Construction Sector Profile - Estonia, Latvia, Lithuania

Construction Sector Overview

The Baltic Economies

Estonia, Latvia and Lithuania are located at the heart of the Baltic Sea Region. The three Baltic countries have returned to economic growth after pushing through Europe’s toughest deficit-cutting measures to cope with the global financial crisis. In 2010 the economic situation stabilized and in 2011, the Baltic States were the fastest growing economies in the EU. In 2013, Latvia’s GDP growth was 4.1% Lithuania’s was 3.3% and Estonia’s was 0.83%. Exports were the main contributor to economic growth in 2013. Latvia has one of the highest GDP growth rates in Europe, driven both by exports and expansion in consumption and credit.

Accession to the EU and NATO has increased business confidence, enabling the Baltic States to leverage the advantage of economies of scale. The Baltics score highly in business, investment, financial freedom and property rights. Income and corporate tax rates are low, and business regulations are efficient, particularly in Estonia. This improving investment situation (good monetary conditions, strong financial position of companies and EU funds), together with incentives for foreign investors is attracting investments from Western, Central Europe and Russia. Each of the three countries has entered the Exchange Rate Mechanism. Estonia was the first to introduce the euro in the beginning of 2011, Latvia followed in January 2014, and Lithuania plans to introduce the currency next January.

Construction Sector Overview

Baltic construction companies have proven their competitiveness in foreign markets and work well in different scales, ranging from general construction to specific installation works. The largest export markets for construction service providers are the other Baltic States and Scandinavian countries – Sweden, Norway and Finland. Baltic manufacturers are well known for the high quality and price competitiveness of their construction materials, such as timber and cement, glass and glass fiber, porcelain and ceramic products, building blocks, prefabricated structural components for residential building, and civil engineering. Most companies that produce building materials use local natural resources like wood and mineral materials such as dolomite, limestone, and clay.

A well-developed retail network of construction materials suppliers, primarily locally owned, has developed in all three countries and is aimed at the “do it yourself market”. The production of local building materials is largely confined to cement/brick/tile products, and lower end glass and timber materials. Even if brick construction technology still remains the most popular in Baltics, with wooden structure panel houses, polyester foam blocks and insulation panel structures becoming more popular with every year, there is a clear tendency of reorientation towards western building materials and technologies with up to 80 % of all building materials being imported, mostly from Europe. Low and zero energy housing and environment friendly construction technologies are an important issue to address.

An increase in domestic consumption – increase in personal income, corporate profits and favorable borrowing conditions were the main factors driving the increase in housing demand. Price sensitivity for building products and construction costs is still an issue after the recent economic recession. To
win new contracts, contractors often submit tenders with prices below the direct costs and hope to compensate for the difference with a fall in prices in the future, thus entailing increased business risks for the tenderer, execution risks for customers and credit risk for potential suppliers.

**Opportunities**

In 2013, the value of goods exported from Canada to Lithuania, Latvia and Estonia was $257.3 million (top industries: aerospace, vehicles, machinery, seafood, construction materials), whereas imports were $293.3 billion (top industries: petroleum, furniture, minerals, telephone sets). The trade figures with Canada are somewhat understated because they represent only direct trade, while some goods are imported/exported via third countries.

Opportunities for Canadian construction and housing products exporters mainly exist in selected niche markets. With similar climatic conditions, Canadian building materials are well received in the Baltics, but volumes are small and consumers remain very price sensitive. While there is a gradual, growing interest, there remains a lack of knowledge and confidence in wood-frame building technologies that requires more education (Canadian wood-frame houses have been built in Lithuania). Differences in custom duties on products compared to EU countries, limited knowledge of Canadian products/technologies, need for larger volumes and the longer distances are the challenges in approaching these markets. Flexible financing options are needed.

At the moment, living space per capita is 22-24 sq.m in the Baltics. Local experts expect that as the wealth of the population grows, the relative living space will continue to increase toward the German level over time, e.g. 40 sq.m. per capita. The standard of living and wages have increased for many inhabitants of the Baltic States, resulting in greater disposable income for a mortgage.

Limited financing has influenced the investment activity of the private sector in this region. Most of the expansion plans have been postponed indefinitely and the private sector is focussing on cost and cash-flow management. As a result of lower prices, there is increased activity on the market for small-scale works (the so-called repair works), as the need for external financing is lower and the works are mostly financed from savings. The majority of new construction projects initiated concern infrastructure and environmental facilities financed by the public sector and EU structural funds. Some financial institutions are motivated by the desire to increase their market share with the help of safe loans, at the expense of more passive competitors.

