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Agriculture and rural development

Agricultural Situation and Prospects

in the Central
and Eastern
European Countries



Vilnius

Lithuania



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Agricultural Situation and Prospects in the Central and Eastern European Countries

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A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (<http://europa.eu.int>).

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Introduction

In 1995 DG VI published a series of ten country reports and a summary report on the agricultural situation and prospects in the associated countries of Central and Eastern Europe (CECs). The reports provided an analysis of the transition agriculture and the agro-food sector in these countries were going through in the first half of the nineties and an assessment of the outlook for the main agricultural commodity markets till the year 2000.

With three years more of information the current publications, which cover Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, provide an update of the 1995 reports and take the outlook horizon till 2003. The underlying working hypothesis for the reports is that the first CECs will join the Union and will start to be integrated in to the single market and the Common Agricultural Policy after 2003.

The accession process was officially launched on 30 March 1998 with the submission to the applicant countries of the Accession Partnerships, which for each country set out the principles, priorities, intermediate objectives and conditions leading up to accession. A main priority is adoption of the “acquis”, the body of Community legislation, including for agriculture the sensitive areas of veterinary and phytosanitary legislation.

As was the case in 1995 the individual country reports have been prepared by the services of the Commission in close collaboration with national experts of the countries concerned and with the help of scientific advisers.

The country reports and the summary report attempt to provide an objective analysis of the current situation in agriculture and the agro-food sector and an assessment of where the candidate countries can be expected to be in their agricultural development by the time of the next enlargement.

About the data...

The data used in the country reports are derived from a CEC dataset established by DG VI in cooperation with other services of the European Commission and with external experts. Data originate from various sources, mainly national statistics and economics institutes, FAO, OECD, and the European Commission (DG II, EUROSTAT).

For agriculture in general the FAO data were used, but for certain countries and/or for certain products, and in particular for the most recent years, the figures were adjusted or replaced by data from other sources, after discussion with country specialists. For the commodity supply balance sheets a simpler approach than by the FAO was used, taking into account trade in agricultural commodities up to the first processing stage, but not in further processed products.

The main objective was to obtain a dataset which was as coherent as possible, offering a good comparability of data.

Despite all efforts to create a coherent, reliable and up to date dataset, all figures presented in the country reports should be interpreted with care. Significant changes in data collection and processing methods have sometimes led to major breaks in historical series as the countries concerned have moved from centrally planned to market economies. One general impression is that these problems may have led to overestimate the decline in economic activity in general and of agricultural production in particular in the first years of transition, data from 1989 and before being somewhat inflated and data after 1989 underrecording the increase in private sector activity. More recently many CECs have undertaken serious efforts to start to harmonise data collection and processing methods with EU practices.

With three more years of data and experience the original 1995 dataset has been improved and further adapted to DG VI's analytical needs.

Executive Summary

The Lithuanian economy

The transition from a planned to a market economy provoked a steep decline in the overall economy during the first year of independence. The economic recovery started in 1994 and continued with a real GDP growth of 3,0% in 1995, 4,2% in 1996, approx. 5,7% in 1997 and a similar trend is expected for the coming years.

The adoption of a currency board in 1994 and the implementation of successive IMF programmes created a policy environment conducive to the stabilisation of the economy. During 1997, the average inflation rate was almost halved in comparison to 1996. These favourable developments have continued during the first quarter of 1998. In 1997 the negative trend in fiscal revenues, which had characterised Lithuanian budgetary developments since independence, was reversed and the budget deficit fell both in absolute terms and in terms of GDP share.

The balance of payments data probably overestimates the current account deficit, mainly because of difficulties recording transit trade. Moreover, rising external imbalances have been easily financed with improving conditions. Sustainable balance of payments trends are a necessary condition for the successful implementation of Lithuania's intention to abandon the currency board system. However, the unpegging of the Litas from the dollar will not take place until 1999.

Agriculture in the overall economy

In the pre-reform period, agriculture and food production were the second largest sectors of the Lithuanian economy, accounting for almost 28% of GDP in 1990. This share fell dramatically during the transition period and was down to 6,7 % in 1994. In 1995, the share increased to 8,5% and in 1996 reached 10,4%. According to preliminary data, no relevant changes were recorded in 1997.

The agricultural share of total employment, continued to increase from the 18% of 1990 to 24,0% in 1996, thus agriculture has acted as an important employment buffer during the transition period.

Agricultural economy

The loss of markets in the former Soviet Union, the fall in domestic consumption and the adjustment to the new economic environment, not to mention the complex process of land reform, all combined to cause Lithuanian agricultural production to shrink by 50% during the transition period.

In 1995, however, the decline in production was reversed, and the upward trend in agricultural output continued in 1996, when GAO increased by 10,3%. Such a significant growth in agricultural output has to be solely attributed to the good improvement in crop production (21,8%). Livestock sector output continued to decline slightly (-2,8%) mainly due to meat production decline.

The gap between agricultural input and output prices widened sharply between 1992 and 1994, but narrowed in 1995 and 1996 when the rise in input prices slowed because of falling inflation while output prices increased as a result of further deregulation of the agricultural sector.

Agricultural and rural society

Lithuania is roughly the size of Ireland. Of the 6,5 million hectares of land, the total agricultural area in 1997 equalled 3.151 million hectares (2,5% of EU-15). Arable land, accounted for 2.866 millions followed by meadows and natural pastures (0,441 million hectares) and permanent crops (44.300 hectares).

Cereals - The area planted to cereals covered about 50% of the total agricultural land. The supply balance for the cereals aggregate shows a decline both in the harvested area and production between 1992 and 1995 but a strong recovery in 1996 e 1997, mainly due to the improvement in yield. Consumption is still relatively high as a consequence of the declining real income which led to a shift in consumption from higher price meat and dairy products to lower cost cereal products.

Sugar beet and Sugar - After a decline in 1994 and 1995, the area planted to sugar beet started to recover and in 1997 reached 35.000 hectares. Yield also increased and in 1997 production was more than 1 million tons. Production of sugar is from both sugar beet domestically grown and sugar cane imported. Self-sufficiency for sugar in Lithuania has always exceeded 100%, with the sole exception of 1994.

Livestock - The end of the Soviet Union has fundamentally changed the system of livestock production in Lithuania. Livestock numbers have declined by about 50% since 1991, with the exception of dairy cows, which only declined by about 30%.

Milk - The structure of the cow herd has changed dramatically as many of the large dairy herds in agricultural companies did not survive, and production is now dispersed in small farms. The production and consumption levels in the sector are stabilising, and since 1994 production of milk doubled domestic demand.

Beef - The production of beef meat can be seen mainly as a by-product of milk production. The average weight of slaughtered animals recovered over recent years, and is now set at around 300 kg. On the other hand, production is still declining because of the drop in livestock number and slaughters.

Pig meat - Since the disruption of the Soviet system the performance of the pig sector has declined. The reduction in production between 1992 and 1996 was around 40% following the decrease in domestic utilisation. Self-sufficiency remained stable at around 100%.

Poultry meat - Poultry production suffered the same problems of feed shortage, which affected the other sectors. However, after a steep decline in 1993, production began to recover. Consumption has also been increasing since 1994. In 1996 consumption exceeded production and for the first time, after being a traditional exporter to the Soviet market for so long, Lithuania become a net-importer.

Forestry

Forests in Lithuania occupy almost 1/3 of the territory. Forestry and the forest industry holds considerable importance for the economy of Lithuania. The country's export of wood and wood products amounts to 10% of total export value. The forest sector also plays significant social role, especially in rural areas. About 12% of the territory in Lithuania is under protection as Parks.

Agricultural trade

Imports of food products have been growing rapidly. These are mainly high value-added products. Livestock products in general, and meat and milk products in particular, are still the largest components of agri-food exports. The balance of trade in agricultural and food products became negative in

1996, but it has been continuously deteriorating since 1993. In the last two years, there has been an increase in the share of exports going to the NIS and a decline in the share going to Europe. These shifts are consistent with the appreciation of the Lita relative to European currencies and the depreciation relative to NIS currencies. The principal source of imports over the last three years has been Europe, and this increased from 53% in 1993 to around 65% in each of the last three years. The second important source has been the NIS, but this share has declined from 39% in 1993 to around 21% in the last three years. A close third and gaining in import share are the other CECs, which are now close to 15%. Both imports and exports include a substantial quantity of goods re-exported from East to West and West to East.

Farm structures and privatisation

Land restitution and privatisation of State and Collective farms and farm assets were initiated at the same time in 1991 and encouraged the development of family farms. As of mid-1997, the restitution process had only resulted in ownership of less than 50% of agricultural land. Privatisation also has a direct impact on the development of the land market, since only registered land can be sold.

Currently three different types of organisations characterise the farming structure. Agricultural Companies, which are large farming enterprises created as a result of the transformation of the collective farms. Family farms, and household plots. According to data available on 1997, less than 2000 of these large-scale farms survived with an average size of about 370 hectares, while the number of family farms has increased to about 200 thousand. These changes have been accompanied by changes in land use and production pattern.

The “organisational infrastructure” of agriculture is not well developed in Lithuania. Until now four major organisations have emerged.

Rural development

The country consists of 10 counties with two main cities, Vilnius and Kaunas. Lithuania has a well developed network of highways and secondary roads, but some of the basic services, such as water supply, and telecommunications, still remain underdeveloped in rural areas.

The agricultural reform created many serious problems in rural areas. During the Soviet period, the main social, medical and cultural services were provided in special facilities on collective farms. With the farms restructuring, these functions were transferred to local government, and many services ceased to be available.

Agriculture and the environment

Until a few years ago very little attention was paid in Lithuania to environmental issues and large areas suffered from agricultural pollution originated from poor handling of animal waste. Excessive use and misuse of chemicals in the past have also given rise to environmental problems. Other environmental concerns are related to soil erosion, which cover almost 20% of agricultural land in Lithuania.

Up- and downstream activities

During the Soviet period Lithuania imported all agricultural machinery and equipment from the former Soviet Union. At present private firms prevail in the among producers and traders.

The situation in Lithuania’s food processing reflects the structure which emerged in the Soviet period and consisted of large medium-size state-owned concentrated enterprises mainly oriented towards dairy and meat processing. The major problems are overcapacity and lack of capital. Many of the processing facilities are obsolete, with low hygienic standards. Privatisation failed to give the necessary incentive

for the restructuring and in many cases it was more appropriate economically to construct a new enterprise rather than to restructure an old one.

The privatisation of industry and trade, as in other Central European countries, was one of the major initial objectives of Lithuanian economic reform. However, the agri-processing sector has proved harder to privatise than other industries.

At present, both the downstream and the processing sectors are only relatively open to foreign investors. The activities in this field are regulated by the Law on Foreign Capital Investments adopted in June 1995.

AGRICULTURAL AND RURAL POLICIES

The main instruments of agricultural policy can be divided into two groups according to their primary objectives. The first group consists of price and income support measures. The second group includes structural measures and measures that improve the production base. In order to ensure a more efficient use of the state aid to the agricultural sector all the financial resources are now administered by the Rural Support Fund, which, in 1997, accounted for 5,8% of the State Budget.

Market prices and subsidies

Since the beginning of the economic reforms in Lithuania, the pricing system has been radically altered. In 1995 the government launched a new market intervention programme to support farm incomes with Minimum Marginal Purchase Price (MMPP) for specified quantities of farm products. At the beginning of 1997, MMPPs were eliminated or reduced and direct payments targeted to higher quality products.

Trade policy developed from the implementation of quantitative restrictions, including export bans and licensing, towards more open trade regulations. External pressures to establish consistent and transparent trade policies led to the elimination of non-tariff barriers and a switch to the use of mostly ad valorem tariffs. Import tariffs range from 20 to 30 percent for most agricultural and food products, except for sugar. External constraints on trade policy decisions included IMF (which had expired in September 1997) and World Bank Memoranda and the need to keep policies consistent with WTO standards in anticipation of Lithuania's WTO accession. Bilateral and multilateral agreements were signed to influence this process or are in preparation.

Structural Policy

Support to Investment - The main supports to investment lie in the Banking and credit system including a 30 million \$ (about 26,7 million ECU) World Bank credit line to the Rural Support Fund and to the Partial Loan Guarantee Fund set up in December 1997, which became operational at the beginning of 1998.

Taxation - Following the introduction of VAT in May 1994, agricultural producers were given special privileges. Up to January 1997, domestically produced agricultural and food products were subject to a temporary rate of 9% instead of the general 18% rate. Currently the VAT preferential rate has been discontinued although farmers still benefit from a preferential profit tax.

Rural Development Policy - Rural development policies are at relatively early stages of development in Lithuania. However despite the severe budgetary constraints, some progress has been made in different areas. The Farmers Support Fund allocated between 1992 and 1995 ECU 16 million for infrastructure assistance. In 1997 a targeted program, was designed to improve the living standard of the farming population and increase employment in the rural areas.

Agri-environmental Policy - A pilot program of environmental farming started in 1993. In 1996 about 0,6 million ECU, was provided by the State budget for agriculture and spending is expected to increase to 0,9 million ECU in 1997.

LONG TERM OUTLOOK

The macroeconomic hypothesis, underlying the outlook for agricultural products, is that the positive trends of Lithuanian economy will stabilise as a result of further structural reforms.

Under these assumptions a modest growth in cereals output could be expected, whereas for sugar and milk they imply a potential exportable surplus. Lithuania should remain around a level of complete self-sufficiency for beef, and confirm its position as a net importer for pig meat and poultry.

1.

General economic situation

1.1. The Lithuanian economy

1.1.1. Political Background

In the inter-war period, Lithuania was an independent State, and highly integrated in the world economy. The country was forcibly annexed to the Soviet Union in 1940. Because of its comparatively good infrastructure and skilled labour force, relatively large and sophisticated industries were established in Lithuania. Agriculture and food processing in particular were traditionally important sectors. After restoring independence, in March 1990 and the elections in 1993 of the first freely elected president Mr. A. Brazauskas, Lithuania launched a major program of economic reforms for market liberalisation. In early 1996, the government suffered a political crisis triggered by accusations regarding the behaviour of Prime Minister Slezeviscius during the banking crisis of 1995. The Conservative Party *Homeland Union* won the new legislative election and Mr. G. Vagnorius became Prime Minister. The new Government relaunched the reform effort through the privatisation of state-owned banks and large enterprises, the acceleration of structural changes in key sectors (such as energy and agriculture) and the introduction of legal and institutional reforms. At the moment, the acceleration of structural reforms and the elimination of the most severe imbalances in energy, agriculture, and social insurance, are in the forefront of macro-economic policy. In January 1998 Mr V. Adamkus was elected president. The election of Mr. V. Adamkus, who has lived in America for most of his life as a senior administrator with the US Environmental Protection Agency demonstrates the importance Lithuanians attach to positive relations with the West. In March 1998 Mr V. Adamkus approved the new cabinet of the Conservative- Christian Democrat coalition, proposed by Prime Minister Mr. G. Vagnorius which

will continue to pursue the reform agenda. The next national elections will be held in November 2000 (legislative) and 2002 (presidential).

