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CONTENT

1 General review

1.1 Major agricultural market developments in 2005

In Lithuania in 2005, compared to 2003, the sales of grain increased by 800000 tonnes, rapeseed by 1 million tonnes, livestock and poultry by 22000 tonnes, milk by 176000 tonnes and eggs by 2 millions, while the sales of potatoes, vegetables, sugar beet, fruit and vegetables declined. In 2005 gross agricultural production at current prices went up by 9%, that of plant growing by 0.5% and animal husbandry by 18%

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Changes within both the domestic and foreign markets influenced the sales of Lithuanian agricultural and food products in both the EU and third countries markets. The exports in 2004, compared to the previous year, increased by 24% (174 million Euros) and in 2005 by 40% (364 million euro). It is important to note, that in 2005 the balance of foreign trade of agricultural and food products was positive. The group of prepared food products, beverages and tobacco products made up the largest amounts exported accounting for 40% of the total exports of agricultural and food products followed by animal products (36%). In 2004 and 2005 milk and dairy products had the largest share of exports which, in comparison with the previous year, increased by 41% and 11%, respectively. The export of grains in 2005, compared to the previous year, went up by 40% and the export of meat increased most (270%). The changes in the structure of exports of agricultural and food products during the observed period were very slight. The increased domestic and foreign markets encouraged farmers to produce more products and of better quality.

The total purchase price index of agricultural products (101) in 2004, in comparison with 2003, was higher than the total index of agricultural inputs purchased (96.8). The subsidies for products and production went up by 470% and 130 % in 2004 and 2005, respectively. The larger income from the sales of agricultural products enabled agri-producers to obtain more material resources, to modernise production; the consumption of fixed capital increased by 9% in 2005 compared to 2004. The abovementioned positive changes in 2004-2005 were caused by significantly increased direct payments, support for less favoured areas, implementation of agri-environmental measures and financial support under other SPD and RDP measures.

In 2005 the most important changes were going on in animal husbandry. 25% of calves were exported to Netherlands, Spain, Israel and other countries, i.e. 300% more than in 2004. Over ten firms registered in the Republic of Lithuania together with local veterinary specialists are engaged in the calves export. Although the prices of calves are around half of those in other EU countries, they are still profitable for Lithuanian farmers. Sales of young calves do not make longer term economic sense, but farmers are attracted by quick returns. The effects of the increases in calf exports is a matter of great concern as by 2007 slaughterhouses might have little raw stock and beef carcasses imported by meat processing enterprises might be much more expensive. In 2005 about 50% of pork was imported because pig growers are not able to meet the demand for increased meat consumption (in 2003-2005 the consumption of pork increased by 43%). The increasing deficit of local livestock could ruin Lithuania's slaughterhouses. Besides this, it would mean writing-off the funds, both domestic and over 12 740 000 Euro of SAPARD, invested in slaughterhouses in 2000-2004. Also there will be a knock-on on the amounts of feed cereals required.

Important changes are occurring also in the production of rapeseed. These changes are related to production of bio fuel. Already in 2007 it is planned to have four large enterprises, with total production capacity of 180000 tonnes of bio fuel. Although in 2005 the production of bio diesel amounted only to 8000 tonnes, the harvest of rapeseed had doubled. However, to meet the needs of 2007, it will be necessary to grow almost 3 times more (540Just in case you are interested.000 tonnes). The ongoing support for rape growers and bio diesel producers will change the attitude towards the rape cultivation.

1.2 Major agricultural and rural policy developments in 2005

After Lithuania joined the EU, the reform of the Common Agricultural Policy (CAP), agreements of World Trade Organisation (WTO) on liberalisation of the trade of agricultural and food products have a direct impact on the national agricultural and rural economic environment. During the transition period, an expected positive effect on the Lithuanian agricultural and food sector led to national EU pre-accession programmes financed from the national budget as well as SAPARD support, aimed at modernising farms and the processing industry, to develop alternative businesses, to create the structures necessary to administer the CAP, to prepare specialists with appropriate skills and to train and inform rural inhabitants.

