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Report Name: Challenging Prospects for Romania's Poultry Industry

Country: Romania

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Report Highlights:

Romania's poultry meat outlook is negatively affected by the novel coronavirus pandemic and foreign competition. Domestic poultry meat production is forecast to drop by nine percent in 2020. Poultry meat imports are forecast to grow by nearly 16 percent. Despite the forecast production decline, the poultry sector remains a leader among Romania's food and agriculture industries. Poultry companies continue to invest in production and processing technology, logistics, and branding.

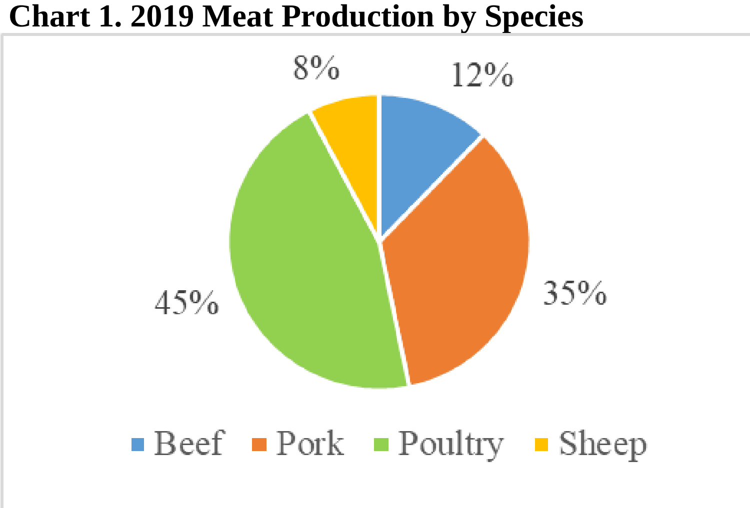
Domestic Production and Consumption

Romania's poultry sector is one of the country's most dynamic agricultural industries in terms of growth, performance indicators, and export markets. In 2019, Romania slaughtered almost 300 million birds. According to National Institute of Statistics (NIS) data, in 2019 Romania produced 672,312 metric tons (MT) of liveweight of poultry meat, of which 95 percent was chicken meat (70 percent broiler and 25 percent hens). More than half of Romania's poultry meat production (56 percent) is concentrated in the country's southern region, which is also the largest grain production area. In 2019, the northeastern region produced nearly 18 percent of the Romania's poultry meat.

In 2019, Romania was the European Union's (EU) eighth-largest poultry producer. Poultry meat accounts for 45 percent of total Romanian animal protein production and was Romania's most widely produced meat last year, followed by pork, beef, and mutton (chart 1). This marks a shift from ten years ago when pork production accounted for 41 percent of animal protein production, followed by poultry meat (34 percent) and beef (18 percent). In quantitative terms, total Romanian meat production has changed marginally over the last 10 years, meaning that poultry production has eclipsed beef and pork, each of which have lost 5-6 percent of production. Competitive production costs, reasonable feed prices, evolving consumer demand, and challenges to the hog sector (most notably African swine fever) have all driven Romanian poultry production growth. Poultry meat ranks second in per capita consumption after pork meat, which continues to be the preferred meat variety among Romanian consumers.

The chicken production has improved efficiencies over the past decade according to the Romanian Poultry Producers Association (RPPA). The average daily weight gain rose from 53 grams in 2011 to 55-56 grams in 2019, while average feed consumption declined from 1.88 kg feed/kg of meat in 2011 to 1.62 kg feed/kg of meat in 2019. The January 2020 highly pathogenic avian influenza (H5N8) outbreak on a commercial layer farm prompted 18,700 laying hens to be culled, but did not spread to other farms.

