Information and Communications Technologies Sector Profile - Estonia, Latvia, Lithuania

Market Overview

The Baltic Economies

Estonia, Latvia and Lithuania are located at the heart of the Baltic Sea Region. The three Baltic countries have returned to economic growth after pushing through Europe’s toughest deficit-cutting measures to cope with the global financial crisis and have been the fastest-growing economies in the EU for the last three years. Accession to the EU and NATO has increased business confidence, enabling the Baltic States to leverage the advantages of economies of scale. The three Baltics score highly in business, investment, financial freedom, and property rights. Income and corporate tax rates are low, and business regulations are efficient, particularly in Estonia. The favourable investment environment (good monetary conditions, strong financial position of companies and EU funds) together with incentives for foreign investors is attracting investments from Western, Central Europe and Russia. Each of the three countries has entered the Exchange Rate Mechanism and the Eurozone.

All three Baltic economies are services and export-driven. Exports and private consumption have been the main contributors to economic growth in 2014. Transport, telecommunications, and transforming industries had a slight growth. Capital spending and consumption recuperated, sustained by continued low interest rates and some improvement in real disposable household income. Domestic demand will be the key driver of economic growth in all three Baltic States in 2015-2016. Largely due to its stronger external competitiveness, which contributes to stronger consumption and investment at home, Lithuania is set to remain the fastest growing economy among the Baltic States. In 2014, Real GDP per capita growth rate was 2.7% in Latvia, 3% in Lithuania, and 1.2% in Estonia. For 2015, GDP per capita growth rate is approximated to be 2.6% in Latvia, 3.2% in Lithuania, and 2% in Estonia.

ICT Infrastructure

ICT goods and services are important drivers of productivity, growth, and economic performance. The major subsectors of ICT are service, computer programming and consulting, and telecommunications. Business process support functions, software development for the finance and insurance industry, and internet banking are rapidly
growing subsectors. The three countries have developed a number of local network structures aiming to ensure communication between the industry and research organizations and have joined the network of the Baltic Sea Innovation Centres (BaSIC) to extend these structures on the international level. Competencies of Baltic ICT specialists rank very high on the global labour market due to the high-quality ICT education. The Baltic countries have a long history of strong real sciences, cybernetics and electronics.

The Baltic States have caught up to their high-tech Scandinavian neighbours with substantial network infrastructure investments over the past 20 years. Mobile telephone penetration rates in all three Baltic countries are about 150%. Internet is available to every household and the level of computer literacy is high. Online advertising in the Baltic countries is close to €10 million annually per country, of which 90% goes to large media companies and newspapers. The market share of ad networks is tiny with most of the money going from top brand advertisers to a few top five Web sites.

On the EU level, the Commission is working on measures for a single European ICT market and is building up support programmes for public information access on the Internet, bringing down barriers and building economies of scale through initiatives such as the Cloud Strategy, Licence for Europe, and Horizon 2020.

The Digital Single Market Strategy (DSM), one of European Union’s top ten priorities, includes 16 initiatives to be delivered by the end of 2016. The DSM will create opportunities for new start-ups and allow existing companies to grow in a market of over 500 million people. Completing a Digital Single Market Strategy could contribute €415 billion per year to Europe's economy, create jobs, and transform public services.

Additionally, in the EU a technology transfer system has been developed to create an environment for increasing the income of scientific institutions from commercialization of state funded research projects, as well as to promote the transfer of the research results acquired by the scientific institutions into the practical business.

**Latvia**

ICT services account for approximately 4.6% of Latvia’s overall GDP. This can be attributed to innovative practices and a stable, well–trained, and highly productive workforce. The ICT industry in Latvia has experienced significant growth in the past several years. Over five thousand companies operate in the ICT sector in Latvia, employing over 30 thousand people.

