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Kaunas reaches out

LITHUANIA'S SECOND CITY
MAKES ITS FDI PITCH

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Kaunas ready to take on the world

KAUNAS, LITHUANIA'S SECOND CITY, IS USING ITS REPUTATION FOR TECHNOLOGICAL EXCELLENCE AND ITS HIGHLY EDUCATED WORKFORCE TO ATTRACT FOREIGN COMPANIES MORE ACCUSTOMED TO LOCATING IN THE WORLD'S TIER-ONE CITIES. NATASHA TURAK LOOKS AT HOW THIS SMALL BALTIC DESTINATION IS STARTING TO MAKE GLOBAL WAVES

The history of Kaunas is coloured by the myriad political changes that Lithuania has undergone in modern times. The Baltic country's second largest city, located at the intersection of Lithuania's two largest rivers, the Nemunas and the Neris, was its foremost source of resistance against the Soviet Union, which occupied the country from 1940 to 1990.

Following the Second World War, Kaunas became Lithuania's main industrial city, producing about one-quarter of the country's industrial output. Since then, the city of 377,000 has capitalised on its industry expertise to serve as an economic pillar of not only the country but the Baltic region as a whole.

Today, the greater Kaunas region – with a population of 600,000 – generates one-fifth of Lithuania's GDP. “The Kaunas region is in a strategic location, connecting roads between western, northern and eastern Europe,” says Kaunas district municipality mayor Valerijus Makunas. “The region stands out with well-developed transportation and logistics systems. It is crossed by the Via Baltica international highway and the European Rail Baltica. Increasing cargo volumes are also being transported by the intermodal terminal and Kaunas International Airport, and the capital, Vilnius, is only 100 kilometres away.”

Fast growing

Lithuania's economy is among the top 10 fastest growing in Europe, demonstrating a strong comeback after suffering deep setbacks and a 15% decrease in GDP during the 2008 financial crisis. The country ranks 21st in the World Bank's Ease of Doing Business index, attributable to a dedicated investment ecosystem that offers competitive labour and land costs, a skilled workforce, efficient company registration procedures, low tax rates and reliable infrastructure.

Ninety-two per cent of Lithuanians are bilingual and 52% are trilingual, with English the dominant foreign language. Excellent ICT infrastructure offers some of the fastest and most affordable internet in the EU. Fifty-three per cent of the population has a university degree, putting Lithuania third by this measure in the EU. And with a population of 3 mil-

lion, the country offers a larger domestic market than neighbouring Latvia and Estonia.

Innovation appetite

Lithuania aims to become a hub for innovation by 2020, and is pursuing investment in IT services, consulting, finance, logistics, and software development. Kaunas is vital to this pursuit, seeing its highest turnover in the electronics, mechanical engineering and logistics sectors. Employment in shared service centres has steadily grown with international companies such as UK-based CallCredit establishing large offices in the city. Land and rent costs in Kaunas are also roughly 15% to 17% lower than in Vilnius.

Kaunas is home to eight universities, eight colleges and more than 40,000 students annually, over one-quarter of whom attend Kaunas University of Technology (KTU). Founded in 1922, KTU is home to nearly 11,000 undergraduate and postgraduate students, 330 PhD students and 1130 academic and research staff.

Lithuania's leading international research university, KTU ranks among the top 4% of world universities and offers nine faculties, 10 research institutes, 55 laboratories and 62 programmes in English. It also hosts a technology business incubator and ‘open study’ programmes, where business representatives and students work together to commercialise innovative ideas and ensure studies address market needs.

“We have this open technology centre where we can use the equipment, work together with scientists and get the answers we want,” says Edvardas Satkauskas, founder of KTU spin-off company Vittamed, which develops medical technology devices. “It's extremely convenient, and we specifically aimed to be here in this science park because of those benefits.”

Show of confidence

In a show of confidence, in 2014 US software and media company Bloomberg established the Baltics' first Bloomberg Financial Markets Lab at KTU to provide practical financial markets experience to students and faculty. The work done by KTU is responsible for 70% of all R&D provided by Lithuanian universities for national business and industry, leading Bloomberg to label it “the Baltic Silicon Valley”.