1.1.2. Macro-economic indicators

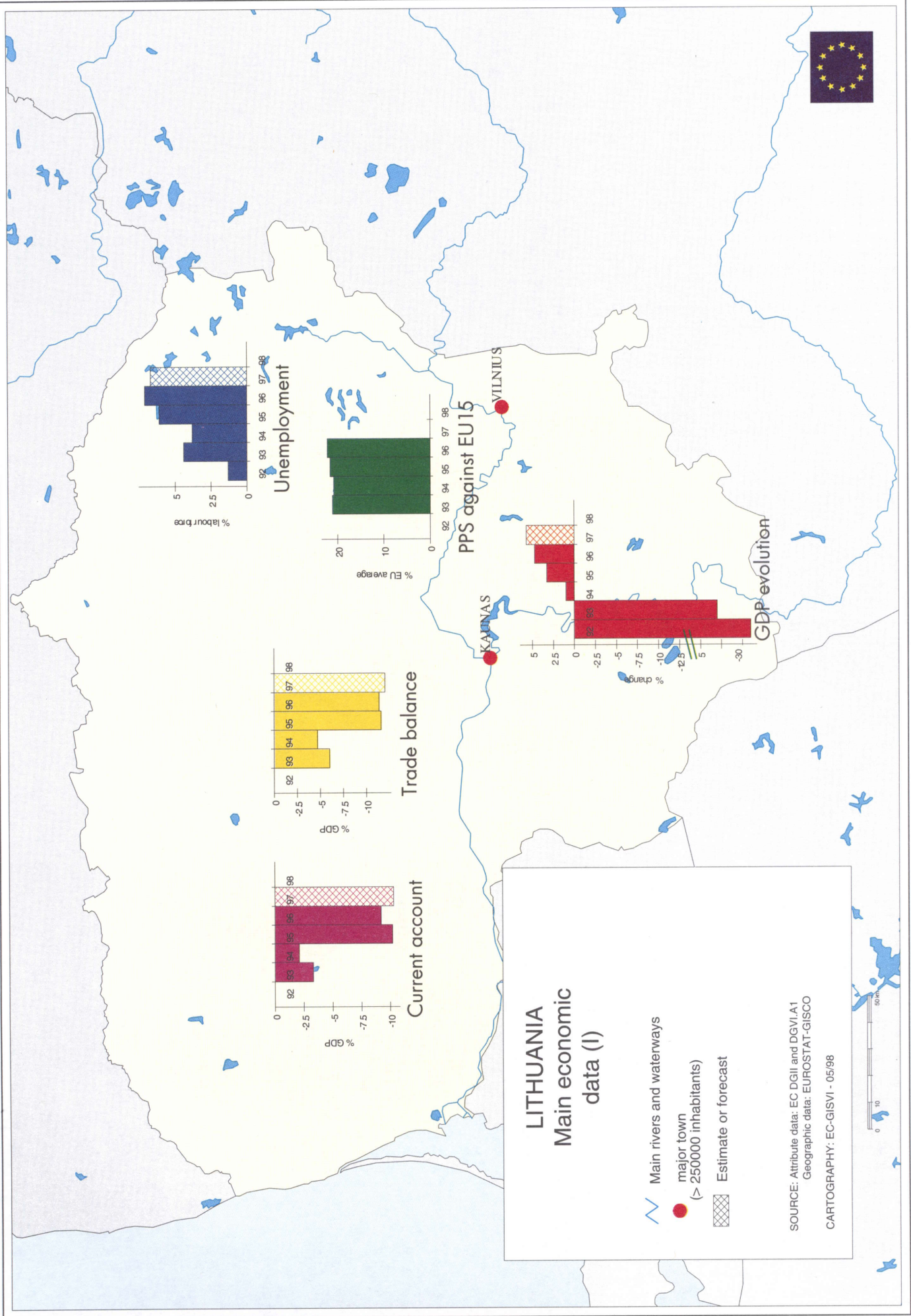
The transition from a planned to a market economy, with the end of the close input and output relations with the Soviet Union, provoked a steep decline in the overall economy during the first year of independence. The contraction of real GDP between 1990 and 1993 was about 60 percent. The economic recovery started in 1994 and continued with a real GDP growth of 3,0% in 1995, 4,2% in 1996, approx. 5,7% in 1997 and a similar trend is expected for the coming years.

In spite of the initial disruption of economic activity, total unemployment remained relatively low because of several factors, including a dramatic fall in the labour market participation rate. Lately, however, unemployment has been on the rise, in spite of the acceleration in GDP growth. This reinforces the need for continuing industrial restructuring.

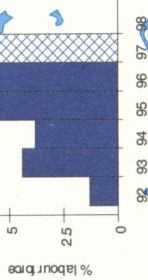
Comparing GDP per capita on the basis of Purchasing Power Parities, in 1996 Lithuania reached a PPP per capita of 4034 ECU, which is 22,2% of the EU average.

Inflation surged early on in the transition phase due to the rapid price liberalisation, the terms-of-trade shock and the fact that the currency remained pegged for too long to the sharply depreciating Russian rouble.

The adoption of a currency board in April 1994 and the implementation of successive IMF programmes created a policy environment conducive to the stabilisation of the economy. During 1997, the average inflation rate was almost halved in comparison to



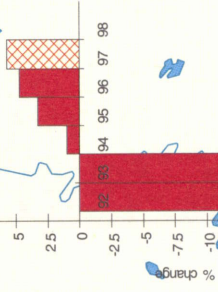
Unemployment



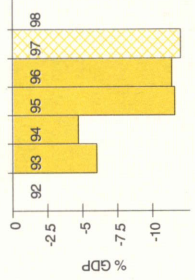
PPS against EU15



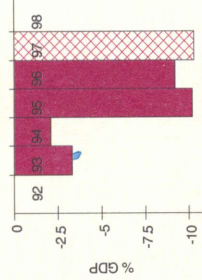
GDP evolution



Trade balance



Current account

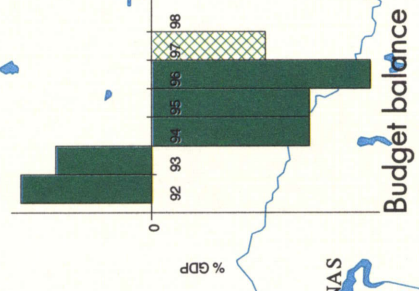
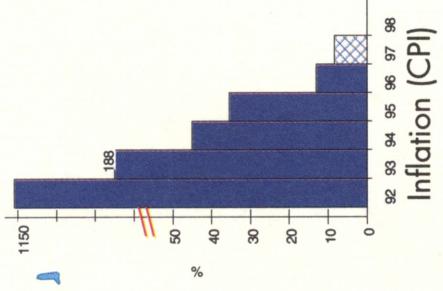
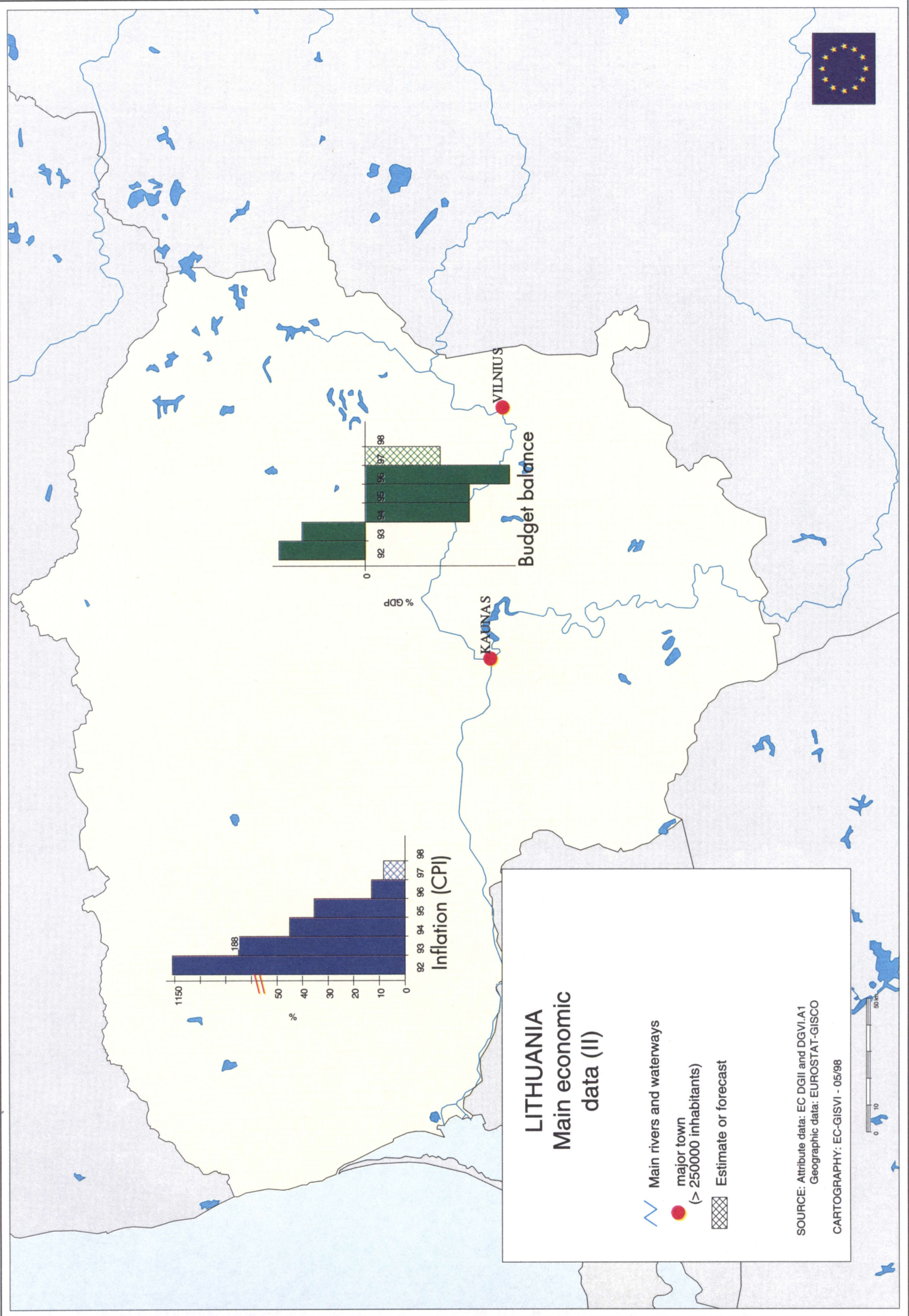


LITHUANIA Main economic data (I)

- Main rivers and waterways
- major town (> 250000 inhabitants)
- Estimate or forecast

SOURCE: Attribute data: EC DGII and DGVI, A1
 Geographic data: EUROSTAT-GISCO
 CARTOGRAPHY: EC-GISVI - 05/98





LITHUANIA

Main economic data (II)

- Main rivers and waterways
- major town (> 250000 inhabitants)
- Estimate or forecast

SOURCE: Attribute data: EC DGII and DGVI.A1
Geographic data: EUROSTAT-GISCO
CARTOGRAPHY: EC-GISVI - 05/98



1996. These favourable developments have continued during the first quarter of 1998 when year-on-year consumer price inflation fell by roughly two percentage points to 6,6%. Fiscal consolidation also advanced during 1997. The negative trend in fiscal revenues, which had characterised Lithuanian budgetary developments since independence, was reversed and the budget deficit fell both in absolute terms and in terms of GDP share.

Lithuanian external accounts worsened sharply following its secession from the Soviet Union, which accounted for 95% of its exports. In 1994, the external imbalances improved, aided by the sharp under-valuation of the exchange rate at the time of the introduction of the currency board. A sharp deterioration of the external accounts in percentage of GDP took place in 1995, and the situation worsened again in 1997. Despite export growth of some 15% over the year, imports actually grew by almost 24% causing the trade deficit to deteriorate (Table 1).

The current account deficit increased by more than one third and amounted to an estimated 10,3% of GDP. This trend, however, must be analysed with caution. There are no indications that the deterioration of the external accounts is due to a significant real appreciation of the exchange rate. As a matter of

fact, a temporary deterioration of the external accounts is to be expected during the process of transition when domestic savings are not sufficient to finance the investments required by economic restructuring.

The balance of payments data probably overestimates the current account deficit, mainly because of difficulties recording transit trade. Moreover, rising external imbalances have been easily financed with improving conditions. In 1997 net foreign direct investment flows more than doubled compared to 1996 and official reserves continued to increase, reaching 4,6 billion litas in March 1998. The full implementation of the authorities' privatisation plan would probably lead to a further rise in foreign capital inflows.

Sustainable balance of payments trends are a necessary condition for the successful implementation of Lithuania's intention to abandon the currency board system established in 1994. So far, the central bank has followed an orderly exit strategy. The actual unpegging of the litas from the dollar will not take place until 1999. The sounder Lithuania's external position, the smaller the economic uncertainty these measures will generate.

Table 1 Macro economic indicators

		1990	1991	1992	1993	1994	1995	1996	1997*
GDP (real terms)	% Change	-3,3	-13,1	-34,0	-30,4	1,0	3,3	4,7	5,7
GDP per heads	000 ECU	:	:	0,3	0,5	0,9	1,2	1,7	2,2
PPS per head	% EU avg.	:	:	:	21,1	20,9	21,6	22,2	:
Inflation									
(CPI-end of the year)	%	9,1	382,7	1162,5	188,6	45,1	35,5	13,1	8,4
Unemployment	% Labor force	:	0,3	1,3	4,4	3,8	6,1	7,1	6,7
Budget balance	% GDP	0,6	2,8	1,5	1,1	-1,8	-1,8	-2,5	-1,3
Trade Balance	% GDP	:	:		-6,0	-4,7	-11,6	-11,4	-12,0
Current Account	% GDP				-3,3	-2,1	-10,2	-9,2	-10,3
Population	million	3,7	3,7	3,7	3,8	3,8	3,7	3,7	3,7
Exchange rate	Lita/\$	16	110	170	4,24	3,97	4	4	4
Exchange rate	Lita/ECU	20,3	136	220	5,0	4,7	5,2	5,1	4,5
Exchange rate	ECU/US\$	0,79	0,81	0,77	0,85	0,84	0,77	0,79	0,89

* Preliminary

1.2. Agriculture in the overall economy

In the pre-reform period, agriculture and food production were the second largest sectors of the Lithuanian economy, accounting for almost 28% of GDP in 1990. However, after declining to 19% in 1991, its share fell dramatically during the transition period and was down to 6,7 % in 1994. In 1995, the share increased to 8,5% and in 1996 reached 10,4% for agriculture, 1,0% for forestry and 0,05% for fisheries. According to preliminary data, no relevant changes were recorded in 1997. These statistics probably over-state the fall in the relative size of the agri-food sector, since a large part of the reported decline is attributable to the revised methodology adopted for calculating national accounts from 1992 onwards.

Trade in agricultural commodities and the food industry also plays an important role in total trade. Imports share was 13,4% in 1995, and 13,1% in 1996, while export share in the same years was 18,3% and 17,1% respectively (Table 2).

Finally, the agricultural share of total employment, continued to increase from the 18% of 1990 to 24,0% in 1996, thus agriculture has acted as an important employment buffer during the transition period.

To some extent, the increase in employment in the agriculture sector reflects the nature of land restitution in Lithuania and the lack of alternative employment opportunities during this period. The high share of agriculture in total employment can also be explained by the fact that it includes all types of farms (full time, part time, subsidiary).

1.3. Agricultural economy

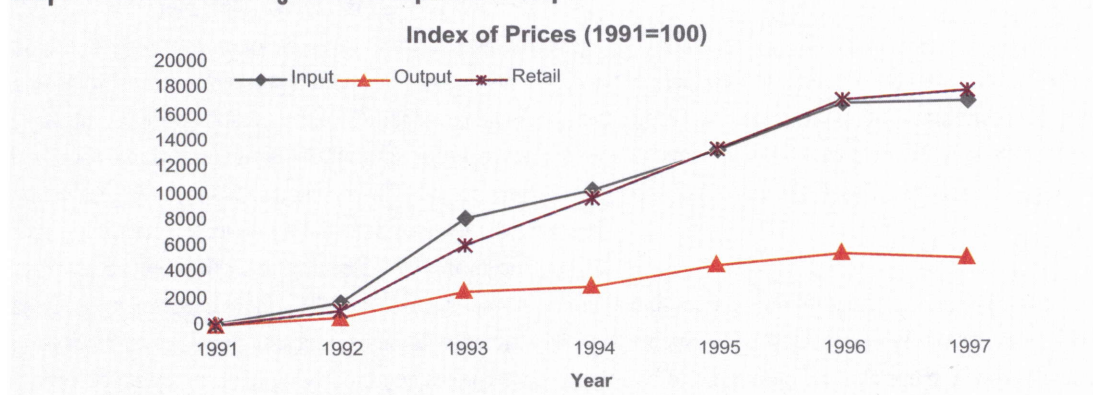
Between 1991 and 1996, agricultural incomes suffered from a severe price-cost squeeze. This occurred because prices, especially energy, were liberalised at an early stage in the reform process, while at this stage food prices remained subject to government regulation. The gap between agricultural input and output prices widened sharply between 1992 and 1994, but narrowed in 1995 and 1996 when the rise in input prices slowed because of falling inflation while output prices increased as a result of further deregulation of the agricultural sector (Graph 1).

