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Romania

Poultry and Products

Annual

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Report Highlights:
Following the widely spread avian influenza outbreaks in Romania, poultry consumption is slowly resuming growth. In its attempt to provide domestic industry time to recover prior to country's EU membership, in July 2006 Romania has taken an aggressive posture on implementation of certain EU compliant poultry-related measures. This practically puts an end to the US' top agricultural export to Romania: broiler frozen meat, despite the fact that the product had consolidated its place on the market, especially by targeting lower income population.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1]
[RO]

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Production

The upward evolution in the Romanian poultry industry continued in 2005, a year with average productions, but generally low domestic prices for grain feed and protein crops. Nonetheless, overall poultry inventories were down 0.4 percent at the end of 2005, to just 79 million heads, affected by the numerous highly pathogenic avian influenza outbreaks registered beginning with the month of October in rural households, which typically grow layers for self-consumption. Totaling 19.4 million heads, industrial flocks increased by 12 percent compared to the previous year (see table 1), while broiler stocks stood at 11 million, with remarkable productivity gains registered by most producers.

Table 1. Poultry Inventories in Industrial Operations ('000 heads)

	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	% Growth 2005/2004
Layers	5413.2	5914.9	6816.7	15
Reproduction stock, heavy breeds	1294.2	1265.6	1390.9	10
Reproduction stock, light breeds	242.5	182.2	195.4	7
Broilers	9803.2	9969	11077.9	11
Total inventories	16753.1	17331.7	19480.9	12

Source: The Romanian Union of Poultry Producers[1].

Broiler meat production in industrial operations expanded by 10 percent, reaching 225,000 MT at the end of 2005, while in the first semester of 2006 the market suffered from the avian influenza outbreaks that continued to spread including in a number of commercial flocks, with notable consequences on poultry meat consumption in the short run (see RO6004, RO6010, RO6011, RO6014). Thus, despite sustainable increases in productivity in the Romanian broiler industry for the past 6 years, inventories diminished with more than 1.3 million heads at the end of June 2006 compared to the same period of the previous year, as operators, already carrying significant meat stocks, voluntarily decided to limit production by destroying hatching eggs to delay populating the farms. To these, a number of sanitary-veterinary restrictions added, often translating in culling one-day chicks and destroying embryos in incubators, which disrupted technological flows in many plants and reduced the breeding stock for both broiler production and layers.

Such measures have had an immediate impact over sector's competitiveness, as specific indicators (productivity, feed conversion ratio, mortality) for January-June 2006, still comparable with the most efficient poultry producing countries, nonetheless stood at levels slightly poorer than the ones registered in the corresponding period of 2005. Weight gains per day averaged 50.5 grams/day, varying, depending on farm performances, between 39-60 grams/day. Conversion ratio increased slightly to 1.87 kg feed/kg of meat from 1.85 kg feed/kg of meat in 2005.

Despite the slowing down registered by Romania's poultry industry in the first half of the year 2006, triggered by the highly pathogenic bird disease in Romania and in the regional context, we anticipate that such a temporary development will not affect commercial operators in the long run, given their overall performance indicators. If for 2006 we currently

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[1] The members of the Romanian Union of Poultry Producers is estimated to count for about 90 percent of country's industrial poultry production.

peg our broiler meat production estimate at 220 thousand MT (some 2 percent less than last year's production), we expect that the sector will be able to recover rapidly and resume growth from 2007, easily adjusting to the conditions of the enlarged common market. The key to competitiveness is the normally low cost of local corn. Romania typically produces 8-10 million MT of this crop and has the potential to double it with improved agronomic techniques. Soybeans, currently planted on some 150,000 HA, can be also extended on some 500,000 HA, although the EU membership will put an end in 2007 to country's successful cultivation of herbicide-resistant varieties.

