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Food Processing Ingredients Sector

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Report Highlights:

The development of the food manufacturing sector to ensure future export prospects is a priority of the Estonian government. Western European companies have played an important role in the development of the Estonian food industry. However, for successful integration into the European market, substantial further investment will be necessary. In 2000, the value of raw materials used in Estonian food production was estimated to be US\$ 218 million. Of this amount, 26 percent was imported.

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I. MARKET SUMMARY

In 2000, the total output of the Estonian food industry amounted to US\$ 550 million, accounting for almost one-third of its industrial exports and 24 percent of the country's total industrial sales. This was a drop from 34 percent in 1993. The Estonian food processing sector was hit hard by the Russian economic crisis in the fall of 1998, and production volumes declined by 10 percent in 1999. The recovery started in late 2000, when growth reached 4 percent. Projections for 2002 call for a growth rate of 3-4 percent for the sector as a whole. The food industry still maintains its leading position among the sectors of the Estonian economy. Estonian government is now prioritizing the development of the food manufacturing sector to secure market share in the small domestic market and to develop export opportunities.

There were 720 food and beverage enterprises in Estonia in 2000. Dairies accounted for 27 percent of the gross food output, followed by the beverages industry (22 percent), meat processing (17 percent), and fish processing sector (14 percent).

Western European companies have played an important role in the development of the Estonian food sector as a whole. As early as 1995, the privatization of food industry was almost completed. Estonia has been courting the EU. Since 1993, EU Phare projects worth 20 million Euros have supported the upgrading of the food sector, to meet EU standards and requirements for food processing. Substantial additional investments will be necessary to further ensure the successful integration of the Estonian food processing industry into the common European market. The investment need for the dairy industry totals US\$ 60 million, and the cost of upgrades to both meat and fish industries will exceed US\$ 65 million. Given the relatively small consumer base in the Baltic region, pan-Baltic food companies are likely to emerge to enhance the competitiveness of the Baltic food industry.

Size of the Food Industry

Food Industry Sub sector	Number of Companies	1999 Sales (US\$Mil)	2000 Sales (US\$Mil)	Growth/Decline Estimates for 2001/2002 (percent)
Dairy	44	137	146	-5
Meat	278	88	94	5
Fish	135	84	77	-10
Bakery	191	57	50	-10
Juices	3	6	8	10
Confectionery	3	19	21	5
Beer	7	57	62	5

Prepared fruits and vegetables	5	14	16	3
Soft drinks and mineral water	4	26	30	10
Edible oil	1	1	2	10
Pasta	2	1	2	5
Spices and Seasonings	1	22	3	10
Strong beverages	6	38	41	5
Total	X	531	550	X

Large food processors, of which many have foreign ownership, purchase raw materials and food ingredients both directly from foreign exporters and through their own networks. This applies to the meat and fish industry inputs - such as raw fish, meat, and spices; the beverage industry importing spirits and concentrates, and the baking industry using products such as imported wheat flour, sugar and dried fruit. The value of raw materials and ingredients used in Estonian food production totalled US\$ 218 million in 2000, of which 26 percent was imported.

It should be noted that a food processor's choice of imported raw material may depend on the plant's ownership and its foreign investors, rather than on quality or price.

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

Food Industry Sub sector	Value of inputs (US\$ Mil)	Value of Imported Inputs (US\$ Mil)	Imported Inputs Share (percent)
Meat (all)	38.5	14.2	37
pork	21	8	38
poultry	6	3.9	65
beef	11.5	0.6	5
Fish	35	7	20
Dairy	67	2.7	4
Prepared fruit and vegetables	5.3	3.2	60

Juices	2.1	1.8	85
Edible oil	0.7	0.5	60
Confectionery	5.5	4	73
Strong beverages	10	1.8	18
Beer	19	15.6	82
Soft drinks and mineral water	10.5	4.4	42
Pasta	1	0.1	10
Spices and seasonings	1.9	1.7	87
Total	226	61	26

