



Koninkrijk der Nederlanden

# **THE ROMANIAN FOOD SECTOR and the Use of EU Funds for Investments**

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draft**

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## ***Introduction***

With a population of almost 22 million persons, Romania ranks second in Eastern Europe after Poland in terms of consumer market potential. Romania's economy has performed well until 2009, with GDP growth rates well above the EU average. The subsequent increase in purchasing power brought about significant increases in consumption, food consumption included, largely reflected in the booming retail sector.

The Romanian food sector has been rapidly developing due to changes in consumer behaviour caused by a retail sector that is expanding beyond expectations. In 2008, only 10 years after the establishment of the first hypermarket in Romania, local and multinational retailers opened 134 stores with an invested value of nearly 600 million Euro. The majority of these investments came from multinational retail groups like Carrefour, Metro, Selgros, Kaufland, Billa and Auchan.

In *chapter 1* an overview is given of the investments undertaken in the retail sector. Despite the financial crisis it is expected that also the coming years these multinationals will continue to invest as demand is still growing and the Romanians rapidly adapt to western lifestyles. However, the coming years demand and supply will be more in balance and growing competition between retail chains will have its effect on both the price and the quality of the products for sale.

So far the Dutch exporters of agricultural products have played a minor role in using the fast growing opportunities of the Romanian market. Especially in the retail sector Dutch products are hard to find. Even strong Dutch products like cheese and other dairy products and fresh products like fruit and vegetables are sparsely available and although Romania is importing 70% of its pig meat the import is mainly coming from Germany and Hungary. Reason for this lamentable performance of Dutch exporters might be the complicated and everything but transparent distribution sector of Romania. Also the explosive growth of the retail sector had its effect on the needed capacity to handle fresh products. With the maturing of the market and with a focussed capacity building, branding and promotion programme, Dutch exporters might gain market segments of especially fresh products.

In *chapter 2* information is given about the development of the Romanian food industry. For the time being the Romanian food industry has difficulties to meet the required quality standards and has to invest in upgrading and modernization. Also the producers of raw materials are presently not able to compete with international suppliers resulting in stark rising imports of all kinds of commodities. The transition of the Romanian agro-industrial sector into a modern agro sector that could compete with international players offers opportunities for the Dutch agro sector.

In *chapter 3* an overview is presented of the investments in the Romanian food industry related to funds that are available in the framework of the 2007–2013 National Rural Development Programme (EAFRD). These funds are open for many types of investments to improve rural infrastructure, installation of new facilities and machines and Measure 123 is specifically designed to co-finance investments in food processing in order to implement modern production methods required by the retail sector.

In *chapter 4* a SWOT analysis of the Romanian food industry is given. Opportunities are the fast changing consumer behaviour and the booming retail sector. Romania is traditionally an agricultural country with a wide range of production systems and biodiversity. The membership of the EU guarantees a compulsory restructuring of the sector and Dutch innovation, knowledge and experience in food processing could be of great assistance to achieve this goal.

## CHAPTER 1 – Food Retail

### 1.1 Food Retail Overview

The food market has been growing in recent years and this was reflected also by the increasing number of food outlets. Despite the fact that the country's food market is still characterised by lower per capita incomes and by the existence of a large rural population (with less access to modern retails), food retail chains continued its upward evolution, as consumers increased preference for such retail forms. As demand has increased beyond the most optimistic expectations, retail chains took advantage of the situation and kept on consolidating their positions by opening an increasing number of stores in Romania.

Romanians are getting increasingly comfortable and are adopting western lifestyles. People have started to prefer shopping in larger hypermarkets or department stores where there is a wide variety of products at cheaper prices than in smaller shops. Moreover, increasing disposable incomes in recent years have permitted more people to shop in these stores and buy a larger variety of products.

The high potential discovered in the Romanian retail sector has imposed a faster pace of evolution for these modern retailers, which have adapted strategies in the last years in order to open more stores than estimated. Traditional players still survive due to their capability of fulfilling impulse needs, their higher density and proximity. Their number is however decreasing, not only due to the tough competition from modern retails, but also due to the recent deteriorating economic environment.

Food distribution channels have been continuously expanding, several chains of foreign supermarkets, hypermarkets, and cash & carry stores being opened or in the process of being opened at present. However, due to the economic-financial crisis, the pace of expansion will considerably slow down, with the exception of the discount segment.

Romania's retail market is reaching saturation, with around 10 large retailers – including big players such as Carrefour, Metro, Rewe and Delhaize – serving a population of almost 22 million. The entry of major players such as Auchan and Kaufland in 2006 has had a major impact on the competitive landscape, which will be even more strongly felt as these companies expand outside Bucharest.

