

# Understanding the Baltics

Three countries of opportunities



XXX, Innovation Norway

## ❖❖❖ Baltic States - market possibilities for Norwegian companies

- Countries in brief
- Economic development
- Foreign direct investment
- Trade with Norway
- Business opportunities



## ❖ Discovering the Baltics

- International brands, large shopping malls, plastic cards, fancy restaurants, construction sites all over
- In many ways the countries look the same as any other ...and yet there is a special unique flair in all three Baltic countries that tourists are discovering



❖ Norwegian companies in the Baltic countries



Stock of Norwegian investments NOK 4 bln (end of 2004)

## ❖❖❖ Baltics – some facts

- Independent countries between 1918-1940
- Occupied and parts of Soviet Union until 1991
- Regained independence in 1991
- Membership in the EU 2004
- Membership in NATO 2004

	<b>Area km<sup>2</sup></b>	<b>Inhabitants Millions</b>	<b>Capital/ inhabitants</b>
<b>Estonia</b>	<b>45,228</b>	<b>1,4</b>	<b>Tallinn 400,000</b>
<b>Latvia</b>	<b>64,589</b>	<b>2,3</b>	<b>Riga 706,000</b>
<b>Lithuania</b>	<b>65,300</b>	<b>3,5</b>	<b>Vilnius 544,000</b>

## ❖ The Baltic countries - 3 in 1?

- Common history
- Geographical closeness
- Similar industrial background
- Extensive business integration

...and yet, these are 3 separate countries with:

- Different languages
- Differences in business cultures and mentalities
- Differences consumer tastes

## ❖❖❖ Baltics - 3 languages and cultures

- **Lithuanian** language is one of the world's oldest languages – an Indo-European language, related to the ancient Sanskrit
- **Latvian** is also an Indo-European language
- Lithuanians and Latvians can very roughly understand each other's language
- **Estonian** is a Finno-Ugric language – related to Finnish and Hungarian and can only be understood by Finns
- Russian or English are used to communicate between the countries

## High growth in the Baltic States

	2001	2002	2003	2004	2005*
<b>Estonia</b>	6.5	7.2	6.7	7.8	6.5
<b>Latvia</b>	7.9	6.4	7.5	8.5	n.a.
<b>Lithuania</b>	6.4	6.8	9.7	6.7	7.0
<b>Norway</b>	2.7	1.1	0.4	2.9	3.1
<b>Sweden</b>	1.2	2.0	1.6	3.0	2.8

\*Forecast

Source: OECD, National Statistics

## ❖ Index of economic freedom ranking 2005

- |                      |                            |
|----------------------|----------------------------|
| <b>1. Hong Kong</b>  | <b>23. Lithuania</b>       |
| <b>2. Singapore</b>  | <b>28. Latvia</b>          |
| <b>3. Luxembourg</b> | <b>30. Norway</b>          |
| <b>4. Estonia</b>    | <b>33. Czech Republic</b>  |
| <b>5. Ireland</b>    | <b>35. Hungary</b>         |
| <b>7. UK</b>         | <b>36. Slovak Republic</b> |
| <b>8. Denmark</b>    | <b>39. Japan</b>           |
| <b>12. USA</b>       | <b>41. Poland</b>          |
| <b>14. Sweden</b>    | <b>112. China</b>          |
| <b>15. Finland</b>   | <b>124. Russia</b>         |
| <b>18. Germany</b>   |                            |

Source: Wall Street Journal; The Heritage Foundation

## ❖ Main drivers behind growth in the Baltics

- Fast and successful conversion to market economies
- Competitive cost level and integration into Western European and Scandinavian industrial clusters
- Strong local company base
- High level of foreign direct investment
- Booming local markets (domestic consumption, real estate)
- Business with Russia (export, transit, raw materials, etc)
- Membership the EU - extra trust and EU funding

## ❖ The Baltic market

- Combined population of 7.1 million people
- GDP growth rates of 6-7% per year
- Combined imports of NOK 181 billion in 2004
  - Estonia NOK 55.5 billion
  - Latvia NOK 44.1 billion
  - Lithuania NOK 81.3 billion
- Lower entry barriers and weaker competition than on more established markets
- High degree of pan-Baltic business integration (find a partners with pan-Baltic operations)

Source: National statistics  
Exchange rate: NOK/EEK=1.9

❖❖ Baltic countries – low base – high potential  
GDP at purchasing power parity, 2005

	Inhabitants Millions	GDP at purchasing power parity, 2005* (EU 25 average =100)
Estonia	1.4	53
Latvia	2.3	45.6
Lithuania	3.5	50.1
Norway	4.5	155.9
Sweden	8.9	117
Denmark	5.3	122
Finland	5.2	115.9

