

# Baltic States Agri-Food Regional Profile Statistical Overview

## Forward

This information piece is provided as an overview of the statistical and market information on the Baltic states of Estonia, Latvia and Lithuania. Due to the Baltic's increasing importance and central location in Eastern Europe, a regional profile was deemed necessary.

## Background

Estonia, Lithuania and Latvia are located in the heart of the Baltic region, arguably Europe's fastest growing consumer market. These three markets are considered the gateway to a region of more than 120 million consumers in Eastern and Central Europe as well as Nordic countries. The Baltic states have aggressively modernized their economies in pursuit of admission to the European Union, and in doing so have created a strong domestic consumer market for western goods.

Basic Information	
Total Land Area	180,000 km sq
Total Population	7.5 million
Members	Estonia, Lithuania, Latvia

## Geography

Bordered by the major economies of Eastern Europe, with strong links to Nordic countries, the countries that make up the Baltic States are strategically located in a very dynamic region.

The landscape of the Baltics is marked by rolling plains with some hilly regions. The area is bordered by Baltic sea. Geographically, Estonia is the northern most state lying directly below Finland. Latvia is central and Lithuania is to the south. All three countries boast largely urban populations.

Lithuania is the largest country of the three Baltic's in terms of land area and population, and Estonia is the smallest. Lithuania is also the region's main East-West corridor and is connected by highways to most major European centers. Estonia is directly to the South of Finland and the two share a very close relationship.

Population by Country	
Country	Population (millions)
Lithuania	3.7
Latvia	2.4
Estonia	1.4

## Economy

The three Baltic economies represent one of the greatest success stories of the former Soviet satellites. Since regaining their independence in 1991, Estonia, Latvia and Lithuania have each made remarkable progress in transforming their economies and integrating into western European markets. The three economies are at the forefront of the transition economies of central and eastern Europe.

The International Monetary Fund (IMF) reports that the Baltic states are expected to experience significant economic growth, ranging from 4.1% to 6% through 2006. While this projection hinges on admission into the EU in 2004 it does illustrate the existing strength of the three economies.

The combined GDP growth of the Baltic States for 2001 was over 5% and growth for 2002 is expected to be just slightly lower at 4%. Growth has been impressive for over five years with the one exception being 1999 when growth slowed in all three countries due to Russia's financial crisis. Despite the slowdown Latvia was able to maintain positive GDP growth and Estonia's growth was essentially static. Lithuania, the Baltic's largest economy, fared the worst with negative 4% growth, but it has since rebounded. Lithuania has maintained the closest relationship with Russia since independence, largely the reason for its economic troubles in 1999.

The common economic policy thread over the past ten years for these countries has been their commitment to reform. All three Baltic States have been committed to restructuring and establishing all of the necessary pieces to create strong market based economies and establishing a strong bond with the EU. This has involved dramatic changes to their financial institutions, mass privatization and industrial restructuring. In all three states this was a major undertaking which all have nearly completed.

<b>Gross Domestic Product</b>	
<b>Total GDP</b>	US\$26.5 billion
High:	Lithuania (US\$13.3 billion)
Median:	Latvia (US\$7.6 billion)
Low:	Estonia (US\$5.6 billion)
GDP Growth (regionally)	5.1% (2001) 4% (2002)
GDP Per Capita (regionally)	US\$3,583

## Lithuania

Lithuania represents the largest economy of the three Baltic states. In fact, its GDP comprises half of the areas total GDP. The country has one of the fastest growing economies in Central and

Eastern Europe. Since launching a privatization strategy ten years ago, the private sector has become the driving force behind the economy and now accounts for 80% of the country's GDP.

Lithuania has experienced significant economic growth over the past five years. The country's GDP growth rate is expected to reach 3.5% in 2002 after growing by an impressive 5.7% in 2001. Per capita GDP has also grown at an impressive rate since 1997, climbing from roughly US\$2,500 to over US\$3,500 in 2002.

