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## **Lithuania**

### **Food Processing Ingredients Sector**

### **Report**

### **2003**

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**Report Highlights:**

Lithuania is an attractive market for food and agricultural products exporters; however, business relationships with U.S. suppliers are underdeveloped. Only 11% of the raw materials processed in the food industry are currently being imported. This report provides an overview of Lithuania's food processing sector.

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## Processing Industry In Lithuania

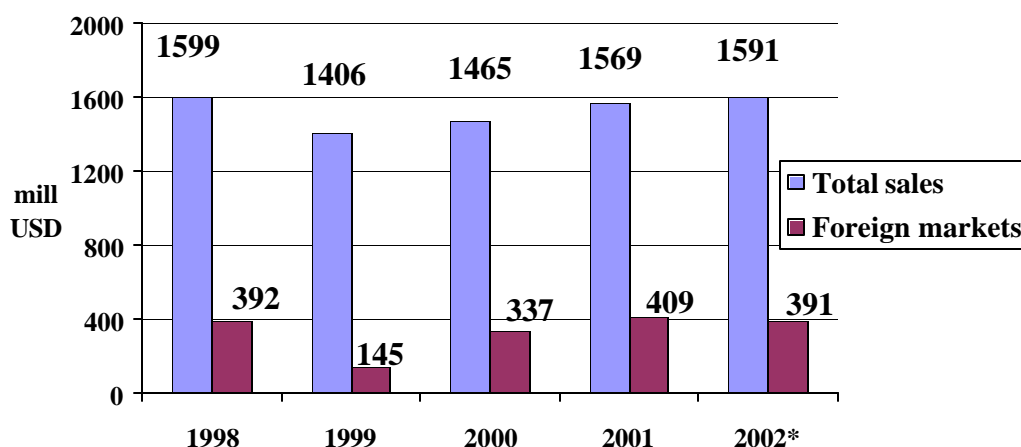
Over the past few years several events have occurred in Lithuania's food production and beverage industry:

1. Mergers of various beer and meat industry companies; mergers are also likely in other sectors of the industry;
2. Application of ISO (International Organization for Standardization) standards, improved production, and the use of new technologies to enhance production quality and to bring it in line with European Union (EU) requirements;
3. Growth of Lithuanian food and beverage exports with a corresponding growth in raw material and finished product imports.

In 2002, Lithuania's food industry, second only to the tobacco industry, accounted for 42 percent of the total direct investments in Lithuania's processing industry (For more, see Table 4 in the Appendix). At the end of 2002 direct foreign investments in food industries alone were about \$<sup>1</sup>353 million (11.4 percent of the aggregate investments in Lithuania's economic activities. The annual yield on investments amounted to 7 percent during the 9 month period of 2002).

Lithuania's food and beverage industry is one of the leading sectors in Lithuania's processing industry. In 2001 this sector of the industry accounted for 21.5 percent of the total output produced by the extraction and processing industry and in 2002 approximately 23 percent. In 2001, the processing industry accounted for more than 21 percent of Lithuania's gross domestic product. According to current data, in 2002 the output of Lithuania's food and beverage industry was valued at approximately \$1.6 million or 10.3 percent of the GDP and in 2000 10.7 percent of GDP. The food and beverage industry's sales grew 4 percent in 2000 (\$1,465 million) and in 2001 and 2002, 6 percent and 1.4 percent respectively (including tentative data of the last quarter) over the previous year.

**Figure 1. Total sales and foreign food and beverage industry sales 1998-2002 (million \$)**

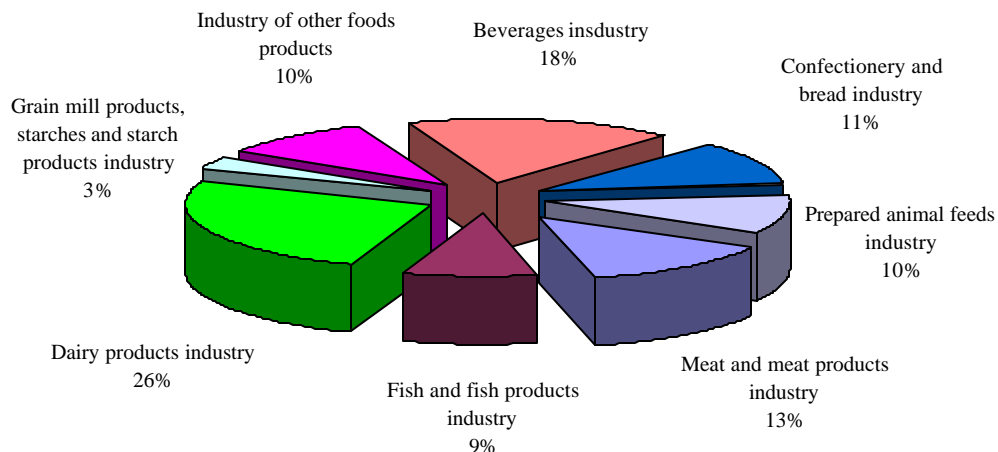


Comprised by the financial brokerage company Finasta data; (\*) Preliminary

<sup>1</sup> Under the official exchange rate as of 10 January 2003 fixed by the Lithuanian central bank \$1=3.28 Lt. As of February 2, 2002 Lithuanian currency was pegged to Euro and the fixed exchange rate is 3.4528 LTL = 1 Euro.

The gross profits of food producers increased in 2001 to \$42.1 million. Return on equity (ROE) increased 3.0 percent to 4.9 percent. There were 631 companies in the food and beverage industry in 2001 (compared to 546 in 2000). Lithuania's food and beverage industry is composed of the following key production sectors: *dairy, baked goods, meat, grain, fish, beer, beverage, and food additive and spices*. The 48 largest companies in this sector are responsible for the bulk of the production in Lithuania's food and beverage industry. In 2002, 195 companies produced baked goods while 88 processed meat. Milk and dairy sector sales amounted to 26 percent of total food industry sales.

**Figure 2. Sales of Lithuania's food and beverage industry by sector in 2002**



Comprised by Lithuanian food industry association

Since 1999, exports of food industry products have increased 27.2 percent (For more, see Table 6 in the Appendix). The export volume during the first 9 months of 2002 fell to 25 percent of the food industry's total output, the result of more intense competition on the domestic market and decreased exports to markets where the U.S. dollar is dominant.

In 2001, exports of Lithuanian food products to the EU, CIS<sup>2</sup>, and Baltic countries increased, while exports to the U.S. decreased slightly. During 2001, the bulk of food exports consisted of cheese, butter, milk powder, and other dairy products, which accounted for approximately 20 percent of the sector's exports. Milk and dairy products, eggs, and honey products comprised a major share (34 percent in 2000, 29.4 percent in 2001). Milk product exports during the first 9 months of 2002 were also significant at \$104 million.

During the first 9 months of 2002, the following products had the most significant increase in exports: Lithuanian beer 9.7 percent, non-alcoholic beverage 62.9 percent, meat 55.9 percent, meat and fish products 41.2 percent, and chocolate confectionery products 21.3 percent. This export growth testifies to the successful activities of individual companies in expanding the exports.

