



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 8/29/2005

GAIN Report Number: RO5010

Romania

Poultry and Products

Annual Report

2005

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Report Highlights:

The Romanian poultry industry has been steadily expanding for the past five years, but it is still foreseen to radically change after the country joins the EU. While egg production has to drastically shrink, broiler production is expected to increase three-fold, in parallel with an accelerating market concentration. Demand for poultry and products is maintaining its upward trend, despite the recent steady appreciation of domestic prices. U.S. remains the top supplier of relatively low-priced products (frozen leg quarters), with more than 50 percent of country's total broiler imports in 2004 and a similar trend into 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Sofia [BU1]
[RO]

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Production

Abundant domestic grain feed and protein crops, which cheapened feed significantly, gave the Romanian poultry industry in 2004 and 2005 a new boost, with remarkable productivity gains in industrial operations. Poultry inventories were up 4 percent, reaching 79.3 million at the end of 2004, although industrial flocks were totaling just 17.4 million (see table 1), with the balance held in small households, which typically grow layers for self-consumption.

Table 1. Poultry Inventories in Industrial Operations ('000 heads)

	31 December 2003	31 December 2004	% Growth
Layers	5413.2	5914.93	9
Reproduction stock, heavy breeds	1297.2	1265.6	-2
Reproduction stock, light breeds	242.5	182.2	-25
Broilers	9803.2	9993.68	2
Total inventories	16756.1	17356.4	4

Source: *The Romanian Union of Poultry Producers*¹.

Broiler meat production in industrial operations expanded by 11 percent, reaching 205,000 MT carcass weight at the end of the year, while an ascending evolution was characteristic to the first semester of 2005, with about 1 million heads more than one year earlier and significant increases in productivity.

Economic indicators reveal a sustainable recovery of the sector for the past 5 years: high productivity, improved feed conversion ratio, depressed mortality are comparable to the most competitive poultry producing countries. Weight gains per day in the first half of 2005 averaged 50.5 grams/day, varying, depending on farm performances, between 40-62 grams/day. By comparison, during the same period of 2004, the average weight gains stood at 47 grams/day. In terms of input use efficiency, feed conversion ratios decreased from 1.90 kg feed/kg meat in January – June 2004 to 1.85 kg feed/kg meat in 2005. Overall, Romania ranks the eighth in terms of broiler production performance worldwide.

Similar optimistic perspectives are foreseen for sector's evolution in the second semester of 2005, although we expect that the reduction in the breeding stock for both broiler production and layers will limit this expansion. Despite the domestic support programs put in place by the Ministry of Agriculture and the continuous productivity improvements, we currently peg domestic broiler production annual growth estimate at about 8 percent.

Romania's poultry industry performance indicators are comparable to the ones in the EU member states, an indication that the sector may rapidly adapt itself to the conditions of the enlarged common market. Again, as mentioned in [RO4015](#), this scenario refers only to production obtained in large and small commercial operations, though individual households count roughly for one third of poultry meat domestic consumption. The key to competitiveness is the normally low cost of local corn. Romania typically produces 8-10 million MT of this crop and has the potential to double it with improved agronomic techniques. Good conditions also exist for soybean cultivation under irrigation and, in fact, in 2004/05 and 2005/06, years with significant rainfalls, Romania has been self sufficient in crop protein.

¹ The members of the Romanian Union of Poultry Producers is estimated to count for about 90 percent of country's industrial poultry production.

Production, Supply and Demand Table

Romania							
Poultry, Meat, Broiler							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2004		01/2005		01/2006	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	195	205	212	212	0	230	(1000 MT)
Whole, Imports	0	0	0	0	0	0	(1000 MT)
Parts, Imports	85	120	70	125	0	110	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	85	120	70	125	0	110	(1000 MT)
TOTAL SUPPLY	280	325	282	337	0	340	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	7	7	10	5	0	6	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	5	0	0	0	0	0	(1000 MT)
TOTAL Exports	7	7	10	5	0	6	(1000 MT)
Human Consumption	273	318	262	332	0	334	(1000 MT)
Other Use, Losses	0	0	10	0	0	0	(1000 MT)
Total Dom. Consumption	273	318	272	332	0	334	(1000 MT)
TOTAL Use	280	325	282	337	0	340	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	280	325	282	337	0	340	(1000 MT)
Calendar Yr. Imp. from U.S.	0	61	0	70	0	0	(1000 MT)

Concentration is significant in the poultry industry: the seven largest operations accounted in mid-2005 for roughly 50 percent of country's commercial production, but small players, producing 1,500-2,000 MT/year, remain numerous. The large farms are fully integrated from reproduction, to slaughter and processing, and, occasionally, they even have their own distribution network. Smaller producers are not integrated and deliver their production to local slaughterhouses.

