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Food Processing Ingredients Sector

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Report Highlights:

The food industry maintained its leading position among the branches of Latvia's economy in 2000, accounting for nearly 5 percent of the GDP and 31 percent of total manufacturing output. The largest industries are meat, dairy and fish processing. The value of raw materials and ingredients used for production was estimated at US\$ 244 million, of which 31 percent was imports. Major current constraints to exports of U.S. products to Latvia include tariff disadvantages vis-a-vis European suppliers and partners of free trade agreements. Latvia is implementing the EU sanitary and phytosanitary standards which have blocked U.S. pork and beef exports to this market.

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SECTION I. MARKET SUMMARY

In 2000, Latvia's GDP grew by 6.6 percent. Nevertheless, its per capita GDP of US\$ 3,013 remained substantially lower than the average among the countries of the European Union. Successful economic development continued in 2001, as GDP surged 7.6 percent, which represented the highest growth rate in the Baltic region. The government sees the growth as proof of a successful recovery from the impact of the Russian crisis in 1998-1999, when Latvian food processors lost the Russian export market. Stringent monetary policy fostered low inflation and provided for macroeconomic stability. The official unemployment rate has dropped to 7.9 percent of the total labor force. Consumer prices rose 2.6 percent in 2000, and purchasing power increased by 4.2 percent over the previous year's level. This has allowed for further consumption growth and increased demand for processed food products. The Latvian government is prioritizing the development of the food export sector to ensure future growth in the small domestic market. In 2000, the food industry accounted for nearly 5 percent of the GDP, and 31 percent of total manufacturing output. Sales by the food industry amounted to US\$ 557 million. The largest industries are dairy with a 19 percent share of total output, followed by the meat processing sector (14 percent), the bakery sector (10 percent), alcoholic beverage sector (16 percent), and the fish processing sector (12 percent). For 2003, the growth for the food industry sector as a whole is projected to be between 3-4 percent.

Food Industry Size

Food Industry Sub sector	1999 Sales (US\$Mil)	2000 Sales (US\$Mil)	Growth/Decline Estimates for 2001/2002 (percent)
Dairy	112.7	115	5
Meat	83.2	85.2	5
Fish	71.5	83.8	20
Bakery	65	61	-5
Juices	18.5	16.3	-20
Confectionery	25.4	23.4	-30
Beer	50.3	50.3	5
Prepared fruits and vegetables	16.3	18.2	-10
Soft drinks and mineral water	22.4	16.2	-10
Edible oil	7.1	7.3	0
Pasta	1.5	1.3	-20
Spices and Seasonings	7.4	7.9	10

Total	553.5	556.8	N/A
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Latvia is moving steadily towards EU membership. However, significant domestic and private co-financing will be required to integrate the food industry into the common European market. Most processing plants need to be modernized and must seek investment capital for new technologies. Over the past decade, EU PHARE projects worth EUR 20 million have supported improvements in the food sector, with programs aimed at establishing EU standards for food processing. The Ministry of Agriculture estimates EU accession costs at about US\$ 809.8 million over the next 5 years. Presently, the output of the four largest sectors: dairy, meat and grains, account for 41, 37 and 72 percent, respectively, of supplies demanded by the domestic market. By the time of EU accession, 70 percent of total food production volume is planned to be concentrated in large enterprises to achieve more competitive food industry which complies with EU requirements. Several Latvian processors have already been cleared to export to EU markets.

Value of inputs used in industry by type of products, in 2000 (estimate)

Type of product	Value of inputs (US\$ Mil)	Estimated value of imported inputs (US\$ Mil)
Vegetables	3.3	3
Fruit and Berries	2.3	1.8
Meat	22.8	12
Vegetable oil	5.9	3.8
Margarine	5.4	5.4
Malt	7.8	6.1
Fish	17	2.1
Milk	59.7	1.2
Sugar	11.2	0.2
Wheat flour	22.6	0.5
Butter	101	0.7
Egg powder	1.2	0.5
Salt	1.7	0.7
Potatoes	4.8	0.2
Rye flour	8.4	0
Potato starch	0.3	0.2
Whole milk powder	1.3	0.2

Skim milk powder	5.9	0.2
Eggs	3	0

In 2000, the value of raw materials and ingredients used for production was estimated at US\$ 244 million, of which 31 percent was imports. Major Latvian imports of inputs for processing included poultry, pork, beef, edible oils, juice concentrates, barley malt, spices and seasonings, vegetables and fish. The emergence of powerful pan-Baltic food processors has already commenced and is anticipated to progress steadily. The future of the Latvian food processing industry heavily relies on success in the negotiation of acceptable production quotas within the EU.