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	18	11
Fruit and Berries	13	8
Meat	38.5	14.2
Vegetable oil	0.5	0.1
Margarine	4	4
Malt	8.3	7.6
Fish	35	7
Milk	58	2.3
Sugar	6	5
Wheat flour	16	0.5
Butter	7	0.1
Egg powder	1	0.3
Salt	1.2	0.2

Potatoes	2.1	0.2
Rye flour	6	1.7
Potato starch	0.2	0.2
Whole milk powder	3	0
Skim milk powder	9	0
Eggs	4	0
Total	227	62

The development of Estonia's food industry is currently impeded by an inadequate domestic supply of agricultural raw material, the relatively modest purchasing power of domestic consumers, and limited export possibilities. Russia is imposing on Estonian products double the customs duty rates it applies to the same products from MFN suppliers. Only a few Estonian dairies and fish processors comply with the EU production and quality requirements and packaging standards necessary to be met to export to EU member countries.

Advantages and Challenges Facing U.S. Products

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, wheat flour, edible oil, sugar, spices, concentrates.	Strong competition on the local market from domestic producers and increasing imports from the EU, other Baltic states and FTA partners.
Estonia joined the WTO in December 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, Estonia is still a small market for US products.

II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

The largest food processors purchase raw materials and food ingredients directly from foreign exporters and through their own networks, including raw fish, meat, spices, spirits, juice concentrates, wheat flour and condiments. US exporters should focus primarily on connecting with the larger players seeking direct relationships with foreign suppliers.

Market entry strategies for U.S. products should include:

- 1) Market research in order to estimate product opportunities.
- 2) Advance calculation of the landed cost of a product in order to make price comparisons vis-a-vis competitors.
- 3) Locating an experienced distributor or independent reliable agent with strategic distribution channels to advise on import duties, sanitary and phytosanitary regulations, and labeling requirements.
- 4) Explore the purchasing routines of the larger importers.

New-to-market suppliers will have to be aggressive in marketing their products in order to compete with the more established European suppliers, whose commercial relationships have been built over the past decade.

As of January 1998, quality and compliance checks of imported food stuffs, additives and supplements were placed under the authority of the State Veterinary and Food Board's Border Control Service. Plant products are controlled by the Plant Production Control Center. In 1998, Estonia introduced a licensing system for importers of all agricultural and food products with the objective of ensuring the proper handling of food products and to address consumer concerns over the safety of imported food. Licenses are issued by the Ministry of Agriculture.

The Estonian veterinary legislation applies unified import certification of meat and meat products, dairy products and fish (Regulation 44, 1999). Special laws regulate flows of alcohol, tobacco, meat, dairy products, and veterinary and phytosanitary requirements. Other ordinances include the use of additives in foodstuffs, usage and content of artificial flavorings, and respective labeling and the permissible, level of residues. Estonia has been modifying its sanitary and phytosanitary standards in conjunction with its

preparations for EU accession. Some of these changes have blocked once-existing US trade, especially of pork and beef. Estonia accepts US poultry from about 50 plants, approved by Estonian Veterinary Authorities. Regarding genetically modified (GMO) ingredients Estonia will follow EU regulations, recommendations, and labeling and certification requirements. As of January 1, 2001, special labeling is required for foods produced of or derived from genetically modified soya and corn (Regulation 176, Ministry of Agriculture, based on 98/1139/EC, 49/2000/EC). Products that contain or consist of GMOs are novel foods, and their conformity to the requirements has to be examined prior to obtaining permits for deliberate release of GMOs, placing them on the market, or obtaining handling permit (258/97/EC and 97/618/EC) issued by the Veterinary and Food Board. The presence of such ingredients should therefore be clearly disclosed on the product label.

