

Economic Commission for Europe

Timber Committee

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Country: LITHUANIA

MARKET STATEMENT

General economic trends

According to Statistics Department, gross domestic product showed an increase of 5,1% during the first six months of 2001. Experts forecast the growth in GDP by 4,0-4,2% for this year. The growth this year is mainly determined by 15% rise in the value added in industry sector, 8% in domestic trade and services sectors. The fall was still observed in construction sector but the growth of 20% in the investments for the fixed capital formation and increased number of permissions supports expectations for the growth in this activity.

According to the revised data, in 2000 Lithuania's GDP grew by 3,9% (in 1999 was a fall of 3,9%), i.e. reached the level of 1998. Last year share of forest sector in total value added reached 3,4% (2,6% in 1999), thereof forestry – 0,7%, woodworking industry – 1,3%, pulp and paper – 0,4% and furniture industry – 1,0%.

As of 1st July 2001, foreign direct investment (FDI) totalled USD 2 531 million, up by 15% compared to the corresponding time in 2000. Major country investors are Sweden (18%), Denmark (17%) and USA (10%). As of 1st April this year FDI into forest industry totalled USD 66 million and accounted for 2,7% of total FDI or 9,8% of FDI into manufacturing industry. Forest industries altogether (woodworking, paper and furniture) are the second biggest subsector behind textile industry according FDI into Lithuanian manufacturing industry.

In August 2001 consumer price index was at 101,6% (December 2000 = 100). In August manufacturing industry producer prices were by 2.1% down, compared to August 2000. Woodworking industry producer prices showed drop of 2,0%, pulp and paper industry – 5,0%, furniture industry – 1,0% during eight months of this year. Industrial roundwood prices went down by 5% during first eight months of this year.

In July 2001 construction cost index was at 99,4% (December 2000 = 100). Cost for residential construction reduced by 1,0%, for non-residential construction – 0,6% and renovation – 0,6% during first seven months of this year.

Lithuania's exports increased by 24,0% and imports by 15,2% during the first six months of this year. Foreign trade balance remains negative, imports (USD 3,0 billion) was exceeding exports (USD 2,3 billion) by 30%.

Generally, this year could be described as a successful year with a continuous favourable development in Lithuanian forest industry sector. An increase of value-added products' share in exports during the first months of this year is noticeable. Lithuanian forest industry is further increasing sales and reports better earnings as compared to 1999-2000.

According to Department of Statistics figures, the woodworking industry showed an increase in sales during the first six months of this year, rising by 34% on 2000. Furniture producers posted 17% and paper industry 6% growth. Such an increase of forest industry was in line with sales growth in other sectors of the manufacturing industry (+19%).

In January-June 2000, Lithuanian foreign trade turnover in forest sector products reached USD 0,35 billion, up by 16% on the corresponding period of 2000. Positive balance in forest products foreign trade increased from USD 94 million (2000) to USD 105 million during the six months of this year.

Exports value increased by 15% and totalled USD 232 million. Value-added wooden products' (furniture, joinery goods, prefabricated buildings and other) share in exports increased from 45% (in 2000) to 48% this year. Sawn wood share in exports declined from 30% to 24% this year. Also domestic market for wood products is recovering its calm as compared to 1999-2000. Construction sector, which was decreasing in 1999-2000, in first months this year stabilised.

Developments in forest products market sectors

Pulp and paper

Since early 1990's pulp production discontinued in Lithuania, and there are no any plans to launch production in nearest future. Imported pulp is re-exported mainly.

Paper production was declining steadily from 1995 (18,000 tons) to 1999 (10,000 tons). In 2000 paper production increased to 12,000 tons and is expected to grow to around 18,000 tons this year. However paper production remains far from the production level of 1980's (100,000 tons/yr). No any plans to boost the production in future are announced by the time being.

Paperboard production is increasing steadily since 1994 (8,000 tons) reaching 41,000 tons in 2000. The major producer announced plans to increase capacity in nearest year, and this year growth of 30% (to 50,000 tons) is expected. In 2001, production is expected to grow by further 20%. Some investments were carried out during last years. Even after the announced investments and increased capacity, paperboard production will remain by 40% less than in 1980's.

In 2000, apparent consumption of paper and paperboard is expected to rise by 15% to 110,000 tons, compared to 1999. One of the Nordic companies in 1999 launched paperboard conversion factory, and another company recently announced its plans also to build such a factory in Lithuania. Such development proves that demand for paper packaging is growing together with overall growth of economy in Lithuania.

