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1. ABSTRACT

A. SCOPE OF REAEARCH

The research embraces three Baltic States: markets of heat insulation materials in Latvia, Lithuania and Estonia. The research of market volumes is based on the data of all major producers of insulation materials, mainly mineral wool and expanded polystyrene, and major distributive networks of building materials. Certain share of the markets is taken up by extruded polystyrene, which was also taken into account in estimating total volumes.

B. SURVEY OF INDUSTRIES

Mineral wool dominates the heat insulation markets of the Baltic States, covering about 68% of total markets in these countries or 1.9 million cub. m in 2004; the share of expanded polystyrene amounts to 30.6%. Total volume of the heat insulation markets of the Baltic States is 2.8 million cub. m.

C. MARKET SURVEY

Paroc and Isover have the greatest market shares in the mineral wool segment in all the Baltic States. There are no strong leaders in the expanded polystyrene market, as in the mineral wool market, which may be explained by the fact, that local enterprises take leading positions in each country. For the time being the Latvian enterprise Tenax occupies almost a third of the Baltic expanded polystyrene market.

D. MAIN CONCLUSION: FUTURE GROWTH.

Consumption of heat insulation materials keeps growing rapidly both in private and commercial sectors. Main reasons of this sector growth are building sector development, economical development in general and new strict standards in the field of heat insulation. It is expected that

in 2005 total consumption of rock and glass wool insulation materials in the Baltic countries will increase by 21% or 400 000 m³, reaching 2 300 000 m³. The forecast shows that growth of the market of expanded polystyrene will be 20–25% (about 200 000 m³). The growth in the near future is forecast in all the three Baltic States.

2. METHODS

Selection of enterprises

The major enterprises have been selected in Latvia, Lithuania and Estonia from available databases of insulation materials users (building enterprises) and sales networks of building materials.

Producers of insulation materials in Latvia, Lithuania and Estonia have been identified likewise.

Methods of data acquisition

In each country interviewers were selected for the research and centralized instruction was organized for them. After they completed their work the data were processed and analysed in Latvia.

Telephone interviews with representatives of the enterprises were organized. Thus information about competition in the industry, distribution channels and market trends was clarified.

In addition, industry experts were interviewed, mainly to obtain information about future trends of the market development.

The data about the market allotment and dynamics were obtained from the databases. Additional data were received from news agencies, newspapers and payable Internet information sources.

Respondents profile

Respondents at the enterprises were persons, directly responsible for the processes of production and distribution: managing directors, heads of sales or production departments.

3. MARKET

A. MARKET VOLUMES AND DYNAMICS

Latvia

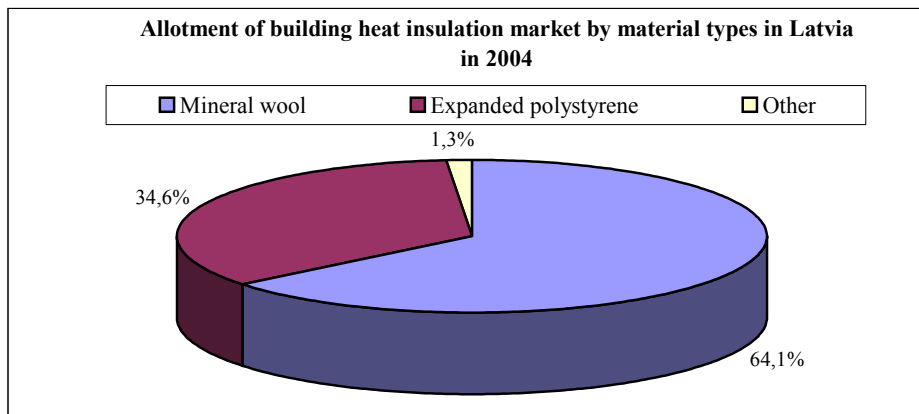


Fig. 1. Allotment of the building heat insulation market in Latvia by material groups in 2004. In 2004 mineral wool products occupied the greatest share (64.1%) of the heat insulation market. Then expanded polystyrene follows, taking 34.6% of the market volume.

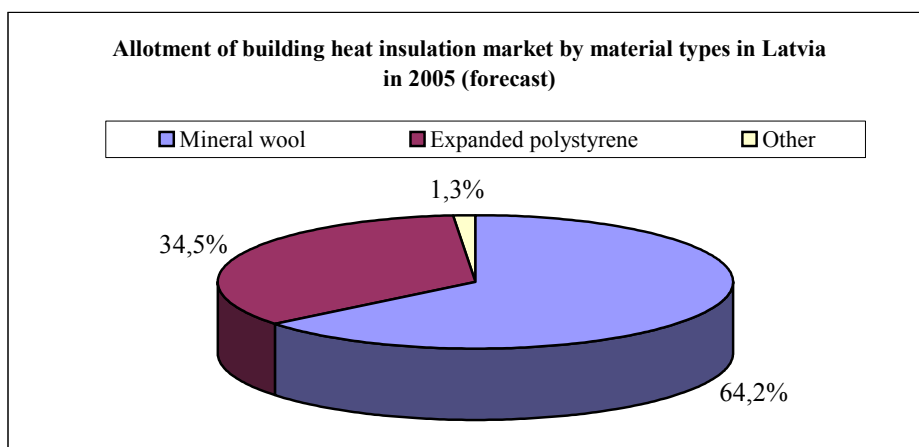


Fig. 2. Allotment of the building heat insulation market in Latvia by material groups in 2005 (forecast).

No significant changes on the insulation materials market are expected this year. As well as in 2004 the mineral wool market will be at the amount of about 64% of the total market. In its turn the share of the expanded polystyrene market will be about 34.5%, similar to 2004. Fast changes on the markets are not forecast, as it is not expected now that any new players, able to change the situation significantly, will appear on the market. Another reason of such relative stability is mature stage of the heat insulation market on the Latvian scale. As a result, no distinctive fast changes are observed in the industries, functioning for not more than several years. Although abrupt turns in the industry in general are not expected, yet in 2005 about 20%

growth relative 2004 is forecast. If in 2004 total volume was 752 thousand cub. m, in 2005 total volume of the market is expected at the amount of about 904 thousand cub. m.

Mineral wool

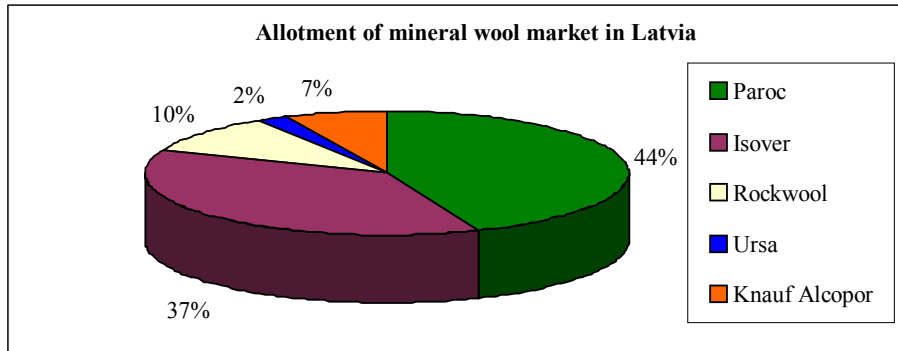


Fig. 3. Allotment of the mineral wool market in Latvia in 2004.

As it is seen in Fig. 3, the products of Paroc and Isover take strong positions on the mineral wool market, occupying more than 80% of its volume. These firms represent the oldest enterprises of the industry, as a result they gained prominence on the market. During next year the mineral wool growth is forecast at the rate of about 20%, testifying the development of both this business and the building sector in general.

