

**Increase SME's export skills through
e-learning**

E - EMPORIO

DESK RESEARCH

Latvia

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Contents

How much is the size of exports in Latvia (as percentage of GDP)?.....	4
Which are the main markets to which the Latvian companies are exporting?	5
Which are the main exporting industries?.....	6
Agriculture and Forestry	6
Food.....	6
Timber	7
Metal-based Industries	7
Textiles & Apparel	8
Pharmaceuticals	9
Transport.....	9
Information Technologies	10
Medical Services.....	10
What is the tendency in exports (increase/decrease)?	11
Are there regional differences in export activities?.....	12
What are the organisations that support the export activities of SMEs in Latvia?	12
What are the main problems that create obstacles to export activities (bureaucratic issues, lack of skills of SMEs, lack of financial support, other problems ...)?	13
Have there been any studies on the training needs of employees of SMEs (relative to exports)?	14
What needs have these studies identify?	14
Have there been studies on skills shortages and the skills that workers in SMEs require?	14
What skills or deficiencies have these studies identified?.....	14
List the training material available for the training of SMEs in export.	15
Is the training material free or you have to pay for it?.....	15
What topics are covered?	15
What is the format of the material (electronic, books, etc.)?	16
List the training courses that are available in your country for training.....	16
Which organizations organize them & how frequently are they organised?.....	17

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They are only face to face seminars or there are also e-learning seminars?	17
Which subjects are covered?	17
Which needs are not covered by the existing training courses (in terms of content, subjects, method of delivery, etc.)?	18
What can the E-EMPORIO offer to the target group that is not covered by the existing courses and which needs, that are currently not covered, can cover?	18
Make specific recommendations on the content and structure that the E-EMPORIO courses should have in order to bring an added value to the staff of the SMEs that will participate.....	18

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How much is the size of exports in Latvia (as percentage of GDP)?

According to the data of the Central Statistical Bureau of Latvia, in February 2014 exports in Latvia increased to EUR 797.10 million comparing to EUR 738.40 million in January 2014. Exports in Latvia averaged EUR 322.73 million from 1993 until 2014, reaching an all-time high –EUR 993.60 million in October 2012 and a record low –EUR 53.10 million in January 1994. **Current size of exports in Latvia as percentage of GDP is approximately 19%.**

ACTUAL	PREVIOUS	HIGHEST	LOWEST	FORECAST	DATES	UNIT	FREQUENCY
797.10	738.40	993.60	53.10	843.30 2014/03	1993 - 2014	EUR MILLION	MONTHLY

Figure 1: Data about exports in Latvia

The trends of the last three years of Latvian export change are reflected in Table 1 below.

Table 1: Latvia's exports by groups of countries: EU-28 & CIS (mln EUR)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
TOTAL												
2012	673.5	702.0	785.5	720.2	806.8	772.9	795.4	899.7	928.2	993.6	993.5	799.9
2013	756.5	774.6	806.5	834.0	804.3	783.8	789.9	844.3	917.8	982.3	924.0	805.1
2014	738.4	797.1	-	-	-	-	-	-	-	-	-	-
EU-27												
2012	489.4	500.4	552.0	538.9	572.0	542.9	540.8	627.2	614.3	707.1	676.4	498.4
2013	544.1	550.8	575.2	600.2	579.7	547.7	566.4	618.4	649.0	693.0	640.6	532.5
2014	554.3	556.5	-	-	-	-	-	-	-	-	-	-
EU-28												
2012	-	-	-	-	-	-	-	-	-	-	-	-
2013	-	-	-	-	-	-	566.6	618.8	649.2	693.6	641.0	532.6
2014	554.4	556.6	-	-	-	-	-	-	-	-	-	-
Russia & CIS												
2012	83.6	98.0	118.8	108.0	109.2	118.6	124.9	139.5	154.6	160.5	158.2	147.9
2013	86.3	107.3	118.1	129.4	132.5	130.0	130.4	136.9	140.4	162.1	174.4	159.0
2014	89.0	116.9	-	-	-	-	-	-	-	-	-	-

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Which are the main markets to which the Latvian companies are exporting?