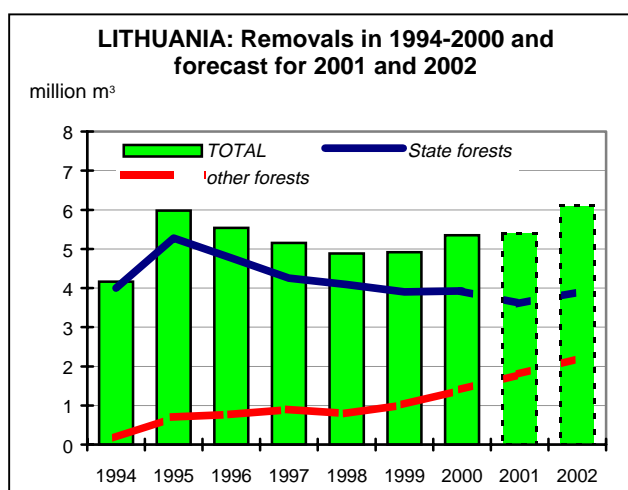
Roundwood including pulpwood

Natural calamities in 1994–1996 (windthrows and bark beetle damages in spruce stands) caused steep increase in volumes and structure of roundwood removals. During 1997-1999 removals stabilised at 5 million m³ level. The storm Anatol in December 1999 damaged about 0,5 million m³ of trees (70-80% spruce), which were felled in 2000. This factor together with growing fellings in private forests influenced the growth in removals by 10% to 5,3 million m³ in 2000.

In 2001, due to insufficient demand by domestic industries and extremely low roundwood prices (prices are at the lowest level since 1996) removals are expected to remain at the similar level as in 2000. In nine months this year, fellings in state forests decreased by 10%. And only growing supply from private forests (+25%) maintains the same felling level as in 2000. This year private forests' share in roundwood removals accounted for 33%, while in 2000 it was at 26%. In coming years, private forests share in removals gradually will reach 40-50% together with progress in forest land restitution to former owners process.

This year the supply of coniferous roundwood is estimated to fall slightly by 5%, mainly because of reduced removals of coniferous fuelwood. In 2000 coniferous accounted for 50% of total removals and this year no considerable changes are expected in roundwood supply structure – conifers will account for roughly 50% of removals.

Pulpwood (including wood for board industry) supply is expected to be at the same level this year. However pulpwood exports is expected to increase by 10% this year (particularly conifers). Pulpwood export prices in 2001 are at the lowest level since 1995, and no price increases are expected this year.



LITHUANIA: Roundwood removals and trade (forecasts)

Product	Year	Production	Imports	Exports
		1 000 m ³		
Industrial roundwood	2000	4 146	60	1 200
	2001	4 355	100	1 430
	2002	4 590	120	1 480
of which: - logs	2000	2 800	60	234
	2001	3 000	50	350
	2002	3 100	70	280
- pulpwood	2000	1 321	-	966
	2001	1 320	50	1 080
	2002	1 450	50	1 200
Fuelwood	2000	1 200		
	2001	1 050		
	2002	1 050		

Sweden and Finland accounts for about 65% of Lithuania's pulpwood exports and deliveries to these countries remained at the same level as in 2000. The new development this year is started re-export of pulpwood from Belarus to Nordic countries. The rest of pulpwood is exported to Kaliningrad region, Russia (spruce, aspen) and Poland (conifers, birch). These two markets absorb similar volumes as in 2000 (increase to Poland, and decrease to Russia).

In the domestic market there is seen a trend of decreasing demand for pulpwood (wood for particleboard and fibreboard industries) over the last years. Board companies prefer chips and residues (slabwood, sawdust) from sawmill industry rather than roundwood.

Softwood (logs and sawnwood)

