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An action plan for increased exchange in the
building sector between countries in the
Northern Dimension region

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List of content

1. Introduction	3
2. The Vision	4
3. Challenges for increased exchange in the building sector	6
• <i>Lack of information about foreign markets and market conditions</i>	
• <i>Differences in building sector regulations</i>	
• <i>Restrictions on labour mobility</i>	
4. Initiatives to stimulate increased exchange in the building sector between countries in the Baltic Sea region	10
• <i>Making market information and "rules of the game" accessible to potential actors</i>	
• <i>Expanding the basis of experience and new found knowledge in housing construction</i>	
• <i>Comparative analysis of regulations within the building sector intended to serve as a basis for deliberations on possible harmonization</i>	
• <i>Validation of competency requirements imposed on certain actors in the building process</i>	
• <i>Establishing a network for joint R&D relevant to the action plan</i>	

1. Introduction

The purpose of this action plan for cross-border co-operation in the Northern Dimension area is to contribute towards an increased exchange in the building sector between EU member countries including signatories of the EEA Agreement and thereby improve the Single Market of the European Union. It is assumed that an increased exchange between the countries concerned will promote competition in the housing construction markets. High housing costs are a problem in many countries today. High production costs and building prices lead to higher housing costs which effects weak groups in the society. The causes of high costs include insufficient competition for both contractors and materials, due to among other reasons various types of entry barriers to the market. It is therefore an important housing policy goal to reduce existing entry barriers and to stimulate competition in order to reduce costs.

The Nordic Council of Ministers has initiated this action plan and it has been developed in close co-operation between the Ministry of Economic and Business Affairs in Denmark, the Ministry of Economic Affairs and Communication in Estonia, the Ministry of the Environment in Finland, the Ministry of Economics in Latvia, the Ministry of the Environment in Lithuania, the Ministry of Social Affairs in Iceland, the Ministry of Local Government and Regional Development in Norway, the Ministry of Infrastructure in Poland and the Ministry of Finance in Sweden.

A pre-study surveying the national construction markets and possible barriers as well as a set of descriptions of building sector regulations in the participating countries serve as a background to the action plan. The descriptions of building sector regulations in the different countries have been published in a report by the Nordic Council of Ministers (*Building Sector Regulations – A background to increased exchange between countries in the Baltic Sea region*, TemaNord 2004:547). The descriptions as well as proposals for the action plan have been discussed during a seminar in Warsaw in June 2004 with participants from the countries concerned. A draft action plan has also been discussed during a meeting on Undersecretary of State level between the countries concerned in Sigtuna, Sweden in September 2004.

The action plan focuses on opportunities for and barriers to an increased exchange in the building sector between countries in the Northern Dimension region and only deals with issues that are sector-specific. In other words, there are also other important problems to solve for a well-functioning exchange in the business sector, such as administrative problems related to customs and taxation, rules for establishment of companies, and others not discussed in this context.

The process initiated by this action plan should be seen as the first step on the road towards increased integration of the construction market, and it can be expected to be a long process. It must be emphasized that it is of crucial importance that the business sector have access to easily accessible informa-

tion on other markets if the ambition for an increased exchange is to be realized.

The intention of the action plan is to identify a number of measures that can, in an initial round, contribute towards improving co-operation and interaction between EU and EEA countries in the Northern Dimension region. The countries concerned intend to deepen their collaboration within the framework of regional co-operation in the EU and with all respect to the EU's legislation. The countries initially signing the document may also along the road invite others to take part in this collaboration. At the same time, it must be accepted that there will continue to be differences between the countries, since national considerations limit the possibilities for special solutions for the building sector and housing construction.

The governments in the participating countries will actively follow the developments on the construction market which are expected to result from an increased cross-border exchange, but without the participation of the actors and organizations in the building sector, authorities concerned and research and development institutions in the sector, the initiatives in this action plan will not be able to be realized. It's for that reason of crucial importance for a successful outcome that there will be an active involvement in the realization of the plan from business actors as well as from other parties.

2. The Vision

Reducing entry barriers to the national construction markets and stimulating competition in order to reduce costs and building prices, will enable a more successful housing policy in all the countries concerned and benefit weak groups in the society.