Increased domestic food consumption over the first 9 months of 2002 stimulated higher imports of these products:

<sup>2</sup> Confederation Independent States (Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan)

- Production of edible vegetables and certain roots and tubers grew \$4.1 million, or 27.4 percent compared to the same period in the previous year.
- Animal and vegetable fats and oils grew \$9.5 million or 30.7 percent.
- Animal forage grew \$3 million or 8.7 percent.

Growing domestic consumption resulted in an increase in the average consumer price index for foodstuffs and non-alcoholic beverages in 2001 (3.6 percent compared to the previous period). Meanwhile growing competition between domestic producers and importers triggered a decrease in the price index for foodstuffs in 2002 (2.5 percent on average compared to 2001). On the other hand, alcoholic beverage prices rose 1.5 percent on average compared to the same period of the previous year.

THE MAIN CHARACTERISTICS OF LITHUANIA'S FOOD INDUSTRY

<b><i>Strengths, Advantages and Opportunities</i></b>	<b><i>Weaknesses, Shortcomings and Threats</i></b>
<p>The companies of Lithuania's food industry are increasing their export volumes to EU countries. As a result, such producers consciously choose quality foodstuffs and additives.</p> <p>The foodstuffs produced contain 11 percent imported foodstuffs, additives and spices.</p> <p>The developed transport infrastructure and favorable geographical position have created advantageous supply conditions for the domestic and international markets: in 2001, export sales were \$692 million and imports \$706 million.</p> <p>Due to growing foreign investments, production efficiency is increasing in several food industries.</p> <p>Labour costs in the food sector are lower than in the EU.</p> <p>Domestic consumption of foodstuffs increased slightly.</p> <p>Penetration of Lithuanian retail chains into neighbouring countries is helping local producers sell in foreign markets.</p> <p>Lithuanian investment in companies in Latvia, Estonia, and Belarus.</p>	<p>Companies are maintaining an exclusive relationship with suppliers.</p> <p>Over the past few years, the network of local producers of foodstuffs and additives has been growing stronger and is aiming to increase the services of the food and beverage industry.</p> <p>Lithuania has no tradition of working with suppliers from U.S.</p> <p>Information technology skills are not developed in Lithuania's food industry; consequently, local food industry specialists often have no information about U.S. achievements in the food industry.</p> <p>At present the state regulates quotas and customs duties on a number of imported foodstuffs.</p> <p>Upon Lithuania's accession to the EU, the import procedure will have to be brought in line with the EU import procedure, hence, importers of food products and raw materials from countries other than EU member states, such as the U.S., will be subject to import barriers in Lithuania.</p> <p>During the negotiations with the EU, output quotas were established for Lithuanian agricultural production however, many facilities can produce above quota.</p>

## Road Map For Market Entry

Investments in Lithuania's food and beverage industry have increased from \$297 million in 2000 to \$353 million in 2002. Industry experts suggest that this trend will continue for the next several years. Lithuania's accession into the EU will facilitate greater access to a vast market with medium to high income earners. Industry experts expect the years leading to EU accession and those immediately following it will be great for new investors and suppliers of additives. Food processing companies have good relations with their suppliers; however, they are willing to change to new suppliers for a better product or price. There is very little internet commerce in Lithuania, although, many companies do maintain websites. There are logistical and price concerns among Lithuanian producers regarding importing products from the U.S. Generally, Lithuanians purchase locally produced products or buy from distributors or wholesalers.

Imported products enter Lithuania via:

Imported products enter Lithuania via:

- supermarket chains (VP Market, IKI, RIMI, Norfos retail trade),
- distributors (Sanitex, Trojina, Eugesta, Saldva, Mineraliniai Vandenyys, Benetton distributors),
- multinational companies (Carlsberg Breweries A/S, Coca-Cola, Kraft Food International Espersen, Mars).

Trade offices in Lithuania market products through brochures, catalogues, product samples, and meetings with potential clients. These trade offices also assist with technical and technological problems. Foreign companies interested in exporting products to Lithuania may exhibit samples at the AgroBalt food and packaging exhibition from May 6-9, 2003 in Vilnius.

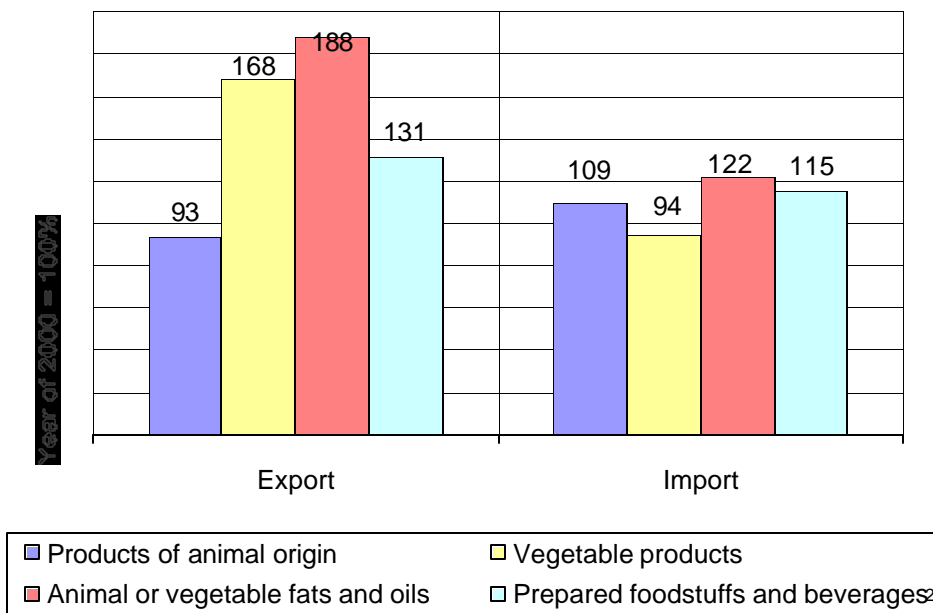
### MARKET STRUCTURE

Data from the Lithuanian Department of Statistics indicates that production increased in the following sectors during January - September 2002 compared to the same period of 2001:

- beer (24.7 percent),
- confectionery products (8 percent),
- vodka and liqueurs (5.1 percent),
- non-alcoholic beverages (23.4 percent)

Food exports (including re-exports) grew from \$545 million in 2001 to \$690 million in 2000. Exports increased 21 percent, imports 10 percent (For more, see Table 8 in the Appendix). Animal and vegetable fat exports grew 88 percent, vegetable exports 68 percent, convenience foodstuffs 31 percent.

