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Global Agricultural Information Network

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Romania Dairy and Products Annual Report 2015

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Report Highlights:

Romania's dairy sector remains dominated by small-size farms. Despite unfavorable market conditions commercial farms are committed to develop further. Deliveries to dairies are projected to decline by 10 percent in 2015 as a result of strong foreign competition. The fiscal measure of reducing the Value Added Tax (VAT) from 24 percent to 9 percent supported an increase in consumer demand for dairy products, partially covered by imports.

General Information:

Dairy Inventory

The Romanian Dairy sector development has been hampered for several years by several factors, such as high degree of fragmentation (small farm size), aging farm community, poor farm management practices, limited access to high-quality inputs, and lack of farmers' organization. These factors lead to lower productivity and farm efficiency.

The statistical figures on dairy cow inventory show an upward trend, from 1.163 million head since in 2012 to 1.169 million head in 2013 and 1.188 million head at the end of 2014. Current market conditions might end this trend, as farmers struggle with rising feed costs, due to the summer drought and limited demand from milk processors as they face strong competition from other EU member states in dairy products, after the EU milk quota elimination. The impact is likely to occur more drastically in the non-commercial segment, due to a lack of efficiency. On the other hand, commercial farms are anticipated to continue growing, but this increase might not offset reductions in the non-commercial segment at the end of 2015.

Cow milk production reached 4.371 billion liters in 2014, an increase of 3.1 percent against the previous year (Table 1). According to the data provided by the Ministry of Agriculture and Rural development (MADR) for 2014, deliveries to dairies represent about a quarter of the total milk production (24 percent), direct sales hold more than a quarter (27 percent), while the largest portion goes for family consumption (39 percent), with the balance representing feed use. Average milk yields remain low compared to other EU member states overall. Although commercial farms made important progress in terms of genetics, animal nutrition and farm management, their low share of total inventory fails to reflect this progress in the national average.

Table 1 – Romania, Dairy cows Inventory

	2011	2012	2013	2014	2015
Dairy Cow (head)	1,178,600	1,170,000	1,163,000	1,169,000	1,188,000
Total Cow Milk Production (liters)	4,372,865,633	4,182,311,805	4,238,157,289	4,371,325,854	4,200,000,000
Total Cow Milk / Cow (liters/head)	3,710	3,575	3,644	3,739	3,535

Source: National Institute of Statistics; FAS projection for milk production of 2015

As previously stated, fragmentation remains a strong feature of the dairy sector. According to the Agricultural Survey conducted in 2013 by the National Institute of Statistics, about 561,840 agricultural holdings raise 1.147 million dairy cows, meaning an average of 2.04 head/holding. This average shows an improvement in comparison with the results of the agricultural census of 2010, when the average size of a holding was 1.84 head/holding. As it can be noticed in Table 2, the large majority of cows are raised by very small holdings, about half of the herd being held by 83 percent of agricultural holdings with only 1-2 dairy cows.

Table 2 – Romania – Agricultural Survey, 2013

Dairy Farm size (head)	No. of farms / share in total (%)	Number of dairy cows (head) / share in total (%)
1-2	467,124 / 83.1	583,003 / 50.81
3-9	85,524 / 15.2	339,038 / 29.55
10-19	6,249 / 1.1	80,707 / 7.03
20-29	1,504 / 0.3	34,216 / 2.98
30-49	790 / 0.1	28,707 / 2.50
50-99	410 / 0.1	26,707 / 2.33
100-499	223 / 0.0	42,042 / 3.66
>500	16 / 0.0	12,896 / 1.12
TOTAL	561,840	1,147,316

Source: National Institute of Statistics

The total milk quota allocated to Romania by the European Commission for MY 2014/2015 was split almost equally between the direct deliveries (1.571 million MT) and direct sales (1.7 million MT). According to the figures published recently by the European Commission (Milk Market Observatory), more than 70,000 producers were approved for delivery to dairies in Romania. Although in terms of number of producers registered for direct deliveries, Romania counts for about 12 percent, only 0.6 percent of EU deliveries to dairies originate from Romania. Average Romanian milk delivery per producer was about 13.6 MT in MY 2014/2015, compared to 80 MT in Poland and 255 MT as the EU average. This very low volume reflects the small scale of the dairy sector in Romania. Another indication of the non-commercial features of the dairy sector is the fact that Romania accounts for 83 percent of the EU number of producers registered for direct sales, and contributing 40 percent of direct sales at the EU level with 4 MT/producer/year.

