

Country: LITHUANIA  
MARKET STATEMENT

## 1 General economic trends

Lithuanian industry in 2003 continued to grow. In 2003 gross domestic product (GDP) increased 9.0% (2002 – 6.7%).

In the first half of 2004 Lithuanian GDP grew in the similar rate. GDP in the first quarter of the year, comparing with the same period of 2003 increased 7.1% (2003 – 9.9%) and in the second – 7.3% (8.0%).

In 2003 forest sector accounted for 3.8% in gross value added (in 2002 – 3.6%): forestry was 0.6% (0.6%), woodworking industry - 1.7% (1.6%), pulp and paper industry - 0.3% (0.3%) and furniture industry - 1.2% (1.1%). Industry production sales (at constant prices) in general increased 14.0%, while woodworking industry 23.9%, pulp, paper and paper products – 10.3%, furniture – 24.2%.

The share of forest sector in total gross value added continued to grow in the first quarter of 2004. Woodworking industry made up 1.9% of, furniture industry – 1.6%, forestry – 0.6%, pulp and paper industry - 0.3%.

Investment in tangible fixed assets accounted for EUR 2515 million in 2003. It is by 6.2% higher as compared to 2002. Investments to manufacture industry comprised 18.9% and to construction - 2.4%. Investments have been growing in Lithuania this year as well. Over I Quarter 2004 year the investments in tangible fixed assets increased 8.8%, as compared to the corresponding period of 2003. Manufacturing industry comprised 20.5%, while construction made up 3.8%.

As of 1st January 2004 foreign direct investment (FDI) totaled EUR 3971 million and over 2003 increased by 4%. Leaders in investments were the same like in 2002. Major country investors were Denmark (17.3%), Sweden (14.7%). Estonia, which was third major investor in 2002 was changed by Germany. The investments from Germany comprised 9.7% of total foreign direct investments. Over the 2003 year the biggest investments were made by Finland – EUR 104 million. Its share has increased from 6.2% up to 8.6%. Major investment was made into manufacturing – 31.1% of total foreign investment, whole sale and retail trade; repair of personal and household goods – 17.9%, financial intermediation – 15.7%.

As of 1st January this year FDI into forest industry totaled EUR 120 million and accounted for 3% of total FDI or 10% of FDI into manufacturing industry. Forest industries altogether (woodworking, paper and furniture) remained the third biggest subsector behind food products, beverages and tobacco; refined petroleum and chemical products industries according FDI into Lithuanian manufacturing industry.

Over I Quarter 2004 year foreign direct investments totaled EUR 148 million and were just slightly lower then in 2003.

As of 1 April 2004, foreign direct investment per capita was EUR 1196.

In 2003 export growth rate decreased from 11% down to 8.7%. The European Union remained the main market comprising 42% of the total Lithuania's export. Export of wood and wood products increased by 19%. The share of these products in the total export augmented from 10% to 12%. Germany, Sweden and the United Kingdom were the main market of wood and wood industry products. Almost two-thirds of wood industry products were exported to the countries of the European Union.

Total import in Lithuania increased 4.9%. Import from European Union comprised 44.7% and Commonwealth of Independent States (CIS) – 25.5%. Import of woodworking

industry products increased 15% in 2003. The greatest import partner remained Poland. The import from Germany has increased 11% and was higher than from Russia, which took third place among the major suppliers.

In 2003 expansion of construction work volumes was prompted by growing efficiency of new construction, reconstruction and of the structure. Over the year 2003 it was carried out construction works for EUR 1154 million and it was 16% more than a year before. The biggest share in construction was taken by new construction – 39.2%, repairs – 27.4%, reconstruction – 29.6%, other works – 3.8%.

The value of construction works carried out during the first part of 2004 was EUR 533 million and it was 24% higher than for the same period in 2003.

In December 2003 consumer price index was at 98.7% (December 2002 = 100%).

## **2 Policy measures**

According to new Regulations on Management of Private Forests (since 29<sup>th</sup> of June 2004) the cutting permissions are required for all kind of cuttings in private forests in Lithuania except pre-commercial thinning and cutting of deadwood. In compare to the previous Regulations the cutting permissions are additionally required for clear and selective cuttings of aspen, white alder, sallow and willow stands.

