

A substantial economy with obvious expansion opportunities

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Business in the North

Section (04)

Business in the North

Without growing businesses and high-value creation, arctic regions will fail to attract investments and innovation activities. Knowledge about trends, the scope of activity and spatial variation between regions in the BIN area and industries, gives insight into both progressive areas and challenges we need to address for further development.



Chinese tourists in the Arctic;
photo: Valery Vasilevsky

Scope of business grows rapidly in the BIN area. Companies with headquarter in the BIN area generated 90 billion Euro in 2016. Gross Value Added including public services reached 71.4 billion Euro including Russia or 7 percent of national gross value creation. Given the large land areas and spread population, a surprisingly large economy is present in the north with obvious expansion opportunities if more people and capital were mobilized.

When measuring turnover, in total annual turnover information from 78777 Norwegian, Swedish and Finnish Companies Where included and more than 15000 Russian companies. Turnover is the sum of sales and other operational income. Companies providing headquarter, holding services, oil and gas companies, banks, and subsidiaries in BIN regions where excluded before comparing and all currencies converted to Euro and current prices per year. Source of Turnover data for Norway, Sweden and Finland is the Odin Database (78777 companies in high North areas), supplied from Bureau Van Dijk. Source for Russian turnover statistics where Russtat (15000 companies in High North areas). Activity in subsidiaries will from experience, add about 20 to 25 percent additional turnover to BIN regions, but exact allocation data were not available for this BIN issue. Gross value added measures the value for the amount of goods and services produced in an economy (or company) after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. When measuring volumes of Gross Value Added and Turnover, current process in Euro were used. To measure development in terms of index, current prices in national currencies were used with adjustments to devaluation of Russian ruble.

Turnover in 2016 at 17,4 billion Euro positions Nordland as the largest region, in front of Northern Ostrobothnia (12,8 billion) in Finland. Third in size is Norrbotten in Sweden with (12,4 billion). In Russia, Murmansk region reach 5,9 billion in turnover in 2016, followed by Arkhangelsk region with 4,1 billion, for both it is significantly less than in the period before 2011. North Norway also outperforms other BIN regions in growth, reaching 232 percent since 2008, trailed by Finland at 169 percent and Sweden at 160 percent. Challenging deflations of the Ruble, causes negative growth after 2014 in a number of industries of the Russian BIN regions. However, we have registered high growth in such industries as Fisheries and Aquaculture in Murmansk region and Mining industry of Arkhangelsk region (without NAO).

The BIN area's growth companies number one are from the sector of Aquaculture surpassing 374 % driven by Norwegian companies. Health and education services follows, with 369 percent growth, driven by larger elderly population demanding private health care services in all the BIN regions except Russia where fewer reach high age. Real estate related businesses grows driven by improved housing prices and high construction activity creates 305 percent growth since 2008 in current prices. Especially in Norway one sees favorable times for this industry.

Findings:

- BIN area's business turnover grew by 87 % from 2008 to 2016 and 18 % from 2012 to 2016. Turnover exceeds 90 billion Euro in 10 BIN regions.
- BIN area business has already developed a significant innovation potential in terms of clusters, brands, successful companies – an issue often overlooked when the region is viewed on the basis of natural resources; many innovative businesses and brands build upon identity with Northern life style and values
- The most successful companies in the BIN area are those with higher growth opportunities, sound value performance, yet a less aggressive approach to innovative competitiveness. They serve as a shining example of companies able to grow despite limited access to financing and human resources compared to companies in the capital areas.
- Most successful businesses are North Norwegian aquaculture firms, Real estate developers in Norway, business activities related to the mining industry in Arkhangelsk Region, and Manufacturing based on electric energy.
- Nordland has the largest economy of the BIN area, sharing high growth with now merged Troms and Finnmark region.
- Gross Value creation in the BIN area reached 71,4 billion Euro, growing 12,2 % between 2011 and 2015.
- Again, Nordland has the largest value creation, while Murmansk and Arkhangelsk (without NAO) regions constitute the highest proportion of value creation in their national territory.
- High growth in value creation can be found in aquaculture, finance and construction.

Figure 1

BIN area turnover distribution per country for companies with headquarter in the BIN area 2016 (Euro) (Holding companies and Banks excluded)

2016

Figure 1 BIN area turnover distribution per country for companies with headquarter in the BIN area, 2016 (Euro) (Holding companies: banks, insurance, Headquarter services, oil and gas and subsidiaries). Top 3 BIN regions are Nordland with 19 percent of turnover in Bin area, followed by Norrbotten and Northern Ostrobothnia both with 14 percent.