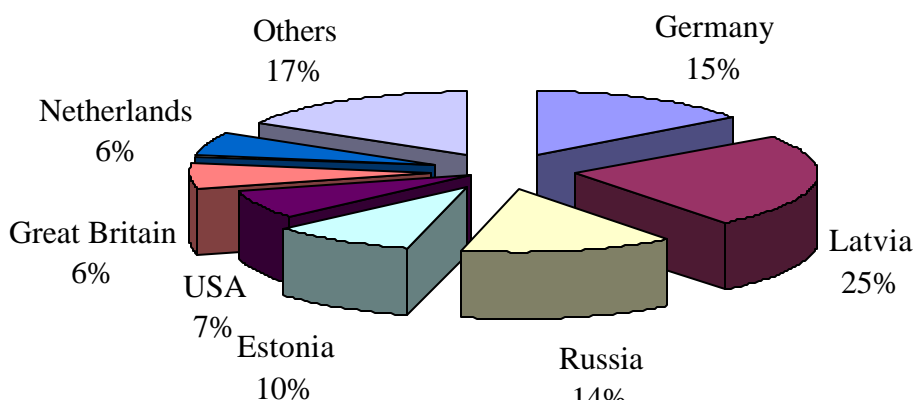
**Figure 3. Lithuanian food and beverage industry export and import indexes 2000-2001**



Based on data from the Lithuanian Department of Statistics

During the first three quarters of 2002, foodstuffs were mostly exported to the Baltic region (28 percent or \$98 million) and to the EU (35.5 percent or \$124 million). Lithuanian foods and beverages were also exported to the CIS (19 percent or \$66 million). The biggest export partners were Latvia (\$70 million), Russia (\$42 million), and Germany (\$43.4 million).

**Figure 4. Food export markets by country during the first three quarters of 2002 (percent)**



Based on data from the Lithuanian Department of Statistics

Nearly 89 percent of the raw materials used by the food and beverage industry is purchased locally and 11 percent is imported. About 40 percent of imports are ready-to-eat and another 36 percent are vegetables. Approximately 60 percent of the food and beverage

industry's production is sold to retailers, another 14 percent via intermediaries, and the remaining 25 percent is exported.

The major distributors in Lithuania are:

1. Sanitex, the largest wholesaler in Lithuania with sales revenue of \$268 million in 2001 (the most recent data available), represents over 600 different companies in the region, including such famous trademarks as Mars, Procter & Gamble, Kellogg, Tchibo, etc.
2. Trojina, one of several smaller wholesalers in Lithuania, had sales revenue of \$22 million during the first half of 2002 (43 percent more than the same period in 2001).
3. Eugesta primarily imports, distributes and sells products throughout Lithuania, representing such trademarks as Warsteiner, Merrild, Kinder, Raffaello, Nestle, Nesquick, etc.
4. Mineraliniai Vandenyys with sales revenue of \$55 million and Benet *Distributors* with \$49 million in 2001 are the largest importers of alcoholic beverages.

### Company And Sectors In The Food Processing Industry

In 2001, there were 631 companies in the food and beverage industry (compared to 546 in 2000). Lithuania's food and beverage industry sector includes: dairy, baked goods, meat, grain, fish, beer, beverages, and food additives and spices.

Table 1. **Food and Beverage Sector Industry Sales By Largest Companies in 2001**

Food and Beverage industry sector	Number of largest companies*	Total sales (million \$)
Dairy industry	12	368
Baked goods industry	5	164
Meat industry	5	217
Grain industry	4	185
Beverage industry	9	255
Fish products industry	5	126
Food additive and spice industry	1	61

- Companies with over 200 employees and annual revenues of \$3 million

According to Lithuanian Department of Statistics data, about 8 percent of companies were considered large (200 or more employees), 24 percent medium (up to 200 employees), and the remaining 68 percent small companies (up to 50 employees). (For more see figure 9 in the Appendix).



**Table 2. Major manufacturers in the food and beverage industry 2001**

Name of enterprises and product types	Sales in 2001 (million \$)	End-Use Channels	Production Location	Procurement Channels
Rokiskio suris (dairy goods)	\$107	Retail, HRI, export	Lithuania	Local, importers
Pieno zvaigzds (dairy goods)	\$102	Retail, HRI, export	Lithuania	Local, importers
Zemaitijos pienas (dairy goods)	\$65	Retail, HRI, export	Lithuania	Local, importers
Kraft Foods Lietuva (confectionery)	\$75	Wholesale, Retail, HRI, export	Lithuania	Local, importers
Svyturys-Utenos alus (brewery)	\$72	Retail, HRI	Lithuania	Local, importers
Kretingos grūdai (grain storage and processing)	\$38	Wholesale, retail	Lithuania	Local

### Dairy Industry

Over the past 5-7 years there have been several mergers in the dairy sector resulting in four major competitors. The main performance indices of these companies are as follows:

- Rokiskio suris. Sales in 2001 – \$107 million, profits – \$5.3 million, 64 percent of production was exported to (U.S., Japan, Canada, CIS, EU);
- Pieno zvaigzdes. Sales in 2001 - \$102 million (a 58 percent over 2000), profits - \$4 million, 35 percent of production was exported,;
- Zemaitijos pienas. Sales in 2001 - \$65 million, profits - \$3.3 million, 39 percent (\$25 million) of production was exported;
- Vilkyški pieninė. Sales in 2001 – \$19 million, production worth \$12 million was exported;

These 4 companies comprise market in the dairy products industry. Sales of Lithuania's dairy industry in 2002 accounted for 26 percent (\$368 million) of total food industry sales. In early 2001, 15 milk processing companies had veterinary certificates authorizing exports to the European Union. Dairy production exceeds domestic consumption; therefore, foreign markets are vital for the survival of Lithuania's dairy industry. In 2000 – 2001, Lithuanian dairy companies exported half the aggregate volume of the over 2/3 of the processed dairy products.

The most pressing problems facing Lithuania's dairy industry are:

- Slumped prices in export markets;
- Price war in Lithuania among dairy products competitors;
- Instability of the dollar exchange rate. In 2002, the slumping dollar exchange rate weakened the competitiveness of Lithuanian dairy products in Dollar markets. Because of this situation, exports of cheese and butter dropped during the first three quarters of 2002, the most remarkable drop, 65 percent compared to the same period in 2001 for low-fat milk powder.

In spite of this, Lithuania's milk processors have been successfully penetrating new markets. For example, the volume of exports to Latvia has increased from \$0.31 million to \$0.64 million in 2001.

## Meat Industry

There are a larger number of small meat producers in Lithuania. In 2001 half of the sales for the small and medium-sized companies were domestic. According to the Lithuanian State Food and Veterinary Service, as of September 2002, 234 animal slaughterhouses and 212 meat processing companies were registered in Lithuania.

The most successful companies in this sector in 2001 were Biovela with sales revenues of \$19 million, Vilniaus Mesos Kombinatas with \$16 million, and Samsonas with \$15 million in sales. Krekenavos Agrofirma experienced the most significant sales gains in 2001 with \$14.3 million (a 64% increase over the previous year). The leading companies in the poultry sector in 2001 were Vilniaus Paukstynas with sales revenue of \$24 million, Vievio Paukstynas with \$23 million, and Kaisadoriu Paukstynas with \$15.3 million. Pork remains the most popular meat, accounting for 55% of all the meat consumed in Lithuania, followed by beef at 24% and poultry at 22%.