Lithuania's inflation rate has fallen steadily since 1997 to rest at 1.3% in 2001. The one area where the country is struggling is with unemployment. The unemployment rate has risen steadily since 1997 and currently sits at 12%.

## Latvia

Latvia has the second largest economy in the Baltic's, but it has the best performing economy of the three Baltic states. GDP growth has continued steadily since 1997 and it is the only member of the three Baltic states to experience positive growth after Russia's economic difficulties. The country's GDP growth rate is expected to reach 5% in 2002 after growing by 7% in 2001 and 6.6% in 2000.

Latvia's inflation rate has been steady at roughly 2.5% for the past four years and unemployment, while far from perfect, has remained below 8% for over three years.

The country's private sector is growing rapidly as over 97% of all state enterprises have been assigned for privatization. Currently, the private sector accounts for roughly 70% of the country's GDP and also employs 70% of the workforce.

## Estonia

Estonia is the smallest economy in the Baltics. Although the country's GDP has remained fairly steady in size, GDP growth has been impressive with growth rates of 4.7% in 2001 and an anticipated 3.5% growth rate for 2002. Despite being the smallest of the three Baltic state, Estonia has the highest per capita GDP lying just below US\$4,000.

Inflation has fluctuated considerably since 1997, but remains manageable and is expected to fall to 4.6% in 2002 after closing 2001 at 5.6%.

The country's economy is highly dependant on its agricultural sector and foreign trade. Since independence in 1991 the country's foreign trade has increased substantially, and while the agriculture sector has suffered slightly at the hands of foreign competition it remains a dominant sector in Estonia.

Unlike the other Baltic states, apart from historic ties to Russia and a new focus on the EU, Estonia is very closely tied to its Nordic neighbors, in particular Finland. Scandinavian countries account for the majority of Estonia's trade and investment. Over 70% of foreign direct investment into Estonia comes from Scandinavian countries and most of Estonia's trade is done with its Scandinavian neighbours.

### Consumer Market

Consumers in the Baltic States have undergone rapid transformation in the last decade. Their traditional marketplaces have been replaced with modern supermarkets and retail chains, primarily developed by foreign firms.

Increasing disposable income and a higher standard of living are changing consumer patterns and driving the demand for new food products. While these positive increases are not universal

they have affected a substantial segment of the population. The consumer market for food as a whole is beginning to reflect trends that have already affected western markets, including the rapid development of the market for ready meals and prepared products; growing interest in ethnic foods; the desire for convenience; snacking; healthier eating; and eating out.

The burgeoning tourist industry further supplements the Baltic consumer market. There exists a number of opportunities for suppliers of quality, portion-control products for the restaurant/hotel trade, particularly in meat, fish and seafood products.

### Trade

Apart from their trade with each other, the Baltic states trade is dominated by EU countries. Well over 50% of all Baltic trade is now done with the EU. Latvia for instance sends over 65% of its total exports to countries in the EU, while Estonia send more than 75% of its exports. Lithuania has a more diversified trade relationship which continues to include strong ties to former Soviet satellites as well as Russia, but the EU still accounts for over 50% of its trade.

The trend is mirrored in imports as the Baltics' increasingly feed their growing desire for western products from the EU. All three countries receive between 47% and 55% of the imports from the EU.

Russia continues to be an important trade partner for the Baltic states, but its position is falling annually. This is illustrated by the fact that before the 1999 Russian financial crisis all Baltic states conducted roughly 30% of their two-way trade with Russia, but by 2000 that number had fallen to between 7% in all markets. In fact, trade is now almost entirely Western focused as trade with the Commonwealth of Independent States (CIS) has nearly disappeared.

The United Kingdom and Germany are very important trade partners in this region, but Finland and Sweden are rapidly becoming key players in not only the trade arena but also through intensive foreign investment. A key consideration for Canadian companies to consider is the lack of a strong presence of US products. In fact, the US does not appear in the top five import or export markets of any of the Baltic states thus making this area an interesting market to introduce North American goods.