Latvia is in the top ten countries in Europe for investment and revenue in the telecom industry. There are two significant fixed line operators in Latvia – Lattelecom and Baltcom. A small number of operators offer services in urban areas. 51% of Lattelecom's shares are owned by the Latvian government (49% by the TeliaSonera AB) In turn, Lattelecom owns 23% of Latvian Mobile Telephone's (LMT) shares. Lattelecom also owns 40% of market share of broadband Internet, as well as 85% of the fixed line telephone market. Lattelecom offers up to 500Mb/s of fibre roll-out access and free Internet to any person in 2,000 locations all over Latvia. Lattelecom is
also the main organization responsible for the nationwide deployment of DVB-T providing terrestrial broadcasting of radio and television programs covering the entire territory of Latvia. Digital TV uptake has accelerated, with satellite and cable TV dominating digital access. Analogue switch off was completed in mid-2010, and since then there has been a release of spectrum in the 800MHz band for use in mobile services.

The mobile market remains the most dynamic part of the electronic communications sector due to increasing call volumes and mobile broadband take-off. There are more than 400 electronic communication operators in Latvia. LMT has expanded the coverage of its 4G Long Term Evolution (LTE) network to 50% of the country’s population. It is understood that LMT’s 4G network currently comprises 393 LTE base transceiver stations (BTS) across Latvia. With increasing competition in the mobile broadband market, all three mobile networks (Latvian Mobile Telephone (LMT), Tele2, BITE Latvia) offer generous amounts of bundled data. LMT and Tele2 each possesses about 42% of the mobile telecommunication market. E-Commerce has also been expanding; in 2014 34% of the Latvian population ordered goods or services online.

The Latvian IT Cluster represents the entire ICT Industry and is a platform for further development of innovative solutions and products. In 2012, the Riga Information Technology Demonstration Centre (IT Demo Centre) was opened. Latvian SAF Tehnika - a unique designer and manufacturer of point-to-point microwave data transmission equipment – spread its presence to almost 100 countries, including Canada. Fastr, an application for fast reading, Cobook, a smart address book and Fierless Wheels, a game for iOS devices are the most famous Latvian start-ups. The Latvian Information and Communications Technology Association - LIKTA – represents over 70 ICT product and service providers and educational institutions.

Estonia

Estonia is well known as an “e” country. The e-Estonia digital society success is due to its infrastructure: instead of developing a single, all-encompassing central system, Estonia created an open, decentralized system that links together various services and databases. The flexibility provided by this open set-up has allowed new components of the digital society to be developed and added over time. Estonian interest for “e” developments started in the mid-1990s, with the government’s ambitious plan to connect all of the country’s schools to Internet. Today, as a result, 98% of people under 35 years are everyday Internet users and it has become an integral part of Estonian life. Furthermore, 92% of people are paying taxes on-line
An Estonian ICT Demo Centre (IKT Demokeskus) was established in Tallinn in early 2009 bringing together achievements such as the ID-card and Mobile-ID, the e-banking system, and the e-Tax office. The Demo Centre has attracted international
partners such as Apple, HP, Lenovo, Microsoft, Sony Ericsson and Sun Microsystems. Ericsson has a factory in Tallinn of about 1,400 employees, where they produce mobile and broadband devices.

**Lithuania**

Lithuania has the largest ICT industry in the Baltic States with an outstanding potential both for local and foreign businesses. 13 out of the 20 largest IT companies in the Baltic States are based in Lithuania. The sector has experienced stellar growth, with an increasing number of highly-skilled staff, increased foreign investment in the ICT sector, and cutting edge services such as cloud computing, IT solutions for the financial sector, and engineering & medical software development at the front line of this growth.

With world-leading broadband speeds, and the most advanced ICT infrastructure in Central and Eastern Europe, Lithuania is cementing its position as a regional centre of excellence for smaller software and games start-ups, as well as larger ICT operations. Moreover, with tech-savvy talent pool, business friendly environment, and a record in technological excellence, Lithuania offers a cost-competitive destination for all companies in search of quality ICT competencies and services.