“We connect private companies with relevant science institutions to establish joint programmes, which helps them prepare their employees much faster,” says Dalius



Low prices: Kaunas has a 15% to 17% advantage over the Lithuanian capital Vilnius when it comes to land and rent costs

Morkvenas, head of marketing at Invest Lithuania. “Every client should have their local partner from the educational system.”

KTU’s efforts to foster synergy between research and business are “an illustration of Kaunas as a city,” adds Mr Morkvenas, “because we have a strong technology university, a strong medical university, and this couldn’t happen in Vilnius”.

Built for business

Kaunas’s 534-hectare free economic zone (FEZ), awarded an honourable mention in *fDi Magazine’s* Global Free Zones of the Year 2016 awards, is a driver for regional FDI. Strategically located next to Kaunas airport, the site houses 24 companies employing 1900 people. Only 20% of the zone is currently occupied.

“Foreign investment provides about 70% of all capital expenditure in the FEZ,” says manager Vytautas Petruzis. “About €550m has been invested so far, excluding five projects under construction. We are currently expanding into our airpark next to Kaunas Airport, with 50 hectares of installed infrastructure ready for investors.”

Most FEZ clients specialise in electronics, manufacturing, IT and logistics, which is why French international delivery company DPD set up a 5000-square-metre operations facility there, its largest in the Baltics. “We chose Kaunas because of its location and connectivity,” says Robertas Vilkaitis, CEO of DPD Baltics. “The infrastructure and land was ready for us. We completed our building and started operations within nine months. The process was really smooth, and we implemented our plans with no delays.”

Kaunas FEZ also offers special benefits to SMEs, including up to 75% compensation on facilities investments, bespoke construction services, large office buildings and prototype labs.

UK-based CallCredit Information Group

employs 1200 people across seven countries, and recently chose Kaunas to join its selection of sites, which includes Shanghai, Tokyo and Dubai. The shared services company manages consumer data across a variety of sectors for clients including Barclays Bank, Marriott and Volkswagen, among others, and has an annual turnover of £150m (\$186.5m).

“CallCredit chose Kaunas for a few reasons: budget, quality professionals, excellent ICT infrastructure and cultural and linguistic similarities. Communication is much easier here than in many other offshore locations,” says Marija Vaiciulyte-Balce, head of human resources at CallCredit. “Barclays and Western Union were already in Lithuania, which attracted the company’s attention, but Kaunas has the advantage of good technical universities and less competition for talent.” The Kaunas office employs 180 locals – the vast majority of whom are under the age of 35 – and has plans to expand to 200 this year.

Infrastructure planned

Kaunas has numerous new projects in the pipeline, from stadiums and a national concert hall to more than 20 planned science and business centres by 2018. Well-preserved cultural heritage, 35 annual festivals and cultural events, a vibrant old town and easy access to nature gives Kaunas residents a high quality of life.

Rytis Krusinkas, head of KTU’s finance department and university senate chairman, is optimistic about the country’s future. “There is now a shift in business management from the Soviet mindset,” he says. “We struggle with many things, but we are not used to safe and quiet living. Being a country of 3 million people, we need to make a huge effort to compete with larger countries and develop our new generation of businesspeople, who are ready to face global challenges. I think that makes us stronger and more flexible in the long run.” ■

INTERVIEW: VISVALDAS MATIJOSAITIS

Picking up the pace

AFTER A PERIOD OF STAGNATION TYPIFIED BY AN ABUNDANCE OF RED TAPE STYMIEING INVESTMENT AND CONSTRUCTION, KAUNAS IS ENTERING A NEW AGE OF GROWTH. THE CITY'S MAYOR, VISVALDAS MATIJOSAITIS, EXPLAINS TO NATASHA TURAK HOW HIS PRIVATE SECTOR EXPERIENCE GAVE HIM THE EDGE

Kaunas mayor Visvaldas Matijosaitis is a former businessman who two years ago had no plans to run for office. Asked what improvements Kaunas has made during his tenure, he responds: "It's a shame that you didn't visit the city two years ago, so that you could have seen the comparison."