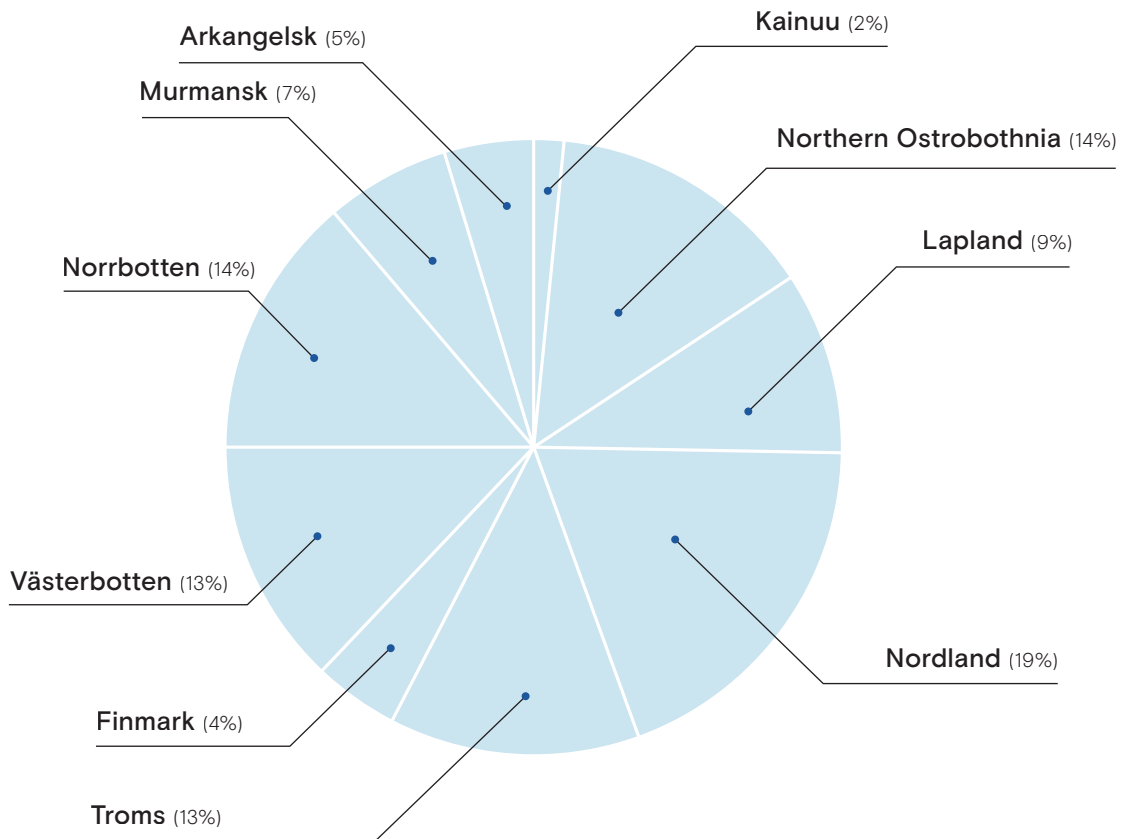


Figure 2

■ BIN Norway ■ BIN Sweden
■ BIN Finland ■ BIN Area (e)

Growth in Turnover in current prices BIN area excl Russia

Index 2008 =100, 2008-2017

Figure 2 Growth in Turnover as index of current prices in BIN area excl Russia, 2008 =100). Northern Norway continues to outperform others in the BIN area in turnover growth reaching 231 percent since 2008. Strong driving forces from aquaculture, construction and manufacturing based on green electric energy has been persistent for nearly 10 years creating this very strong growth. Second strongest growth is found in Northern Finland, where financial crises hit severely in 2008 and 9, now showing good progress reaching 169 percent since 2008, and stronger than North Sweden reaching 160 percent and significantly better than North Russia with a challenging Rubel situation resulting in negativ growth after 2011. For most BIN regions, we see stronger turnover growth than at respective country level. Values for 2017 are predicted. Source Odin database and Rus Stat.

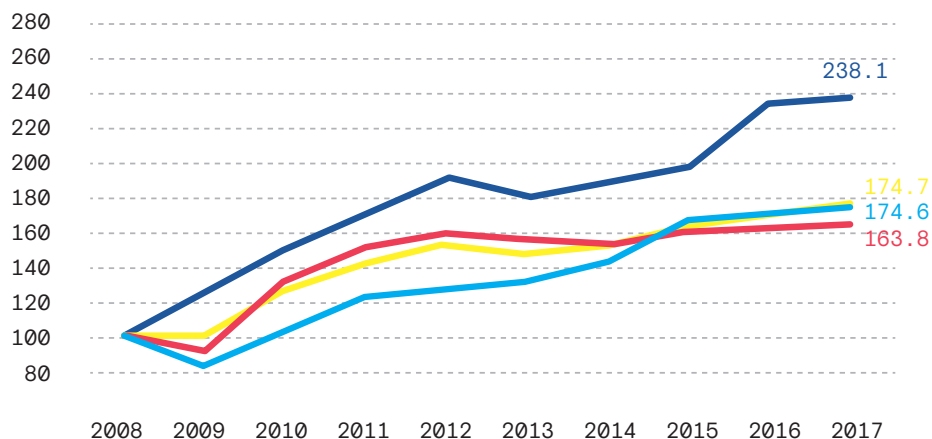


Figure 3

Turnover distribution in the BIN area, percentage of total BIN area per main industry excl. Russia.