Chart 1. 2019 Meat Production by Species



Source: NSI

Similar to other agricultural segments, the novel coronavirus pandemic has negatively affected Romania's poultry sector. According to production data available for the first seven months of 2020, poultry meat production is forecast to reach 460,000 MT carcass weight (CWE), a nine percent decline from the same period in 2019 (see Table 1). Besides COVID-19, increased competition from imports also contributed to this decline. According to Trade Data Monitor (TDM) data, during the first seven months of 2020, poultry meat imports increased by 16.5 percent over the same period in 2019, while exports declined by 2.5 percent. Widespread closures among restaurants and catering businesses, as well as other COVID mitigation restrictions, will likely result in a five-percent year-on-year reduction in poultry consumption in 2020. While some restrictions are likely to remain through the first half of 2021, depending on emerging COVID vaccines and other treatments, demand for Romanian poultry may rebound during the second half of 2021.

Table 1. Poultry meat production, trade and consumption (CWE)

	2016	2017	2018	2019	2020*
Total Poultry Production	401,209	411,268	479,867	507,106	460,000
Imports from intra EU-28	120,847	124,746	118,368	107,146	124,000
Imports from extra EU-28	6,926	6,350	5,831	2,296	2,600
TOTAL SUPPLY	**528,982**	**542,364**	**604,066**	**616,548**	**586,600**
Exports to intra EU-28	61,275	61,679	66,657	81,191	70,000
Exports to extra EU-28	4,097	6,782	10,234	7,567	7,500
Available for Consumption	463,610	473,903	527,175	527,790	500,100
TOTAL DISTRIBUTION	**528,982**	**542,364**	**604,066**	**616,548**	**586,600**

*Sources: NIS, TDM, * FAS estimates*

According to the National Feed Manufacturing Association, in 2019 the poultry sector consumed 56 percent of the total feed compound manufactured in Romania. Although 2020 was an exceptional year because of severe drought conditions, Romania's poultry sector generally benefits by having access to competitively priced domestic feed grains. However, in 2020, feed commodity prices soared, resulting in 20-25 percent increase in price of feed compound and significantly higher input costs. Despite higher production costs, producers were not able to recoup losses by raising consumer prices because of the dramatic changes to the market after the COVID-19 outbreak. Per October 2020 EU Commission data, Romanian poultry meat was 12.5 percent cheaper than in 2019. From May through October 2020, average domestic poultry prices reached just 68-74 percent of the overall EU average price.

In terms of structure, Romania's largest chicken meat producers are vertically integrated, from hatching to feeding, slaughtering, meat processing, and distribution. This level of integration allows them to control production costs, increase efficiencies, and adapt to new market conditions. The largest share of chicken meat (80 percent) is sold as fresh/chilled meat to consumers. Investments in cutting lines and packaging technologies help ensure hygiene standards and extend product shelf-life. Large chicken operations market sizeable volumes through the modern retail outlets under their own brand names and private labels. Some have even developed independent retail chains.

COVID-19 Pandemic Impact

During the early stages of the novel coronavirus pandemic, chicken meat sales surged as consumers stockpiled for a potential lockdown. Although retail sales increased as a result, they could not offset the loss of sales in the food-service sector, which led to an oversupply of chicken meat. Summer holidays only partially offset these losses, since hotels and in-door restaurants remained closed over the summer, which added downward pressure on industry profit margins.

COVID-19 reduced Romania's total poultry flock. According to the RPPA, about 30 percent of the Romania's broiler flock is derived from imported day-old chicks, which faced challenges immediately following the COVID-19 lockdown when borders closed and supply chains were disrupted. Romania adopted specific legislation to encourage incentivize the development of breeding farms, although to date, the law has not been enforced.

To date, most large Romanian poultry farms have been spared major personnel COVID-19 outbreaks, although expenses related to supplementary cleaning, personal protective equipment for employees, and employee transportation have increased production costs. Chicken meat remains though the most affordable and convenient option for home cooks and demand for chicken meat at the retail level will likely remain strong.