During the transition period, consumers were affected by the loss of massive consumer subsidies at the same time that real incomes were falling. This resulted in a sharp increase in the proportion of household income spent on food, which almost doubled to 61,5% between 1990 and 1993. In more recent years, with the slowdown in food price increases in 1994/96 and some growth in real incomes, this expenditure share fell back slightly to 57,4% in 1995, and to 56,6% in 1996, and fell further to 52,2% in 1997.

Table 2 Role of Agriculture in the economy

		1990	1991	1992	1993	1994	1995	1996
Share in GDP	(old methodology)	27,6	19,2	21,0	-	-	-	-
	(new methodology)	-	-	11,5	10,4	6,7	8,5	10,4
Share in Employment		18,0	17,5	18,7	21,9	22,5	22,9	24,0
	Share in Trade							
	Imports	6,2	5,2	11,5	4,2	11,6	13,4	13,1
	Exports	16,6	30,7	19,7	12,2	19,9	18,3	17,1

Graph 1 Price index of agricultural inputs and output



At the same time, in parallel with the lower real income, there was a shift in consumption from higher price meat and dairy products to lower cost cereal products, potatoes and field vegetables. As a result, from 1990 to 1995, meat and dairy, eggs, fish, and sugar consumption per capita declined by 45% to 50%, while the consumption of cereal products increased by 26%. In 1996 as in earlier years, there was a slight increase in consumption per capita of bread and grain products, potatoes and vegetables.

Consumption of fruit and berries, vegetable oils and margarine, fish and sugar recovered slightly from several years of decline. However, the consumption of livestock and dairy products (meat, milk and eggs) continue to decline, but at a much lower rate. A significant factor, which contributed strongly to

the drop in food consumption, was change in consumer expenditure structure: food expenditure must compete with non-food expenditure (housing, transport, energy, etc.) which is growing rapidly as government subsidies are removed.

The loss of markets in the former Soviet Union, the fall in domestic consumption and the adjustment to the new economic environment, not to mention the complex process of land reform, all combined to cause Lithuanian agricultural production to shrink by 50% during the transition period (Table 3).

The worst hit activity was livestock production, which declined by over 50%, while crop production fell by more than 40%. Part of the fall in crop production during the transition years was due to arable land being taken out of production due to unclear

Table 3 Food Consumption

	1990	1991	1992	1993	1994	1995	1996	1997*
Share of household expenditure on food	33,9%	38,3%	59,7%	61,5%	57,3%	57,4%	56,6%	52,2%
Per capita consumption (Kg)								
Meat prod. (in meat equiv. Unit)	89	66	64	56	50	52	51	51
Milk prod. (in milk equiv. Unit)	480	315	334	319	291	238	213	222
Cereals prod. (in grain equiv. Unit)	108	138	142	122	135	136	142	145
Potatoes	146	128	95	122	99	127	133	
Fish and fish prod.	19	19	11	8	10	10	11	
Vegetable oils, margarine	7	3	4	7	10	12	13	13
Fruit and Vegetable	112	134	95	119	110	113	123	124
Sugar	43	31	23	25	23	22	24	24

*Preliminary

ownership titles and the lack of a functioning land market.

In 1995, however, the decline in production was reversed, and output increased by 6,1%, despite the substantial increase in area of uncultivated arable land due to the lack of credit to purchase essential inputs (Graph 2).

The upward trend in agricultural output continued in 1996, when GAO increased by 10,3%. Such a significant growth in agricultural output has to be solely attributed to the good improvement in crop production (21,8%). Livestock sector output continued to decline slightly (-2,8%) mainly due to meat production decline (Table 4).

The level of debt in the agricultural sector increased during the transition period because of low output prices, high interest rates and a general lack of demand for agricultural products. The financial sit-

uation for many producers was further complicated by food processors delaying payment for products purchased from farmers, or not paying at all. In 1994, new legislation was introduced imposing financial penalties on processors who do not make payment for agricultural products within a specified time period. This resulted in a substantial reduction in the level of outstanding debts to agricultural producers in 1995. Seeking to further reduce payment in the sector, in 1997 the Government adopted stricter regulations imposing penalties on processing enterprises and modifying bankruptcy procedures.

Graph 2 Agricultural production index 1986-1996

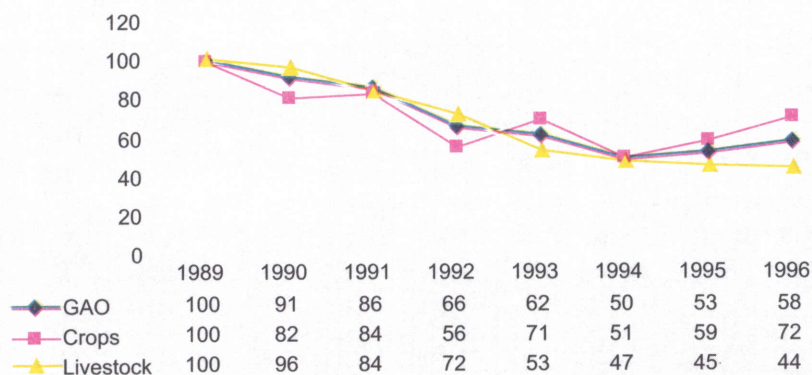
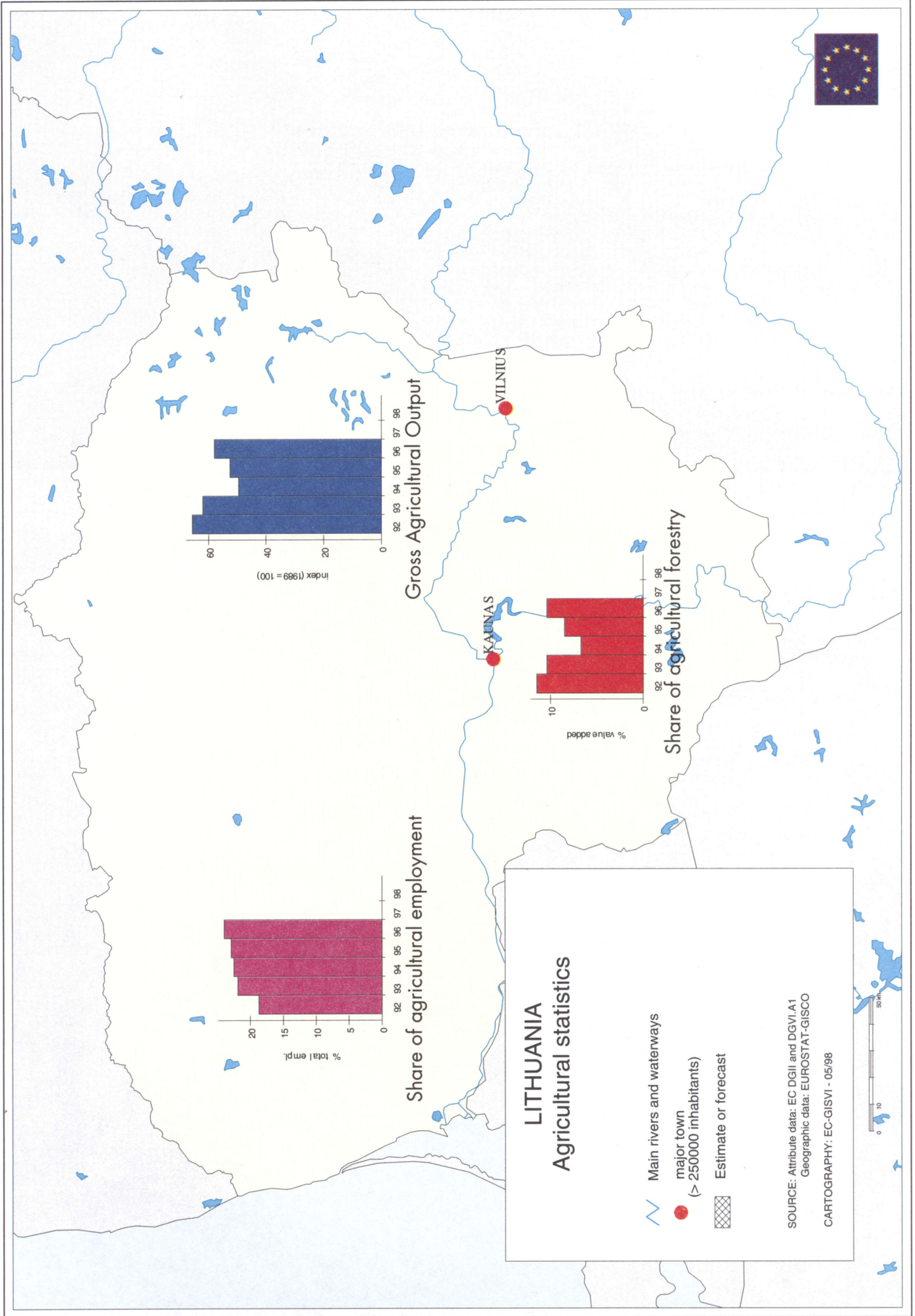


Table 4 Gross Agricultural Output 1990-96

	1990	1991	1992	1993	1994	1995	1996
Structure %							
Crops	37,5	47,5	56,9	47,1	54	53,4	54,6
Livestock	62,5	52,5	43,1	52,9	46	46,6	45,4
Change (at 1993 prices)							
Crops	-9,0	-5,8	-23,4	-5,5	-20,2	6,1	10,3
Livestock	-17,7	2,6	-33,5	26	-28	16,1	21,8
Livestock	-4,5	-12	-14,5	-26,9	-11,2	-2,7	-2,8



Agricultural and rural society

2.1. Land Use

Lithuania is roughly the size of Ireland. Of the 6,5 million hectares of land, the total agricultural area in January 1997 equalled 3.151 million hectares (2,5% of EU-15). Arable land, the most important sector, accounted for 2.866 millions followed by meadows and natural pastures (0,441 million hectares) and permanent crops (44.300 hectares) (Graph 3 - Table 5).

The most recent update on the distribution of land by users shows the continuous increase in area of privately-owned land and the decrease in area of land utilised by agricultural partnerships and enterprises.

The share of land used by agricultural companies declined from around 50% in 1993 to less than 20% in 1997, while that of family farms and household plots increased during the same period from 44% to 67%. The production patterns also reflect these developments. In the pre-reform period, most cereals, meat and sugar beet were produced in collective farms, while household plots produced most potatoes and a significant share of milk.

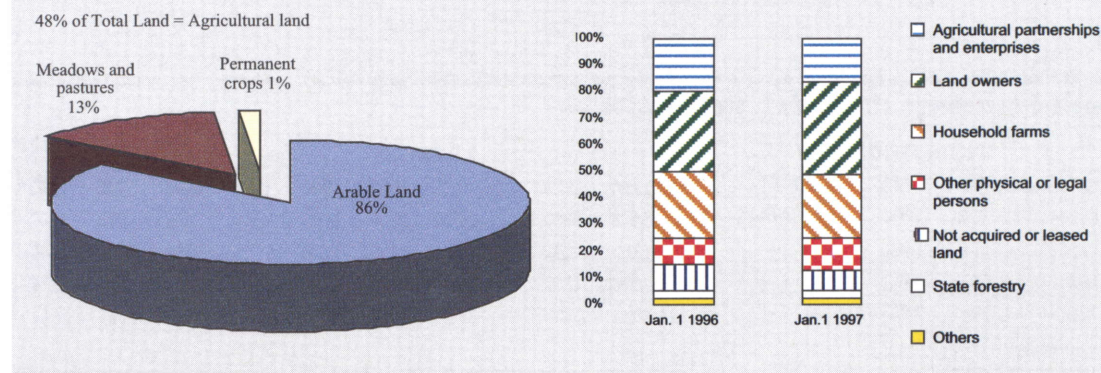
Table 5 Share of production in private farms and households

Harvest of main agricultural crops	1992	1994	1996
Grain	37%	60%	69%
Flax fibre	46%	45%	49%
Sugar beet (for industry)	30%	50%	63%
Potatoes	91%	98%	99%
Hay from grasses and meadows	67%	78%	89%
Silage crops	3%	2%	5%
Fodder roots	78%	87%	94%
Livestock numbers	1993*	1995*	1997*
Cattle	41%	55%	66%
Of which are Cows	58%	72%	81%
Pigs	39%	45%	52%
Poultry	30%	30%	37%
Beehives	85%	90%	93%

* As of January 1

With the re-establishment of private farming, a share of production of most major crops and livestock shifted from large-scale farms to smaller farms. Some products in the livestock sector, like pigs and poultry, have a lower share of the crop sector due to the fact that farm assets such as machinery and animals have not been returned to the farmers with the land.

Graph 3 Land use



2.2. Agricultural production and consumption

2.2.1. Cereals

Table 6 Cereals Balance sheet

		1992	1993	1994	1995	1996	1997
Harv. Area	000ha	1134	1267	1195	1026	1079	1162
Yield	t/ha	1,94	2,11	1,76	1,86	2,42	2,63
Production	000t	2197	2673	2098	1907	2615	3052
Availability	000t	2333	2502	2410	2281	2689	2746
Food	000t	534	458	505	506	526	537
Feed	000t	1175	1435	1323	1211	1621	1685
Seed	000t	239	252	211	213	217	224
Food per capita	Kg.	142	122	135	136	142	145
Self Sufficiency	%	94%	107%	87%	84%	97%	111%

The area planted to cereals covered about 50% of the total agricultural land. The supply balance for the cereals aggregate shows a decline both in the harvested area and production between 1992 and 1995 but a strong recovery in 1996 and 1997, mainly due to the improvement in yield (Table 6).

Consumption is still relatively high as a consequence of declining real income which led to a shift in consumption from higher price meat and dairy products to lower cost cereal products. Since the decline in the livestock sector was more pronounced than was expected, in 1993 Lithuania produced more cereals than it needed (Table 7).

Table 7 Main cereals production

Area (000ha)	1991	1992	1993	1994	1995	1996	1997*
Wheat	272	284	376	270	261	348	376
Rye	138	164	231	204	135	152	159
Barley	523	611	588	620	545	474	503
Oats	81	62	43	55	47	52	56
Production (000t)	1991	1992	1993	1994	1995	1996	1997
Wheat	855	834	891	549	637	936	1127
Rye	345	342	434	313	239	287	348
Barley	1699	955	1208	1091	892	1177	1194
Oats	233	51	78	69	67	102	112
Yield (tons/ha)	1991	1992	1993	1994	1995	1996	1997
Wheat	3,1	2,9	2,4	2,0	2,4	2,7	3,0
Rye	2,5	2,1	1,9	1,5	1,8	1,9	2,2
Barley	3,2	1,6	2,1	1,8	1,6	2,5	2,4
Oats	2,9	0,8	1,8	1,3	1,4	2,0	2,0

* Preliminary

The trend reflected in the aggregate of cereals was mainly led by the drop in the barley yield which declined from 2,9 tons per hectares in 1990 to 1,6 in 1995, and only in 1996 increased up to 2,5 tons.

Among cereals, barley represented in 1996 approx. 45% of production and 44% of area. On the other hand wheat represented 36% and 32% respectively. In the previous years the production structure of the most important crops changed following dramatic changes in the agricultural sector (Table 8).

Table 8 Percentage structure of cereals production

% Structure	PRODUCTION								AREA							
	1991	1992	1993	1994	1995	1996	1997*	1991	1992	1993	1994	1995	1996	1997*		
Wheat	27%	38%	33%	26%	33%	36%	38%	27%	25%	30%	23%	25%	32%	32%		
Rye	11%	16%	16%	15%	13%	11%	12%	13%	14%	18%	17%	13%	14%	14%		
Barley	54%	43%	45%	52%	47%	45%	41%	51%	54%	46%	52%	53%	44%	43%		
Oats	7%	2%	3%	3%	3%	4%	4%	8%	5%	3%	5%	5%	5%	5%		

* Preliminary

2.2.2. Fodder crops

Products include mainly green fodder from arable land. The total production of fodder crops in 1990 was double cereal production, but decreased to 2,8 million tons in 1996. The area planted was around 1,6 million hectares in 1990 and after dropping until 1994 seems now to have stabilised at around 1 million hectares. The drop in the yield and the declining quality of forage was also reflected in deteriorating conversion rates in the livestock sector.