Regarding dairy holding organizations, it is worth mentioning the lack of interest in creating cooperatives or adhering to existing cooperatives. This is due to a lack of trust in such models, a lack of financial incentives, but also a fear of lessening independence in marketing milk production. Some efforts were made towards building such cooperatives to increase the bargaining power of members for purchasing inputs or finding outlets for milk sale. In a few cases, milk cooperatives considered entering the milk processing segment by purchasing idle plants, with the goal to add higher value to their milk production.

Farmers' preoccupation for improving herd genetics may be observed in the value of genetics imports. The import value of genetics (bovine frozen semen) doubled in three years, from U.S. \$553,476 in 2011 to U.S. \$1,032,504 in 2014. Over the same timeframe, United States frozen semen exports grew by 60 percent, reaching U.S. \$118,000 in 2014. The trade data available for the first 8 months of 2015 show an even more spectacular accomplishment of the U.S. genetics industry on the Romanian market. The United States was the only supplier expanding exports during January - August 2015, increasing by 74 percent in terms of value and 24 percent in quantitative terms, and doubling its share from 13 percent in 2014 to 25 percent of frozen semen imports. The United States ranked first in the hierarchy of foreign genetics suppliers on the Romanian market during this timeframe (in terms of value), but fifth in terms

of quantity of doses reflecting the recognition of high quality genetics of U.S. despite a higher price. Main competitors for United States are Belgium, Switzerland, Germany, and Canada.

In terms of export genetics, it is notable that Romania exports genetics to China, which reached 100,000 doses during the first 8 month of 2015, compared to 55,500 doses during the whole year of 2014.

In an effort to stimulate cattle herd improvement and farm size increase, in October 2014 the Romanian Government approved using the “*Minimis-aid*” for purchasing breeding cattle. According to this decision, the Romanian Government covered the price of breeding heifers from specific breeds purchased by a farmer within the equivalent of U.S. \$1,400/head, which was roughly half of the breeding heifer price. The program had been oversubscribed, so the Romanian Ministry of Agriculture is considering its continuation in 2016.

Fluid Milk

The dairy quota allocated to Romania upon becoming an EU member has never been fulfilled, nor deliveries to dairies, nor direct sales. Therefore, it was expected that other more competitive EU member states exceeding their quota will supply more milk or dairy products to the market. Regarding other milk, although in lower volumes as compared to cow milk, milk collected from other species expanded significantly. Farmers anticipated consumers’ tendency to move towards other types of milk/dairy products, hence a positive trend for all three species (sheep, goat, buffalo).

Table 3 – Romania, Milk Production, Trade and Consumption

Fluid Milk (MT)	2013	2014	2015*
Cow Milk Deliveries to Dairies	882,381	996,653	930,000
Other Milk Deliveries to Dairies	26,520	43,681	51,500
- sheep	18,122	27,280	31,000
- buffalo	1,282	1,400	1,500
- goat	7,116	15,001	19,000
Total milk deliveries	908,901	1,040,334	981,500
Imports	136,105	115,612	128,000
TOTAL SUPPLY	1,045,006	1,155,946	1,109,500
Exports	21,929	35,602	31,000
Total Available for domestic consumption	1,023,077	1,120,344	1,078,500
TOTAL DISTRIBUTION	1,045,006	1,155,946	1,109,500

*Source: National Institute of Statistics, Global Trade Atlas; *FAS projections*

Milk deliveries are expected to fall again after a significant increase in 2014, as a result of a milk surplus resulting from the EU dairy quota abolition. Data published by the National Institute of Statistics show a drop of 9 percent in milk deliveries to dairies during the first 9 months of 2015. Declining orders from dairy processors facing competition from abroad for dairy products, along with lower milk quantities produced by farms due to the summer drought, may be the possible reasons for this decline.