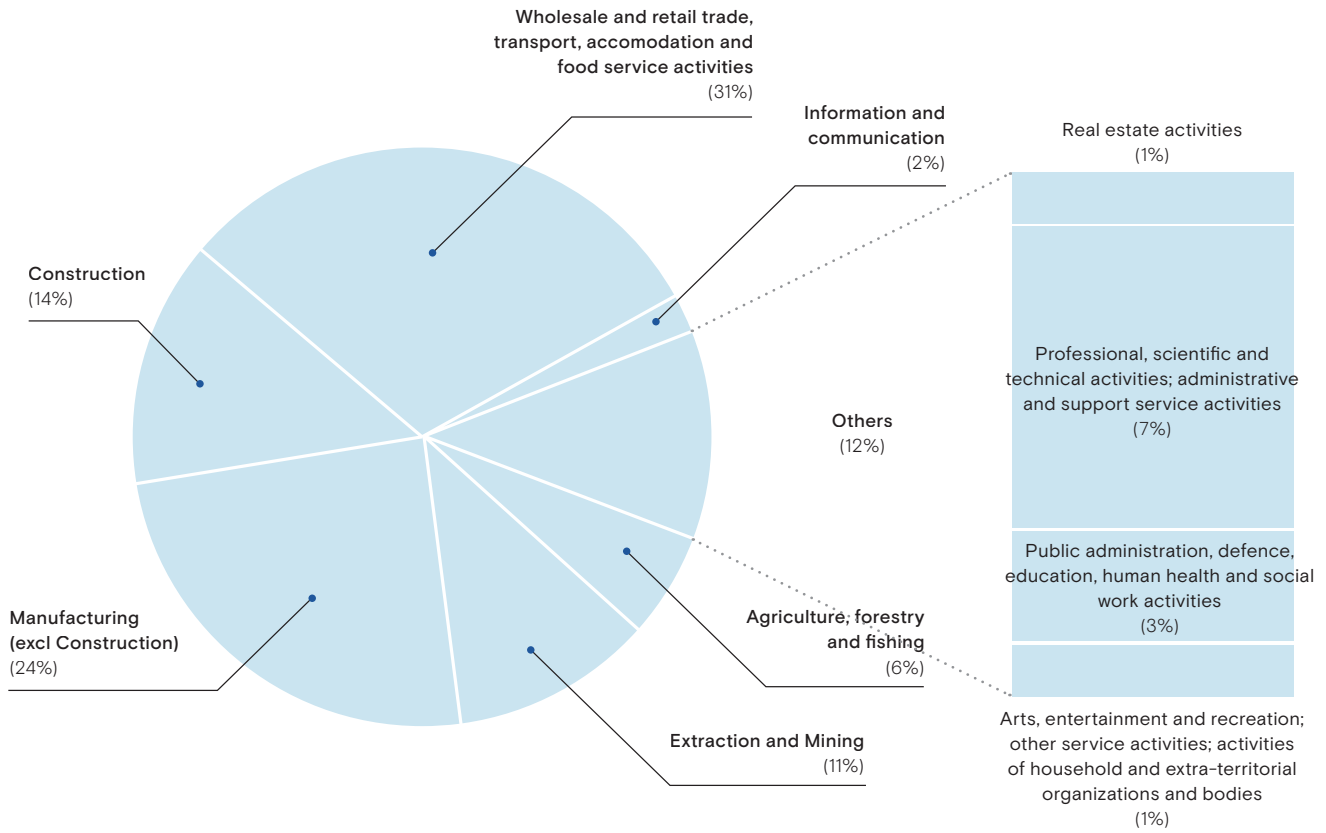


Figure 4

Turnover growth per main industry in BIN area excl. Russia, in current prices

Index 2012 =100, 2012-2016

Figure 4 Turnover growth per main industry BIN area exclusive Russia 2012 to 2016 as index where 2012=100. In current prices. The most vibrant industries can be found in aquaculture, private healthcare, real estate, construction and manufacturing (incl metals). Growth is less apparent in important areas as information and communication, professional services and in retail and travel. Challenging world economy for mining and extraction gives 18 percent negative growth from 2012 due to unfavorable market conditions.