Production, Supply and Demand Table

Romania							
Poultry, Meat, Broiler							
	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		01-2005		01-2006		01-2007	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	0	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	10	(1000 MT)
Production	212	225	230	220	0	240	(1000 MT)
Whole, Imports	0	1	0	0	0	0	(1000 MT)
Parts, Imports	151	157	125	125	0	115	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	151	158	125	125	0	115	(1000 MT)
TOTAL SUPPLY	363	383	355	345	0	365	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	7	7	6	3	0	8	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	7	7	6	3	0	8	(1000 MT)
Human Consumption	356	376	349	332	0	357	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	356	376	349	332	0	357	(1000 MT)
TOTAL Use	363	383	355	335	0	365	(1000 MT)
Ending Stocks	0	0	0	10	0	0	(1000 MT)
TOTAL DISTRIBUTION	363	383	355	345	0	365	(1000 MT)
Calendar Yr. Imp. from U.S.	70	92	0	55	0	0	(1000 MT)

Individual household backyard production account for one third of poultry meat domestic consumption, but it is expected that this share will shrink rapidly in the coming years.

Concentration in the poultry industry remains high: the seven largest operations were holding, in mid-2006, roughly 50 percent of country's commercial production, but small players, producing 1,500-2,000 MT/year, are also numerous. The large farms are fully integrated from feed production to hatchery, production and further to slaughtering and processing, and, occasionally, they even have they own distribution network. Smaller producers are not integrated and deliver their production to local slaughterhouses.

Country's anticipated EU membership will drastically impact the poultry industry in Romania. Broiler production, which according to analysts has a competitive advantage in the EU context, is expected to increase three-fold, in parallel with an accelerating market concentration. Egg production has started to decline, again a natural process from the perspective of the enlarged EU market.

Despite the fact that many investors were attracted in the recent years by the sector, in an attempt to position themselves close to the export markets and because labor costs had been much lower than in the EU, currently Romania's broiler meat exports shrank dramatically as a consequence of the avian influenza situation.

At the end of July 2006, the last outbreak was declared extinguished in Romania. After 10 months of fighting the high path bird disease, the authorities estimate losses of roughly 200 million euros, while the poultry sector alone lost about 70 million euros. Between the beginning of October 2005, when the AI virus infected for the first time birds in the Danube Delta, and April 2006, over 50 outbreaks were identified in Romania in 9 counties, in backyard premises or migratory birds. The veterinary authorities actively took measures to limit spreading of the disease by culling over 400,000 birds. Government spending on compensations granted to poultry owners in the affected villages reached USD 3.2 million within the referred to time period. Few weeks after the last outbreak was closed in April, new outbreaks were confirmed in Brasov county. Brasov is a mountainous region in the center of Romania, far from the migratory birds corridor. The infection source was proven to be a commercial flock in Codlea, in the county of Brasov, that sold live chicks in many localities in the neighboring counties. The second wave of high path avian influenza resulted in large amounts of money budgeted as compensations to rural households affected by the disease, as well as various other costs to limit the effects of the disease. Poultry meat consumption was also dramatically reduced in the short run, as in fact it was proven that the Codlea plant had supplied several food retail chains all over Romania (including the capital, Bucharest) with poultry meat and despite the fact that the veterinary authorities took energetic measures to track back and remove the products from supermarkets' shelves. It is estimated that more than 325 MT of poultry meat were destroyed.

Overall, about 900,000 backyard birds were culled over the 10 months of active AI outbreaks in Romania. The Ministry of Agriculture paid 13.5 million RON (that is approx. USD 5 million) as compensations for destroying flocks. Unlike households, commercial farms hit by the disease were not eligible for compensations unless they proved to have observed specific biosecurity rules.

From May 13, 2006, the Ministry of Agriculture, Forests and Rural Development prohibited transportation of live fowl throughout Romania and passed additional measures to limit the spread of the disease from autumn, when birds' migration will start again.

Consumption

Poultry consumption began to slightly decline in October 2005, following the initial AI outbreaks. Nonetheless, the end of the year gave sales some boost, especially since local food safety authorities gained population's trust in controlling the spread of the disease. In the first quarter of 2006, stocks were higher than the average.