"I personally did not plan on becoming the mayor," he continues. "In 2011 I joined the Kaunas City Council with a public movement, Kaunas United, to see why there were so many problems in the city. All of the questions related to infrastructure development, public spaces, green areas and moreover investment attraction... all those questions were stuck at that time."

Bigger, faster, stronger

Mr Matijosaitis describes an investment environment in which it took eight years to obtain building and construction permits for developments such as shopping centres, and cites his private sector experience as essential in finding pragmatic solutions for a city with such weak growth.

"From a business point of view, the city was looking like a forgotten child," says Mr Matijosaitis. "But now our urban development division

knows very well that there are terms established by law, and they have six to eight months to issue a construction permit and they must follow the terms if they want to work further. All the investors know that as well. When we are talking about investments, it is not only foreign investment, it is also local investment and Lithuanian businessmen, and now they know that the terms are short and that they will not have to wait for years and years for permission to start their business."

The past two years have seen the planning of 12 new business centre projects, and three are already under construction. "Two years ago there was only one crane in the entire city, and it was hardly working," says the mayor. "A few years ago, nobody was willing to come here, but now the situation has changed dramatically."

The three business centres under way are projects by Lithuanian investors, Mr Matijosaitis adds. "We are still working on attracting foreign investors in this field. So the city is putting a lot of effort into supporting the investors that are developing new projects in Kaunas," he says. Measures include improved infrastructure for employee parking and roads, and attractive tax rates: real estate tax varies from zero to 4%.



Plugging the brain drain

One thing the mayor stresses is the quality of his city's workforce, fostered largely by Kaunas University of Technology and other scientific and medical institutions. An enduring challenge is keeping students in the country after graduation – many leave for the UK or other EU countries that offer higher salaries.

"Kaunas has very big potential when it comes to our students and of course some students leave the city to work in other countries, but it is a challenge for us to create jobs and to keep them," he says. With this in mind, the mayor is optimistic about the UK's vote to leave the EU. "It could help us. Quite a lot of talented Lithuanians will come back to Lithuania to boost our economy here," he says.

"The present city government will never create a fairy tale for investors," he continues. "But recently quite a lot of businesspeople have been visiting the city, talking about investments in apartments and manufacturing. There will be no unnecessary obstacles for possible investors. This would probably be hard to find in Germany or France, where there are often obstacles for businesses. So the city is waiting for the money." ■

A FEW YEARS AGO, NOBODY
WAS WILLING TO COME HERE,
BUT NOW THE SITUATION HAS
CHANGED DRAMATICALLY





Brain power: the science and technology park at Kaunas University of Technology is the largest in the Baltic states

The brains behind Kaunas's rise

KAUNAS HAS ESTABLISHED A REPUTATION AS A MEDICAL TECHNOLOGY AND R&D HUB FOR THE BALTIC REGION. ITS NEXT STEP, AS NATASHA TURAK DISCOVERS, IS TO ENSURE THAT ITS TECHNOLOGICAL PROWESS IS ACKNOWLEDGED ON A GLOBAL SCALE

A dedicated proficiency in management, IT and life sciences has put Lithuania on the map for a growing number of medical technology companies. The city of Kaunas, with its cluster of R&D facilities and universities, is actively working towards becoming the regional destination for companies seeking fast growth and global reach.

"Being a small country, we should be flexible to adapt ourselves to global challenges," says professor Rytis Krusinkas, head of the finance department at Kaunas University of Technology (KTU) and university senate chairman. "Historically, Kaunas was an engineering city. The engineering focus from the time of the Soviet Union has now expanded to electronics, mechatronics, informatics and so on."

Mr Krusinkas believes technology, health and business have an

ideal confluence in Kaunas. "We are in very good situation here – we have the National Innovation and Entrepreneurship Centre [NIEC], full of young companies and university spin-offs, which Kaunas is famous for."

A meeting of minds

A joint venture signed in 2014 by KTU, the Lithuanian University of Health Sciences and the Lithuanian Energy Institute created the NIEC, which develops intellectual property management, entrepreneurship, science and business consultation. It also specialises in 'young business incubation' through the KTU Startup Space – Lithuania's largest academic start-up centre, which has spawned more than 36 successful start-up companies since it was established in 2012.

