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Lithuanian dairy industry strongly affected by the Russian ban.

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Dairy and Products

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Report Highlights:

It is estimated that in 2015 milk deliveries in Lithuania will remain at the previous year's level. The Russian import ban and reduced export demand resulted in a drop of farm-gate milk prices, a reduction of cow numbers and change of the dairy processing industry production profile. It is estimated that in 2015 a higher share of milk production will be processed into butter and non-fat dried milk, which can be sold or stored within the EU intervention programs or exported. In response to the European Commission's market intervention measures until November 15, 2015 Lithuania placed into the intervention and PSA stocks 6,122 MT and 8,277 MT of Non Fat Dried Milk, respectively.

General Information:

Production

Milk production comprises one fifth of all agricultural produce in Lithuania. It is estimated that in 2015 raw milk output in Lithuania will amount to 1,450,000 MT, no change compared to 2014. In the first nine months of 2015 milk deliveries in Lithuania increased by 0.3 percent in comparison to the same period of 2014. In September 2015 average farm-gate prices for milk in amounted to Euro 21 (U.S. $22) per 100 kilograms of milk, a 12 percent decrease in comparison to September 2014. In Lithuania (and Latvia) farm-gate milk prices are the lowest in the European Union.

Production of milk and milk products (000 MT)

	2013	2014	2015 (estimate)	2016 (forecast)
Milk deliveries	1,300	1,340	1,450	1,500
Fluid milk	96	97	95	96
Cheese	113	102	100	105
Butter	13	17	19	20
NFDM	23	32	35	37

Growing supplies of raw milk in 2014 and the first three quarters of 2015 and weaker export markets for dairy products were the major reasons for declining prices in the first nine months of 2015. Despite the drop of farm-gate milk prices, Lithuanian farmers are continuing milk production because they are dependent on the revenue to pay back credits taken in 2013 and 2014 to enlarge and modernize their farms in expectation of the approaching termination of the milk quota system. It is expected that in 2015 milk supplies will be mostly directed for production of butter and Non Fat Dry Milk (NFDM), which remain in demand both domestically and internationally. Lithuanian milk processors have adjusted the range of their products after Russia closed its market for Lithuanian products. Processors have increased output of products which can be sold or stored within the EU intervention programs or exported. Fresh products were partly replaced by manufacturing butter and skimmed milk powder. Production of skimmed milk powder grew by 40 percent 2014 and reached 32,000 MT.

Production of cheese in 2015 is expected to decline in comparison to 2014 because of the Russian ban on imports imposed in August 2014. A drop in raw milk prices in the first three quarters of 2015 reduced profit margins in dairy production. As a result farmers started to reduce dairy cattle herds in 2015. At the beginning of 2015 dairy cow inventories amounted to 315,000 head, 5 percent less than a year earlier. The trend of dairy herd contraction is expected to also continue in 2016. Average milk production from controlled cows in Lithuania is 6,766 kg per cow. Lithuanian dairy production comprises almost entirely of cow milk. Goat milk accounts for only 0.2 percent of total production.

Although there are 31 milk processing plants in Lithuania, the five main dairy processors JSC Rokiškio Sūris, JSC Pieno Žvaigzdės, JSC Žemaitijos Pienas, JSC Vilkyškių Pieninė and Marijampolės Pieno Konservai together process 93 percent of all milk purchased in Lithuania.

Consumption

It is estimated that in 2015 overall consumption of dairy products will decrease by 2 percent in comparison to 2014 mainly because lower supplies of fresh products. It is expected that higher consumption of butter in 2015 and 2016 will partly offset reduction in consumption of fresh products**.**

Trade

In the first three quarters of 2015 the value of Lithuanian exports of dairy products was 46 percent lower than in the same period of previous year. The decrease of exports resulted from the Russian ban which caused lower demand for dairy products within the EU. Major export destinations within the EU are Italy, Poland and Germany, while United States is the major market out of the EU. In the first 9 months of 2015 the value of dairy products (mainly cheese) exported to the U.S. amounted to U.S. $18 million. In the first nine months of 2015 the value of imports of dairy products dropped by 48 percent. Major suppliers of dairy products were Latvia, Estonia and Poland. In 2014 Lithuania imported from Latvia 276,000 MT and from Estonia 152,000MT of raw milk which is processed by the Lithuanian dairy industry.

The Lithuanian dairy sector is oriented towards export: more than 50% of milk and dairy production is exported. Although the largest part of it is taken up by cheese, exports also include powdered milk, butter and other products. As a result of the Russian import ban introduced in August 2014, Lithuanian producers managed to gradually find new export markets in Saudi Arabia, Korea, Thailand, Philippines. In November skimmed milk powder began to be exported to Bangladesh, Japan, Pakistan and Yemen.

Stocks

In response to the European Commission's market intervention measures until November 15 2015 Lithuania placed into the intervention and PSA stocks 6,122 MT and 8,277 MT of Non Fat Dried Milk, respectively. It is expected that Lithuania will continue to use the EU's PSA and intervention purchases of NFDM later in 2015 and on into 2016 in order to stabilize the domestic market for dairy products.

End of the Report.