Consumers' reluctance to buy poultry had repercussions on imports as well, that diminished drastically in the last quarter of last year. Overall, imports (mainly frozen chicken leg quarters) supplied in 2005 over 40 percent of the broiler meat consumption, especially targeting the lower-income population segments.

Following the May 2006 outbreak, consumption dropped by an estimated 80 percent for a couple of weeks, while stocks piled rapidly to 25,000 MT by the end of the month. Sales have started to recover in July, but are still depressed compared to the same period of 2005. Assuming that no other major avian influenza crisis will hit the poultry sector by the end of the year, we anticipate that broiler consumption in Romania will be down by some 11 percent in 2006, but will resume growth in 2007. End-year carry-in meat inventories will likely diminish to 10,000 MT.

The trend towards shifting to higher quality products remains the main trait in consumption, which make producers increasingly interested in positioning themselves on the market via product branding and packaging. Roughly 50 percent of the locally produced poultry meat is sold chilled.

There are several brand names with national penetration, positioned in accordance with consumer incomes, but also products originating from smaller operations, with a local presence. The average consumer is not devoted to a single brand, but product availability (i.e., good distribution through supermarkets and smaller groceries) plus an acceptable price/quality ratio are factors that influence preferences for a certain brand.

Albeit diversifying their choice, Romanian consumers generally show a preference for dark poultry meat (legs) versus white meat (breast), although the price differential between the two is still much lower than in Western Europe or US (Table 3).

Demand for high value-added chicken products (ready-to-cook) is still depressed on the local market.

Trade

Poultry is the second largest US export to Romania and the top US agricultural export. With prices that competitively stabilized over the past years, US were able to consolidate their position as the main supplier of poultry meat to Romania. Total year value of poultry meat exports of US origin was USD 63 million in 2005, or, in carcass weight equivalent, over 92,000 MT. Despite a surging broiler domestic production, the reasonably priced frozen chicken leg quarters have become a steady animal protein source for the lower income population in Romania. Total poultry imports exceeded 158,000 MT in 2005, of which 58 percent originating from US. The second largest supplier, Brazil, shipped to Romania another 30 percent of country’s broiler imports.

Consumers’ reticence to buy poultry, in response to the avian flu outbreaks, penalized imports as well. U.S. poultry meat exports to Romania declined by 70 percent in December compared to September 2005.

Nonetheless, domestic industry continued to put pressure on the authorities to cut imports. This translated into a number of measures that finally shut down US poultry shipments to Romania in July 2006. The initial actions were tariff restrictions: on February 13, 2006, the GOR passed the regulation (Government Decision 200/2006) approving Romania’s new import schedule (valid from February 16 through December 31) and according to which tariff rates for two poultry products, defined by the codes 0207 1420: chicken halves and quarters, and 0207 1460: chicken leg halves and quarters, were temporarily increased for 6 months (February 16 – August 15) to 70 percent (from 45 percent in 2005). The duty raise reportedly aimed to help local industry to increase sales and, thus allow poultry growers to put more money into biosecurity at farm level. Despite the fact that 90 percent of US’ poultry shipments to Romania typically fall under above specified codes, containers continued to arrive in the port of Constantza, totaling almost 40,000 MT CWE by the end of May.

The second set of actions was the effective imposition of sanitary-veterinary restrictions. On May 5, 2006 the National Sanitary-Veterinary and Food Safety Authority (NSVFSA) published its Veterinary Order no. 95 stating that the EU health certificate model for poultry meat would be enforced within 90 days from publication, which was to be August 5, 2006. On June 2, 2006 NSVFSA amended the regulation and imposed the new requirements from June 7. This radical measure practically prohibits poultry imports originating from US, as there are no EU-approved poultry facilities in the United States. Currently, US are not actively shipping to the EU. Poultry meat consignments accompanied by veterinary documents signed before or on June 7 were to be accepted for importation in Romania assuming they arrived before August 5, 2006.