According to the State Food and Veterinary Service, export volumes for meat processing companies doubled during the first 9 months of 2002 compared to the same period of 2001 with 2,300 tons of beef being exported, a 89 percent increase over the previous year. The export volume for pork during the same nine-month period was 1,400 tons (up from 129 tons for the same period of the previous year). Poultry exports were 1,500 tons (a 2.4% increase). Exports of sausage and other meat products also increased. These products were successfully exported to Russia, the CIS and the EU.

In 2002, Mazeikiu Mesine AB successfully exported its products to Ireland.

According to experts, the small number of EU veterinary certificates will limit sales to the domestic market and to neighboring countries. Lithuanian meat processors will operate in foreign markets under foreign trademarks. Since 2000, Lithuanian meat processing companies have been following EU standard technology and upgrading their technology. Several processing companies including Vilke, Skinija, Mazeikiu mesine and Rovisa have been EU certified. In addition, Biovela, a meat processing company, has been EU certified. Other slaughterhouses and meat processing facilities are awaiting EU approval of their facilities.

## Beverage Industry

### BEER INDUSTRY

Between 2000 and 2002, several mergers occurred in the beer industry. The major beer firms in 2002 were Kalnapilis-Vilniaus Tauras and Svyturys-Utenos alus with 50 percent and 26 percent of the market respectively. Brewers Gubernija (9.1%) and Ragutis (8%) round out the market. The most current statistics available for the malt producer Litmalt are from 2001, when production was valued at \$2.2 million.

The beer industry has been one of the most promising in the Lithuanian economy. In 2002, the growth of the beer industry exceeded the projected 15 percent by nearly 3 percent according to the Brewers Association. Beer sales in 2002 were valued at nearly \$26 million compared to \$22 million in 2001. During the first half of 2002, Lithuania exported \$445,000 in beer products, about 10 percent more than for the same period during the previous year.

Latvia is the primary export destination representing about 90 percent of total beer exports. Other markets include Germany, Israel, the U.S., and the U.K.

Average beer consumption in Lithuania in 2002 was 75 liters per person compared to 67 liters in Estonia and 43 liters in Latvia. In Germany and Ireland, by comparison, the average per person consumption rate is 123 and 152 liters respectively. Lithuanian beer has received very high marks in world competition.

#### OTHER DRINKS

There are nine non-alcoholic beer producers and 17 non-alcoholic beverage producers in Lithuania. The product variety available has increased in the past two years. In 2001, 54,853 thousand liters of strong alcoholic beverages were sold in Lithuania. Stumbras (sales revenue \$32.6 million in 2001) controls about two-thirds of the strong alcoholic beverage market in Lithuania. Stumbras exports to the U.S., Western and Central Europe, and the Baltic States. Lithuania exported 51 percent (31,750 liters) more non-alcoholic beverages (mineral and carbonated water) in 2002 than last year.

Industry sources indicate that there are plans to privatize all the alcoholic beverage producers by July 2003. Industry experts suggest that after the alcoholic beverage industry is completely privatized, 5 or 6 more producers could emerge on the market. Non-alcoholic beverage producers in Lithuania do not generate the same level of revenue as alcoholic beverage producers. The major non-alcoholic beverage producers in Lithuania are Svencioneliu Vaisvandeniai UAB, Vaisiu Sultys, Selita, and Birsiono Mineraliniai Vandenys. The largest, Svencioneliu Vaisvandeniai, had sales of \$2.8 million in 2001.

#### Baked Goods Industry

There are about 150 baked goods companies and about 70 confectionary companies. Kraft Foods Lietuva, the industry leader with estimated sales of \$74 million and estimated profits of \$4.7 million in 2001 successfully implemented EU production standards and offers a wide range of products, which make it very competitive domestically and throughout the Baltic region. Vilniaus Pergale and Klaipedos Konditerija also produce of confectionary products but their market presence is not as significant as that of Kraft Foods Lietuva. The baked goods industry is comprised primarily of small and medium-sized enterprises. The most active companies in this industry are Vilniaus Duona-Plius with sales of \$31 million and Javine with \$3 million in sales in 2001. There are several smaller companies in this industry.

#### Grain Industry

The grain industry is composed of milling and feed companies. In 2002, there were 120 milling companies in Lithuania, the most active being Kretingos Grudai, Kauno Grudai and Malsena. The largest growth in 2001 was reported by *Siauliu Malunas*, which reported an increase of \$13 million (100 percent growth). During the first nine months of 2002, flour production was almost 7 percent higher than during the same period of the previous year. However, the production of grits fell during the same period.

#### Fish Products Industry

In 2002, 45 companies produced fish products. In addition, during 2002, 11 fish processing facilities and 10 fishing boats received EU export certificates. Kraitene is the largest fish processing company in Lithuania with sales of \$32 million in 2001. P&P Provit Industrija, with sales of \$4.3 million in 2001, breeds eels and plans to purchase a Finnish processing

plant for its fish canning operation, which will begin operation in autumn. The majority of the fresh water fish processed at this facility will be exported to the U.S. In recent years, canned fish processors have primarily exported to Russia and the CIS. Most of these products were finished or canned fish. During 2002, nearly 14,000 tons were exported (a 16% increase over the previous year).

### Food Active and Spice Industry

There are 53 food additive and spice companies in Lithuania. These companies produce sugar, spices, oils and mayonnaise. The largest companies in this sector are Saldva, Vesiga, Samsonas, Aliejus (oil, vinegar, ketchup, and mayonnaise), Suslavicius-Felix, Kedainiu Konservu Fabrikas, Gerove (jam) and Saldoga, and Vaiskona (marmalades). Over the past several years consumer demand for spices has steadily increased. Consistent with this increase, companies have increased the availability of different spices. There has been a noticeable increase in the number of new companies producing spices and condiments.

*Vesiga* had earnings of \$6.8 million in 2001 and \$7.9 million in 2002. Most of its production is sold to HRI companies and the general food industry. In 2001, *Vesiga* produced 5,498 tons (a 34% increase compared to 2000) of sauces, mayonnaise, etc. *Vesiga* exports throughout the Baltics as well as to the U.S. and the Netherlands. *Saldva*, another significant player in this sector had sales of \$11 million in 2001, produces and packs several different spices, spice mixes, condiments, raw materials for confectionery as well as tea and cocoa. This is the largest spice processing company in Lithuania. Most of its products are exported to the Baltic region and the CIS.

### Sector Trends

Although Russia and the neighboring countries are expected to remain quite important export partners in the food and drink industry, the EU will become the main trade partner in the future. This trend has been discernible for several years since the Russian crisis. The growth prospects of the food industry depend on the ability of companies to adapt to EU requirements. According to the State Veterinary Service's interview with representatives of milk, meat and fish processing companies nearly 50 percent are trying to meet EU requirements by early 2004. To date 38 companies including 19 milk processing, 10 fish processing, 5 meat-processing companies as well as 4 slaughterhouses have already met EU standards.