### **Trade Agreements**

All three Baltic States are members of the World Trade Organization and are all dedicated to meeting the requirements for EU membership by 2004.

In 1994, a trilateral free trade agreement was signed between Estonia, Lithuania, and Latvia. This abolished all tariffs on industrial products. As well, the Baltic States have individual free trade agreements with the EU, the European Free Trade Agreement countries (Switzerland, Norway, Liechtenstein, Iceland), Czech Republic, and Ukraine.

Additionally, Estonia has free trade agreements with Hungary, Poland, the Slovak Republic, Slovenia, Turkey, and the Faeroe Islands. Latvia also has agreements with a majority of these countries.

### **Investment**

The open economies of the Baltic States have shown an increasing trend toward foreign investment. The countries have no restrictions on the movement of international capital, providing a climate for both long term and short term investments. Each country offers the freedom to repatriate profits and investment.

Since declaring independence in 1991, the level of foreign direct investment (FDI) into the Baltic States has increased significantly, most likely attributable to the rapid privatization that occurred in the 1990s.

Inflows of FDI into Estonia grew in 2001 to reach US\$538 million, a 40% increase over 2000. Main investors into Estonia are Finland, Sweden, and the Netherlands. Investors are afforded the same legal rights as local businesses and may purchase and own real estate and property. The sectors receiving the most FDI in 2001 were financial intermediation, and electricity, gas and water.

Latvia enjoys one of the highest foreign direct investment per capita positions among the former Soviet republics and Balkan states, ranking among the top five. Two free seaports, a low corporate tax rate, and an able labour force make this an attractive country for investors. Latvia received \$266 million of FDI in 2001.

After a period of rapid growth of FDI into Lithuania which cumulated in 1999 with a value of over US\$2 billion, levels fell in 2000 to US\$775 million. Levels rebounded in 2001 by 14%, with Estonia increasing FDI by 80% and Germany by 40%. Key sectors for investment were processing, trade and communications. Main investors into Lithuania were Denmark, Sweden, Estonia, Germany, and the US.

Local companies in the Baltics are looking for foreign partners to assist in modernization and re-orientation toward quality foods and new products. Meat and fish processors, as well as dairies, are differentiating their product lines to stay competitive.

### **Agriculture**

The agriculture and food processing sectors in Estonia, Latvia and Lithuania have tended to be slower in restructuring than other industries. Small

farms, worn-out machinery, outdated technologies and a large number of old production hamper the productivity of the sector and its ability to compete with imports.

The agricultural sector had historically been the dominant sector in all three economies, but its role is quickly shrinking. The three states are now net importers of food and while they do rely on the sector for exports, food no longer dominates all of their exports.

Domestic firms have traditionally dominated sectors such as processed meats, dairy products, confectionery, fish and basic foodstuffs. However, there has been increased investment in these sectors by foreign firms, particularly from Scandinavian countries.

The food-processing sector is represented mostly by local companies, many in need of investment capital to modernize their operations. Dairy farming, pig breeding, meat and fish processing, and cereal production are the priority sub-sectors in all three countries. Most food production is geared towards the domestic markets and for export to eastern markets such as Russia, Ukraine, and Belarus. Milk and fish production is able to satisfy domestic demands, while Latvia, in particular, must import meat to satisfy nearly half of total consumption. The grain sector tends to be inefficient due to lack of working capital and low yields.

Despite advancements the Baltic states all struggle to supply their own food processing industries and supermarkets. Due in part to lagging technology and also farming scale limitations the Baltic's must import a sizable percentage of food ingredients, meats and other raw materials in order to maintain production levels in their processing facilities.

In addition to modern supermarkets and grocery stores, the Baltic States have also modernized the

distribution for food products. The countries have relatively effective wholesale and distribution systems, making the task of getting products to consumers on an economically feasible scale much easier.