Expanded polystyrene

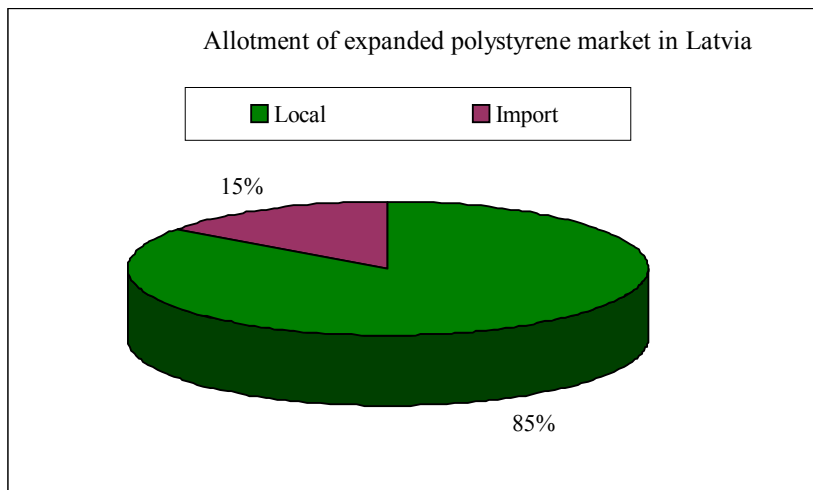


Fig. 4. Allotment of the expanded polystyrene market in Latvia in 2004 (import).

Volume of import on the expanded polystyrene market is not big, it is only 15% of the total market, most part of which is imported from Lithuania and Estonia from such suppliers as Reideni Plaat (7% of Latvian market), Thermisol (2%), Baltijos polistirenas (2%).

In 2005 growth of the expanded polystyrene subindustry is expected from 260 thousand to 312 thousand cub. m.

Estonia

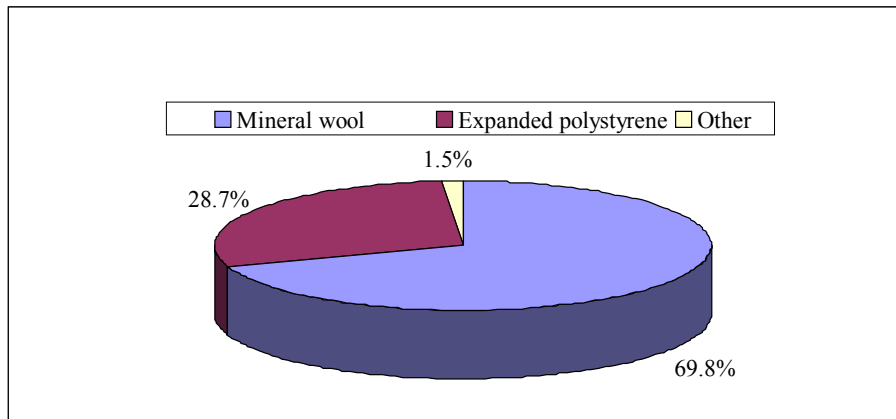


Fig. 7. Allotment of the building heat insulation market in Estonia in 2004.

As well as in Latvia, mineral wool occupies the biggest share of the Estonian market, though its share here is a bit higher and achieves almost 70% of the total volume. Also, similar to Latvia, big changes of the heat insulation market are not expected, consequently, the market situation in 2005 will remain almost the same as in 2004.

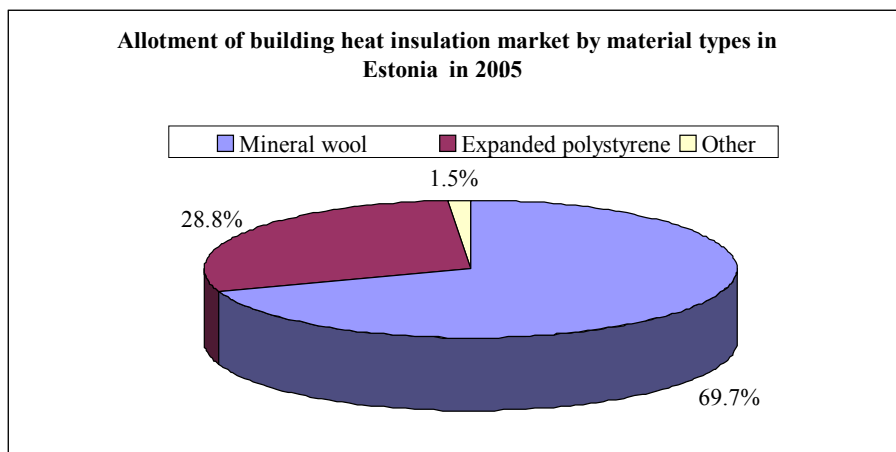


Fig. 8. Allotment of the building heat insulation market in Estonia in 2005 (forecast).

Total growth of this sector in comparison with 2004 may be about 18% of the insulation materials industry, increasing the volume by about 860 thousand cub. m to 1016 thousand cub. m in 2005.

Mineral wool

In Estonia Paroc and Isover prevail on the mineral wool market, nevertheless their share here is not much higher than in Latvia. Total market share of Paroc and Isover is more than 85%. In 2005 growth of mineral wool volume is expected by about 18%, increasing this year volume of the industry to 708 thousand cub. m.

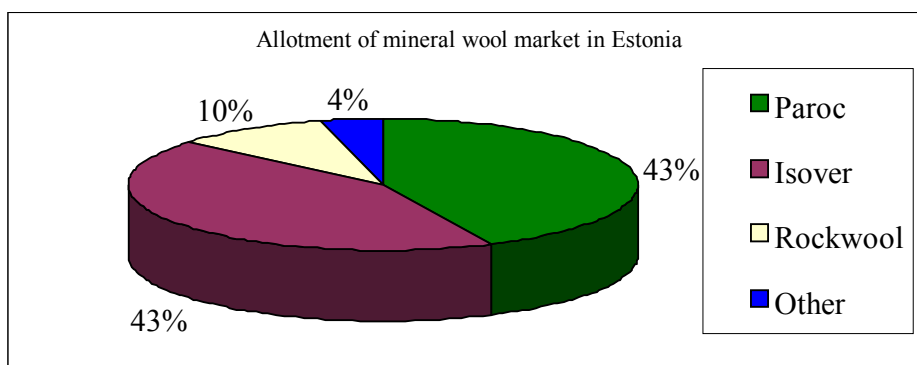


Fig. 9. Allotment of the mineral wool market in Estonia in 2004.

Expanded polystyrene

Local producers prevail on the Estonian market of expanded polystyrene, yet their share is lower in comparison with Latvia.

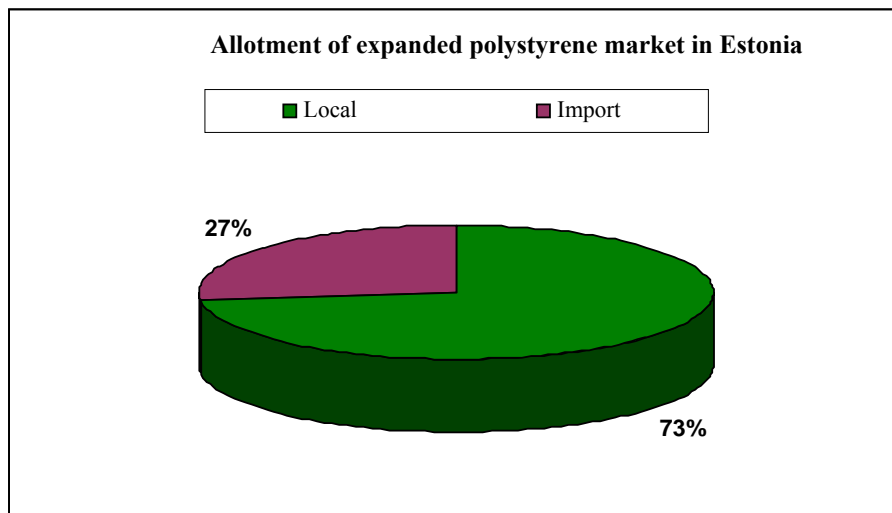


Fig. 10. Allotment of the expanded polystyrene market in Estonia in 2004 (import).