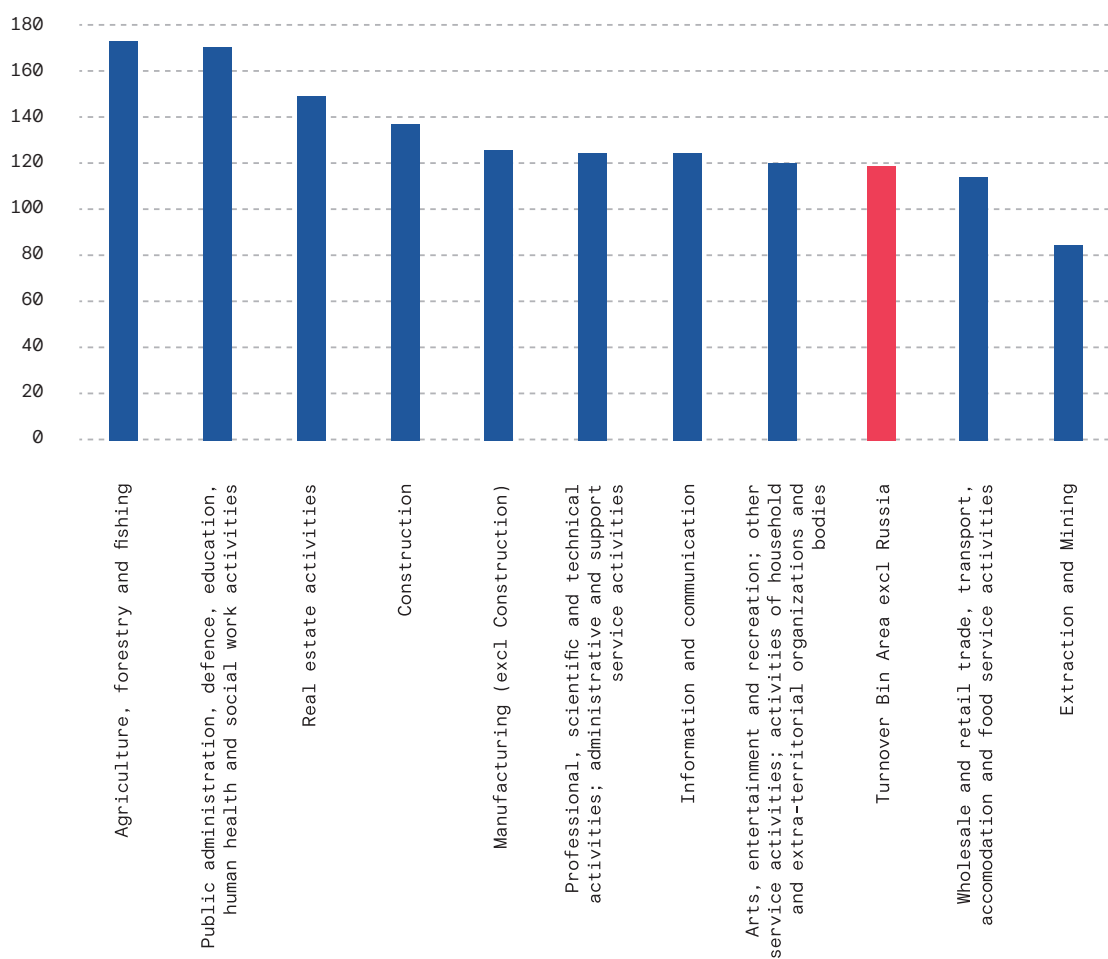


Figure 5¹

- Manufacturing (excl Construction)
- Extraction and Mining
- Agriculture, forestry and fishing
- Construction

Growth in Turnover current prices BIN area for production industries

Index 2008=100

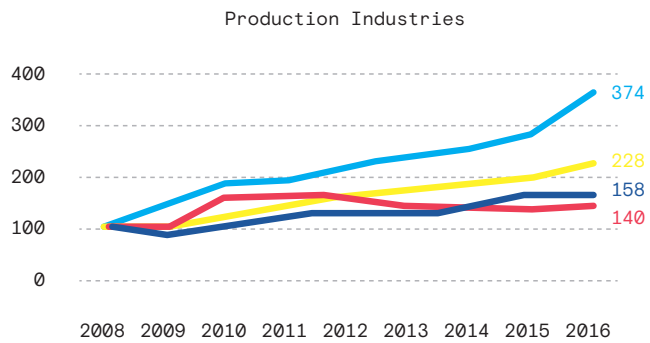


Figure 5²

- Arts, entertainment and recreation; other service activities; activities of household and extra-territorial organizations and bodies
- Public administration, defence, education, human health and social work activities
- Wholesale and retail trade, transport, accomodation and food service activities

Growth in Turnover current prices BIN area for people oriented services

Index 2008=100

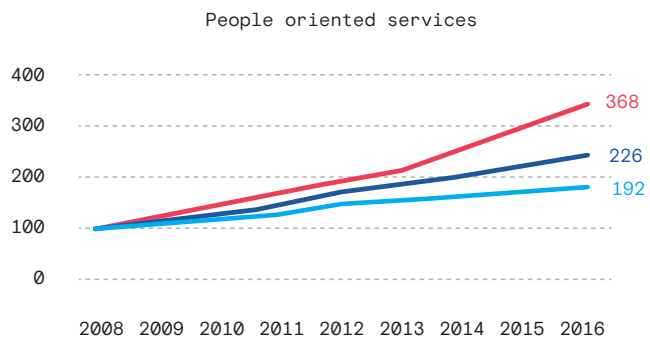


Figure 5³

- Professional, scientific and technical activities; administrative and support service activities
- Information and communication
- Real estate activities

Growth in Turnover current prices BIN area for professional services

Index 2008=100

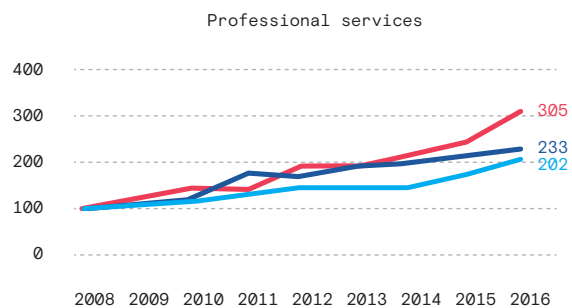


Figure 6

Turnover distribution per industry Murmansk and Arkangelsk (without NAO) Regions together