Lithuania boasts the fastest download and upload speed in the EU and 2nd worldwide, whereby the capital city of Vilnius has the fastest Internet upload speed in the world. Lithuania is 1st in Europe in terms of density of the national network of public Internet access points and has the 1st commercial mobile digital signature pilot project in the world (Etronika). Consequently, 92% of financial operations are performed via e-banking. The most up-to-date ICT technologies (EDGE technology, 3G mobile communications infrastructure, mobile WiMAX 4G Internet, etc.) have been fully implemented and are now functioning throughout the country. There are three main operators of mobile communications: Omnitel, Bite Lietuva and Tele2 (operating 2G and 3G mobile networks) and 11 alternative mobile service providers.

Lithuania’s GetJar is the world’s most popular mobile application distribution and development community. It was the world’s first multi-platform mobile application download provider and is now only surpassed by Apple, with more than 1 billion downloads from its application store to date. It is the winner of the prestigious Mobile Excellence Award and in 2011 was voted as one of the world’s most innovative Technology Pioneers by the World Economic Forum. Ilja Laurs, founder and CEO of GetJar, was listed one of the 40 most influential leaders in the world’s mobile communication industry in 2009 by Informa Telecoms & Media.

Foreign investment has played a main role in the Lithuania ICT infrastructure development and value added services. Companies such as Barclays Bank, Bentley Systems, TietoEnator, IBM, Microsoft, Computer Sciences Corporation, Affecto Group, and Proact have already established a presence in Lithuania. Many overseas companies outsource their software development using the quality and creativity of Lithuania’s regional software development clusters and firms (including SingletonLabs, Agmis and Alna). Small companies (with the staff up to 9 employees) prevail in the ICT sector, comprising 85% of the market.
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With EU structural funding, the state budget, and private investments, Lithuania is now focusing on the creation of five science and technology parks. Private entities operating in industrial territories may apply to the government, which may grant the industrial park status to the territory in question. The need to attract foreign investors to the industrial parks and the free economic zone in Lithuania has led to simplification and facilitation of the territorial planning procedure as well as improvements to the process for obtaining economic project status.

**Opportunities**

In 2014, the value of goods exported from Canada to Lithuania, Latvia and Estonia was $140 million (€123,5 million) and the total imports were $360,5 million (€317,8 million). Of the export figures, approximately $8,6 million (€7,6 million) came from telephone sets, other apparatus for Trans/Recep of Voice, image and data, electrical sound or visual signaling apparatus, and transmission apparatus for radio or TV. The trade figures with Canada are somewhat understated because they represent only direct trade, while some goods are imported/exported via third countr

Belam Riga, a representative of Dragonwave and Bombardier has sold Canadian equipment to Latvian and Lithuanian railways. In 2013, Bombardier Transportation, in a consortium with Belam Riga, won a contract for the construction and upgrade of the railway signalling and associated infrastructure systems in Latvia for the total value of €16 million. Additionally, GrabCad and Estonian Health Foundation have found partners in Canada and a Quebec delegation has visited Estonia to learn about e-Estonia.

Opportunities for Canadian exporters of ICT products and services exist in niche segments (e.g. railway and postal solutions). Limited knowledge of Canadian products/technologies in the Baltic states, the higher custom duties imposed on Canadian products in comparison with those imposed on the products coming from other EU member States, the need for larger volumes and the longer distances between these potential partners are the challenges faced by Canadian enterprises when approaching these Baltic markets. Flexible financing options are needed.

The availability of well-trained IT specialists with modest salary requirements in comparison to EU levels makes Latvia, Lithuania and Estonia a very attractive environment for developing IT projects. An advantage of doing business in the Baltics is that its IT specialists and software developers are creative, innovative and are capable of coming up with new solutions. They thus take uncharted paths in solving well-defined problems. English language proficiency, modest salaries and high level of
expertise in IT and communications should further convince multinationals to establish IT operations centres to service the EU and surrounding territories.

