USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.08

Required Report - public distribution

Date: 10/26/2005

GAIN Report Number: RO5014

Romania

Dairy and Products

Annual

2005

Approved by:
Brian Goggin
U.S. Embassy Bucharest

Prepared by:
Cristina Cionga

Report Highlights:
A national reference quantity for milk of 3,057,000 MT (to which a "Reserve" quota may added in 2009) negotiated with EU, continues to attract investors Romania's dairy industry. Romania requested a transitional period until December 31, 2009 for modernizing and re-vamping the milk processing units, as well as for organizing the milk collecting and standardization centers in order to comply with the EU's structural requirements. It is, nonetheless, officially expected that about 70 percent of the currently over 500 operating dairy plants will be closed down by the time of accession. Consumption of milk and dairy products is low by Western standards, but steadily increasing.

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

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Production

Milk production continues to mainly come from small farms in Romania and is down in 2005 compared to 2004, because of the reduction in the cows in milk inventories and in the reproductive stock. Data for the first 8 months show an increase in the average per head productivity (due primarily to abundant feed grains at prices below the world market reference). We anticipate a 3 percent decrease of domestic supplies.

Milk sanitation and collection continues to improve, driven by both the presence of large multinationals and the increased access to EU equipment subsidies that support small rural operators. Nonetheless, it is still an important constraint to the processing industry: if the maximum number of germs per ml of raw milk should not exceed 100,000 by EU standards, most Romanian farmers supply milk with a contamination of over 1 million germs/ml[1]. Supply is very dispersed (raw milk being supplied by about 1.2 million producers, of which just about 1000 hold more than 15 cows) and has a strong seasonal trait. The important absorption potential of the industry (triggered by the over 3 billion liter quota negotiated with EU) is expected to be reached soon. Consequently, a number of priorities are likely to be addressed: improvements in feed and forage practices at farm level for specialized dairy breeds, advanced techniques for animal husbandry, etc.

In order to ensure some control over both milk quantity and quality, some of the large processors provide additional incentives and services to their suppliers. One example is to give farmers dairy heifers, with future payment in milk.

Production, Supply and Demand Table

Romania							
Dairy, Milk, Fluid							
	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
Cows In Milk	1694	1694	1690	1587	0	1650	(1000 HEAD)
Cows Milk Production	5680	5723	5700	5500	0	5700	(1000 MT)
Other Milk Production	363	375	355	390	0	400	(1000 MT)
TOTAL Production	6043	6098	6055	5890	0	6100	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	2	2	1	2	0	2	(1000 MT)
TOTAL Imports	2	2	1	2	0	2	(1000 MT)
TOTAL SUPPLY	6045	6100	6056	5892	0	6102	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	1	(1000 MT)
TOTAL Exports	0	0	0	0	0	1	(1000 MT)
Fluid Use Dom. Consum.	3770	3840	3755	3700	0	3819	(1000 MT)
Factory Use Consum.	1550	1528	1575	1475	0	1550	(1000 MT)
Feed Use Dom. Consum.	725	732	726	717	0	732	(1000 MT)
TOTAL Dom. Consumption	6045	6100	6056	5892	0	6101	(1000 MT)

[1] Dairy Industry Employer Association chairman quoted by *Bursa* daily.

TOTAL DISTRIBUTION	6045	6100	6056	5892	0	6102	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

When EU negotiated the milk production quota with Romania, the reference period used was 2000-2002, since the quality of statistics has generally improved after 2000. This resulted in a total national reference quantity for milk set for Romania at 3,057,000 MT of which 1,093,000 MT for deliveries and 1,964,000 MT for direct sales. This, together with the "Reserve" quota that might add in 2009 in order to count for current on-farm consumption, reflects Romania's potential to improve milk collection, cold storage and processing facilities.

In August 2005, the GOR approved an Ordinance relevant to the milk market, according to which individual producers are, by the time Romania joins EU, to be attributed raw milk production quotas based on historical figures from the reference period. Those producers whose production exceeds their quota, will be subject to paying penalties for the extra milk delivered. Those farmers who are not granted a quota, will be not eligible for commercial sales after accession. The system is particularly difficult to administer, given the poor quality of statistics at farm level.

Romania requested a transitional period until December 31, 2009 for modernizing and re-vamping the milk processing units, as well as for the organizing the milk collecting and standardization centers in order to comply with the Community structural requirements regarding cow milk farms and quality of raw milk obtained.