The enlargement of the EU to include new member states in the Nordic region's adjacent area creates a potential for increased competition in the building sector within the entire region. A region consisting of the Nordic and the Baltic countries together with Poland has 70 million inhabitants today, distributed among more than 26 million households. Some 200 000 new dwellings are completed each year, and the production value of renovations in the housing stock amounts to at least 17 billion euro. The value of all new construction and renovation of all kinds of buildings amounts to more than 70 billion euro per year, of which housing represents nearly half. The economic value of the construction market is thus quite considerable, and a cost saving of, say, 3% in new construction and renovation of housing is equivalent to about 1 billion euro in the region every year.

Increased cross-border exchange leads to improved economic conditions in the local market.

Economic integration between different countries in the building sector is mainly manifested in the increased presence of foreign companies and employees in the domestic market, as well as increased imports and exports of

building products. If this also leads to increased competition, construction costs and material prices will be reduced.

The development of the construction market in the Baltic countries in recent years shows how the presence of foreign companies in all segments can influence domestic competition. New knowledge, new work methods and new material and design solutions are being introduced to the market. Despite vigorous expansion and high wage cost increases in these countries, construction costs have not been increasing there faster than the generally low rate of inflation. The annual productivity increase in the construction companies has been considerable.

However, a prerequisite for increased competition is the elimination of entry barriers to the market. Entry barriers to new markets in other countries may have formal grounds and are then often referred to as "obstacles to trade". The purpose of the EU's internal market is that goods, services, capital and people can move freely across the national borders. But in practice, the internal market is not yet fully implemented in all respects, and there are still many barriers, in the building sector among others, to free mobility between current member states, including signatories of the EEA Agreement. For example, differences in building sector regulations can be seen as entry barriers to the market.

The fundamental purpose of this action plan, as well as the purpose of the EU's internal market, is to improve the opportunities for increased cross-border exchange, and to devise a political action plan calling for measures to stimulate such exchange. These measures include making it easier for the market's actors to undertake assignments in other countries than those in which they normally do business. It is therefore inevitable that steps must be taken based on the view that it should be as easy as possible to enter the market in question, that the rules of the game are neutral and do not favour previous actors on the market, and that the rules are easy to understand and handle.

There may also be entry barriers of a more informal character. Cultural differences in the form of different building traditions can of course inhibit interest among construction companies in establishing themselves in new and foreign markets. Similarly, the pre-study of this action plan seems for example to indicate that purchasing channels for building materials primarily follow linguistic and cultural ties between neighbouring countries. Other studies show that builders and construction companies are bound by tradition in their choice of material suppliers.

The accession of the new member states to the common market will in the long term reduce the tendency for cross-border trade to be limited by the constraints of language, culture and tradition. One way to stimulate and monitor progress towards economic integration and to speed up this process in the building sector is for the countries concerned to jointly conduct surveys, share information and develop new knowledge in areas that show what

increased exchange can mean for competition. R&D may play an important role in this context. Cooperation and exchange of knowledge are important premises for trade to be facilitated and mobility and cross-border construction activities to be stimulated.

Well balanced housing and urban policies and markets will also enable a more rapid process

Together, the countries possess vast experience of different construction and housing policy measures applied to a wide variety of housing markets. The countries concerned thus have much to learn from each other in these areas.

In summary, there is a considerable potential for increasing competition in the building sector by viewing the countries in the Northern Dimension region as a common region and market for housing construction. But in order for this potential to be realized and competition to be stimulated, both obstacles to trade and informal entry barriers to the market must be reduced.

3. Challenges for increased exchange in the building sector

Analyses show that there are a number of formal and informal barriers preventing entry into new construction markets in countries around the Baltic Sea. The challenges are therefore considerable and will require a wide range of measures to stimulate increased cross-border exchange for the purpose of increasing competition.

Lack of information about foreign markets and market conditions

Construction markets are generally regarded, especially within the industry itself, as highly local markets. Knowledge of local traditions and local building culture make it easier to do business. Short transport distances entail lower costs. A well-developed network and often personal acquaintance with clients, cooperation partners and key persons within regulatory and supervisory authorities simplify the entire building process. In particular, knowledge concerning small specialist companies and other subcontractors in the locality or the region in question can be of great importance for construction costs and financial success. For these reasons, many construction companies do not even consider establishing themselves in other regions. This is in turn one reason why the industry is in most countries dominated by small and medium-sized companies.

