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Romania

Dairy and Products

Annual

2002

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Report Highlights:

The Romanian milk and dairy products market is changing as new investors (both domestic and foreign) have begun operations. For 2003, AgBucharest estimates that milk production will increase by 3 percent, due to good prices for animal feed and government subsidies for fluid milk. Albeit low, consumption is expected to grow in tandem with consumers disposable incomes. Recently Romania and the US concluded negotiations on a new health certificate for dairy products to be exported to Romania.

Includes PSD changes: Yes

Includes Trade Matrix: Y

Annual Report

Sofia [BU1], RO

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Production

Most Production Still in Small Farms

The number of cows used in milk production decreased slightly in 2002, but are expected to reach 1.6 million at the end of 2003, mostly (98 percent) in private ownership. Households milking 1-2 cows hold the majority of these inventories (about 80 percent). Farming operations supplying milk to processors can be categorized in to three groups: large farms with more than 100 cows (most of them formerly state owned); medium farms averaging 50 head; and small operations milking up to 10 cows.

Milk production per cow, as well as cows and heifers numbers are expected to increase in 2003, capitalizing on high alfalfa and forage quality that developed during favorable weather conditions in August-September 2002. Corn silage, in addition, is forecast to be reasonably priced in 2003. Annual milk production per cow (barely exceeding 3100 liters) is much lower than the US average of about 8000 liters. Rather than genetics, the main constraints are quality of nutrition/feeding and improper, obsolete facilities. The predominant breeds are Holsteins, Brown Swiss and Simmentals.

Milk quality is a serious limiting factor to processors, because of the high bacteria content caused by insufficient cold storage facilities and unsuited sanitation and milk handling practices. A new standard for fresh milk will be among the many upcoming revisions of Romania's sanitary-veterinary regulations. The new regulation will be much more stringent and consistent with EU norms-- a maximum number of 100,000 bacteria/ml--compared to the current 1 million bacteria/ml.

Accession to Require a Major Re-Structuring of Romania's Dairy Sector

These regulatory developements foreshadow what will be a difficult adjustment for Romania's dairy sector, both in both the pre- and post- accession periods. In its negotiation position paper submitted to the EU in July 2001, Romania admited that the dual structure of its dairy sector, where market-oriented operations coexist with small subsidence farms, requires deep restructuring. Nonetheless, Romania's accession negotiators requested as its quota requirements for 2007, based on official (historical) production figures, at 7.5 MMT, much greater than the AgBucharest estimate for 2002 of 5.5 MMT.

Quota levels will only impact on production coming from commercial operations and not on subsistence farms. The restructuring period is expected to be quite long, as only in 2015 will milk production come close to the quota proposed by Romania and other candidate countries.

The most likely outcome is that in countries like Romania and Poland, marketable production will not reach the quotas they requested. Implementation of milk quotas will be a major focus of pre-accession negotiations, since the quotas will it large part determine the sector's future supply**.**

PSD Table Dairy, Milk, Fluid

PSD Table						
Country	Romania					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Cows In Milk	1560	1564	1565	1550	0	1600
Cows Milk Production	5020	5188	5150	5150	0	5300
Other Milk Production	330	330	340	340	0	350
TOTAL Production	5350	5518	5490	5490	0	5650
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	3	1	3	0	1
TOTAL Imports	1	3	1	3	0	1
TOTAL SUPPLY	5351	5521	5491	5493	0	5651
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	3375	3500	3460	3460	0	3511
Factory Use Consum.	1300	1340	1350	1350	0	1450
Feed Use Dom. Consum.	676	681	681	683	0	690
TOTAL Dom. Consumption	5351	5521	5491	5493	0	5651
TOTAL DISTRIBUTION	5351	5521	5491	5493	0	5651
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table Dairy, Butter

PSD Table						
Country	Romania					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	1	0	1	0	1	0
Production	5	6.1	5	6	0	6.3
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	0.6	2	1	0	1
TOTAL Imports	1	0.6	2	1	0	1
TOTAL SUPPLY	7	6.7	8	7	1	7.3
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0.5
TOTAL Exports	0	0	0	0	0	0.5
Domestic Consumption	6	6.7	7	7	0	6.8
TOTAL Use	6	6.7	7	7	0	7.3

Ending Stocks	1	0	1	0	0	0
TOTAL DISTRIBUTION	7	6.7	8	7	0	7.3
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table, Dairy, Cheese,