The farm gate milk price dropped in September 2015 by 13 percent as compared to a year before, from

1.29 RON/l (U.S. \$0.38/l) to 1.12 RON/l (U.S. \$0.28/l), and by 17 percent compared to January 2015, when the price was 1.35 RON/l (U.S. \$0.35/l). In general, the milk price in Romania is below the EU milk price average, the gap varying over the past year from 6-27 percent. Romanian farmers receive one of the lowest milk prices among EU member states (for example, the fifth lowest in September 2015). Poor rural infrastructure and small-scale farms are the main factors which keep the purchasing prices down, in addition to other developments such as milk quota abolition and Russia's trade restrictions.

Trade

Farmers feared that following the milk quota elimination in April 2015 a massive volume of milk was going to be imported in Romania. According to the import figures for the first 8 months of 2015, milk imports grew by 10 percent after falling by 15 percent in 2014 compared to the previous year. In terms of fluid milk imports, Hungary remains the major supplier, followed by Poland and the Czech Republic. Since dairy processors face real competition from dairy products imports, it is not expected that fluid milk imports would surge significantly. On the other side, milk exports rose by almost 70 percent in 2014, from a small base though, but trade figures show a drop of 12 percent during the first 8 months of 2015. Among the major markets for the Romanian raw milk, Greece, Bulgaria and Moldova should be mentioned.

Table 4 – Romania, Fluid Milk Imports, Quantity (MT)

Partner Country	Calendar Year				Year To Date		
	2011	2012	2013	2014	08/2014	08/2015	%Change
TOTAL	120,803	120,009	136,105	115,612	76,551	84,525	10.42
Hungary	93,757	87,264	100,268	81,119	55,082	63,186	14.71
Poland	4,211	5,261	11,558	14,439	7,109	8,588	20.80
Germany	4,766	4,997	6,508	4,139	3,364	2,089	(37.90)
Czech Republic	3,338	11,662	10,780	11,978	7,496	8,561	14.21
Austria	3,854	531	566	612	502	213	(57.57)
Slovakia	4,411	1,549	2,500	1,829	1,809	820	(54.67)
Bulgaria	4,992	5,324	2,382	495	351	159	(54.70)
Other	1,474	3,421	1,543	1,001	838	909	8.47

Source: Global Trade Atlas

Dairy Products

This report only takes into account the dairy production obtained in the commercial plants and which reaches consumers through commercial channels and does not take into consideration dairy products (butter, cheese) produced in the agricultural holdings for purpose of self-consumption or direct deliveries.

The recent VAT cut from 24 percent to 9 percent from June 2015 is viewed as a positive factor leading to a dairy consumption increase. Part of the additional demand is covered by imports, an increase in the array of imported dairy products on the retail shelves being noticed over the most recent months, not only on butter and cheese, but also for drinking milk. Production of other dairy products witnessed positive growth. For instance, sour cream output is anticipated to increase by 12 percent while acidified

milk production is set to increase by 8 percent in 2015.

Butter

Butter production has been stable over the past years growing marginally every year. Butter production is expected in 2015 to increase by a modest 3 percent. Butter imports increased by 18 percent during the first 8 months of 2015 (see Table 5). The surge in imports may be a result of both increasing consumer demand resulted from the VAT reduction and the generous EU supply. A rising trend may be noticed for butter exports in 2015, but they only amount to 12 percent of the imports (800 MT).

