www.unece.org/forests/mis/market/market-57/lithuania.html

M A R K E T S T A T E M E N T

General economic trends

During 1996-1998 Lithuania experienced the steady growth in economy. In 1998 Lithuania's gross domestic product grew up by 5.1%, compared to 1997. Last year forest sector accounted for 2.5% in GDP (in 1997 - 2.8%): forestry - 0.6% (0.7%), woodworking industry - 0.8% (0.9%), pulp and paper industry - 0.4% (0.4%) and furniture industry - 0.7% (0.8%).

In 1998 industry production sales (at constant prices) increased by 7.0%, woodworking industry – by 12.4%, furniture – 11.8%, and only sales in paper industry declined by 4.9%.

As of 1st April 1999 foreign direct investment totalled USD 1745 million. In 1998 investments amounted to USD 585 million, in first three months this year - USD 120 million. This year Sweden overtook the former leader in investments - USA. Major country investors are Sweden (17.3%), USA (15.3%) and Finland (10.8%). Manufacturing accounted for 32.4% of total foreign investment, trade - 25.1%, post and communication services - 18.5%. Forest industries (woodworking, paper and furniture) are the fifth biggest industry sector where direct foreign investments totalled at USD 52 million (9.2% of total investment in industry).

Russian crisis caused the recession in economy of many Eastern Europe countries. Lithuania was not exception in this case; its economic indicators worsened during first half of 1999.

According to Statistics Department, GDP in the first quarter was by 5.7% lower as one year ago. According to the latest estimates, GDP growth is expected to be below one per cent this year.

In June 1999 consumer price index was at 100.7% (December 98 = 100). In June 1999 mining and manufacturing industry producer prices were by 2.8% down, compared to June 1998. However producer prices raised by 2.4% during January-June this year. Woodworking industry producer prices showed drop by 6.6%, pulp and paper industry - 4.0%, furniture industry - 2.8% during six months of this year. In June 1999 construction cost index was at 101.9% (December 1998 = 100).

The impact of Russian crisis for forest industries was not so strong as for most other sectors. Since the beginning of the independence Lithuanian timber sector was export oriented to Western markets. Therefore Russian crisis did not impair forest industry directly as other sectors, which lost their main eastern markets (food producers and others). The main problems met by forest industry this year is decreased domestic consumption (furniture) and competition with cheaper imported products (wood-based panels). According to Department of Statistics, woodworking industry showed further increase in sales since 1995. In 1998 Lithuanian woodworking industry sales (at constant prices) increased by 1.5%, year on year. Comparing to the tendency in whole industry (sales declined by 8.5%), this is of course good result. Pulp and paper industry and furniture industries did not avoid drop in sales this year, respectively by 21.8% and 1.7%. These two sectors got more impaired by shrunken domestic consumption.

This year timber products external trade showed an increase by 4% (both export and import), while total Lithuania’s exports declined by 24% and import – by 19%.

Lithuania's construction sector slackened this year. Amount of work carried out by construction enterprises (at current prices) declined by 7.2% during six months, while in 1998 it performed growth by 21.8%.

Forest products markets

Roundwood including pulpwood

Natural calamities in 1994 – 1996 (windthows 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 m^3 level.

In 1998 roundwood removals decreased slightly by 5% to 4,9 million m^3. Supply of coniferous roundwood declined by 20%, mainly because of reduced removals of coniferous pulpwood. In 1998 coniferous accounted for 50% of total removals (in 1997 – 60%). This year no considerable changes are expected in roundwood supply structure – conifers will account for 50% of removals.

In 1998 private forests share in roundwood removals accounted for 16%, and this year is

expected to increase to 20%. In coming years, private forests share in removals gradually should reach 40-50% together with progress in forest restitution to former owners.

Pulpwood (including wood for board industry) supply is expected to decline slightly this year because of decreased demand from domestic panel industry. However pulpwood export is expected to increase by 10-15% this year (particularly birch). Pulpwood export prices were favourable in 1998 being at the highest level since 1995. However in spring this year pulpwood export prices dropped steeply (by 10-15%), and no signs of recovery were noticed until autumn.

