

Mapping of export to Finland: Development and opportunities

Hjorleifur Thordarson

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Introduction

The Icelandic embassy in Helsinki and Promote Iceland decided to map the export of Icelandic companies to Finland over the last 10 years and find out if there are further opportunities in existing export categories or even some new ones.

Hjorleifur Thordarson, project manager, was commissioned to execute the above task.

A detailed project description was conducted (see appendix 1) and time frame for the investigation was fixed.

The aim was to find out which sectors have been exporting to Finland over the last ten years and analyse product categories with respect to positive or negative trends over the research period. Information was collected by using Iceland Statistic's official website and the Finnish Statistics as a reference.

The custom's nomenclature proved to be an excellent source for displaying the detailed export for individual products. An identification of the companies involved in the export to Finland was therefore relatively easy and essential to analyse reasons for fluctuations or to map new opportunities not represented in the statistics. Thirty three companies were contacted by sending out a questionnaire to them in order to seek explanation on export development of individual product categories. Eighteen companies either replied to the survey or gave verbal response when contacted by phone.

Valuable information was also collected through Promote Iceland, ambassador Kristín Árnadóttir and the Finish ambassador Irma Ertman.

The companies which were contacted to support or explain the trends and opportunities fulfilled more or less three criterias:

- Those with the highest export figures
- Those who had exported but stopped during the research period
- Those who had not been big exporters but might have high opportunities to increase their export in the near future according to the survey.

The companies who responded to the questionnaire are exporting in the following categories:

Capelin (Capelin meal)	(1)
Food additives and dairy products	(2)
Herring	(2)
Lamb meat	(1)
Arctic Char	(2)
Fish leather and lamb skin	(1)
Cosmetics	(1)
Wool and design products	(2)
IT products	(2)
Hi-tech equipment for fish farming	(1)
Food processing equipment	(1)
Transport and tourism	(2)

Development of export from Iceland to Finland 2004-2013

Table 1- Export of goods to Finland €; Source: Statistic Bureau of Iceland

€ million	2004	2005	2006	2007	2008
<i>Herring</i>	1,09	0,45	2,25	3,01	1,91
<i>Capelin</i>	2,88	3,92	1,38	5,47	0,63
<i>Other Demersal</i>	0	0	0,58	0,34	0,58
<i>Shrimp</i>	0	0	0,03	0,97	0,69
<i>Arctic Char</i>	0,49	0,09	0,14	0,23	1,37
<i>Dairy products</i>	0	0	0	0	0
<i>Other food products</i>	0	0,01	0,13	0,13	0,13
<i>Machinery for food production</i>	0,39	0,88	0,19	0	0,18
<i>Other products</i>	0,1	0,19	0,16	0,19	0,19
<i>Total</i>	4,95	5,54	4,86	10,34	5,68
<i>Total Export to Finland</i>	10,98	9,28	8,83	12,24	7,32

	2009	2010	2011	2012	2013
<i>Herring</i>	1,33	0,72	0,41	0,45	1,00
<i>Capelin</i>	0,16	0	0	2,80	5,01
<i>Other Demersal</i>	0,64	0,19	0,2	0,12	0,13
<i>Shrimp</i>	0,64	0,74	0	0,00	0,00
<i>Arctic Char</i>	0,78	0,88	1,11	0,96	0,77
<i>Dairy products</i>	0	0,05	0,6	1,15	1,66
<i>Other food products</i>	0,21	1,13	1,07	0,69	0,72
<i>Machinery for food production</i>	0	0,28	1,74	0,75	0,00
<i>Other products</i>	0,36	0,27	0,76	0,05	0,06
<i>Total</i>	4,12	4,26	5,89	6,97	9,35
<i>Total Export to Finland</i>	5,50	6,98	6,33	9,19	10,99

The green columns are representing the highest export figures for each year.

As can be clearly seen from the table above, the export from Iceland to Finland has been relatively homogenous and in particular at the first part of the research period. Fish, preferably herring and capelin meal were the dominating products in the beginning of the research period. However today, food products like omega 3 products (Lysi), arctic char and dairy products (Skyr) are relatively strong in today's export to Finland.