2.2.3. Potatoes balance

Potatoes harvested represent around 4% of arable crops. With the exception of 1994, production has steadily increased mainly because of the increase of yield (Table 9).

Human consumption has been also growing but the main part of the increase in potato availability has been destined for animal feed, which in 1996 represented more than 50% of utilization.

2.2.4. Oilseeds and Protein Crops

For climatic reasons, oilseed production in Lithuania consists exclusively of rapeseed. In the last five years production has continued to increase, despite a low yield, and in 1997 reached a level that was four times higher the 1992 level (Table 10).

The utilisation for processing into vegetable oils for human consumption has always represented around 90% of rapeseeds available. On the other hand, the seed use remained constant while the use for protein feed for the livestock sector increased with time and reached the level of 10% in 1996 (Table 11).

Protein crops in Lithuania consist of peas and beans. Production has been continuously growing since 1992, because of both the increase in the harvested area and the improvement in yield.

2.2.5. Sugar beet and Sugar

After a decline between 1994 and 1995, the area planted to sugar beet started to recover and in 1997 reached 35 thousand hectares.

Yield also increased so that the level of production in 1997 was more than 1000 thousand tons (Table 12).

Table 9 Potatoes balance sheet

		1992	1993	1994	1995	1996	1997
Area	000h	114	122	117	125	125	121
Yield	t/ha	9,5	14,5	9,4	12,8	16,3	15,1
Production	000t	1079	1773	1096	1594	2044	1830
Availability	000t	998	1302	1268	1570	1922	-
Feed	000t	300	518	576	741	1101	-
Seed	000t	341	327	322	357	328	-
Food per capita	Kg.	95	122	99	127	133	-
Self Sufficiency	%	92	73%	116%	98%	94%	-

Table 10 Rapeseeds balance sheet

		1992	1993	1994	1995	1996	1997
Area	000h	5,2	2,0	12,0	13,9	11,8	22,1
Yield	t/ha	1,5	1,6	1,1	1,4	1,9	1,7
Production	000t	7,6	3,1	13,2	18,9	22,6	37,2

Table 11 Peas and Beans balance sheet

		1992	1993	1994	1995	1996	1997
Area	000h	30,6	20,5	23,4	26,3	36,7	52,3
Yield	t/ha	0,9	1,7	1,7	1,8	2,4	2,0
Production	000t	27,5	35,3	39,6	47,5	87,4	106,4

Table 12 Sugar beets balance sheet

		1992	1993	1994	1995	1996	1997
Sugar beets							
Area	000ha	33	35	27	24	31	35
Yield	t/ha	19	25	17	28	25	29
Production	000t	622	855	462	692	795	1015

The content in terms of white sugar is low, between 11 and 12%, and the production of at least two out of the four factories operating in the country, which still have to be privatized, is quite inefficient.

The sugar sector has always been one of the most protected in Lithuanian agriculture. The sugar import tariff was negotiated in February 1997 at 87%, which drops to 70% for exports from the EU under the FTA (Free Trade Agreement).

Production of sugar is from both sugar beet domestically grown and sugar cane imported under Tariff Rate Quotas. As a consequence, self-sufficiency for sugar in Lithuania has always exceeded 100%, with the sole exception of 1994 (Table 13).

2.2.6. Fruit and Vegetables

Production and consumption of fruit and vegetables play a very limited role in Lithuania but this has increased in more recent years.

Most of the fruit (approx. 80%) is represented by apples followed by plums. Also because the climate and soil Lithuania produces excellent berries (Table 14).

The high level of consumption per capita can be explained by an increase in human utilisation, which includes processed products.

For vegetables, red beets, carrots and cabbages are favoured and usually produced in small household plots with the double function of improving family nutrition and providing additional income.

An increasing share of these products is now marketed by local markets, and one of the reason for this is that the quality is generally low and they can not be marketed elsewhere. Packaging problems, quality guarantees, and off-season market supply, limit for the moment the expansion of the processing sector. However, a large share of consumption per capita relates to the consumption of canned products (Table 15).

Table 14 Fruit and Berries balance sheet

		1992	1993	1994	1995	1996	1997
Area	000ha	42,6	38,4	38,8	38,6	38,5	43,8
Yield	t/ha	2,8	6,9	1,4	3,3	2,5	6,0
Production	000t	118	264	53	128	98	258
Consumption p.c.	Kg.	30	50	45	48	52	-

Table 13 White sugar balance sheet

		1992	1993	1994	1995	1996	1997
Production from domestic sugar beet (a)	000t	66	86	47	76	89	118
Production from sugar cane (imported) (b)	000t	22	5	8	29	47	7
Yield (tons white sugar production/ ha of sugar beet)	t/ha	2,0	2,5	1,8	3,1	2,9	3,0
Yield (tons white sugar production/ tons sugar beet)	%	9%	11%	10%	10%	11%	12%
Availability	000t	87	94	85	83	87	90
Food per capita	Kg.	23,1	25,1	22,7	22,3	23,5	24,3
Self-sufficiency*	%	101%	97%	65%	127%	156%	139%

* Self-sufficiency is calculated on total production = (a)+(b)

2.2.7. Livestock

The end of the Soviet Union has fundamentally changed the system of livestock production in Lithuania, as in other Baltic countries.

The livestock sector used to dominate the agricultural economy, with a level of production which exceeded domestic demand. The oversupply was sold on Russian markets, while a large amount of cereals for feed use were imported from other Soviet Republics.

The leadership of the livestock sector in the Lithuanian agricultural economy continued until 1994 when, for the first time, the share of crop production in gross agricultural output represented more than 50%.

Livestock numbers have declined by about 50% since 1991, with the exception of dairy cows, which only declined by about 30%. Due to the restructuring and privatisation process still in progress, it can be expected that a slow decline will continue in the next few years (Graph 4).

2.2.8. Milk

The structure of the cow herd has changed dramatically as many of the large dairy herds in agricultural companies did not survive, and production is now more widely dispersed in many very small farms and household plots. This inefficiency has led to declining milk yields and a higher proportion of low quality milk supplied to processors.

Milk yields began to recover in 1995 and production levels in the sector are stabilising. On the other hand, per capita consumption was decreasing and only in 1997 seems to have begun a slight recovery.

As a result, the degree of self-sufficiency in Lithuania always remained above 100% and since 1994

production of milk and milk products doubled domestic demand. Traditionally, Lithuania exported around 50% of its butter, 25% of its cheese and 40% of its milk powder. Up to the end of 1997 exports have been marketed to the former Soviet Union since quality standards did not meet European requirements (Table 16).

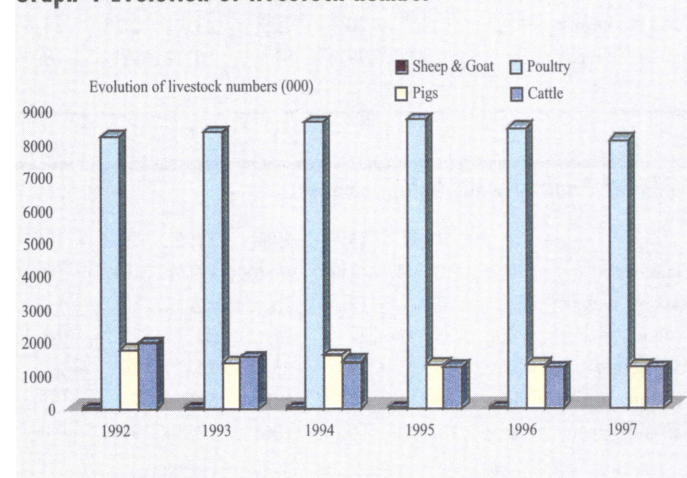
Table 15 Vegetables balance sheet

		1992	1993	1994	1995	1996	1997
Area	000ha	19,8	25,0	27,5	25,8	29,4	26,8
Yield	t/ha	11,8	14,7	9,8	14,0	14,5	14,9
Production	000t	260	376	283	369	433	415
Consumption p.c.	Kg.	65	69	65	65	71	-

Table 16 Milk balance sheet

		1992	1993	1994	1995	1996	1997
Dairy Cows	000h	738	687	615	586	590	586
Yield	Kg.	3281	3008	3084	3104	3105	3104
Production	000t	2421	2067	1896	1819	1832	1819
Availability	000t	1256	1197	1088	885	790	822
Consumption p.c.	Kg.	334	319	291	238	213	222
Self-sufficiency	%	193%	173%	174%	206%	232%	221%

Graph 4 Evolution of livestock number



2.2.9. Beef

The production of beef meat can be seen mainly as a by-product of milk production. Low producer prices have not allowed the sector to be profitable and the poor performance of the processing sector aggravated the situation.

The average weight of slaughtered animals recovered over recent years, after a decline mainly due to the decline in the quality of animal feed with a low protein content, and is now set at around 300 kg. On the other hand, production is still declining because of the drop in livestock number and slaughters (Table 17).

Table 17 Beef balance sheet

		1992	1993	1994	1995	1996	1997
Slaughtered	000h	827	505	295	218	248	270
Average weight	Kg.	273	321	393	399	335	307
Production	000t	226	162	116	87	83	83
Availability	000t	124	116	93	100	82	83
Food per capita	Kg.	33,0	30,9	24,8	27,0	22,1	22,5
Self-sufficiency	%	182%	140%	125%	87%	101%	100%

Table 18 Pig meat balance sheet

		1992	1993	1994	1995	1996	1997
Slaughtered	000h	1796	1005	936	1083	1136	1130
Average weight	Kg.	8	90	87	86	78	81
Production	000t	155	90	82	93	89	92
Availability	000t	155	91	90	92	91	92
Food per capita	Kg.	28,5	20,8	22,3	23,4	23,8	24,2
Self-sufficiency	%	100%	99%	91%	101%	98%	100%

Table 19 Poultry meat balance sheet

		1992	1993	1994	1995	1996	1997
Slaughtered.	000h	26844	18604	19865	19314	17377	18000
Average weight	Kg.	1,2	1,2	1,2	1,3	1,4	1,4
Production	000t	32	22	24	26	25	26
Availability	000t	30	21	23	25	26	28
Food per capita	Kg.	8,1	5,5	6,0	6,7	7,1	7,5
Self-sufficiency	%	104%	106%	106%	105%	96%	94%

2.2.10. Pig meat

In 1996 more than 50% of the production of pig meat was still concentrated in large-scale production complexes. Since the disruption of the Soviet system the performance of the pig sector has declined, mainly as a result of the increase in price and decline in quality of feed products.

Nevertheless, the profitability of pig fattening was quite good due to the favourable relationship between feed grain prices and pig meat prices although the poor conversion rate could erode the margins to some extent (Table 18).

However, the drop in the average weight of slaughtered animals was not so steep and the reduction in production between 1992 and 1996 was around 40% following the decrease in domestic utilisation. Self-sufficiency remained stable at around 100% with the main exception being in 1994 when Lithuania imported pig meat, mainly from the EU.

2.2.11. Poultry meat

As for pig meat, in the case of poultry big agricultural companies and enterprises were still responsible in 1996 for a large share of production (around 70% in 1996). Poultry production suffered the same problems of feed shortage, which affected the other sectors.

However, after a steep decline in 1993, production began to recover slowly with an overall increase of approx. 20% in the last five years. Consumption has also been increasing since 1994. In 1996 consumption exceeded production and for the first time, after being a traditional exporter to the Soviet market for so long, Lithuania became a net-importer (Table 19).

2.3 Forestry

Forests in Lithuania occupy almost 1/3 of the territory. According to the data for 1 January 1996, forestland makes up 1.976.000 hectares, while forested land occupies 1.871.000 hectares. Forests cover 30,1% of the whole territory of Lithuania. Since World War II forest coverage has increased by almost 9% (in 1948 it was 21,2%).

In the tree species composition pine (37,6%), spruce (24,0%) and birch (19,5%) prevail in Lithuanian forests. Black alders make up 5,6% of all the forests, white alder - 5,6%, aspen - 2,6%, ash - 2,7%, oak - 1,8%, other tree species - 0,6%.

The average growing stock volume per hectare amounts to 188 m³. Since World War II timber resources have increased more than twice. At present, the total growing stock volume amounts to 351,8 mill. m³. The average forest land area per capita makes up 0,51 hectares, which corresponds to 95 m³ of timber.

Lithuanian policy of forest use is based on the principles of sustainable and multiple-use management. Annual harvesting foreseen until the year 2003 is 5,1 mill. m³. In a large number of forests (27%) there are restrictions on forest management because of environmental requirements (protection of biodiversity, protective functions of forests etc.). Commercial forests make up 73%. In these forests management activities have comparably small restrictions, however, general silvicultural and ecological requirements should be followed. During harvesting and silvicultural operations, environmentally sound and economically viable technologies are being introduced on a broader scale.

All silvicultural measures are aimed at the establishment of productive and resistant species, and the protection of biological and genetic diversity in forests. While carrying out reforestation, planting is successfully combined with natural forest regenera-

tion. About 1/3 of cutting areas is left to natural regeneration.

Forestry and the forest industry hold considerable importance for the economy of Lithuania. The country's export of wood and wood products amounts to 10% of total export value. Forestry and the forest industry have a significant number of employees: 15,9 thousand and 34,7 thousand respectively (Table 20).

Table 20 Annual forest felling and exports

	1995	1996	1997*
Annual forest felling (thou. m³)			
State owned forests	5280	4762	4248
Private forests	697	774	897
Exports (thou. M³)			
Pulpwood	1469	751	697
Sawn wood	748	1039	1011
Total	1769	952	774

* Preliminary

Therefore, besides its economic importance, the forest sector plays significant social role, especially in rural areas. The main part (over 90%) of the timber processing industry is privately owned. The structure of ownership has changed considerably since the restoration of Lithuania's independence in 1991. Since the beginning of Land Reform, ownership rights have been restored to more than 80 thousand forest owners. At present (1997) the share of private forests and forests which are currently being privatised has reached 18,7% of the total forest area. However, the process of restitution continues and following the completion of Land Reform private forests will occupy 40-45% of total forest area.

About 12% of the territory in Lithuania is under protection as Parks. There were 5 National parks established between 1974 and 1991, and their total area is 152,2 thousand hectares. These parks are founded in woody areas, where forests cover approx. 60% of the park area. In 1992, 30 Regional parks were founded.

2.3. Agricultural trade

Following the restoration of independence and the establishment of trade relations with the main current trading partners, imports of food products have been growing rapidly. These are mainly high value-added products, including vegetable oils, fresh, canned and frozen fruits and vegetables, confectionery products, juices, margarine and spreads, yoghurts, cheese, etc.

Livestock products in general, and meat and milk products in particular, are still the largest components of agri-food exports. In recent years re-exports, especially of prepared food products and alcoholic beverages, have accounted for a growing share of agricultural and food exports.

The balance of trade in agricultural and food products became negative in 1996, but it has been continuously deteriorating since 1993. From 1995 to 1996, the balance of trade with Estonia, Latvia, and the NIS (Newly Independent States) improved, and deteriorated by almost 50 million ECU for the EU.

Europe and the NIS were the destinations for 98% of Lithuanian exports from 1993 to 1995 and 94% in 1996. In the last two years, there has been an increase in the share of exports going to the NIS and

a decline in the share going to Europe. In eastern markets Lithuania still sells meat and dairy products which face difficulties in entering the EU market. The European Union share declined from 27,6%, where it had been for three years, to 17,4% in 1996.

These shifts are related to numerous factors such as quality and marketing infrastructure but they are also consistent with the appreciation of the Lita relative to European currencies and the depreciation relative to NIS currencies.

The share of exports going to Estonia and Latvia steadily grew from 1994. In 1996 and first half of 1997 it was around 10-11% of total agricultural and food product exports.