Although the number of market participants in Estonia is roughly the same as in Latvia, the market of this country is more fractional than Latvian one. Here there are leaders, local producers ThermiSol and Reideni Plaat, which occupy 32% and 29% of the market correspondingly. Such fractioning shows that this industry competition is much more severe than in Latvia. Growth of the expanded polystyrene industry is also expected by 18%, achieving almost 300 thousand cub. m by the end of the year.

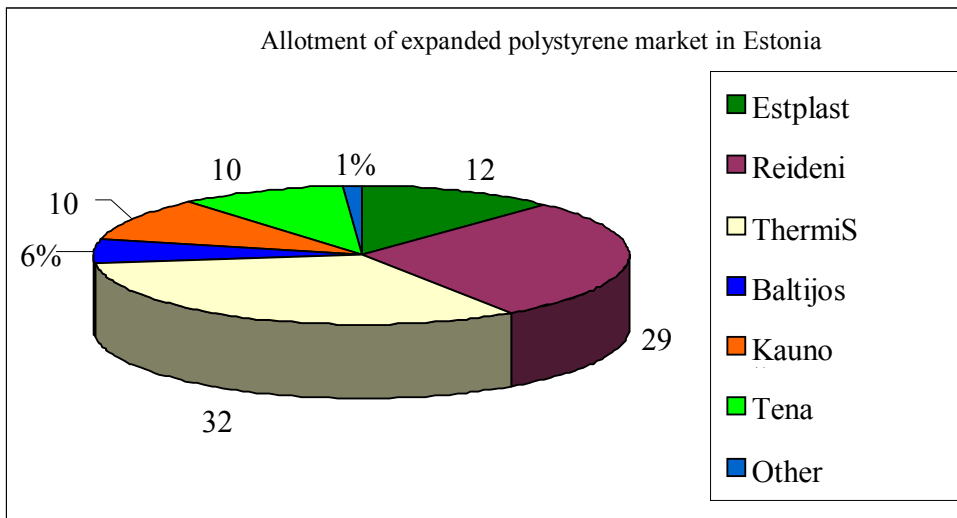


Fig. 11. Allotment of the expanded polystyrene market in Estonia in 2004.

Lithuania

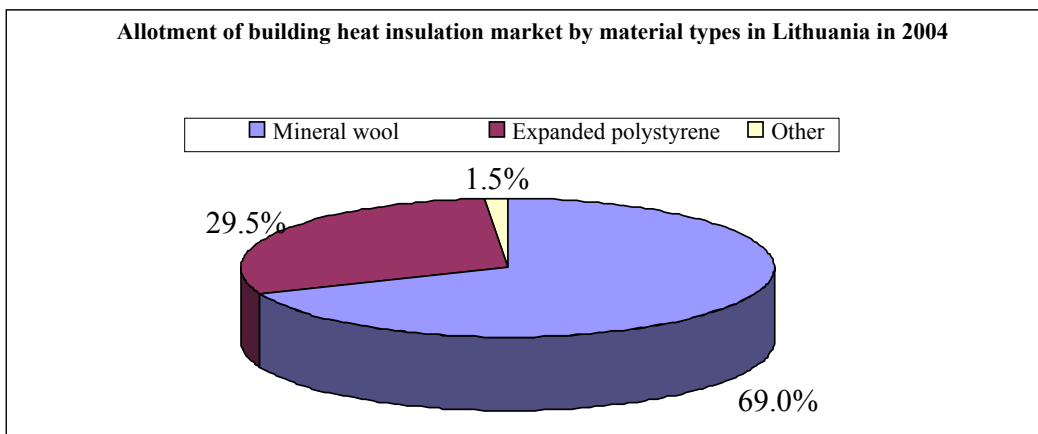


Fig. 12. Allotment of the building heat insulation market in Lithuania in 2004.

As well as in Latvia and Estonia, mineral wool prevails on the Lithuanian heat insulation market, occupying about 70% of the whole volume. Essential changes in 2005 are not expected in

Lithuania, as it is forecast that the share of mineral wool and expanded polystyrene will remain at the previous level in Lithuania. Total industry growth in Lithuania is forecast by about 20%, increasing the volume from almost 1.2 million cub. m to more than 1.4 million cub. m by the end of 2005.

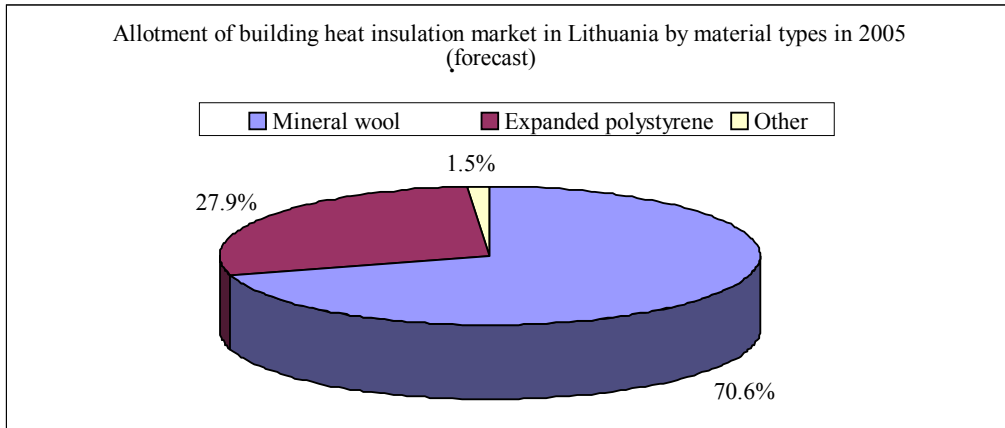


Fig. 13. Allotment of the building heat insulation market in Lithuania in 2005 (forecast).

Mineral wool

The share of Paroc and Isover on the Lithuanian mineral wool market is similar to that of other Baltic countries, though Paroc's share is 60%, which may be explained by the fact that the enterprise has its own production in Lithuania. It also stimulates sales of the products.

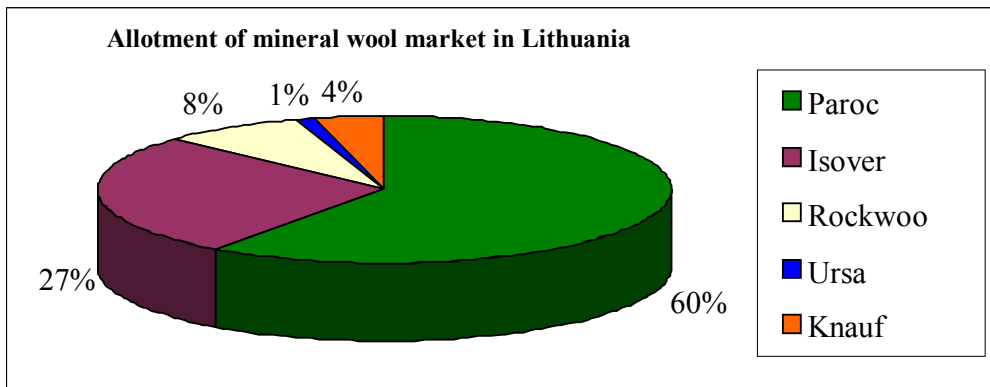


Fig. 14. Allotment of the mineral wool market in Lithuania in 2004.

It is expected that the mineral wool subindustry will be growing in Lithuania most rapidly, more than by 23% per year, amounting up to 1 million cub. m by the end of the year.

Expanded polystyrene

Local producers also prevail in the Lithuanian industry of expanded polystyrene and it is much more expressive than in Latvia and Estonia. The share of import is only 10.7%.