Romania provided EU a list of 28 milk-processing establishments, approved by the national veterinary authority, where transitional measures are requested until December 31 2009. Another 27 milk-processing establishments are expected to comply with EU requirements by the date of accession, approved by the General Veterinary Inspectorate. Whether transition periods were granted, products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified with a special health mark. Those establishments which do not benefit from a transition period and which are expected to fully comply with the *acquis* by the time of accession but fail to do so, will have to terminate their activities.

The EU documents show that Romania is required to improve staffing, staff training and to ensure greater involvement, monitoring and supervision by the central authorities.

As regards the request for a transitional period relating to raw milk, the EU notes that the delivery of such milk is channeled only to establishments located in Romania and controlled by the General Veterinary Inspectorate. The EU reiterates that the length of the transitional period requested for each premises should be related to the parameters for which the transitional period is requested and should be as short as possible. The EU underlines that non-compliant raw milk and raw milk from non-compliant farms can be delivered for processing only to establishments benefiting from a transitional period. In addition, the EU stresses the importance of ensuring the effective nature of the controls on raw milk separation.

The EU also emphasizes the need to introduce the HACCP system in dairy establishments in Romania at the latest by the date of accession (Article 14 of Directive 92/46/EEC).

There are currently 522 dairy processing operators nation-wide, after the veterinary authorities closed down 33 in 2005. It is officially assessed that 70 percent of them (unlikely to comply with the EU food safety requirements) will be closed down by the time of accession.

Industry representatives assess that Romania has the potential to cover the quota negotiated with EU with an average number of 826,216 cows in milk[2]. If after accession the country is not able to fulfill the whole production quota allocated by EU, the unsupplied amount will be lost and quota diminished accordingly.

Romania requested, for the traditional cheese brands Nasal, Bradet, Homorod (smoked cheese, etc), the application of the provisions of Decision 97/284/EC relating to the conditions for the production, products characteristics and placing on the market.

The EU notes that Romania has provided information and clarification concerning the production of traditional milk based products.

Production, Supply and Demand Table

Romania							
Dairy, Cheese							
	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
Beginning Stocks	5	0	5	0	5	0	(1000 MT)
Production	26	26	28	28	0	29	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	2	3	2	2	0	3	(1000 MT)
TOTAL Imports	2	3	2	2	0	3	(1000 MT)
TOTAL SUPPLY	33	29	35	30	5	32	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	3	4	4	4	0	4	(1000 MT)
TOTAL Exports	3	4	4	4	0	4	(1000 MT)
Human Dom. Consumption	25	25	26	26	0	28	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	25	25	26	26	0	28	(1000 MT)
TOTAL Use	28	29	30	30	0	32	(1000 MT)
Ending Stocks	5	0	5	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	33	29	35	30	0	32	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0.5	0	0.5	0	1	(1000 MT)

[2] Ibid.

Production, Supply and Demand Table

Romania							
Dairy, Butter							
	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
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	9	9	10	7	0	9	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	3	3	2	3	0	3	(1000 MT)
TOTAL Imports	3	3	2	3	0	3	(1000 MT)
TOTAL SUPPLY	12	12	12	10	0	12	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Domestic Consumption	12	12	12	10	0	12	(1000 MT)
TOTAL Use	12	12	12	10	0	12	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	12	12	12	10	0	12	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Consumption

Commercial use of domestic raw milk supply continues to stand at roughly one forth of the total.

Sales of raw, non-pasteurized milk to final consumers in open markets were forbidden by the veterinary authorities at the end of 2003. Although shrinking, this channel still makes up about 33 one third of the marketed domestic production, especially in the rural areas.

Another 12 percent of the total production is used as feed, while the balance, still very significant, covers the household self-consumption.

The dairy product market registered an average growth rate of 2.5 percent over the past three years. Industry representatives expect that in 2005 this growth will exceed 3 percent, taking the overall value market to almost EURO 700 billion.

Milk and dairy product consumption is still low by Western standards (reaching, in 2004, 231 liters/capita, according to Ministry of Agriculture statistics), but with an upward trend (the growth rate was 1.5 percent in 2004). Urban demand is increasingly sophisticated and product diversification targeting certain population segments (e.g., women: low fat, high vitamin and fiber content) is the core of the efforts made by companies to better position themselves on the market. Yogurt and other sour milk products continue to be one of the most dynamic

Companies assess that consumption of fresh milk, white cheese (Feta-like), and pressed (sheep) cheese will steadily grow.

Butter consumption has increased steadily from 2003, narrowing the margarine share, basically because the former is a dairy product - perceived as "natural" and consequently healthier than the latter, a processed product with abundant use of food additives.