*Metro* Group is the top player in the Romanian retail sector by turnover. It expanded its operations to some 24 cash&carry outlets. Since its entry to Romania, the parent company has invested some 500 million EUR in local cash&carry operations. In 2005, it began the launch of its Real retail hypermarket network. The company is actually responsible for the popularity of the cash&carry segment in Romania, which is used by many ordinary consumers.

Second in the market in 2008 by turnover was German retail group *Rewe*, which opened its first nine Penny discount stores in Romania in July 2005. Rewe is interested in opening Penny stores in cities with populations below 100,000 people. It is hoping to take advantage of a market that has been less tackled by large retailers, as is the case with most of Romania's larger cities. Rewe strengthened its presence in Romania in 2001 with the opening of its first Selgros cash&carry store in Brasov. Rewe also operates the Billa supermarkets in the country.

*Carrefour* is now the third largest player in Romanian retail, but its position is threatened by falling sales through hypermarkets. Carrefour has been present in the Romanian market since

1999 when it signed a 50:50 joint venture agreement with Hiparlo, opening the first hypermarket in 2001 and subsequently increasing its share in the company to 94%. In October 2007, Carrefour acquired Artima's 21-store network in the western part of the country for a reported 55 million EUR. Prior to this acquisition, Carrefour only consisted of hypermarkets, with its eighth hypermarket in the country opening in August 2007. Apart from expanding its store network, Carrefour has also been investing heavily in its logistics infrastructure and distribution network, in view of future store openings.

The start of 2008 saw another wave of international retailers announce their expansion intentions on the Romanian retail market. In January, Germany's *Tengelmann*, already present in the country with its Plus discount chain, announced that it was to open 25 new stores in 2008, representing an investment of 75 million EUR. As Tengemann is offloading its operations in Central and Eastern Europe, Lidl intends to buy the chain – intent notified to the European Commission in May 2010.

Meanwhile, Belgian *Delhaize*'s local subsidiary Mega Image expanded its current network through the acquisition of four supermarkets from Prodas Holding. Delhaize also operates Cora hypermarkets and discount supermarkets in Romania. In 2004, the Delhaize Group fully acquired Mega Image, which opened its first outlet in 1995. Delhaize also has a network of City Delhaize outlets in Romania, namely convenience stores with a portfolio of around 6,000 products. In 2008, Delhaize acquired Romanian supermarket chain La Fourmi and its 14 stores, which have been converted into Mega Image outlets and particularly boost its presence in Bucharest (La Fourmi established itself as the first supermarket chain in the country in 1992).

French retail giant *Auchan* opened its first hypermarket in November 2006 in the Titan district of Bucharest. Through this operation, the company reported a turnover of 19 million EUR, according to local press reports. In late 2008, Auchan invested 20 million EUR in establishing its sixth hypermarket chain in the Romanian capital. Auchan said that it is targeting 22 cities with more than 100,000 inhabitants by 2010. However, its expansion plans have halted due to the challenging economic environment.

Local players are low-profiled. The most important ones have been taken over by large retail chains. Among the most prominent local players was the privately-held Pic Group, established in 1991 as a juice and cigarette stand. In 2006, the company invested an estimated 100 million EUR in the hypermarket format. However, in 2009, Pic was declared insolvent. Other players have a more regional than national approach in their development.

Nationwide, modern retail plays an increasingly important role, covering in 2009 about 43% of the value of consumer goods market according to a report of the GfK market research company, compared to 41% in 2009 and 38% in 2007.

Due to the deterioration of the economic environment in 2009, food retail lost 5 percent in terms of volume against 2008, however on a market where sales in large store networks went up 8 percent, according to a survey conducted by the MEMRB research company. On the other hand, the specialised press claims that after the record sales reported over 2007–2008, the main foreign networks active in the Romanian food retail reported the first correction in 2009 following the economic recession. Thus, the balance sheets of the top three players on the food retail market – Metro, Rewe and Carrefour, would show decreases in sales of over 400 million euros compared to 2008. German groups Metro and Rewe and the French Carrefour retailer - which collectively control over half of the modern food retail - reported an aggregate turnover worth 4.2 billion euros in 2009, down 10 percent against 2008, although shareholders invested more than 200 million euros in expansion.