As Romania has taken such trade protectionist measures in advance to its EU accession, currently USTR proposed that its eligibility in the GSP program was denied. In 2005, Romania was the 13th largest user of the GSP program, with the United States importing USD 283 million in goods from here under the GSP program.

Under such circumstances, we estimate that the total amount of US broiler meat entering Romania prior to August 5, 2006 would not exceed 55,000 MT. In the remaining months, Brazil and Thailand will be likely able to substitute part of the amount traditionally shipped by US, while another share will be grasped by the EU member states.

The annual TRQs for poultry meat originating from EU, exempted from customs duties in Romania, were increased in 2006 to 9,000 MT for chilled or frozen, and respectively 1,200 MT for processed poultry meat. Poultry remains one of the highest protected sectors in Romania (Table 2).

Overall, we foresee a 20 percent shrink in the total broiler meat amount imported into Romania in 2006. After country's EU membership, assuming that domestic production will be able to adapt rapidly to the enlarged market's conditions, imports will continue to fall.

Import Trade Matrix

Country	Romania		
Commodity	Poultry, Meat, Broiler		
Time Period	CY	Units:	MT
Imports for:	2005		**Jan-May 2006**
U.S.	92,255.00	U.S.	39,603.00
Others		Others	
Brazil	47,671.00	Brazil	13,851.00
Germany	4,722.00	Germany	3,114.00
Netherlands	3,269.00	Netherlands	2,000.00
Canada	2,802.00	Canada	864.00
Belgium	1,479.00	Hungary	693.00
Hungary	1,453.00	Belgium	504.00
Italy	1,386.00	UK	439.00
Argentina	822.00	Italy	390.00
Poland	578.00	Ireland	370.00
UK	436.00	Argentina	258.00

Total for Others	64,618.00	22,483.00
Others not Listed	1,535.60	533.00
Grand Total	158,408.60	62,619.00

Table 2. Romanian Bindings vs. Applied Tariffs in 2006 (percent)

HS Code		WTO bound tariff	2006 applied duty	Special EU preference
0207.11	Chicken cuts and edible offal, fresh or chilled (whole birds)	96	45	0 for TRQ (1)
0207.11	Chicken cuts and edible offal, frozen (whole birds)	96	45	0 for TRQ (1)
0202				
0207.14	Chicken cuts and edible offal, frozen	96	45	0 for TRQ (1)
0207.1420	Chicken halves and quarters	96	70*	0 for TRQ (1)
0207.1460	Chicken leg halves and quarters		70*	
0207.13	Chicken cuts and edible offal, fresh or chilled	96	45	0 for TRQ (1)
0207.27	Turkey cuts and edible offal (including liver) frozen	96	35	0 for TRQ (1)
1602.31	Meat and meat offal of turkeys, prepared or preserved, nesoi	180	45	0 for TRQ (2)
1602.32	Meat and meat offal of chicken, prepared or preserved nesoi	180	45	0 for TRQ (2)

(1) TRQ for poultry meat (fresh and frozen) is 9,000 MT.
(2) TRQ for prepared/preserved poultry meat is 1,200 MT.
* Between Feb. 16 – Aug. 15, 2006

European Union (EU) forbade poultry meat imports from Romania as soon as highly pathogenic AI strain was confirmed. Although the ban's removal is expected due to the fact that the last outbreak was closed at the end of July, no significant recovery on poultry exports is possible in 2006.

Reciprocally, Romania is also entitled export under TRQs 9,000 MT of fresh or frozen poultry meat as well as 2,125 MT of processed poultry meat duty free to EU.