In order to explore the reasons for the development in each of the categories, the comments of the companies in our survey will be displayed:

Export of capelin has fluctuated highly during the research period. The export was conducted through the leading fish meal factories in Iceland. According to the exporter who replied to our survey, the cost of fish meal rose considerably around 2004 which led to dramatic decrease of the demand in Finland as in many other export markets. Shift in demand due to price increases together with reduced intensity in sea transport between Iceland and Finland are the main reasons for the dramatic reduction of export revenue for capelin meal.

Export of salted herring has been in a steady decline throughout the research period. The exporter involved declares that demand has been falling throughout the whole period due to changes in consumer behaviour and where salted herring has lost ground to frozen herring. They expect current export level to remain stable for the next few years at least.

The main export companies of lamb meat were contacted. One of them responded and stated that generally speaking they were more interested in selling to European markets than to the US since the European markets were much more „convenient to operate on“. Finland is however not on their radar screen and they didn't expect to take any initiative to establish some export to Finland in near future. However if opportunity arises they are quite positive to start to do business with a distributor on the Finnish market. According to Erlendur Garðarsson (agent for lamb companies in Iceland) a marketing strategy for lamb meat in Finland is already in progress. It is a process that could take some time and effort and worth looking into. The plan would be selling restaurants the idea of selling Icelandic lamb meat and to promote it as Icelandic and also as premium. Also, the chefs at the restaurants would have to take lessons from Icelandic chefs to learn how to cook and serve the meat.

Exporters of food additives and dairy products are optimistic about future export to Finland and predict that the general positive image of Iceland in the eyes of the Finnish people will continue to support export of high quality consumer goods from Iceland to Finland. Both exporters state their satisfaction with their distributors in Finland and stress the importance of the good relationship and cooperation they have had with them so far. In an interview with Sami Salmenkivi, Mikka Eskola and Mika Leppajarvi who represent the Finnish marketing company Skyr Finland OY, (Mbl. 2/28. 2014) it was stated that the Icelandic Skyr was becoming one of the most popular dairy products in Finland. The sale of Skyr this year is expected to reach up to 1.800 tonnes creating revenue of Euro 10 million. Around 1.400 tonnes will be produced in Denmark and 400 tonnes will be exported to Finland from Iceland, reason being the applicable EU quota system on trade of agricultural products between Iceland and EU.

Similar views are given by the two exporters of arctic char who responded to the survey. Both of them declared that market for arctic char (bleikja) were fast increasing in Finland. However market conditions and growing competition from Sweden is pushing prices downwards and the Finns have proven to be relatively price sensitive. A very important parameter in their positive outlook for future export of arctic char is the direct flight of Icelandair between Iceland and Finland. The Finns appreciate fresh fish and therefore flight transport suits such products excellently.

An Icelandic producer of fish leather and lamb skin claims that the current conditions are favourable for export to Finland and that their export is slowly growing. However, their export to Finland is currently only marginal (0-5% of their total export).

An Icelandic global leader of food processing equipment has been selling small scale to Finland. He claims that they would indeed be interested in the Finnish market in general, but since this market is apparently highly subsidised and consisting of small companies to large extent selling to the local market, it is less interesting for them. The Finnish market is characterized by a predominant meat sector. Fish processing is rather limited in the Baltic countries in general, due to the poor quality of the eco system in the Baltic Sea (the catch has far too high mercury content).

A producer of hi-tech fish farming equipment means that the Finnish market is slowly growing for him, reason being the increased emphasis on environment protection and the EU „Water Resolution“ (Vatnatilskipun ES). Their export to Finland is however only marginal at the moment (0-5% of their total export).

One company producing cosmetics is rapidly expanding on the Finnish market and claims that the current export revenue originating from that market is more than 50% of their total export revenue. They started in year 2012 and have increased their presence from 3 sales outlets to 40 at end of 2013 and they expect their revenue from the Finnish market to increase considerably in the years to come.

Two companies in design related export articles replied to our survey. One of them is exporting design products of Icelandic wool and expects their export to increase in the future. Their current export to Finland is however only marginal (0-5% of their total export). Design companies in general outsource their production to foreign manufacturers, preferably within Europe. This causes problems since complications in VAT issues between Iceland and Europe make it a financial necessity first to move the product to Iceland and then export to the distributor on the targeted export market. Transport cost is therefore considerably higher than if the product was produced in Iceland and exported directly from the place of production to the final export market.

Since 2012 (Helsinki: World Design Capital) Nordic countries have been joining forces in Nordic design. They are finding new ways and strategies to help companies (specially the smaller ones) in the design sector to sell and market their end-product. According to an expert in the design sector they are on the right track.