"Along with a technological back-

ground, we are trying to give our students an interdisciplinary approach," says Mr Krusinkas. "We are involving different business cases in the studies and familiarising them with the international environment." Students can combine programmes from the fields of technology, humanities, systems engineering, social sciences, finance, biomedicine and more.

KTU's science and technology park – the largest in the Baltics – features Santaka Valley Laboratories, a 9000-square-metre integrated study, research and business valley that offers open-access lab space for students, researchers and businesses. With more than €25m invested by the university, Santaka Valley's materials science, ultrasound science and synthetic chemistry institutes are among the best equipped in Europe. The university's numerous part- ▶

ners include Samsung and NASA, the latter of whom sought KTU out for collaboration on technologies for brain monitoring in microgravity.

Vittamed's niche

Among the university's medtech startups is Vittamed, a Kaunas-born company producing non-invasive devices for brain diagnostics. "Our product will be the first of its kind; currently there are no approved devices to be used for non-invasive inter-cranial pressure monitoring," says Vittamed founder Edvardas Satkauskas. "It's a niche market opportunity, and we are aiming to launch it commercially at the end of this year."

The company was significantly helped by \$10m in venture capital funding from the US, the UK and Malaysia and has worked with partners in Switzerland and other European countries for its clinical trials. It has a US presence through its office in Boston and its partnership with Baylor College of Medicine in Houston, Texas.

"Lithuania is a small country, which has many benefits. In a small country you can talk to the minister of economy or the prime minister if needed," says Mr Satkauskas. "We have excellent support from our investment agency, Invest Lithuania. Kaunas Free Economic Zone [FEZ] has excellent tax benefits and we plan to build a factory there."

Arunas Lukosevicus, scientific supervisor at KTU's biomedical engineering institute, says: "Our approach is to develop products that are affordable, smart, small, wearable, unobtrusive and very effective. There are many niches here and we

are working on that. So I have the vision that our environment will be famous for these kinds of decisions, and I see that innovation culture is very much increasing."

A majority of employees in the city's hi-tech businesses are graduates of the local universities. Kaunas-based Ortho Baltic produces custom-made orthopaedic products and patient-specific prosthetic bone implants for surgeries, using 3D printing to create the moulds. Nearly all of its 120-strong staff was educated in Kaunas, and it works closely with the Lithuanian University of Health Sciences and others. The company exports 99% of its product and sells to hospitals and suppliers all over Europe as well as in Australia, Canada, and the United Arab Emirates.

A satisfied customer

One of Lithuania's most prominent foreign investors in the medtech field is US-based Intermedix, which delivers technology-enabled professional services to healthcare providers, government agencies and corporations.

"We're very closely collaborating with industry partners," says Agnius Liutkevicius, professor of KTU's computer science department. "We've signed an agreement with Intermedix, one of the largest health informatics companies in the world, and with it we've established the Creativity Laboratory, where KTU students and researchers can make joint projects."

The company chose Lithuania for its first European site in 2013, employing 700 people in its Kaunas office who provide Intermedix cli-

ents with IT applications, data management, customer operations and medical coding.

Local hero

Locally born companies showcase the innovation coming out of Kaunas's technology ecosystem. A prime example is Elinta, founded in 1991 and based in Kaunas FEZ, which produces hi-tech disruptive electronics and automated systems. The company, winner of the Baltic Innovation Prize in 2014 and 2015, produces core technologies ranging from industry automation and computer vision systems to 3D scanners and electric mobility. Elinta's products are sold in 32 countries, including the US, Canada and Australia.

Elinta has developed 400 fully electric cars for Lithuania, and works with more than 40 partners, including Siemens and US automation developer Emerson. Company founder Vladas Lasas, winner of the Oslo Business for Peace Award, believes the country could attract US automaker and energy innovating giant Tesla.

"We need global brands that are doing the best things for the world, and we see huge opportunities to scale up and add experience from the best universities in Lithuania and abroad, merging our capabilities and our people," he says. "I think Lithuania could be one of the best places for Tesla to develop its European business."