There are high expectations for Lithuania's largest breweries, which have been modernized and have received international awards for quality. Lithuania's beer industry is highly competitive domestically. The prospects for the beer industry are very optimistic, with growing export possibilities and high domestic consumption. The ability to compete in export markets outside of the EU will also be key to success, particularly in the dairy sector, which exports most of its production to the U.S. and the CIS. However, production quotas, higher productivity of EU raw milk suppliers, and new requirements for exports to non-EU countries are threats to Lithuania's dairy industry. Moreover, the instability of the dollar compared to the euro and unadjusted customs tariff reduce export volumes of dairy products to the U.S.

The contraction in the meat industry that began in 2000 will continue, particularly when the EU allows the entry of meat products from Lithuania. Lithuania reached an agreement with the EU during accession negotiations to allow Lithuanian meat processing facilities to meet EU veterinary standards by 2006. Lithuanian meat processing companies that have not been approved by the EU will not be allowed to export production to the EU. Many of the existing meat processing companies will not survive because many are not financially able to meet EU

requirements. Currently, only five meat processing companies, an intestine processing company, and a game company have veterinary certificates and are approved to export products to the EU.

In 2002, the trade between Lithuania and the EU in fish and fish products was liberalized. As a result, exports to the EU are expected to increase in 2003 and into the future. The construction of a fishing port and the modernization of fish processing facilities in accordance with EU standards are reasons for optimism about Lithuania's fish industry.

As a result of the expansion of the retail networks in Lithuania and neighboring countries, food producers have opportunities to sell their products domestically, in the Baltic region, and the EU. Organic farms have good sales prospects in Lithuania. The demand for ecologically sound raw materials for the food industry and for the final product is high in the EU. Upon Lithuania's accession to the EU, there will be opportunities for these farms to boost their production and sales. Currently, there are 450 farms certified as organic in Lithuania.

Experts expect a 12 to 14 percent annual increase in investments in the food and drink industry. Lithuania's economic growth was among the highest in Central and Eastern Europe in 2002.

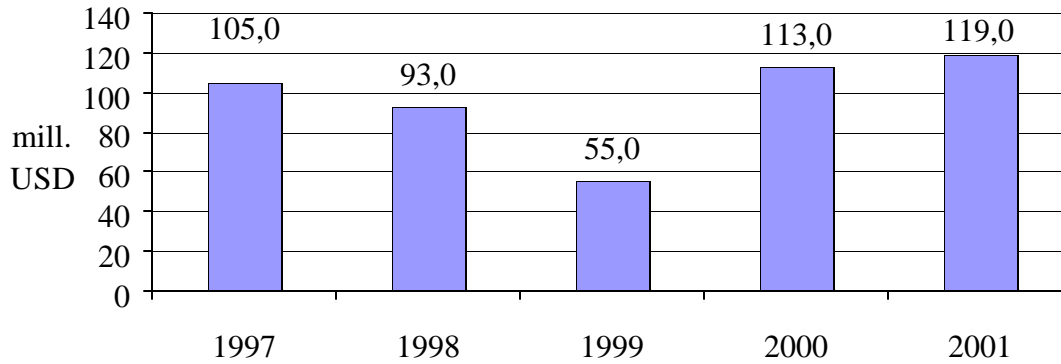
The following are some of the many successful foreign investments in the Lithuanian food industry:

Investor	Country	Invested to:	Activity	mill. \$
Carlsberg Breweries A/S Baltic Beverage Holding	Sweden, Denmark Finland	Svyturys-Utenos alus	Brewery	83
The Danish Brewery Group	Denmark	Kalnapolis – Vilniaus Tauras	Brewery	54
Danisco Sugar A/S	Denmark	Sugar factories	Sugar production	41
The Coca-Cola Company	USA	Coca-Cola Bootlers Lietuva	Non-alcoholic beverage	39
Kraft Food International	USA	Kraft Foods Lietuva	Confectionary products	38
Mars, Inc.	USA	Masterfoods Lietuva	Cat and dog food	34
Espersen	Denmark	Espersen	Fish processing	4

## Competition

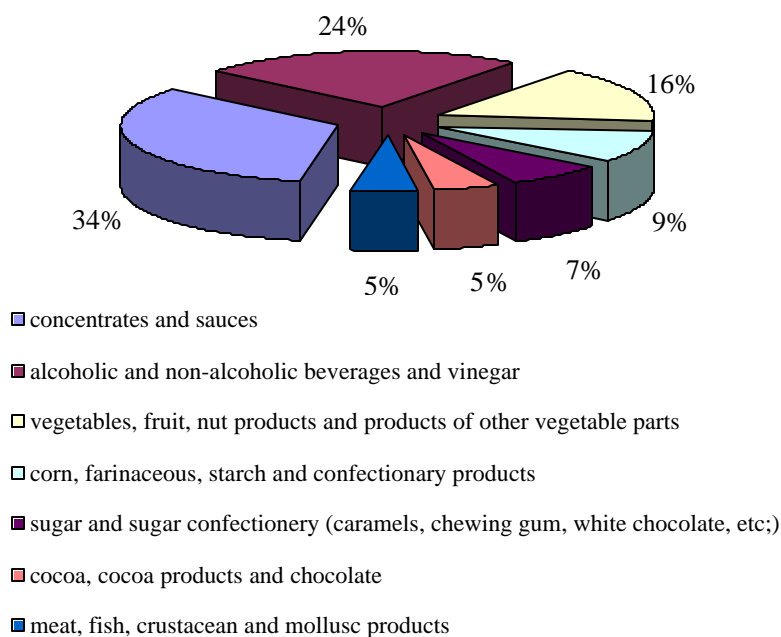
According to industry experts, about 11 percent of the raw materials used by Lithuania's food-processing sector in 2002 were imported. After the Russian crisis, imports of raw materials for the food and drink industry increased 51 percent in 2000 and 6 percent in 2001, compared to the year of the Russian crisis. In 1999, imports of raw and processed food products for further processing by the food industry were 48 percent lower than in 1997.

**Figure 5. Imports of raw and processed food products and beverages for further processing and consumption by BEC classification, (1997-2001)**



Based on data from the Lithuanian Department of Statistics

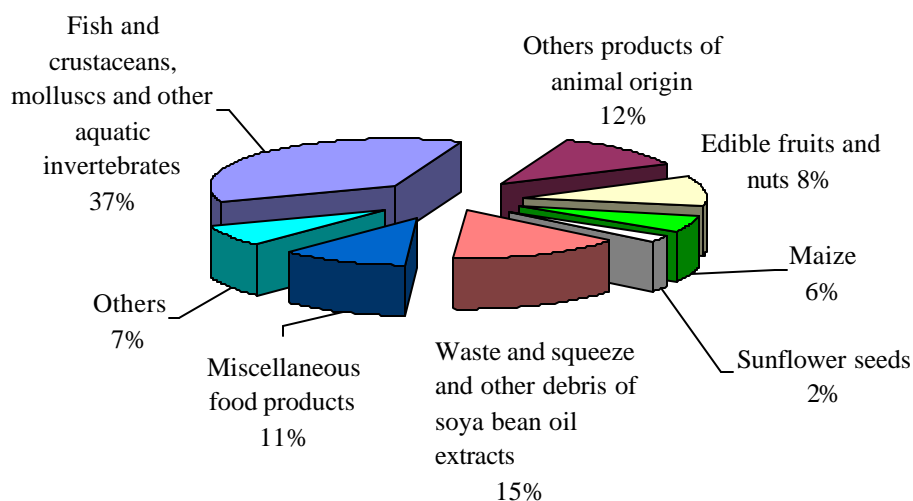
An analysis of the changes in the import volume of the processed foods from 1997 - 2001 indicates that imports of meat, fish, crustaceans, and mollusks remained stable at 4 or 5 percent. During this period, sugar and confectionery imports dropped from 12 percent in 1997 to 7 percent in 2001. Cocoa, cocoa products, and chocolate imports also declined during this period from 12 percent in 1997 to 5 percent in 2001.