Table 2- Export of services to Finland €; Source: Statistic Bureau of Iceland

€	2009	2010	2011	2012
Transport and tourism	21,17	29	36,48	33,89
Other services (e.g. IT)	1,64	0,92	1,15	2,09
Others	2,27	2,17	1,96	2,16
<i>Total</i>	25,08	32,09	39,59	38,14

When looking at export of services to Finland, information is scarce. The Icelandic Statistic Bureau (Hagstofan) took over the data base for „export of services” as from 2009. Prior to that, the Central Bank of Iceland was in charge of collecting this information. Their collection method did not allow for split up of export of services into countries so the only available time frame is the period 2009 till 2012.

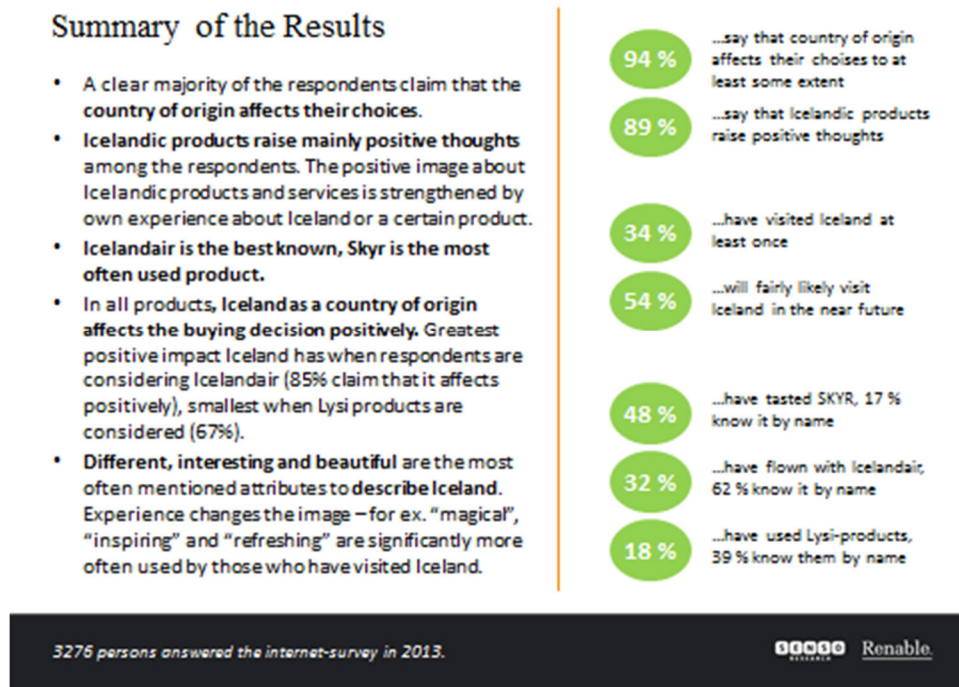
As can be seen from table 2, the tourism and transport sector, basically consisting only of air transport and tourism (sea transport only marginal), is by far the largest category and has grown considerably within the last 4 years. This goes of course hand in hand with the fast growing tourism into Iceland in the same period.

Icelandair is offering their passengers from USA/Canada and Iceland to benefit from their extensive hub and spoke model flying to Finland through Iceland. Their activities into Finland are fast growing due to their increase in seat availability to this destination. The fast growing number of Asian tourists visiting Europe is also expected to increase Icelandair’s revenue through Finland.

The two IT companies who responded to our survey declared that their export was limited so far. One of them is expecting export to increase in the future due to the fact that they have recently established distribution channel into the Finnish market and currently their export to Finland is in the range of 15-20% of their total export. The other IT company who responded is not expecting any export to occur until they have translated their software into Finnish, which is not going to be on their agenda in the near future. IT businesses mostly state that the Finnish market isn’t that different from others. Their market strategy does not aim on specific markets since all their trade is performed online.

Opportunities

Collaborative survey between Icelandair, Lysi and MS (Skr) executed in year 2013 revealed that most Finns find Iceland interesting and link Iceland with the expressions „healthy“ and „quality“. The survey is based on responses from over three thousand Finns.