Historically and geographically the main export markets for Latvian companies have been:

- 1) **The Baltic States** – Lithuania & Estonia (due to very close location);
- 2) **Eastern Europe** – Russia, Belarus, Ukraine;
- 3) Such **former USSR countries in Central Asia and Caucasus regions**: Kazakhstan, Uzbekistan, Azerbaijan, Georgia and Armenia.

After the collapse of the Soviet Union in 1990s and Latvia's independence, cooperation started to develop between Latvia and Nordic countries. Major Nordic countries for the Latvian export have been: Sweden and Denmark.

Additionally, after Latvia joined the EU in 2004 Latvian companies started to explore the Western European markets for exports. One of the major export countries for Latvia in EU has been and still is Germany.

Finally, after Latvia joined the euro zone in January 2014, it is expected that local companies will try to shift their exports from traditional former-USSR block countries (especially Russia) to EU countries as one currency significantly decreases the export expenses.

To sum up, in 2014 TOP 5 Latvia's main export partners are: Lithuania, Russia, Estonia, Germany and Sweden.

Which are the main exporting industries?

Main exporting industries in Latvia are:

- **Agriculture and Forestry;**
- **Food;**
- **Timber;**
- **Metal-based Industries;**
- **Textiles & Apparel;**
- **Pharmaceuticals;**
- **Transport;**
- **Information Technologies;**
- **Medical Services**

Agriculture and Forestry

The primary sectors in the Latvian economy play a greater role than in a typical European country; this is likely to remain so, given the low density of population and the fact that virtually all the country has fertile land. Thus, agriculture and forestry will continue to provide a basis for the growth of food and timber processing, which along with engineering are the leading manufacturing sectors in Latvia.

Food

This is a rough generalization, but the output of the Latvian food processing industry can be classified either as branded output mostly for regional markets – the Baltics, other former USSR countries - and “bulk” products for global commodity markets: milk

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powders, butter, etc. The first group is far more important. Latvia is the leading producer of canned fish in the region. Numerous fish processing enterprises in towns and villages dotted along the shores of the Riga Gulf produce enough fish cans to cover the distance from the Latvian-Russian border to the Pacific Ocean and back. But it is not just a question of quantity; this is probably the only business in which switching to Western markets would lead to lower quality, as no one can appreciate truly delicious sprats (Rīgasšprotes) as well as Russians. Also, Latvian specialty milk products are widely known in the region, first and foremost the outstanding cheese curd snack Kārums. The biggest branded product for Western markets is vodka sold under the Stolichnaya and Moskovskaya brands. Latvian companies like Laima and Pure Food make delicious sweets - chocolates and fruit jams that are establishing a foothold in exotic markets like the Middle East and China.

Timber

The timber industry is the nation's main export product. While its share has fallen compared to levels 10 years ago, the timber industry still accounts for around 15% of total exports of goods and services. Though often generalized as a "low value added" business, it is actually quite knowledgeand capital-intensive. The strongest element of this sector traditionally has been the production of plywood. Latvian output doesn't represent 10% of the global total any more, as it did in the 1930s, but at least it is bound for high-level applications, including critical elements in liquefied natural gas tankers.

Metal-based Industries

The engineering and metalworking sectors have experienced a rollercoaster ride that

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has reflected the violent turns in Latvia's history. The large-scale and globally oriented industries of the pre-WWI era were swept away, and history was repeated in the early 1990s, when most of the Soviet-era manufacturing collapsed. The first ten years of independence were mostly about survival and putting together bits of the smashed previous glory. These efforts were not spent in vain; output since 2000 has multiplied, racing ahead of other manufacturing sectors. The manufacturing of automotive components for large European multinationals has emerged literally from nowhere. The building boom of the middle of the decade boosted structural steel production, which was quickly diverted to export markets in 2008-2009. Bits and pieces of previous ages remain and even flourish. Recent years have seen the emergence of several small but nimble producers of industrial metals. The electronics industries probably suffered more than any other in the 1990s, but the industries have also staged a rapid recovery and are quite strong in broadband radio transmission equipment. Mikrotīkls (international brand name: MikroTik) is one of the leading suppliers of Wi-Fi solutions, in cooperation with HanzasElektronika, which does most of the actual manufacturing.