One third of Lithuania's population lives, in the countryside hence rural development influences the quality of life of a substantial proportion of the population. Structural changes in employment have occurred with an ageing population in the countryside as the younger population migrates to the towns. In 2004, compared to 2003, the share of rural population engaged in services and industry went up (by 2 %age points), while the share in agriculture, hunting and forestry considerably declined (by 5 %age points). In 2004 and 2005 the number of population engaged in agriculture decreased accounting for 15.8% and 14.6% of the total number of the employed, respectively.

Although the birth rate in rural areas is higher than in urban areas, the mortality rate is 50% higher. In 2002-2004 the unemployment rate in rural areas was almost stable at 9.7% and was lower than in urban areas. About 30% of the unemployed are unskilled rural population that are not prepared to compete in the labour market yet. About half of the young unemployed have no vocational background. Similar problems are in the agricultural activity. Many farmers lack necessary knowledge particularly in the fields of hygiene and animal welfare standards, good farming practice and the implementation and application of new technology. SAPARD funds are helping to train rural population. In 2003-2004 funds covered training of 22 000 farmers. In 2005 there were 43 accredited training institutions that were engaged in continued vocational training of farmers and other rural inhabitants. However, the improvement of training and consulting quality still is topical in the fields of implementation of new agricultural and forestry technologies, business management and economics, accountancy, protection of the environment, water management, quality requirements of agricultural and food products, alternative businesses, cooperation, information technologies.
Insufficient development of economic activities, the demographic situation and lack of skills impact on the income of the rural population which is only 75% of that of the urban population. Still there are observed and positive changes. The growth of income of rural population is faster than that of urban population: in 2004, compared to the previous year, they increased by 14% and in 2005 by 21%. The larger income was caused by the better farming conditions in 2004-2005, i.e. the increased support, farm enlargement and modernisation, more favourable marketing conditions, higher demand for agricultural products.

In 2004-2006 the measures of the Single Programming Document (SPD), Rural Development Plan (RDP) and Rural Support Programme (RSP) make preconditions for further restructuring and modernisation of the agricultural and food sector, strengthening of farms and enterprises economic potential and training of human resources. Financial support funds under the SPD measures in 2006-2008 will make larger impact on investment during the period f this programme.

1.3 Issues related to the enlargement

In the first years (2004-2005) of EU membership, the level of liberalisation of the Lithuanian economy increased, some structural changes took place: the share of agriculture in the GDP went down and employment declined, whilst that of the service sector rose. The changes of GDP in 2004 and 2005 compared to the previous year came to 7% and 7.3%, respectively. Labour productivity (value added per hour worked) in 2004 increased by 2.1% and in 2005 by 4.1% compared to the previous year.

Increasing national and foreign capital investments had a large impact on modernisation of the Lithuanian economy. In 2004 and 2005 national capital investments were double those in 2003. The process of economic integration meant that Lithuanian investment into the EU and other countries increased as markets expanded. Exports from Lithuania in 2004 and 2005, compared to the previous year, increased by 21% and 27%, respectively.

Almost in all agricultural sectors saw positive changes were going on. Before the EU Aaccession, the crop areas in Lithuania were declining, but the conditions of the EU single market entry withand direct payments encouraged to increase production of cereals and rapeseed, animal husbandry became profitable, sales markets expanded and consumption of meat products increased. Support under the RDP for modernisation of animal shelters, manure storage facilities and fodder equipment was the main motions that induced positive changes in animal husbandry in 2004-2005. Lately, due to the state support, specialised dairy farms became more profitable, milk quality improved, and milk yield per cow increased by nearly 15%. The changes in beef husbandry also are positive: in 2004-2005 the number of suckler cows rose and some 7480 cattle farmers received direct payments for their beef cattle.

In 2005 the rape crop area covered 109500 ha and in comparison to 2003 expanded by 64.2%. The average yield of rapeseed during the observed period increased by 22% and was 2.2 t/ha in 2005 (table 1). In 2004 and 2005 the production of rapeseed exceeded processing capacities by 6 times. Therefore, 50% of the total rapeseed harvest was exported in 2004 and about 70% in

2005. In comparison with 2003, the exports of rapeseed went up by 90%. The larger amounts of rapeseed are used for technical needs, i.e. for production of bio diesel.

