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Organic production and market overview

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Report Highlights:

Foreign demand remains the main driver for organic production in Romania, though 2015 production was down. Domestic consumption is on an upward trend. Highly-processed products are mostly imported, while raw materials such as oilseeds, grains, protein products, and forest fruits are exported. The organic consumer market was estimated in 2016 at U.S. $45 million, an increase of more than 30 percent compared to two years ago. Retail stores contributed to this expansion, as they have dedicated shelves to organic products, making these products more visible and attractive to consumers.

General Information:
Summary

Organic agriculture is becoming increasingly important in Romania in terms of both supply and consumer demand. Romania has favorable conditions for organic production in terms of natural conditions, soil, and climate. Demand for certain organic food products rose spectacularly, such as dairy and baby food, while for other products, such as rice and oils, growth was limited. The fiscal incentives granted by the Romanian Government in recent years, such as the reduced value added tax for food products and a rise in the minimum wage, have helped Romanian consumers to access more premium products.

Romania is both a market and competitor for United States. Romania is a relatively small organic producer in terms of percentage of land converted or undergoing the conversion process to organic land and in the percentage of organic sales within total retail sales. The lack of processing facilities forces Romanian organic producers to find export markets so a large volume of organic production is exported. Additionally, rising consumer demand and a limited range of domestic organic products in the Romanian market triggers more imports in terms of both product quality range and selection of products.

A. **Regulatory Framework concerning production and labelling**

The competent authority for regulating organic production is the Ministry of Agriculture and Rural Development (www.madr.ro). In Romania "ecologic agriculture" is the legal expression used for defining the organic agriculture system and is similar to the expressions "organic agriculture" and "biologic agriculture" used in other Member states. For the purpose of this report, the terms "organic" and "organic farming" will be used.

Organic operators must register at the Ministry of Agriculture before conducting any activity in the area of organic production. This registration must be renewed every year. In order to receive organic certification, farms undergo a process a conversion from conventional to organic at least two years before the farm output may be certified as organic. During the conversion period, the business operators have to comply with the rules set by the national and EU legislation. During the conversion phase of production no use of fertilizers, synthetic pesticides, growth regulators, hormones, antibiotics or genetically-modified organisms is allowed. During the processing phase, it is prohibited to use food additives or chemical substances to prepare organic products. More details about what organic farming entails may be read here.

The national logo "*ae*" and the EU logo for organic products may be used on the labels of organic products. All the producers, processors and importers have the right to use the national logo "*ae*" on products, labels and packaging after being registered at the Ministry of Agriculture. Importers are free to use the EU logo for organic agriculture specifying the origin of the ingredients (EU or non-EU). Organic products bearing the national logo or the EU logo must meet the following conditions: 95 percent of the ingredients are produced through organic agriculture and the products are obtained according to organic agriculture. Organic products labels must indicate the names of the producer/processor/trader and the name or code number of the inspection body which oversees and issues the certificate for that organic operator. Additional information about organic farming and utilization of logos is available here.

Inspection and certification private bodies, approved by the Ministry of Agriculture and Rural Development, handle organic products control and certification in Romania. Organic operators (producers, processors, traders) are audited at least once a year by these inspection and certification bodies to verify compliance. The list of organic certification bodies is posted on the website of the Ministry of Agriculture. The list of organic operators certified by each of the approved organic certification body is available here.

B. **Organic Area and Production**

According to Eurostat data, the percentage of area under organic farming of total farming area in Romania dropped to 1.78 percent in 2015 from 2.1 percent in 2012. This percentage is low compared to the EU average of 6 percent. The official statistical data provided by the Ministry of Agriculture for the timeframe of 2010-2015 reveals a declining trend in organic agriculture in terms of the number of registered operators. The peak recorded in 2013 in terms of both area and number of producers was the result of substantial support provided by the Romanian Government to organic producers. After 2013 some of the organic producers encountered difficulties in finding customers for their products and in generating enough income to cover the certification fees which ultimately led them to return to conventional agriculture.

Organic production area followed the same trend, declining in 2015 by 18 percent to 245,924 hectares from the record area of 301,148 hectares in 2013. The area figures include both areas fully converted and under conversion to organic farming. In 2015 fully converted area represented 71 percent of the total organic area.