Textiles & Apparel

Like in almost any country, manufacturing in Latvia began with the textile industry, which dates back to the late 18th century. Textile and apparel production (light industries) have seen their share fall, but it would be at least premature to write them off completely. The Western town of Liepāja houses a cluster of 50 lingerie producers, probably the largest remaining competence center in Europe which refused to give way to China. There are also a number of less specialized companies making a wide range of products for Hennes&Mauritz and other European retailers, providing not just manufacturing but also design, to set themselves apart from countries with lower

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labor costs. Making small runs of specialized garments on short notice is an important niche to hide in from the race to the bottom in terms of pricing.

Pharmaceuticals

Pharmaceuticals are regarded as one of the most promising areas of manufacturing in Latvia. While the industry is very small by global standards, it has manufacturing competence as well as R&D potential from arguably the best scientific establishment in Latvia, the Institute of Organic Synthesis.

Transport

The Baltic states are special in many ways. One of them is the very high importance of railways in their economies. The Baltics are the only countries in the EU where most cargo are carried on iron tracks. Locally generated business accounts for just a few percent of railway turnover, almost all of the 50-60 million ton annual turnover comes from abroad, mostly Russia and Belarus, but also countries like Kazakhstan. Goods from much of Eurasia's vast landmass are finding their way to Baltic shores, that's why this place has been so coveted by several countries in the past.

While 10 years ago almost all transport service export revenue was generated by the value chain of railways and terminals in the three main ports of Rīga, Ventspils and Liepāja, today the picture is much more diverse. The largest airline company in the Baltic States - AirBaltic - has come from almost nowhere before EU accession to become a regional competitor, linking large and medium destinations in Northern Europe and the CIS. Another success story is road transport, as growing markets in the CIS countries are demanding more and more consumer goods.

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Information Technologies

While the Soviet era is not usually remembered fondly here, it had some (partially) redeeming features, one of them being good education programs in science and mathematics. This has created a basis for a small but thriving software production business. Estonia's Skype might be much better known, but the largest software operation in the Baltic states is TietoLatvija, as its products are actually intended to make money. Almost literally, by the way, as it is one of the main global providers of software that runs card-payment and cash-withdrawal systems of commercial banks. Serving the needs of the financial sector is a key competence of Latvia's IT cluster, whose members also include Nexum Insurance Technologies, Exigen Services and others. Another company, Tilde, has created one of the world's best translation software.

Medical Services

Countries in Central Europe like Hungary and Czech Republic have had a head start in the medical services sector, but now ambitious doctors in Latvia are catching up. They have set up an organisation called Baltic Care, which acts as a marketing representative for their efforts. These include not only the staple stuff of medical tourism - namely, all sorts of enhancements to female (and male) bodies, as well as dentistry - but also eye surgery and other services. People have said that one of the leading doctors even offers flights in his private plane as a bonus. Also, SPA business is very popular in Latvia and famous among foreign tourists.

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What is the tendency in exports (increase/decrease)?

For centuries under Hanseatic and German influence and then during its inter-war independence, Latvia used its geographic location as an important East-West commercial and trading center. Industry served local markets, while timber, paper and agricultural products were Latvia's main exports. Conversely, years in the Russian Empire and the Soviet Union tended to integrate Latvia's economy with their markets and also serve those countries' large internal industrial needs.