The overall value of investments made in the dairy industry over the past seven years is assessed by the industry association at roughly EURO 250 million. Sector's revamping accelerates as accession is approaching (including via SAPARD funding), but European Union integration, although bringing with it major changes in dairy products, will not lead to investments in production from companies that have not entered the Romanian market yet, believe some industry representatives.[3]

Nonetheless, this industry continues to attract investors' interest and is still experiencing dramatic changes: consolidation through mergers and acquisitions, new entries etc., mainly attributed to the pretty solid processing quota negotiated by Romania with EU, which opens players' appetite for this market.

Companies with a major presence are: Dorna Lactate (with investments estimated at EURO 30 million), Danone (French, over EURO 20 million in ivestments). Friesland (Dutch), Campina (Dutch, which invested in the local Covalact), Hochland (Dutch), Prodlacta Brasov. The most recently launched project is the Tnuva (Israeli-based) one, which began with investments in a large dairy farm operation close to Bucharest and is planned to reach $50 million in the coming years.

Trade

In 2005 Romania continues to import small quantities of raw milk for processing brought from the neighboring countries, although local companies have opened their way into the EU market (La Dorna began shipping milk to Greece, a member country which was allocated a modest milk quota). Hungary, Germany, the Czech Republic and Slovakia have already consolidated their position of suppliers of both raw milk and processed, packed milk to Romania. Fluid milk imports increased by almost 25 percent in 2004, to over 2,500 MT.

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Milk, Fluid		
Time Period		Units:	MT
Imports for:	2004		**Jan-Jul 2005**
U.S.		U.S.	
Others		Others	
Hungary	963	The Czech Rep.	523.2
Germany	696.7	Hungary	486.2
Slovakia	422.4	Germany	329.4
The Czech Rep.	336.8	Slovakia	190.6
Poland	92.2	France	21.6

[3] Friesland Romania, one of the main players on the dairy product market with over 70 million euros in turnover last year, quoted by *Ziarul Financiar*.

France	41.4	Belgium	13
Bulgaria	15.8	Bulgaria	7.2
Italy	3.1	Italy	2.1
Spain	4.3	Poland	0.8
Belgium	0.2		
Total for Others	2575.9		1574.1
Others not Listed			
Grand Total	2575.9		1574.1

Export Trade Matrix

Country	Romania		
Commodity	Dairy, Milk, Fluid		
Time Period		Units:	MT
Exports for:	2004		**Jan-Jul 05**
U.S.		U.S.	
Others		Others	
Greece	36.5	Greece	473.5
Hungary	20.6	Malta	2.1
Bulgaria	10	Bahamas	1.2
Panama	9.2	Germany	1.2
Total for Others	76.3		478
Others not Listed	16.6		3.1
Grand Total	92.9		481.1

Country’s cheese exports (mainly of feta-type) totaled almost 4,000 MT in 2004 (shipped to Greece (under preferential arrangements with EU), US, Germany, Lebanon, Italy) and are expected to remain fairly stable in 2005. According to Romanian Customs, in 2004 Romania increased its feta-type cheese exports to US by 42 percent, i.e. to 530 MT. In 2004 imports exceeded 2,500 MT and are likely to reach similar levels by the end of 2005, consisting mainly of special cheeses (different varieties of pressed cheese, Suisse cheese, blue cheese) primarily from EU, which benefits from a duty-free quota (see Table 1).

Export Trade Matrix

Country	Romania		
Commodity	Dairy, Cheese		
Time Period		Units:	MT
Exports for:	2004		**Jan-Jul 2005**
U.S.	529.3	U.S.	302.8
Others		Others	
Greece	1987	Greece	1060.5
Germany	596.4	Germany	292.7
Lebanon	375.7	Lebanon	278
Italy	237.8	Italy	221.2

Australia	61.5	Bulgaria	120.8
Bulgaria	60.3	Australia	27
The Netherlands	50.4	The Netherlands	20.2
France	25.3	The Russian Fed.	15.4
Poland	11.5		
Total for Others	3405.9		2035.8
Others not Listed	11		1.6
Grand Total	3946.2		2340.2

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Cheese		
Time Period		Units:	MT
Imports for:	2004		**Jan-Jul 2005**
U.S.		U.S.	0.1
Others		Others	
Germany	1457.3	Germany	977.9
France	424.9	Poland	204.3
Poland	217.8	Hungary	160.5
Hungary	136.9	France	133.8
Italy	124.8	Italy	98.1
Australia	60	The Czech Rep.	97.4
The Netherlands	13.9	Denmark	80.4
Switzerland	10.6	Austria	7.5
		Spain	2.4
Total for Others	2446.2		1762.3
Others not Listed	147.1		28.6
Grand Total	2593.3		1791

Butter imports have stabilized at roughly 3,000 MT for the past three years, mainly originating from EU countries, under preferential arrangements (Table 1).