**Figure 6. The composition of imports of processed foods 2001**

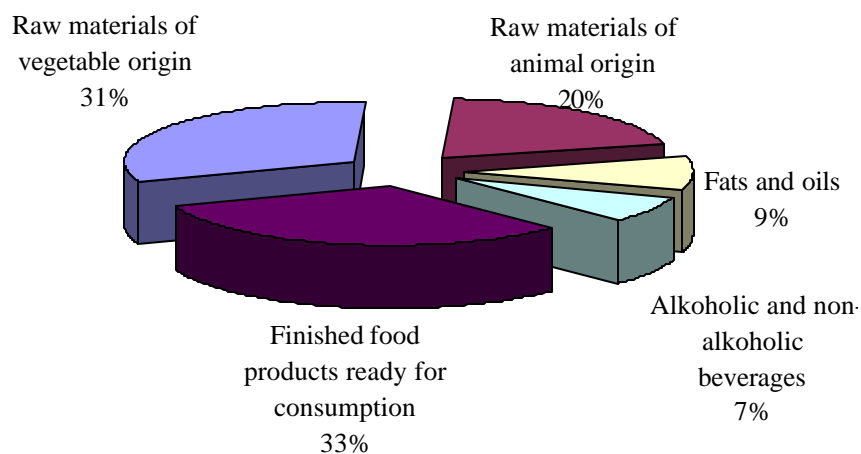
Based on data from the Lithuanian Department of Statistics

Imports of concentrates and sauces increased from 30 percent in 1997 to 34 percent in 2001. Similar trends were recorded for alcoholic beverages, non-alcoholic beverages, and vinegar products (an increase from 21 percent in 1997 to 24 percent in 2001).

In 2001, total imports from the U.S. were valued at \$235 million with imports of raw materials and finished products for the food and drink industry valued at \$28 million. Of Lithuania's imports from the U.S., 37 percent were various shellfish, fish and mollusks, 15 percent were bean curd and soy milk, 8 percent residue from soybean oil extraction, and 6 percent edible fruit and nuts, maize, and sunflower seeds. Other Lithuanian imports include hops, flour confectionary products, non-fermented fruit juice, coffee, tea and mate, extracts, essences and concentrates, concentrated milk, cream, and feed for livestock.

**Figure 7. Structure of food product imports from the U.S. (2001)**

Based on data from the Lithuanian Department of Statistics

**Figure 8. Structure of raw material and finished food product imports (first half of 2002)**

Based on data from the Lithuanian Department of Statistics

For more information about commodity/country imports see Table 13 in the Appendix.

**The largest importers of food products and raw materials into Lithuania are:**

- Kraitene – frozen and canned fish for processing;
- VP Market – miscellaneous food products;
- Sanitex , Eugesta, Trojina – miscellaneous products and beverages;
- Kraft Foods Lietuva– coffee and other products from coffee;
- Mineraliniai vandenys, Benetton distributors – alcoholic beverages;
- Saldva – various food additives and spices.



## Best Product Prospects

### A Products present in the market and in high demand

The growth of the Lithuania's food industry has been a catalyst for increased demand for raw materials over the past few years:

- Fish and shellfish, mollusks, edible fruit (bananas, citrus, etc.), nuts, cocoa, coffee, mate, grain, rapeseed, hops;
- Spices, crocus, turmeric, curry powder, mustard, mace, caraway seeds, cinnamon bark, sweet pepper, pepper, nutmegs, cardamom, vanilla, ginger, juniper berries, coriander, marjoram, ornamental spices, flavorings, stabilizers, extracts, essences, emulsifiers, colorings, yeast, bran, jams, pulp, ferments, amino acids, protein concentrates, microelements, starch, and fructose;
- Soy meal, various meat offal, wheat gluten, malt, and inulin;
- Wine and cognac.

### B Products not present in significant quantities but which have good sales potential

More than one major retailer has expressed interest in purchasing various U.S. products. Their interests range from dried fruits and nuts to clothing.

### C Products not present because they face significant barriers

Lithuania applies various import tariffs on imported products in order to protect local producers. Because the U.S. and Lithuania have signed a trade agreement customs tariffs are applied to products imported from the U.S. The agreement's customs tariffs can vary based upon international agreements. There are powerful lobbies in Lithuania protecting the domestic poultry industry. Imports of grain are highly restricted by different duties and quotas, whereas imports of finished grain products such as grits and pasta are not subject to any restrictions. In the meat industry, soy protein and meal imports are restricted. The Hygiene and National Nutrition Centre of Lithuania restricts the import of these products. Strict sanitary and quality restrictions are applied to imported poultry, pork, and beef products. Pursuant to a resolution of Lithuanian Government, all additives imported to Lithuania must be registered in Lithuania. When Lithuania formally becomes an EU member in May 2004, it will adopt all import regulations applicable in the EU.

**Table 3. Import tariffs on certain food products and principle raw materials**

Food products	Import tariffs
Fresh or frozen tomatoes	25-55 percent
Cucumbers	20-55 percent
Fresh or frozen beef	38.7-45 percent
Pork	32.5-40 percent
Milk concentrate, condensed milk and cream	30-35 percent
Cheese and curd	40.5-50 percent
Poultry (fresh and frozen)	50 percent
Turkey	20-28 percent
Poultry (refrigerated)	30 percent
Yogurt	30 percent
Pork	32.5 percent

Milk fats	54 percent
Cheese	36.5-40.5 percent
Butter	54-65 percent
Sugar confectionery products	32.5-45 percent.

### Impact of Integration Into The EU On The Food Processing Industry

The EU common agricultural policy might change or limit local production of certain agricultural products. Upon accession to the EU, salaries are expected to increase, consistent with the demand for qualified specialists.

Although membership in the EU will open new markets, the quality of products needs to be improved in order to compete successfully. Competition might be hard for Lithuanian producers due to a lack of knowledge of the specifics of the new markets. On the other hand, several producers are already successfully selling their products in EU markets. Lithuania's markets will be open to food products from the EU; therefore, certain domestic competition conditions that favor domestic industries (sugar, grain, etc.) will no longer exist).

There is a great need for human and financial resources to implement the EU veterinary, hygiene and sanitary requirements. The inevitable consolidation of farms, disappearance of small subsistence farms, will result in a decline in the number of people engaged in agriculture.

Lithuania's adoption of EU rules and regulations will result in a demand for greater industrial production, improved quality but also higher costs. Many food industry companies will need assistance from the government to successfully implement new production packaging and environmental standards, and other technologies to meet the EU standards.

