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1 General review

1.1 General overview of agricultural and national economy developments

Gross value added in Lithuanian agriculture increased mainly because of increased prices of agricultural products during the year of entering to EU. Inflation rate for agricultural products was positive because of joining the EU, labour force emigration and increasing real wages in agriculture sector.

1.2 Overview of agricultural and rural sector development

1.2.1 Production

Since the accession to the EU agricultural production development has changed. There was 8 % increase in animal sector production in 2004, while plant sector production rose about 5 %.

There was 71 % rise in rape production in 2004 compared 2003 and 50 % decrease in flax production, 34 % decrease in vegetables production, 29 % decrease in potato production and 7 % fall in sugar beet sectors production. According to the latest farm declarations data, there is a strong growth in energy crops sector, but significant decrease in vegetables sector. There were no significant changes for the rest of the agricultural production in Lithuania.

In 2004 there was 70 % increase in the number of registered farmer farms, 31 % increase in the number of agricultural companies and enterprises and 18 % decrease in the number of rural households in Lithuania. Majority of rural households had to register their holdings to receive direct payments from EU and national government, so it was statistical conversion from rural households to registered farms. The average farm size increased from 9,1 ha in 2003 to 10,8 ha in 2004. Average holding size increased because of increasing land market dynamics.

A lot of unskilled agricultural workers lost their jobs, though an increasing shortage of skilled agricultural workers became apparent. There were 227000 people employed in the agricultural sector in 2004 (15,8 % of Lithuania's working population). This compares with 17.9 % of the working population being in agriculture in 2003.

1.2.2 Prices

Purchase price for flax increased more than 40 % (see Table) because of lack of the high quality flax. Strong increase of export to EU in 2004 purchase price rose 30 % for beef and 18 % for milk and milk products. Rapid increase for pork demand raised pork price 10 %. Most dramatically prices dropped for vegetables (about -27 %), fruits (about – 14 %), poultry (about 9 %), potatoes and grain, because of removed import tariff for agricultural products from EU and unified trade tariff with the third countries (Russia, Ukraine, Belorussia).

Producer prices indices of agricultural products, in % (previous year = 0)

	2002	2003	2004
Flax for fibre	92,3	100,1	142,4
Beef	85,0	68,4	129,7
Milk	94,2	88,0	117,8
Pork	73,0	94,9	110,0
Grain	112,6	90,0	93,1
Potato	143,9	60,4	93,0
Poultry	84,6	84,8	91,2
Fruits	118,5	170,6	86,1
Vegetables	75,1	172,2	73,1

Source: Department of Statistics to the Government of Lithuania.

1.2.3 Agricultural Trade

During the year 2004 imports of pork rose in volume by 76 %; poultry, 44% and flax, 38% (see Table 3). Imports of grain fell 36 % but remained 20% higher than in 2002, and beef imports were 29% down.

Agricultural product import ,000 t

	2002	2003	2004
Milk	7,1	7,3	
Beef	0,8	0,7	0,5
Pork	8,6	12,3	21,6
Poultry	12,6	15,1	21,7
Grain	103,1	192,5	123,9
Flax for fibre	21,0	17,3	23,9
Vegetables	53,0	41,9	52,9
Fruits	124,8	142,5	190,9

Source: Department of Statistics to the Government of Lithuania.

Exports of beef doubled in 2004, and poultry exports rose 81%. The most significant falls were in exports of pork (57 %) and for grain (11 %).

There is a significant two-way trade in poultry and grain. After the removal trade barriers with the EU countries, high quality poultry was exported to EU countries. Most of the poultry is imported from the Netherlands, Poland and Denmark. Lithuania imported chicken legs, chicken wings and etc. which were cheaper and more preferable for local consumers. Lithuania exported poultry mostly to Latvia and Estonia, because price for poultry products were more expensive there.

Grain of better quality was exported to EU, but grain of lesser quality was imported for animal food production.

Agricultural product export, thou. t

	2002	2003	2004
Milk	74,7	99,7	
Beef	3,0	4,9	9,9
Pork	1,9	2,1	0,9
Poultry	2,1	3,2	5,8
Grain	246,3	584,1	522,5
Flax for fibre	18,3	17,9	23,3
Vegetables	13,2	16,3	23,0
Fruits	13,2	21,8	31,1

Source: Department of Statistics to the Government of Lithuania.

1.3 Agricultural and rural policy developments

The affect of the cutting down of EU export subsidies due to the WTO Doha Round commitments is not felt in Lithuania since before joining the EU, Lithuania had not used any export subsidies.

Lithuania like other New Member States entered the EU having an inefficient and poorly organised agricultural structure. The dominance of subsistence and semi–subsistence farms, the lack of cooperation because of the Soviet era past, and slow land reforms together hinder Lithuanian agricultural development. Lithuania has 3.5 million ha of agricultural area, of which about 0.9 million ha is abandoned. The CAP does not handle these special problems properly.