In case imported products fall into a category requiring a special permit (Regulation 47 of the Minister of Agriculture), the importer shall submit an application/request for the special import permit to the Veterinary and Food Board, indicating the number of the valid license of the importer of raw foodstuffs or food, recognition number of the manufacturer if required, planned import quantity, arrival time and border entry point, product preservation conditions and purpose of importing of the goods. Please consult with the importer regarding specific details.

Conformity assurances for products originating in the EU member states, Baltic countries, and EFTA countries are recognized automatically, while those issued by authorities in other countries are recognized by the Estonian Conformity Assessment Center through a costly procedure of product testing and approval. It should be noted, however, that the Estonian Conformity Assessment Center recognizes conformity assurances issued for U.S. food products marketed in EU member countries.

Imported food and agricultural products need to be cleared and sealed by border inspection officials to ensure conformity to legislation. Customs authorities require the following documentation – a copy of the contract, an invoice, a bill of lading indicating the amount, weight and value of goods and the original certificate of origin (form EUR.1 or form A). The 18 percent value added tax (VAT), the import duty and excise and packaging taxes are collected by Customs authorities upon clearance of imported goods at the border unless the cargo is forwarded to a bonded warehouse. A State fee must be paid for Customs clearance totaling 200 Estonian Kroons (about US\$ 12) per declaration.

B. Market Structure, Sub-sector Profiles

Meat Production

In 2000, the output of the meat industry totalled 46 TMT, of which 15 percent was exported. The Estonian Veterinary and Food Board registered 278 meat processing plants in 2000, of which 17 were large capacity enterprises of market significance (weekly meat cutting capacity exceeded 5 TMT, or output was more than 7.5 TMT). Production is concentrated in large enterprises, and four major plants accounted for 70 percent of the total output in 2000. The remaining number of small capacity slaughterhouses/packers operate under an erratic workload. Nevertheless, these produce a wide selection of processed meat products for the retail and catering sectors in certain vicinities.

Meat Processing Sector Profile

Product	Output 2000, TMT	Sales 2000, (US\$ Mil)
Beef/Veal	10	11
Pork	18	21
Poultry	8	8
Smoked salted meat	65	13
Sausages	33	40
Meat preserves (cans)	1.1 million	1.5

Major problems reported by processors include insufficient domestic supplies, excessive fat content of domestic pork, low lean content of beef, and a high percentage of PSO (pale, soft, oxidative) meat. The Estonian meat industry relies heavily on imported meat. Of total meat supplies to the industry in 2000, about 60 percent of poultry, 38 percent of pork, and 5 percent of beef were imported -- mainly from Finland, Denmark and the U.S. In general, the meat industry functions well below capacity, which is the main reason for low profit. None of the processing lines and facilities comply with the EU requirements for export to EU member countries. To meet the hygiene requirements set by the Estonian Food Act for January 1, 2003 compliance, the investment need for the meat industry is estimated to be EEK 495.8 million (US\$ 29.2 million).

Meat Processors Profiles

Company	Sales 2000 (US\$ Mil)	End use channels	Location	Procurement channels
AS Rakvere Lihakombinaat	37	Retail, HRI	Latvia, Estonia	Direct, import agents
AS Tallegg	22	Retail, HRI	Estonia	Own poultry farm

AS Valga Liha ja Konservitoostus	14	Retail, HRI	Estonia	Direct
AS Saaremaa Liha ja Piimatoostus	13	Retail, HRI	Estonia	Direct
Woro Kommerts	6.3	Retail, HRI	Estonia	Direct

- The market leader, with a 40 percent share, is Rakvere AS. This meat plant is controlled by a Finnish HK Rukatalo (owner of 80 percent of stock), and exports 20-25 percent of output within the Baltic free trade area.
- In 2001, the Finnish company HK Ruokatalo, and Swedish Swedagri Invest AB increased their controlling interest in the Tallegg poultry farm to 80 percent. Tallegg is the leading Estonian poultry farm, accounting for 75 percent of domestically produced poultry products, and exports about 36 percent of its output to Latvia and Lithuania.
- In 2000, Adavere Lihatoostus, a large meat producer of popular and reasonably priced products, declared bankruptcy due to poor logistics and excessive spending on advertising. The competition in the meat sector is fierce.