PSD Table						
Country	**Romania**					
Commodity	**Dairy, Cheese**				**(1000 MT)**	
	Revised	**2001**	**Preliminary**	**2002**	**Forecast**	**2003**
	Old	**New**	**Old**	**New**	**Old**	**New**
Market Year Begin		**01/2001**		**01/2002**		**01/2003**
Beginning Stocks	5	0	5	0	5	0
Production	90	29	91	30	0	31
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	0	1	0	1
TOTAL Imports	0	1	0	1	0	1
TOTAL SUPPLY	95	30	96	31	5	32
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	2	0	3	0	3
TOTAL Exports	0	2	0	3	0	3
Human Dom. Consumption	90	28	91	28	0	29
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	90	28	91	28	0	29
TOTAL Use	90	30	91	31	0	32
Ending Stocks	5	0	5	0	0	0
TOTAL DISTRIBUTION	95	30	96	31	0	32
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Consumption

Of the about 5.5 million MTs of cow milk domestically produced, only about 25 percent is delivered to processing units, because of the deficient collection infrastructure. Another large share (23 percent) is directly sold raw, without pasteurization in open markets, which represents a public health threat. Another 12 percent is used as feed consumption. The remaining 40 percent are used for household self-consumption.

Milk and dairy products consumption in Romania has been stable in recent years (officially assessed at an annual average of 190 liters/capita, according to the Position Paper submitted to the European Commission) about 30 percent lower than the EU average.

A large number of investor have entered the market in recent years, which has dramatically diversified the offerings in supermarkets in urban areas. However, the supply of fresh milk in commercial quantities is extremely limited, which has contrained expansion of the commercial sector. The current effective demand is made up of upper income urban consumers and is expanding rapidly. Some market sector are extremely concentrated. For example, one yoghurt processore, a major multinational, has acquired a 50 percent market share.

Trade

Romania is a net importer for most dairy products. The main supplier of fluid milk was for many years the Republic of Moldova, from which large processing companies (e.g., Danone) used to acquire large amounts for their operations in Romania. This came to an end in April 2002, when Romania adopted the so-called "third country requirements", which required that only countries and plants approved to export to the EU market are eligible to export to Romania. The intervention resulted in a sharp decline in imports since it was passed in June of 2002. Since fluid milk is not a trading commodity unless transport costs are reasonably low, AgBucharest expects imports to go down to only 1000 MT in 2003 (mainly from the neighboring Hungary), from levels standing at 3000 MT in 2001and in 2002.

In 2001 Romania imported 627 MT of butter (main suppliers being Germany, Poland, France, The Netherlands, Belgium, Hungary), but this figure is forecast to be 40 percent up by the end of 2002.

Romania produces around 30,000 MT of cheese, from which around 2,500 MT are traditionally shipped to Greece, Hungary, The Russian Federation, Hungary, Middle East. Most of this is of "feta"-type. Small amounts of specialty sorts (1350 MT in 2001) are imported from Germany, France, Denmark, Italy, Hungary etc.

Current import duties for dairy products are as follows:

HSC	Product	MFN	Applied to imports from EU	Applied to imports from CEFTA
0401	Dairy Milk	35	35	30 (1)
0405	Butter	45	18.8 (2)	45 (3)
0406	Cheese	45	0 (4)	45

(1) Slovenia has been granted a quota of 100 MT.
(2) For a quota of 1,900 MT.
(3) 25% for 200 MT from the Czech Republic.
(4) For a quota of 2300 MT under the "Double Zero" Agreement

Romania and the US recently concluded bilateral negotiations on a health certificate for dairy products. Required information is to be provided bilingual (English/Romanian) and refers to:

1. Product identification**.**

2. Description of the products:
Packaging.
Date of fabrication.
Temperature of storage and transport**.**
Origin of products
Name and official approval number(s) of treatment and/or processing establishment(s).

3. Destination of products:
The heat-treated milk/ heat-treated milk-based products made from heat-treated milk/heat-treated milk based product is to be sent from**: (**place of dispatch)
Means of transport
Number of seal
Name and address of consignor
Name and address of consignee

4. Health attestation. The described products should be obtained from animals:

- under the control of the official veterinary service;
- which were in a country or region that has been free of Foot and Mouth Disease and of Rinderpest for at least 12 months and where vaccination against Foot and Mouth Disease has not been carried out for at least 12 month;
- belonging to holdings which are not under restrictions due to Foot and Mouth Disease and Rinderpest;
- subject to regular veterinary inspection to ensure that they satisfy the animal health conditions laid down in Annex A, Ch.I of Directive 92/46/EEC.