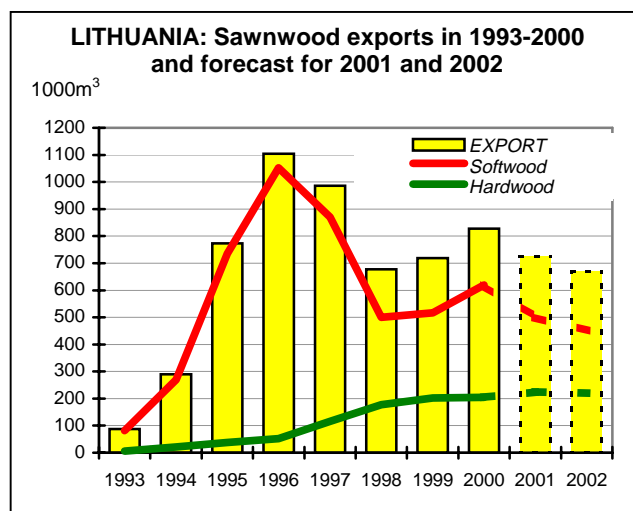
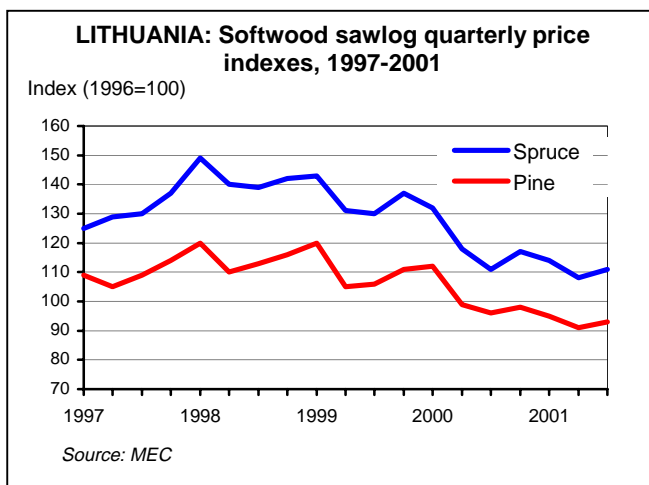
This year softwood log removals are expected to remain at the same level as in 2000 (1,7-1,8 million m³). The volume will be maintained by increased supply from private forests mainly, while removals in state forests declined by 10-15% this year. Removals in state forests decreased because of two main reasons – reduced fellings of spruce in storm damaged stands and low softwood sawlog prices, which are at the lowest level since 1997. This year state forests account for about 50-55% of total softwood sawlog supply, while last year it was at 60-65%. The role of private forests is constantly increasing and their share in the market is expected to grow further in coming years. Softwood log import volumes (from Russia, Belarus) do not play a significant role (below 50,000 m³ annually) and it is not expected to grow significantly in coming years (mainly due to high transportation costs).

Export of softwood logs is expected to grow by 40-50% in 2000 and reach 300,000 m³. The main buyer of logs is Poland (pine), but also deliveries to Latvia, Sweden, Austria and Estonia (spruce) were started or increased considerably this year.

Sawlog prices showed clear downward trend this year, both sales to local sawmills and exports. During first six months prices dropped by about 10-15%. However in autumn some improvement in prices (especially spruce) is reported, due to the shortage of availability of logs. In next year the competition for spruce logs is expected to tighten due to the new consumer – plywood mill, entering the market.

In 2000, production of sawn softwood increased by 15% to 1,0 million m³, as compared to 1999. Many sawmills took advantage of higher availability of logs due because of fellings in storm damaged spruce stands. This year sawn softwood production is expected to decline by 5-10%, mainly due to shortage of spruce logs, which removals are expected to decrease slightly and competition from exporters is growing.

This year sawn softwood exports declined steeply by 20% and will total about 500,000 m³ (620,000 m³ in 2000). At the same time imports remain unchanged and will be at 250,000 m³ this year. Apparent consumption of sawn softwood is expected to grow further in coming years. Current domestic consumption level (500-600,000 m³/yr) still is far from the level of the 1980's (nearly 1 million m³/yr), and is expected to grow together with the general recovery in economy.



LITHUANIA: Sawnwood production and trade (forecasts)

Product	Year	Production	Imports	Exports
		1 000 m ³		
Coniferous sawnwood	2000	1 000	260	619
	2001	900	250	500
	2002	900	250	450
Non-coniferous sawnwood	2000	300	19	204
	2001	350	30	225
	2002	350	30	220

In first months of this year, exports to the main market – Germany, which account for 35% of export, declined by 33%. Deliveries to the second biggest export market, North America, which accounts for 23% of exports, stays at the same level as in 2000. Deliveries to UK increased by 20%. Exports to other main markets (Belgium, Netherlands, Denmark) decreased by 10-20%.

Sawn softwood imports are relatively stable this year. The main sources of imports are Russia (70%), Belarus (17%); the rest of wood comes mainly from Latvia and Ukraine.

Summarising, Lithuanian sawn softwood market with reducing exports could not be described as the sector with overall downward tendency. It should be remembered, that growing domestic demand (which is still at 50% from the level of 1980's) plays a significant role there and small scaled Lithuanian sawmills, which account for major part of production volumes, prefer to sell wood for domestic consumers and the producers/exporters of value added products (secondary processed sawnwood, joinery and carpentry goods, solid wood panels, prefabricated wooden buildings, furniture and others). Lithuanian export of mentioned value added timber products was constantly increasing over the last years.

Hardwood (sawnwood and logs)

Non-coniferous log removals declined slightly by 5% to 1,1 million m³ in 2000, mainly due to increased felling in storm damaged conifers stands. This year the removals of hardwood logs are expected to reach the level of 1999 (1,2 mill m³) and increase by further 5% next year.

The main species removed as logs from Lithuanian forests are birch (45%), aspen (25%), alder (15-20%), oak and ash (10-15%). Plywood industry consumes about 50% of birch and 20-25% of black alder logs. The rest is consumed by sawmilling industry or exported at small extent. Relatively small volumes of hardwood logs are exported (in 2000 – 25,000 m³, mainly birch and ash) and imported (in 2000 – 26,000 m³, mainly oak, beech and birch).