Table 1 – Organic farming indicators, Romania

Indicator	2010	2011	2012	2013	2014	2015
Number of registered operators in organic farming	**3,155**	**9,703**	**15,544**	**15,194**	**14,470**	**12,231**
Total organic area (hectares) - fully converted and under conversion to organic farming, of which:	**182,706**	**229,946**	**288,261**	**301,148**	**289,252**	**245,924**
• Cereals for the production of grains (hectares)	72,298	79,167	105,149	109,105	102,531	81,440
• Industrial crops (hectares)	47,851	47,879	44,789	51,771	54,145	52,583
• Dry pulses and protein crops for the grain production (hectares)	5,560	3,147	2,764	2,397	2,314	1,834
• Plants harvested green from arable land (hectares)	10,325	4,789	110,283	13,184	13,494	13,637
• Vegetables (hectares)	734	914	896	1,068	1,928	1,210
• Permanent grassland – hayfields and	31,579	78,197	105,836	103,702	95,685	75,854

pastures (hectares)						
• Permanent crops (hectares)	3,093	4,167	7,781	9,400	9,439	11,118
• Idle land (hectares)	10,217	9,759	8,811	9,516	9,059	7,226
• Root crops (hectares)	504	1,075	1,125	741	627	668
• Other crops (hectares)	579	851	28	264	30	356

Source: Ministry of Agriculture and Rural Development

According to Eurostat data in 2015, cereals and hayfields and pastures each cover about a third of the total organic area, while industrial crops, such as sunflower and rapeseed crops, cover about 20 percent. Wheat covered about half of the organic grains area (52 percent), followed by corn (28 percent) and barley (11 percent).

According to Eurostat data, organic production of cereals for grain production rose from 153,000 MT in 2013 to 290,081 MT in 2014 and then fell to 254,867 MT in 2015, due to less favorable weather conditions. The table below depicts the volume of organic production harvested for the most important crops.

Table 2 – Organic production, Romania (MT)

Organic Production	2013	2014	2015
Cereals for the production of grain (including seed)	153,989	290,081	254,867
• Wheat and spelt	74,285	137,474	127,231
• Rye and winter cereal mixtures	246	298	154
• Barley	13,476	34,916	20,259
• Oats and spring cereal mixtures	1,568	2,394	3,486
• Corn	55,476	95,403	86,581
• Rice	6,158	12,521	15,473
Dry pulses and protein crops	1,966	3,659	2,276
Root crops	2,134	6,571	7,766
Industrial crops	47,126	88,463	83,043
Plants harvested green from arable land	N/A	35,715	39,985
Fresh vegetables (including melons)	N/A	2,315	3,639
Fruits from temperate climate zones	5,749	8,277	6,434
Grapes	2,722	2,368	6,405

Source: Eurostat

C. **Organic Market**

Data regarding the domestic organic market remains scarce. The organic industry estimates that around 80 percent of the organic food production is exported as raw materials in absence of a sizeable internal demand. Romania is a market for imported organic products which in general consist of processed foods and high-value products. Organic domestic production is estimated at U.S. $250-270 million. According to some industry sources, the organic food consumer market was estimated in 2014 at U.S. $33 million, while two years later in 2016 the estimate rose to U.S. $45 million. In total food retail, organic food sales percentage stagnate below one percent, which is low compared to other EU member states where the percentage exceeds 5 percent (Germany).

The growth of the organic food market in 2016 is the result of a combination of several factors, such as an improved economy, retailers' expansion and consumer education. Demand is in direct relationship with consumer purchasing power and education levels, hence it is higher in the capital and large cities. Food processors and retailers also play an important role due to efforts to create and support affordable brands. Large retail chains created separate sections for organic processed products that offer a wide range of mostly imported products. Over the past few years the number of shoppers purchasing organic items increased as did their purchasing frequency, based on improved offerings and a larger number of stores with organic selections.

The main challenges facing the organic sector in Romania that hinder faster development are the lack of advanced processing facilities, a lack of consumer awareness regarding the benefits of organic foods, a lack of consumer trust in organic products due to previous false or misleading claims, limited range of products, and organic product affordability for certain consumer segments. Specific advantages and challenges for the U.S. organic exporters are presented below.