Dairy Processing Sector

Raw milk production totalled 629 TMT in 2000, of which more than 400 TMT, or 63.5 percent was delivered for processing. The balance was sold at farmers markets or used for livestock feeding. The total processing capacity of the dairy industry is estimated at 900 TMT - 1,000 TMT. Based on this, Estonia requested a 900TMT production quota in EU accession talks. The development and upgrade of the dairy sector is a government priority. Almost every dairy has its raw milk supply area. In 2000, more than 95 percent of the raw milk purchased met established EU requirements. Dairy sector production increased after the enlarged EU import quotas of Estonian dairy products in mid 2000. Companies were able to increase the prices paid for raw milk input, however, this brought about a fierce competition for raw milk, and contributed to price hikes of dairy products. Of 44 dairies, seven have already upgraded their facilities and processes to comply with the EU requirements and are approved as exporters to the EU countries. In 2000, approximately 25 percent of dairy industry's production was exported.

Products by Dairies

Product	Output 2000, TMT	Sales 2000, (US\$ Mil)
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Whole Milk	65	20
Cream	54	7
Kefir	16	6
Skim Milk Powder	15	4
Butter	8	20
Curds	18	26
Cheese	11	32
Condensed milk	1.4	6
Ice Cream	7	1
Yoghurt	5	4

Profiles of Dairies

Name of Dairy	Sales 2000, (US\$ Mil)	End use channels	Location	Procurement channels
Tallinna Kulmhoone (ice cream producer)	27	Retail, wholesale, export	Estonia	Direct
Tallinna Piimatoostus	22	Retail, export, HRI	Estonia	Direct
Lacto	19	Retail, export	Estonia	Direct
Voru Juust	9	Retail, export	Estonia	Direct
E-Piim	8	Retail, export	Estonia	Direct

The concentration of production in the Estonian dairy sector is rather high; the nine largest dairies accounted for 60 percent of total production.

The largest dairies with foreign ownership are:

- Lacto AS, which is fully owned by Yaguab Haiday (Indonesia),
- Tapila AS, which is controlled by Valio OY (Finland),
- AS Võru Juust, whose stock is partly owned by Saviola s.p.a. (Italian investor),

-- AS Põlva Pim, which was bought by G. van den Bergh. This Dutch company helped establish exports of Estonian cream powder to the EU market.

Fish Processing

Of the 135 fish processing enterprises registered with the Estonian Food and Veterinary Board, only about 50 were active in 2000. The nine largest companies accounted for 63 percent of the total industry's production. The total output by the Estonian fish industry amounted to US\$ 77 million, and accounted for 14 percent of the total output by the food industry. The products include various filet preparations, canned and prepared fish preserves, and ready-made meals. The table below illustrates the supply of the raw inputs.

Raw inputs use in the fish industry, 1999

Product	Use of Product, TMT	Import share, percent
Fresh and chilled fish	691	10.2
Frozen fish	428	33.4
Fish filets	15	54.4
Minced fish	9	87.7
Salted and spiced fish	22	9.8
Smoked fish	1	0
Fish preserves	1	10
Other	1	87.7
Total	1167	19.9

Raw materials used by the industry are mainly fish species from the Baltic Sea, such as Baltic herring and sprats. These species account for almost 80 percent of supply. In 2000, imports accounted for 23 TMT (23 percent), from mainly Norway and the UK. Imported raw material is predominantly used by large processors with more than 50 employees, because they require large volumes of consistent quality fish. Small processing units source fish from the local fishery fleet. In 2000, the Estonian fresh water and aquaculture catch increased to 3 percent of total fish supplies.