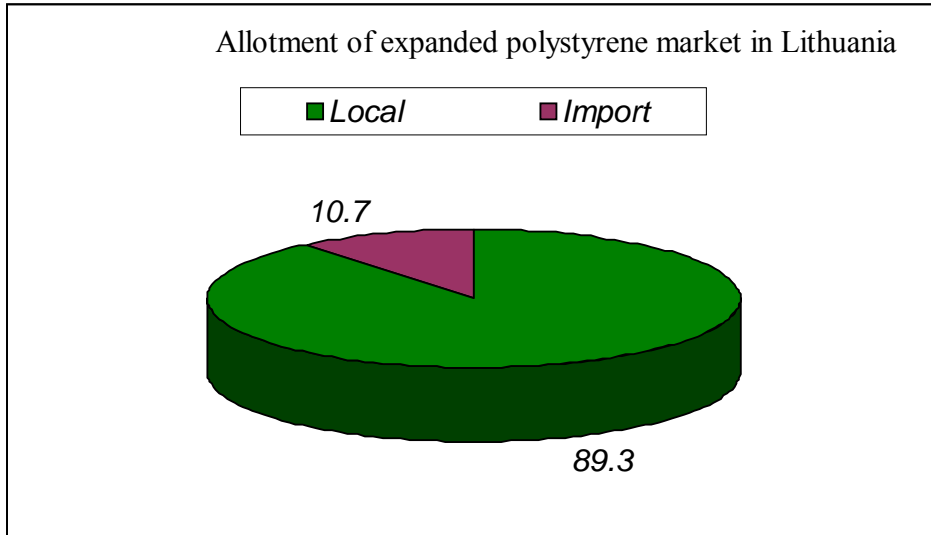


Fig. 15. Allotment of the expanded polystyrene market in Lithuania in 2004 (import).

Similar to Estonia there are two leaders in Lithuania: Kauno Šilas and Baltijos Polistirenas, which occupy 39.8% and 22% of the market, making up jointly more than 60% of the total market.

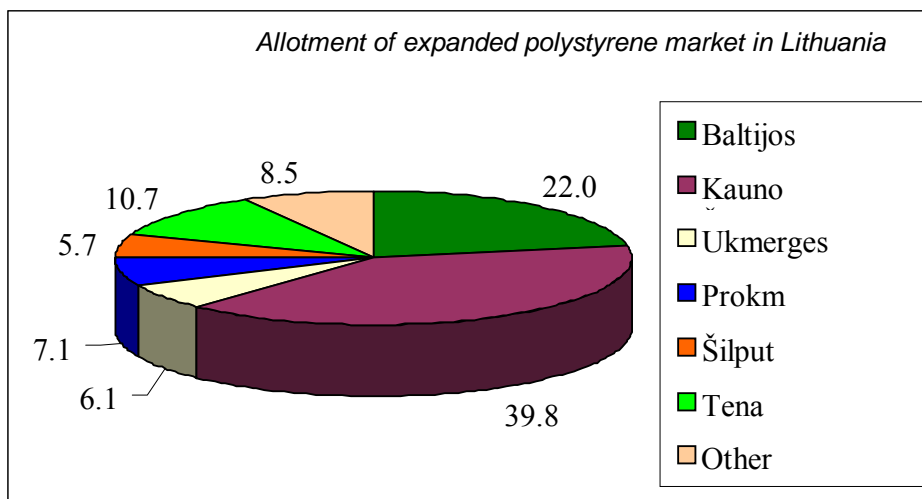


Fig. 16. Allotment of the expanded polystyrene market in Lithuania in 2004 (import).

In comparison with the two other Baltic countries, the forecast growth of expanded polystyrenes subindustry in Lithuania is lower (about 14%). By the end of 2005 it will reach 400 thousand cub. m.

Baltic countries

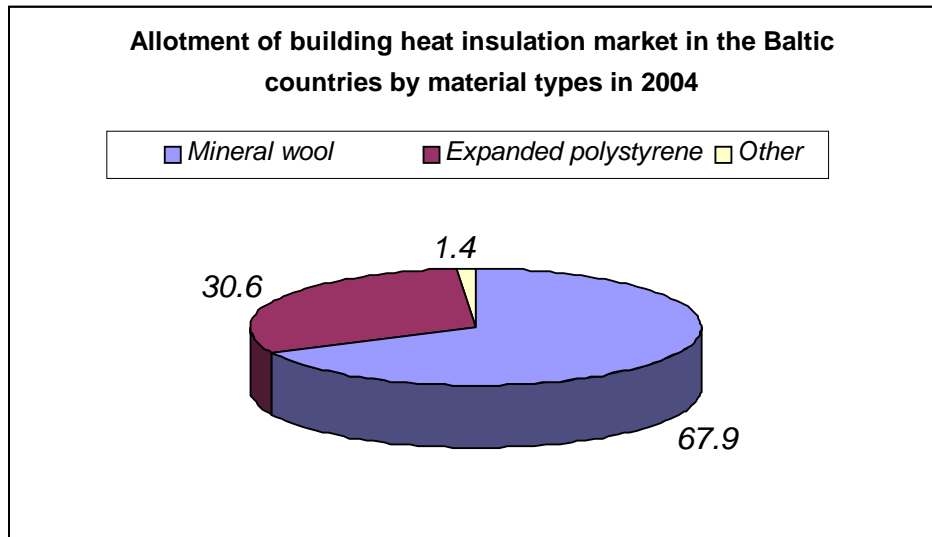


Fig. 17. Allotment of the building heat insulation market in the Baltic countries in 2004.

The study of each Baltic country showed that mineral wool dominates the heat insulation market of the Baltic States, covering about 68% of the total Baltic market or 1.9 million cub. m in 2004. The total volume of the heat insulation market of the Baltic States is 2.8 million cub. m. In recent years the tendency of expanded polystyrene share growth was obvious. In 2004 expanded polystyrene share amounted to 30.6%, in 2003 it was 27%, in 2002 expanded polystyrene occupied less than 25% of the insulation materials market. Yet this year and in the years to come fast growth of expanded polystyrene share is not expected.

It has been mentioned above that in 2005 fast changes of the market situation are not expected, though the growth of about 20% is forecast, achieving the volume of 3.35 million cub. m by the end of 2005. It is expected that the market share of mineral wool will grow a bit, which may be explained by the fact, that the fastest run-up in the Lithuanian market is expected namely for mineral wool, but that of expanded polystyrene will be the lowest.

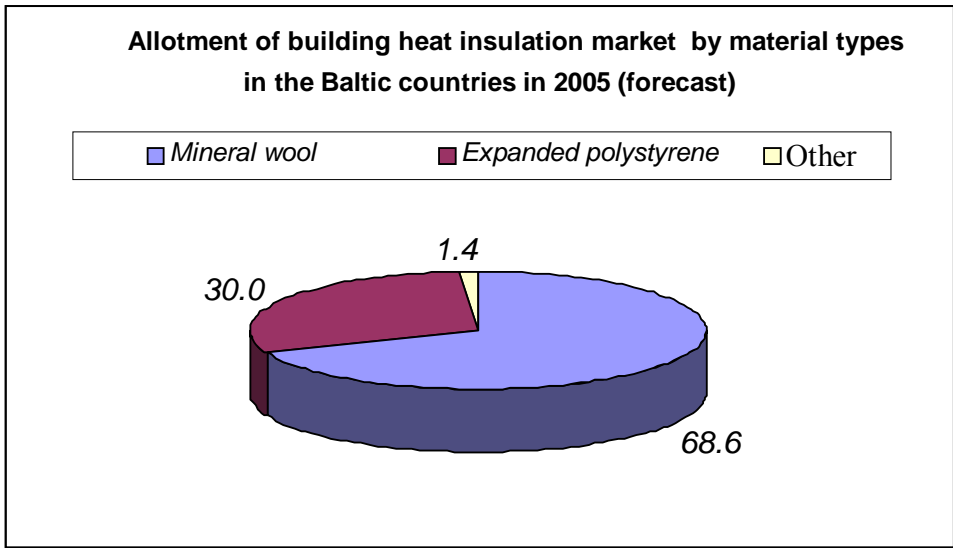


Fig. 18. Allotment of the building heat insulation market in the Baltic countries in 2005 (forecast).

