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Romanian dairy sector facing new challenges

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Report Highlights:

Farmers' positive results from U.S. high-quality dairy genetics are generating greater interest in U.S. genetic products. In December 2013, Romania's derogation to EU regulations concerning milk quality and hygiene expires. Recently the government approved a program of financial support for small farmers in order to help them align to the new requirements.

General Information:

The Romanian Dairy sector's development has been hampered for the past several years by several factors, such as high degree of fragmentation (small farm size), ageing farm population, poor farm management practices, and reduced access to high-quality inputs, lower consumer purchasing power, and import competition. These factors lead to lower productivity and farm efficiency. Nevertheless, there is a segment at the level of commercial farms which manifest a permanent interest for investing in good-quality genetics, animal nutrition, proper housing conditions, which is likely to bring more value to the dairy sector.

Romanian dairy inventory has shown a declining trend over the past several years. According to the data released by the Statistical Office, total bovine number dropped in May 2013 to 2.053 million heads, which is 0.5 percent lower than the previous year. Breeding stock numbers display the same downward trend influenced significantly by the 2012 summer drought which drove up feeding costs.

In 2012 Romanian farmers produced about 4.2 million MT of milk, about 4 percent less than the previous year's output. Of this total amount, only 0.887 million MT represented direct milk deliveries to dairy processing units, while direct sales exceed 1 million MT. The balance goes to self-consumption and animal feeding. Romania is among the many EU member states which does not fulfill its allotted dairy quota. In 2012, it filled about 60 percent of the direct milk deliveries quota of 1.5 million MT.

In terms of milk price, despite rising feed costs, the price level has stagnated for several years thus leading to a permanent lack of satisfaction among farmers. In general, Romanian farmers are offered the lowest acquisition price for raw milk among all EU Members States.

Dairy imports have ascended during the past several years. The EU members states are the major suppliers of fluid milk (Hungary), butter (Poland), cheese (Germany), dry milk (Poland). In 2012 the United States exported to Romania whey products amounting to 11,000 kg valued at USD 145,000.

Expiring Derogation triggers Government support

In the fall 2011 the derogation period for deliveries of non-compliant raw milk to processing establishments had been extended for another two years, expiring on December 31, 2013. The extension concerned both milk quality standards (hygiene) and structural requirements.

With the deadline approaching, the Romanian Veterinary Authority began in May 2013 an outreach campaign to inform all small dairy farmers about the minimum conditions they would have to observe in order for their fluid milk to meet EU requirements. The primary regulatory target is to have producers reduce the total number of germs below 100,000/ml and the total number of somatic cells to below 400,000/ml.

The dairy processing industry saluted the Romanian decision not to request an extension on the derogation from the EU regulation. During the past few years, some farmers have accessed EU funds for renovating the farms and purchased new milking stations or new milk storage equipment, thus

another extension would have been unfair to the farmers who invested in their farms. According to the data provided by the Romanian Milk Processors Association, there are about 680,000 holdings producing milk, but only 75,000 (11 percent) introduced the milk in the commercial channel. In terms of milk compliance, only 15,000 holdings (20 percent) fail to comply, which is translated into about 3 percent of the milk collected not meeting the EU-quality parameters at national level.

In November 2013, in order to cope with the new requirements and to allow small farmers to meet EU requirements, the Romanian Government offered small farmers (up to 5 cow heads) the opportunity to use the *minimum aid* tool in order to purchase milk cooler tanks, assuming those farmers will form an association at the village level. By inserting the requirement for an association, Romanian Government intends to stimulate the association, which remains unattractive to farmers. The maximum amount which may be received by the association is 5,000 EURO for a milk cooler tank of 1,000 liters.

In addition to this support, the Romanian Government reapproved milk support for farms complying with few conditions, among them a minimum milk amount of 3 MT of milk delivered during the quota year 2012/13, and farmers' registration into the quota administration system and milk production.

Given the large number of small farms and their reduced capacity to adapt to the new conditions, it is unlikely all will be able to comply with the new EU requirements. Therefore, some of these holdings will likely discontinue selling milk to collection centers or dairies. However, they will be able to directly market their dairy products locally, in case they wish to do so.

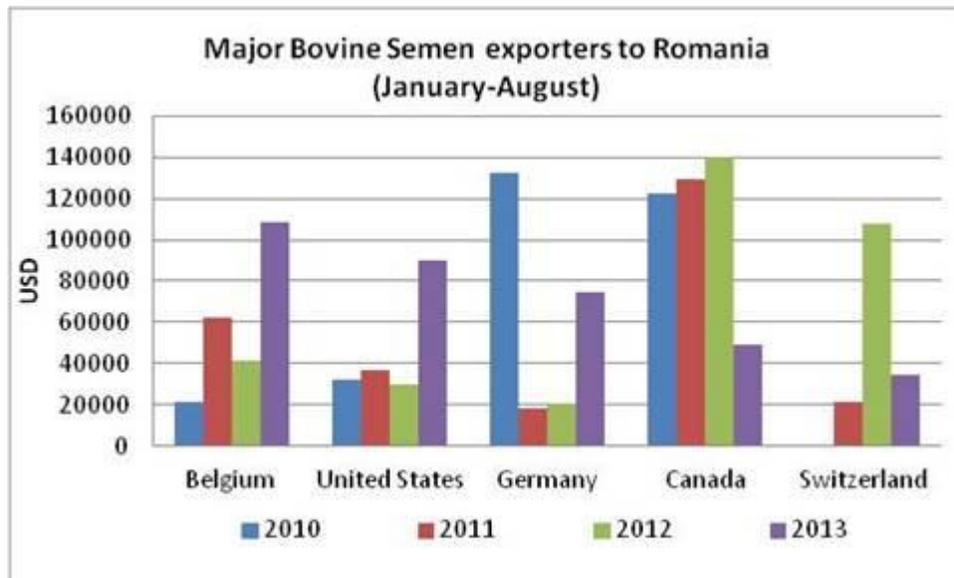
United States Genetics Suppliers – Higher Weight

In an effort to improve the cattle herd, Romanian farms have been investing in genetics, through either live animals or semen imports. Total bovine semen imports increased over time, with few exceptions.

In 2012, frozen semen imports climbed to 300,000 doses (USD 780,000), a doubling in volume compared to the previous year. According to January-August 2013 trade data, total imports remain stable, reaching 212,000 doses (USD 606,000), or marginally higher than the same timeframe in 2012.

United States ranks second in the hierarchy of foreign suppliers on the Romanian market in terms of value, USD 90,000 (6,862 doses), which is triple in value compared to the previous year (please see the diagram below). The genetics market is characterized by fierce competition, apart from the domestic semen producers being other foreign suppliers, such as Belgium, Germany, Canada, the Netherlands, and Switzerland. Farmers who attended training programs and explored the farm model in United States or already accomplished positive results through US genetics appreciate the value of investing in US high-quality genetics in the long-run.

The recent protocol signed by the Romanian Veterinary Authority with the homologous entity from Republic of China for export of live breeding cattle may boost further the demand for genetics to improve the domestic cattle herd. While the Romanian capacity to satisfy the live cattle breeding export demand will be a challenge in short-run, it is worth noting that in September 2013, Romania exported to China frozen semen valued at USD 140,000, a value similar to total Romanian frozen semen exports on an annual basis.



Source: *Global Trade Atlas*