Advantages and Challenges facing U.S. Organic Products in Romania

Advantages	Challenges
A growing retail industry that is looking to diversify its range of organic food products	Stiff competition from EU suppliers which hold a comparative advantage with location and ability to deliver smaller volumes
Increasingly wealthy and sophisticated consumers desire an expanded organic product range	The relatively low purchasing power of most consumers, only a small segment of the population can afford to buy organic products consistently (Premium levels between conventional and organic food products run from 50 percent for eggs and milk and reach even 100 percent for products with a higher degree of processing).
E.U. - U.S. Organic Equivalence Cooperation Agreement opens the market for U.S. organic producers (small and medium size entities)	EU funds available specifically for the development of organic products sector.

D. Market access

There is an increasing market in Romania for imported organic products, which provides new opportunities for U.S. exporters. The U.S. has an equivalence arrangement with the European Union (EU) established in 2012. This arrangement focuses on the importance of agricultural production using organic methods in both the U.S. and EU markets. Among its aims are the reduced administrative burdens and new possibilities for trade on both sides. Previously, business operators that wanted to trade products on both sides of the Atlantic had to obtain separate certifications to both standards, which meant a second set of fees, inspections, and paperwork. This means that as long as the terms of the arrangement are met, organic operations certified to the USDA organic or EU organic standards may be labeled and sold as organic in both countries. More information may be read at the link here: https://www.ams.usda.gov/services/organic-certification/international-trade/European%20Union

In absence of specific tariff positions for organic products, it is difficult to estimate organic imports and the main countries supplying Romania. Based on industry sources, the leading organic food suppliers are Germany, Italy, Austria, Greece, France, United Kingdom, the Netherlands. While U.S. trade data does not show Romania as an organic market, some organic food products originating from United States is likely to be imported first to another EU member state and then shipped up to Romania, as happens with regular food products. The major markets for Romanian organic production are reported to be Austria, the United States, Japan, Germany, France, Italy, Denmark, Switzerland.

E. Prospects for organic food products

The range of packaged food products on the Romanian market has expanded tremendously over the past five years. The main categories available on the Romanian market are provided in Table 3, based on Euromonitor data. The market is dominated in value terms by dairy, followed by baby food and breakfast cereals. Organic baby food is one of the most successful product categories, growing 6 times during 2010-2015, followed by spreads which grew more than three times and dairy products (butter, drinking milk, yoghurt, cheese), which almost tripled during 2010 – 2015. While recognizing the high growth rate, these rates are spectacular due to their low base.

Table 3. Sales of Organic Packaged Food by Category

U.S. $ million	2010	2011	2012	2013	2014	2015
Baby Food	0.8	1.9	2.4	3.5	4.3	4.4
Baked Goods	1.4	1.7	1.8	2.1	2.4	2.3
Biscuits and Snack Bars	n/a	n/a	0.8	1.3	1.7	1.7
Breakfast Cereals	2.5	3.1	2.9	3.1	3.1	2.5
Confectionery	0.1	0.1	0.1	0.2	0.1	0.1
Dairy	2.2	2.9	2.9	4.0	5.1	4.9
Oils and Fats	0.6	0.7	0.7	0.8	1.0	0.9
Rice, Pasta and Noodles	2.5	2.8	2.5	2.8	2.9	2.4
Spreads	0.1	0.1	0.1	0.2	0.3	0.3
Sweet and Savoury Snacks	0.8	0.9	0.8	0.9	1.0	0.8
Total Organic Packaged Food	**11.1**	**14.1**	**15.1**	**18.8**	**21.8**	**20.5**

Source: Euromonitor International; FAS calculations

Organic packaged food categories are forecast over the next five-year timeframe to continue their upward trends at more moderate rates of growth. On average, packaged food sales are estimated to increase by 35 percent. Best product prospects for the upcoming 5-year term are for confectionery items, biscuits and snack bars, spreads, gluten-free products. A new consumer trend emerged for raw vegan products (cooked below 42 Celsius degrees) and nuts and dried fruits. Organic beverages are a niche segment in Romania due to high prices and strong competition from similar products. Organic beverage mix powders have good prospects though.

According to some retail analysts, fresh organic food products have a small share in total retail sales per chain, approximately 1-2 percent. Overall growth rates varied in 2016 from 19 percent to 60 percent for certain fresh products segment and certain retail chains.

F. Marketing and distribution

The modern retail trade represents the major channel where organic products are marketed. According to Euromonitor data, this channel had a 63 percent value share in distributing organic packaged food in 2015. Internet sales became very appealing to consumers as they offer, in addition to the products, a description of the health benefits and a thorough description of purpose of utilization, so on-line sales have expanded.