Going outside the country's national borders is of course an even bigger step. Besides differences in language, culture and traditions, inadequate knowledge of foreign countries and market conditions there is presumably the greatest barrier preventing companies in the building sector from daring to establish themselves in a foreign country. It is symptomatic that when big companies decide to establish more permanent operations outside their home country, they generally do so by buying up construction or consulting companies on the new market that already have the knowledge and expertise required to succeed. Not even in the Nordic countries, where differences in language,

culture and working conditions are small, is it common for small and medium-sized companies in the building sector to regard a neighbouring country as a part of their natural market. Large international companies with considerable capital resources, as well as companies that operate in border districts, comprise exceptions in this respect.

Against this background it is necessary to inform and to educate companies in the building sector regarding markets and market conditions in other countries if it is to be possible to stimulate these companies to an increased cross-border exchange. Information regarding markets and market conditions largely has to do with the competitive situation, the development of housing construction, the availability and type of assignments, factor prices and cost levels, and other economic conditions. But it also has to do with information on national rules and regulations. The survey of regulations in the building sector in countries around the Baltic Sea shows great differences between the countries. Besides the rules established by the national authorities, there are also, to a greater or lesser extent, national rules established by the parties themselves or their representatives on the market. In some cases these rules are also determined by some dominant actor on the market or by major suppliers to the market, such as lenders. Such rules may concern, for example, insurance requirements, normal guarantee conditions, general or administrative regulations for contracts, and standard contracts.

Differences in building sector regulations

All countries have their own building rules, which are usually a product of local and national building traditions with a gradual adaptation to new experience and new-found knowledge. A new feature in recent years is the influence of the European harmonization work on national rules. The national building rules are in many cases also a part of an integrated whole in the country in question which also includes national regulations for supervision and inspection, competency requirements on different actors in the building process, and requirements on insurance for construction companies and projects, etc.

A report for the Nordic Council of Ministers (*Comparison of the Building Legislation in the Nordic countries*, TemaNord 2004:526) shows that at least in the Nordic countries the regulations that exist in each individual country comprise a logical structure composed of individual components which together create a whole – a strategy – for how the country in question intends to meet the political requirements on housing and other buildings produced in the country. A number of domestic factors influence the choice of this strategy. As a rule, the strategy represents a carefully chosen balance between freedom of the market in order to stimulate creativity on the one hand and the efforts of the government authorities to ensure that political requirements on the results are met on the other. The desire for a holistic approach also means that changes in the conditions for individual components of the building process can have consequences for other components. As a rule, the manner in which the authorities in many countries regulate the building process is rooted in how the planning work is organized in each country and to what extent local

physical plans or detailed development plans already exist when new development projects are planned.

According to the descriptions of the building sector regulations, the countries taking part in this joint project show considerable differences in terms of the conditions for the actors in the housing construction market and the environment they operate in. The differences in the detailed rules governing the construction process are particularly clear, where some of the Nordic countries have a conscious ambition to delegate responsibility for the individual parts to the builder and his co-actors, while other countries still try to impose government regulation and control over building. At the same time, in those countries with heavy government regulation, the authorities are required to act with certain deadlines so that the process will not be delayed.

One of the issues explored when describing building sector regulations has been requirements on registration of companies and persons in key positions, as well as the competency requirements that are imposed on certain actors in the building process. Considerable differences exist here as well. Some countries require registration of companies involved in the building process, others don't. In some countries there are competency requirements on certain actors, in other countries special competency is required only for certain types of specialist construction work. There are also different combinations of company registration procedures and competency requirements.

Insurance and guarantee conditions also differ. Some countries require that all actors involved have liability insurance or that the building object should be insured. In other countries there are no regulatory requirements, but market conditions are such that the client or financial backer normally makes such requirements. In some countries the guarantee periods are not regulated, but standard contracts in these markets stipulate a guarantee period. In other countries, the minimum guarantee periods are regulated.

The differences are in themselves a challenge for an increased exchange between the countries. Companies wishing to establish themselves in another country or even in several other countries must familiarize themselves with new regulatory systems in order to gain access to new markets. The requirements on registration of companies in some countries can even be perceived as discriminatory by companies by countries where such requirements do not exist, especially if the registration of foreign companies does not provide the same access to the market as the registration of domestic companies. The requirements on temporary registration of companies from other countries will probably be able to be challenged if the European Commission's *Proposal for a Directive (COM(2004) 2 final) on Services in the Internal Market of 13 January 2004* will be realized.

The second challenge in this context concerns the question of to what extent government regulation of individual parts of the building process comprise a barrier to creative development and increased efficiency in housing construction. The point of departure for the Nordic countries, which have imposed

considerable responsibility on the builder and his co-actors in the building process, has been that increased freedom for the market's actors contributes to better and cheaper housing.