Picture 1- Collaborative survey

The results of the above survey are very valuable when evaluating the future potential of Icelandic export and the type of product categories that might be feasible to focus on. Consumer trends and economic development in Finland are also indicating that opportunities for selected Icelandic products might be emerging. The people of Finland are experiencing a healthy increase in their purchasing power and trends in consumption are all in favour of high quality products. The survey mentioned above, show clearly that Finns have positive attitude towards Icelandic products and the increased attention of Finns towards healthy lifestyle have proven to affect positively the export revenue of companies such as Lysi and MS. Furthermore both nations share common appreciation on good design and high quality lifestyle.

It therefore seems highly appropriate to explore export opportunities of carefully selected product categories which represent the attributes that are highlighted in the above mentioned research, i.e. categories representing high quality, high end pricing strategy, healthy lifestyle, beauty and cleanness. Consequently cosmetics, health articles, natural medicine products and design articles in addition to food articles of various kinds, should be ideal categories for further exploration.

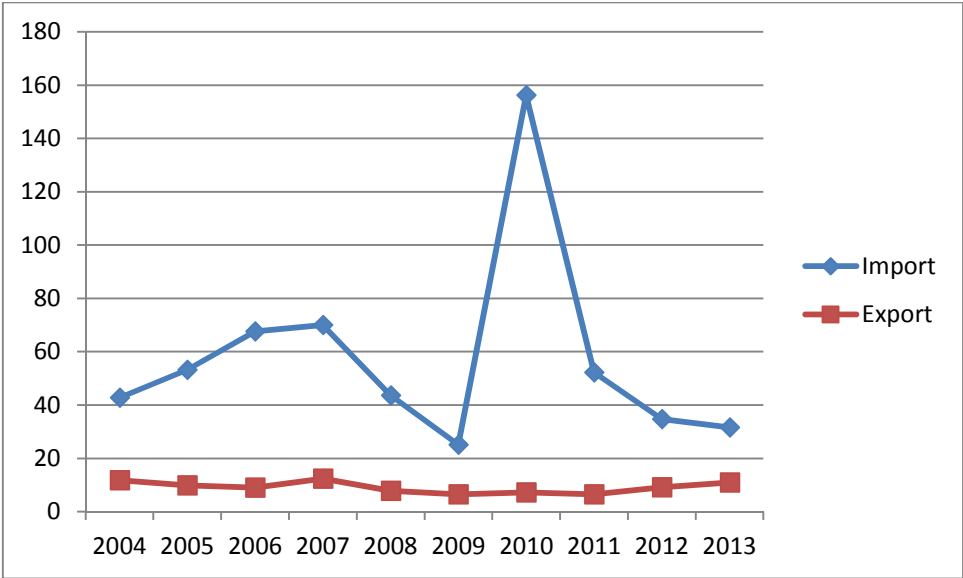
However, some of the companies producing the above product categories and who could be considered having high potential for success with their products for export to Finland, might at the same time also be considered small and with limited financial capabilities to invest in marketing and sales into new markets.

Promote Iceland, in cooperation with the Icelandic embassy in Finland might therefore be the right partner for them when seeking funds for this purpose through government, investors and export funds available for special export projects. Training and preparation for such export projects would also be highly appropriate and could be managed by Promote Iceland as well, as a part of Promote Iceland’s current export consultancy support. Guidance into the Finnish market through sector exhibitions and B2B meetings would thereafter be the last piece in the puzzle to make them overcome the market- to- entry threshold.

Trade between Iceland and Finland

The trade balance between Iceland and Finland is unfavourable for Iceland as can be seen on picture 2 below. Main import categories from Finland to Iceland are all sorts of industrial products, wood articles, raw materials and chemicals.

The picture below is derived from Ice stat’s data base and covers only export of goods (services is excluded). The import upswing in 2010 is caused by one delivery of gasoline.