Striving for greater international exposure is not without its challenges, however. "We're working in close co-operation with our ministries of economy and health, but we're in transition," says Mr Lukosevicus. "Moving from a very centralised economy to a capitalistic economy, some traditions remain and people are making a lot of mistakes."

And Vaidotas Marozas, director of KTU's biomedical engineering institute, says: "We have a constant need for financial support to keep our young brains here, and not let them go to the UK."

Mr Lasas believes the Kaunas region has been "kept a secret", adding: "We need to share more of the success stories happening here, and build upon these good developments. So we need a catalyst for the Lithuanian economy such as investment to help develop our start-ups and our technology. We will do our best." ■



WE NEED TO SHARE MORE OF THE SUCCESS STORIES HAPPENING HERE, AND BUILD UPON THESE GOOD DEVELOPMENTS



Q&A: VALERIJUS MAKUNAS

Thinking business

THE KAUNAS REGION HAS A SKILLED, EDUCATED WORKFORCE AS WELL AS A HIGH ENTREPRENEURSHIP RATE. **NATASHA TURAK** TALKS TO DISTRICT MUNICIPALITY MAYOR VALERIJUS MAKUNAS ABOUT HOW INVESTORS CAN BENEFIT FROM THESE DEMOGRAPHICS

Q What are your biggest challenges in terms of economic development and job creation in the Kaunas region?

A One of the most important tasks – alongside the national government, parliament and other responsible authorities – is to improve the region's investment environment, and improve and develop the infrastructure.

It is also very important to harmonise the industrial zones and residential development, to ensure that the development of the region is based on the principles of sustainability. For this purpose, Kaunas district has prepared the Strategic Development Plan, which clearly defines the agricultural, industrial, residential and recreational areas.

For us, as representatives of the local government, it is important to create high-paying jobs for the people [in our region] and to implement ecological principles in order to ensure the high quality of life.

Q In what areas you would like to see more investment, and what is your strategy for attracting it?

A Universities operating in the region prepare multi-skilled professionals, therefore we would like to have more investments related to production, especially in electronics, IT and intelligent technologies. The municipality is working hard to create the best possible conditions for investors. The favourable economic environment in Kaunas district is reflected in the growing number of operators. Entrepreneurs are motivated to establish [a base] here because of our good tax policy. For new businesses employing more than 50% of workers from Kaunas district, residence, land and real estate taxes are not applied for three years. Kaunas Free Economic Zone also offers tax incentives for investors.

The municipality has also cre-



ated a development programme [to run] until 2020, aimed at SMEs operating in Kaunas district. Therefore, our SME Business Promotion Fund has been designed.

Lithuanian Credit Union data shows that in Kaunas district municipality, the entrepreneurship rate is 177% [higher than] the Lithuanian average [making] the municipality one of the leading places [in this field] in the country.

Q How are you working with public institutions and private businesses to stimulate growth?

A Kaunas region's strategy is developed and coordinated by Kaunas Regional Development Council, which consists of eight municipal leaders. Business interests are represented by Kaunas Chamber of Commerce, Industry and Crafts. The region is relevant to the whole country – it generates a large part of the GDP, therefore regional mayors constantly coordinate their actions with the ministry of government, Lithuanian parliament and responsible authorities.

Universities mainly concentrated in the city of Kaunas also help to create a business strategy for local government. [A good example of a university creating a business strategy is]

Aleksandras Stulginskis University, which is in Kaunas district.

Our main goal is to develop Kaunas region for scientific and business partnerships based high-value-added industrial land.

Q What might foreign investors not know about the Kaunas region?

A Kaunas region, especially Kaunas district, is undoubtedly one of the most favourable places to invest in eastern Europe because of its relatively inexpensive land, great communication, its well-developed education system, its infrastructure, the sufficient number of skilled [workers], and Kaunas Free Economic Zone. This is backed up by the Lithuanian Free Market Institute's Municipalities Index, in which Kaunas district has taken the first place for the past five years. The Lithuanian Free Market Institute evaluates both the investment and social environment indicators of each municipality [in the country].