After EU entry, support payments to flax growers declined to one-third of their previous level. As a result, rather large part of growers reduced the area under flax crops: in 2005 compared to 2003 it decreased by 230%. During the observed period the structure of flax growing farms has changed. The number of large farms that grow flax in the area of 20-40 ha declined 200%, and the number of farms where flax crops cover more than 40 ha fell down even 500%. About 60% of flax crops were grown in the areas smaller than 20 ha. In smallholdings flax quality is wars. Partly the flax quality disimproves old gathering technology. Due to the decreased supply and insufficient quality of fibre, textile manufacturers are forced to buy raw material in other countries. Taking into consideration the great demand for flax fibre in the domestic market, it is intended to develop flax growing and to establish conditions to modernise farms and improve quality of fibre using national and EU support funds.

During the 2004-2005 period the areas under sugar beet crops declined by 12%, and production of sugar dropped by 6%. These changes were due to the reduced “A” quota for production of white sugar. Aiming to reduce the production of out-of-quota sugar beet, the price for this category sugar beet is lower than that for in-quota sugar beet.

In Lithuania many farmers and other agricultural entities grow potatoes but in small areas. In 2004-2005 the areas under potato crops declined by 22.6%, and the harvest of potatoes went down by 32%. In 2005 the amounts of potatoes purchased dropped by 33% but the amounts of potatoes produced are still sufficient to meet the needs of the domestic market. The yield of potatoes is low in comparison with other EU countries (2-3 times lower than the EU average). The competition between the potatoes produced in Lithuania and the imported from Poland and other European countries is growing up. In 2005 the amounts of potatoes exported were by 1.8 times less and that of the potatoes imported by 5.7 times larger than in 2004. Aiming to increase the competitiveness of this sector, it is necessary to modernize potato growing technology using support provided under corresponding SPG and RDP measures.

2 Assessment and outlook: market integration in the cereal sector

2.1 Introduction to the sector

Traditionally cereals have been one of Lithuania's most important agricultural sectors, with cereals being grown for domestic feed and food needs. Cereals cover approximately 60 % of the total crop area and are grown on almost every farm. Stronger competition in the EU threatens grain growers' profitability; they need to increase cereal yields, improve grain quality, reduce costs and develop growing technologies.

Before EU Accession, the total crop area had been decreasing, but from 2003 to 2005 the area increased by 10% to 951400 ha influenced by prospects of higher prices, direct payments and changes to trade policy. In 2005, 81 % of grain plants were sown by farmers and residents of private farms (771 400 ha), the remaining part was sown by agricultural and other companies (180 000 ha). Comparing to 2003 in 2005 in agricultural companies, the area covered by grain plants increased by 13 %. Though comparing to 2003 in 2004 average cereals yield increased by 7 % and amounted to 3.25 t/ha, in 2005 the yield was affected by bad weather, falling by 10 %. Recently vegetable growing farms which invested into modernization of manufacture and effectiveness have reached the fertility characteristic to EU countries. However, average fertility of separate vegetable products is low in the country. Every year there was sown averagely 900 000. ha of cereals. Total size of grain crop during last 3 years in Lithuania has increased by 180 000 tonnes or by 6 %. Amount of flailed grain is increasing in regard to area covered by crop and fertility increase (Table 2).

Regardless high offer of grain in European and global market, its export took place quite fast. In 2005 there were exported 1 088 700 t of grain, comparing to 2003 the export increased by 77 %. Export growth was highly influenced by unclose of common EU market and export subsidies. Comparing to 2003 in 2005 import of grain hasn‘t altered, there were imported to Lithuania approximately 103 000 t of cereals.

In 2005 approximately 63% of Lithuanian grains were used for feed. Consumption of grain and its products in Lithuania is decreasing. In 2000 average human consumption of cereals and cereal products was 137 kg, but by 2005 this had fallen by 9% to 124 kg.