The poultry industry in Romania is foreseen to radically change after the country joins the EU. While egg production has to drastically shrink, broiler production is expected to increase three-fold, in parallel with an accelerating market concentration. Analysts show that the number of such broiler industrial operations after 2007 will be just 20 – 30, with an annual production between 25-40 thousand MT.

The number of poultry meat plants will likely halve in the medium run.

FDI level in the industry is one of the highest in agriculture, with investors from Middle East and EU, who generally acquired formerly state-owned farms. Since labor costs in the industry are much lower than in EU, investments in new technologies have been made for raising quality of products that target export markets.

Consumption

Although imports continued in 2005 to hold about 37 percent of the broiler meat consumption, local producers feel that they have won the competition for the local market. Recent traits in the urban retail indicate a clear preference for fresh, branded, attractively packaged products, and, in fact, many supermarkets have recently given up selling bulk frozen chicken parts.

In 2004, roughly 320,000 MT of broiler meat were sold domestically, which translates into about 14 KG/capita per year. To this, significant amounts (54,000 MT in 2004, according to Ministry of Agriculture statistics) of poultry meat were consumed from self-production, especially in rural households.

Consumers are not devoted to a single brand, but product availability (i.e., good distribution through supermarkets and smaller groceries) plus an acceptable price/quality ratio are factors that influence consumption of a certain brand. Generally, local market reveals a preference for dark poultry meat (legs) versus white meat (breast), although the price differential between the two is becoming significant (see Table 3).

Domestic consumers are shifting to higher quality products, which make producers increasingly interested in positioning themselves on the market via product branding and packaging. Close to 50 percent of locally produced poultry meat is sold chilled, rather than frozen.

High value-added chicken products (ready-to-cook) are not yet in demand on the local market.

Trade

Although since 2003 Romania has started using some market opportunities for chicken meat in EU, country's imports of broiler parts surged by 45 percent in 2004, nearly reaching 120,000 MT (see trade matrixes below).

Import Trade Matrix

Country	Romania			
Commodity	Poultry, Meat, Broiler			
Time Period	CY	Units:	MT	
Imports for:	2004		Jan-June 2005	
U.S.	61176	U.S.	39479	
Others		Others		
Brazil	31366	Brazil	21348	
The Netherlands	7160	Germany	2001	
Germany	5765	The Netherlands	1846	
Belgium	2978	Canada	1589	

Italy	2583	Hungary	753
Canada	1974	Belgium	714
Hungary	1786	Italy	599
UK	1015	UK	278
Ireland	822	Slovenia	205
Slovenia	681	Greece	181
Total for Others	56130		29514
Others not Listed	2261		501
Grand Total	119567		69494

Export Trade Matrix

Country	Romania		
Commodity	Poultry, Meat, Broiler		
Time Period	CY	Units:	MT
Exports for:	2004		Jan-June 2005
U.S.		U.S.	
Others		Others	
The Netherlands	5481	The Netherlands	921
UK	616	Germany	373
Germany	519	France	272
France	467	UK	56
Greece	167	Switzerland	44
Switzerland	68	Greece	41
Austria	40		
Rep of Georgia	26		
Total for Others	7384		1707
Others not Listed	86		96
Grand Total	7470		1803

US supplied more than half of the total broiler meat imports in 2004, and Brazil another 26 percent. The two countries have remained the main import sources in 2005 and, given the pace in the first semester, we anticipate that imports of chicken parts will exceed again 120,000 MT by the end of the year. Low-income population segments continue to absorb significant amounts of such reasonably priced products. A good 90 percent of these are frozen parts (especially chicken leg quarters), despite a quite protectionist import regime, with MFN duties set up at 45 percent *ad valorem* (see Table 2).

Between August 2004-July 2005, EU offered "zero treatment" to 3,900 MT of poultry meat (chilled or frozen) and 1.050 MT of processed poultry meat originated from Romania. In August 2005, an additional Protocol to the European Association Agreement was enacted, providing new trade concessions by both sides. Although Romania started using these concessions, there are still significant sanitary-veterinary restrictions that prevent exports to EU.