Source: Eurostat  
\*Forecast

## ❖ Main export partners of Baltic countries, 2004

<b>LITHUANIA</b>		<b>LATVIA</b>		<b>ESTONIA</b>	
Germany	10.3%	UK	12.7 %	Finland	23.3 %
Latvia	10.2%	Germany	12%	Sweden	15.4 %
Russia	9.3%	Sweden	10 %	Germany	8.4 %
France	6.3%	Lithuania	9.1 %	Latvia	7.8 %
		Estonia	7.9%		

## ❖ Main import partners of Baltic countries, 2004

<b>LITHUANIA</b>		<b>LATVIA</b>		<b>ESTONIA</b>	
<b>Russia</b>	<b>23 %</b>	<b>Germany</b>	<b>13.8 %</b>	<b>Finland</b>	<b>22.1 %</b>
<b>Germany</b>	<b>16.8 %</b>	<b>Lithuania</b>	<b>12%</b>	<b>Germany</b>	<b>12.9 %</b>
<b>Poland</b>	<b>7.7%</b>	<b>Russia</b>	<b>8.9%</b>	<b>Sweden</b>	<b>9.7 %</b>
<b>Netherlands</b>	<b>4 %</b>	<b>Estonia</b>	<b>6.9%</b>	<b>Russia</b>	<b>9.2 %</b>

## ❖ Norwegian trade with Baltic countries, 2004

	LITHUANIA	LATVIA	ESTONIA
EXPORT, million NOK	603	575	486
IMPORT, million NOK	1 462	1 005	1 499
Total trade volume per country million NOK	2 065	1 580	1 986

Total volume of trade with Baltics: NOK 5 631 million

## ❖❖❖ Outsourcing to Baltics

- Relevant industries (steel processing, wood working, plastics, assembly of equipment, etc.)
- Production capacity and quality of local companies tends to match the expectations of Norwegian enterprises
- Competitive costs (average labour costs about 20 – 25% of the Norway)
- Experience with delivering to Scandinavia
- Similar cultures and short travelling times
- Business infrastructure in place



## ❖ Average monthly salary and unemployment rate, 2004

### **Estonia:**

- Average monthly salary: EUR 465
- Unemployment : 8.5%

### **Latvia:**

- Average monthly salary: EUR 300
- Unemployment : 8%

### **Lithuania**

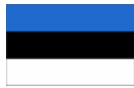
- Average monthly salary: EUR 340
- Unemployment : 11.4%



Source: National statistics



# Currency



## Estonia:

Estonian kroon  
EUR 1 = EEK 15.65



## Latvia

Lats  
1 EUR= 0.69 LVL



## Lithuania

Litas  
1 EUR= 3.45 LTL Litas

## Taxes in Baltic countries

<b>Tax</b>	<b>Lithuania</b>	<b>Latvia</b>	<b>Estonia</b>
<b>Corporate tax</b>	<b>15%</b>	<b>15%</b>	<b>0%*</b>
<b>Personal income tax</b>	<b>33%**</b>	<b>25%</b>	<b>24%</b>
<b>Social insurance tax</b>	<b>34%</b>	<b>33.09%</b>	<b>33.5%</b>
<b>VAT*</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>

\*24% on dividend payments

\*\* 27% from July 2006

## 🌟 Debate about outsourcing

- It is always hard if jobs are lost ...but are they?
- Outsourcing helps to stay competitive, often resulting in safeguarding and even increasing the number of jobs in the homebase.
- Trying to prevent companies from outsourcing is shortsighted
- Børge Brende: ...satisfied that Norwegian companies are having success in international markets, with production and sales both abroad and at home.

## ❖ Advantages of Baltic countries

- Fast-growing economies with excellent market opportunities
- Location inside the EU common market
- Strategic location bridging the EU and the CIS
- Availability of well-trained labour at competitive cost
- Competitive operating and living costs
- Well-developed business infrastructure
- Excellent transportation networks and short lead times to Norway
- Strong base of local companies to co-operate with
- Numerous Norwegian companies already successfully present

## ❖ Norwegian companies in the Baltics

- Around 600 Norwegian-owned businesses in the Baltics
- A good mix of
  - Production
  - Retail
  - Real estate
  - Service
- Total value of Norwegian direct investment in the Baltics is ca NOK 4 billion

Including: NOK 1.62 billion in Estonia

NOK 1.2 billion in Latvia

NOK 1.12 billion in Lithuania

## ❖ Sectors with good opportunities

- Companies serving the local market (growth rates)
- Telecom and IT
- Transportation and logistics
- Production oriented towards Russia and the CIS countries
- Production of electrical equipment and electronics
- Foodstuffs and beverages
- Textile and clothing
- Wood processing and furniture manufacturing
- Steel processing
- Environment
- Medical sector

