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Romania's Increasing potential for US cattle genetics

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Report Highlights:

The European strict sanitary standards, fierce competition from neighboring countries, lack of substantial support as well as an aging farmer population contribute to a contracting dairy sector in Romania. The average farm size remains an obstacle in the progress and the speed of farm consolidation is very slow. The commercial dairy sector though is making good progress in terms of cow productivity, milk hygiene, feeding practices, and farm management. Investment in genetics is viewed increasingly as a prerequisite for farm profitability. Frozen semen imports almost doubled during the first 8 months of 2012 compared to previous year. In 2011, United States ranked fifth among the foreign suppliers.

General Information: Overview on Dairy sector

The Romanian cattle population has been on a decline for the past several years. According to the figures released by the Statistical Office, the cattle inventory dropped by a third during the past 5 years since Romania joined the EU, from 2.9 million heads in December 2006 to 1.9 million heads in December 2011. The steep drop in total cattle population is attributed in a larger extent to the backyard segment, which is predominant in Romania, 87 percent of the farms being holdings with only 1-2 heads/holding (per 2010 data). Expensive feed and low milk prices along with an aging rural population are among the factors contributing to this decline.

In 2012 and 2013 Romania's dairy inventory is expected to continue to contract, cows in milk figure being forecast to drop further from the level of 1,154,000 dairy cows reported in December 2011. High feeding costs due to the severe summer drought is the major factor determining the reduction in the national herd. Unlike other years when the intra-mountain regions were less affected, this year rainfall was much lower in these areas as well. As a result both pasture and hayfields faced dryer conditions forcing farmers to purchase more expensive feed for livestock. While the latest data does not reflect a dramatic increase in slaughter numbers in 2012, the increase will become more visible as data comes in during 2013.

Milk production followed the same trend as cattle numbers, declining by 20 percent over the period, from 5.45 billion liters in 2007 to 4.37 billion liters in 2011. Milk distribution is worth mentioning as less than a quarter of the milk produced in Romania enters the processing channel for commercial purposes (20 percent). The largest volume disappears as on-farm family consumption (40 percent), followed by direct sales with more than a quarter of production (30 percent), with the balance going as feed use. Direct sales consist of on-farm sales of raw, non-pasteurized milk or dairy products to consumers. This practice is prevalent in rural areas.

Farmers have been complaining about the low milk prices and their loss-making business. Among all EU Member States, Romanian farmers are at the bottom of the hierarchical chain in terms of milk price.

Farm gate milk price varied in the summer of 2012 from USD 0.26/liter for EU non-compliant milk to USD 0.4/liter for compliant milk. Despite rising feeding costs, this price level has stagnated for several years leading to a lack of satisfaction among farmers. Stagnation is the result of several price constraining factors. Processors on the one hand have high collection costs (estimated at about 30 percent of the purchasing price) and on the other hand part of the delivered milk is non-EU compliant.

Among the factors recognized as inhibiting farmer ability to make operations more profitable is the lack of organization of cooperatives or associations. Tired of fighting with milk-processors on the milk price, some dairy farmers took the initiative to establish different forms of associations or cooperatives committed to finding solutions from ensuring reasonable prices for feed ingredients and acceptable price for milk deliveries to finding better markets for their products. Although not having a significant impact on the sector yet, such cooperatives are registering improved bargaining power thus attracting attention of other producer groups.

Concerning the level of milk production, Romanian farmers have not been able to fulfill their dairy quota since joining the EU. Therefore the upcoming EU policy change to remove the dairy quota is not favorably viewed by domestic producers. They fear Romania will become the dumping market for MS which are approaching or even exceeding their quota currently. Aware of the great production potential offered by Romania, Western companies are starting to come forward investigating the sector, investing in farm acquisitions and Greenfield investments, and starting to introduce their own managerial and marketing experience into this field.