The situation in mid-2005 is that only 6 poultry slaughterhouses and 4 processing units that fully comply with the EU requirements and eligible to ship to Member States. Seven slaughterhouses are being revamped to be compliant by the end of 2006, while for other two EU granted a transition period of additional three years. After formally receiving EU membership (currently scheduled for January 2007), products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified.

Table 2. Romanian Bindings vs. Applied Tariffs in 2005 (percent)

HS Code		WTO bound tariff	2004 applied duty	Special EU preference
0207.11	Chicken cuts and edible offal, fresh or chilled (whole birds)	96	45	0 for TRQ (1)
0207.11	Chicken cuts and edible offal, frozen (whole birds)	96	45	0 for TRQ (1)
0202				
0207.14	Chicken cuts and edible offal, frozen	96	45	0 for TRQ (1)
0207.13	Chicken cuts and edible offal, fresh or chilled	96	45	0 for TRQ (1)
0207.27	Turkey cuts and edible offal (including liver) frozen	96	35	0 for TRQ (1)
1602.31	Meat and meat offal of turkeys, prepared or preserved, nesoi	180	45	0 for TRQ (2)
1602.32	Meat and meat offal of chicken, prepared or preserved nesoi	180		0 for TRQ (2)
1602.31	Meat and meat offal of turkeys, prepared or preserved nesoi	180	45	0 for TRQ (2)

(1) TRQ for poultry meat (fresh and frozen) up to August 2005 was 4350 MT.

(2) TRQ for prepared/preserved poultry meat up to August 2005 was 725 MT.

From August 1, 2005, the TRQ for products falling under HTS 0207 originated from EU member states was increased to 9,000 MT annually. This concession was symmetrically granted by EU for Romanian poultry products.

Prices

Ex-factory broiler meat prices steadily surged in the first half of 2005 as against the corresponding period of 2004, despite reasonable feed prices and increased domestic support (see Prices Table). Similar to the analysis we made in the past couple of years on this market, dark meat price typically represents 85-90 percent of the price for chicken breast, a differential much lower than in Western countries, because of the preference domestic consumers show for chicken legs (Table 3). Although still holding roughly 50 percent in the average diet, swine meat consumption is slightly shrinking in favor of poultry, which is a possible explanation for the ascending price evolution of broiler meat.

Prices Table**Country** Romania**Commodity** Poultry, Meat, BroilerPrices in per uom

Year	2004	2005	% Change
Jan	1443	1823	26%
Feb	1497	1898	27%
Mar	1501	2115	41%
Apr	1504	2079	38%
May	1629	2035	25%
Jun	1728	2007	16%
Jul	1707	2243	31%
Aug	1696		
Sep	1725		
Oct	1673		
Nov	1760		
Dec	1816		

Exchange Rate Local Currency/US \$

Ex-factory prices, no VAT added.

Table 3. Ex-factory Broiler Meat Prices, US\$/MT, VAT Included (end-of-month)

	Whole birds	Bone-in breast	Bone-in legs
June 2004	2,163	2,764	2,466
December 2004	2,109	2,758	2,480
January 2005	2,055	2,628	2,417
February 2005	2,124	2,854	2,433
March 2005	2,359	3,160	2,627
April 2005	2,354	3,192	2,651
May 2005	2,362	3,197	2,692
June 2005	2,392	3,323	3,006

Source: Union of Romanian Poultry Producers

The official monthly average exchange rate is used in all cases.

Domestic Support Policy

Budgetary outlays to stimulate poultry inventories and production were repeatedly readjusted in 2005, as the GOR revealed its intention to strengthen the sector until country's EU accession. The same programs counting in the Aggregate Measurement of Support (but still below the "de minimis level") from the past couple of years continue to be provided as market price support (disbursed as a procurement payment). Other support measures qualify as "Green Box"-type and are measures exempted from the reduction commitment (e.g., budgetary allocations to preserve the breeding stock).

In August 2005, for the eligible production of 120,400 MT lwe of broiler meat delivered for slaughtering, the budgetary effort was raised to 96 million RON (roughly, \$33.5 million), from an initial allocation of 72.2 million RON. This is equivalent with a unit subsidy of 0.8 RON/kilo lwe. In addition, for 33.33 MT of ecological chicken meat, 0.03 million RON (or approx. \$10,500) were budgeted, resulting in a unit subsidy of 0.9 RON/kilo.

The Union of Poultry Producers assess that the continuation of these programs had a significant effect in stimulating commercial production in Romania.