Tremendous market opportunities remain in the restoration and thermal retrofitting of multi-story blocks of flats. Several subsidies to energy audits and credit guarantees are available to the residential buildings and public buildings alike. The government launched media campaigns to raise awareness about the economic side of renovating. The great potential lies in energy saving technologies for residential and public buildings, measures for increasing the energy efficiency of buildings, modernization of heating systems, replacement of windows and doors, and the insulation of roofs and walls. The most dynamic growth has been observed in the export of finishing materials such as roofing, floor and wall coverings, interior and exterior finishing products and HVAC systems. Capital projects related to building competitive production facilities and refurbishing transportation and utilities infrastructure provide other opportunities for engineering services and technologies. The World Bank and EU funds support construction and other development initiatives. Certain opportunities exist in technology transfers and investments into local manufacturing facilities of construction materials.

There is significant demand amongst homeowners to improve the quality of housing, which has given
rise to a huge renovation market. The governments in all three countries were encouraging investments in the housing sector with the gradual introduction of mortgage systems that led to growth in the demand for housing and building materials. Many development projects were carried out to establish suburban housing subdivisions.

Market Access Considerations

Positive business environments create great business opportunities, albeit with a certain degree of risk due to less transparency in the business, legal and regulatory environments than in Canada. Risk can be avoided through partnerships with local companies and consulting with international business firms that have experience in doing business in the respective country. For Canadian businesses, a joint venture with a local partner is the best strategy. Canadian firms will discover that an experienced local partner will greatly enhance the chance of success in the Baltic states. Depending on the nature of the product, a single agent, distributor or representative may suffice for all three countries. However, firms should plan for separate representation in each distribution channel to better address unique market, cultural and legal issues.

Since the Baltics’ EU accession, the import policies have been changing to conform to European Union policies for imported products and import taxes. Non-EU exporters are required to meet CE standards with EU destined goods, which are subject to EU product legislation. Products must have a declaration of conformity before entering the EU. There are labeling requirements for translation into the local language; labels must be legible, not misleading and non-erasable. Follow this link to find more information on EU labeling europa.eu.int.

Major Competition

Virtually all classes of materials are available on the market. Quality and uniqueness are key to entering the market. Nordic and German companies have captured a significant part of the middle and high end building materials market. In the low-end market, competition is faced mainly from European companies (e.g. Poland, Germany, Denmark, Finland, Belgium, England, France, Italy, Spain and the Czech Republic). Basic construction materials like cement, lime, glass, reinforced concrete, concrete structures are manufactured locally. The rest are imported from Poland, Belarus and Ukraine. About 85-90% of interior finishing materials are imported. Ceramic tiles and wooden floor coverings are manufactured locally. Most Canadian products available on the market come via distributors in Poland. There are also a few Canadian product distributors in Latvia.

Websites

Disclaimer: Be advised that most links are only offered in the language of origin.

Industry Trade Shows

Annual Trade Shows: Latvia

- Latvia - House 1 (March); House 2 (October)
- World of Construction (March)

Annual Trade Shows: Estonia
• **Ideal Home (May), EstBuild (May)**
• **Interior Fair (April)**
• **Tartu Building Fair (April)**

**Annual Trade Shows: Lithuania**

• **RESTA (April)**

**Government Organizations**

• **Ministry of Environment**
• **Ministry of Economy**
• **Latvian Chamber of Commerce and Industry**
• **Latvian Investment and Development Agency**
• **Building Portal of Latvia - Link 1**
• **Building Portal of Latvia - Link 2**
• **Public Services Regulator**
• **Latvia’s State Procurement Office**
• **Latvia’s State Construction Inspection**
• **The Association of Latvian Construction, Building and Design Enterprises**
• **Association of Latvia’s Construction Materials’ Traders**
• **Union of Latvia’s Architects**
• **Latvian State Roads**
• **Lithuanian Builders Association**
• **Lithuanian Ministry of Environment**
• **Association of Lithuanian Real Estate Developers**
• **Estonian Association of Construction Entrepreneurs**
• **Estonian Construction Materials Union**
• **International Chamber of Commerce Estonia - Link 1**
• **International Chamber of Commerce Estonia - Link 2**
• **Estonia Chamber of Commerce & Industry**
• **Ministry of Environment of Estonia**

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