The Financial Crisis of 2008 severely disrupted the Latvian economy. In result, Latvia had the worst economic performance in EU in 2009. A notable feature of the recovery from the recession in the Baltic states has been the strong performance of exports. While in nearly all EU countries, exports have recovered from the low point of 2009, the Baltic states have been the leaders with export growth since the low point of the recession between 86% and 93%. More significant is the strength of export growth from the prerecession peak. Here, Latvia is the clear leader with exports in 2012 up by 51% as compared with its prerecession peak (which, for Latvia, and for most countries, was reached in 2008). With 30% export growth between 2009 and 2010, by the end of 2010 Latvia had surpassed its previous absolute record export level, and with further growth of 30% in 2011 and 16% in 2012 has continued to post new record levels. This has mostly been growth in export volumes, but unit export values also grew by 89% in 2010 and 2011, and by 3% in 2012.

Table 2: Development of export volumes in Latvia since 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Latvia	156.3	200.9	225.5	252.1	275.2	245.7	295.0	361.4	410.6

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Are there regional differences in export activities?

As Latvia is a very small country (roughly 2 million inhabitants in total) there are no large regional differences as for export activities. Territorially, the country is divided into four regions: Vidzeme, Zemgale, Kurzeme and Latgale. One can say that because Latgale is bordering Russia and Belarus and Russian language is common in the region, it does a lot of business with these two countries. That is true. However, as territory of Latvia is very small, also SMEs from two other regions – Vidzeme & Zemgale – are doing a lot of export to nearby countries, including Russia and Belarus. Due to development of the information technologies and instant online communication, nowadays world has become so small that businesses in any region of Latvia can export their goods both to close as well as far away countries.

What are the organisations that support the export activities of SMEs in Latvia?

As export is the main driving force of the country's economy, there are a lot of organizations that support export activities of Latvia's SMEs. They include but are not limited to:

- **Latvian Chamber of Commerce and Industry (LCCI)** <http://chamber.lv/en;>
- **The Investment and Development Agency of Latvia (IDAL)** <http://www.liaa.gov.lv/en;>
- **Ministry of Economics of the Republic of Latvia** <http://em.gov.lv/?lng=en;>

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- **Ministry of Foreign Affairs of the Republic of Latvia** <http://www.am.gov.lv/en>;
- **Foreign chambers of commerce (CC) in Latvia** (German-Baltic Chamber of Commerce in Latvia; Swedish CC, Norwegian CC, Swiss CC, etc.)
- as well as **private universities** (such as Stockholm School of Economics in Riga) and **private consulting companies** (e.g. GatewayBaltic).

The support is provided with a help of in-person consultations about the export markets, seminars/conferences with speakers of different backgrounds who share their knowledge about different export markets, financial support for attending international conferences/trade fairs, etc.

What are the main problems that create obstacles to export activities (bureaucratic issues, lack of skills of SMEs, lack of financial support, other problems ...)?

Firstly, it is lack of qualified staff and knowledge about specifics of foreign markets, as well as marketing and sales strategies for entering specific foreign markets.

Secondly, it is lack of free finances which can be invested in a long-term for entering and becoming successful in foreign markets.

Other reasons include: cultural differences, lack of knowledge of specific languages (e.g. Chinese), lack of training for the personnel and understanding realities of an export market of interest as well as low financial support of the government for SMEs' internationalization.

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Have there been any studies on the training needs of employees of SMEs (relative to exports)?

LCCI has contacted universities offering export programmes as well as export supporting departments of the government institutions and came to conclusion that currently in Latvia there are no publicly available studies on the training needs of employees of SMEs.

What needs have these studies identify?

In the case of Latvia it is not relevant.

Have there been studies on skills shortages and the skills that workers in SMEs require?

These type of studies have not been publicly disseminated and/or published in Latvia.

What skills or deficiencies have these studies identified?

Not relevant in the case of Latvia.

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List the training material available for the training of SMEs in export.

The main training material published in recent years in Latvia is the “Export Handbook” prepared and released by The Investment and Development Agency of Latvia (IDAL) and Enterprise Europe Network (EEN) in Latvia.

