

Million \$	2008	2009	I-X 2009	I-X 2010
Imports	52	52.4	41.6	46.7
Exports	73.7	59	48.5	48.6

(http://www1.cbs.gov.il/hodaot2010n/16_10_274t2.htm)

About 50 per cent of Israeli exports to Norway consist of high-tech equipment and around 20 per cent are made up by fruit and vegetables. Fish contributes to over 50 per cent of Israeli import from Norway.

The political situation in the Middle East can from time to time have a negative effect on the trade relationship between Israel and Norway.

Potential opportunities/partner companies for Israeli companies:

Some of the most important sector initiatives in Norway at the moment are relevant for Israeli companies. These are within the fields of;

- **Environmental Technology:** the market for new solutions in the areas of environmental technology and renewable energy is growing in Norway. In recent years there have been a lot of investments for solar cell production for example.
- **ICT:** There is a growing market in Internet-connected handheld devices software, many predicting a higher use of internet over the phone, which will need faster network and better graphics solutions. Telenor Norway is a public company that is the largest one within telecommunications in Norway. Telenor is mostly an international wireless carrier with operations in Scandinavia, Eastern Europe and Asia. In addition, it has extensive broadband and TV distribution operations in four Nordic Countries.

- **Life Science:** there is a demand for new solutions within the health area in Norway, for example within medical innovations. A prioritized area within technology is biotechnology. Some of the key partners within that field could be the Research Council (Forskningsrådet), Forum for Biotechnology (Forum for Bioteknologi), MedCoast Scandinavia and Oslo Teknopol among others.
- **High-Technology Industry:** There are aspirations for a specialized and innovative high-tech industry, as well increasing growth in small business development as a source of employment for the future. Some Norwegian hi-tech companies are now doing very well on the virtualization (virtual machines). The market leader on the issue is working with VMware, which also has offices in Israel.

Important visitors to/from Israel/Norway in 2010:

- The Norwegian Minister of Foreign Affairs Jonas Gahr Støre visited Israel in January. He met with President Shimon Peres, Minister of Foreign Affairs Avigdor Lieberman, Minister of Defence Ehud Barak, Minister of Intelligence Dan Meridor and the leader of Kadima, MK Tzipi Livni. The reason for the visit was to discuss bilateral relations between Israel and Norway.

Norwegian companies in Israel:

- Elopak (carton and plastic based packaging systems)
- Jordan (dental hygiene products)

Recommended websites:

- The Norwegian Government, <http://www.regjeringen.no>
- The Norwegian-Israeli Chamber of Commerce, <http://www.nihk.org/>
- Statistics Norway, <http://www.ssb.no/english>
- Innovasjon Norge, <http://www.innovasjon norge.no>
- <http://www.visitnorway.com/>
- <http://www.norway.no/>
- Bedin, company information, <http://www.bedin.no/>
- The Norwegian tax authorities, <http://www.skatteetaten.no/>
- Norwegian customs, <http://www.toll.no/>
- Norway Trade Fairs, <http://www.messe.no/no/>