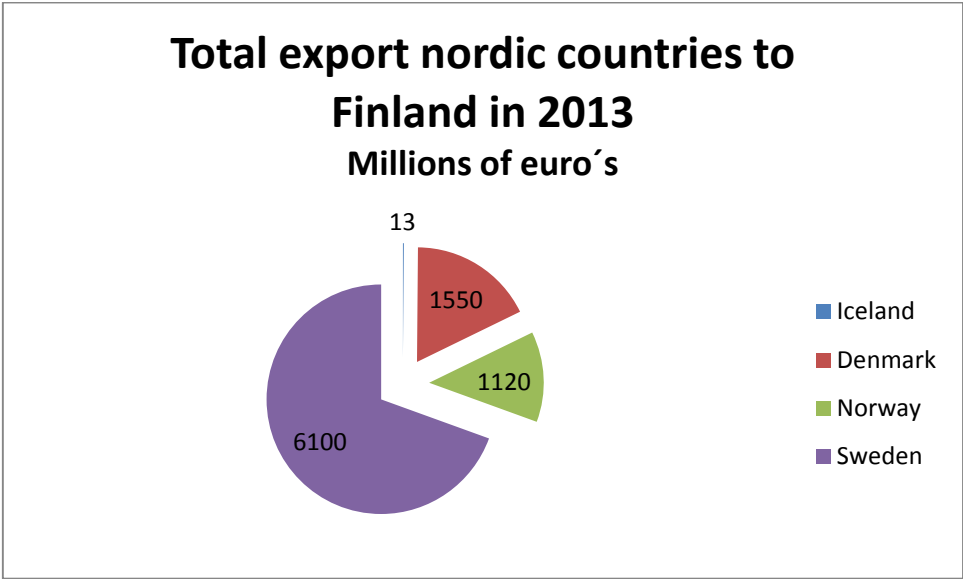


Picture 2- Trade Iceland Finland €; Source: Statistic Bureau of Iceland

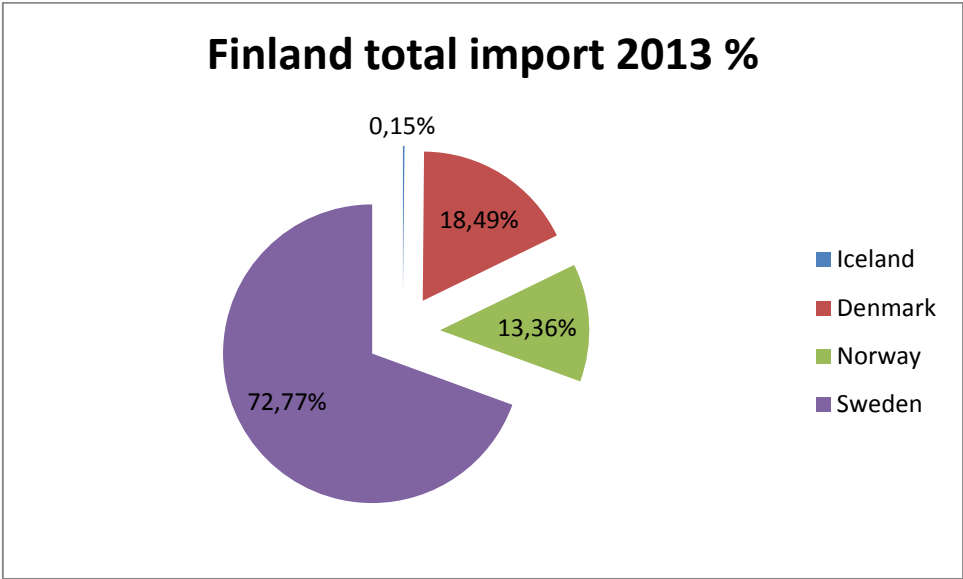
The obvious imbalance of import and export between Iceland and Finland should be an encouragement for both countries to strive for an increased balance in the long run.