Domestic Support Policy

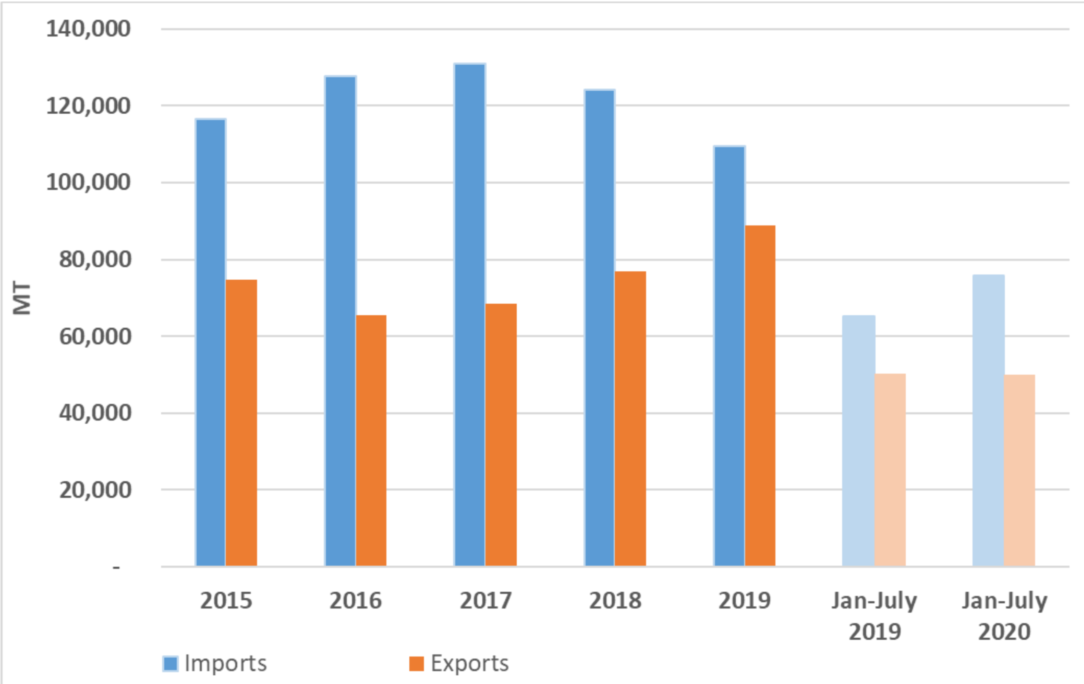
Unlike other components of the livestock sector, poultry was not included for EU coupled support. However, poultry producers can receive domestic support for to reimburse expenses generated by adhering to animal welfare standards on their farms. Regarding COVID-19, the Romanian Government approved in September 2020 a subsidy program for the poultry sector. Subsidies are based on $118 per livestock unit, at a conversion rate of 0.03 livestock units per broiler, turkey, and hatched chick, and 0.014 livestock units for laying hens and heavy breeds. Single farmers cannot receive more than $118,000. The program's total estimated budget is $26.8 million.

Trade

Romania has a trade deficit in chicken meat. Imports peaked in 2017 and proceeded to decline in 2018 and 2019. So far in 2020, this two-year trend has reversed and chicken meat imports during the first seven months of 2020 reached 76,000 MT, a 16.5 percent increase over the same period in 2019 (chart 2). All but two percent of these imports (Ukraine and Brazil) originated from other EU Member States. Romania's top supplier is Poland, which doubled its exports to Romania during the first seven months of 2020 to 25,611 MT, overtaking Hungary (14,107 MT). Other suppliers include Germany (9,514 MT), the Netherlands (6,714 MT), the United Kingdom (6,081 MT), and Bulgaria (2,865 MT). Frozen meat accounted for 65 percent of imports (by volume), while chilled/fresh meat accounted for about 25 percent.

Although poultry exports have trended upward since 2016, expanding from 68,461 MT in 2016 to 88,758 MT in 2019, exports remained mostly flat during the first seven months of 2020, at around 50,000 MT. Boneless cuts account for a major share of exports and are almost equally distributed between fresh/chilled and frozen (around 42 percent each), with the balance consisting of meat preparations. In the first seven months of 2020, major export markets for Romanian chicken meat were Bulgaria (10,619 MT), Hungary (10,091 MT), the United Kingdom (5,483 MT), and France (5,210 MT).

Chart 2. Chicken Meat Trade



Source: TDM

Attachments:

No Attachments.