

There is money to be made

“The Baltic States have immense potential – especially for German investors. -- As the Nordic region has to re-invent itself and plan for a future without Russia, the Baltics will serve as a bridge between Germany and the North.”

by LĪVA MELBĀRZDE

This is what Prof. Dr Christian Rödl, Managing Partner and Chairman of the Management Board of Rödl & Partner, said in an interview with Baltic Business Quarterly magazine in spring 2023. The legal and tax consultancy firm Rödl & Partner has been working in Estonia, Latvia and Lithuania for 30 years.

Prof. Rödl, what opportunities do you see for the Baltic states as a nexus between Northern and Southern Europe?

From our perspective, the Baltic states are an integral part of the Nordic region. Though individually small, the region collectively carries considerable weight and importance for us and the German economy. Historically, the Baltic countries have been crucial trade centers, a tradition that continues today. Their geographic proximity to major European countries, such as Germany, their developed business environment, and their highly educated populace in fields like IT and software engineering make them ideal locations for IT outsourcing services. Moreover, the cultural affinity between the Baltics and Germany is invaluable for our industry, as well as research and development and high-level manufacturing activities.

How do you assess the business opportunities and prospects of the Baltic states as they border Russia

and Belarus, given the changing geopolitical environment after the Russian war against Ukraine?

Last year was indeed demanding and challenging for the region. The Baltic countries had to grapple with severing ties to Russian gas and weathering the highest inflation rates in all of Europe. However, their ability to welcome and care for Ukrainian refugees was truly impressive. We did observe a slight decrease in investment interest from Germany due to the war, but the Baltic region demonstrated remarkable resilience. Historically, the Baltic countries have always bounced back from crises, making them attractive for investors. The European Bank for Reconstruction and Development's investment of around €300 million in the Baltic states last year, despite the crisis and the war, is a testament to this region's potential.

How do you see business activities in the Baltic states growing or slowing down over the next few years?

The Baltic states, like many other countries, were impacted by the Covid-19 pandemic but have since managed to overcome its economic consequences and continue growing. It's difficult to predict the future for these relatively small economies, which can be more volatile than larger EU states. However, I am confident that the strong growth of the past will persist.

What are the opportunities that the Baltic states should capitalize on?

I believe the Baltic states will become even more important for larger European economies in the future. The proximity and the Nordic region's overall appeal as a market for goods and services create investment opportunities. Investors from larger countries may become more aware of the Baltic countries' easy accessibility, long-standing EU membership, and innovative and creative industries. There are many products and start-ups in fintech and cleantech that extend beyond the well-known Skype story. The region's liveliness is exemplified by Estonia and Lithuania's top rankings in the EBRD knowledge economy index, alongside countries like the USA, Japan, and Germany.

Are there any new business directions for Rödl & Partner in the Baltics?

We are extremely pleased with the development of our offices in the Baltic states over the past 30 years – and we will build on this. Catering to investors primarily from German-speaking countries we have witnessed the development and success of the Baltic countries. Our well-educated and experienced lawyers, accountants, auditors and tax consultants countries are here to stay – as the last years have shown especially, the market is good to us and we have been good for the market. You can expect us to grow in all directions (smiles).

Do you see potential for more German companies to expand their activities in the Baltics? What should be done to encourage this development?

There is immense potential for German companies. As the Nordic region has to re-invent itself and plan for a future without Russia, the Baltics will serve as a bridge between Germany and the North. The German “Mittelstand” is better suited than most to take up the challenges and



Curriculum Vitae Prof. Dr. Christian Rödl

is an honorary professor of the law and business school of the University in Erlangen-Nuremberg and gives lectures on company succession and international tax planning. In this field he is an author and publisher of numerous books and professional papers.

- In the past Prof. Dr. Christian Rödl was repeatedly invited by the finance committee of the German Bundestag as an expert on legislative procedures in tax law.
- Independent experts appointed by the WirtschaftsWoche and Handelsblatt business magazines have respectively voted Prof. Dr. Christian Rödl for the third time among the top 26 German consultants for international tax law/corporate tax law.
- Rödl & Partner with its attorneys, tax consultants, management and IT consultants and auditors has 107 offices in 50 countries and has over 5,200 employees.

opportunities emerging in logistics, ports, and public infrastructure. There is money to be made: Significant EU funds have been allocated for restructuring and recovery, all on top of the long-term investments slated for and within the Nordic region. These funds support investments in industry and infrastructure modernization. The high level of education, IT affinity, and quality standards in manufacturing are crucial for our clients in Germany. The Baltic countries are also fascinating sourcing markets for manufacturing, offering considerable growth opportunities for our clients. It's important to remember that the economies of the Baltic countries have exhibited stronger growth than larger

countries like Germany, and there is excellent potential for this robust growth to continue. Additionally, the costs for skilled workers and academics remain significantly lower than in Germany, France, or Switzerland. We see enormous potential, especially in the technology sector, as well as for energy and transportation companies.

Are the Baltic tax systems attractive enough to attract new investments?

The tax systems in the Baltics are indeed advantageous and contribute to the region's attractiveness. Estonia and Latvia's corporate income tax systems, which only tax profits when dividends are paid out, are particularly noteworthy. This is a significant

benefit for investments, as profits can be reinvested without corporate income taxes, encouraging continued investments. Lithuania's corporate income tax holidays for 10 years under certain circumstances are also a major advantage. Estonia's personal income tax rate of 20%, for example, is attractive due to its predictability and competitiveness within the European context. That said, our clients and we do worry about a lingering degree of uncertainty, especially in Latvia and Lithuania: Real life taxation is at times still marked by legislative inconsistency and administrative strain. As a tax consultant, I would say the tax systems here are quite appealing, but there's always room for improvement (laughs).