Upon EU accession, dairy farmers will maintain quotas for cheese exports to the U.S. or will consolidate their quota into the overall EU cheese quota. All indications are that Lithuanian exports to the U.S. will decrease upon accession, forcing dairy farmers to reconsider their production. Grain producers will lose their preference over grain imported from the EU upon accession. Customs duties will be established on cheaper grain from CIS countries. Farmers in general will benefit from the wider choice of raw material suppliers than is currently available. Indications are that certain products such as bread, poultry, flour products and other grain related products will be cheaper post accession.

Because of low production output at slaughterhouses, high product prices, and the costs associated with meeting EU standards, experts suggest that nearly half of the existing slaughterhouses will have to close. Some slaughterhouses are being modernized and renovated with the aid of EU funds. The Lithuanian State Food and Veterinary Service will gradually impose restrictions on facilities that do not meet EU requirements. The system used to determine the value of cattle is being revised to focus on weight and quality. Lithuanian farmers will have access to EU subsidies for promotion of their products.

### Benefits of Lithuania's integration into the EU:

1. Free trade of Lithuanian agricultural and food products on the EU's large internal market offers new opportunities.
2. Large financial support to agriculture (EURO 725 million) and rural development (EURO 434 million) in 2004-2006.

3. Higher requirements for consumer protection and food quality control.
4. Agricultural processing companies will be restructured and the efficiency of the production process and of the distribution chain for food products will be enhanced.

### Post Contact And Further Information

If you have any questions or comments regarding this report or need assistance exporting to Lithuania, please contact these institutions at the following addresses:

Office of Agricultural Affairs  
 American Embassy  
 Al. Ujazdowskie 29/31  
 00-540 Warsaw  
 Poland  
 Ph: 4822-504.2336  
 Fax: 4822-504.2320  
 e-mail: [agwarsaw@usda.gov](mailto:agwarsaw@usda.gov) or [agwarsaw@wp.pl](mailto:agwarsaw@wp.pl)  
 homepage: <http://www.usaemb.pl/usfas.htm>

### Appendix

**Table 4. Foreign Direct Investment in the Processing and Food Industry  
 (million \$)**

	2000	2001	2002	2002
<b>Total investment</b>	<b>2516</b>	<b>2847</b>	<b>3076</b>	-----
<b>MANUFACTURING</b>	<b>800</b>	<b>819</b>	<b>832</b>	<b>100 %</b>
<b>FOOD PRODUCTS, BEVERAGES, AND TOBACCO</b>	<b>297</b>	<b>328</b>	<b>353</b>	<b>42 %</b>

Based on data from the Lithuanian Department of Statistics

**Table 5. Investment by Country and Sector Activities, April 1, 2002, (million \$)**

	DENMARK	SWEDEN	ESTONIA
Total investments in manufacturing industry	151	71	25
Manufacture of foodstuffs, beverages, and tobacco	275	34	19
<b>Total investment in the food industry</b>	<b>50 %</b>	<b>48 %</b>	<b>76 %</b>

Based on data from the Lithuanian Department of Statistics

**Table 6. Industrial Production Sales and Markets**

Activity	Year	Structure of production sales of all industries	Production Sales	Sales in the domestic market	Sales in foreign markets
Manufacturing	1996	100 %	100 %	50.6 %	9.4 %
	1997	100 %	100 %	48.2 %	1.8 %
	1998	100 %	100 %	48.3 %	1.7 %
	1999	100 %	100 %	47.9 %	2.1 %
	2000	100 %	100 %	44.5 %	5.5 %
	2001	100 %	100 %	38.7 %	1.3 %
Manufacture of foodstuffs and beverages	1996	31.0 %	100 %	77.8 %	2.2 %
	1997	29.4 %	100 %	72.7 %	7.3 %
	1998	27.7 %	100 %	75.5 %	4.5 %
	1999	26.8 %	100 %	81.0 %	9.0 %
	2000	23.0 %	100 %	77.0 %	3.0 %
	2001	21.0 %	100 %	72.8 %	7.2 %
	2002	21.9 %	100 %	75.4 %	4.6 %

Based on data from the Lithuanian Department of Statistics

**Table 7. Average Food Prices in the Baltic states (2002 \$)**

Commodity list	Lithuania	Latvia	Estonia
Category I beef on the bone, 1 kilo	250	269	249
Category I pork on the bone, 1 kilo	276	279	311
Disembowel chicken, 1 kilo	229	234	227
Boiled sausage, 1 kilo	313	309	264
Butter, 1 kilo	291	276	242
Milk with 2,5 percent butterfat, 1 liter	29	40	38
Cream with 25 percent butterfat, 1 kilo	140	133	99
Curd with 9 percent butterfat, kilo	229	190	221
Eggs, 10 unit	67	92	95
Rye bread, 1 kilo	60	69	76
Loaf made of high quality wheat flour, 1 kilo	78	84	100
Sugar, kilo	93	97	47
Potatoes, kilo	19	20	24
Vodka produced domestically, liter	690	855	699

Based on data from the Lithuanian Department of Statistics

**Table 8. Food and Beverage Products by Trade Organizations**  
(2001, mill. \$)

			EU	EU	CIS	CIS	CEFTA A	CEFTA
CN	Export	Import	Export	Import	Export	Import	Export	Import
<b>Total Lithuanian foreign trades</b>			<b>2670</b>	<b>3407</b>	<b>1102</b>	<b>2277</b>	<b>420</b>	<b>616</b>
Animal products	<b>260</b>	<b>186</b>	<b>77</b>	<b>53</b>	<b>64</b>	<b>38</b>	<b>11</b>	<b>5</b>
Vegetable products	<b>152</b>	<b>212</b>	<b>52</b>	<b>87</b>	<b>60</b>	<b>29</b>	<b>2</b>	<b>19</b>
Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	<b>10</b>	<b>50</b>	<b>0,06</b>	<b>37</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>2</b>
Prepared foodstuffs; beverage, spirits and vinegar; tobacco and manufactured tobacco substitutes	<b>270</b>	<b>302</b>	<b>93</b>	<b>125</b>	<b>75</b>	<b>14</b>	<b>10</b>	<b>55</b>

Based on data from the Lithuanian Department of Statistics

**Table 9. Free Trade Partners**

Country	Code name	Date the international agreement Came into force
<b>European Union:</b>	<b>EU</b>	<b>1995 01 01</b>
Ireland	IE	
Austria	AT	
Belgium	BE	
Denmark	DK	
Greece	GR	
Spain	ES	
Italy	IT	
United Kingdom	GB	
Luxemburg	LU	
Netherlands	NL	
Portugal	PT	
France	FR	
Finland	FI	
Sweden	SE	
Germany	DE	
<b>EFTA</b>		<b>1997 01 01</b>
Iceland	IS	
Liechtenstein	LI	
Norway	NO	
Switzerland	CH	
<b>Others countries</b>		
Czech	CZ	1997 07 01