Sweden accounts for about 75% of Lithuania's pulpwood exports and deliveries to this country increased by 60% this year. Kaliningrad region pulpmills (Russia) were decreasing imports of spruce pulpwood steadily during last years (50% drop this year) and this year account for less than 20% of exports. New development in pulpwood exports is since autumn 1998 increasing deliveries to Poland (mainly spruce and birch).

Softwood (logs and sawnwood)

As mentioned above, supply of conifers (spruce) was decreasing steadily since 1996. In 1998 softwood log removals declined by 10% to 1,4 million m^3, additional 70,000 m^3 were imported from Belarus and north-western regions of Russia. Exports of softwood logs (mainly pine) to Poland increased tripled in 1998.

This year softwood log removals are expected to be at the same level or slightly to increase, compared to in 1998.

Imports from Russia doubled this year, while deliveries from Belarus ceased due restrictions of log exports in this country. This year Russia accounts for 95% in Lithuania's softwood log imports (in 1998 – 50%). Total imports are expected to be up by 20% compared to 1998, however imports still play insignificant role in total softwood sawlog market in Lithuania, accounting for about 5% of total supply.

Softwood sawlog exports are showing steady increase this year and are expected to double to 140,000 m^3. Almost all volume goes to Poland, also some attempts on exports to Germany were noticed.

Sawlog prices showed clear downward trend this year, both sales to local sawmills and exports. During second quarter prices dropped steeply by about 15% to the level of early 1997. However from August improvement in prices (especially spruce) is reported.

Sawn softwood production followed the steep drop in sawlog supply during 1997-1998. In 1998 production decreased by 20% to 900,000 m^3, and exports declined even by 40% to 508,000 m^3. In 1998 exports declined to all export markets with exception of Italy and U.S. Germany remained the main market (57% of exports), followed by UK (11%), Belgium (5%), Netherlands (5%) and Denmark (5%). Interesting development is increasing sales to U.S. market – Lithuania became the fourth biggest supplier of sawn softwood from Europe to this country.

Sawn softwood imports are increasing steadily since 1996. In 1998 imports grew by 50% to 190,000 m^3. The main sources of imports were Belarus (47%), north-western Russia (36%) and Latvia (13%).

At the beginning of this year sawmills production was hampered by unfavourable demand and prices in Europe, weak euro rate (Lithuanian currency is related to US dollar), weakened domestic demand and high prices for logs. Therefore sawn softwood exports in first quarter 1999 were down by 15%, year on year. Steep decline of sawlog prices positively affected sawmilling sector. In second quarter 1999, sawn softwood exports were slightly up, compared to the same quarter 1998. Sawmills reported that domestic market also improved in summer.

In first half 1999, sawn softwood exports were down by 7%, compared to the year earlier period. However different markets showed different tendencies. This year sales to Germany and Netherlands declined by 13% and 24% respectively. Lithuanian sawmills are loosing their market share in these countries due to tightened competition with other suppliers (mainly Belarus, Russia and Latvia). Sales to UK, Belgium, Denmark and United States increased this year. Exports to U.S. doubled, and this country became the

fourth biggest export market for Lithuanian sawn softwood.

Sawn softwood imports continue to grow this year, showing increase by 34% in first half 1999. Imports from Russia increased even by four times and accounted for 75% of total imports this year. While supply from Belarus and Latvia declined by 50%, year on year.

In general, this year as well as in 2000 sawn softwood market should not perform steep changes. Exports are expected to stabilise, domestic consumption and imports to increase gradually.

Hardwood (sawnwood and logs)

Non-coniferous log removals were increasing steadily since 1997. In 1998 removals of hardwood logs increased by 25% to 1,1 million m^3. This year and in 2000 further slight increase is expected. The main species used by industry are birch (45%), aspen (25%), alder (20%), oak and ash (10%). Plywood industry consumes about 50% of birch and 25% of black alder logs. The rest is consumed by sawmilling industry. Relatively small volumes of hardwood logs are exported (in 1998 – 20,000 m^3) and imported (in 1998 – 16,000 m^3, mainly oak and birch).

