

Country: LITHUANIA
MARKET STATEMENT

1 General economic trends

Lithuanian industry in 2004 continued to grow. Gross domestic product (GDP) increased by 6.7% in 2004 (2003 – 9.7%).

Lithuanian GDP was growing in the first half of 2005, and comparing with the same period of 2004, increased 7.0%.

In 2004 forest sector accounted for 4.1% in gross value added (in 2003 – 3.8%): forestry made up 0.6% (0.6%), woodworking industry - 1.7% (1.7%), pulp and paper industry - 0.3% (0.3%) and furniture industry - 1.5% (1.2%). Industry production sales (at constant prices) increased 16.4%, while sales of woodworking industry -13.6%, pulp, paper and paper products – 0.8%, furniture – 31.8%.

Investment in tangible fixed assets accounted for EUR 2515 million in 2004. It was 6.2% more, compared to 2003. 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 of 2004, 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 2005 foreign direct investment (FDI) totalled EUR 4694 million and over 2004 increased by 18%. Investing leaders remained the same like in 2003. Major country investor was Denmark. Share of Denmark in total investments reached - 15.8% (2003 – 17.3). The share of Sweden comprised 15.0%, Germany -11.4%. Russia made biggest investment in 2004. It totalled EUR 165 million. Its share has increased from 5.8% up to 8.4%. Major investment was made into manufacturing – 34.0% of total foreign investment, while it was invested 14.4% to wholesale and retail trade, repair of personal and household goods and 16.0% to financial intermediation.

FDI into forest industry totalled EUR 139 million and accounted for 3.0% of total FDI or 8.7% of FDI to manufacturing industry. According to FDI to Lithuanian manufacturing industry, altogether forest industries (woodworking, paper and furniture) remained the fourth biggest sub-sector behind food products, beverages and tobacco; refined petroleum and chemical products; rubber and plastic products industries.

Over I quarter of 2005, around EUR 388 million of foreign direct investments reached Lithuanian forest industry, which was twice more than in 2004.

As of 1 April 2005, foreign direct investment per capita was EUR 1485.

In 2004 export growth rate increased from 9.1% up to 16.6%. The European Union remained the main market comprising 66.4% of the total Lithuania's export. Export of wood and wood products increased 15%. The share of these products in the total export decreased from 11.9% down to 11.6%. 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 13.6%. Import from European Union comprised 63.0% and Commonwealth of Independent States (CIS) – 26.9%. Import of woodworking industry products increased 19% in 2004. The greatest import partner remained Poland – 22%. The import from Germany reached - 12% and Russia - 11%.

Construction enterprises carried out work valued at EUR 1401 million over year 2004 and it was 4.7% more than year before. New construction made up greatest share – 40.6%, repairs – 28.7%, reconstruction – 27.4%, other works – 3.3%.

The value of construction works carried out during the first quarter of 2005 was EUR 217 million and it was 3.9% higher, compared to the same period in 2004.

In December 2004 consumer price index was 102.9% (December 2003 - 98.7%).

2 Policy measures

According to new Regulations on Management of Private Forests (since 29th 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. Compare to the previous Regulations the cutting permissions now are also required for clear and selective cuttings of aspen, white alder, sallow and willow stands.

At the end of 2004, Lithuanian government approved the order of estimation and payment of compensations to private forest owners, whose forest estate are situated in protected area, as they sustain from economical losses, which appear due to cutting restrictions on these areas. According to this decision, around one third of private forest owners will be able to apply for compensation in coming years, which should improve economical statement of private forest sector, and ensure proper forest management in protected areas.

3 Developments in forest products markets sectors

A Roundwood

Felling volume was increasing for the last five years since 1999. In 2004 the felling volume comprised less than 6.3 million m³ or 2% less than a year ago.

Total felling volume declined, because felling rates in state forest were reduced by 4%, down to 3.6 million m³. State forest enterprises and national parks, including contractors, felled 3.3 million m³, while stumpage sales made up 0.3 million m³.

Felling rate in private forests had been rising already ten years, but in 2004 they became steady. In 2003, it was felled around 2.7 million m³ of timber. Similar amount of timber was removed in 2004, so the share of prepared timber in private forests changed from 42% to 43%.

Local consumers purchased and consumed around 5.4 million m³ of roundwood. This amount in recent years is slightly growing up. The amount of roundwood exported to other countries, decreased 15% down to 1.2 million m³. Sales of roundwood decreased on the main markets. It decreased by 12% in Sweden, 14% in Latvia, and 20% in Finland. Export to Russia had highest fall – 30%, while export to Poland increased 3%. A greater amount of pulpwood was taken to Norway.

In 2004, import of roundwood increased 2.7 times, up to 221,000 m³. In 2003, import from Belarus slipped down 50%, whereas in 2004 it increased up to 127,000 m³. It was imported four times more from this country, than in 2003. Therefore the import from Belarus was half time higher, compared to previous year.

Overall demand for roundwood was higher in 2004, than year before, so price increased significantly. Over 2004, average roundwood price in state forest enterprises and national parks augmented from 77 LTL/m³ to 89 LTL/m³. The boost of prices

continued at January 2005, but storm had changed situation in the market. Abundance of raw material started to push down prices of coniferous logs and pulpwood, especially spruce.

B Wood energy

The consumption of wood waste in energy sector was growing in 2004. Prices for fuel wood in state forest enterprises due to the growing competition between heat plants and wood-based board's producers have increased 15%.