Fish Processing Sector Profile

Fish	Output 2000, TMT	Sales 2000, (US\$ Mil)
Frozen fish	37	18
Filets	165	6.8
Smoked fish	3	0.6
Canned fish, million cans	90 million cans	41

Prior to the crash of the Russian market in the fall of 1998, the fish processing industry had good export demand. Almost 90 percent of the industry's output went to Russia, Ukraine and Belarus. In 2000, exports accounted for about 78 percent of the fish industry's output, with Russia alone accounting for 75 percent of exports. Russia is Estonia's main export market for canned fish preserves. Fileted and frozen fish are mainly sold on the EU market by 25 eligible fish processors and 10 fish freezing vessels. While exports to Western Europe remain stable, sales to the CIS countries and Russia are being negatively affected by Russian import duties (a double rate applies to Estonian products), and the low market prices there.

Fish Processing Companies Profiles

Company	Sales 2000 (US\$ Mil)	End use channels	Location	Procurement channels
AS Maseko	23	Direct, Export, Agents	Estonia	Direct, Import, Agents
AS Japs	7	Export Agents	Estonia	Direct, Import, Agents
Dagotar	5.6	Direct, Export, Agents	Estonia	Direct, Import, Agents
AS Paljassaare Kalatoostus	5.3	Export agents	Estonia	Direct, Import, Agents
AS Assatra	4.8	Direct, Export, Agents	Estonia	Direct

Fruits and Vegetables Preparations, Edible Oil

There are eleven producers of canned vegetables and fruits, and one oil crushing plant. However, the use of locally grown fresh farm produce by processors is limited by inconsistent supplies and quality, and small guaranteed volumes. In 2000, the estimated share of imported raw materials used by industry was 66 percent.

Products by Fruit and Vegetable Canning Industry

Product	Output, cans (Mil)	Sales 2000, (US\$ Mil)
Prepared fruits and vegetables	22	10
Jams	3.4	3.7
Mayonnaise (Metric Tons)	2,900 MT	2.3

Profiles of Companies

Company	Type of product	Sales 2000, (US\$, Mil)	End use Channels	Location of Production	Procurement Channel
AS Poltsama Felix	Fruit and vegetable preserves, juices, sauces, dressings	8	Retail, HRI, Export	Estonia	Direct
AS Osel Foods	juices, kvass	5	Retail, HRI	Estonia	Direct
AS Werol Tehased	vegetable oil	1.5	Retail, HRI, Export	Estonia	Direct

- AS Poltsama Felix is owned by Swedish company Procordia Food. Felix sauces and preserves are popular among the consumers, and their advertising campaigns stress domestic origin and that their products are free of additives.
- Werol Oil started production of rapeseed oil a few years ago from domestic and imported rapeseed, and has gained about 35 percent of the edible oils retail market.

- Osel Foods, a major juice producer, is 50 percent owned by Carl Erik Sundbol of Finland. In 2001, Osel Foods sold its production line of a popular product, Linnuse Kali (kvass), to the bottling plant Eesti Coca-Cola Joogid. Eesti Coca-Cola Joogid had lost much of its soft drinks market share in 2000, and was therefore interested in the deal. Osel Foods will concentrate on the production of *Aura* juices and plans to capture 20 percent of the US\$18 million Estonian juice market.

Confectioneries

There are 17 confectioneries in Estonia, but only a few are of market significance. Imported raw materials by the industry include cocoa beans, sugar, nuts, almonds, raisins, and dried fruits. In 2000, cocoa bean imports totaled 1.5 TMT, and were primarily sourced from Ghana (1,241 MT) and Cote d'Ivoire (230 MT). There is no domestic sugar production in Estonia, so the country fully relies on imported sugar from Germany (57 percent of total supplies), Denmark (17 percent), and Finland (11 percent). Imports of nuts, raisins, and dried fruits are based on direct contracts, or shared shipments with the largest Estonian importers/wholesalers.