Mineral wool

Both Paroc and Isover occupied the greatest shares in all Baltic countries. Yet due to its strong position in Lithuania, Paroc is a convincing leader and has achieved the volume of 0.96 million cub. m, which makes up 51% of the big mineral wool market of 1.9 million cub. m.

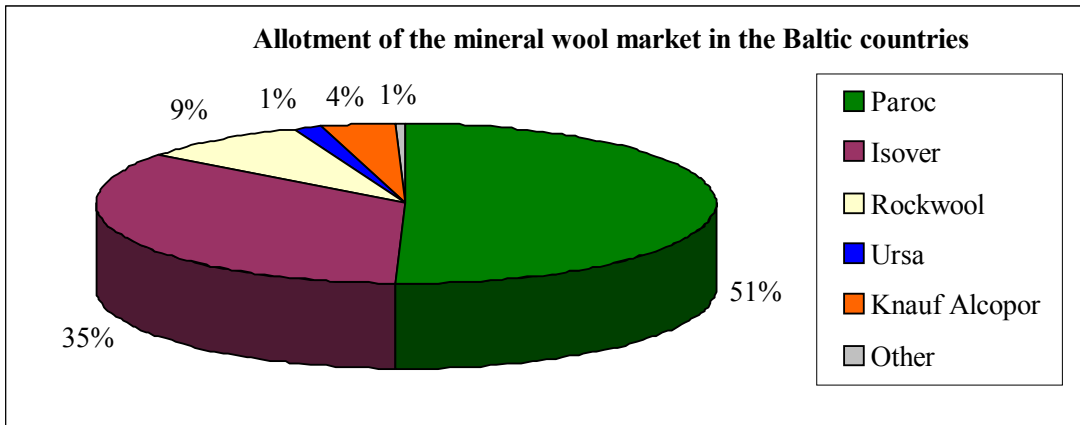


Fig. 19. Allotment of the mineral wool market in the Baltic countries in 2004.

In its turn Isover occupies 35% % of the market, which takes this enterprise to the second position.

Expanded polystyrene

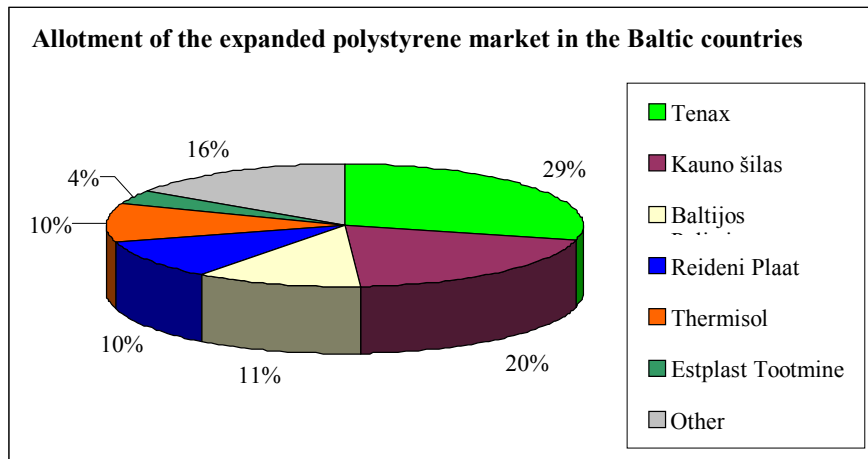


Fig. 20. Allotment of the expanded polystyrene market in the Baltic countries in 2004.

There are not such strong leaders on the expanded polystyrene market, as on the mineral wool market, which may be due to the fact, that local enterprises take leading positions in each country.

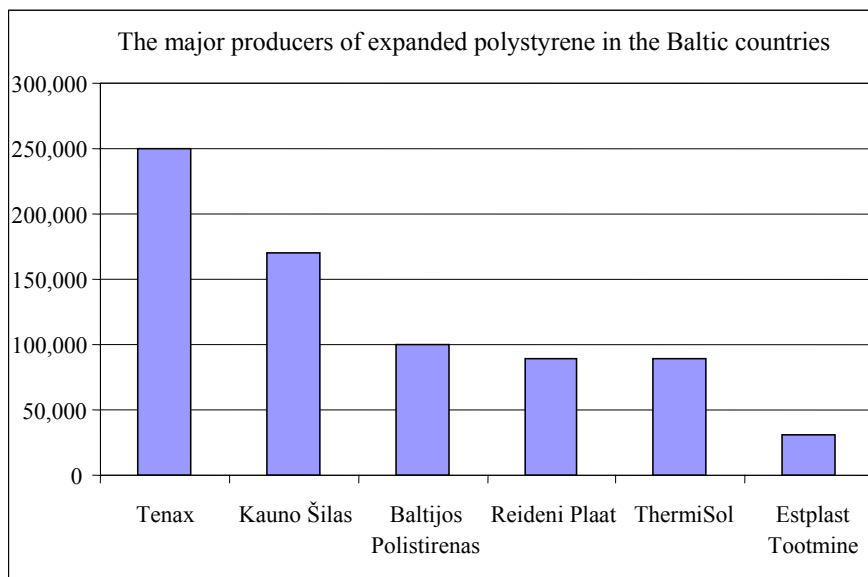


Fig. 21. The major producers of expanded polystyrene in the Baltic countries.

The leading Lithuanian and Estonian enterprises occupy the foremost positions. Predominance of the Lithuanian enterprises over Estonian ones is explained by the fact that they have bigger local market, where the demands are guaranteed.

I. MARKET DEFINITION

In the present research the market was defined as all insulation materials, which are sold to both individual consumers and commercial sectors in the Baltic countries: Latvia, Lithuania and Estonia. Mainly expanded polystyrene and mineral wool (rock and glass wool) were considered as insulation materials, while extruded polystyrene was also included in total estimation of the heat insulation market.

II. PRODUCTS

Allotment of main insulation materials

There is no accessible insulation material on the market, which would be universal and meet requirements of all individual and commercial consumers. Conformity of the material property to necessary solutions, price and installation costs are main criteria, by which consumers select products.

Two materials are absolute leaders among the wide market assortment: - mineral wool (MW) and expanded polystyrene (EPS). Rock and glass wool are considered as mineral wool, because mineral raw materials, mainly silicon and basalt, are used for manufacturing both these products. EPS is an organic material, produced from oil products. These and other accessible materials are compared by various technical features (see Table 1 and Table 2).

Technical features:

1. **Heat conduction coefficient (λ - lambda)** (characterizes heat insulation capability of the material). At equal thickness of heat insulation layers the layer of lower λ value withholds the heat better, the lower the value, the better the heat insulation capability of the material. For most heat insulation materials λ value ranges from 0.030 to 0.15 W/m·K;
2. **Dimension stability** (whether material changes its dimensions during its service life (contracts, expands, shrinks));
3. **Service life** (material resistance against damages, induced for example, by moisture and vermin, UV radiation);
4. **Fire safety** (although fire is an extreme accident, it is worth to estimate the resistance of insulation materials to high temperatures);
5. **Vapour permeability / water absorption** (whether material absorbs moisture and transmits vapour, which is caused by moisture);

6. **Material influence on health** (whether material using produces adverse effects on human health);
7. **Influence on the environment** (what is the material effect on the environment in the production process and during its usage, whether it is possible to recycle or discard material after its service life without damage to the environment).