Export Trade Matrix

Country Romania

Commodity Poultry, Meat, Broiler

Time Period	CY	Units:	MT
Exports for:	2005		**Jan-May 2006**
U.S.	0	U.S.	0
Others		Others	
Netherlands	5,194.00	Netherlands	1,293.00
Germany	743.00	Germany	309.00

France	454.00	Austria	26.00
Greece	89.00	Singapore	3.00
Moldova	76.00	France	3.00
UK	75.00	Iran	2.00
Austria	44.00	Thailand	2.00
Belgium	25.00	Panama	1.00
Panama	11.00	Bahamas	1.00
Georgia	11.00	Malta	1.00
Total for Others	6,722.00		1,641.00
Others not Listed	88.00		4.00
Grand Total	6,810.00		1,645.00

In February 2006, out of a total of 53 poultry meat plants, 19 were EU compliant, 20 were to be able to meet the EU requirements on January 2007, 2 had been granted a transition period up to January 2010, while 12 plants had been placed into the so-called D category (that is, establishments not expected to meet the EU requirements and scheduled to be closed down). Nonetheless, some of the plants in the last category currently submitted restructuring plans including under SAPARD funding (that is, EU assistance for rural development) and may move up to one of the other categories by the date of accession. After country's EU admission (currently scheduled for January 2007), products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified.

Prices

A rapid depreciation of broiler meat prices was triggered by the avian flu situation in Romania beginning with October 2005. In January 2006, a historical low was reached for all products, including white meat (chicken breast). Some recovery of the market is expected in the coming months, with increased sales, aided including by the increased producer subsidy allocated by the GOR from June 2006.

Prices Table

Country Romania

Commodity Poultry, Meat, Broiler

Prices in USUSD per uom MT

Year	2005	2006	% Change
Jan	1823	1477	-19%
Feb	1898	1647	-13%
Mar	2115	1813	-14%
Apr	2079	2106	1%
May	2035	1752	-14%
Jun	2007	1814	-10%
Jul	2243		
Aug	2455		
Sep	2618		

Oct	2225	
Nov	1840	
Dec	1677	

Dark meat price typically represents 85-90 percent of the price for chicken breast, a differential much lower than in Western countries, because of the preference domestic consumers show for chicken legs (Table 3).

Table 3. Ex-factory Broiler Meat Prices, USUSD/MT, VAT Included (end-of-month)

	Whole birds	Bone-in breast	Bone-in legs
June 2004	2,163	2,764	2,466
June 2005	2,392	3,323	3,006
December 2005	2,056	2,855	2,401
January 2006	1,866	2,782	2,253
February 2006	2,001	3,004	2,585
March 2006	2,090	3,011	2,483
April 2006	2,160	2,911	2,609
May 2006	2,069	2,992	2,549
June 2006	2,184	2,943	2,572

Source: Union of Romanian Poultry Producers
The official monthly average exchange rate is used in all cases.

Policy

Like in the previous fiscal year, budgetary outlays to stimulate poultry inventories and production were repeatedly readjusted in 2006, as the GOR, in the first place, intended to continue its programs to strengthen the sector until country's EU accession, while later on took emergency measures to help growers to recover from the bird flu crisis. Several support measures qualify as "Green Box"-type and are exempted from the reduction commitment (e.g., budgetary allocations to preserve the breeding stock). Market price support (disbursed as procurement payments) is provided for broiler meat and count in the Aggregate Measurement of Support (still observing the "de minimis level").

In January 2006, via a Ministry of Agriculture's Order, the unit subsidy was set up at 1.4 RON/head for broilers delivered for slaughtering at approved slaughterhouses and weighting at least 1.75 KG. The Order refers to all subsidies granted on the basis of the GOR Decision no. 1853/2005. The total budgeted amount was set up at 81 million RON (roughly, USD 30 million) and actual disbursements are subject to observance by the claimant poultry growers of specified biosecurity measures. On June 9, 2006, the unit subsidy was doubled, a measure applauded by the Union of Poultry Producers. Currently, the Ministry of Agriculture, Forests and Rural Development is considering reducing the per head subsidy to the initial level of 1.4 RON.