Import Trade Matrix

Country	Romania		
Commodity	Dairy, Butter		
Time Period		Units:	MT
Imports for:	2004		**Jan-Jul 2005**
U.S.		U.S.	
Others		Others	
Germany	1582.5	The Czech Rep.	583.4
The Netherlands	671	Germany	527.5

France	358	France	345.5
Poland	119	The Netherlands	300
Belgium	80.8	Poland	220
The Czech Rep.	60	Hungary	38.1
Portugal	48.3	Belgium	24
Hungary	18		
Italy	19.3		
Greece	0.3		
Total for Others	2957.2		2038.5
Others not Listed			
Grand Total	2957.2		2038.5

Table 1. Import Duties on Selected Dairy Products, 2005

HS Code		WTO bound tariff	MFN duty	Special EU preference Aug 2004/July 2005
0401	Milk and dairy cream, concentrated	248	45	15-18.8 for 1500 MT
0405	Butter	200	45	18.8 for 1900 MT
0406	Cheese	270	45	0 for 2900 MT

A new phase of bilateral liberalization of the agricultural trade regime was concluded between the Government of Romania and the European Union in May 2005 and promulgated by the Romanian Parliament in July in the form of an Additional Protocol to the “European” Association Agreement. The document includes a list of products for which increased in-tariff quotas apply from August 1, 2005. Ministerial Order 428 of the Ministry of Economy and Trade lays down the following TRQs for products originated from EU, effective within August 1- December 31, 2005:

	HSC	Product	TRQ (MT), if not otherwise specified	Date of opening (m/d/y)	Import duty (%)	Unitary allocation (%/MT if not otherwise specified)
1	0402 1019 0402 2111 0402 2119 0402 2191	Milk and sour cream, in powder or other solid forms	1,500 300*	1/01/2005 8/01/2005	15 18.8 18.8 Ex.	1.34/20 6.66/20
2	0403 1011 to 0403 1039 0403 9011 to 04039069	Yogurt, plain, no sugar or cocoa added Other, plain, no fruit or cocoa added	416	8/01/2005	Ex.	4.81/20
3	0405 10 0405 90	Butter and other fats derived from milk	1,900, o/w: 950 950 0**	 1/01/2005 7/01/2005 8/01/2005	 18.8 18.8 Ex.	 2.2/20 2.1/20
4	0406	Cheese and curd	2,900, o/w: 1,450 1,450	 1/01/2005 1/01/2005	 Ex. Ex.	 1.38/20 1.38/20

*TRQ made of imports actually made after August 1, based on licenses issued prior and post August 1, 2005.
**For those imports made after August 1, but based on licenses issued prior to this date, the import duty will be the one specified in this table.

Prices

Prices for milk in 2005 have followed the multi-annual pattern, strong appreciating strongly in winter and depreciating in summer (see Prices Table). The gap between farm-gate raw milk prices and retail prices has grown larger and is considered by farmers a disincentive for farmers to sell to the processing industry. However, the still high additional costs (related to difficult collection from small farms, with precarious sanitation and poor transport infrastructure, which depreciated even further in a year with unrelenting floods), contribute to keep acquisition prices suppressed.

Prices Table

Country Romania

Commodity Dairy, Milk, Fluid

Prices in US$ per uom HL

Year	2004	2005	% Change
Jan	23.0	29.2	27%
Feb	23.4	31.9	36%
Mar	23.0	21.8	-5%
Apr	20.6	23.2	12%
May	19.3	17.5	-9%
Jun	17.9	15.2	-15%
Jul	16.5	13.5	-18%
Aug	17.9	14.0	-21%
Sep	20.8	14.0	-33%
Oct	22.8		
Nov	26.1		
Dec	27.7		

Exchange Rate	monthly average	Local Currency/US $

Farm-gate prices, no VAT added.

Policy

Although the main type of support for milk producers continues to be provided by the GOR in the form of procurement payments (i.e., market price support, counting in the aggregated support measurement), there are also a number of subsidies exempted from the reduction commitment (“Green Box”-type). The latter include measures to help recovery of the livestock sector (lump sum for heifers bearing calves for the first time and for newly born calves resulted through artificial insemination).

In the beginning of 2005, 1,800 billion 180 million RON (approximately $60 million at the current exchange rate) were budgeted for procurement payments to farmers who deliver their production to processors. This amount is below the *de minimis* level Romania is entitled to according to its WTO commitments. The unit subsidy for standard cow milk 3.5% fat sold to processors was increased from July 2005 to RON 0.155/liter for average production conditions and, respectively, to 0.2/liter in winter.