Restrictions on labour mobility

An important prerequisite for being able to improve competition in the building sector is a well-functioning free mobility of labour across national borders. In the Nordic countries, it is not unusual for both construction workers and highly educated white-collar employees within the building sector to work in countries other than their home countries. Especially when two neighbouring countries have been in different phases of the business cycle, it is not uncommon for workers from one country to accept employment in the neighbouring country during periods of high unemployment, which has been facilitated by the attempts that have been made in the Nordic countries to harmonize labour market regulations. In order to stimulate increased mobility of the labour force between countries in the Baltic Sea region, the same liberal regulations should be striven for in the entire region.

With the accession of the new member countries to the common market on 1 May 2004, the discussion of labour mobility has mainly focused on the risk of disturbances on the national labour market in the Nordic countries. The reason for this would be that labour from the Baltic countries and Poland would tend to come to the Nordic countries to take advantage of the much better wage conditions and generous social insurance systems there.

The old and new member states in the EU have also agreed on transitional provisions for the period up to 2011, during which time the old member states can choose between two different options to restrict access to their domestic labour markets. One option entails that the country maintains its former national legislation requiring work permits in up to three stages of 2-3 years each. The second option entails that the old member states can, retroactively during the transitional period, adopt so-called safety mechanisms if a free mobility of labour leads to serious imbalances on the labour market within a given region or a given professional or vocational field. In such cases, the countries can, for example, require work permits for immigrant workers.

The Nordic countries have taken different positions as far as the application of transitional provisions is concerned. For example, Finland has chosen to maintain its existing national legislation for a two-year period, while Sweden is not imposing any restrictions on the free mobility of labour for the time being.

The researchers Christofer Lindgren and Per Kongshøj Madsen have, in a report for the Nordic Council of Ministers (*Jobs for All – A Nordic Profile on an Open European Labour Market*, Nord 2003:13), shown that fears of a large immigration of labour from the Baltic countries and Poland to the Nordic countries are probably exaggerated and that a large part of the immigration will take the form of commuting or temporary relocation. The authors also

believe that a common labour market for the Nordic countries and the new member states has considerable advantages. Given the demographic trend in the Nordic countries, there is for example a great risk of a general labour shortage in the years to come. Even today there is a shortage of certain types of labour in the Nordic countries, such as engineers.

Other studies show that there is, or will be, a shortage of different categories of skilled tradesmen in the construction industry in the Nordic countries.

In this context, the above-named researchers bring up another question of great urgency for those countries that impose qualification requirements on certain actors or professional categories within the building sector. How do you create a system for validation, i.e. assessment of the individual's true qualifications, in cases where foreign educational programmes or work experience do not fully correspond to domestic professional requirements? The researchers point out that one problem for many immigrants is that the foreign educations often differ from the domestic ones in some respect, preventing their acceptance in the new country. Furthermore, work duties in the same profession sometimes differ between different countries, as does how the work is organized. Acquired skills in a certain country are not always directly transferable to another.

4. Initiatives to stimulate increased exchange in the building sector between countries in the Northern Dimension region

Considerable barriers and challenges exist to an increased exchange in the building sector between countries in the Northern Dimension region. Many initiatives and a wide range of measures will therefore be required to facilitate entry to the new markets and thereby stimulate increased competition in housing construction. In view of the challenges facing the building sector, the collaborating governments will jointly take the initiative to conduct, or otherwise participate in, activities described in the following. However, it will not be possible to realize these initiatives without the active participation of the building sector's actors and organizations, authorities concerned, and research and development institutions within the building sector.

The initiatives are by no means exhaustive and comprise in this initial phase only a limited selection of possible measures for the purpose of setting a development process in motion. Integration and cooperation between these countries is a long-range process that will challenge the building sector's actors and will therefore require new commitments on their part – even without the participation of the governments.

- **Making market information and “rules of the game” accessible to potential actors**

There is a need for a survey of existing databases and the total body of knowledge concerning construction in countries in the Baltic Sea region. The intention should be to create a publicly accessible database with information on, among other things, best practices and regulations in the countries that

are of importance for the actors in the building sector. Examples are information on contractual conditions, tendering rules, general and technical provisions, requirements on guarantees and insurance, construction workers health and safety, etc. The information should be aimed at small and medium-sized companies and be a part of an ongoing process.

