

Estonia Developing Its Food Processing Sector

By Jolanta Andersone

West European companies have played an important role in the recent development of Estonia's food sector. Though more investment is needed, European money is enabling the food sector to begin meeting European Union (EU) standards and requirements for exports to member countries. Estonia's leaders are counting on the newly thriving food processing industry to ease the country's entry into the EU.

However, development of the country's food industry has been impeded by an inadequate domestic supply of agricultural raw materials, the relatively modest purchasing power of domestic consumers and limited export possibilities. (Estonia's exports to Russia are assessed double the customs duty rates of those paid for comparable products from Russia's preferential trade agreement partners.)

Given the relatively small consumer base in the Baltic region, pan-Baltic food companies seem likely to emerge to enhance the competitiveness of the region's food industry.

EU Requirements Erect Barriers

With no import duties applied, Estonia's import regime was among the most liberal in the world until 1999. As of January 2000, the Most Favored National (MFN) Treatment Customs Duty Act imposed MFN rates on imported goods of all countries that have not entered into free trade agreements with Estonia, including the United States.

At present, exports from the EU and



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countries that are parties to free trade agreements with Estonia are advantaged by zero duties.

Market access for Estonian product exports to the EU has also improved. Various agreements, which have come into force from July 2000 to July 2002, have reduced tariffs and eliminated other barriers impeding exports of Estonian agricultural and processed food products to the EU, and increased export quotas.

Growth After Crisis

Though Estonia achieved independence from Russia in 1991, the health of its economy is still tied to its big neighbor. Fallout from the 1998 Russian economic crisis took a toll, but the Estonian economy is now in recovery mode.

Following a 10-percent decline in 1999, the Estonian food processing sector began getting back on track in late 2000, with a 4-percent growth rate. This positive rate is expected to continue in the near future.

Despite suffering adverse effects from the crisis, the food processing industry is now a bright spot in the Estonian economy. The sector's output, \$550 million in 2000, accounted for almost a third of the nation's

exports and 24 percent of the country's total industrial output.

Estonia Needs Ingredients

The value of raw materials and ingredients used in Estonian food production came to \$218 million in 2000, of which 26 percent was imported.

Excluding wood products, Estonia is a net importer of food and agricultural products. The largest import categories in 2000 were beverages, meat products, fresh and canned fruits and vegetables, coffee, tea and feed grains.

The United States has been the leading supplier of poultry to Estonia, with a 65-percent market share (12,000 metric tons) in a typical year. Other major U.S. products exported to Estonia include fish, dried fruits, nuts, oilseeds, vegetable preserves, wines and liquors.

Sectors Depending on Imports

As of 2000, there were 720 food and beverage producers in Estonia. Dairy enterprises accounted for 27 percent of food output; beverages, 22 percent; meat processing, 17 percent; and fish processing, 14 percent.

The Estonian meat industry relies heavily on imports: 60 percent of poultry, 38 percent of pork and 5 percent of beef products are imported.

In 2000, imports accounted for 23 percent of raw materials for the fish product industry. About 78 percent of the fish industry's output is exported, mostly to Russia.

Due to inconsistent supplies and quality, the canned vegetable and fruit industry is also heavily dependent on imports—66 percent of the sector's raw materials were imported in 2000.

A limited number of confectioneries depend on imports of cocoa beans, sugar, nuts, almonds, raisins and other dried fruits. Sugar is imported mostly from other European countries.

Bread and other bakery products account for 9 percent of the food industry's total output. Cereal consumption is increasing at the expense of bread. About 70 percent of the sector's wheat flour and rye meal requirements are imported from European countries.

Soft drink beverage producers import concentrates and malts mainly from European countries.

No potato chip production has been developed in Estonia due to the lack of

suitable local raw potatoes. Potato meal is imported from France by one company that produces potato snacks.

Gear Entry to Large Players

To optimize market entry into Estonia, U.S. exporters should:

- Perform market research.
- Compare product costs with those of competitors.
- Locate an experienced, reliable agent with good distribution channels.
- Explore purchasing habits of larger importers.

Estonia's State Veterinary and Food Board's Border Control Service has authority over imported food, additives and supplements. Imported plant products are controlled by the Plant Production Control Center.

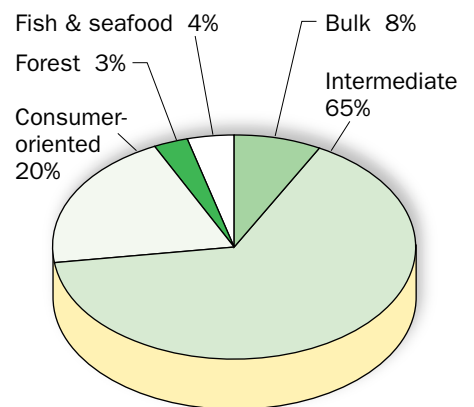
The Ministry of Agriculture issues import licenses to assure that all agricultural and food products have been properly handled and to address consumer concerns.

EU Regulations Do Apply

There are a number of country-specific conditions that exporters should know about:

- Estonia has been modifying its sanitary and phytosanitary standards in conjunction with its preparations for EU accession. Some of these changes have blocked U.S. products, especially pork and beef. Estonia now accepts U.S. poultry from about 50 plants.
- Since Jan. 1, 2001, Estonia has been following EU labeling and certification regulation requirements for ingredients derived from biotechnology, which require special labeling.
- Importers must submit a request to the Veterinary and Food Board for foods that require special permits.

Intermediate Products Lead U.S. Agricultural Exports to Estonia



U.S. exports totaled \$16 million in 2001.

- Conformity assurances for imported foods are issued by the Estonian Conformity Assessment Center through a costly product testing and approval process. But U.S. food products with conformity assurances from other EU countries are acceptable.
- Imported food and agricultural products must be cleared and sealed at the border. Documents needed at that time include the contract, invoice, bill of lading and original certificate of origin. The 18-percent value-added tax is collected upon clearance at the border. ■

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