Products by Confectioneries

Product	Output 2000, MT	Sales 2000, (US\$ Mil)
Chocolate confectionery	4,200	13
Sugar Confectionery	5,500	8

Profiles of Confectioneries

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
AS Kalev	19	Retail	Estonia	Direct
AS Marion	1.6	Retail	Estonia	Wholesalers

The Kalev chocolate factory has been producing its well-known chocolates since 1806. Kalev dominates the domestic market with a close to 60 percent market share, followed by Fazer (14.7 percent), and Weinrich & Co (5 percent). Kalev holds a 6 percent market share in chocolate bars, led by Masterfoods (33 percent), Fazer (14.7 percent), Ferrero (13.6 percent). After closing its Russian production in Moscow and Kaliningrad in 2000, Kalev has re-directed its strategy. Almost 26 percent of the production

is exported - mainly to Lithuania, Latvia, Ukraine and the Nordic countries. In 2001, Kalev began exporting its marzipan to the United States.

Bakeries

In 2000, there were 196 bakeries registered with the Food and Veterinary Board. The production of bread and bakery products totalled 72 TMT and accounted for 9 percent of the total food industry's output. Due to changed consumption patterns reflecting increased dietary consciousness bread consumption is decreasing while the consumption of cereal products is on the rise.

Products by Bakeries

Product	Output 2000, MT	Sales 2000, (US\$ Mil)
Bread	77	47
Sweet baked products	13	10

Raw materials used by the baking industry basically include wheat flour and rye meal. In 2000, wheat flour use totalled 40,300 MT and rye flour totalled 30,000 MT. Domestic wheat flour is supplied from the grain processors AS Tartu Viljasalv, Tamsalu Terko AS and AS Mikaado. Due to the inconsistent quality of domestic wheat and the subsidized prices of EU wheat flour, about 70 percent of the wheat flour requirement was imported in 2000, mainly from Germany (67 percent), Finland (15 percent), and the Netherlands (10 percent). About 17 percent of the total rye meal requirement by the industry was imported, mainly from Germany (92 percent of imports).

Profiles of Bakeries

Company	Sales 2000, (US\$ Mil)	End user Channels	Location	Procurement Channels
AS Leibur	13	Own distribution, Retail, HRI	Estonia	Direct
AS Fazer Eesti	6	Retail, HRI	Estonia	Direct
AS Rae Leib	5	Retail	Estonia	Direct
AS Balti Sepik	2.4	Own distribution, Retail, HRI	Estonia	Direct

Nearly 30 percent of the industry's output is produced by Finnish controlled companies. The two market leaders are Fazer Eesti AS (owned by Fazer Leipomot OY), and AS Leibur (owned by Vaasan & Vaasan).

Soft Drinks and Mineral Water

About 15 beverage producers were registered in 2000. However, this sector is lead by the bottling plant Eesti Coca Cola Joogid. Its market share declined in 2000, due to the growing popularity of kvass, a carbonated soft drink. The production of the well-known Estonian natural mineral water, Warska, is being affected by the tight competition in the soft drinks sector. The concentrates used for beverage production are imported from Holland and the U.S. Malt concentrates are mainly imported from Germany and Holland. About 18 percent of the production is exported mainly to other Baltic countries.

Products of Soft Drinks Industry

Product	Output 2000, MT	Sales 2000, (US\$ Mil)
Soft drinks	850	28.4
Mineral water	45	1.6

Company profiles

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
Eesti Coca Cola Joogid	22	Retail, HRI	Estonia	Agent
AS Tallinna Karastusjoogid	4	Retail, HRI	Estonia	Direct

Breweries

Barley malt supplies to industry totalled 15 TMT in 2000, mainly imported from Finland (63 percent), Sweden (20 percent), and Denmark (10 percent). The popular Estonian Saku beer dominated the market with a 50 percent market share, and imported beer accounted for only 7 percent in 2000. Four major breweries accounted for 90 percent of production. The largest breweries are controlled by foreign ownership:

- 75 percent of Saku Õlletehas belong to Baltic Beverages Holding (BBH) company. BBH is a joint venture of Swedish-Norwegian Pripps-Rignes and Finnish beverage producer Hartwall. The company operates about 11 manufacturing subsidiaries in the Baltic states, Ukraine and Russia.