## Lithuania

Milk, meat and fish processing dominate the Lithuanian agricultural sector, combining for over 40% of total output. The sector is increasingly focused on supplying the EU and is actively trying to meet EU requirements.

Roughly 70% of Lithuania's land area is considered arable. The sector accounts for 10% of the country's GDP and employs 20% of the workforce.

Agricultural production in the country declined by 8% in 2001 over 2000. However, the country remains a net importer of food with exports valued at \$640 million and imports valued at \$680 million.

Primary food crops produced in Lithuania include barley, potatoes, sugar beets, wheat and meat products (beef, chicken, horse, lamb, pork and rabbit).

The bulk of Lithuania's food production is intended to supply the domestic market. However, exports of food products to Baltic neighbors Latvia, Estonia, as well as Russia, Ukraine and Belarus have been strong over the last few years. Despite its focus on supplying the domestic market agricultural exports rose by over 20% in 2001, while imports rose by only 9%.

## Latvia

Approximately 27% of the Latvian landscape is considered arable land. The agricultural sector employs roughly 15% of the workforce. The Latvian food processing sector is the dominant sector in the Latvian economy. The sector

accounts for only 5% of GDP, but over 30% of industrial production. The agri-food sector as a whole accounts for almost 10% of GDP.

The sector is experiencing a great deal of development as the sectors core of small local companies restructure to increase their competitiveness. Dairy farming, pork production, fisheries and cereal production are the key sub-sectors.

The country's primary agricultural products include; grain, sugar beets, potatoes, vegetables, meat, milk, eggs and aquaculture.

## Estonia

The food processing sector, like its neighbors is the economies most dominant industry. The agricultural sector had for years been set up to supply the Soviet market with specific products, but through intensive restructuring the sector is now modern and efficient and geared towards meeting the requirements of the EU.

Milk and fish processing are the primary sub-sectors in the country. In keeping with the focus of the entire region, Estonia's food exports to the EU are increasing and now account for almost 16% of exports from this sector. Ukraine, Russia and Latvia are the country's main export markets.

Arable land represents roughly 22% of Estonia's total land area. The agricultural sector employs roughly 20% of the workforce and accounts for 7% of total GDP. The country's primary agricultural products include; potatoes, fruits and vegetable, livestock and dairy production and aquaculture.

The sector's largest export products are processed fish, butter, cheese, table water, chocolate and soft drinks.

The Estonian food processing industry experienced a 14% increase in output in first quarter of 2001 in comparison to the same period in 2000. What makes this increase all the more impressive is that it occurred in an open domestic market, despite competition from export subsidized products from the European Union. The sector is expected to continue its impressive growth as the EU has agreed to end export subsidies on foodstuffs exported to Estonia.

## Agricultural Policy

Although no true common agricultural policy exists between the Baltic States, the common focus of all three agricultural sectors is environmental protection. Through the aid of substantial foreign investment, actions have been taken toward tackling this challenge.

The Baltic Agricultural run-off Action Program is an initiative to reduce nutrient run-off to the Baltic Sea. Adopted by the Helsinki Commission in 1992 and funded by Sweden, the members of this program are Estonia, Latvia, Lithuania, Russia, and Poland. The goal of the BAAP is to improve the water quality of the Baltic Sea and of local surface and groundwater bodies, and to enhance sustainable agricultural development. Demonstration watersheds equipped with monitoring stations, education rooms, field trials and demonstration farms have been built in Estonia, Latvia, and Lithuania.

The Baltic States also receive support from Denmark in the development of an advisory service that emphasizes agri-environmental education of farmers and advisors. Finland has implemented agricultural projects in the Baltics that mainly deal with manure, slurry and waste water treatment. Also, the Nordic Council of Ministers supports the development of integrated monitoring stations and the harmonization of measuring methods and analytical procedures in the Baltic States.