2015

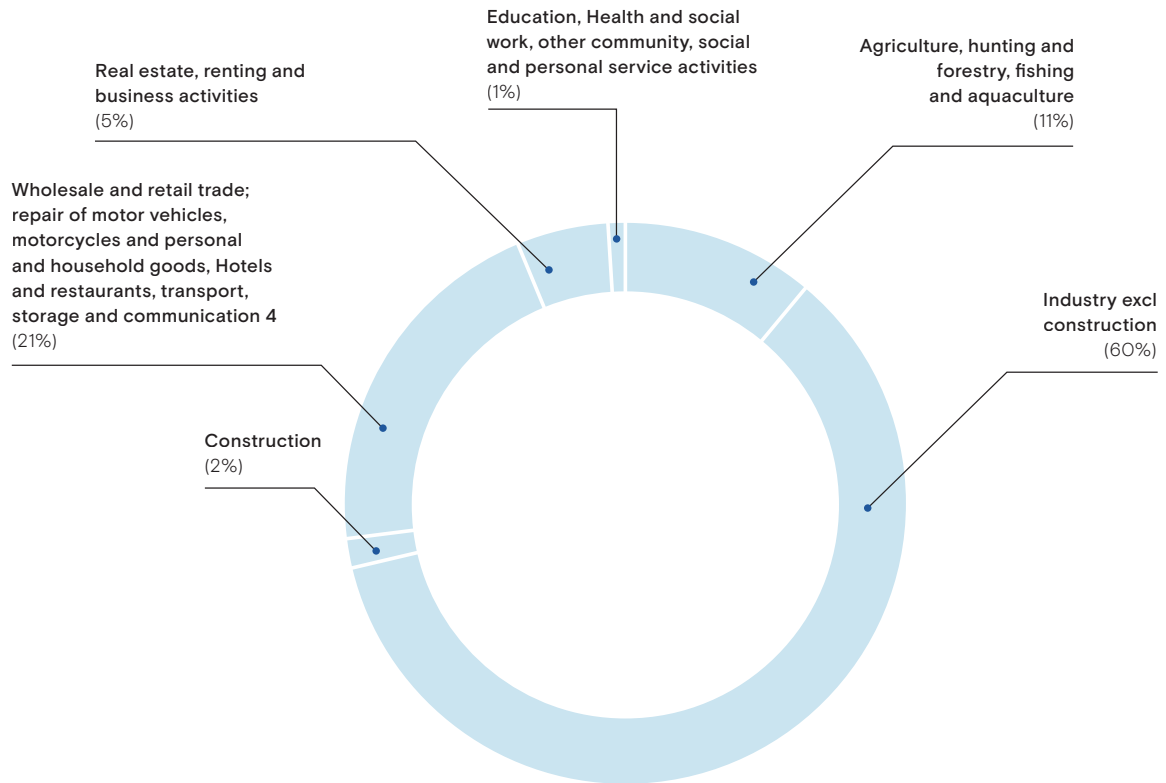
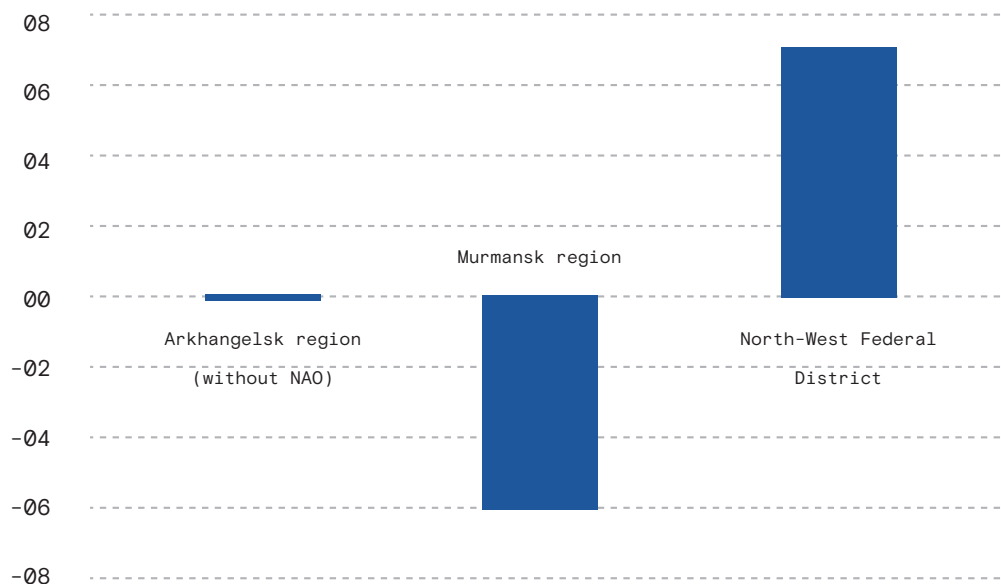


Figure 7

■ All industries excl Public administration and defence; compulsory social security and financial sector

Turnover growth profile in the Russian BIN regions compared to North-West Russia, all industries

2011-2015



Total growth in companies turnover was close to zero in Arkhangelsk Region, while Murmansk Region reported negative growth -6.4%, compared to positive overall growth for North-West Russia +7.1% in 2011-2015.

However Russian BIN regions have a diverse turnover growth profile, there are industries with high growth as well.

High Growth in some Murmansk industries (2014-16):

Fisheries and Aquaculture for Murmansk (+20%) perhaps due to new domestic market opportunities for local producers in the time of ban for Norwegian fish import. Mining and quarrying (+37.1): this is traditional industry for the region with growth driver: Extraction of mineral raw materials for chemical production and fertilizer production.

High growth in some Arkhangelsk industries:

Mining and quarrying (+27% in 2014-15)
Real estate renting and business services (+70.4% in 2014-15) with main driver: geo services, geophysics and geochemics for exploration of natural resources. These two has to be seen in combination because production of gem stones has developed rapidly in the Region during the last 5 years.

Turnover for traditional forestry industry for Arkhangelsk has declined with -17.5% in 2014-2015, also in terms of jobs (see chapter Work in the North). In Murmansk agricultural industry continued to strongly decline (- 54% in 2014-2016). Manufacturing industry declined in both regions: -14.4 % and -12.4% in Arkhangelsk (2014-15) and Murmansk (2014-16)

For North-West Russia as a whole turnover growth in 2014-16 was +6.5% , mostly in Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (+21%), Hotels and restaurants (+14%).

Value creation

There is no automatic connection between high turnover in businesses and growth in value creation in business and societal activities, if they don't perform at sustainable profit. Regions North Ostrobothnia in Finland, Nordland in Norway, and the Swedish regions of Norrbotten and Västerbotten are the largest value creators in the Bin area. However, growth in value creation supersedes national levels only in Norwegian counties, plus Lapland in Finland.

Norrländ even experience overall decline in level of value creation between 2011 and 2015. North Ostrobothnia as well as BIN regions in Russia tend to have value creation growth lower than growth in their turnover. Plans for increased value creation in the North should be developed and deployed specifically aiming at increasing levels of value creation especially in regions with few large and dominating companies or industries.