Outsourcing has become a core business for many Baltic software development companies and they have gained significant experience from large-scale software development projects undertaken for major international companies. IT consultancy, as well as data processing, account for the large share of value added in the sector. The most promising services are the development of mobile applications, the implementation of e-solutions for government and healthcare, IT outsourcing for hosting and data processing, and game development. The key industry segments with IT expertise are finance, insurance, IT development, consultancy, infrastructure, as well as e-governance.

**Market Access Considerations**

Despite the positive business environment which creates great business opportunities, there is a certain degree of risk due to lower transparency in the business, legal, and regulatory realms than in Canada. However, risk can be avoided through partnerships with local companies and consulting with international business firms that have experience in doing business in the respective country. For Canadians wishing to expand or promote their businesses in the Baltic Region, a joint venture with a local partner is the best strategy. Canadian firms will discover that an experienced local partner will greatly enhance the chance for success in the Baltic states. Depending on the nature of the product, a single agent, distributor, or representative may suffice for all countries. However, firms should plan for separate representation in each distribution channel to better address unique market, cultural and legal issues.

Since EU accession, the Baltic States import policies have been changing to increasingly conform to European Union policies for imported products and import taxes. Non-EU exporters are required to meet CE standards with EU-destined goods, which are subject to EU product legislation. Products must have a declaration of conformity before entering the EU. There are labeling requirements which oblige translation into the local language(s), that the label be legible, that it be neither misleading nor non-erasable. Follow this link to find more information: [http://europa.eu.int](http://europa.eu.int)

**Major Competition**

Unlike in Estonia and Lithuania where TeliaSonera has a majority stake in the telecommunication operators, the Latvian government has been trying to privatise its shares in Lattelecom and LMT since September 2007. However, the government has still not been able to pass final approval of privatization.

The top 10 Global companies in the IT service industry is IBM, HP, Fujitsu, CSC, Aventure, CAP Gemini, Hitachi, Ericsson, NTT Data Corp and NEC. In Latvia, the greatest global IT service provider is Exigen Group. Exigen Services remains one of the leading IT services companies with nearly 10 million EUR in revenue.
Useful Information Sources/Websites

- Annual Trade Shows:
  - Latvia - IT&T (March/April) - [www.prima.lv](http://www.prima.lv)
  - Estonia - [www.fair.ee](http://www.fair.ee)
  - Lithuania - [www.infobalt.lt](http://www.infobalt.lt)

- Latvian Chamber of Commerce and Industry - [www.chamber.lv](http://www.chamber.lv)
- Public Services Regulator - [www.sprk.gov.lv](http://www.sprk.gov.lv)
- Latvia’s State Procurement Office - [www.iub.gov.lv](http://www.iub.gov.lv)
- Latvian Information Technologies & Telecommunications Association - [www.likta.lv](http://www.likta.lv)
- Internet Association of Latvia - [www.lia.lv](http://www.lia.lv)
- Latvian Association of Computer Technologies - [www.itnet.lv](http://www.itnet.lv)
- Latvian Electrical Engineering & Electronic Industry Association - [www.letera.lv](http://www.letera.lv)
- Lithuanian Association "Infobalt" - [www.infobalt.lt](http://www.infobalt.lt)
- Ministry of Economy of Lithuania - [www.ukmin.lt](http://www.ukmin.lt)
- Lithuanian Innovation’s Centre - [www.inovacijos.lt](http://www.inovacijos.lt)
- Estonian Association of Information Technology & Telecommunications Association - [www.itl.ee](http://www.itl.ee)
- Estonian ICT Demo Center - [www.demoestonia.eu](http://www.demoestonia.eu)
- Estonian Information Technology Society (EITS) - [www.eits.ee](http://www.eits.ee)
- State Information System - [www.riso.ee](http://www.riso.ee)
- The Estonian Informatics Centre - [www.ria.ee](http://www.ria.ee)
- Estonian Trade Council - [www.etc.ee](http://www.etc.ee)
- Estonia Chamber of Commerce & Industry - [www.koda.ee](http://www.koda.ee)
- Ministry of Economic Affairs and Communications - [www.mkm.ee](http://www.mkm.ee)

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