## Canada - Baltic Trade and Investment

Canada's trade with Estonia, Latvia and Lithuania remains comparatively low, but the trend is upwards as more Canadian firms discover this growing market. In 2000, Canadian exports to the three countries totaled \$37 million, including substantial amounts of fish and seafood. Canadian imports from the Baltics states were \$167 million. Canadian investment in the three countries amounts to some \$35 million.

After a period of steady increase, Canada's agri-food exports to the Baltic States decreased in 2001. With a total of \$4.1 million, exports decreased by roughly \$1.9 million since 2000. Estonia was the top export destination, which was a jump from the 3<sup>rd</sup> market in 2000. Estonia was the sole country in which Canada increased its exports. It received just under 50% of Canada's exports to the Baltics, with just over \$2 million. Latvia followed with a total of \$1.7 million, down roughly \$1.35 million from 2000. Lithuania decreased by approximately \$1.7 million to a value of \$325,852.

<b>Canadian Agri-food Exports to the Baltic States by Country, 2001</b>	
<b>Members</b>	
Estonia	\$2 million
Latvia	\$1.75 million
Lithuania	\$325,852
Total	\$4.1 million

Despite the decrease in overall agri-food exports to the Baltics, meat and meat offal remained the top export and actually increased in 2001. Dog and cat food exports also increased, taking the top spot with \$1.2 million. Frozen swine cuts were next with \$728,758, followed by raw mink furskins, \$405,745, swine edible offal, \$393,445, and fresh or chilled swine cuts, \$237,752.

<b>Canada's Top 5 Agri-food Exports to the Baltic States, 2001</b>	
Dog or Cat food	\$1.29 million
Swine cuts, frozen nes	\$728,758
Raw mink furskins, whole	\$405,745
Swine edible offal, frozen nes	\$393,445
Swine cuts, fresh or chilled	\$237,752

Canada's imports of agri-food products from the Baltic States declined slightly in 2001. With a total value of \$5.26 million, imports dropped by \$1.47 million over 2000. In 2001, as per previous years, Lithuania was Canada's top source of agri-food exports from the Baltic States, followed by Estonia then Latvia. Imports from all countries decreased at comparable levels.

<b>Canadian Agri-food Imports From the Baltic States by Country, 2001</b>	
Lithuania	\$3.26 million
Estonia	\$1.88 million
Latvia	\$111,603
Total	\$5.26 million

Dairy products remained the top agri-food imports from the Baltics, including whey \$2.8 million, milk powder \$1.1 million, and fats and oils derived from milk \$368,469. Rounding out the top five were inactive yeasts, \$740,027, and flax fibre, \$44,561.

<b>Canada's Top 5 Agri-food Imports from the Baltic States, 2001</b>	
Whey	\$2.87 million
Milk powder	\$1.1 million
Yeasts, inactive	\$740,027
Fats & oils from milk	\$368,469
Flax fibre	\$44,561

Canada's agri-food exports to the Baltic States in 2001 were dominated by consumer products. These products had a value of \$3.48 million, an increase of \$400,000 and representing 84.7% of the total. Intermediate products also increased in

2001 by approximately \$230,000 to a value of \$528,055. Bulk exports were the only products to decrease, down considerably from \$2.7 million in 2000 to \$96,895 in 2001. This may be explained by exports of barley and corn, which were high in 2000 but non-existent in 2001.

**For more information on the Baltic States:**

Council of the Baltic Sea States

[www.baltinfo.org](http://www.baltinfo.org)

The Agri-Food Market in the Baltic States

[www.infoexport.gc.ca](http://www.infoexport.gc.ca)

Agri-Food Sector Profile - Estonia, Latvia,  
Lithuania

[www.infoexport.gc.ca](http://www.infoexport.gc.ca)

Agri-Food Sector Profile - Baltic

[www.infoexport.gc.ca](http://www.infoexport.gc.ca)

Today's Markets in Estonia, Latvia, and Lithuania

[www.dfait-maeci.gc.ca/canadexport/](http://www.dfait-maeci.gc.ca/canadexport/)