Material	Average heat conduction coefficient * (λ_{cl})	Dimension stability	Service life	Fire-resistance and toxicity in flames
Cellulose	0.090	Appropriate for laying onto horizontal surfaces, material shrinkage is possible	4** (should be protected from moisture)	4 (weakly burning)
Glass wool	0.041	Dimension stability of flat materials is better than that of roll materials, bulk material is appropriate for laying onto horizontal surfaces, shrinkage is possible	5	5 (fireproof)
Rock wool	0.041		5	5 (fireproof)
EPS (expanded polystyrene)	0.039	Material contraction is possible, especially soon after production process, if the material is not stored in conformity with technological requirements	4 (changes properties when exposed to the sun)	2 (flammable, fumes are toxic)
XPS (extruded polystyrene)	0.035		4 (changes properties under sunbeams)	2 (flammable, fumes are toxic)
PUR (polyurethane)	0.027	Good	4	2 (flammable, fumes are toxic)
Perlite	0.050	Good	5	4 (weakly burning)

Table 1. Juxtaposition of prevalent insulation materials.

* In accordance with Latvian construction norm "LBN 002-01" working condition correction index of heat conduction coefficient is assigned for heat conduction materials and it should be taken into account in the declared heat conduction values of the material.

** Rating: 5 - excellent, 4 - good, 3 - decent, 2 - almost satisfactory.

Material	Vapour permeability / water absorption	Effect on health	
Cellulose	High vapour permeability / moisture absorption	Fibre and accompanying chemicals may be irritant, direct contacts should be limited	Contains 80% of processed paper. Its production consumes small volume of energy
Glass wool	High vapour permeability / moisture absorption Recovers its properties after the end of exposure to	Fibre may be irritant, direct contacts should be limited	Contains 20-25% of processed paper. Energy consumption in the production is comparatively high

Rock wool	moisture		Energy consumption in the production is comparatively high
EPS (expanded polystyrene)	Low vapour permeability, low absorption of moisture	May only have effect on people with high sensitivity to chemicals	Ozone-ruinous chemical compounds are not used in the production process, but pentane is used, which promotes smog generation
XPS (extruded polystyrene)	Low vapour permeability, does not absorb moisture, acts as a vapour barrier	May only have effect on people with high sensitivity to chemicals	Since 2004 use of ozone-ruinous chemical compounds in the production is not allowed, but pentane is used, which promotes smog generation
PUR (polyurethane)	Low vapour permeability	Not known, but believed as inconsiderable	Used on experimental objects, not using ozone-ruinous chemical compounds
Perlite	High vapour permeability / poor moisture absorption	Unfavourable dust source	Has some effect on the environment

Table 2. Juxtaposition of prevalent insulation materials.

Heat conduction coefficients of both materials are almost equal, their behaviour as heat insulation materials is similar. As for the differences, shown in Table 1, it is necessary to emphasize that MW belongs to the high fire safety class, while EPS is lightweight and easy-to-handle.

In construction or renovation of a building it is assumed that insulation materials will serve as long as the building and in the course of time the heat insulation properties should not deteriorate. However service life depends pretty much on the selected technical solutions and performance quality. The factors, given in Table 2, have the greatest effect on the material service life and retention of its properties during the service.

Mineral wool

- Under the influence of moisture heat insulation properties of the material deteriorate considerably;
- Exposure to intensive air flows damages its heat insulation properties;
- The material shrinkage is possible, if a low-density material is laid as a very thick layer, or deformation could occur due to mechanical forcing.

All these factors may be averted by correct choice of the material and its accurate installation.

EPS

- Under the influence of moisture heat insulation properties of the material slightly deteriorate;

- Exposure of the material to air flows practically does not damage its heat insulation properties;
- During long-term usage heat insulation properties of the material deteriorate, but it is taken into account in specifying its parameters.

III. PRODUCTS OUT OF RESEARCH

The following product groups are among the unsuitable products:

1. Cellulose
2. PUR (polyurethane)
3. Perlite

IV. PREVIOUS TENDENCIES

MINERAL WOOL INSULATION MATERIALS

Consumption of the mineral wool insulation materials kept growing during the last year, though there were some differences in growth rates in the Baltic countries.

In 2004 total consumption of the mineral wool insulation materials (MW) in all these countries achieved 1 900 000 m³. In general the Baltic MW market growth in 2004 was 15%. It is expected that in 2005 total consumption of rock and glass wool insulation materials on the market will increase by 21% or 400 000 m³, achieving 2 300 000 m³. This year the fastest MW consumption growth is expected in Latvia and Lithuania, slightly exceeding 20% level. The growth rate in Estonia may be a bit lower than in both neighbouring countries – by about 18%, achieving the MW consumption volume of the last year.

Latvia

Mineral wool consumption on the Latvian market in 2004 achieved about 482 000 m³, growing by 15% in comparison with the last year, when consumption was 420 000 m³. It is expected that this year growth of the market of the mineral wool insulation materials in Latvia will be about 20.3%, achieving 580 000 m³.

Lithuania

Mineral wool consumption on the Lithuanian market in 2004 achieved about 818 000 m³, growing by 17% in comparison with the last year, when consumption was 700 000 m³. It is expected that this year growth of the market of the mineral wool insulation materials in Lithuania will be about 23,7%, achieving 1 012 000 m³.

Estonia

Mineral wool consumption on the Estonian market in 2004 achieved about 600 000 m³, growing by 11% in comparison with the last year, when consumption was 540 000 m³. It is expected that this year growth of the market of the mineral wool insulation materials in Estonia will be about 18%, achieving 708 000 m³.

EXPANDED POLYSTYRENE INSULATION MATERIALS

Recent years there was a tendency of growing consumption of expanded polystyrene insulation (EPS) materials in all the three Baltic countries, moreover this growth was the fastest in comparison with other building insulation materials. In 2004 total consumption of EPS materials in the Baltic countries achieved 857 000 m³, growing by 33.7% relative the last year.

Latvia

Volumes of expanded polystyrene production in Latvia started to grow rapidly in 2002, when SIA Tenax engaged in the expanded polystyrene business. In 2004 total volume of expanded polystyrene production in Latvia was slightly above 280 000 m³, growing by 60% in comparison with the last year.

In 2004 total consumption of the EPS materials in Latvia achieved about 260 000 m³, growing by 48% relative the last year. Last two years consumption of expanded polystyrene increased essentially. Thus, in 2001 EPS consumption was about 70 000 m³, or 4 times less than at present time. The forecast shows that growth of the market of expanded polystyrene insulation materials will be about 20–25%. First results of the greatest market participants in 2005 testify that at the first half of the year the growth will be 25%.

Lithuania

During five years volumes of expanded polystyrene production in Lithuania increased 3.7 times (starting from 2000, when only 93 000 m³ were produced) and in 2004 achieved 345 000 m³. The highest growth rates of expanded polystyrene production were in 2003 and 2002, 59% and 48% correspondingly. In 2004 volume of expanded polystyrene production increased by 19.4% relative the last year.