The open markets organized periodically in cities remain among the preferred procurement sources as these are where domestic agricultural producers may directly sell their products. In general these are fresh bulk products with limited investments in packaging and labeling. Even though only a small percentage of the food products sold in these open markets bear organic certification seals, consumers perceive these traditional and natural foods as being organic products. Temporary exhibitions featuring natural, vegan or health solution products for both food and non-food categories gain increasing popularity. In general, stores offer organic, natural, and vegan products in one place. There are few suppliers which offer only organic certified products. In the case of certain products, such as fresh produce, small farmers have developed connections with their customers and provide them directly with fresh organic produce. The absence of fresh product collection centers, which would normally service small farmers producing either conventional or organic, is an obstacle in expanding the fresh products market. More details about the share each format accounts for retail format are provide in the table below.

Table 4. Distribution of Organic Packaged Food by Format

Percentage retail value	2010	2011	2012	2013	2014	2015
Store-Based Retailing	94.5	92.9	91.7	90.8	90.6	90.9
- Modern Grocery Retailers, of which	46.6	49.7	53.7	56.2	60	63
-- Discounters	-	1.2	1.9	2.5	3.2	4
-- Hypermarkets	18.8	20.2	23	24.8	26.9	28.9
-- Supermarkets	27.8	28.3	28.8	29	30	30.1
- Traditional Grocery Retailers, of which	21.6	19.7	15.2	14.1	12.8	11.5
-- Independent Small Grocers	21.6	19.7	15.2	14.1	12.8	11.5
- Other Grocery Retailers	26.3	23.5	22.8	20.5	17.8	16.4
Non-Store Retailing	5.5	7.1	8.3	9.2	9.4	9.1
- Internet Retailing	5.5	7.1	8.3	9.2	9.4	9.1

Source: Euromonitor; FAS Bucharest

G. Consumption

The organic market continues to develop. The fiscal measures adopted in June 2015 for reducing the Value-Added tax (VAT) from 24 percent to 9 percent led to a significant increase in food sales of all kinds. Part of the newly disposable income growth that resulted reached organic channels as Romanian consumers become increasingly interested in adopting a diet and a lifestyle based on healthy solutions. Organic producers lobbied the Romanian Government to reduce the VAT even further for organic products (to zero percent), but they have been unsuccessful so far.

Romanian consumers have become increasingly cautious about their food, especially families with children. According to some industry sources, buying organic food is the beginning in changing to a new healthier lifestyle. In general consumers start by purchasing organic food, then they move to organic cosmetics for kids, organic detergents for children clothes and then organic cosmetics for women. About half of the basket is made of food products. Purchasers of organic products have a higher education level, intend to do more to support their health, are interested in a new healthier lifestyle, are aged 25-45 years and possess higher incomes. Women are the predominant organic buyers.

H. **Support for organic agriculture**

In the past, the organic agriculture sector was substantially funded by the Romanian Government, hence the major increase in the number of organic producers. The support package offered starting in 2010 encouraged many farmers to enter this market segment and organic production grew significantly in 2011. Small farmers in Romania signed up for an organic conversion program, motivated by the government's financial subsidies, worth around U.S. $3.8 million in 2011 and around U.S. $5.8 million in 2012. The subsidy level depended on the land surface and number of animals on their farms, and the range varied between U.S. $1,900 and U.S. $7,700.

In 2014 the funding allocation changed in the context of the new EU Common Agricultural Policy (CAP) for the Financial Framework 2014-2020. The payment is allocated for either stimulating farmers to convert to organic agriculture or for maintaining farmers' interest for this type of agriculture, per the below list:

- U.S. $240-320/hectare/year for arable crops (for instance, wheat)
- U.S. $475-550/hectare/year for vegetables
- U.S. $485-700/hectare/year for orchards
- U.S. $525-580/hectare/year for vineyards
- U.S. $385-400/ha/year for medicinal and aromatic herbs
- U.S. $85-135/ha/year for permanent pastures.

Appendix I

Government competent Authority

Ministry of Agriculture
http://www.madr.ro/agricultura-ecologica.html

Certification bodies
List provided by the Ministry of Agriculture
http://www.madr.ro/agricultura-ecologica/organisme-de-inspectie-si-certificare.html

List of non-Government organizations in organic sector
http://www.madr.ro/agricultura-ecologica/organizatii-non-guvernamentale.html

End of the report.