Value of inputs used by food industry subsectors, in 2000 (estimate)

Food Industry Sub sector	Value of inputs (US\$ Mil)	Value of Imported Inputs (US\$ Mil)	Imported Inputs Share (percent)
Meat,	31.5	19.3	61
Fish	46.5	9.1	20
Dairy	59.7	3.6	6
Prepared fruit and vegetables	5.9	5.1	87
Juices	5	4.3	88
Edible oil	4.1	3.8	92
Confectionery	6.3	4.8	76
Strong beverages	19.5	1.7	8
Beer	14.7	125	85
Soft drinks and mineral water	7.1	2	28
Pasta	0.8	0.2	20
Spices and seasonings	5	4.8	96
Total	244	75.9	31

Advantages and Challenges

Advantages	Challenges
The general image of U.S. products is positive. They are considered safe and of good quality. Businesses are receptive to U.S. companies.	Shipping costs are higher from the U.S.
The food processing sector relies on imported meat, fish, spices, concentrates.	Strong competition on the local market from domestic producers and increasing imports from the EU, other Baltic states and FTA partners.
Latvia joined the WTO in February 1999, improving market access.	U.S. exports face MFN duty rates while EU and FTA partners enjoy preferential tariffs or zero duty rates.
The country is viewed as a gateway to larger markets in Northwestern Russia, Ukraine and Belarus and increasingly the EU.	Eventhough demand is growing, Latvia is still a small market for US products.

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

The most effective market entry strategy for U.S. exporters would be to connect with larger processors who are seeking direct relationships with foreign suppliers, and then explore their purchasing arrangements. Strategy should include:

- 1) Market research in order to assess product opportunities.
- 2) Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating a reliable buyer or working with an agent, who can advise on import duties, sanitary regulations, and labeling requirements.

U.S. products traditionally have lower customer awareness in Latvia. Several constraints have contributed to the small presence of U.S. raw inputs:

- Minimum quantities offered have often been too large for the small Latvian market.
- A perception that persists among Latvian importers is that the landed costs of U.S. products will be higher compared to European products due to higher transportation costs.
- A perception that U.S. exporters are simply too far away to service the Latvian market.
- Sometimes, the choice of importer/supplier depends on a company's ownership, as part of the company's stock may belong to foreign investors who base their decisions on financial ties rather than on quality or price.

The Latvian Food Law is based on EU directives and was introduced in August 1997. It regulates the flow of food products (production, trade and distribution), as well as health issues, consumer protection and food control. Special laws and ordinances regulate the flow of alcohol, grain, meat, dairy products, labeling, packaging, use of additives, residue levels, including veterinary and phytosanitary legislation.

Compliance with EU veterinary and phytosanitary requirements are among the prerequisites for Latvia's EU accession. Some of the EU veterinary and phytosanitary requirements adopted by Latvia have blocked once-existent U.S. trade of pork and beef. With regard to bioengineered ingredients, Latvia will follow EU regulations and certification requirements. As of July 2001, special labeling is required for food products and ingredients produced of or derived from genetically modified organisms (GMOs). A one percent threshold is permitted for accidental presence. The importer should be consulted regarding packaging and labeling requirements.

B. MARKET STRUCTURE

The large processors mainly purchase raw inputs and food ingredients directly from foreign exporters through their import/export departments. Small and medium processors mainly purchase through importers and wholesalers which have direct relationships with foreign suppliers.

Few wholesalers undertake nation-wide distribution, and almost none carries a complete range of products. In general, processors provide direct deliveries with their own sales force and delivery trucks to service retail grocery stores and chains. Small and medium-sized retailers mainly make their purchases through wholesalers and distributors who have a direct relationship with large processors. Larger chains use their own distribution centers.

C. PROFILES OF FOOD PROCESSING SECTORS

Dairy Processing

The dairy industry preserved its leading role within the Latvian food processing sector throughout the 1990s. In 2000, raw milk production totaled 825 TMT, of which 41 percent was prime grade milk corresponding to EU standards. Less than half of the milk produced (398 TMT) was sold for processing. Domestic consumption at 700 TMT provided for a surplus of 123 TMT and a self-sufficiency rate of 118 percent.

The milk production volume in Latvia is estimated to be well above 1 million MT. Based on this, Latvia requested a 1.2 million MT production quota in EU accession talks. However, the initial EU proposal of January 2002, offered a production quota of only 489 TMT .

Most dairies have a permanent raw milk intake area. However, most of the raw milk is supplied by smaller farms, since 60 percent of the dairy farms have herds which do not exceed 5 cows. There are 53 dairies in Latvia with 74 production units. Less than half are of market significance. In 2000, the

four largest dairies accounted for 44 percent of the sector's output.

Products by Latvian Dairies

Product\Year of Production	1999, MT	2000, TMT
Butter	7400	7200
Cheese	10980	10640
Whole milk products	2062	2453
Skim milk powder	2900	3500
Preserved milk	5772	4200

Almost all dairies produce the same type of products and compete on the domestic market by price. Some processors have introduced new value-added product lines, such as low-fat and low cholesterol products. They have also expanded their existing product lines to include small packages with longer shelf life under limited refrigeration.