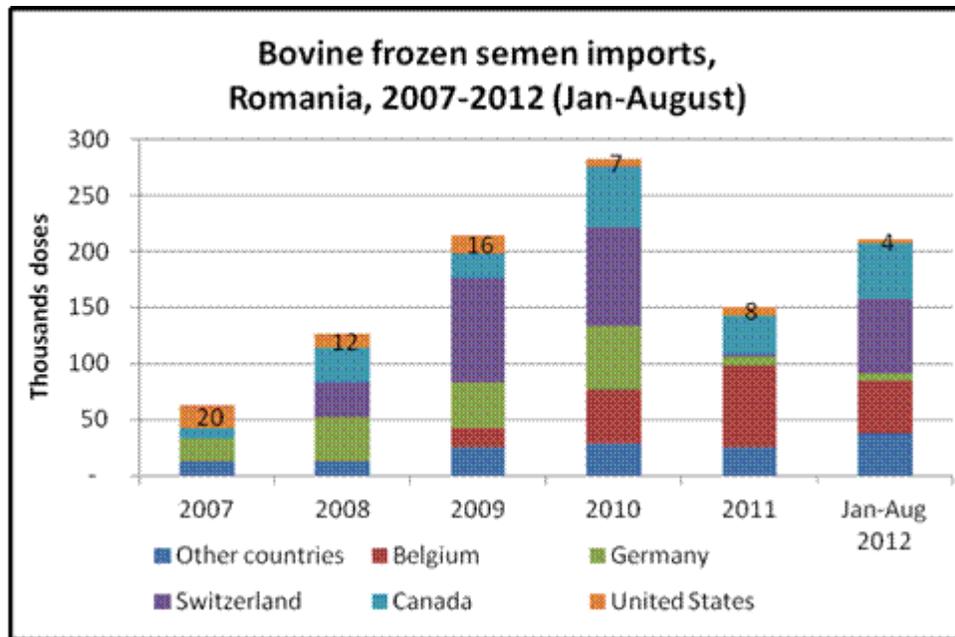
On the other hand, there is an emerging tendency among local dairy farms to switch to beef cattle, as they are perceived as less demanding in terms of care, hygiene, feeding, etc. Although there is no available official statistics on the cow inventory by breed, farmer signals indicate the number of beef cattle is on the rise. Given unattractive prices offered on carcasses by slaughterhouses and long distance from farms to slaughter facilities Romania is becoming an important live cattle exporter among EU member states with major destinations being Croatia, Libya, Jordan, Syria, and Iraq. The recent domestic support allocated to farms located in the less-favored areas for beef breeds may lead to increased opportunities for US genetic suppliers for beef species as well.

Upward trend of investment in genetics

Availability of European funds and bank credits offered commercial farming segment the possibility to build new farms or to upgrade old farms and to improve farm efficiencies. At the same time, farmers became increasingly aware of the impact of investment in genetics. Cow productivity improved over the past few years either through import of live young cattle or frozen semen, but Romania is still lagging behind many EU Members States in terms of its genetic base.

Total bovine semen imports gradually increased from 2007 to 2010 reaching the highest level of almost 300,000 doses (USD 753,000). In 2011, imports dropped by 50 percent. Nevertheless, trade data available for 8 months of 2012 indicate a recovery, as imports almost doubled compared to the previous year, reaching already 210,000 doses.

United States ranks fifth among foreign suppliers on the Romanian market, with over 4,000 doses exported during the first 8 months of 2012 valued at USD 30,000. As displayed via the following graph, strong competition exists in this market. Farmers who attended training programs and explored the structure of dairy farms in United States appreciate the value of investing in US high-quality genetics, hence the noted potential for increasing US presence in this market. US high-quality genetics supplied to Romanian farms have often shown well during livestock exhibitions and contests, where offspring of US origin bulls received the highest or among the highest awards. In 2012 Switzerland has been the major supplier of frozen semen followed by Canada and Belgium (please see the graph below).



Source: Global Trade Atlas

In terms of frozen semen certification, Romania accepts the health certificate provided U.S. authorities. However, the Romanian Veterinary Authority requires importers to provide some samples for running additional testing for certain diseases, such as Brucellosis, despite the fact that the importer submits documents certifying that the animals are free of these diseases. Until recently, test samples were required for each imported bull. In September 2012, the Veterinary Authority agreed to require local testing for Brucellosis only for semen originating from new-to-market bulls, this outcome being a step forward in U.S. efforts to enable more Romanian farms to have access to U.S. high-quality genetics.