## 1.2 Food Retail Development Plans for 2010

The **cash & carry** segment is expected to increase in 2010 by two units. After a break of 3 years – used to modernise its existing chain – *Metro Cash&Carry* opened one store in 2009 and plans to inaugurate its 25<sup>th</sup> one (and 5<sup>th</sup> in Bucharest) in 2010. Metro, which sells 160 million EUR worth of private label goods in Romania on an annual basis (or some 10% of its total sales), reported that it would expand its portfolio. Private label foodstuffs and beverages on offer by Metro are around 10-20% cheaper than other private labels marketed in Romania, which has ensured their strong performance over the past months. Metro expects that its private label portfolio will top 300 million EUR by 2012. In total, the portfolio has over 1,800 products, with the retailer aiming to more than double this number by 2012. *Selgros* (the cash & carry division of the German Rewe group) plans also one store opening, which will result in a network of 18 units by the end of 2010.

**Hypermarkets** are not very optimistic regarding their expansion in 2010. *Carrefour* - the most dynamic hypermarket in 2008, concluding the year with twice the number of stores it had in 2007 - has slowed down its expansion in 2009. Although it has not disclosed its plans for 2010, sources from the market believe that Carrefour will focus on expanding the supermarket type of stores, developing the “Carrefour market” launched in 2009.

*Real*, the hypermarket division of the Metro group, has opened four out of the five initially planned stores for 2009. For 2010 Real intends to open one hypermarket in Bucharest – the 25<sup>th</sup> of the chain and the 4<sup>th</sup> in Bucharest.

*Auchan* opened only one out of the two hypermarkets planned for 2009, bringing to seven the total number of stores in Romania (plus a supermarket). Investment in one Auchan outlet is around 20 million EUR. At the same time, German retailer *Kaufland* (hypermarket with discount policy) has reached 49 stores, by opening in 2009 six new outlets (added to the eight opened in 2008). For the beginning of 2010, the retailer announced the opening of 5-6 stores. With these new openings, Kaufland would meet its expansion objective set when it entered the Romanian market (autumn 2005), namely 50 stores by the end of 2010. At present, Kaufland is the largest retail chain in Romania from the shopping area point of view (around 250,000 sqm) and the 4<sup>th</sup> in terms of sales.

In the **supermarkets** segment, *Mega Image* (operated by the Belgian retailer Delhaize) has become the supermarket chain with the biggest number of outlets in Romania (48 at the end of 2009). For 2010, Mega Image plans the expansion of its network by 8-10 units. At the end of 2009, the chain launched a new retail format called Red Market. In the next few years, some 200 such stores are planned to be opened. *Billa*, with 43 outlets at the end of 2009, plans an accelerated expansion in 2010. According to market sources, Billa intends to open up to 20 stores in 2010, without excluding acquisitions.

In the **discounters** segment, the *Plus Discount* chain (Tengelmann) has the largest number of retail outlets (96) and planned 24 new ones in 2010. However, the Tengelmänn group has negotiated the sale of the Plus network in Romania and Bulgaria to the *Lidl* chain (Schwarz group) which will in this way make a strong entry on the Romanian market. The *Profi* discounter network, acquired by the Enterprise Investors fund for 66 million euros, plans to open 10 stores in 2010, to be added to the 67 existing ones. The retailer miniMax targets 20 new outlets in 2010, the end-objective being a network of 100 stores in Romania.

For 2010, multinational retail chains have disclosed new store openings totalling 102 outlets.

CHAIN	Number of existing outlets (as of the end of 2008)	Planned expansion (in 2009)	Number of existing outlets (as of the end of 2009)	Planned expansion (in 2010)
Auchan	6	2	7	2
Billa (Rewe)	34	10	43	10
Carrefour	21	10	23	n/a
Carrefour Express	19	10	19	n/a
Carrefour market	-	-	6	n/a
Cora (Louis Delhaize)	3	1	3	1
G'market	6	2	6	0
Interex	11	5	12	1
Kaufland (Lidl&Schwarz)	39	12	45	6
Mega Image (Louis Delhaize)	40	8	48	n/a
Metro	23	1	24	1
miniMax	19	15	30	20
Penny Market (Rewe)	71	27	93	25
Plus Discount (Tengelmann)	71	25	96	24
Profi (Louis Delhaize)	51*	8	67	10
Real (Metro)	20	5	24	1
Red Market (Louis Delhaize)	-	-	2	n/a
Selgros (Rewe)	17	1	18	1
Spar	n/a	n/a	n/a	n/a
<b>Total</b>	<b>451</b>	<b>142</b>	<b>566</b>	<b>102</b>

In the first quarter of 2010, 10 retail chains opened new 25 stores, most of them in the discount sector. On the other hand, in the same period, seven chains decided to close down more than 30 stores (most of them belonging to local chains such as Ethos, Fidelio, Hard Discount and Avantaj, but also to Spar). Regarding the new stores, six of them were hypermarkets, eight supermarkets and 11 discounters.

