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Lithuanian dairy industry recovers after the crisis.

Report Categories:

Dairy and Products

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Report Highlights:

It is estimated that in 2016 milk deliveries in Lithuania will decrease by one percent in comparison to the previous year's level. The Russian ban and reduced export demand resulted in a drop of farm-gate milk prices, reduction of cow numbers and change of the dairy processing industry production profile. It is estimated that in 2016 higher share of milk production will be processed into butter and cheese, which are in demand on the world market. In response to the European Commission's market intervention measures till August 16, 2016 Lithuania placed into the intervention stocks 33,665 MT of Non Fat Dried Milk.

General Information:

Production

Milk production comprises one fifth of all agricultural produce in Lithuania. It is estimated that in 2016 milk deliveries in Lithuania will amount to 1,420,000 MT, and will be one percent lower than in 2015. In the first seven months of 2016 milk deliveries in Lithuania decreased by 0.9 percent in comparison to the same period of 2015. In 2015 the average farm-gate prices for milk amounted to 21 Euros per 100 kilograms of milk, a 23 percent decrease in comparison to 2014. In August 2016 farm-gate milk price amounted to 18 Euros per 100 kilograms and was the lowest in the European Union.

Production of milk and milk products (000 MT)

	2014	2015	2016* (estimate)	2017* (forecast)
Milk deliveries	1,435	1,438	1,420	1,450
Fluid milk	115	113	110	110
Cheese	102	106	105	106
Butter	17	14	16	17
NFDM	32	35	32	35

Source: Statistical Office of Lithuania
**FAS Warsaw estimate and forecast*

A decrease of supplies of raw milk in the first seven months of 2016 and improving export markets for dairy products are expected to lead to an increase of farm-gate milk prices towards the end of 2016 and into 2017. The improvement of farm-gate milk prices, is expected to stimulate production in 2017 because many Lithuanian farmers 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 2016 milk supplies will be mostly directed for production of cheese and butter which remain in demand both domestically and internationally and Non Fat Dry Milk (NFDM), a residual product for manufacturing of butter. 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. It is estimated that production of skimmed milk powder grew by 10 percent in 2015 and reached 35,000 MT. Production of cheese in 2016 is expected to decline in comparison to 2015 because of the Russian export ban. A drop in raw milk prices in 2015 and first half of 2016 reduced profit margins in dairy production. As a result farmers started to reduce dairy cattle herds in 2015. At the beginning of 2016 dairy cow inventories amounted to 300,489 head, 4 percent less than a year earlier. The trend of dairy herd contraction is expected to continue also in 2017. In 2015 the average annual milk production was 5,636 kg per cow. Lithuanian dairy production comprises almost entirely of cow milk. Goat milk accounts for only 0.2 % of total production.

Although there are 31 milk processing plants the five main dairy processors in Lithuania JSC Rokiškio

Sūris, JSC Pieno Žvaigzdės, JSC Žemaitijos Pienas, JSC Vilkyškių Pieninė and Marijampolės Pieno Konservai process 93% of all milk purchased in Lithuania.

Consumption

It is estimated that in 2016 overall consumption of dairy products will decrease by one percent in comparison to 2015 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 eight months of 2016 value of Lithuanian exports of dairy products was 8 percent lower than in the same period of previous year. The decrease of exports resulted from the Russian ban and lower demand for dairy products within the EU. Major export destinations within the EU are Italy, Poland and Latvia, while Saudi Arabia and United States were the major markets out of the EU. In the first 8 months of 2016 the value of dairy products (mainly cheese) exported to the U.S. amounted to US$ 13 million and was 16 percent lower than a year ago. In the first eight months of 2016 the value of imports of dairy products decreased by 10 percent. Major suppliers of dairy products were Latvia, Estonia and Poland. In the first eight months of 2016 imports of dairy products (mainly cheddar cheese from the U.S.) jumped to U.S. $ 443,031 compared to zero in the same period of 2015. In 2014 Lithuania imported from Latvia 156,000 MT and from Estonia 82,000 MT 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 ban introduced in August 2014, Lithuanian producers manage to find new export markets in Saudi Arabia, Korea, Thailand, and the Philippines.

Stocks

In response to the European Commission’s market intervention measures till August 15, 2015 Lithuania placed into the intervention and PSA stocks 33,665 MT and 926 MT of Non Fat Dried Milk, respectively. It is expected that due to the increase of NFDM export price in the second half of 2016 Lithuanian intervention stocks will remain at the current level. In addition to sales to the EU’s intervention of NFDM Lithuania also placed 2,616 MT of cheese and 1,008 MT of butter into the EU PSA stocks.

End of Report.