1.4 Issues related to the enlargement

The accession to the EU made a huge direct impact on the Lithuanian agricultural system and its dynamics as Lithuanian agriculture became a part of the CAP. The free flow of products allows Lithuanian producers to participate in a wider market which is also more competitive and dynamic. Lithuanian agricultural producers increased their utilised agricultural area. The land market became more active and land prices rose. Since EU-Accession, agricultural product prices have risen. The free flow of capital made better conditions for foreign direct investments in the Lithuanian agriculture and food sector. Free labour movement increased labour force mobility making labour market development faster and more effective.

Post-Accession, agricultural subsidies are more than seven times higher, the continuing pre-Accession SAPARD structural programme and Rural Development plan measures offer substantial financial support for agricultural restructuring, investing and solving social problems. On the other hand, EU-Accession brings challenges to the entire Lithuanian agriculture system. There is increased competition in agricultural and food products in local markets. Also higher production, environmental and product quality standards were introduced. EU-Accession has emphasised the lack of qualification and skills in the agricultural labour force, and increased the need for financial resources and financial instruments to renovate and modernise agricultural production.

In general terms EU-Accession has been positive for the Lithuanian agricultural sector because of the increased product market, financial support for agriculture, farmers' competitiveness and production trade quantities. Net agricultural incomes increased about 80 % to 304,5 Million euro. Agricultural subsidies rose more than sevenfold.

Agricultural trade with other countries in 2004 increased by 23,8 %. Exports increased by 24,3 % and imports by 23,4 %. The deficit in the net foreign trade balance decreased about 3.2 million euro. Export refunds for meat and meat products amounted to 4.5 million euro, and export refund for milk products – 9.4 m. euro.

2 Assessment and Outlook

2.1 Wine sector

Wine consumption in Lithuania is low and there is no domestic wine production.

2.2 Sugar sector

2.2.1 Sugar consumption

Sugar consumption in Lithuania amounts to 100000 tonnes.. Lithuania's sugar production quota is 103000 tonnes, thus satisfying internal consumption. To produce the sugar quota, producers have to process 763000 to 800000 tonnes of sugar beet.

From 2001 to 2003 sugar consumption per capita decreased by 20 %.

2.2.2 Sugar import

Lithuania only imports small quantities of high quality white sugar – all other sugar consumption in the country is satisfied by local producers

2.2.3 Sugar beet area

Over 23300. ha of sugar beet area were grown in 2004. According to provisional data from the national paying agency, 21000 ha of sugar beet was grown in 2005. Since the year 2000 the sugar beet area has decreased about 25%.

2.2.4 Structure of production

In 2004 40% of the sugar beet area was on large farms with more than 45 ha of sugar beet, 28% of the area was on farms with 10 to 45 ha of beet and 32% was on small farms with less than 10 ha of beet.. Only 3 % of the farms growing beet were large farms, 12% medium-sized farms and 85% small farms (as defined by the areas of sugar beet above).

Lithuania had two companies and three sugar producing plants in 2004. Danish company “Danisco sugar” had two factories in Kedainiai and Panevezys, and the Lithuanian company

“Arvi cukrus” had a plant in Marijampole. The “Danisco sugar” plants both had 700 employees. The Marijampole plant had about 400 employees.

2.2.5 Yields

Average sugar beet yields during the period of 2000 to 2004 increased from 31,9 tonnes/ha to 38,8 t/ha, but this was due mainly to favourable climatic conditions for growing sugar beet as occurred in Western Europe. The sugar beet growing period in Lithuania lasts for about 136 days, while in Western Europe it lasts for 160 to 220 days, hence Lithuanian yields are considerably lower than in Denmark, Germany or France. The average sugar content of the beet was 13.5% to 14.5%.

2.2.6 Sugar and isoglucose production

Lithuania had 103000 tonnes of sugar production quota in 2004. of which “Danisco sugar” had 81000 tonnes. and actually produced 83000 tonnes of sugar, 23000 tonnes molasses and 9000 tonnes of sugar beet pellets. The Lithuanian sugar producing company “Arvi cukrus” had 22000 tonnes of sugar production quota and produced 28000 tonnes,.

2.2.7 Production cost and competitiveness

Lithuania at present is less competitive than Denmark, France, Germany, Belgium, Netherlands and other EU countries in sugar production. Although at the present sugar beet price beet growing is still profitable compared with growing alternative agricultural products, if the proposed reforms, entailing a fall of 42% in the beet price, are carried through, Lithuanian sugar beet growers would have to cease their production.

2.2.8 Exports

Lithuanian sugar and sugar by-product exports fell from 2001 when sugar exports amounted to 41700 tonnes, to 17700 tonnes in 2002 and 17300 tonnes in 2003 before rising to 38400 tonnes in 2004.

2.2.9 Policy issues

The current sugar CMO ensures stable and sufficient incomes for sugar beet farmers and processors within the European Union. However, under the Commission's proposal of 22 June 2005, these incomes will be drastically cut and sugar beet and sugar production in some EU regions may be expected to cease. Lithuania's sugar sector, like those of the other new member states, will face grave consequences in the form of a substantial fall in sugar beet and sugar production and a fall in jobs not only in the sugar sector but also in services dependent upon the sugar sector. This is in sharp contrast to Lithuanian producers' legitimate expectations from EU Accession.