Figure 8

Gross value added at basic prices per BIN region

Figure 8 Gross Value added per region in the Bin area million Euro. The accumulated Gross value added (GVA) is 71,4 billion Euro in 2015 in the BIN Areas. Norway has the largest value creation in the north with 20,8 billion Euro, followed by Sweden with 18,7, Finland with 18,1 and Russia with 13,8 billion Euro. Gross value added is a measure of total output and income in the economy. It provides the value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. The region of North Ostrobothnia had the highest value for GVA in 2015 with 10.8 billion Euros, followed by Troms with 10,3 billion. The Swedish regions of Norrbotten and Västerbotten follows with respectively 9,6 and 9,1 billion Euros. Troms with 7,2 billion and Lapland 5,7 billion. Finnmark (Norway) and Kainuu (Finland) has the lowest values for GVA with 3,3 billion, and 1,8 billion Euros. Values for the Russian regions are current prices of 2015 in EURO.

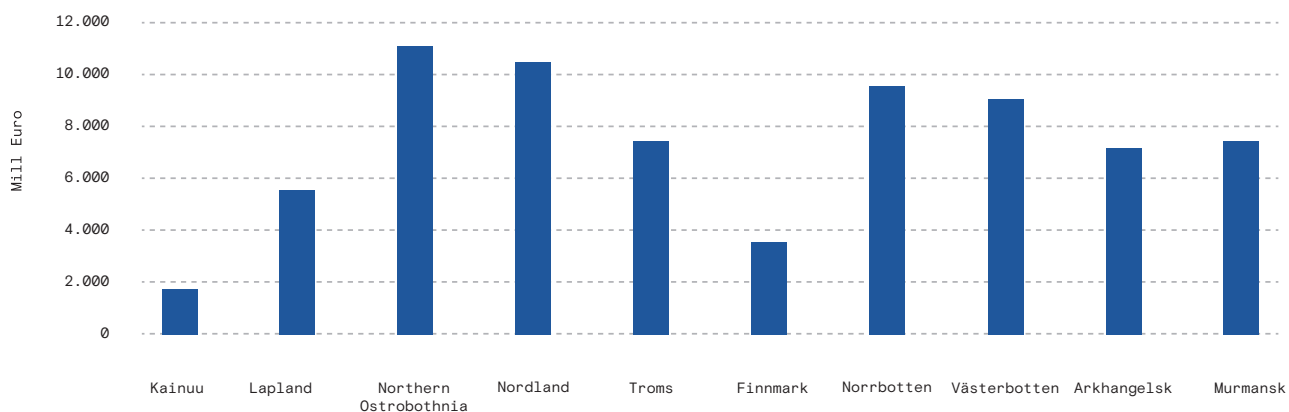


Figure 9

Growth in Gross Value Added BIN regions compared to national growth

2011 - 2015

Figur 9 Growth in Gross value added 2011 to 2015 Bin Area and nation total. The Norwegian BIN regions outperform the Finnish and Swedish when it comes to growth in GVA in the period from 2011 to 2015, all exceeding 20 percent. The region of Troms had the highest growth with 23.4 percent, driven by high government activity, increased salmon prices and activity growth in the fisheries, and high activity in the construction sector. All BIN regions in Norway outperformed the national average of 11.2 percent. The Finnish BIN region of Lappi also had a growth in the period (15.1 percent) that was stronger than the national average for Finland (6.1 percent). In North-West Russia, Murmansk has the highest growth of 5 % followed by Arkhangelsk at 1,5 %. Both below the average of 7 % in NW Russia.

Two regions had a decline in GVA, Norrbottens län and Kainuu, with respectively 3.1 and 3.3 percent. Norrbottens län has had unchanged activity in most business sectors, but there has been a sharp decline in the GVE for the industry sector, that can be explained by the challenges in framework conditions for the mining sector. The fall in Kainuu came foremost for the industry and construction sector. The Russian BIN regions demonstrated economic growth despite of devaluation of ruble in 2014-15 in the time of Western sanctions, mostly due to the increasing oil and natural gas activity in Siberia. Due to high levels of inflations in NW Russia, GVA deflators differentiated by industry are used to calculate growth of GVA for the Russian regions (current prices of 2015 were converted to prices of 2011).

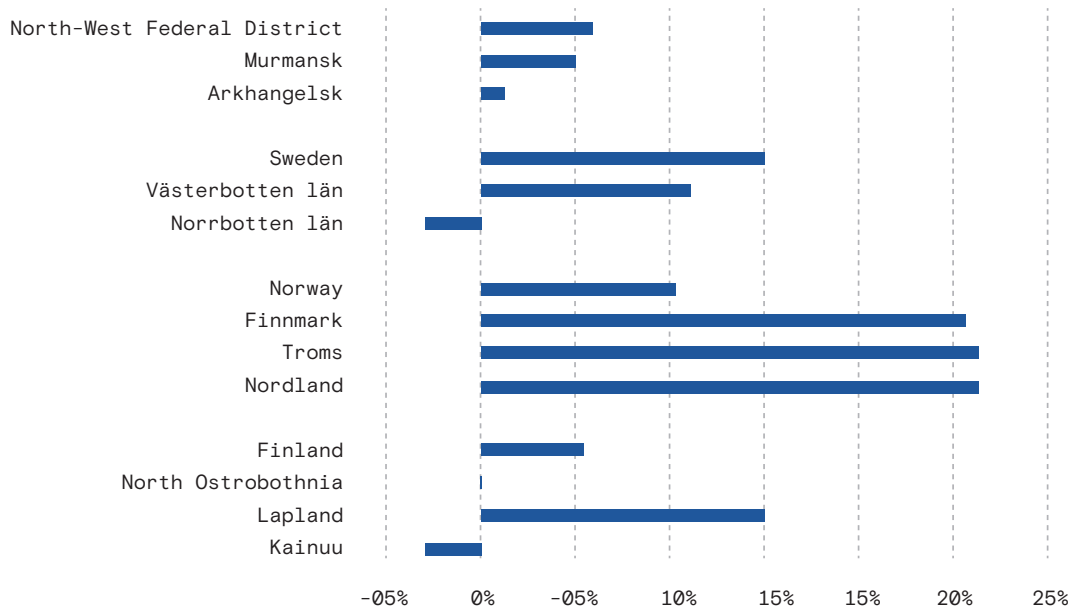


Figure 10

— BIN Russia only
— Norway, Sweden and Finland country total
— BIN area Norway, Sweden and Finland
— Bin area including Russia