Output Value of Dairy Products

Product	Sales 1999, (US\$Mil)	Sales 2000, (US\$Mil)
Whole Milk	18.2	20.7
Cream	2.1	2.6
Kefir	5.9	6.3
Skim Milk Powder	2.1	3.8
Sour Milk Products	23.6	22.9
Butter	11.4	11.1
Curds	20.8	18.8
Cheese	18	20.3
Condensed milk	9.2	6.6
Ice Cream	13.4	12.2
Yoghurt	2.8	2.8

For most Latvian dairies, the domestic market has become the dominant one. This became specially true after that the Russian financial crisis caused the suspension of exports of dairy products to Russia. The

European Agreement of July, 2000, improved export prospects by significantly enlarging Latvia's export quotas. Duty free tariff quotas for Latvian exports are set at 1,875 MT for butter, 3,000 MT for cheese, and 4,000 MT for milk powder. Eight dairies comply with the EU production and quality requirements and have gained export approval to the EU market: AS Rigas Piensaimnieks, Rigas Piena Kombinats dairy, Limbazu Piens, AS Preilu Siers, AS Vidzemes Piens, Tukuma Piens, Pampali, and Stelpes pienotava. A total of 23 enterprises are approved by the Latvian Veterinary Service to export to third countries. About 17 percent of the dairy industry output was exported in 2000, of which 6.4 TMT went to the EU market. Rigas Piena Kombinats dairy is the market leader with 40 percent of the liquid milk market and 55 percent of the ice cream market in Latvia. The company exports 15 percent of its production. The distribution patterns differ by the dairies. The Rigas Piena Kombinats and the Rigas Piensaimnieks dairies operate their own distribution system. The large regional dairies tend to contract out their distribution to agent companies.

Profiles of Dairies

Name of Dairy	Sales 2000, (US\$ Mil)	End use channels	Location	Procurement channels
Rigas Piena Kombinats	23.3	Retail, wholesale, export	Riga	Direct
Rezeknes Piena Kombinats	11.1	Retail, export, HRI	Rezekne	Direct
Rigas Piensaimnieks	17.7	Retail, export	Riga	Direct
Vidzemes Piens	11.6	Retail, export	Valmiera	Direct
Limbazu Piens	8.3	Retail, export	Limbazi	Direct
Tukums Piens	12.2	Retail, export	Tukums	Direct
Preilu Siers (cheese)	6.6	Retail, export	Preili	Direct

Large investment will be required in the dairy industry to comply with the EU production and sanitary requirements. The Latvian dairy industry is already undergoing substantial structural changes. Smaller dairies will eventually disappear and larger dairies will strengthen their positions through mergers. Foreign investors were intentionally squeezed out of the privatization of the Latvian dairies through special legislation which granted preferences to domestic agricultural producers. However, five Latvian companies have investors from Western European countries.

- A Latvian owned company, Baltijas lase, acquired the majority stock interest in the largest Latvian dairy, Rigas Piena Kombinats, in 1999, and increased its control in the Limbazi Piens dairy to 89 percent in 2001.
- A western investment fund, Quantium Marketing, Ltd, holds the majority (almost 60 percent)

of the stock in the second largest Latvian dairy, Tukums Piens, which accounts for 15 percent share of the industry's total output. Other stockholders of Tukums Piens dairy are the investment fund Gulf Finance, Ltd (19.8 percent), private stockholders (9.66 percent), and the Baltic Dairies, Ltd, owned by Estonian entrepreneurs.

Meat Processing Sector

The total output of the meat industry amounted to US\$ 83.8 million in 2000, and accounted for 14 percent of the food industry output. The Veterinary and Food Service has registered 11 large meat packers, 16 medium-sized plants, and about 250 licenced processing lines that provide a rather wide selection of meat products. The four largest plants accounted for 37 percent of the meat industry's total output. Beef is mainly produced from dairy cattle, and the total number of special beef animals do not exceed 1,000 head. Meat packers usually declare their procurement two weeks to one month ahead, and live animals and carcasses are supplied directly from large farms.

Output by Meat Processing Sector

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Beef/Veal	1.8	1.7
Pork	7.9	8.7
Poultry	5.1	4.6
Smoked salted meat	12.7	14.5
Sausages	42.7	43.7
Meat preserves	12.4	10.4

A steady reduction of the cattle and fowl numbers since the early nineties has resulted in insufficient local meat supplies for the industry. Of total meat supplies in 2000, about 72 percent of poultry, 41 percent of pork, and 21 percent of beef were imported. Import needs for red meats are mainly met through supplies within the Baltic Free Trade area. In 2000, the majority of pork was imported from Estonia (56 percent of a total of 4.6 TMT of imported pork), and the EU (28 percent). Beef was imported from Lithuania (82 percent of the 3.2 TMT total of beef imports), and the EU (12 percent). The current meat import certificate requirements preclude the import of meat from the U.S.. Latvian poultry imports totalled 16,870 MT, led by the U.S. with a 59 percent share (10.3 TMT), followed by the EU (30 percent). Processors seek to import leaner pork to be able to make meat products according to consumer preferences. Frozen meat and live animals are imported by 160 companies which hold import licences issued by the State Veterinary Service.