In first half of this year hardwood log prices declined by 5-10%. Only oak log prices remain firm, and birch prices recovered in autumn.

In 2000, the export of hardwood logs should double, mainly because of increased deliveries of ash, birch and alder to Poland, which accounts for 80% of hardwood log exports. The rest of exports consist of deliveries to Latvia, Sweden, France and Estonia (mainly birch).

Hardwood log imports is expected to increase by 10-20% to 30,000 m³ this year, and by further 50-60% in 2002. The main tree species imported are oak (from Russia, Ukraine), which accounts for 80% of imports. Also beech, which is not growing naturally in Lithuania, import is increasing (mainly from Ukraine). Oak is highly demanded by the fast developing local sawmill industries, and it is not enough of local oak resources for their development.

Next year, when the greenfield veneer and plywood mill will start operation, hardwood log (beech) imports is expected to increase considerably. Also, the demand and competition on birch and other hardwood logs is expected to increase dramatically next year.

Sawn hardwood production increased significantly during 1997-2000. Many small sawmills producing packaging grades for export were compelled to turn into wider use of hardwoods due to decreased supply and increased prices of softwood logs. In 1998-2000, sawn hardwood production doubled to 300,000 m³, and it is expected to increase by further 10-15% this year. Packaging grades account for the main share in Lithuania's sawn hardwood production and exports.

In first six months 2001 sawn hardwood exports showed further increase by 12%, compared to 2000. Sales to Germany and Belgium (both by 40%) increased considerably. These two countries account for 80% share in Lithuania hardwood exports, most of which are packaging grades. Oak, which accounts for 10% of sawn hardwood exports, deliveries grew by 5% this year.

Sawn hardwood imports increased by 50% this year. Such growth should be addressed mainly to increased deliveries of oak (from Ukraine, Russia) and beech (from Poland, Ukraine). These two tree species account for 40% of hardwood imports.

Sawn hardwood production is expected to grow further in nearest years, however export is expected to remain at the current level (200,000 m³), as the domestic consumption is growing together with increasing demand from furniture, furniture components, solid wood panel producers.

Wood-based panels

Lithuanian wood-based panel sector is experiencing the biggest changes among the forest industries.

Veneers production was launched this year when the new mill came onto stream. The company will produce peeled and sliced veneers (also plywood) from birch, beech, alder, oak, ash, mainly for exports in nearest future.

Plywood production is expected to double in coming years, and additionally softwood plywood will be produced by the recently erected new mill (by now only birch and black alder was used). Most of the produced plywood are exported or converted into furniture components (bed slats, etc).

Particleboard producers are running at full capacity this year. Production increased by 30% during first six months of this year, and it is expected to reach 190,000 m³. Export is expected to grow by 30%; most of the volume is going to Poland, UK and Russia. In July one of the producers started the new particleboard lamination line. Earlier laminated board was not produced in Lithuania. Laminated particleboard will be marketed mainly for domestic furniture industry. Projected capacity of the new line - 45,000 m³/yr.

In medium term, particleboard consumption is expected to grow by about 10% annually (mainly because of fast development of furniture sector), and part of imported material will be replaced by domestic particleboard.

Fibreboard production is recovering from record low levels in 1999. This year production increased by 5%, however, it remains down by about 10-20% on 1997-1998 levels. Export is growing in line with increasing production, while imports experienced rapid growth in the last years. The share of MDF (which is not produced in Lithuania) in imports is steadily increasing.

Certified forest products

In 2000 an initiative for certification came from Lithuania's state forest authorities, which applied for FSC certification of 70,000 ha of state forest. In autumn this year FSC certificates were issued for 70,000 ha of state forest (encompassing 2 state forest enterprises, including 1 state-owned sawmill).

By autumn this year four Lithuanian wood processing industries, were awarded with FSC chain-of-custody certificates. At least four more companies already applied for the FSC chain-of-custody certification by September 2001, and several companies are going to apply for FSC certification in nearest future.

Forest owners association is elaborating national PEFC standard.

So far (until October 2001) no any Lithuanian product with FSC or other label has entered marketplace.

LITHUANIA: Wood-based panel production and trade (forecasts)

Product	Year	Production	Imports	Exports
		1 000 m ³		
Veneer sheets	2000	0	5	1
	2001	5	7	5
	2002	15	10	15
Plywood	2000	38	9	27
	2001	60	11	45
	2002	90	12	70
Particle board	2000	150	63	133
	2001	190	80	175
	2002	190	70	150
Fibreboard	2000	62	37	51
	2001	65	45	55
	2002	75	50	65

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