Growth in Gross Value Added

2011-2015

Figure 10 Growth in Gross Value Added shown as Indexes where 2011 is 100. The BIN regions excluding Russia had a growth in GVA of 12.3 percent in the period from 2011 to 2015. The growth in value added for the BIN Area as a whole is slightly weaker than the national average. Weaker growth in Kainuu and Norrbotten and Murmansk/Arkangelsk explains this. The yearly growth rate for the BIN regions varied between 2 and 3.6 percent, with an average of 3.1 percent. The growth was strongest in 2014 and 2015. Russian statistics were adjusted for high Ruble devaluation.

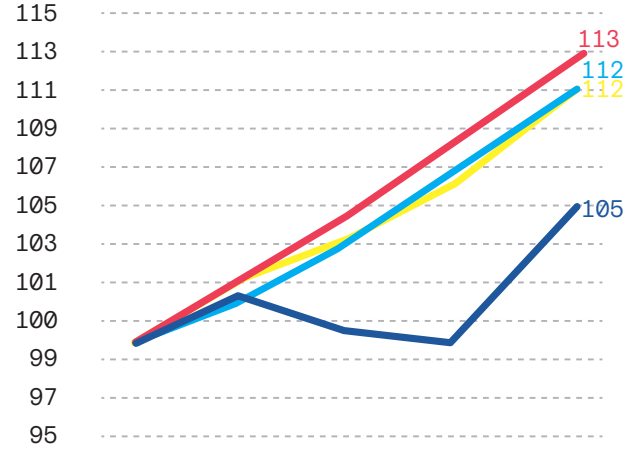


Figure 11

Total Norway, Sweden and Finland BIN excl Russia

Growth in Gross Value Added in BIN area industries excl Russia

2011 - 2015

Figure 11. Growth in Gross Value Creation per main industry in the Scandinavian BIN area (excluding Russia) compared with the representative country level growth averages. BIN area enjoys large growth in value creation for Agriculture, forestry and fishing (24,4 percent above national average), manufacturing (20,6 percent above national average), and real estate with 5,6 percent volume and increased above national average. The main explanation is higher international prices for aquaculture and fish products plus high activity in electric power transforming manufacturing. Bin areas lag severely behind in growth for Information and communication industries, financial and banking industries and experiences and culture. Companies and services in sectors are often centralized to capitals and major cities. Russian industri level deflation effect was not available, hence omitted from comparison.



Figure 12

Bin area percentage of the total gross value creation in country

Figure 12 Bin area gross value creation as percent of national value creation. It is the Russian Northern regions who have the highest proportion of national value creation (Sum of North West Russia) in the Bin area with 11,1 percent contributing with 13,8 billion. Northern Finland has the second highest impact with 10 percent and 18,1 billion Euro in contribution. Norway then follows with an impact of 6,7 percent but the largest amount of 20,8 billion Euro and Sweden with the least impact with 4,7 percent and 18,8 billion Euro in contribution. Finland stands out with the fact that all industries are common in the high north including finance, professional services and information services. Also Sweden has less variation in each industries proportion of national activity. Norway excels in aquaculture and fisheries together with Russia. Especially financial and information service industries tend to be more centralized in Norway and Russia.