## **3 Developments in forest products markets sectors**

### ***A Roundwood***

Volume of annual felling was increasing for the last 5 years. In 2003 the felled volumes comprised 6.46 million m<sup>3</sup> or by 3% more than a year ago. In state forests they have been steady since 1999 and now vary minutely. The felling volume in these forests has diminished by 4% up to 3.76 million m<sup>3</sup> in 2003. The increasing volume of cuttings in private forests has been the reason for the rising total felling volume. Fellings in these forests totaled 2.7 million m<sup>3</sup> in 2003. The felling volume here has increased by 12.5%, comparing to 2002.

Local consumers purchased and consumed around 5.1 million m<sup>3</sup> of roundwood. This amount in recent years is slightly growing up. The amount of roundwood, exported to other countries haven't changed, it was 1.4 million m<sup>3</sup>. Half was exported to Scandinavia – 0.7 million m<sup>3</sup>. Export of roundwood to Latvia increased more than 30% to 0.2 million m<sup>3</sup>. If two years ago the greater part of exported volume comprised pulpwood, then in 2003, it was just half of that. The increasing demand for solid wood in local market didn't have greater effect on export to Latvia. The sales in Russian market has decreased 13%, and in Polish - 10%.

Import of roundwood decreased 25% down to 78000 m<sup>3</sup> in 2003. The import from Belarus, which has been growing up for couple of years decreased more than 50%. In spite of the fact, 40% of roundwood was received from Belarus and it remained the main supplier of the goods. Imported volume of roundwood from Russia comprised 38%, from Ukraine - 18%. Import from Russia has increased 16% and the biggest share comprised

the roundwood of coniferous. Despite the growth, the import from Russia remained two times less than in 1999. The import from the Ukraine has reverted and reached the previous level, after it has experienced the decline in 2002.

During 2003 average roundwood price in state forest enterprises and national parks slightly augmented. In the beginning of the year the prices of roundwood were dropping down and reached the lowest point in late years, but they rose up as soon as the lack of wood appeared. In December, 2002 the prices of almost all tree species logs were higher than one year before. Competition among the buyers, who procure the lower quality wood, rose up the prices of wood for board industry and fuelwood. Fuelwood price, comparing to 2002, has increased 13%.

### ***B Wood energy***

The consumption of wood waste energy sector was grew in 2003. Prices for fuelwood in state forests due to the growing competition between heat plants and wood-based board's producers have increased by 10-15%.

### ***C Certified forest products***

The certification of state forests in FSC system, started in 2001, has been successfully continuing. It was carried out by Danish certification company NEPCo. In 2003 company certified 16 state forest enterprises, which owned forest area amounted to 375000 ha. In 2004 the last state forest enterprises should receive their certificates and the area of certified forests in Lithuania will amount to about 1 million ha, which will comprise half of all Lithuanian forests.

Lithuanian Forest Owner Association is elaborating the national PEFC standard. The initiative group for establishment of PEFC Certification Scheme in Lithuania and later - PEFC National Coordination Group for Lithuania was formed in 3rd February 2000. PEFC Lithuania Council was constituted in meeting 15th November 2002. The public non profit organization "PEFC Lithuania" was established in 20th May 2003. It will be Governing Body for development of National forest certification scheme until this scheme will be formally registered by PEFC. In September of 2004, it was prepared the final draft of "PEFC Lithuania" and now it is waiting for the approval of PEFC Council in Luxembourg.

In 2003 four Lithuanian wood processing industries were awarded with FSC chain-of-custody (CoC) certificates.

### ***D Value-added wood products***

In 2003 exports of value added forest products continued to grow considerably. Most rapid growth of export was observed of prefabricated wooden houses (43%). Growth of furniture export was slightly slower (36%). Export of wooden wrapping and packaging equipment has increased 20% while builder's joinery and carpentry of wood export grown up 28%. Furniture predominated among other export goods. During the last year in foreign markets it was sold furniture production for EUR 327 millions.

### ***E Sawn softwood***

In 2003, production of sawn softwood was nearly 1.0 million m<sup>3</sup>. Increase was determined by higher amount of fellings.

The export of sawn softwood reached 680,000 m<sup>3</sup> in 2003. There were significant changes in export markets. After decline of USA dollar exchange rate, export to North America decreased one and half times. Sales in German market have diminished 9%. The main export market became United Kingdom, where sales of sawn softwood increased 78%.