- Tartu Õlletehas brewery is owned by Olvi OY of Finland. Tartu Õlletehas made a great leap in capturing market share by launching new popular brands in 2000.
- AS Viru Õlu is owned by Harboes Bryggery AS. Viru Olu was privatized in 1993. The company was bought by Danish brewery Habro, which took advantage of the Danish government's investment promotion program. Foreign ownership of Viru Olu is now 100 percent.

Company profiles

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
AS Saku Õlletehas	34	Retail, HRI	Estonia	Direct
AS Tartu Õlletehas	19	Retail, HRI	Estonia	Direct
AS Viru Õlletehas	7	Retail, HRI	Estonia	Direct
AS Parnu Õlu	1	Retail, HRI	Estonia	Direct

Beverages industry

In 2000, there were 22 producers of alcoholic beverages in Estonia. Six of these were of market significance. The market leader is AS Liviko with a 45 percent market share. In 2000, AS Onistar increased sales due to a successful marketing campaign for vodka. The solely Estonian distillery, Moe Piiritusetehas, is owned by Onistar, and produced 68 thousand hectoliters of distilled spirits, and 34 thousand hectoliters of crude spirits in 2000. Some companies prefer to import considerably cheaper spirits of what they consider to be higher quality.

Companies profiles

Company	Sales 2000, (US\$ Mil)	End use Channels	Location	Procurement Channels
AS Liviko	16	Retail, HRI, own stores	Estonia	Direct
AS Onistar	8	Retail, HRI	Estonia	Direct
Ofelia	6	Retail, HRI	Estonia	Direct
Remedia	5	Retail, HRI	Estonia	Direct

Potato Starch, Snack Foods, Dry Goods and Condiments

The Finnish company, Paulig has established a spice packing company called Paulig Baltic AS. The spices are sourced directly from distributors in Western Europe. Potato starch production was closed in 1998, because of insufficient starch content of locally grown raw material. Reasonably priced potato starch is imported from Latvia under the free trade agreement. Due to lack of suitable local raw potatoes, potato chip production has not developed in Estonia. Potato snacks are produced in Aasmae out of potato meal imported from France.

Company profiles

Company	Type of product	Sales 2000, (US\$, Mil)	End use Channels	Location of Production	Procurement Channel
Paulig Baltic AS	Spices	2.5	Retail, HRI Exports	Estonia	Direct imports

SECTION III. COMPETITION

Until end of 1999, Estonia's import regime was among the most liberal in the world, since no import duties were applied. As of January 1, 2000, the Estonian Parliament implemented the Law on Custom Tariffs which imposed MFN rates on food products imported from countries which have not entered free trade agreements with Estonia.

The import tariff schedule disadvantages some competition from the United States as tariffs for European Union countries and FTA partners are set at zero, while US imports face MFN rates. Given the current trade flows, these MFN customs tariffs presently apply to about 15 percent of all agricultural and food imports. The highest MFN duty rates stand at 25-33 percent for pork, 48 percent for certain types of poultry meat, 39 percent for sausages, 10 percent for chicken legs and wings, 59 percent for rye, 40-45

percent for barley and oats. These tariff rate changes are a result of Estonia's harmonization with EU third country tariffs. Import tariff rates can be found at www.vm.ee/eng/Tollitariifiseadus.htm

In July 2000, Estonia concluded the new European Agreement with the EU Commission. Under the double-zero pact, EU farm exports to Estonia already enter the country duty free, and the EU side has agreed to gradually dismantle barriers to agricultural trade. The Agreement provided for an 80% increase in export quotas for Estonian farm products, and gives an optimistic investment outlook to this market. In September 2001, the EU agreed to extend free trade status for exports of determined amounts of processed Estonian food products - yoghurt, confectionery, animal fat, oil, yeast.

