CBI MARKET SURVEY

THE OUTERWEAR MARKET IN ESTONIA

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments on the outerwear market in Estonia. The information is complementary to the information provided in the CBI market survey 'The outerwear market in the EU' which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.nl/marketinfo.

1. Market description: consumption and production

Consumption

- After several years of robust growth ending with 8.0% in 2002, consumer expenditure growth slowed in 2003. Clothing expenditure grew 8.5% during the period 2003-2005 to € 256 million, of which 88% outerwear.
- Expansion by domestic and especially foreign clothing multiples will help to drive the clothing sector and it is expected that clothing expenditure by Estonian consumers will grow by an annual 2-3% in the coming years.
- Population in Estonia decreased from 1.37 million in 2000 to 1.35 in 2005. Until 2020, the population will fall slightly to 1.30 million.
- Just like in most of the other new EU countries, per capita expenditure on clothing is low: € 190 i.e. far below the EU average of € 601.
- Low expenditure per capita combined with the low number of inhabitants meant that Estonia ranked 24th on the list of clothing consumption in EU countries, just above Malta and below Cyprus.

Table 1 Consumer expenditure on clothing in Estonia in value, 2002-2007 (in € million)

	2002	2003	2004	2005 e)	2006 f)	2007 f)
Women's outerwear	87	87	92	95	98	101
Men's outerwear	57	56	58	59	60	61
Knitwear	47	48	50	51	52	53
Clothing accessories	17	19	20	21	22	22
Total outerwear	**208**	**210**	**220**	**226**	**232**	**237**
Total clothing	236	238	249	256	262	268
Yearly growth in %	8.0	1.2	4.6	2.7	2.5	2.4

e) estimated f) forecasted
Source: Euromonitor and national statistics (SOE)

Production

- The Estonian clothing and textile industry is a branch of significant importance for the Estonian economy, because it employs approx. 18% of the total industrial workforce. The share of total turnover of the clothing sector in the EU amounts to 0.2% in 2004. However, figures for the first half of 2005, indicate a fall in orders and output volumes.
- Faced with the challenge of rising labour costs, Estonian (and other Baltic) apparel producers are responding by reducing costs, by increasing added value and by relocating their production.

Table 2 Key figures of the Estonian clothing sector, 2001-2004

	2001	2002	2003	2004	% change 2003/2004
Production value (€ million)	149.7	169.8	158.1	157.9	-0.4%
Turnover	175.0	196.4	178.7	174.9	-2.1%
Total number of companies	403	380	405	387	-4.4%
Total number of employees	13,497	13,932	13,036	12,685	-2.7%

Source: Statistical Office of Estonia

- Major Estonian women's clothing manufacturer Klementi (http://www.ptafashion.com) decided to have some women's wear articles produced in China, where producer prices are around 20% lower than in Estonia, whereas the leading Estonian clothing manufacturer Baltika has set up production in a new factory in eastern Estonia.
- Faced with increasing competition from Asian low-cost countries, several Estonian manufacturers started retail activities in the late 90s, of which Baltika (http://www.baltika.ee) has been most successful.

Trends

- Consumer expenditure is expected to grow further, but at a slower level, in 2006, and in the longer term, caused by a continuing interest in more fashionable outerwear, especially by younger age groups and encouraged by foreign multiples. There is an increasing popularity of active sportswear, either or not translated into street wear, among young people.
- Estonian production of outerwear remained rather stable, but fell in 2005. The developments in production as described above will be continued: relocating production and starting or expanding wholesale and retail activities.

Opportunities

- Estonian clothing manufacturers are confronted with competition from countries which have lower labour costs, while wages in own country grow faster than productivity and energy tariffs grow strongly.

Useful sources

- The website http://www.textile.ee includes detailed information about ECTA members Estonian Clothing and Textile Association.
- Euratex Bulletins (http://www.euratex.org); Central and Eastern Europe Textile Business Review (http://www.textilemedia.com/25701.html); Retail Intelligence/Mintel (http://www.mintel.com); Euromonitor (http://www.euromonitor.com); national statistics and websites of organisations mentioned in this survey.

2. Trade: imports and exports

Imports

- In 2004, Estonia imported 8,000 tonnes outerwear valued € 92 million, consisting of € 51 million of woven outerwear, € 38 million of knitted outerwear and € 3 million leather garments. Total imports showed a growth of almost 7% compared to 2003. Increasing imports led to a decline in production which indicates that the import share of the higher outerwear consumption grew.
- Imports of knitted outwear consisted of jerseys, pullovers etc. (33%); T-shirts (27%); clothing accessories (12%); sportswear (6%); blouses and shirts (5%).
- Imports of woven outerwear consisted of trousers, shorts etc (36%); coats and outdoor jackets (19%); sportswear (11%); indoor jackets (9%); blouses and shirts (8%); suits and ensembles (6%); skirts (4%).
- Finland became the leading outerwear supplier to Estonia in 2004, with an import share of 26 percent in terms of value, followed by China (fell 42% to an import share of 13%),

- Germany (import share of 6%) and Latvia (also 6%). Imports from several other EU countries increased strongly, like Denmark, Sweden, The Netherlands, France and Belgium.
- Total imports by Estonia from developing countries decreased in terms of volume (-14.5%) and value (-38.6%) in the period 2003-2004. This fall can mainly be ascribed, besides China, to the falling imports from Turkey, India and Bangladesh.