Profiles of Meat Processors

Company	Sales 2000 (US\$ Mil)	End use channels	Location	Procurement channels
Rigas Miesnieks	11.4	Retail, HRI	Latvia	Direct, import agents

Kekava (poultry Plant)	8.6	Retail, HRI	Latvia	Own poultry farm
Lido Meat Processing	7.8	Retail, HRI	Latvia	Direct
Trials	6.4	Retail, HRI	Latvia	Direct
Talsu Gala	5.8	Retail, HRI	Latvia	Direct
Tukums GPS	4.1	Retail, HRI	Latvia	Direct, Import
Jelgava GK	4.1	Retail, HRI	Latvia	Direct, Import

The market leader with a 20 percent share is *Rigas Miesnieks*. The company exclusively uses pork and beef of Estonian origin in their production. The company is 92.5 percent owned by the Estonian *Rakvere Lihakombinaat* meat plant, both of which are controlled by Finnish HK Rukotalo cooperative farmers. About 5 percent of *Rigas Miesnieks*' production is exported.

2000/2001 EU import quotas allocated 1,375 MT of pork, 1,875 MT of beef, 124 MT of goat and sheep meat, and 625 MT of poultry. The export of these meats to the EU are presently prohibited since no Latvian slaughter facilities have been EU certified. Of game meat, about 99 MT were exported by *Adazi Kover*, a German – Latvian venture which is cleared for exports of game meat to the EU market.

Fish Processing Sector

Fishing is one of Latvia's oldest professions. In 2000, the output of the Latvian fish industry was valued at US\$ 83.8 million, and accounted for 12 percent of the total food manufacturing output. There were 114 fish processors in Latvia; 12 large, 14 medium sized, 25 small and 63 micro businesses. The four largest industries accounted for 51 percent of the total sector output.

Products of Fish Processors

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Fish	8.6	9.2
Frozen fish	0.5	0.7
Fillets	3.8	4.6
Smoked fish	2.3	2.1
Canned fish	62.9	74.6

The large fishery fleet which was once involved in fish processing, refrigeration and supply has been eliminated. This has changed the pattern of raw fish supplies to processors by leaving them without certain species, like mackerel.

The annual fish requirement of the industry is estimated at 125 TMT, mainly of fish species from the Baltic Sea, such as cod, sprats, plaice, salmon, and Baltic herring. Some processors their own fishery fleet, but

others purchase fish directly at the point of landing. Prices for fresh fish are negotiable and depend on season and demand. The Latvian inland water and aquaculture catch accounts for 1 percent of total fish supplies. Currently, there is no fish wholesale system.

Fish Processing Companies Profiles

Company	Sales 2000 (US\$ Mil)	End use channels	Location	Procurement channels
Baltic Marine Fishing Company	20.3	Direct, Export, Agents	Latvia	Direct, Import, Agents
Juraslicis	15.7	Direct, Export, Agents	Latvia	Direct, Import, Agents
Brivais Vilnis	11.4	Export Agents	Latvia	Direct, Import, Agents
Kaija	9.2	Direct, Export, Agents	Latvia	Direct, Import, Agents
Salacgriva 95'	5.4	Export agents	Latvia	Direct, Import, Agents
Banga	3.6	Direct, Export, Agents	Latvia	Direct
Ventspils ZKK	2.8	Direct, Export, Agents	Latvia	Direct

In 2001, the Latvian fishing quota from EU-controlled waters included 44 TMT of cod, 27.6 TMT of sprats, 650 MT of plaice and 290 MT of salmon. Over the past three years, Latvia's fishing quotas has been subject to an annual reduction of 27 percent to allow for stocks to replenish. This has led to an increased interest in imports of raw fish among the processors. In 2000, the import demand for raw fish was 29,000 MT, of which 90 percent was frozen fish and fillets of Atlantic herring, as well as salmon and mackerel from the UK, Iceland, Norway, the U.S., Ireland, and the Netherlands. A few agents provide almost all pre-processed ocean fish. Skaga, Mersrags-1 and Danlat Seafood were the largest suppliers of shrimp to Latvia, with 28, 41 and 31 percent market shares respectively. Oil for the fish industry is sourced from the Netherlands and Belgium through specialized importers/wholesalers. Sometimes edible oils and other ingredients are purchased from Russian or Ukrainian companies on barter for fish preserves.

In 2000, the fish sectors production totaled 158.3 TMT, including various fillet preparations (84.1 TMT) and canned and prepared fish preserves (74.2 TMT). The fish industry's exports were valued at US\$ 50.7 million. Canned fish preserves enjoyed a good export demand, and almost 90 percent of the industry's output was exported to a total of 40 countries. The vast majority was exported to the CIS (mainly Russia,

Ukraine, Belarus and Kazakhstan). Approval for export to the EU has been granted to eight plants (Baltijas Zivis-97, Brivais Vilnis, Banga, Unda, Baltijas Zivs, Banga Seafood International, Lido, Baltic Sea Food) and six freezer-vessels.