Table 5 – Romania, Butter Production, Trade and Consumption (MT)

Butter (MT)	2013	2014	2015*
Production	9,801	10,588	10,800
Imports	5,401	5,827	6,800
TOTAL SUPPLY	15,202	16,415	17,600
Exports	300	284	800
Available for Human Domestic Consumption	14,902	16,131	16,800
TOTAL DISTRIBUTION	15,202	16,415	17,600

*Source: Global Trade Atlas, National Institute of Statistics; *FAS projections*

Table 6 – Romania, Butter Imports, Quantity (MT)

Partner Country	Calendar Year				Year To Date		
	2011	2012	2013	2014	08/2014	08/2015	%Change
World, of which	3,708	3,704	5,401	5,827	3,258	3,837	18
Poland	1,334	796	1,586	1,774	995	1,573	58
Germany	659	847	1,101	1,264	503	748	49
Netherlands	330	501	420	711	390	298	(24)
Slovakia	192	139	876	811	550	413	(25)
France	383	434	325	423	260	283	9
Czech Republic	41	41	206	210	176	37	(79)
Belgium	175	177	216	224	139	164	18
Bulgaria	258	319	271	220	138	170	23

Source: Global Trade Atlas

Cheese

Cheese production grew constantly from one year to another. A similar increase to 2014 is projected for 2015, based on the 7 percent increase in cheese production during the first 9 months of 2015 (Table 7). Imports expanded by 18 percent during the first 8 months of 2015, while exports followed the same trend, rising by 25 percent. Germany, Poland, Hungary and the Netherlands have been the major cheese suppliers to the Romanian market (Table 8). In terms of export markets, Greece accounted for almost half of the cheese exports (3,433 MT), followed by Italy, Bulgaria and Spain.

Table 7 – Romania, Cheese Production, Trade and Consumption (MT)

	2013	2014	2015*
Production	70,477	74,654	79,000
Imports	40,000	42,000	48,720
TOTAL SUPPLY	110,477	116,654	127,720
Exports	10,978	8,965	10,400
Available for Human Domestic Consumption	99,499	107,689	117,320
TOTAL DISTRIBUTION	110,477	116,654	127,720

Source: Global Trade Atlas, Institute of Statistics; *FAS projections

Table 8 – Romania, Cheese Imports, Quantity (MT)

Partner Country	Calendar Year				Year To Date		
	2011	2012	2013	2014	08/2014	08/2015	%Change
World	32,663	36,361	39,224	40,055	25,340	30,071	18.67
Germany	13,519	13,921	16,801	17,236	10,848	13,350	23.06
Poland	6,137	7,194	6,798	6,854	4,414	5,012	13.56
Hungary	3,174	3,211	3,681	3,107	1,925	2,747	42.74
Denmark	930	1,522	1,548	2,214	1,484	552	-62.81
Austria	958	1,553	1,776	1,733	1,123	1,152	2.62
Bulgaria	2,210	2,134	2,035	1,709	1,001	1,429	42.73
Italy	869	1,068	1,180	1,706	1,055	1,388	31.48
Netherlands	1,605	841	635	1,135	751	1,349	79.52
Czech Republic	763	1,464	1,177	877	625	748	19.7
Other	2,498	3,453	3,593	3,485	2,113	2,344	10.9

Source: Global Trade Atlas

Domestic support

Over time, the dairy sector has received financial support in various forms with the purpose to increase milk productivity and maintain farmers' interest in this sector. In 2015 eligible farmers will roughly receive U.S. \$24 /MT of milk delivered to dairies, assuming they deliver a minimum of 3 MT/year, a condition meant to stimulate farm size enlargement.

Another type of support is coupled support for cows. Eligible dairy cows have to be registered in the Heard Book and the applicant should raise more than 10 cows. Initially the support per head was estimated at U.S. \$275/head. Given the expectation that a lower number of cows will be eligible for the support, as cows have to be enrolled in the official milk control program and registered into the Herd Book, it is possible that the actual payment per cow to be higher than originally.

The distribution of the recent EU package of U.S. \$ 9.6 million (8.7 million EURO) allocated to Romania in response to the milk crisis is currently subject to analysis. Ideas for segments where funds should be directed to varied from milk promotion campaigns or dairy processing industry to genetics acquisition, milking equipment or small farmers which are not eligible for other types of support.

End of report.