With wood products excluded, Estonia is a net importer of food and agricultural products. In 2000, consumer-oriented agricultural imports worth US\$ 282 million surpassed exports valued US\$ 185 million. The largest import categories were beverages, meat products, fresh and canned fruits and vegetables, coffee, tea and feed grains. The U.S. was the leading supplier of poultry with a 65 percent market share (12 thous. MT). Other major imports of U.S. products included fish, dried fruits, nuts, oilseeds, vegetable preserves, wines, and liquors.

For most basic products, domestic production meets between 60-90 percent of demand. The table below contains market value of consumption of certain basic food products.

Estonian Food Market Value, by Product Consumption value, 2000

Product	Food Market Value, (US\$, Mil)
Meat	160
Bakery products	93
Dairy products/Eggs	162
Vegetables	82

Potatoes	41
Fats/Oils	38
Soft Drinks	41
Fruits/Berries	32
Honey, Jams, Confectionery products	33
Fish	32
Alcohol Beverages	29
Tobacco	24
Sugar	19
Spices, Condiments	12
Total	798

IV. BEST PRODUCT PROSPECTS

U.S. Products that are present in the market and have good sales potential

Relatively small quantities of U.S. products are used in the sector. Estonia imports US poultry, and turkey and chicken meat imports may increase as a substitute for pork in certain recipes. Cooperation prospects exist for franchise agreements with soft drinks and preserved fruit and vegetable processors. The demand for U.S. origin juice concentrates may grow once the capacity of the juice producing factories increases.

U.S. Products that will not do well or cannot be used in the market

The current meat import certificate requirements preclude the import of red meats from the U.S. into Estonia.

V. FURTHER INFORMATION AND POST CONTACT

State Veterinary and Food Board
 Vaike Paala 3
 Tallinn 11415
 ESTONIA
 T: 372 638 0079
 F: 372 6211441

Email: vet@vet.agri.ee
www.vet.agri.ee

Plant Products Inspectorate
Teaduse 2
Saku Harjumaa 75501
Estonia
T: 372 671 2602
F: 372 671 2604
Email: plant@plant.agri.ee
www.plant.agri.ee

Chamber of Agriculture and Commerce
Vilmsi 53b
10147 Tallinn
Estonia
T: 372 600 9349
F: 372 600 9350
www.epkk.ee

Estonian Enterprise Register
T: 372 6113841
F: 372 6460165
Email: eer@eer.ee
www.eer.ee

Estonian Chamber of Commerce and Industry
Toom-Kooli 17
Tallinn 10130
Estonia
T: 372 646 0244
F: 372 646 0245
www.koda.ee/english.html

Estonian companies data base
Valge Register
www.roland.ee

Estonian Investment Agency
Roosikrantsi Street 11
Tallinn 10119
Estonia
T: 372 627 94 20
F: 372 627 94 27

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Estonian Institute of Economic Research

Ravala 6

19080 Tallinn

Estonia

T: 372 646 6439

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www.ki.ee

To include your product offers into the Baltics regional "virtual trade fair," visit

<http://www.food-fair.com>

For general questions about exporting to Estonia, please contact:

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US Embassy Riga

Raina Blvd. 7

Riga LV1510

Latvia

Tel: +371 7036 212, 371 7036 200

Fax: +371 722 73 90, 371 7820047

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For more information on exporting US agricultural products to other countries, please visit the USDA, Foreign Agricultural Service home page: www.fas.usda.gov and the FAS/Stockholm regional office (for Estonia, Latvia, Finland, Sweden and Norway) at www.usemb.se/Agriculture.