5. Public health attestation. The products described:

- were manufactured from raw milk satisfying EU relevant regulations ;
- have undergone heat-treatment during manufacture in accordance with the specific requirements of Ch.I of Annex C to Directive 92/46/EEC;
- meet the relevant microbiological criteria laid down in Ch.II of Annex C to Directive 92/46/EEC;
- have been wrapped and packaged in accordance with Ch.III of Annex C to Directive 92/46/EEC;
- were stored and transported in accordance with Ch.V of Annex C to Directive 92/46/EEC;
- were transported, where appropriate, in tanks as described in Art.16(2) of Directive 92/46/EEC.

Import Trade Matrix, Dairy, Milk, Fluid

Import TradeMatrix			
Country	**Romania**		
Commodity	**Dairy, Milk, Fluid**		
Time period		**Units:**	**MT**
Imports for:	**2001**		**Jan-Aug 2002**
U.S.	**0**	**U.S.**	**0**
Others		**Others**	
Moldova	**2069**		**940**
Hungary	**892**		**1994**
Germany	**97**		**21.5**
Total for Others	**3058**		**2955.5**
Others not Listed	**25.61**		**7.3**
Grand Total	**3083.61**		**2962.8**

Import Trade Matrix, Dairy, Butter

Import Trade Matrix			
Country	**Romania**		
Commodity	**Dairy, Butter**		
Time period		**Units:**	**MT**
Imports for:	**2001**		**Jan-Aug 2002**
U.S.	**0**	**U.S.**	
Others		**Others**	
Germany	**229**		**582**

Poland	**209**		
France	**43**		**81**
The Netherlands	**38**		
Belgium			**79**
Hungary			**62**
Total for Others	**519**		**804**
Others not Listed	**108**		**41**
Grand Total	**627**		**845**

Import Trade Matrix, Dairy, Cheese

Import Trade Matrix			
Country	**Romania**		
Commodity	**Dairy, Cheese**		
Time period		**Units:**	**MT**
Imports for:	**2001**		**Jan-Aug 2002**
U.S.	**0.2**	**U.S.**	**0**
Others		**Others**	
Germany	**896**		**720**
France	**173**		**117**
Denmark	**37**		**76**
Hungary	**24**		
Italy	**32**		**33**
Total for Others	**1162**		**946**
Others not Listed	**190**		**21**
Grand Total	**1352.2**		**967**

Export Trade Matrix, Dairy, Cheese

Export Trade Matrix			
Country	**Romania**		
Commodity	**Dairy, Cheese**		
Time period		**Units:**	**MT**
Exports for:	**2001**		**Jan-Aug 2002**
U.S.	**217**	**U.S.**	**151**
Others		**Others**	
Greece	**1388**		**1551**
Hungary	**405**		**81**
Australia	**105**		
Moldova	**19**		
Russia			**177**
Lebanon			**78**
Total for Others	**1917**		**1887**
Others not Listed	**348**		**228**
Grand Total	**2482**		**2266**

Prices

Domestic farmers are increasingly displeased with the current domestic prices, which varied between $12.6/HL in August and $14.9/HL in March, deteriorating from about $20/HL in 2001. These farmgate prices are not enough rewarding to raise production and keep investments in the sector at very low levels. In many cases high collection costs (especially in scattered mountain areas) artificially increase the share of self-consumption, as farmers rather prefer to feed their animals with milk.

Prices Table	
Country	Romania
Commodity	Dairy, Milk, Fluid
Prices in	US$/HL
Year	2002
Jan	14.3
Feb	14.4
Mar	14.9
Apr	14.7
May	14.3
Jun	13.7
Jul	13.4
Aug	12.6
Sep	12.7

Domestic Support Policy

“Commercial farms” as per GOR Law 166/2002 are eligible for direct payments for their milk deliveries to processors in 2002 as follows:

-a total of 2 million HL collected from rural areas will receive the equivalent of roughly $10 million, that is, a unit subsidy of $0.05/liter;
-a total of 5.4 million HL collected from all other areas will receive the equivalent of roughly $23 million, that is, a unit subsidy of $0.04/liter.

These payments are set up for the standard 3.5% fat milk (as per the local norm dating from 1961), no reference being made to protein content, dry matter or germ number. Processors consider this system a disincentive to milk quality increase.

GOR intends to extend into the year 2003 such support measures, which are expected to raise deliveries to the processing system.