The principal source of imports over the last three years has been Europe, and this increased from 53% in 1993 to around 65% in each of the last three years. The second important source has been the NIS, but this share has declined from 39% in 1993 to around 21% in the last three years. A close third and gaining in import share are the other CECs, which are now close to 15%. In particular, imports from the two other Baltic countries have also increased from 2 to 3% between 1995 and 1996 and fell slightly in the first half of 1997 (Table 21).

Table 21 Trade by region

	Exports			Imports			Balance (000 ECU)		
	1995	1996	1997*	1995	1996	1997*	1995	1996	1997*
EU	27,6%	17,4%	20,0%	41,9%	39,2%	45,1%	-52531	-102494	-
EFTA	1,4%	3,1%	2,4%	5,2%	8,4%	7,8%	-14239	-24715	-
Estonia	3,2%	4,6%	10%	1,5%	1,9%	4%	6550	11482	-
Latvia	4,8%	5,9%		0,9%	1,1%		14908	20820	-
CEC Malta and Cyprus	3,0%	1,4%	(in others)	14,1%	14,9%	(in others)	-41645	-61788	-
Turkey	0,0%	0,1%	(in others)	0,6%	0,5%	(in others)	-2258	-1841	-
NIS	58,5%	62,4%	59,1%	21,3%	21,2%	10,8%	142797	176598	-
USA	0,5%	0,8%	(in others)	2,7%	4,1%	(in others)	-8258	-15186	-
Other	1,0%	4,3%	8,5%	11,8%	8,7%	32,3%	-40609	-20828	-
TOTAL (000 ECU)	381164	437873	545526	376449	455826	555026	4715	-17953	-9501

*Preliminary

Both imports and exports include a substantial quantity of goods re-exported from East to West and West to East.

2.4. Farm structures and privatisation

Land restitution and privatisation of State and Collective farms and farm assets were initiated at the same time in 1991 and encouraged the development of family farms.

However, the legal framework guiding the restitution and land privatisation process has changed several times since independence and these changes have significantly slowed the whole process.

The Law on the procedures and conditions establishing the basic legal framework for the restitution of the rights of ownership to existing property was passed in June 1991 and subsequently amended on several occasions between 1992 and 1996.

In January 1997 Parliament suspended the law since it had become very complex to administer. The new law, which was enacted in July 1997, intends to accelerate the process, but in opening the process to a wider range of claimants it is likely to cause further delays unless significant additional resources are made available.

In practical terms, as of mid-1997, the restitution process had only resulted in ownership of less than 50% of agricultural land, and less than one-fifth of land is still used by the transitional successors of former large-scale farms.

Furthermore, the Lithuanian government selected a way of restitution which allowed not only compensation in kind, but also in cash, and the implementation of this program has turned out to be rather difficult and time consuming.

The cash compensation is significantly constrained by the availability of resources. According to gov-

ernment estimates, with the currently available resources, the completion of the restitution process will require another three to five years.

The process of surveying land, drawing maps, identifying land use and legally registering ownership documents, has been extremely time consuming and administratively and technically difficult. Administratively, land reform is now being run by the National Land Survey under the Ministry of Agriculture and Forestry.

Privatisation also has a direct impact on the development of the land market, since only registered land can be sold. Furthermore, the land market is constrained by the legal limits restricting land ownership to physical persons and the State and setting an upper limit on individually-owned land in order to prevent the use of land as collateral. EU legal persons, however, recently became eligible for non-agricultural land ownership since the Europe Association Agreement came into force on 1 February 1998.

There is no reliable information available on actual land sales, but according to estimates, the market is rather modest. By mid-1995 only 19,000 land transactions had taken place. At the same time there is quite an active lease market which is expected to increase activity further as the compulsory leasing to agricultural companies expired in 1997.

The most significant land trading activity is related to the purchase from the government of the household plots distributed in rural areas before the restitution began in earnest. The average price for agricultural land purchased from the State in 1996 was about 474 ECU per hectares, but the market price was substantially lower. The current users have priority over former owners who might claim the plots. Of 340.000 household plots, about one third of the owners have already purchased their plots with privatisation vouchers. Another third of users have traded land acquired through other means in

exchange for ownership of their plots. The remaining third of the cases are still unsettled.

Land and property privatisation led to fragmentation and many small-scale private farms were created which were unlikely to provide sufficient income for full-time farmers. However, the number of family farms actually operating is less than half of the ownership number, so that the average size of the operating farms is at least twice the average size of the owned areas.

Table 22 Land users and farm size

	1994	1/1/1995	1/1/1996	1/1/1997
Agricultural Companies	3483	2880	2611	1660
Average size, ha	450,0	378,0	306,3	371,6
Family farms (000)	111,5	134,6	165,8	196,0
Average size, ha	8,8	8,5	7,8	7,6
Household plots (000)	404,0	396,7	378,4	342,7
Average size, ha	2,1	2,1	2,2	2,2

Currently three different types of farming organisations characterise the Lithuanian farming structure. Agricultural Companies, which are large farming enterprises created as a result of the transformation of the state and collective farms. In addition to primary agriculture, the agricultural companies are also involved in food processing and trading activities.

Family farms, established before independence through the Law on Peasant Farms, which allowed rural inhabitants to receive user rights on land up to 50 hectares. This process of land allocation continued until September 1991, when the new overall laws for land restitution superseded it.

Household plots, which are often operated by the shareholders of agricultural companies or by rural inhabitants to supplement their income from other sources.

According to data available on January 1, 1997, less than 2000 of these large-scale farms survived with

an average size of about 370 hectares, while the number of family farms has increased to about 200 thousand. These changes have been accompanied by changes in land use and production patterns. (See chapter 2.1) (Table 22).

The "organisational infrastructure" of agriculture is not well developed in Lithuania, and this hampers co-ordination and co-operation within the agricultural sector and between farmers and the food processing industry.

However, during the process of agricultural reform, four major organisations have emerged. The Chamber of Agriculture, a traditional institution with roots in the pre-Soviet era, which represents all segments of agricultural production. The Lithuanian Farmers' Union, the major organisation representing private farmers, which provides advisory services and information as well as interest representation. The Association for Land Owners, which has a modest membership and influence. The Association of Agricultural Companies, which was formed by the successors to the former large-scale farms. There are many other smaller organisations that are members of the Chamber, including a new Association of Dairy Farmers. Most of these associations were established after independence and their political influence was relatively small during the 1991-94 period. In the 1994-95 period, however, these groups, and especially agricultural producers, wielded greater influence, as was reflected in the introduction of many new commodity support policies and sectorial subsidies.

2.5. Rural development

The country consists of 10 counties with two main cities, Vilnius and Kaunas. (There are actually five other main cities including Klaipeda, Panevezys and Siauliai). There have been attempts made in the past to develop a more multi-polar structure by promoting secondary cities but approx. 32% of the Lithuanian population still live in rural areas, with the

majority employed directly or indirectly in agriculture. Lithuania has a well-developed network of highways and secondary roads, but some of the basic services, such as water supply, and telecommunications, still remain under-developed in rural areas. These problems are currently addressed by Rural Support Fund, providing co-financing of the development of the road and communications networks as well as other areas of infrastructure.

The agricultural reform and privatisation created many serious problems in rural areas, because during the Soviet period, the main social, medical and cultural services were provided in special, purpose-built facilities on state and collective farms. With the farms restructuring, these functions were transferred to local government, and many services ceased to be available in rural areas. The gap in income between rural and urban areas seems to be deep and there is a need to diversify the rural economy also to counter the increasing unemployment in rural areas. The Rural Support Fund has special programmes targeting diversification of the rural economy and the creation of additional and alternative jobs.

2.6. Agriculture and the environment

Until a few years ago very little attention was paid in Lithuania to environmental issues and large areas suffered from agricultural pollution.

Ground water sources in rural areas close to large industrial livestock units were contaminated by pollutants originating from poor handling of animal waste. Excessive use and misuse of fertilisers and chemicals in the past have also given rise to environmental problems. The dramatic decline in their use during the transition period, as well as the reduction in the livestock number by over 50%, led to positive environmental consequences.

Other environmental concerns are related to soil erosion due to poor farming practices, which cover almost 20% of agricultural land in Lithuania. With

the dissolution of the large-scale farms and the movement towards lighter, more efficient, small-scale farm machinery and environment-friendly practices, the situation is likely to improve.

2.7. Up- and downstream activities

2.7.1. Up-stream

During the Soviet period Lithuania imported all agricultural machinery and equipment from the former Soviet Union. In addition, there were about 10 light engineering enterprises in the country, which specialised in the production of spare parts and feed processing equipment.

At present on the seed producers market private firms dominate, the supply of fertilisers has also been decentralised and private dealers prevail in the marketing of specially imported fertilisers and chemicals. Agricultural machinery and equipment are imported by private producers and traders from both the former Soviet Union and western Europe including new and second-hand machinery, and are marketed by private sector companies.

2.7.2. Down-stream

The situation in Lithuania's food processing sector reflects the structure which emerged in the Soviet period and consisted of large or medium-size state-owned concentrated enterprises mainly oriented towards dairy and meat processing. During the transition period, these enterprises suffered from large over-capacity with underdeveloped input supply and output marketing, since in the past up to 40% of their output was supplied to the former centrally-planned Soviet Union market.

On the dairy side, following the sharp drop in the volume of milk production, the financial situation of many milk processing plants deteriorated and they accumulated debts which in 1995 reached almost

50% of their asset value. In 1996 many dairy plants became insolvent. In 1997 the tendency for concentration on dairy processing has strengthened.

The major problems for the meat industry are over-capacity and lack of capital. Many of the processing facilities are obsolete, with low hygiene standards. Privatisation failed to give the necessary incentive for the restructuring and in many cases it was more appropriate economically to construct a new enterprise rather than to restructure an old one. Further, due to producers' dissatisfaction with the payment terms of the large meat plants a large number of small meat processing enterprises were established. In order to improve their financial situation, some big meat processing enterprises expanded their services: they slaughter animals for farmers and other small meat processing companies and lease their refrigerating facilities.

The same problems also affect the grain and the fruit and vegetable processing industries, which have outdated machinery and equipment and an extremely low capacity utilisation due to shortages of raw materials and a lack of markets for final products. The low rate of capacity utilisation combined with low efficiency and limited possibilities to reduce costs due to inefficient technology contributed to growing product unit cost and, in some cases, bankruptcies.

2.7.3. Up and Down-stream privatisation

The privatisation of industry and trade, as in other Central European countries, was one of the major initial objectives of Lithuanian economic reform. However, the agri-processing sector has proved harder to privatise than other industries.

The consequence of the primary privatisation stage, launched in 1992, achieved only limited results, mainly due to a lack of interested buyers and the complicated privatisation procedures. In fact only

10-30% of the processing enterprises were privatised.

In 1994 the favourable conditions offered to agricultural producers (they only had to pay 2,5% of the nominal value of shares) accelerated the process so that by the end of the year more than 50% of assets in the processing industry had been privatised. In particular a relatively high proportion of poultry processing enterprises and dairies had been privatised, reflecting their higher level of profitability, while interest in the meat industry still remained limited.

At the beginning of 1997 the Ministry of Economy estimates almost 90% of all enterprises designated for privatisation were effectively privatised. However, both upstream and downstream sectors are not yet adapted to the requirements of the competitive international markets nor the local emerging privatised agriculture.

The milk processing industry, for instance, reacted to this situation with a strong production concentration, with small enterprises taken over by bigger export-oriented companies which strengthened their financial position during 1996/97. According to the latest estimates, a dairy will be able to survive in Lithuania only if it processes no less than 50 thousand tons of raw milk per year. Therefore, out of 37 dairies which are active today, only 6-8 big restructured dairies will remain. In the grain sector one-grain elevator holds the strategic grain reserves for Lithuania and will continue in state ownership.

At a general level, the privatisation of the agri-food sector ran into a number of problems. Firstly, although almost all the agri-processing enterprises are now privatised to various degrees, there has been little change in their management and decision-making structure, mainly because of the nature of the privatisation process. In addition, these assets were privatised via "vouchers" and this means that no new money came into the sector.

Secondly, the privatised companies found that there were insufficient markets for their products and they lacked marketing expertise. Finally, the lack of domestic and/or foreign investment in food processing companies has prevented the modernisation of their plant and equipment. However, in order to attract investments the problem of over-capacity should be resolved. Instead, the privatisation of big food enterprises, which play the most important role on the market through the control of the distribution and retail sectors, was rather slow. The current list of privatisation includes processing enterprises of this type. However, their over-capacity, outdated equipment and high indebtedness together with the fact that most plants do not meet EU quality and hygiene standards and are consequently can not export to the EU market, kept foreign investors away.

Food products, beverages and tobacco represent the second most important sector of FDI (17%) which is dominated by tobacco, beer and the soft drinks industry.

Investments in the agricultural sector are modest, but constantly growing. In July 1997 they amounted to around 1,8 million ECU and were mainly provided by Germans, French and Israeli investors.

2.7.4. Foreign Direct Investment (FDI)

At present, both the downstream and the processing sectors are only relatively open to foreign investors because shares acquired by agricultural producers can be sold only to other agricultural producers. In 1997 agricultural producers possessed 32% of the shares in the meat processing industry and 31% in the milk processing industry, which means respectively 83% and 77% of the privatisation level. In general, according to the figures released by the Lithuanian Investment Agency, foreign investors acquired only 0,6% of the privatised assets in the processing sector. The activities in this field are regulated by the Law on Foreign Capital Investments adopted in June 1995 which guarantees considerable incentives for the activities of foreign economic entities both on the side of tax reduction and repatriation of profits. In June 1996, Parliament also passed a Constitutional law which legalised the sale of non-agricultural land to foreign nationals.

According to balance of payments data, during 1997, net FDI rose sharply compared to previous years and totalled some 3,4% of GDP. The largest investors are the US, Sweden and Germany.

3.

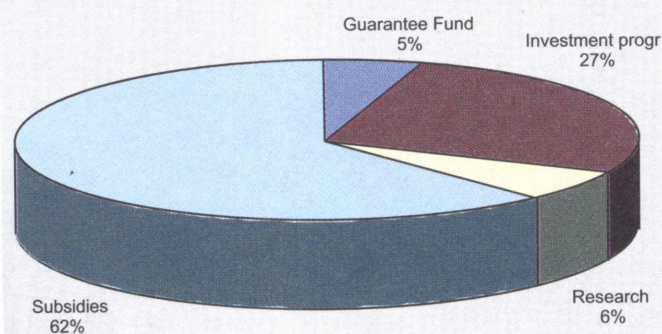
Agricultural and rural policies

Table 23 Agriculture Budget 1994-1997

(000 ECU)	1994	1995	1996	1997*
1. Financing of agricultural agencies	14670	13574	18198	24670
2. Strategic food and seed reserves	2621	5616	5333	5873
3. Capital investment	1777	757	897	272
4. Compensation for land and forest	0	0	2173	8900
5. Ministry of Agriculture	669	805	1321	1642
6. Nati. Agric. Progr. (Rural Support Fund in '97)	42609	58809	74379	88333
6.1 Tot. at disposal of the Min. of Agr.	42609	58809	74379	68308
6.1.1 Farm price subsidies	5817	27008	38513	46725
6.1.2 Subsidy for quality breeds and seeds	273	1521	2862	3560
6.1.3 Credit programs	21357	6661	4035	2225
6.1.4 New Technology and Machinery	0	0	0	890
6.1.5 Financing of Breeding Program	1113	2118	3447	4005
6.1.6 Ecological farming	735	722	528	890
6.1.7 Production Quality Research	0	0	0	445
6.1.8 Agricultural Research and Extension	861	1579	2406	5118
6.1.9 Rural loan Guarantee Fund	0	0	0	4450
6.2 Tot. at disposal of Regional Agr. Boards	0	0	0	20025
6.2.1 Investment Grant Program	0	0	0	17800
6.2.2 Disaster Assistance Program	0	0	0	2225
6.3 Net Cost of Intervention Stock	0	3273	2805	0
6.4 Subsidy for baby food	0	0	89	0
6.5 Grants for low productivity land	0	2657	2440	0
6.6 Farm establishment and infrastructures	7770	6680	8477	0
6.7 Limiting of Acid Soils	0	3080	0	0
6.8 Development of Co-operation Agri-service	1344	0	2140	0
7. Development of fisheries and processing	0	0	0	275
8. Other 3339	3514	6641	0	
TOTAL	62346	79560	102300	129964
TOTAL at 1994 constant value	62346	56992	58625	66320

* Projected

Graph 5 Agricultural policy expenditure reallocation in 1997



The main instruments of agricultural policy can be divided into two groups according to their primary objectives. The first group consists of price and income support measures, which includes measures that protect domestic prices, regulate domestic markets and support incomes. The second group includes structural measures and measures that improve the production base (Graph 5).