By establishing a publicly accessible knowledge database, the actors on the construction market can obtain information about best practice on how they can overcome the barriers that exist to doing business in other countries. In order to optimally adapt the survey of information and development of a database to the intended target group, this work should take place in close cooperation with representatives of the market's actors.

The project could be initiated as a pilot project focusing on best practices. Experiences from the pilot project will then be used before a knowledge database with national rules and regulations is established. The pilot project will take place through the first half of 2005.

- **Expanding the basis of experience and newfound knowledge in housing construction**

Construction Cost Forum (Byggkostnadsforum) in Sweden, which was established in 2001, is intended to be a bank of knowledge, ideas and experience for builders, designers, authorities and contractors. It is supposed to contribute towards closer cooperation between housing companies, construction companies and research institutions so that new technology is applied to stimulate competition and efficiency in housing construction and thereby contribute towards reduced housing costs. The organization provides financial support for pilot projects and disseminates new knowledge via reports, articles, seminars and a website (www.byggkostnadsforum.com).

Construction Cost Forum should develop a joint project involving the countries around the Baltic Sea. In this way, the basis of newfound knowledge and experience in housing construction can be widened and the results can be spread and benefit more people. Such a joint project can also address the question of to what extent increased trade in building products between the countries can contribute towards lower construction costs, and how this can be stimulated.

The Construction Cost Forum in Sweden will take the initiative to develop such a collaboration during the first half of 2005.

- **Comparative analysis of regulations within the building sector intended to serve as a basis for deliberations on possible harmonization**

Descriptions of regulations in the building sector in countries around the Baltic Sea reveal considerable differences between the countries, which in itself constitute barriers that prevent many companies from establishing themselves on new markets. The comparative analysis "Byggningslov for bedre bygg? (Jerkø/Tema Nord 2004: 526)" of building legislation in the Nordic

countries should therefore be expanded to include other countries in the Northern Dimension region as well.

A possible next step might then be to carry out a new study involving the Nordic and Baltic countries and Poland where other sector-specific regulations of corporate activities than those found in the building legislation are identified and examined more closely. Examples of issues the analysis should deal with are the forms of government supervision and inspection of building, requirements on corporate insurance and guarantees, requirements on the competency/qualifications of certain key persons, and procedures for registration of companies.

The analysis should be planned and carried out in such a way that it can serve as a basis for deliberations between the governments on possible harmonization measures or other changes in legislation aimed at making it easier for the companies to do business on new markets. However, possible initiatives for harmonization have to be seen as parts of a greater whole where relevant areas of standardisation also will have to be identified.

The Ministry of Local Government and Regional Development in Norway will, together with the Norwegian Building Research Institute, take the initiative to conduct the expanded analysis of building sector legislations in the Baltic countries and Poland. It will be conducted during 2005.

- **Validation of competency requirements imposed on certain actors in the building process**

Considerable differences exist between the countries in the Northern Dimension region in competency requirements that are imposed on certain actors in the building process. In most countries requirements are made on education and experience of the key persons in the process such as the main architect, the consultant(s) and persons in charge at construction companies. Some countries also require registration of companies involved in the building process with different combinations of company registration procedures and competency requirements. These requirements are conditioned by the educational systems in the different countries and the ways in which building works are organized.

In order to increase the exchange over the borders it's necessary to create a system for assessment of qualifications, in cases where foreign educational programmes or work experience don't correspond to domestic professional requirements. Even work duties in the same profession sometimes differ as well as how the work is organized. Means for validation of competency requirements and work experience in the countries concerned shall for that reason be developed.

An initiative to a project for validation of competency requirements imposed on certain actors in the building process will be taken during the first half of 2005.

The relevant work in the EU will be closely studied and taken into consideration.

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- **Establishing a network for joint R&D relevant to the issues in the action plan**

A new network for joint R&D relevant to the issues in the action plan will be established. The network will contribute to the dissemination of knowledge through seminars, conferences, joint surveys, joint research projects and a system of reciprocal visits. Together, they can form an influential research panel to advise decision-makers in the various countries regarding the research aspects of different issues. The first step will be to decide on a programme for this cooperation.

A cooperation programme for the new network will be completed before the summer of 2005.

The ministry of Economy and Business (Denmark) together with the Danish Institute for Building and Urban Research will take the initiative to establish the network in close connection with the European Network for Housing Research and the European Construction Technology Platform (ETCP).