Prepared Fruit and Vegetables, Juices, Soft Drinks, Edible Oils

There are nine producers of vegetable and fruit preparations in Latvia. The use of locally grown fresh farm produce by the industry is limited by inconsistent quality, and small guaranteed volumes. In 2000, the share of imported raw materials used by industry was estimated to be 80 percent. The industry's output includes processed fruits and vegetables, ketchup, various sauces, deserts, jams, and pre-processed frozen fruits and berries for export. The local industry competes with imports of reasonably-priced quality products, mainly from Central European countries.

Profiles of Companies

Company	Type of product	Sales 2000 (US\$Mil)	End use Channels	Location of Production	Procurement Channel
Cido Food Group	Fruit and vegetable preserves, juices	20.1	Retail, HRI, Export	Latvia	Direct, Import
Spilva	Fruit and vegetable preserves, sauces, dressings	9.1	Retail, HRI, Export	Latvia	Direct, Import
Liepaja Oil Refinery	Edible oil	6.3	Retail, HRI	Latvia	Direct, Import
Gutta	Juices	5.4	Retail, HRI, Export	Latvia	Direct, Import
KOK& Co	Vegetable preserves, sauces	5	Retail, HRI, Export	Latvia	Direct, Import
Balttur -R	Mayonnaise	4.1	Retail, HRI	Latvia	Direct, Import
Aldaris	Soft drinks	3.3	Retail, HRI	Riga, Latvia	Agent

The leading processor in this sector is Latvian owned Spilva. The company maintains supplier contracts with 20 local growers and imports about 50 percent of its raw inputs. Spilva produces a wide range of popular products; ketchup and tomato sauces account for 50 percent of its output, mayonnaise 16.5 percent, deserts, sauces and jams 16 percent, preserved vegetables 13 percent, sauces 4.3 percent. The company exports about 12 percent of its output. It exports jams and desert sauces to the U.S., preserved vegetables to Australia, and various sauces to Sweden, Germany, and Israel.

Products by Companies

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Soft drinks	11.4	5.9
Mineral water	11.1	10.2
Juices	18.5	16.3
Prepared fruits and vegetables	1.8	3
Mayonnaise (Metric Tons)	6.1	6.4
Jams	2.3	2.5

In juices and soft drinks, the leader is a company called Cido Partikas Grupa, which manufactures 12 juices and 7 nectars (47 percent of output), mineral water (26 percent), soft carbonated drinks (22 percent), and “Oma” brand pickles (5 percent). In 2001, Cido Partikas Grupa led the juice and nectar market with a 51 percent share, followed by Gutta 37 percent. In soft drinks, Cido and Coca Cola tied with 29 percent each, followed by Other Juice (15 percent) and Gutta (8 percent). In the mineral water segment, Cide maintained 40 percent share, followed by Other Juice (19 percent) and Aldaris (17 percent). In the kvass market, (kvass is a carbonated drink) Cido had a 30 percent share, followed by Gutta and Other Juice (25 percent each). Imported raw inputs include concentrates for soft drinks (imported mainly from Holland), fruit juice concentrates and pulp (imported from Israel and the U.S.). Due to the high price of locally produced sugar, the leading producers Cido and Gutta tend to use alternative sweeteners in their products. Thirty percent of the industry’s total output is exported. Latvia’s only edible oil producer, Liepajas Ellas Ekstrakcijas Rupnica, recently recovered after a bankruptcy caused by the increased imports of cheap oil and raw material supply problems. The company now manufactures oil out of sunflower seeds from Ukraine.

Confectioneries

Latvian chocolate consumption has decreased by 5 percent over the past years, thus intensifying competition among the key players on the market. Of the nine confectioneries in Latvia, the largest plant is the Laima chocolate factory, which has been producing its well-known chocolates since 1806. In 2000, Icelandic group acquired the Latvian confectionery Staburadze, and in 2001, the company bought 73 percent of Laima’s stocks. Laima has a 35 percent share of the Latvian chocolate market. Several smaller producers belong to the Turiba group.

Profiles of Confectioneries

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels

Laima	22.9	Retail	Riga, Latvia	Direct
Turiba, LKCS	5.3	Retail	Riga, Latvia	Wholesalers

The Icelandic owners of the two largest Latvian confectioneries are vulnerable to any new-comers to this market. The reason is that Latvian producers are forced by the "Law on Sugar" to use high priced Latvian sugar for all products sold in Latvia. For exported products, much cheaper imported sugar can be used. Annual domestic sugar production totaled 66 TMT in 2000. In addition, about 0.5 TMT of high quality sugar was imported. The high price for sugar produced from locally grown beets (almost twice the world market price), combined with import licensing and protective import tariffs, makes it hard for locally-produced products to compete on the domestic and the Baltic market. However, the situation may change after that the draft amendment to "Law on Sugar" is effected in January 2003, which provides for a sugar price compensation for products containing more than 20 percent sugar. The compensation is expected to affect prices of some 15 TMT of the domestically produced sugar.