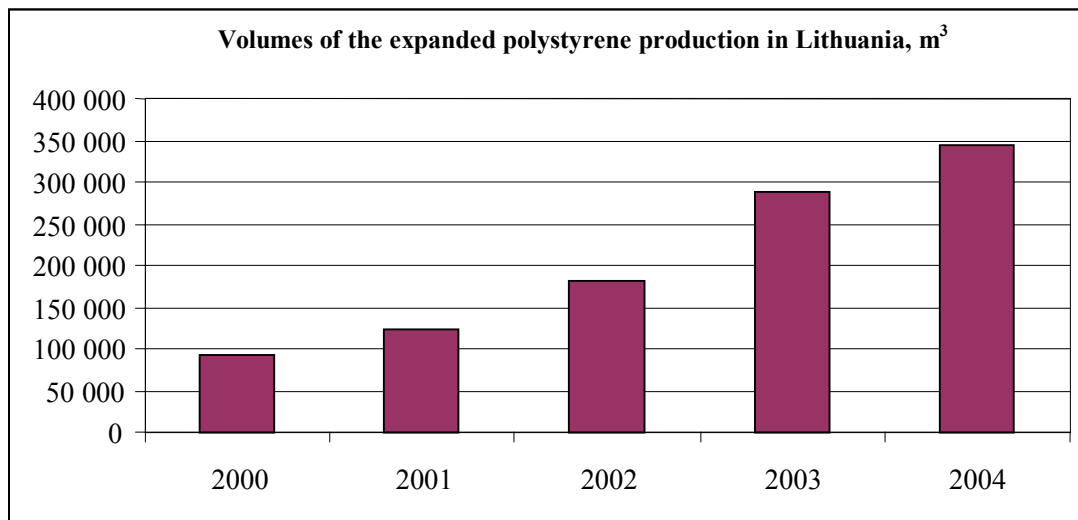


Fig. 22. Volumes of expanded polystyrene production in Lithuania, m³.

EPS consumption on the Lithuanian market in 2004 achieved about 350 000 m³, which is by about 20% more than in 2003, when EPS consumption was only 290 000 m³.

It is expected that the EPS market will grow in Lithuania in 2005 by 10–15%, in its turn production volumes of this year may grow faster than last year, if export volumes increase.

Estonia

Volumes of EPS insulation materials production in Estonia in 2004 achieved 209 000 m³, growing by 46% in comparison with the last year, when production volume was about 143 000 m³. In 2003 growth rate was almost 3 times higher than last year: EPS production in 2003 increased by 130.5%.

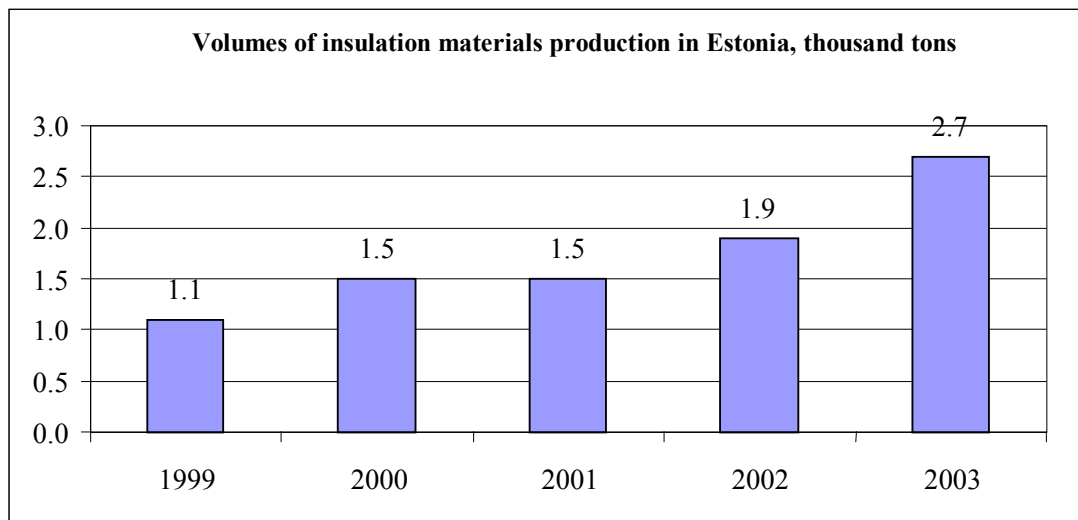


Fig. 23. Volumes of insulation materials production in Estonia, thousand tons.

EPS consumption on the Estonian market in 2004 achieved about 247 000 m³, which is by about 40% more than in 2003, when EPS consumption was only 176 000 m³.

It is expected that the EPS market will grow in Estonia in 2005 by 15–20%, in its turn production volume growth this year may be lower than last year.

Related industries

Construction

Construction industry and its development directly influence the insulation materials market. In connection with fast general economical development of the Baltic countries, including growth of credit financing volumes, the construction industry is fast developing and affects the insulation materials market positively. The development continues in 2005 and growth of the construction industry in the first quarter in Latvia was 14% relative the same period of the last year. It was the highest indicator in the European Community.

From the mid-ninetieth the construction industry has been growing by about 10% on average and in 2004 it achieved 635.8 million Ls, which was by 13.1% more than last year (see Table 3). In 2004 the floor area of the constructed residential buildings achieved impressive growth – from 194.2 thousand m² to 452.3 thousand m².

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Construction yield, million Ls (actual prices)	238.1	278.1	360.2	405.0	429.1	432.0	469.3	524.7	635.8
% relative previous year (comparable prices)	105.3	108.2	116.5	107.8	108.0	106.0	110.8	113.7	113.1
Constructed residential buildings, thousand m ² of floor area	215.6	227.8	224.7	200.5	191.1	188.5	187.6	194.2	452.3
Number of constructed flats	1483	1480	1351	1063	899	800	794	830	n/a

Table 3. Basic data of the construction industry.

Number of issued construction permits is an additional indication, showing the tendencies of the construction industry. In 2003 the number of construction permits increased both for residential and non-living buildings, as well as for engineering structures (see Table 4). Most construction permits were issued for residential buildings and it keeps growing in 2004.

	2002		2003		2004	
	Subtotal	Including new buildings	Subtotal	Including new buildings	Subtotal	Including new buildings
Residential buildings	3314	2025	4195	2756	4312	3129
Non-living buildings	3530	1401	3578	1574	n/a	500
Engineering structures	1744	1180	1772	1154	n/a	1062
TOTAL	8588	4606	9545	5484	4312	4691

Table 4. Issued permits for buildings and engineering structures.

Construction cost indices, which include the costs of building materials (as well as insulation materials), wages of workers and employees, as well as operating costs and the costs of equipment maintenance, were looking down from 2000 to 2003 (see Fig. 24).

This tendency is promoted mainly by decrease of the building materials costs, which in 2003 made up only 85.3% of the level in 2000.

In 2004 all construction cost groups, including building materials, were looking up, yet the level of building material prices was still comparatively low (see Table 5). Increasing competition and coming of new participants on the market are main factors of influence on price reduction in the building material industry.

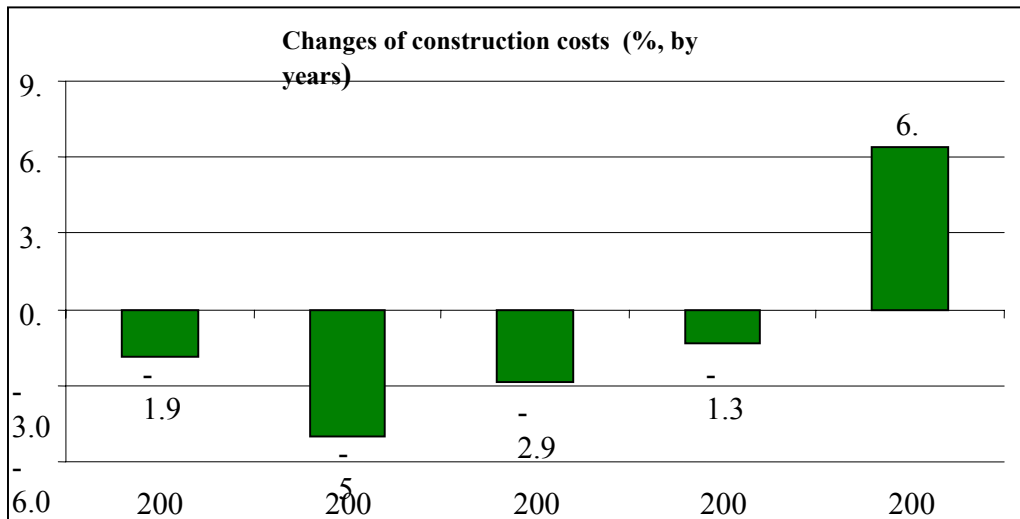


Fig. 24. Changes of construction indices

	2000	2001	2002	2003	2004
Building materials	100.0	91.6	88.4	85.7	91.3
Wages of workers and employees	100.0	100.8	99.0	102.3	108.3
Operating costs and the costs of equipment maintenance	100.0	102.6	101.6	103.5	113.1
TOTAL	100.0	95.0	92.2	91.0	96.8

Table 5. Construction cost indices (2000=100).