Exports
- Estonia exported outerwear valued € 164 million in 2004, consisting of € 122 million of woven outerwear, € 41 million of knitted outerwear and € 0.6 million of leather garments.
- Total outerwear exports fell considerably by 15% during the period 2002-2004.
- Destinations were mainly (76% in value) other EU countries, like Finland (31% of total exports), Sweden, Latvia, Germany, Denmark and Lithuania. Leading destinations outside the EU were Russia (9% of total exports), Norway and the USA.

Opportunities and threats
- Estonia is one of the EU countries which has a trade surplus; however, imports are increasing while exports are decreasing, just like turnover in production.
- A decreasing share of Estonian imports came from developing countries: 47% in 2003 and 26% in 2004, which is very low compared to other EU countries.
- Import shares from developing countries were somewhat higher than average for most of the important product groups, such as T-shirts, jerseys, pullovers etc., woven trousers, woven shirts, while import shares of suits and indoor jackets were far below the average percentage.

Useful sources
- EU Expanding Exports Helpdesk - http://export-help.cec.eu.int/
- Eurostat – official statistical office of the EU - http://epp.eurostat.cec.eu.int
- Euratex bulletins (http://www.euratex.org)

3. Trade structure

- The Estonian market can be entered in several ways, of which most interesting for exporters in developing countries are: exports to manufacturing companies, either or not vertically organised; wholesalers or hypermarkets. Choice of strategy depends on the resources available and the priority given to the Estonian market.
- As mentioned above under production, many Estonian manufacturers started retail and wholesale activities in the 90s, as a strategic responswe to the increasing imports of clothing from low-cost countries.
- In 2005, 70% or € 35 million of total sales of manufacturer Baltika (http://www.baltika.ee) came from retail activities. In total 86 outlets under several formula, such as Monton, CHR/Everman (since February 2006, new name Mosaic) and Baltman. In Estonia, Baltika operates with 24 stores. Other manufacturers with retail and wholesale activities are: Klementi, Sangar, Ilves Extra and the sports chain Sportland. The Polish LPP is active in Estonia with 6 stores.
- The 240 independent specialised retailers compete with big chains and hypermarkets.
- Estonia's EU membership in May 2004 has made the country yet more appealing to foreign retailers, despite the small size of the market. Foreign newcomers include Stockmann with one department store and 13 Seppälä stores, Lindex of Sweden, Mango and Zara of Spain, Reno of Turkey, Esthetique of Norway and others.
- Leading retailer in super- and hypermarkets is Rimi Baltic (a joint venture between Sweden's ICA and Kesko Food) followed by ETK (Estonian Consumer Co-operative).

Useful sources
- http://www.estoniantrade.ee; official website of Estonian Trade Council.
- http://www.connectus.ee/est/tab/tab103.htm includes a selection of 53 wholesalers in clothing, covering 74% of total market.

- European Retail Handbook 2005/6, published by Mintel (http://www.mintel.com).

4. Prices

- Analysis of clothing prices in 2004 relative to 2000, according to Euratex:
  Consumer prices +11.1%
  Import prices - 25.7%
- The Estonian market can be characterised by a relatively high increase in consumer prices, and even import prices fell sharply. Distributors active in Estonia reported that their activity declined, both in volume and in value terms.
- VAT rate is 18% for clothing in Estonia.
- An impression of average prices can be formed by browsing through the catalogues of company websites as mentioned above.

5. Market access requirements

- Manufacturers in developing countries should be aware of the market access requirements of their trading partners and the country's government. Requirements are demanded through legislation and through labels, codes and management systems. These requirements are based on environmental, consumer health and safety and social concerns.
- Mandatory labelling requirements in Estonia are valid for composition of textiles, origin marking, size marking and care-labelling/washing instructions (http://www.ginetex.org). Labelling has to be formulated in the Estonian language.
- For more information go to 'Search CBI database' at http://www.cbi.nl/marketinfo.

6. Business practices

- For information on business practices contact the trade association ECTA (Estonian Clothing and Textile Association) and they can be reached at http://www.textile.ee.

This survey was compiled for CBI by Fashion Research & Trends