Primary responsibility for formulating agricultural policy lies with the Ministry for Agriculture and Forestry, which was totally restructured by the

Republic of Lithuania in December 1996. Measures that require public funding must also be approved by the Ministry for the Economy, and the Council on Competition and Consumer Protection are also indirectly involved in the consultation process. In order to ensure a more efficient use and a better administration of the state aid to the agricultural sector, the Government decided to concentrate all the financial resources previously allocated for different programs, by direct financing or through the Rural Support Fund.

In 1997, the Rural Support Fund, with a budget of 88,3 million ECU, accounted for 5,8% of the State Budget. Its allocation among different agricultural policies is shown in the next graph and individual measures are described in the following pages.

3.1. Agricultural market policy

3.1.1. Market prices and subsidies

Since the beginning of the economic reforms in Lithuania, the pricing system has been radically altered. In broad terms, the price reform process can be divided into three stages. In the first stage, the differentiated procurement price system of the former Soviet Union was replaced by uniform procurement prices in January 1991. In the second stage, which started at the beginning of 1992, producer support prices were introduced for the main agricul-

tural products. In November 1992, however, the policy of supporting prices was eliminated and there were essentially no price support between 1993 and 1995. The third stage of the reform process took place in 1995, when the government launched a new market intervention programme to support farm incomes. Price support measures implemented in 1995 include Minimum Marginal Purchase Price (MMPP) for specified quantities of farm products. Inasmuch as the MMPP is intended as a floor price, this programme could be compared to the intervention price system in the EU. However, the government had no intervention system and had to rely totally on competition among processors to ensure that producers received these minimum prices. The subsidies were then paid directly to farmers through the processing industry to keep consumer prices lower than they would otherwise be (Table 24).

At the beginning of 1997, the new government began a series of changes in the programs that has eliminated or reduced the levels of MMPPs and targeted direct payments to higher quality products. The new price system came into force on 1 April 1997. For the implementation of market regulation policies the Government set up the new agricultural market regulation agency which is supposed to undertake intervention purchases with the purpose of price stabilisation and income security.

Accordingly, it was decided to regulate the purchase prices of products for human consumption only (wheat and rye), and a new quality category was

Table 24 Price support measures

	1995 Quota**	1995 MMPP*	1996 Quota**	1996 MMPP*	1997 Quota**	1997 MPP*
Wheat	260	106-116	286	109-119	200	125-156
Rye	120	77	120	99	80	125
Barley	30	89-96	30	103-114		
Sugar beet	700	32	800	32	850	36
Milk	1200	77-109	1322	103-122	for new procedures see text	
Cattle		404-578		395-691		
Pigs		751-770		968-1086		1202-1268

** (000) tons; *ECU per ton; 1997 Preliminary

introduced for the human consumption of wheat (more than 28% of gluten), the production of which is encouraged by an 11% higher purchase price.

For the same reason, it is planned to essentially change the procedures of milk purchasing. In the period of pasturage from May to November 1997, the marginal support price of 122 ECU per ton for basic fat content milk is applied, which will guarantee minimum supported income for milk producers. Price fluctuations in the surplus period will be equalised by paying subsidies for different quality milk, which do not exceed 10% of minimum price. In order to reduce seasonal fluctuations and to improve production quality, since November 1997 instead of minimum support price the additional winter fee has been introduced. For highest quality milk 22,3 ECU per ton, for first grade milk 15,1 ECU per ton and for second grade milk 10,7 ECU per ton.

For cattle in 1996, 2239 thousand ECU in subsidies were paid. In 1997 cattle were purchased at negotiated market prices by paying subsidies of 84,6 ECU per head of 1, 2, 3A, 4A, 4B category (classification "Europe") and subsidies of 133,5 ECU per head of mixed breed meat cattle weighting over 400 kg.

In 1996, 3113,4 ECU of subsidies were paid for pigs. In 1997, the level of purchase prices for higher quality pigs was set at the price level reached in the fourth quarter of 1996. There are no plans to regulate purchase of lower quality pigs.

3.1.2. Price Gap

Since the beginning of the reforms, farm prices have been growing constantly in nominal terms at a slower pace than inflation, thus leading to a decline in real terms. When prices are converted to ECU, they tend to increase over time, reflecting the fact that Litas has been appreciating in real terms against the ECU (Table 25).

Generally speaking, agricultural prices are substantially lower than EU prices. Only in 1996, wheat prices in Lithuania were higher than in the EU following the increase in the world price.

Due to the traditional high self-sufficiency in potato production, and to the low level of commercialisation, potato prices as well as fruit and vegetable prices in Lithuania were not subject to government regulation. Producers prices are still low relative to those in the European and world markets, but large fluctuations can occur due to domestic production variability.

In the dairy and meat industries the problem of increasing competition is especially complicated. Due to dual-purpose cattle breeds used for milk and meat production, beef is considered a by-product of the dairy sector. Quality and productivity is relatively low and production costs are high.

Milk prices have been very low in Lithuania, despite the 15-fold increase since 1991, as a result of rela-

Table 25 Agricultural price comparison

Lithuania's prices in % of	EU Producers price			World Prices		EU Institutional Prices	
	1993	1995	1996	1995	1996	1995/96	1996/97
Wheat*	40%	65%	116%	68%	102%	80%	80%
Barley*	35%	50%	-	67%	96%	60%	91%
Potato	-	60%	-	30%	76%	-	-
Beef***		30-35%	43%	45%	74%	30-35%	32-37%
Milk**	20%	30%	40%	88%	78%	30%	35%
Pig**	43%	74%	78%	120%	98%	-	-
Poultry*	40	47%	57%	95%	103%	-	-

Lithuanian prices adjustment for comparison purpose: * = 5% - ** = 10% - *** = 15%

tively low quality and a weak marketing infrastructure as well as inefficiencies in many enterprises of the processing industry.

Pig meat prices are relatively high compared to prices for beef. Rising prices in the grain sector have an important impact on the profitability of the dairy and pig meat as well as poultry meat production. Pig meat is closer to the international quality as well as poultry and eggs the quality of which is almost comparable to western products.

Prior the reform the level of retail food prices relative to those in the EU was mostly in the 20-60% range, but quality differences explain a sizeable proportion of the gap. From 1993 real retail prices fell or stabilised although ECU prices continued to increase because of the combination of inflation and the fixed parity to the dollar. After 1995, limits on retail margins were abolished with the introduction of a more protectionist agricultural policy and retail prices became a major component in driving inflation. It is doubtful whether the link to the world market is sufficiently strong to maintain current price relations if monetary policy is relaxed and the nominal exchange rate allowed to depreciate.

Price adjustment for quality differences seems to be still necessary for the comparison of prices since it is hard to expect radical changes in production technologies and a significant improvement in production efficiency, processing and distribution. After the introduction of the guaranteed purchase program, there was a significant increase in farm prices, which resulted in a higher retail price increase. Furthermore, input prices are still growing toward world prices which, together with slow improvements in production and market efficiency, result in higher costs and price increases. Considering the information about the price gap and market efficiency, prices are likely to develop in two directions. For products, for which domestic farm price levels are still below world price levels, prices are likely to catch up with the world price adjusted for quality differences. For products, for which domes-

tic farm price levels are currently close to or exceeding world market price levels, prices are likely to remain or decline to world price levels for the industry to survive and be competitive in the international context.

3.1.3. Producers and Consumers Subsidy Equivalents

The percentage PSE for all products fell between 1986 and 1992 and became negative, representing an implicit taxation of the sector, in 1993 and 1994. In 1995 the PSE was slightly positive, and increased to about 14% in 1996, reaching about 30% of the level of support in the EU, and being slightly below the average in other CECs.

With the abolition of consumer subsidies in 1991, the percentage CSE became the mirror image of the market price support element of the PSE. Between 1992 and 1994 it represented an implicit subsidy to consumers, and with the increase in market price support in 1995 and 1996 it became once again an implicit tax.

3.2. Trade policy

3.2.1. Border measures

Trade policy developed from the implementation of quantitative restrictions, including export bans and licensing, towards more open trade regulations. Export restrictions at early stages reflected a fear of food deficits in the domestic market and an attempt to prevent product price increases. Import restrictions were intended to provide protection and reduce competition for the domestic food industry.

In 1993, state trade monopolies were abolished, and trade began to be conducted by enterprises including trading companies, processors, and producers. External pressures to establish consistent and trans-

parent trade policies led to the elimination of non-tariff barriers and a switch to the use of mostly ad valorem tariffs.

Bilateral and multilateral agreements were signed to influence this process: the Second International Monetary Fund (IMF) Memorandum in September 1994, the European Union Free Trade Agreement, which became effective in January 1995, and the Memorandum on Foreign Trade Policy provided in late 1994 as a part of the accession to the World Trade Organisation (WTO).

On April 1, 1995, a government resolution established a differentiated tariff system that includes MFN (conventional), preferential (under free trade agreements), and autonomous tariffs. Trade policies are beginning to harmonise the trade regime with domestic and world market conditions and constraints. Import tariffs range from 20 to 30 percent for most agricultural and food products, except for sugar which was subject to tariffication in February 1997 at 87% (70% for exports from the EU under FTA) (Table 26).

External constraints on trade policy decisions included IMF (which had expired in September 1997) and World Bank Memoranda and the need to keep policies consistent with WTO standards in anticipation of Lithuania's WTO accession.

3.2.2. Trade agreements

Trade with the European Union was regulated by MFN tariffs until January 1995, when the preferential agreement (Free Trade Agreement) came into effect. The agreement sets up a six year transition period for agriculture, during which Lithuania will apply rather high protection levels (import duties) which are gradually reduced until the end of the period. The agreement reduces EU duties by 60% beginning in 1995 for limited imports into the European Union; namely pork (1000 mt), chicken (500mt), skim milk powder (2900 mt for the first year increasing to 3500 mt in the third year), butter (1000 mt increasing to 1200 mt), and cheese. For skim milk powder, the quantities delivered exceed by far the existing quotas, whereas the quotas for butter and pork will probably not be fulfilled. Reduced duties without quantity restrictions have been set for black currants, natural honey, apple juice, and some vegetables.

For live bovine animals there is an arrangement which permits exports to the EU of 3500 bovine animals (at 25% of regular import duties) and 1500 mt of beef (at 40% of the regular import duty). These quotas are specified by the EU as a global quota for Lithuania, Estonia, and Latvia. Reduced EU trade barriers will not necessarily lead to increased exports immediately. Time will be needed to reduce obstacles associated with certifications, quality standards, packaging deficiencies, and other marketing infrastructures. On the import side, a quota

Table 26 Tariffs for agricultural products

Rate % (ad valorem)	MFN	Autonomous	Rate % (ad valorem)	MFN	Autonomous
Live cattle	20	25	Cheese	30	35
Live pigs	20	25	Eggs	30	30
Live poultry	20	25	Potatoes	20	20
Beef and veal	30	30	Grain	30	35
Pig meat	30	30	Wheat and Rye Flour	30	35
Poultry meat	25	25	Combined feed	30	35
Milk and dairy	20	20	Sugar	87	87
Butter	45	45	Bakery products	30	35

administration system has been established but still needs time to operate effectively. As a consequence, imports of EU products are likely to exceed quota levels for some time. Since July 1996 the preferential EU import regime has been amended in order to take into account the Uruguay Round results. Therefore, the level of reduction on the MFN tariffs for the EU went from 60 to 80%.

The Baltic Free Trade Agreement (BFTA) was signed in 1993, and came into effect in April 1994, is intended to be a first step in the formation of a customs union. However, agricultural products were excluded from the initial text, and it was decided to work out a separate agreement covering the missing trade areas.

After a long negotiation -essentially due to the asymmetry between Estonia which had no import tariff, and Lithuania and Latvia whose tariffs range from 20 to 60%- an agreement was finally reached in May 1996, and came into force on 1 of January, 1997. This agreement establishes complete free trade for all products meeting the Baltic rules of origin.

The implementation process faces many challenges, and the potential growth in intra-region trade is limited by the fact that the three Baltic countries have under eight million consumers and are very similar in production structure and comparative advantages. Relative competitiveness is already indicated by the fact that Estonia consistently has had the highest intra-regional share of exports and Latvia consistently has had the highest share of imports despite the fact that Latvia has had the highest import tariffs.

The NIS region used to be a traditional market for Lithuanian products, but the exchange of goods under the Soviet system was a delivery system not driven by competitiveness and market forces. In recent years trade with this region has been hampered by declining demand, payment problems, high transaction costs, competition from former Council

for Mutual Economic Assistance (COMECON) countries, and competition with subsidies, export credits, and food aid provided by the European Union and the United States. Trade policies in the NIS have also been very erratic. In January 1995 Lithuania and Russia granted each other MFN status, after a period when sanction tariffs of double the MFN levels were applied. Lithuania now has trade agreements with Ukraine, Belarus, Russia, Kazakh, and Tajikistan, and is currently negotiating with other NIS member states.

Since the CEFTA (Central European Free Trade Association) countries have become some of the most significant trading partners for Lithuania and Lithuania has expressed an interest in joining CEFTA once its membership to the WTO has been approved, and bilateral free trade agreements have been reached with all CEFTA members. In particular, trade agreements with Poland and Slovenia have been completed, and negotiations with the Czech Republic, Slovakia, and Hungary are continuing.

Accession to the WTO is a precondition for progress in other trade agreements and is a high priority. Lithuania is in the final stages of becoming a full member of the WTO, having had observer status in the General Agreement on Tariffs and Trade (GATT) since 1992. Many of the major steps necessary to bring Lithuania's trade policies in line with WTO regulations have already been completed. It is likely that accession will be in 1998, and only after this might the impact on domestic prices and policies become clear.

3.3. Structural Policy

3.3.1. Support to Investment

The main supports to investment lie in the banking and credit system including a 30 million \$ (about 26,7 million ECU) World Bank credit line to the Rural Support Fund (co-financing of government

formulated priority projects) and to the Partial Loan Guarantee Fund set up in December 1997, which became operational at the beginning of 1998.

Two years after the crisis, the Lithuanian banking sector is currently recovering thanks to the dynamism of a small number of private banks, the strengthening of the regulatory framework and the improvement in the country's macroeconomic climate. So far, the main provider of loans to the agricultural sector has been the Agricultural Bank, a state-owned institution which is to be privatised during 1998 which owns 46 branches throughout the country and constituted the third largest bank by assets at the end of 1997.

The supply of loans to the agricultural sector has typically fallen short of potential demand for several reasons. First, during the agrarian reform, land has been separated from capital. Second, even when there are enough resources, banks are unwilling to extend loans to agricultural entities, given that agriculture is a high risk sector due to the relative lack of security. In fact, land and facilities markets are small and have rather low values.

There were hopes that the situation on the credit market would be improved by the target loan from the World Bank. But in mid-1997, a year and half after the approval of the agreement, only 1,8 million ECU approx. have been drawn down because of the high interest rate (12-14% - that is, the same as the interest rate offered by commercial banks), and the very strict requirements which only few farmers are able to meet. However, taking into consideration the situation described above, the formerly executed Programme of the Government provided for subsidised loans to farmers for the acquisition of agricultural machinery and the construction of agricultural facilities. The loans were to be paid from the resources of the commercial banks, while the subsidies for the farmers to pay the interest rates were to come from the Government budget.