# Some of the latest largest Norwegian business transactions in Estonia

- Statoil taking over Shell's gasoline stations in Baltic countries
- Expert Norge purchasing majority ownership in Expert Finesco consumer electronics retail chain in Estonia
- Nordea opening branch offices in Baltics & Poland (banking)
- Kverneland Baltic (Kverneland sales company for the Baltic region) establishment in Estonia (agriculture)
- Polimoon takeover Rõngu Factories in Estonia (plastic industry)
- Synnøve Finden purchasing ownership in Võru Juust (food industry)
- Schibsted purchasing additional media companies in Estonia ('Murdoch' in Estonia)
- Europark parking houses in Tallinn (real estate)
- Fransmaas Norge purchasing ownership in EE Trans (logistics)
- Findexa purchasing ownership in largest internet portal in Baltics Delfi (media)
- Tallinn's largest supermarket, Linstow Varner
- Cellulosis factory in Kunda, times second largest foreign direct investment FDI into Estonia, Larvik & Cell
- Vardar windmill park, first more substantial FDI into alternative energy production in Estonia
- Norfolier acquiring HTM Sport production site in Tallinn (plastic industry)
- DnBNOR purchasing ownership in Nord LB in Baltic states (banking)

# Recent trends with Norwegian business presence in Estonia

- Norwegian investments to Estonia doubled (2004 compared 2000 level)
- Annual trade volume/number of companies trading doubled (2004 vs 2000 level), current 800+ companies on both directions
- Interest from the industry +75% (500+ general requests received by Innovasjon Norge Tallinn in 2004), average annual growth of interest 30-50% for the last years
- 600 business visitors from Norway in Tallinn in 2004 (hosted by Innovasjon Norge Tallinn/Embassy in Tallinn)

In 2004 30 more substantial projects with Norwegian companies in Estonia (Innovasjon Norge Tallinn/Embassy involved)

# Business sectors currently most interest from Norway (requests received by IN Tallinn 2005)

- ICT/media
- Shipping, harbour technology
- Construction/materials, real estate
- Mechanical engineering
- Agriculture, food processing
- Environment, alternative energy
- Tourism
- Defence
- Medicine/technical equipment
- Aviation

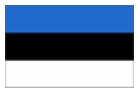
## Business culture

- Quality of companies and management varies a lot
- Short-term thinking still often prevails
- Small countries and small industries – people know each other
- On-time delivery is often a challenge
- Trust but control! Written agreements are necessary
- Foreign language skills are are not a given

## ❖ Successful investment in the Baltics

- Be aware of the cultural background
  - Accept local peculiarities
  - Try to combine the best of both business cultures
  - Utilise strenghts of local networks
  - Build competence and introduce Norwegian
  - Let local management to be in charge
  - Build responsibility
- Build and reward loyalty - not only with salaries
- Trust but control

## Stock of Foreign Direct Investments, as of end of 2004



**ESTONIA**

**€7 billion**

**Sweden 42 %**

**Finland 26 %**

**USA 5 %**

**Norway 3 %**

**(Norway 5th biggest)**



**LATVIA**

**€3.3 billion**

**USA 13%**

**Sweden 13%**

**Germany 10%**

**Norway 5%**

**(Norway 4th biggest)**



**LITHUANIA**

**€4.7 billion**

**Denmark 16%**

**Sweden 15%**

**Germany 10%**

**Norway 3 %**

**(Norway not among top 10)**

# Innovation Norway offices in the Baltics

## Welcome to the Baltic countries!

### **LATVIA:**

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### **LITHUANIA:**

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### **ESTONIA:**

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Tallinn 15054

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tallinn.trade@invanor.no

❖❖ Baltic countries – low base – high potential  
GDP per capita, 2004

	<b>Inhabitants</b>	<b>GDP per capita, € thousands</b>
<b>Estonia</b>	<b>1.4</b>	<b>6 704</b>
<b>Latvia</b>	<b>2.3</b>	<b>4 742</b>
<b>Lithuania</b>	<b>3.5</b>	<b>5 219</b>
<b>Norway</b>	<b>4.5</b>	<b>31 600</b>
<b>Sweden</b>	<b>8.9</b>	<b>24 600</b>
<b>Denmark</b>	<b>5.3</b>	<b>26 300</b>
<b>Finland</b>	<b>5.2</b>	<b>23 500</b>

Source: National Statistics  
Nordic Statistical Yearbook 2004 (2003 data)