C Certified forest products

The certification of state forests in FSC system started in 2001. Danish certification company NEPCo carried it out. In 2004 the last 14 state forest enterprises received their certificates. The first stage of certification was completed. All state importance forests owned by state forest enterprises were certificated 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 (LFOA) has elaborated the national PEFC standard. The standard establishment began in 2000. The Technical document was finalized in spring, 2005. The Lithuanian Forest Certification Scheme submitted by PEFC Lithuania is now undergoing the PEFC endorsement process. Based on stringent tendering procedures the PEFC Council appointed Savcor Indufor Oy, as an independent consultant to carry out the assessment of the Lithuanian scheme against the PEFC Council requirements for forest certification schemes. The assessment report provided by the consultant will create the basis for the PEFC Council's decision on the Lithuanian certification scheme's formal endorsement. The assessment process has stopped lately, as LFOA has not enough money to cover expenses of assessment process. LFOA expects to receive needed financial support from Ministry of Environment in coming months.

FSC has released new chain of custody standards for manufacturers since December 9, 2004. The new standards are designed to grow the FSC system, increase the portion of FSC certified material in products over time and resolve some existing challenges with the FSC system. The main changes in standard will be relevant for companies working with certified and non-certified wood. It was also introduced new FSC labelling. The companies, looking forward to obtain FSC certificate, according to new standard will be audited from January 1, 2006. While the companies, which already have FSC certificates will have to introduce new requirements till the beginning of 2007.

In August 2005, already 20 companies of wood processing industries were certified according to FSC requirements. Six of Lithuanian woods processing industries were awarded with FSC chain-of custody (CoC) certificates in 2004.

It was also assessed forest management of the first group of private forests according to FSC standard. SGS Qualifor did the audit. The group consisted of 8 private forest estates, under the leadership of Stora Enso miškas UAB. The audit was carried on the area of 1667.9 ha of forests. The decision, to award this forest group with FSC certificate or not, will be pronounced in November.

D Value-added wood products

In 2004 exports of value added forest products continued to grow considerably. Most rapid growth of export was observed of production builder's joinery and carpentry of

wood -27%, wooden wrapping and packing equipment – 22%. Growth of furniture export was slightly slower (20%). Furniture predominated among other export goods. Furniture production was sold for EUR 327 millions in foreign markets during the last year.

E Sawn softwood

In 2004, production of sawn softwood was nearly 1.0 million m³. The export of sawn softwood reached 613,000 m³ in 2004. There were significant changes in export markets. Sales in German market have decreased by 37% to 113 000 m³. Share of sales in this market diminished from 26% to 18%. Sales in North America (USA, Canada) increased 36% to 136 000 m³. The main export market remained United Kingdom, where export of sawn softwood reached 213 000 m³, the same quantity like in 2003.

The increasing demand in domestic market induces the growth of import of sawn softwood. Sawn softwood import in 2004 has increased 49% up to 458 000 m³. Belarus was the main supplier and provided 214 000 m³ of sawn. Import from Belarus increased 117%. The import from Russia increased 15% to 208 000 m³.

It is expected that production of sawn softwood will slightly increase this year. The exports of sawn softwood decreased 3% and totalled 315 000 m³ over first six months of 2005.

The exports to all major Europe markets have been decreased this year. Export to the United Kingdom has decreased 12% during the first six months. More significant drop in sales was in Germany - 27%. The export to Denmark has been reduced by 7%. Therefore the sales in North America markets continue to grow. Export increased 66% and totalled 29% of total export in the first half of 2005.

This year sawn softwood import has increased 53%, and reached 315 000 m³. The main share of imports (55%) was supplied by Russia – 174 000 m³, whereas import increased 59%. Deliveries from Belarus increased 53% to 123 000 m³ in 2004. 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.

F Sawn hardwood

Sawn hardwood production increased to 470 000 m³ in 2004. Export of sawn hardwood decreased 7% to 313 000 m³. Sawn hardwood was mainly sold in Germany (32%) and Belgium (24%) but the sales in these markets were decreased compared to previous year. The sales in Germany decreased 24% and in Belgium - 13%. Export of sawn hardwood to France doubled compared to 2003. Export trends remained the same in the first half of 2005 as year before. The sales decreased 2% down to 145 000 m³. Sales in markets of Germany and Belgium continued to dwindle. Significantly higher quantities were sent to France and Spain markets.

In 2005, import of sawn hardwood rose 31% up to 77 000 m³. Import increased 76% up to 54 000 m³ in first half of 2005. The largest shares of import were received from Russia (38%) and the Ukraine (22%).

G Wood-based panels

It was produced 270 000 m³ of particleboard in 2004. The local producers could not satisfy the demand of furniture industry and import of this production was still

increasing. The volume of imported particleboard increased 27% to 209 000 m³ in 2004 and by 31% up to 117 000 m³ over the first half of 2005. Export of particleboard decreased by 24% down to 81 000 m³ in 2004.

Fibreboard production has increased 28% up to 22 300 million m². From this amount, hardboard compounded 17 500 million m². Its production had grown 8% during last year. Production of isolating fibreboard has increased 14%.

The amount of produced plywood intended for sale has diminished by 7% to 15 900 m³, because biggest part of plywood was consumed by its producers for producing of furniture and other products.

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