This practice has been changed by the co-financing of the priority projects from the Rural Support Fund, which was established in January 1997, and allows the implementation of several committed investment programmes. That is, establishment of farms, service and processing co-operatives, introduction of new technologies and farm practices, high quality seed production and breeding, ecological and environmentally friendly agriculture, diversification of rural activities in less favoured areas, and development of research, training and consultation. The best projects are selected through a competition procedure, and entitled to be supported by the Rural Support Fund.

In 1997 the first Guarantee Fund for agricultural loans was also put in place. It includes 4,5 million ECU appropriated from the 1997 budget of the Rural Support Fund, and it also received funds from the PHARE programme (2 million ECU). The regulations of the Fund provide limits for the guarantee amounts, and special requirements for the applicants. Among others the farmer must own no less than 9 hectares of agricultural land, have at least two years farming experience, provide his own contribution for no less than 10% of the total value of the project, and secure the loan by farm assets. The share of risk is such as the Guarantee Fund of Agricultural Loans guarantees the repayment of up to 70% of the loan in the case of failure, the remaining risk being borne by the lending bank.

3.3.2. Taxation

Since independence there has been a fundamental change in the tax system. A land tax was introduced in 1992 at a basic rate of 1,5% of the value of the land, and 3% for land rented from the State. In 1993 land taxes averaged 2 ECU per hectare. During the first three years of activity, however, most farmers were exempt from land and personal income tax. Following the introduction of VAT in May 1994, agricultural producers were given special privileges. Up to January 1997, domestically produced agricul-

tural and food products were subject to a temporary rate of 9% instead of the general 18% rate. Currently the VAT preferential rate has been discontinued and the waiver of income and profit tax obligations for farmers has not been extended (although farmers still benefit from a preferential tax rate) in order to provide a more cost effective and less distortive support system.

3.4. Rural Development Policy

Rural development policies are at relatively early stages of development in Lithuania. However, despite the severe budgetary constraints, some progress has been made in different areas. Until 1995/96 the main source of support was the Farmers Support Fund which allocated between 1992 and 1995 ECU 16 million for infrastructure assistance. Support in less-favoured areas was allocated according to soil quality (must be one quarter below average productivity) to compensate for income losses due to natural handicaps. In 1995 ECU 2 million were spent on the program, which is about 10% of the agricultural budget. About the same amount was spent in 1996. In 1997, after the procedures of financing were changed a targeted program, namely "Restructuring of Economic Activities in Low Productivity Soil Areas" was designed to improve the living standard of the farming population and increase employment in the rural areas.

3.5. Agri-environmental Policy

A pilot program of Environmental farming started in the Karst region with the "Tatula Program" in 1993. Before registration in accordance with the law on Public Agencies the Programme prepared during the period 1987-1993 was operating by the "Tatula" Fund. In 1996 about 0,6 million ECU, was provided by the State budget for agriculture in the Karst region, and spending is expected to increase to 0,9 million ECU in 1997. For the implementation of the program 50% of the funds are allocated as

interest-free credit and subsidies for the elimination of pollutants, whereas the other 50% goes to the elimination of pollutants at certain points (e.g. processors). Tatula was the first programme officially approved and sponsored by the Government and involves 105 farmers, 12 enterprises and 9 agricultural partnerships. Resources allocated to the program can be transferred to economic entities only through tenders. Between 25-60% of total cost, but no more than 22.250 ECU, is allocated to the winners of tenders, to finance measures provided for in the costs estimate. The strategic objective of this program is to transform in the Karst region about 5% of all agricultural land in bio-organic agriculture by 2005-2010. Since 1997, the experiment carried out in the Karst region has been spread throughout Lithuania and support for bio-organic and ecological farming is provided by means envisaged in the Rural Support Fund.

3.6. Veterinary and Phytosanitary legislation

The importance of the meat and dairy industry in Lithuania suggests that the veterinary sector is a key agricultural policy area, particularly with regard to safeguarding export markets and with regard to the pre-accession strategy.

The State Veterinary Service (SVS), established in 1991, is an organisation directly reporting to the Prime Minister but with close links to the Ministry of Agriculture. A general advisory function for the whole veterinary sector is assumed by the Veterinary Council of Lithuania, which comprises representatives and specialists from the SVS, the Lithuanian Veterinary Academy and the Lithuanian Veterinary Institute.

A veterinary chamber does not exist in Lithuania. Thus, most of the private veterinary practitioners are members of the Lithuanian Veterinary Association representing the professional body. Veterinary activities are subject to license.

The EU veterinary acquis is in the process of being translated into the Lithuanian language and is analysed for the ways of integration into the national veterinary legislation. In areas like legislation on foodstuffs, framework acts need to be drafted. The strict application of the new concepts and standards will help to solve major problems for the integration of the agri-processing industry of Lithuania into the EU markets.

In the field of public health, in particular food control, there is an ongoing reorganisation to co-ordinate the three institutions involved: the State Veterinary Service, the State Quality Inspection and the Hygiene.

A more detailed description of the Lithuanian veterinary sector and of its economic and political importance is presented in Annex II

4. Medium term outlook

4.1. General Economic Framework

Lithuanian economic growth has accelerated over recent years driven mainly by domestic demand investment and private consumption.

The macroeconomic hypothesis underlying the following outlook for agricultural products, is that this positive trend will stabilise as a result of further structural reforms, such as the planned privatisation of large financial and non-financial enterprise, and careful management of macroeconomic policy.

The latter should aim to defend the considerable gains achieved in price stabilisation, strengthen fiscal consolidation, maintain a prudent and pragmatic stance with regard to the exit from the currency board regime and rein in private consumption if needed to preserve a sustainable development of the external accounts.

4.2. Commodity projections (2003)

4.2.1. Cereals

Main assumptions

- Area will continue a slow recovery due to government policy programs for cereals and stabilise at the 1992-94 level.
- Yield will continue to improve, but at a slower rate than in the last two or three years.
- Food grains: per capita consumption will stabilise around the present level. The current level of consumption is the result of several years consumption shift from more expensive livestock products towards grains and vegetables. As prices are stabilise and incomes start to recover, it is likely that this tendency will stop.
- Feed grains will follow the development of livestock with almost complete self-sufficiency.

The result is a growth in cereals production by about 10% between 1997 and 2003. This, compared with the increase in feed use, will imply a very slight decrease in the self-sufficiency rate.

Table 27 Cereals projections

		1996	1997	1998	2000	2003
Harv. Area	000ha	1079	1162	1180	1204	1222
Yield	t/ha	2,42	2,63	2,61	2,6971	2,80
Production	000t	2615	3052	3080	3234	3427
Availability	000t	2689	2746	2816	2947	3118
Food	000t	526	537	540	543	545
Feed	000t	1621	1685	1750	1874	2054
Seed	000t	217	224	227	230	219
Food per capita	Kg.	142	145	146	147	147
Self Sufficiency	%	97	111	109	110	110

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

4.2.2. Sugar

Table 28 Sugar beets projections

		1996	1997	1998	2000	2003
Harv. Area	000ha	31	35	36	37	38
Yield	t/ha	25	29	29	30	33
Production	000t	795	1015	1047	1113	1235

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

Table 29 White sugar projections

		1996	1997	1998	2000	2003
Production	000t	89	118	125	135	145
Yield (tons white sugar production/ Ha of sugar beet)	t/ha	2,9	3,0	3,1	3,2	3,3
Yield (tons white sugar production/ tons sugar beet)	%	11	12	12	12	12
Availability	000t	87	90	96	100	105
Food per capita	Kg.	23,5	24,0	26	27	28
Self-sufficiency	%	156	139	146	150	155

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

Main assumptions

Sugar beet

- Area will continue to increase until there is a full recovery.
- Yield will continue to improve, but at a slower rate than in the last two or three years.
- Processing use will increase following the assumption that future privatisation of the two big enterprises where government still has 20-25% will increase the activity of sugar refineries.

White sugar

- Sugar contents. Production of white sugar per hectares of sugar beet will recover the 1995 level at 3,7 t/hectares. The share of white sugar obtained by processing sugar beet will remain almost constant around 12%.
- Consumption is expected to continue the increasing trend, although at a slower rate.

As a result, production of both sugar beet and white sugar are expected to increase by around 45% between 1996 and 2003.

4.2.3. Milk

Main assumptions

- Due to Lithuania's expertise in the milk sector, milk yield is expected to increase and reach about 3,4 t/cow in 2003.
- The increase in processing is expected to accelerate since at the beginning of 1998 thirteen Lithuanian dairy companies were awarded export licenses to Western Europe.
- Human consumption is also expected to increase, but to remain far below the 1992-93 level.

As a result of the balance sheet a growth in milk production is expected between 1997 and 2003. This, compared with the utilisation, will imply a potential surplus and exportable quantity and a self-sufficiency rate of 222% in 2003.

4.2.4. Beef

Main assumptions

- Livestock is expected to recover slowly since the Lithuanian breed is both for dairy and meat purposes and cattle numbers can not recover quickly through natural herd turnover.
- Total slaughters are based on an historical ratio between cattle and slaughter numbers.
- Human consumption will increase slowly.

The result is that production will increase about 10% from 1997 following the increase in human consumption. As a result, the country will remain around a level of complete self-sufficiency.

Table 30 Milk projections

		1996	1997	1998	2000	2003
Dairy Cows	000h	590	586	606	618	636
Yield	Kg.	3105	3104	3092	3216	3415
Production	000t	1832	1819	1874	1988	2172
Availability	000t	790	822	863	907	980
Consumption p.c.	Kg.	213	222	233	245	265
Self-sufficiency	%	232	221	217	219	222

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

Table 31 Beef projections

		1996	1997	1998	2000	2003
Livestock	000h	1054	989	999	1019	1050
Slaughtered	000h	248	270	280	285	294
Average weight	Kg.	335	307	303	309	318
Production	000t	83	83	85	88	93
Availability	000t	82	83	85	89	94
Food per capita	Kg.	22,1	22,5	23,0	24,0	25,5
Self-sufficiency	%	101	100	99	99	99

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

4.2.5. Pig meat

Main assumptions

- Slaughter number is determined by historical ratio.
- Average weight will recover, but remain still below the current EU average (90 Kg).
- Also meat consumption will recover the 1992 level since pork is the favourite meat in the diet of Lithuanian people.
- Other uses (processing) will slowly increase with economic recovery and the privatisation of the processing industry (Table 32).

The result is that pig meat production will increase slightly up to 2003. Nevertheless, the balance with the level of product utilisation will confirm Lithuania's position as a net importer.

4.2.6. Poultry meat

Main assumptions

- Slaughter number is determined by historical ratio.
- Average weight will decrease to 1,3 kg, taking into account the possible shift towards more industrial production.
- Human consumption will continue its upward trend (Table 33).

The result is an increase in production accompanied by a growth in imports, which will satisfy consumption demands at better prices.

Table 32 Pig meat projections

		1996	1997	1998	2000	2003
Slaughtered	000h	1136	1130	1141	1182	1285
Average weight	Kg.	78	81	82	83	88
Production	000t	89	92	94	98	113
Availability	000t	91	92	94	104	118
Food per capita	Kg.	23,8	24,2	24,7	26,2	28,9
Self-sufficiency	%	98	100	99	94	95

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

Table 33 Poultry meat projections

		1996	1997	1998	2000	2003
Slaughtered	000h	17377	18000	18360	19289	22117
Average weight	Kg.	1,4	1,4	1,4	1,4	1,3
Production	000t	25	26	27	27	29
Availability	000t	26	28	29	32	37
Food per capita	Kg.	7,1	7,5	7,8	8,7	10,0
Self-sufficiency	%	96	94	93	85	78

1997 Preliminary; 1998 Estimated; 2000-2003 Forecast

Glossary/Abbreviations

BFTA	Baltic Free Trade Agreement	GDP	Gross Domestic Product
CECs	Central and Eastern Europe	IMF	International Monetary Fund
CEFTA	Central European Free Trade Association	LT	Litas
COMECON	Council for Mutual Economic Assistance	MFN	Most Favourite Nation
CPI	Consumer Price Index	MMPP	Minimum Marginal Purchase Price
ECU	European Currency Unit	NIS	Newly Independent States (from the former Soviet Union)
EU	European Union	OECD	Organisation for Economic Co-operation and Development
FAO	Food and Agriculture Organisation	PPS	Purchase Parity Standard
FDI	Foreign Direct Investment	TAIEX	Technical Assistance Information Exchange Office of the European Commission
FTA	Free Trade Agreement (Tariff concession)	WTO	World Trade Organisation
GAO	Gross Agricultural Output	WB	World Bank
GATT	General Agreement on Tariffs and Trade		

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ANNEX 1: The Veterinary Sector in Lithuania

[This Annex has been prepared by TAIEX]

The great importance of the beef and dairy sector in Lithuania suggests that the veterinary sector is a key agricultural policy area, particularly with regard to the pre-accession strategy and to safeguarding export markets. In a functional analysis of the veterinary sector at least five sub-sectors are to be distinguished.

A. Veterinary Education and Training Sector

- A.1 The place to obtain training and to qualify as a veterinarian is the Lithuanian Veterinary Academy at Kaunas. There are two faculties, the Faculty of Veterinary Medicine and the Faculty of Animal Husbandry Technology. 65 applicants are admitted annually to the veterinary medicine faculty, representing about 0.002% of the Lithuanian population. This is sufficient for the future needs of the veterinary profession. Training lasts 5 years.
- A.2 The veterinary faculty maintains close relations with EU veterinary faculties in Denmark, France and Germany; but it has not undergone an evaluation procedure with regard to the application of EU training schemes and teaching programmes.
- A.3 There is no formal scheme for postgraduate training except for the general qualification of Doctor in Veterinary Medicine at the Veterinary Academy. Continuous professional development is by monthly meetings of the State Veterinary Service, by academic courses organised by Kaunas Consultancy Centre or by the Lithuanian Veterinary Association. This association has become an observer member of the Federation of Veterinarians of

Europe (FVE). Further intensive in and out country training for state veterinary officials is provided by TAIEX seminars and various Phare programmes. This should be continued systematically through to the implementation and application of the EU veterinary acquis.

B. The State Veterinary Sector

- B.1 The State Veterinary Service (SVS) was established in 1991. It is an autonomous organisation, reporting directly to the Prime Minister but with close links to the Ministry of Agriculture. Generally, it is responsible for the control of animal health, of zoonosis infections and the veterinary public health control of products of animal origin, including food. Only food of animal origin in shops and supermarkets is excluded from control by the veterinary services. The Veterinary Council of Lithuania, which comprises representatives and specialists from the State Veterinary Service, the Lithuanian Veterinary Academy and the Lithuanian Veterinary Institute has a general advisory function for the whole veterinary sector. In general, therefore, procedures for the control of products are comprehensive and well integrated with the animal health controls.
- B.2 The EU veterinary acquis is in the process of being translated into Lithuanian and analysed for ways to integrate it into the national veterinary legislation. In areas such as food legislation, framework acts need to be drafted. It seems that a lot of general work on legislation remains to be done in order to create a transparent legal system which will allow efficient enforcement

without overlaps and the development of fair trading conditions for the agri-food industry.