Of other inputs, cocoa beans are purchased at commodity exchanges by contracted agents who arrange for large consolidated shipments. Food additives and flavorings are sourced from agents/ distributors for known European producers based on long-term agreements. Imports of almonds, nuts, and dried fruits are based on direct contracts with suppliers, or shared shipments with the largest importing wholesalers.

Products of Confectioneries

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Chocolate confectionery	18.2	17.8
Sugar Confectionery	7.4	5.6

The Laima factory dominated the domestic market with 37 percent of the market, followed by Kraft Jacobs Suchard (13 percent), and Master Foods (7 percent), Fazer (3 percent). The Laima production totaled 7.4 TMT in 2000. Popular products are milk chocolate candies, chocolates with nuts, dark chocolate, chocolate covered fruits and nut bars. Laima holds a 41 percent market share in chocolate candies, followed by Kraft Jacobs Suchard (29 percent), Fazer (14 percent), and 12 percent market share of chocolate bars, led by Master foods (36 percent) and Kraft Jacobs Suchard (33 percent). In 2000, about 23 percent of the production was exported, mainly to Estonia and Lithuania. Laima's products were also exported to Germany, Israel, United States, Canada and Uruguay.

Bakery Sector

In 2000, there were 55 bakeries registered in Latvia. The production volume, valued at US\$ 61 million, accounted for 10 percent of the industry's total output. The large bakeries have focused on standard bakery lines. Some of them have developed extended shelf-life products in convenient packaging. Smaller bakeries specialize in niche products and sell baked goods to nearby communities.

Products by Bakery Sector

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Bred	58.3	54
Sweet oven products	6.8	7.3

Raw materials used by the baking industry basically include wheat flour and rye meal. Domestic wheat flour is supplied from the grain processors, and the Latvian bakery industry relies exclusively on domestic wheat flour. The flour is supplied by the four largest mills: AS Dobeles Dzirnaveiks, AS Rigas Dzirnaveiks, AS Daugavpils Dzirnaveiks. Few smaller mills are involved in production of niche products, such as wholemeal flour. AS Rezeknes Dzirnaveiks is a supplier to Hanzas Maiznīcas Group. The Latvian requirements for wheat flour totaled 160,000 MT and the rye flour need totaled 60,000 MT. Due to the inconsistent quality of domestically produced rye, about 8 to 10 TMT of the annual rye requirement is imported from within the Baltic Free Trade Agreement area. Of other inputs, margarine, additives and ingredients are delivered to industries by a few importers based on individual supplies agreements. Butter and eggs are sourced directly from domestic dairies and hatcheries.

Profiles of Bakeries

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
Hanzas Maiznica	18	Own distribution, Retail, HRI	Latvia	Direct
Turiba, LKCS	14.2	Retail, HRI	Latvia	Direct
Staburadze (sweet oven products)	8.4	Retail	Latvia	Direct
Druva	2.8	Own distribution, Retail, HRI	Latvia	Direct

The competition within the sector is high and reflects the decreased consumption of bread, and the inflow of strong foreign investors. Finnish Vaasan & Vaasan's involvement with the leading Latvian bakery Hanzas Maiznica and its four subsidiaries has strengthened its position in this sector. In 2001, another Finnish company, Fazer, strengthened its position in the Baltics through an acquisition of the medium sized Latvian bakery Ogres Maiznieks. The company also acquired the Druva trade mark. More than 30 percent of the industry's output are produced by Finnish controlled companies. In 2000, four companies produced pasta and the production totalled 3.1 TMT. The leading producer is *Baltas naktis* with a 81 percent market share (trade marks Mario, Olu makaroni, Kapelleti and Tortellini). In addition, about 6.4 TMT (68 percent of market demand) was imported, mainly from Italy, Germany and France. Domestic producers struggle to maintain market share as they face relatively cheap imports of pasta. Hard wheat

for pasta production is imported with reduced tariffs, and sourced mainly from Central and Eastern European countries.

A successful market niche was recently developed by a company called *Euro Food*, which operates in 3 market segments: fresh baked products (bread, pizza, grilled sandwiches), frozen pizzas, pastries and hot dogs, and ready made sandwiches. The company's trademark is "Pedro Pizza". In 2000, the company's turnover was close to US\$ 0.5 million. Euro Food was acquired by Laima confectionery in 2001, and is now operating within the Icelandic Group of food industries.

Snack Foods, Starch, Spices

The leading producer of salted snacks is *Latfood*, owned by the Finnish venture AB Chips Oy, established in 1998. The company produces frozen fried potatoes and an impressive range of potato chips, which successfully competes with imported brands. The company is also investing in product development. Sales totaled US\$ 2.48 million in 2000. Latfood's domestic market share has continued to grow, and accounted for 35 percent in 2000. The company purchases some 9-10,000 MT potatoes locally. The company provides farmers with potato seeds. Latfood's products, Taffel and Adazu cipsi, are sold in Latvia and in neighboring countries including in Russia. The company has created its own distribution network, which supplies every retailer. Another snack producer of market significance is *EuroSnack's* salted corn snacks. *Alis & Co* sells packaged assorted healthy snacks - imported nuts and dried fruits. The company imports almonds and prunes from the U.S.