Is the training material free or you have to pay for it?

It is free and has available on IDAL website for download as well as has been printed and handed out to entrepreneurs during public events as well as can be sent on demand to interested Latvian entrepreneurs.

What topics are covered?

Theory about:

- 1) An enterprise’s export capacity assessment;
- 2) Export strategy and planning;
- 3) Market choice and research;

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- 4) Proposals preparation for foreign partners;
- 5) Partner selection and approach;
- 6) Understanding the market: exhibitions, trade missions;
- 7) Delivery of orders;
- 8) Communication with foreign partners and relationship retainment.

As well as practical example of export success stories of Latvian enterprises.

What is the format of the material (electronic, books, etc..)?

The handbook is available in electronic format as well as in printed version.

List the training courses that are available in your country for training

1. Latvian Chamber of Commerce and Industry's (LCCI) seminar cycles: 2 hours long "Export Morning" seminars; longer type of a seminar "Export ABC" organized one in several months, annual conference – "Export Day"; etc.;
2. Several weeks long practical training for export managers "Export Academy" organized by Stockholm School of Economics (SSE) in Riga;
3. The Investment and Development Agency's of Latvia (IDAL) seminars about foreign markets which take place when government officials are planning their

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- official visits abroad and invite with them Latvian enterprises;
4. Ministry of Foreign Affairs (MFA) seminars about foreign markets, etc.

Which organizations organize them & how frequently are they organised?

These type of educational, experience and knowledge sharing events organized by LCCI, SSE, IDAL and MFA are organized on a regular basis from 1-2 times per month, once a quarter or once a year.

They are only face to face seminars or there are also e-learning seminars?

Till recently these seminars have been taking place face to face. However, moving with the trends of using technology, more and more seminars have livestreaming and are watched online without physical presence of entrepreneurs during a seminar. E-learning based seminars are still not very popular among Latvian SMEs.

Which subjects are covered?

Topics of these seminars are very different but they can be summarized into three main topics:

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- 1) Export specifics in different countries;
- 2) How to apply for funds to finance export activities;
- 3) Legal issues in export.

Which needs are not covered by the existing training courses (in terms of content, subjects, method of delivery, etc.)?

At the moment the courses are conducted by consultants, who do not want to share their practical knowledge, they are more theoretical. A practical aspect is missing.

What can the E-EMPORIO offer to the target group that is not covered by the existing courses and which needs, that are currently not covered, can cover?

Practical aspect for companies ready to enter foreign markets.

Make specific recommendations on the content and structure that the E-EMPORIO courses should have in order to bring an added value to the staff of the SMEs that will participate

It could be the following aspects:

1) Business culture:

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- a) Differences in communication in different cultures;
- b) Business development principles in other countries (hierarchy, individualism, age, male/female, priorities, attitude to time, trust, honesty);
- c) Sales principles in different cultures (persuasion and influencing).

2) Finances & legal issues:

- a) Billing for export services/product;
- b) Financial risks;
- c) Price setting;
- d) Legal aspects, that need to be considered;
- e) Export risks;
- f) Certification (if needed for the product).

3) Logistics:

- a) Organizing process of logistics;
- b) Export-import rules;
- c) What documents are necessary;
- d) Where to find information;
- e) Customs procedures;
- f) Rules for packaging;
- g) Services provided by logistics companies.

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Internet Sources/Articles:

<http://www.tradingeconomics.com/latvia/exports>

<http://www.latvia.lv/content/main-industries>

http://biceps.org/assets/docs/izpetes-zinojumi/Latvias_exports

Useful links:

Central Statistical Bureau – www.csb.gov.lv

State Revenue Service of Latvia – www.vid.gov.lv

Investment and Development Agency of Latvia – www.liaa.gov.lv

Ministry of Economics of Latvia – www.em.gov.lv

Register of Latvian companies legal and contact data – www.firmas.lv

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