[In Kaunas] a lot of building permits have been issued. In 2015, Kaunas district was in second place in the country according to this indicator, following only capital Vilnius. Currently, it remains among the top five [by this measure]. ■



Flying visit: Kaunas International Airport is on course to be a hub for cargo and technical services

Going places

WITH A HISTORY OF TECHNICAL EXPERTISE IN THE AVIATION AND MAINTENANCE, REPAIR AND OVERHAUL INDUSTRIES, KAUNAS HAS BUILT A NICHE FOR ITSELF IN THIS FIELD, AIDED BY ITS INTERNATIONAL AIRPORT AND ADJACENT FREE ZONE

One legacy of the Soviet Union – an abundance of engineering talent – has put Lithuania in a prime position to attract a broad spectrum of technical industries. One such industry that Kaunas hopes to thrive in is maintenance, repair and overhaul (MRO) in the aviation sector.

A further attraction for investors in the aviation sector is Kaunas International Airport, the second largest passenger airport in Lithuania, which saw its highest number of travellers in 2016 at 750,000. While this pales in comparison with capital Vilnius’s airport, which saw 3.8 million passengers in that time, Kaunas International Airport officials are not worried – their goal is to develop Kaunas as an industrial hub for cargo and technical services.

“We have potential for technical maintenance and MRO activities, and we want to expand this,” says Jurate Baltrusaityte, chief commercial officer at Kaunas International Airport. Lithuania boasts more aviation technicians per capita than

Germany, France and the UK, and MRO companies in the country currently employ 1200 people and maintain more than 300 aircraft per year. In Kaunas, the presence of major industry players such as Irish low-cost carrier Ryanair, Danish MRO provider Dot LT and Lithuania’s FL Technics – as well as a close proximity to Kaunas Free Economic Zone (FEZ), with which the airport shares a common border – gives the city a unique advantage both within the country and Baltics region.

Hangars up

In 2015, Kaunas International Airport developed a new taxiway and parking area specifically designed to enable MRO organisations to establish their operations there, according to Ms Baltrusaityte. The airport is also planning to develop Aerohub Kun, an area dedicated to MRO business development.

“We want to see more hangars being built for technical maintenance and the extension of this taxiway to Kaunas FEZ territory to provide direct access to customers who

need it,” says Ms Baltrusaityte, who adds that the FEZ is ideal for air logistics, warehousing, manufacturing and small aviation companies.

Lithuanian FL Technics, part of Avia Solutions Group and the largest MRO company in the country, provides line, base and component maintenance for A320 and B737 aircraft services in its hangar in Kaunas Airport. In total, the company has more than 24,000 square metres of hangar space with a workforce of some 800 people.

Aiming higher

Ryanair opened its Kaunas base in 2010 before establishing its Kaunas Aircraft Maintenance Services (KAMS) two years later. KAMS operates 3500 square meters of MRO facilities in two bays, employing about 100 MRO staff. Cargo is serviced by APCargo, which owns 5500 square metres of warehouses and provides cargo handling services for global shipping companies UPS and TNT. And in 2016, the airport welcomed European low-cost carrier Wizzair, which introduced five new direct destinations.

“Last year the growth of the overall Lithuanian passenger market was more than 13%,” says Ms Baltrusaityte. “Our technical maintenance customer base is also growing – we see aircraft coming in from the Ural region to several carriers working in South America on a regular basis.” Working with local logistics partner Hoptrans, the airport also receives cargo charters from China transporting goods from around Europe.

Ryanair plans to add 200 new aircraft to its fleet over the next seven years, and will therefore be looking for facilities for its technical services expansion, according to Kaunas International Airport officials. They feel they offer an ideal MRO destination for the international carrier.

“We’re working on aircraft technician and mechanic training programmes with our universities because there is a need for that personnel. So academia responds to the needs of business,” says Ms Baltrusaityte. “With the advantages we can offer here – the labour cost, labour pool and Kaunas FEZ, we believe Lithuania and Kaunas, with its deep engineering knowledge, could be the place for aircraft technical services development.” ■