The sole Latvian potato starch producer *Aloja-Staerkelsen* is a Swedish venture. The annual starch output totals between 4-5 TMT. The company purchases about 150,000 MT of raw potatoes locally. As a result of the use of quality seeds and fertilizers and modernized agricultural machinery and equipment, the starch content has increased to 20 percent. To ensure production capacities, raw potato is imported from Sweden, after locally procured material is processed in spring. The company supplies 80 percent of the Latvian starch market.

Russia is the main export market for starch. Exports to Belarus and Ukraine are hindered by low prices and unfavorable trade terms. About 25 percent of the exports goes to the neighboring Baltic countries. Sales to Central and Eastern European countries are almost not possible due to exclusive supplier agreements with the Swedish partners of the company owners. Based on successful starch production, Latvia had requested a 15 TMT annual production quota in the EU accession negotiations. However, the initial EU proposal of January 2002 offered only a 3,447 MT production quota.

There are three key spice processors/packers of market significance in Latvia; *Latplanta*, *Valezs* and *Anatols*. *Latplanta* and *Anatols* each have a 30 percent market share. Products include spices (80 percent) and food concentrates (20 percent). In 2000, turnover of the *Latplanta* totaled US\$ 0.78 million. Imported raw amounted to 1.3 TMT, of which majority was imported directly from Hamburg and Rotterdam, since the prices of most spices tend to be lower there. About 46.7 TMT of the packed products are exported, mainly to Estonia. *Latplanta* plans to diversify its production with herbal products.

The Beverage Industry

In 2000, there were 11 producers of alcoholic beverages in Latvia. Production of liquors amounted to 263 thousand hectolitres, of which 14 percent were exported. Imports totaled 150 thousand hectolitres. The largest manufacturer Latvijas Balzams accounted for 76.5 percent of total production volume, followed by Berlat 28.6 percent, Jaunpagasts Plus 4.6 percent, Pallada 2.9 percent, Jaunalko 1.3 percent. In 2001, 49.9 percent of Latvijas Balzams was acquired by Sojuzplodimport (S.P.I.), a Russian company. The new owners plan to start production in Latvia of several famous vodka brands, such as Moskovskaja, Stolicnaja, for the export market. Since the Latvian market is protected by high import duties, Latvian beverage producers purchased spirits from five local distilleries. In 2000, ethanol production totalled 8.52 million litres. This year, some companies have started importing spirits, which they expect to be of higher quality and considerably cheaper. No tariffs are applied to spirits sourced from within the Baltic Free Trade area.

Beverages Production

Product	Sales 1999, (US\$ Mil)	Sales 2000, (US\$ Mil)
Liquors	40.8	38.4
Sparkling wine	11.7	11.2

Table: Profiles of Beverage Companies

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
Latvijas Balzams	24.1	Retail, HRI, Export	Riga, Latvia	Direct
Rigas Vini	21.1	Retail, HRI	Riga, Latvia	Direct
Berlat	18.2	Retail, HRI	Latvia	Direct
Jaunpagasts plus	4.6	Retail, HRI	Latvia	Direct

Beer Production

The Latvian beer market amounts to 97.0 million litres. Latvian breweries dominate the beer market. Imported beer sales accounts for 5 percent and annual beer exports reaches 800,000 litres. Of about 20 local breweries, the leading brewery is Aldaris, with beer sales of 45.2 million litres in 2001. The company is 75 percent owned by Baltic Beverages Holding, a joint venture between Swedish-Norwegian Pripps-Rignes and Finnish beverage producer Hartwall. Aldaris produces 13 brands and has a 47 percent market share, followed by Varpa 10 percent, Alus avots 9 percent. Cesu alus brewery is 60 percent owned by A. le Coq, an Estonian daughter company of Finnish Olvi OY. The company has a 2 percent share of the domestic beer market. Production capacity captures a 20 percent market share. U.S. investment fund, Baltic Small Equity Fund, has a 27 percent share in Piebalgas alus brewery.

Profiles of Breweries

Company	Sales 2000, (US\$ Mil)	End use Channels Latvia	Location	Procurement Channels
Aldaris	30.7	Retail, HRI, own stores	Latvia	Direct
Varpa	5.1	Retail, HRI	Latvia	Direct
Rigas Alus	3.3	Retail, HRI	Latvia	Direct
Cesu Alus	1.7	Retail, HRI	Latvia	Direct

Only small volumes of locally produced malt are used in brewing, while the bulk comes directly from malt producers in Western Europe. Hops are purchased directly from Central European exporters. Breweries tend to established direct delivery systems with their suppliers, while wholesalers better service the smaller retail units.