Last year construction costs, including building materials, started to grow and from the last quarter of 2003 the prices are gradually increasing. If at the last quarter of 2003 the prices were only by 1.3% higher than in the same period of the previous year, this indication in the first quarter of 2005 was already 10.8%.

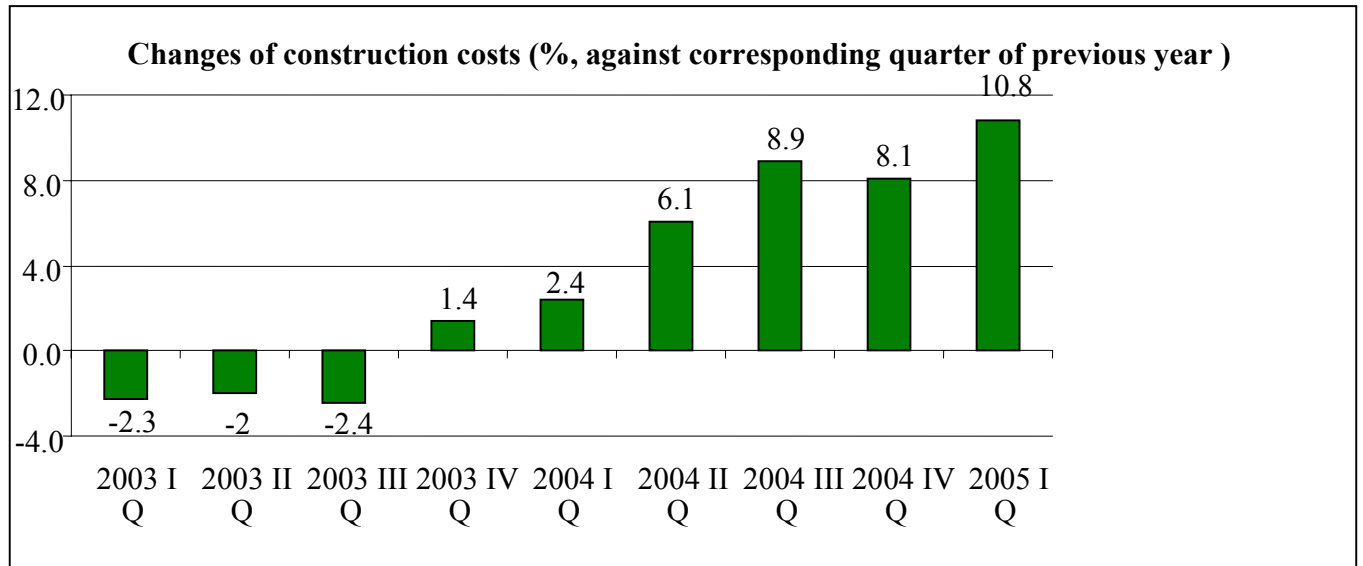


Fig. 25. Variation of construction costs (relative the same quarter of previous year).

B. CONSUMER

Final consumers of insulation materials can be divided in two major groups:

1. Individual consumers;
2. Commercial consumers.

Individual consumers are those, who acquire heat insulation materials for their homes. Mainly distributors of insulation materials, who offer trademarks of various enterprises, provide services in this sector. In this way customers have the possibility to make a choice of the best product. Taking into account that living standards in the Baltic countries are increasing each year and construction of private houses keeps growing, further development of this sector is expected. The commercial sector includes construction enterprises, which serve both governmental and individual sectors. The commercial sector uses producers' proposals more often instead of application to distributors. Therefore oral communications with constructors should be also used for persuading customers to conclude contracts and purchase products. Servicing various objects, constructors should meet much more severe requirements in the field of winterisation than it was previously. Therefore it is necessary to use much more various winterisation materials. For this reason further growth of this sector turnover is expected.

C. IMPULSIVE FORCES OF THE MARKET

The heat insulation materials market is influenced by the following factors:

1. Social;
2. Technological;

3. Economical;
4. Ecological;
5. Political.

As for social factors, it should be emphasized that more and more people wish to build their own house rather than buy a flat, which certainly has a positive influence on the insulation materials market.

In its turn, the technological factors do not show any sign of significant changes, so they cannot cause any serious changes on the market, therefore the situation in this field is comparatively stable.

The economic situation on the market is quite favourable, as average standard of living in the Baltic States has improved; also credit granting is relatively simple, which encourages people to take mortgages.

The ecological factors are also favourable for the market development, as more and more protective requirements for new construction are introduced, which results in greater demand for insulation materials.

The political situation in the Baltic Countries is also quite stable, which promotes favourable activities of the enterprises without any considerable government interference.

D. MARKET SEGMENTATION

There are several insulation materials producers operating on the Baltic States market, who position themselves differently.

For instance, such companies as Isover and Paroc occupy an up-market segment and position themselves as high quality product manufacturers, addressing to consumers of high income, as their brands are among the most expensive on the market. This can partly be explained by the popularity of their brands, developed through years, and also by their marketing activity.

However, there also exist such brands as Ursa, who position themselves as reasonably priced.

This does not mean that their products are of lower quality, but only that their trademark is not so well known on the market, which makes Ursa choose the policy of low prices in order to attract clients and increase their turnover.

A. MARKETING TENDENCIES

There is no extensive marketing activity on the market of heat insulation products, as main clients of producers are builders with whom interaction of various kinds has traditionally been

conducted in order to attract participants of this particular sector. Marketing activities take the form of various negotiations, business trips of the producer's representatives whose purpose is to find new clients and enter new markets. Producers use certain media occasionally to promote their products, however wide advertising campaigns are extremely rare.

The above-mentioned marketing activities are conducted regularly by enterprises, even though they are not obvious to general public.

B. MARKETING AND MARKET DEVELOPMENT

Different marketing instruments are used to reach different groups of clients. For example, the above-mentioned activities are meant for direct contact with the commercial sector. Though producers may wish to get closer to individual consumers, using various news media, yet this kind of marketing activity is not used very often (as was already mentioned above). Therefore the commercial sector is much more important for the producers of heat insulation materials than the individual consumers.

Another way to promote one's product is organizing various discount actions, which can be carried out in cooperation with shopping centres. This way it is possible to reduce costs and get the desired results.

C. DISTRIBUTION CHANNELS

Most distributors take their products to specialized building material stores, which enables them to reach the desired final consumer. However, quite often heat insulation producers work with professionals (construction companies) directly, thus selling their products without any mediators.

D. MARKET FORECAST

Taking into account the above-mentioned facts, rapid growth in heat insulation materials consumption can be safely predicted in both individual and commercial sectors.

Due to the development of the construction industry and stricter requirements more heat insulation materials have to be used for both new construction and updating of old buildings. Considering the fact that mineral wool and expanded polystyrene are the main products on the heat insulation market, as well as due to their advantages against other materials, mineral wool and expanded polystyrene producers can be expected to benefit most from the market expansion.

Growing purchasing power and marketing campaigns of major heat insulation material producers and distributors will increase consumption of insulation materials, which has so far reached the figure of 0.37m³ a year per resident. This can be compared to 0.55m³ in Estonia and 1.3 m³ in Finland (Paroc's data). Paroc also predicts growth in heat insulation materials consumption in the near future both in Latvia and in the other Baltic States due to individual construction development and necessity to meet new requirements.