Export to Finland- Nordic countries

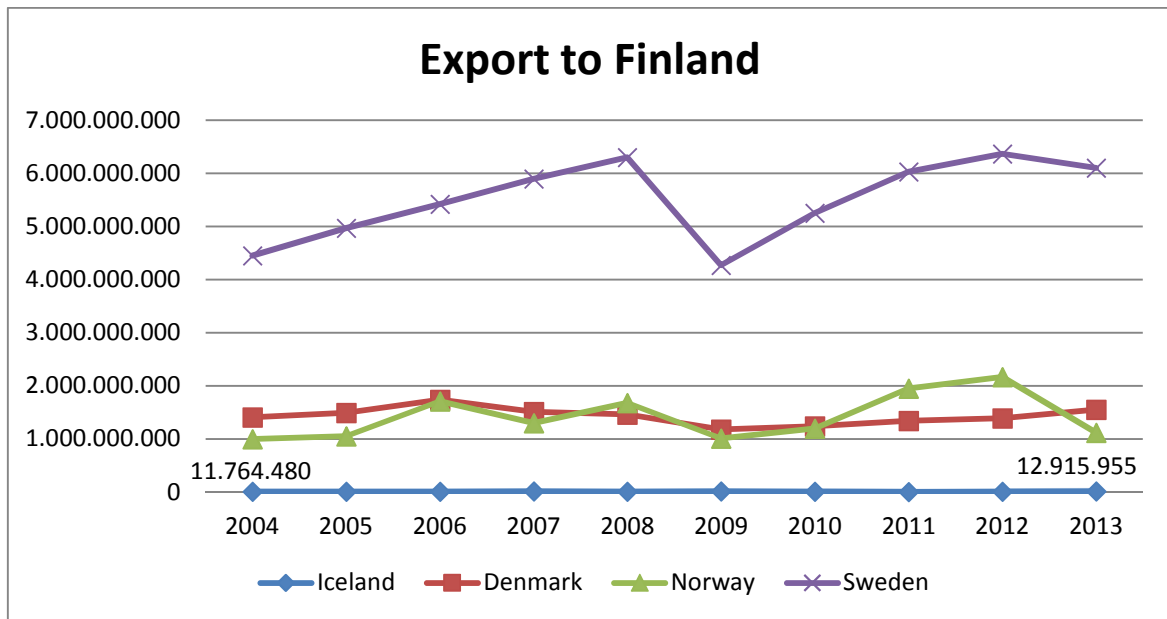
In order to benchmark Iceland’s export with export from the rest of the Nordic countries to Finland, a contact was made to the Statistic Bureau of Finland. They reacted quite fast and effectively and the figures below are all based on their information. Attention is made to the fact that the figures below reveal only export of goods. Exports of services were not attainable on a country by country basis.



Picture 3- Nordic countries total export to Finland 2013 €; Source: Statistic Bureau of Finland

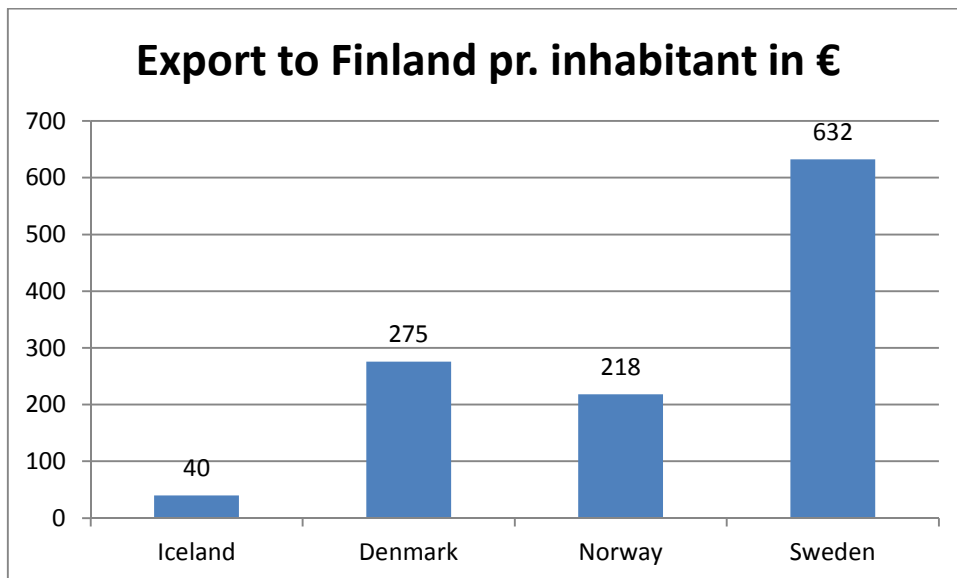


Picture 4- Nordic countries total export to Finland 2013 %; Source: Statistic Bureau of Finland