D. SECTOR TRENDS

Western European investment in Latvian food enterprises has played an important role in the development of the food sector. In December 2001, the European Commission made its SAPARD funding (Special Accession Programme for Agriculture and Rural Development) available to Latvia. Food processors may use the annual allocation of US\$ 8.1 million for the modernization of industries required for the integration into the European common market.

The development of Latvia's food industry is currently hindered by an inadequate domestic supply of basic agricultural raw product. In the early 90's, Latvia's agricultural production met the demand of the food processing industry and large quantities were exported to northern Russia. In 2000, the level of self sufficiency in basic agricultural products was: poultry 28, vegetables/fruits 47 percent, pork 59 percent, beef 79 percent, potatoes 85 percent, milk 118 percent, and food grains 154 percent.

The future of the Latvian food processing industry heavily relies on negotiations for acceptable production quotas within the EU. With increased competition on the Latvian domestic market and the upcoming EU accession, food industries will experience some additional restructuring, which involves further concentration within the sub-sectors. The emergence of powerful pan-Baltic food processors has already commenced and is anticipated to continue.

SECTION III. COMPETITION

Over the past 5-6 years, European suppliers of food products have gained significant market shares and have established a strong market presence. Reasons for their success include proximity, historical ties, high-

quality products, competitive prices, marketing support and logistical advantages. These companies have also benefitted from their government's financial and marketing assistance.

During the past seven years, Latvia's agricultural trade balance has run a deficit. In 2000, Latvian imports of agricultural products totaled US\$ 405 million, while the value of exports totaled a much lower US\$ 108 million (not including wood products). The EU is the leading exporter to Latvia with a 47 percent share, followed by the Baltic neighbours, Estonia and Lithuania, with 25 percent. Central European countries account for 12 percent. The U.S. market share of Latvian agricultural imports was 2.7 percent (US\$ 10.9 million), reflecting both the inability of U.S. products to compete effectively with other suppliers and lack of U.S. supplier interest.

Of the total U.S. agricultural product exports to Latvia in 2000, poultry products accounted for 30 percent, coffee extracts and essences for 12 percent, frozen fish for 12 percent, tobacco products for 7 percent and dried fruits and nuts for 7 percent. Other major products included rice 4.5 percent, alcoholic beverages 3.2 percent, fats and oils 3 percent, pet food 2.3 percent, and wines 2.1 percent. U.S. products dominate Latvian imports of poultry products with a 55 percent share, almonds 38 percent, corn 35 percent, dried fruits 32 percent, rice 12 percent, and instant coffee 10 percent. Except for poultry, relatively small quantities of U.S. products are used in the Latvian food processing sector. Other major Latvian imports of processing raw included edible oil, juice concentrates, barley malt, spices and seasonings, vegetables, fish.

A number of constraints have contributed to the relatively small market share of U.S. foods in Latvia:

--- Latvia's July, 2000 and July, 2002 agreement with the European Union established preferential tariff duties and increased the earlier agreed TRQs for agricultural and food products. Duties for EU imports are gradually declining vis-a-vis the MFN rates applied to imports from the U.S..

--- Under free trade agreements signed with its Baltic neighbours, EFTA and CEFTA countries, Latvia's imports from the countries which are parties to these agreements have lower duties than the rates applied to imports from the U.S.. As much as 84 percent of Latvian agricultural exports and 80 percent of Latvian imports occur with the EU countries and countries with which Latvia has FTAs.

--- Latvia has been modifying sanitary and phytosanitary standards in conjunction with its preparations for EU accession. Some of these have blocked U.S. trade of pork and beef since 1999.

SECTION IV. BEST PRODUCT PROSPECTS

Products That are Present in the Market and Have Good Sales Potential:

Relatively small quantities of U.S. products are used in the sector. Latvian imports of US poultry (turkey and chicken) meat may be increased. The demand for U.S. juice concentrates is expected to grow. Considering the expected growth within the snack foods sub-sector, an increased demand is forecast for nuts, almonds, sweet corn and dried fruits.

Products Not Present Because They Face Significant Barriers:

Latvia's implementation of sanitary and phytosanitary standards in preparation for EU accession has blocked once-existent trade in pork and beef. FSIS is working on the issue.

No certain attitudes have developed yet regarding the presence of genetically engineered products in food processing raw. However, in its pre-accession process Latvia is adhering its legislation to the EU in its pre-accession process and may follow EU regulations and certification requirements on GMO's.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

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To include your products in a regional Baltics "virtual trade fair," please visit

<http://baltic.trade-fair.com>

The business center of the Latvian Development Agency has established a website <http://lda.gov.lv/eksports/bizness> to help matching of trade interests.

For general questions about importing products into Latvia, please contact:

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For more information on exporting U.S. agricultural products to the Nordic/Baltic region, please visit the Foreign Agricultural Service home page: www.fas.usda.gov and the FAS/Stockholm regional headquarters office at www.usemb.se/Agriculture