The increasing demand in domestic market induces the growth of import of coniferous sawn softwood. Sawn softwood import in 2003 has increased 13% up to 310 000 m<sup>3</sup>. The import for Russia, the main supplier of sawn softwood, has slightly decreased, while import from Belarus was constantly increasing. During the year it has increased from 55 000 m<sup>3</sup> to 99 000 m<sup>3</sup>.

This year production of sawn softwood is expected to remain at the same level, like it was in 2003, while export will be diminishing. In first six months of 2004 sawn softwood exports decreased by 6% and totaled about 324 000 m<sup>3</sup>.

This year exports to the one of major market – Germany, continued to decrease. Export to this country during the first six months has decreased 25%. The export to Belgium has been reduced even more - 44%. Therefore the sales in United Kingdom market continue to grow (17%). Sales in this market accounted for 36% of exports in January-June.

This year sawn softwood import is increasing by 25%, and reached 206 000 m<sup>3</sup>. The main share of imports (53%) was supplied by Russia. After the increase of 65% of import from this country in 2002, this year there was no such growth. Deliveries from Belarus increased 83% in 2003 and this country is becoming one of the most important suppliers of sawn softwood. Most of this wood is converted into value-added products (planed, kiln dried timber, also prefabricated buildings, joinery goods, gluelam, etc.), which are sold both in external and domestic markets.

On the second half of 2003 it have been opened a new greenfield softwood sawmill in Alytus. It is second sawmill in Lithuania which annual capacity should reach 150 000 m<sup>3</sup>/yr. After this sawmill was started, it became more complicated for smaller sawmills in Lithuania to get necessary amount of raw material.

### ***F Sawn hardwood***

In 2003, sawn hardwood production increased to 450 000 m<sup>3</sup>. Hardwood production in this year is expected to remain at the same level like in previous year. Sawn hardwood was mainly sold in Germany and Belgium but the sales of the first half of this year show that importance of these markets is decreasing. The sales to Germany have decreased 32% and to Belgium - 24%. Export of sawn hardwood to France was twice bigger than in first half of 2003.

Import of sawn hardwood is rising. Total import of hardwood was around 72000 m<sup>3</sup>, when the largest shares of import were received from Russia and the Ukraine. Nearly half of imported hardwood was oak.

### ***G Wood-based panels***

It was produced 247 800 m<sup>3</sup> of particleboard in 2003. During the first six months of this year the production of particleboard was 132 000 m<sup>3</sup>, and its production has nearly reached full capacity of factories. The demand of particleboard in furniture industry keeps on increasing further and promotes their producers to look for possibilities to increase their

production. Export of particle boards decreased by 5% in 2003. Drop of export in the first half of 2004 was more significant – 18%. Therefore imports grow feather. The volume of imported particle board increased 63% in 2003 and was higher than export.

Fibreboard production has increased 28% up to 20 400 million m<sup>2</sup>. From this amount, hardboard compound 16200 million m<sup>2</sup>. Its production has grown 25% during last year. Production of isolating fibreboard has increased 40%.

The amount of produced plywood intended for sale has diminished one third to 17100 m<sup>3</sup>, as it was more profitable for its producers to sell its products. The same situation was in 2004. Furthermore, in beginning of 2003, it was closed down one of the factories producing plywood.

### ***H Pulp and paper***

Production of pulp from pulpwood discontinued in Lithuania since early 1990's. The Lithuanian government is still looking for investors for the construction of a pulp mill. In the year 2000, a Japanese consortium carried out a feasibility study for setting up a pulp mill in Lithuania and declared them in favour of such an undertaking. There are considered three potential sites for plant. Lithuanian ministry of Economic has ordered environmental compatibility studies for these three locations. At the moment the local municipalities, are discussing these studies.

Besides tax benefits, the Lithuanian government is offering investors in the pulp mill long-term contract which will guarantee for the pulp mill an annual supply of 1.5 m m<sup>3</sup> of pulpwood from state-owned forests. This volume will make up approximately 60% of total requirements of the planned pulp mill.

Paperboard production is growing since 1995 and reached 76 900 tons in 2003. It is 14% more then in 2002. Figures for the first half of this year prove that production will grow 10%.

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