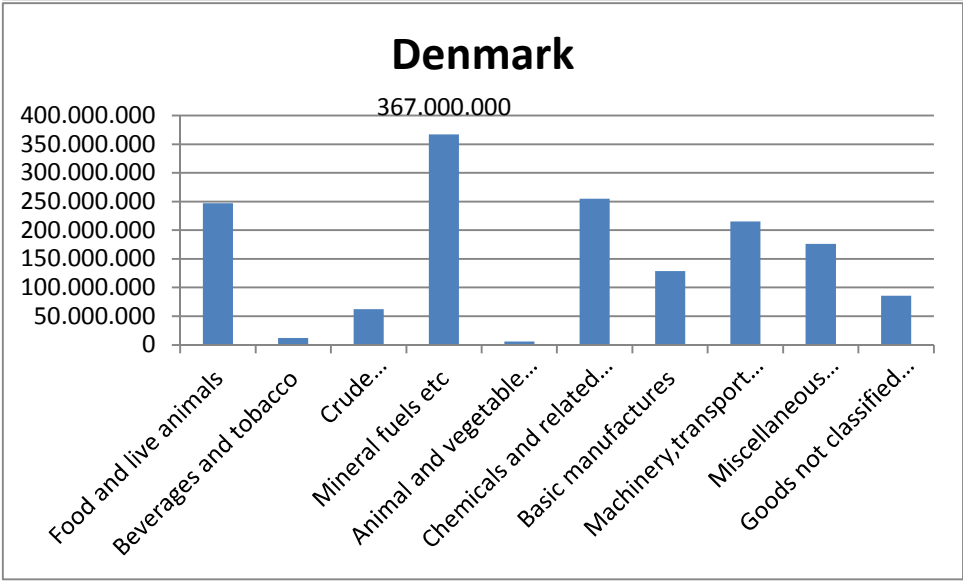
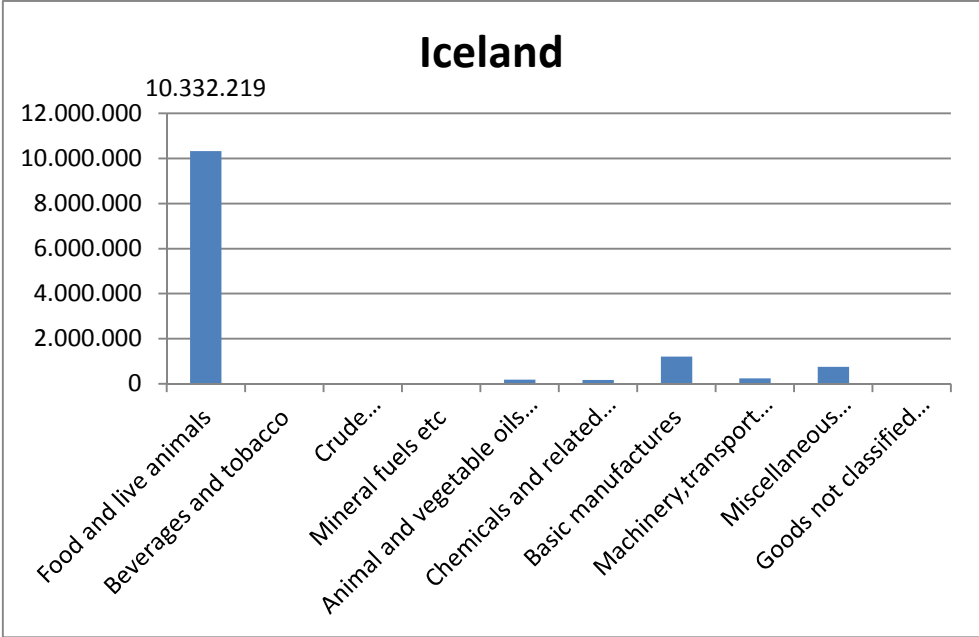
Picture 5- Export to Finland in € 02-13; Source: Statistic Bureau of Finland