- B.3 Operating in headquarters, Veterinary legislation is enforced by the State Veterinary Service, through 4 departments, 10 county veterinary services, 34 district State veterinary services and 5 city veterinary stations. There is one national veterinary laboratory and a laboratory at each of the county and district institutions. 23 border inspection posts (BIPs) have been established on the Lithuanian land borders with Latvia, Poland, Belorussia and Kaliningrad, at 3 airports and 2 sea ports. Following the accession of Lithuania and their neighbouring Associated Countries to the EU, the number of BIPs at road and rail border crossings can be greatly reduced, and priority given to the construction and equipment of long-term BIPs with Belorussia and Kaliningrad and the international ports and airports of Lithuania. In particular there is a need to build inspection and lairage/storage facilities, both for live animals and products of animal origin, and to equip them according to EU requirements, including a communication network. Border inspection procedures are similar to those of the EU, including checks on transit. The traffic through the port of Klaipeda and Kaliningrad to and from Russia and other CIS countries creates a huge number of transit consignments through Lithuania, exceeding national imports by a multiple of 50 to 300. The BIPs are operated under the Border and Transport State Veterinary Service as a constituent unit of the State Veterinary Service.
- B.4 The SVS employs about 600 veterinarians. About another 1400 veterinarians are engaged in practices; 170 veterinarians are busy with the operation of private veterinary pharmacies and supply companies.
- B.5 At present, there is no computerised communication network. The headquarters, regional and local veterinary services and the BIPs should be linked in due course, in particular to control the transit flow. In addition, the EU veterinary IT tools like ADNS, Animo, Shift and Inforvet need to be installed as an integrated system.
- B.6 The animal health situation concerning OIE-List A diseases appears to be extremely good. No cases have been reported since 1993, whereas a few cases of OIE-List B diseases like Rabies and Enzootic Bovine Leucosis have occurred. The main obstacle to the trade of pigs and non heat treated pig products with the EU is the continuation of regular vaccination of 60% of the Lithuanian pig population against Classical Swine Fever. Assistance is required to elaborate disease monitoring and surveillance plans as well as contingency plans.
- B.7 As the State Veterinary Service's main aim has been to act against contagious diseases, the EU's rules and requirements on animal welfare will create further tasks in the future.
- B.8 In the field of public health, in particular food control, the three institutions involved - the State Veterinary Service, the State Quality Inspection and the Hygiene Centres - as well as more than 100 food laboratories are being reorganised to improve co-ordination. As up to now there has been no formal co-ordination between these institutions, over-regulation has resulted, without leading to an effective and efficient food control system. This may have contributed to Lithuania not being permitted to export meat, cattle, pigs, sheep & goats to the EU, as the EU has failed to approve Lithuania's residue monitoring and sampling plan. As zoonosis problems have been identified, such as *Trichinella* in

pigs, a project on this health risk has been established, supported by the FAO.

C. The Private Veterinary Sector

- C.1 As there is no veterinary chamber in Lithuania, most veterinary practitioners are members of the Lithuanian Veterinary Association, which represents the profession. Veterinary activities in the private sector are subject to license.
- C.2 Two licenses can be obtained, one for practice and another for the veterinary distribution of pharmaceuticals. Some veterinarians hold both licenses. There are serious concerns about residue safety and bacterial drug resistance, because the Lithuanian system allows free access to pharmaceuticals, which can be applied to animals by non veterinarians or farmers.
- C.3 Private veterinarians are also engaged under the current animal and public health schemes. For example, private veterinarians are involved in measures taken to eradicate a disease or to work in food processing plants. For some of these activities they are reimbursed by the State Veterinary Service.
- C.4 The income of private veterinarians is subject to problems of taxation which apparently discourage the creation of larger practices and specialisation. On the other hand, farmers have difficulties paying veterinarians for their work, particularly small-sized farms and household plots which keep animals.

D. Livestock Sector

- D.1 At present, neither a full register of holdings nor an identification system exists in Lithuania. The Breeding Department has data only

on the breeding population of cattle, by which about 1/5 of the cow population (500.000) and about 890 larger farms are registered.

- D.2 The domestic population of livestock is estimated to be about 1 mio cattle, 1.8 mio pigs, 48.000 sheep and goats, 77.000 horses and 8.4 mio poultry. An exact figure for the total number of holdings keeping livestock cannot be given, because of the lack of a registration system for the huge number of recently created smaller farms and household plots. However, more than 50% of the livestock population is kept on these farms. The farms which represent the highest animal health risk are large, private pig farms with between 28.000 and 54.000 animals kept in one place.
- D.3 A national animal health trust fund does not exist at present, and support is needed to set one up. If the need should arise for an eradication measure such as a slaughter out, the Ministry of Agriculture would at present compensate the farmers.

E. The Processing Industry under Veterinary Legislation

- E.1 Reflecting the current situation of the agricultural sector, animal production is still an important component of farming in Lithuania and so is the processing of animal products. This requires a competitive industry, which meets EU hygiene and technical standards, laid down by the relevant veterinary directives on meat, milk, fish, eggs and other products of animal origin.
- E.2 Unfortunately, only one game-meat plant and 11 dairy processing plants have so far been approved under EU legislation. None of the ~20 fishing vessels nor ~50 fish processing plants have been approved yet.

- E.3 Concerning the CP/HACCP concepts, there is still little emphasis on self-regulation in the food industry through the application of these new management systems for food hygiene and quality assurance.
- E.4 The strict application of the new concepts and standards, as well as good manufacturing / good laboratory practices, will help to solve major problems for the integration of Lithuania's agri-processing industry into the EU markets. Substantial funds are also clearly needed for the technical upgrading of the industry.

Conclusion

- i) Animal production and the processing of animal products are still important for Lithuanian agriculture. Major stumbling blocks to EU accession however are:
- the ongoing CSF vaccination policy in the pig industry,
 - lack of a proper system of animal identification, registration and movement control,
 - the lack of EU approval for a residue monitoring and sampling plan,
 - the industry's non-application of self-supervision concepts and lack of funds for necessary technical upgrading to meet EU standards and fulfil EU requirements.
- ii) The introduction of these measures will require significant investment in training and industrial infrastructure.

ANNEX 2¹: Phare activity - agricultural sector

Status of Current & Upcoming Projects

Summary

A summary of project contracting status is provided in Table 1, with a visual indication of the contracting timetable in Figure 1. A brief descriptive summary of all current and prospective projects from these schedules is provided below.

Current Projects

Project Implementation Unit (FM94 - 2.633 Mecu)

The legal duration of the contract ends on 8th May. There remain only short inputs to be delivered from the current Phare Adviser and the European Integration Adviser. The Phare PIU was closed on 31st December 1997, its functions replaced by a division within the Ministry. The project also supported the development of an Agribusiness Training Centre (ABTC) and the Lithuanian Agricultural International Trade Agency (LAITA).

Grassland Management (FM94 - 1.000 Mecu)

The project promotes the use of improved grassland management techniques in Lithuania, notably the use of big-bale silage technology. The project lasts until the end of 1998.

Orthophoto Production (FM94 - 350.000 Ecu)

The project will enable Lithuania to produce its own orthophoto maps to assist with land surveys which

have until now been produced in Sweden. The project has just completed its inception phase. There appear to be no implementation problems.

Agro-industrial Restructuring (FM95 - 400.000 Ecu)

A re-tender of the project took place during early October with the contract being awarded to RIAS of the Netherlands and signed in Brussels immediately prior to Christmas. Project implementation commenced in February and is therefore still in the inception period. The project provides focused consultancy inputs to six agroprocessing enterprises. The enterprises to participate in the project have been selected after an open competition organised by the Ministry.

Development of a National Food Laboratory (GTAF95, 2.000 Mecu)

The project commenced in October 1997. Considerable delays were experienced in obtaining an approved inception report due to the poor quality of early drafts and uncertainty whether the project should assist one or two national laboratories. These issues are now resolved and the project is delivering outputs. The project will equip a national food control laboratory and assist in the development of a food control system in general. The main result to date has been the preparation of a draft Food Law.

Land Reclamation (FM95 - 325.000 Ecu, FM96 - 475.000 Ecu)

The first phase of a two-phase project has been completed. The second phase will commence in April. The first phase was a feasibility study of pilot land

¹ This annex was prepared with the assistance of DG IA.

reclamation actions. The second phase will implement some of these actions. The beneficiary is highly satisfied with the progress of the project.

Agro-service Development (FM96 – 500.000 Ecu)

The project, which seeks to develop "model" approaches to machinery service provision, has just prepared its draft inception report. The report is of a good quality, but still awaits the approval of the beneficiary who are not satisfied with the quality of the Lithuanian translation. Approval may be expected within two weeks to allow project implementation to commence.

Rural Credit (FM96- 300.000)

The project provides technical support to the establishment of the rural credit loan guarantee scheme. The project is contracted through the agriculture and banking framework contracts. More information on the guarantee scheme is provided below.

Quality Management (FM96 – 400.000 Ecu)

Following the tender evaluation during the previous period, a contract for the implementation of the project was signed with AETS of France in December. The project commenced on February 1st and is therefore still in the inception period. The project will assist ten dairies to implement quality management systems. The ten dairies to participate in the project have been selected after an open competition organised by the Ministry. Close co-operation will be maintained with the Agro-industrial restructuring project.

Upcoming Projects

Training & EU Integration (FM95 - 440.000 Ecu)

The project contract was signed with BER of Belgium in December. However the project start was delayed due to the unexpected withdrawal of the proposed Team Leader. Alternative candidates for this position are under discussion with the project expected to commence at the end of March. The project will seek to upgrade the skills of those Ministry staff to be involved in the EU accession process.

Loan Guarantee Fund (FM96 - 1.000 Mecu & FM97 - 1.000 Mecu)

The project, which aims to support the establishment of a government funded Rural Credit Guarantee Fund (RCGF) is at a critical stage. Although a Memorandum of Understanding has been signed between the Commission and the Ministry on the main principles of the fund, some of the conditions of the Memorandum have not been fulfilled to the satisfaction of the Commission. It is hoped that agreement on the remaining issues may be made during March to enable the funds to be disbursed within the next two months.

Phare PIU/PADP PMU (FM96 – 700.000 Ecu & FM97 – 600.000 Ecu)

The funds were combined to form a singly 1.3 MECU project "Institutional Development for vu integration". This was tendered in December and January with the contract provisionally due to be awarded to NEI of the Netherlands. It is expected that the project may commence in May. This will be the main project in support of the EU accession process in the Ministry.

**Land Market Development (FM96-200.000 Ecu)
& Land Policy (FM97-250.000)**

These allocations were combined to form a larger project "TA to Land Privatisation" which was tendered in autumn 1997. However the contract has not been signed due to anomalies in the tendering process. Discussions will be held on the status of the contract during March. The project aims to provide further support to accelerate the land registration process.

Trade Promotion (FM96 – 400.000)

The project provides further support to the establishment of a trade promotion agency for the food and agricultural sectors. The project has been tendered and is provisionally due to be awarded to BC Consult of Germany. It is expected that the project may commence in April.

**Market Information & Agricultural Statistics
(FM97)**

A consultant is currently preparing the TOR for the project, which should be announced on the Internet in March. The project will focus on the development of a domestic price International system.

**Assessment of needs of veterinary and
phytosanitary control (FM97- 150.000)**

The project title is self-explanatory. Two consultants will arrive from 23rd March to commence the project, which has been contracted through the agricultural framework contract.

**Assessment of needs of animal identification
(FM97 – 100.000)**

The project title is self-explanatory. A consultant will arrive from 30th March to commence the project, which has been contracted through the agricultural framework contract.

Phare Assistance Unit for Agriculture, Lithuania

Table 1 - Project Programming as at March 1998

Table 1 - Project Programming as at March 1998

1995 FINANCING MEMORANDUM - AGRICULTURE

PROJECT	AMOUNT (000 Ecu)	STATE OF PREPARATION	DATE OF PREPARATION	DATE OF START	PROJECT DURATION
Land Reclamation - Phase I	324,721	Project in progress	Jun-96	Jun-97	8 months
Land Information Systems	384,045	Project completed	contracted	Feb-96	12 months
Strategic & Management Assistance to LAAS	291,234	Project completed	contracted	Jan-96	12 months
HRD for EU Integration *	400,000	Project contracted	Mar-97	Feb-98	12 months
Agro-Industrial Restructuring - Part 2 -	325,000	Project in progress	Dec-96	Feb-98	12 months
Reallocation to Aid Co-ordination Unit	175,000	Reallocated	n/a	n/a	n/a
Total currently allocated	1 900 000				
To be allocated	0				
FINANCING MEMORANDUM ALLOCATION	1 900 000				

1995 FINANCING MEMORANDUM - GTAF EUROPEAN INTEGRATION

PROJECT	AMOUNT (000 Ecu)	STATE OF PREPARATION	DATE OF PREPARATION	DATE OF START	PROJECT DURATION
Quality laboratories I	2,000,000	Project in progress	Jun-96	Jun-97	24 months
FINANCING MEMORANDUM ALLOCATION	2,000,000				

1996 FINANCING MEMORANDUM - AGRICULTURE

PROJECT	AMOUNT (000 Ecu)	STATE OF PREPARATION	DATE OF PREPARATION	DATE OF START	PROJECT DURATION
Loan Guarantee Fund	1,000 000	Fund being established	n/a	May-98	n/a
Phare PIU / PADP PMU	700,000	Awaiting contracting	Sep-97	May-98	24 months
Land Reclamation - Phase II	475,279	Planned extension of first phase	Jun-96	Apr-98	8 months
Cattle Breeding	250 000	Project extension completed	Aug-96	Feb-97	11 months
Land Market Development	300,000	Photocopiers procured for 100 000 remainder allocated to Land Policy (FM97)	Nov-96	Mar-97	n/a
Agri-Service Centres	500,000	Project in progress	Nov-96	Nov-97	18 months
Trade Promobon	400,000	Project tendered awaiting contract	Jul-97	Apr-98	18 months
Quality Management	400,000	Project in progress	May-97	Feb-98	11 months
Rural Credit	300,000	Framework TOR agreed and in progress	Nov-96	Mar-97	12 months
Total currently allocated	4,325,279				
Allocated to purchase of cattle breeding equipment	174,721				
FINANCING MEMORANDUM ALLOCATION	4,500,000				

1997 FINANCING MEMORANDUM - AGRICULTURE & EU INTEGRATION

PROJECT	AMOUNT (000 Ecu)	STATE OF PREPARATION	DATE OF PREPARATION	DATE OF START	PROJECT DURATION
Loan Guarantee Fund	1000 000	Fund being established	n/a	May-98	n/a
Phare PIU / PADP PNIU	600,000	Tendered as EU integration support	Sep-97	May-98	24 months
***Land policy	200,000	Allocated to tender with FM96(tendered)	Jul-97	Mar-98	18 months
Market information and organisation ****	150,000	To improve agricultural market information	Oct-97	Jul-98	t b d
EU pre-accession needs assessments	250,000	To assist EU integration process	Oct-97	Mar-98	5 months
Agricultural statistics ****	200,000	To improve agricultural market information	Oct-97	Jul-98	t b d
Overallotations (see below)	200,000				
FINANCING MEMORANDUM ALLOCATION	2,600,000				

Overallotations:

* HRD for EU Integration (FM9S)	40,000
** Agro-Industrial Restructuring - Part 2 ** (FM9S)	60,000
*** Land policy (FM97)	<u>100,000</u>
	<u>200,000</u>

**** to be tendered jointly as one project

Phare Assistance Unit for Agriculture, Lithuania

Figure 1 - Phare Project Programming Timetable

			1997					1998									
	FM	AMOUNT (ECU)	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Current Projects																	
Phare PIU	94	1 471,270	■	■	■	■	■	■	■	■							
ABTC	94	729,700	■														
Agricultural Trade Agency	94	235,580	■	■	■	■	■	■	■	■							
Rural Banking	94	325,910	■	■	■	■											
Grassland Management	94	1,000,000	■	■	■	■	■	■	■	■	■	■	■	■			
Orthophoto Production Line	94	330,000	■	■	■	■	■	■	■	■	■	■	■	■			
Quality Laboratories	95	2,000,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Agro-service Centers	95	500,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Agro-industrial Restructuring	95	400,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Human Ressource Development	95	440,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Land Reclamation	95/96	800,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Cattle Breeding	96	250,000	■	■													
Quality Management	96	400,000					■	■	■	■	■	■	■	■	■	■	■
Rural Credit	96	300,000	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Prospective projects																	
Trade promotion	96	400,000							■	■	■	■	■	■	■	■	■
TA to Land Registration	96/97	500,000							■	■	■	■	■	■	■	■	■
Rural Credit Loan Guarantee Fund	96/97	2,000,000								■							
Technical support for EU Integration		1,300,000								■	■	■	■	■	■	■	■
Market Information & statistics	97	350,000										■	■	■	■	■	■
Veterinary & phytosanitary control	97	150,000							■	■	■	■	■				
Animal identification	97	100,000							■	■	■	■	■				

PATTERN KEY:

- Tendered projects
- Framework contract projects
- Transfer of funds

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