In first half this year hardwood log prices declined by 5-10%. Only oak prices remained firm.

Sawn hardwood production increased significantly during last years. 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 sawn hardwood production doubled to 250,000 m^3 and is expected to increase by further 10-20% this year. Packaging grades for exports account for the main share in Lithuania's sawn hardwood production.

In 1998 sawn hardwood exports were up by 55% to 180,000 m^3, of which oak amounted to 16,000 m^3 (9%). Germany accounted for 68%, Belgium - 9%, Netherlands – 8% of Lithuania's sawn hardwood export. The majority of sawn hardwood production delivered to these markets consists of palletwood. Sawn oak was mainly exported to Poland, Germany, Belgium, Sweden and Netherlands (77% of total volume).

In first six months 1999 sawn hardwood exports showed further increase by 20%, compared to 1998. Particularly sales to Belgium, Italy and Denmark increased. Germany's share in hardwood exports decreased from 68% to 57% (export volume remained unchanged).

Sawn oak exports increased by 30% this year, and imports – even by four times to 2,000 m^3. Russia and Ukraine account for 85% of sawn oak imports.

Sawn hardwood production, exports, imports are expected to stabilise at current level ore slightly to increase in coming years.

Wood-based panels

In 1998 wood-based panels production stayed at the same level as in 1997 (165,000 m^3). Plywood production rose by 20% to 36,000 m^3, hardboard and insulating board remained unchanged (53,000 m^3 and 16,000 m^3, respectively). Only particle board production declined slightly by 7% to 158,000 m^3. Lithuanian wood-based panel industry exports about 70% of its production. Main markets are Poland and UK.

Russian crisis and weakened markets in Europe mostly impaired Lithuanian wood-based panel industry in 1999. Shrunken European markets, antidumping procedure by EU on hardboard producer and increasing cheap imports from Russia and Belarus hardly affected panel producers. Particle board and hardboard producers were compelled to stop operations for some months in first half this year. Some improvement is expected by the beginning of autumn. In July-August all board mills started production at full capacity and reported increased demand for their production. Total output of wood-based panel industry is expected to decrease by 30% in 1999.

One particle producer announced its plans to invest into modernisation - installation of laminated board manufacturing in autumn 1999. Now laminated particleboard is not

produced in Lithuania, while imports of this production increased by 25% in 1998.

Wood-based panel import is expected to increase by 10-15% (mainly plywood, fibreboard) this year. This year biggest volumes of imported plywood came from Russia, Belarus and Latvia; particle board – from Poland, Germany and Latvia; fibreboard – Poland, Belarus and Germany.

Pulp and paper

Since early 1990's pulp production discontinued in Lithuania.

Paper production was declining steadily from 1995 and is expected to reduce by further 20% to 10,000 tonnes in 1999. Paperboard production is increasing steadily since 1994. Some investments were carried out during last years. In 1998 paperboard production increased by 35% to 19,000 tonnes, and this year is expected to grow by further 15-20%. So far paperboard production remains by six times less compared to 1980's.

In 1998, apparent consumption of paper and paperboard rose by 7% to 81,000 tonnes, compared to 1997.

Certified forest products

All activities concerning the issue certified forest products (CFP) have so far been of initial stage.

In autumn 1998, Lithuanian official authorities (Department of Forests and Protected Areas, MEC and other organisations) held a feasibility study on the need for forest certification according FSC standards. Possibilities in obtaining FSC certification on sample forest area (one state forest district with area 20,000 ha) were analysed. As no any significant interest was shown by industries on the need of labelling their exported production (biggest exporters were interviewed), the investigation was not expanded in early 1999.

In mid-1999 more and more Lithuanian sawnwood exporters reported the increased interest in CFP from their customers (mainly from UK and Netherlands). Therefore the certification issue remains open in Lithuania and it is decided to establish national organisation, which will be responsible in carrying on the work related to forest certification.

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