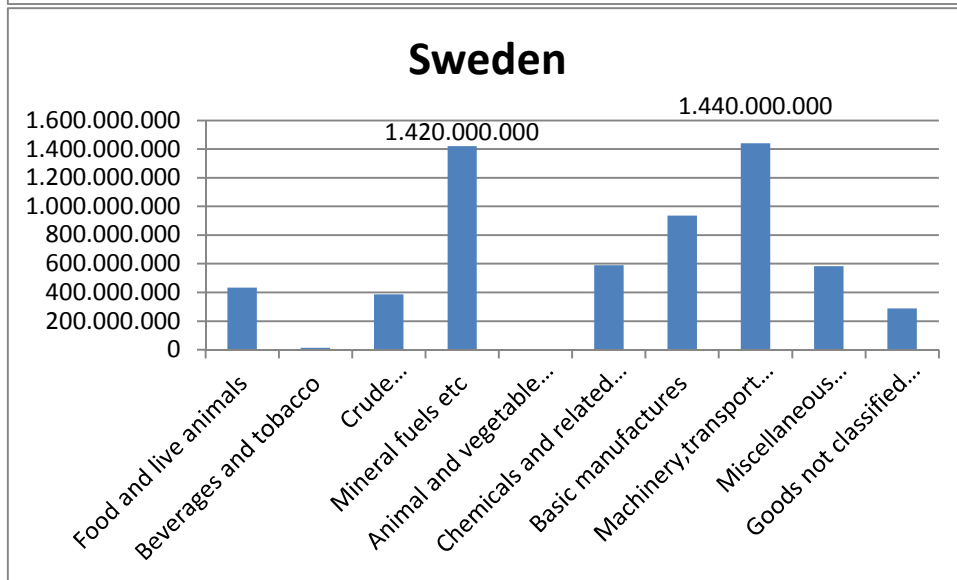
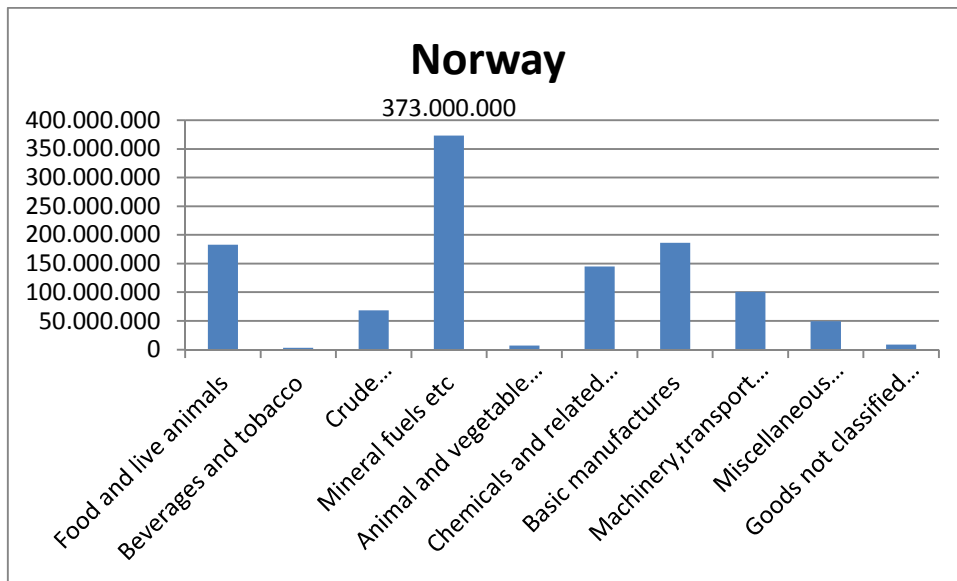
Obviously Iceland is at the bottom as regards absolute numbers compared to the rest of the Nordic countries due to the difference in size of the respective economies, and where Iceland represents the smallest one. It is therefore perhaps more relevant to compare the export of the Nordic countries to Finland on pr. capita basis. However also here, Iceland scores lowest.



Picture 6- Export to Finland pr. inhabitant

When looking at the composition of the product categories exported to Finland out of each of the Nordic countries we see that Iceland also differs from the rest. The pictures speak for themselves.





Picture 7- Nordic countries export to Finland in €; Source: Statistic Bureau of Finland

Conclusions and recommendations

Fish has been the predominant export to Finland in the past. Iceland's export to Finland seems however to be slowly growing more diversified. A number of growth categories can be identified not least in areas representing high quality, smart design, healthy lifestyle and know-how. Product categories currently exported to Finland such as omega 3 products from Lysi, Skeyr from MS and cosmetic products are all expected to have high growth potential on the Finnish market in years to come.

New products not currently exported to Finland but with high export potential (e.g. within IT, cosmetics, food and design articles) could probably be identified at the initiative of Promote Iceland.

IT companies have relatively easy access to market via the internet and are borne global by the nature of their business. Translation of software into Finnish might increase their possibilities.

Attempts should be made to overcome VAT complications specially affecting export of design products, causing too high transport cost as discussed earlier in this paper.

Support measurements such as training, fund seeking and guidance into the Finnish market should be initiated by Promote Iceland.

Cooperation between Promote Iceland and the Icelandic embassy in Helsinki in network building between relevant parties in the respective countries would probably be the most effective way to secure optimal results, supported by business delegations, exhibitions and sector conferences.