Estonia	EE	1994 04 01
Latvia	LV	1994 04 01
Poland	PL	1997 01 01
Slovakia	SK	1997 07 01
Slovenia	SI	1997 03 01
Turkey	TR	1998 03 01
Ukraine	UA	1995 11 21
Hungary	HU	2000 03 01
Bugaria	BG	2001 03 01
Romania	RO	2002 07 01
Croatia	CR	2003 01 01

Based on data from the Lithuanian Department of Statistics

**Table 10. Share of Food and Beverage Production in Total Industry Exports**

		Total export of period	Total import of period	Increase and decrease of export in first 9 months of 2002 by comparison with first 9 months of 2001
CN		9 month of 2001	9 month of 2002	Increase/decrease, %
01-98	<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>0</b>
	Total (except refined rock-oil products)			<b>66</b>
01-24	<b>Production of food and agriculture</b>	<b>11.4 %</b>	<b>10.8 %</b>	<b>-52</b>
	Of which:			
02	Meat and edible meat offal	0.18 %	0.28 %	559
03	Fish and crustaceans, molluscs and other aquatic invertebrates	0.40 %	0.44 %	111
04	Milk and milk products	3.37 %	3.13 %	-70
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	0.63 %	0.89 %	412
17	Sugar and sugar confectionery	0.52 %	0.17 %	-673
18	Cocoa and cocoa preparations	0.26 %	0.31 %	213
23	Residues and waste from the food industries; prepared animal fodder	1.98 %	2.11 %	63
24	Tobacco and manufactured tobacco substitutes	0.74 %	0.84 %	142

Based on data from the Lithuanian Department of Statistics

**Table 11. Agricultural and Food Quotas for Lithuania**

Chapter of negotiations	Negotiations result	Lithuania production in 2001
1. Basic crop fecundity, t/ha	270	2.70 T/HA (2002 )
2. Basic crop area, ha	1,146,633	1,025,100
3. Total grain production, t:	3,310,000	
4. Milk production quotas, t:	1,646,939	1,476,000
sales for industry	1,256,440	981,000
direct sales	390,499	495,000
reserve in 2006	57,900	
5. Payment per cow, unit	47,232	2,461
6. Beef production (unit)	58	
7. Intensity of swine slaughter (unit/1 day)	3,2	
8. Intensity of livestock slaughter (unit/1 day)	1,47	
9. Payment per bull or cow	150	72,7
10. Payment per slaughter animal, livestock	367,484	361,5
11. Payment per slaughter calves, livestock	244,2	47,5
12. Payment per ewe with lamb, livestock	17,304	7,5
13. Livestock supplementary payment fund, EUR	4,942,267	0
14. Ewe with lamb supplementary payment fund, EUR	18	0
15. Sugar production quota, ton	A- 103,000	108,6
16. Flax production quota, TON:		
long	2,263	1,100
short	3,463	2,900
17. Potato starch production payment quotas, TON	1,211	501
18. Dry feedstuffs production quota, TON	650	300

Based on data from the Lithuanian Department of Statistics

**Table 12. Comprehensive Commodity List Explanation by Combines Nomenclature (CN)**

CN
<b>Animals products</b>
Live animals
Meat and edible meat offal
Fish and crustaceans, mollusks and other aquatic invertebrates

CN
<b>Animals products</b>
Dairy produce; birds' eggs; natural honey; edible products of animal origin; not elsewhere specified or included
Products of animal origin, not elsewhere specified or included
<b>Vegetable products</b>
Edible vegetables and certain roots and tubers
Edible fruit and nuts; peel of citrus fruit or melons
Coffee, tea, mate and spices
Cereals
Products of the milling industry; malt starches; inulin; wheat gluten
Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder
Lac; gums, resins and other vegetable saps and extracts
Vegetable plaiting materials, vegetable products not elsewhere specified or included
<b>Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes</b>
<b>Prepared foodstuffs; beverage, spirits and vinegar; tobacco and manufactured tobacco substitutes</b>
Preparation of meat, of fish or of crustaceans, mollusks or other aquatic invertebrates
Sugar and sugar confectionery
Cocoa and cocoa preparations
Preparations of cereals, flour, starch or milk; pastrycooks' products
Preparations of vegetables, fruit, nuts or other parts of plants
Miscellaneous edible preparations
Beverage, spirits and vinegar
Residues and waste from the food industries; prepared animal fodder

Based on data from the Lithuanian Department of Statistics

**Table 13. Importing Countries and Commodities**

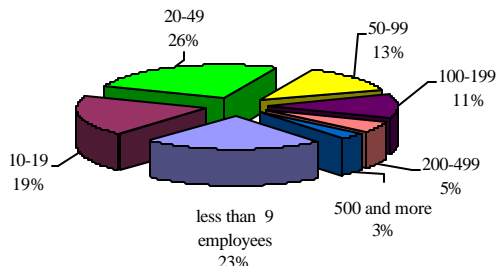
Commodity	Country/Percent
Bean curd, soy milk, and other soybean oil extraction	USA (19 percent), Belgium (32 percent), Brazil (17 percent).
Maize	USA (40 percent), Ukraine (27 percent), Hungary.
Rice	USA (4 percent), Vietnam (64 percent), Thailand (25 percent).
Barley	Denmark (73 percent)
Pork fat	Germany (54 percent)
Pork	Estonia (98 percent)
Poultry	Denmark (72 percent), Finland (15 percent).
Butter	Uruguay (91 percent)



Milk powder and granules, dry goods	Ukraine (39 percent), Russia (26 percent), USA.
Non-concentrated milk and cream	Germany (87 percent), France (10 percent), USA.
Cod	Latvia (94 percent).
Salmon	USA (3 percent), Norway (96 percent).
Herring, Mackerel	Norway
Mushrooms	Russia (63 percent), Belarus (13 percent), Ukraine (11 percent).
Hake, American burbot and other fish and fillet	USA
Dried vegetables	Poland (73 percent)
<b>Commodity</b>	<b>Country/Percent</b>
Tomatoes	France (74 percent)
Malt	Denmark (33 percent), Sweden (32 percent).
Fructose	Belgium (51 percent), Hungary (36 percent).
Yeast	Great Britain (37 percent).
Beer extract and starch	Finland
Concentrates and sauces	Poland (57 percent)
Coffee	Germany (37 percent), Poland (13 percent), Denmark (12 percent).
Cocoa beans	Ivory Coast (90 percent)
Chocolate	Germany (26 percent), Italy (8 percent), Poland (26 percent).
Black tea	Sri Lanka (59 percent),
Pepper	Vietnam (42 percent), Indonesia (18 percent), India (16 percent);
Other spices	Germany (78 percent), Poland (13 percent), India;
Grape wine	France (21 percent), Bulgaria (35 percent), Moldova (10 percent);
Vermouth	Italy (50 percent), Netherlands (25 percent);
Oil	Germany, Holland, France

Based on data from the Lithuanian Department of Statistics

**Figure 9. Food and Beverage Industry Enterprises Grouped by Number of Employees in 2001**



Based on data from the Lithuanian Department of Statistics

**Figure 10. Sources of Raw Materials and Sales Methods in Lithuania’s Food and Beverage Processing Industry**