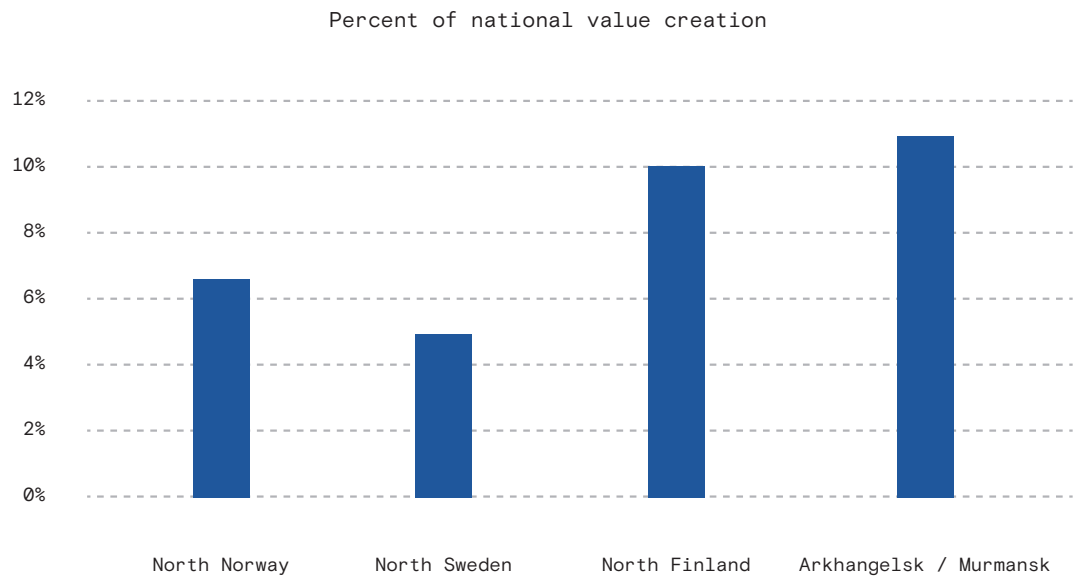
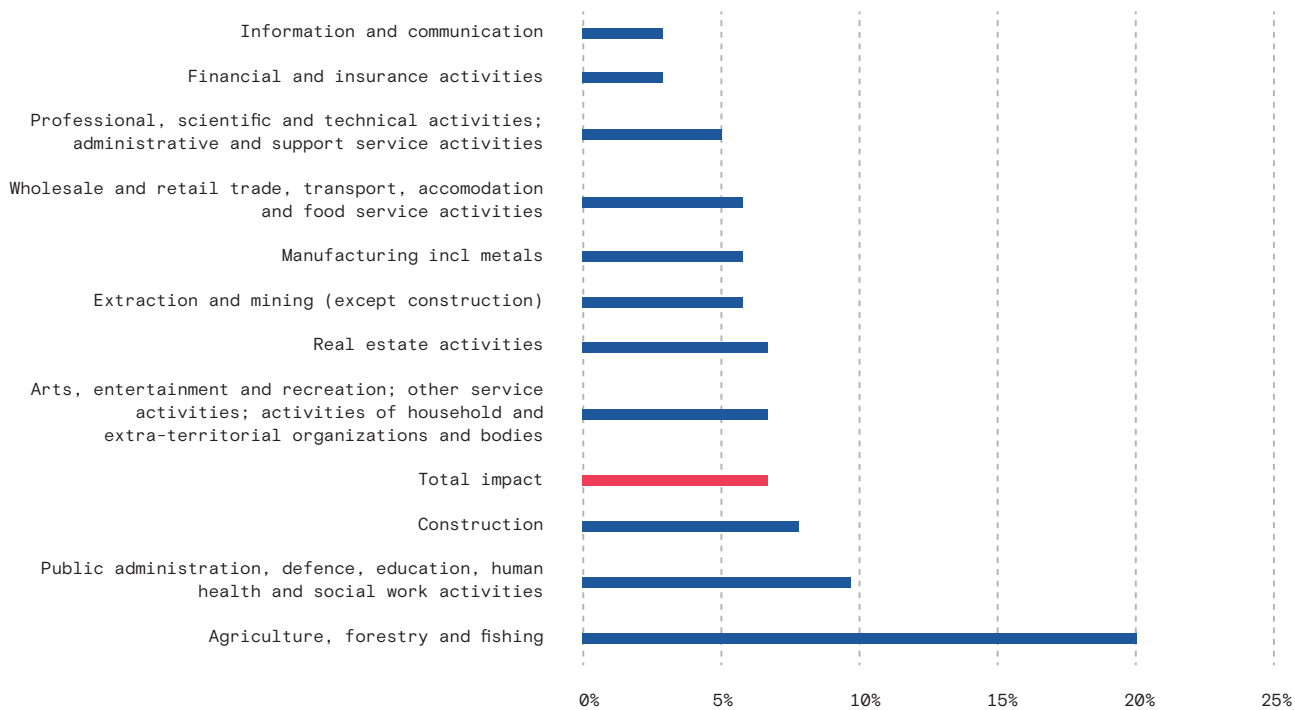


Figure 13

Gross value creation as proportion of national value creation per industry in BIN area including Russia

Figure 13 Bin area gross value creation as proportion of national value creation across industries and total BIN including Russia (North-West Russia is taken as reference). BIN areas constitutes 71,4 billion Euro in value creation and 7 percent of total national value creation (except oil and gas). The highest proportions are found for fishing, forestry and agriculture (incl aquaculture) with 20 percent of national value creation in this industry. Public administration with 9,4 percent, and construction with 8,3 percent are both above the average for all industries. On the other hand, little of national value creation in Information and communication, financial services and professional services takes place in the high North. Since low density of services can influence growth and innovation in resource based industries negatively, such unbalances should be actively adressed.



Challenges and findings

Recommendations

For Policy

- A** Turnover growth well above national levels show potency of BIN areas
- B** There is a substantial challenge creating attractive communities with relevant work. Rapid centralization in financial sectors, advice and law sector, and professional service sector moves important people for local development out of the BIN regions. Measures ensuring the presence of these important professional services in at least cities and close to larger companies in the High North should be investigated
- C** Given that 6 out of 10 BIN regions experienced less growth in value creation than the national average
- D** Few new initiatives for increased value creation in a region: through extended value chains, have been tried lately. New thinking is necessary around effective measures making it attractive to create and grow a company in the north. Likewise, measures of higher potency than current ones making it attractive to employ people in the High North should be developed and implemented to harvest the BIN area's potential
- E** Policy makers face different challenges. Northern Norway needs a broader business structure around growing industries. Sweden needs to gain speed in Norrbotten, Finland, observes recovering Northern Ostrobothnia, but less progress in Kainuu and Lapland, and in Russia, one should race to rebuild loss of activity from declining international trade by refining products for Russian markets to a larger extent

For businesses

- A** Presence of strong growth histories and many examples of companies growing with headquarters in the High North, illustrates underlying potential and opportunity. Without people and capital, development is hard. Therefore companies should actively create jobs in order to build attractive societies for workers
- B** Norwegian aquaculture illustrates the power of combining knowledge, local favourable operational conditions (clean waters), and ability to bring the right product to the marketplace. More industries should actively exploit international business opportunities from innovation make at home opening new markets