During the period 2003 to 2005, the market price of wheat decreased by. 23%. As wheat accounts for almost half the total grain crop, its price fall greatly impacted all grain growers. The price of barley fell by only 9% during the same period. The average farm gate price of cereals was affected not only by world's market conditions but also by changes in the intervention system and lower intervention prices following EU Accession.

2.2 Expert views on infrastructures (storage capacity and transportation)

In the recent years prices of power and material resources have risen: for example, from 2003 to 2005, price of motor fuels rose some 20%,, price of electricity, 21%; and mineral fertilisers 25%.

Lithuania inherited out-dated technologies and technical means. The agricultural data record for 2003 shows there were some 13500 cereal combines, 17600. seeders and 1100 grain dryers.but of these,only 322 cereal combines, 589 seeders and 61 grain dryers were manufactured in or after 1995. Due to aged technologies, power costs for processing a tonne of grain are some three to four times the level of West Europe and USA. Production is inefficient and the productivity of the land is declining. Cereal yields are around one-third of those seen in other MS. Times. Harvest lasts longer than 2 months, crop loss increases, more power resources for grain drying is needed.

Average moisture content of grain at harvest is 22 to 23 %, but it fluctuates widely year to year and has been known to reach 30 %. Only in good harvest conditions is it possible to sell grain off the combine.

There are approx. 12400 grain storehouses, totaling 6.7 million. m^3, but 87 % of the storehouses were built before the year 1991 and most of the equipment is old and out-dated.

The SAPARD investments in the grain sector totaled LTL 111 million, with 90 % going to the farmers of Middle Lithuania. SAPARD resources co-funded 376 units of storage facilities, 912 units of agricultural machinery, 203 combines, 294 tractors. In the traditional agricultural production sector there were reconstructed and built 209 new production buildings, creating approximately 2000 new workplaces.

2.3 Expert view on quality

The quality of Lithuanian cereals output could be improved increased use of certified seed. At present only 10 to 15 % of the crop area uses certified seed, whilst in Denmark it is used for. 90 %, and in other EU MS up to 50 or 60 % of the cereals area. Most farmers seeking to produce grain of the best quality have to use fertilisers and significant quantities of fungicides and insecticides.

The resources of the rural support programme have been used to boost the usage of certified seed: in 2004 Litas 7.1 million.were spent on acquiring certified seed and plantation, in 2005 the support amounted to Litas 7.4 million. The government would like to see the proportion of certified seed used raised to: 2006 – 30 %, 2007 – 40 %, 2008 – 50 %, and 2009 – 60 %.

2.4 Expert view on possible or existing market distortion

62% of all Lithuanian cereal farms have less than 5 ha of land. These small farms have insufficient resources for investments to modernise and lack grain stores, therefore they are forced to sell grain at harvest when prices are at their lowest. The low prices in turn prevent the build up of capital and thus perpetuate the poverty cycle.

Due to large quantities of cereals being marketed at harvest, the prices fall sharply to the disadvantage of those farmers who are unable to store their grain. The low prices in turn prevent the build up of capital and thus perpetuate the poverty cycle. Merchants who buy at harvest then clean dry and store the grain before selling it into intervention gain the major share of the profits from grains.

2.5 Assessment of the market integration

According to the most indices, Lithuanian agriculture has done poorly compared to other NMS. The main reason is a large number of small, natural and half-natural farms comparing to other countries. Shake-up of agriculture, i.e. growth of small farms, is an unavoidable process in all new EU members, including Lithuania. It is very important to join forces of all levels to use support provided by EU to agriculture more effectively. Correct choice of investment trend is the main condition of development of competitive agriculture. A great opportunity is granted to the agriculture of Lithuania and other countries. Future and wellbeing of all countrymen will depend on how they will utilize it. However it‘s already now clear that compensatory principles of SAPARD support and strict criteria of project Selections forced farmers, agricultural companies, processing companies and other support receivers to objectively asses economical vitality of own farms and companies as well as to create scenarios of effective farming. It developed economical thinking of agricultural subjects and granted a possibility to evaluate competitive reality and perspectives.