In the context of the financial and economic crisis, discount retailers are expected to be in a better position and to gain market share compared to other retail formats, as price will be increasingly more the key element in consumer spending. Foreseeable trends include the orientation of retailers towards smaller and medium-sized cities, new chain acquisitions (due to lower sales, increasing costs), and more focus on low-priced products. Also, private labels will develop more, at the expense of premium products - to accommodate to the stagnating or decreasing disposable incomes of large segments of the population, triggered by the economic-financial crisis.

## CHAPTER 2 – The Romanian Food Sector

### 2.1 Overview. Sector Data

With a population of almost 22 million persons, Romania ranks second in Eastern Europe after Poland in terms of consumer market potential. Romania's economy has performed well until 2009, with GDP growth rates well above the EU average (8.4% in 2004, 4.1% in 2005, 7.7% in 2006, 6.1% in 2007 and around 7.1% in 2008). The subsequent increase in purchasing power brought about significant increases in consumption, food consumption included, largely reflected in the booming retail sector. However, 2009 was a year of economic downturn, GDP plunging by 7.2 %

Adverse economic factors will pose challenges to the development of Romania's food consumption volume, also because the money sent back home by Romanian citizens working in Western Europe have been decreasing (due to the slow recovery from recession of the eurozone).

Food industry is an important sector in the Romanian economy, accounting for about a relatively stable 11.6% of industrial employment and 2.1% of total employment. The food and beverage industry counted 184,400 employees in December 2008, down from 185,300 in December 2007.

*Production capacity.* The number of food processing units and their respective production capacities, as registered with the Romanian Ministry of Agriculture in 2007-2008 were:

	Milk and dairy products <i>000s hl/year milk equiv.</i>	Meat and meat products <i>000s t/year</i>	Sugar and confectionery <i>000s t/year</i>	Bakery products <i>000s t/year</i>	Fruit and vegetable cans <i>000s t/year</i>	Vegetal oils and fats <i>000s t/year</i>
Processing capacity in 2007	29391.2	1672	1337.4*	12457.5	507.6	840.6
Processing capacity in 2008	39679	1878.7	1264	12399.13	623.3	807.8
No. of units in 2007**	876	1007	2228	6353	159	529
No. of units in 2008	901	1025	2181	5840	152	484

Source: Ministry of Agriculture, Forests and Rural Development, 2010

\*1214.8 thousand t – sugar processing; 122.6 thousand t confectionery

\*\* an important number of dairy and meat establishments have however ceased activity due to non-compliance with EU standards – see following sections.

Food output over the years has varied across food sectors; while it increased for meat products, canned meat, fresh dairy products, edible oils, cheese, it declined in the case of meat, canned fruit and vegetables, milk, wheat and rye flour, indicating a shift toward higher value products in recent years in response to the increasing demand. The combination of greater and higher value output together with a shrinking labour force has led to relative improvements in aggregate productivity.

The production of the main food products is way below potential. The low production levels compared to existing capacities shows a serious under-utilisation of production facilities. This is partly due to the over-sized capacities inherited from the communist times, and partly to the fact that companies unable to meet EU standards had to cease production. Difficulties in sourcing raw materials or in accessing modern retail chains are also limiting factors in food production.

*Consumption.* Since 1990, food consumption has increased for almost all food categories (at spectacular rates in the case of dairy products), with the exception of cereal products, sugar and fish.



**AVERAGE PER CAPITA CONSUMPTION FOR THE MAIN FOOD PRODUCTS AND BEVERAGES**

		1990	2002	2003	2004	2005	2006	2007	2008
<b>Crop products</b>									
Cereals and cereal products	kg								
- in equivalent grains		213.6	225.0	215.0	219.8	214.8	207.9	206.9	204.0
- in equivalent flour		152.5	169.8	162.2	166.2	162.6	157.3	156.0	154.1
Potatoes	kg	59.4	90.1	95.4	97.9	98.0	97.4	96.1	99.5
Vegetables and vegetable products (equiv. fresh vegetables) dried pulses and melons	kg	127.0	147.7	177.7	183.3	162.6	181.7	164.1	176.0
Fruit and fruit products (equivalent fresh fruit)	kg	59.5	45.4	59.6	77.4	75.9	83.2	67.8	62.9
Sugar and confectioneries (equivalent refined sugar)	kg	27.3	23.5	24.3	25.6	27.4	29.0	24.9	23.2
Vegetal fats (gross weight)	kg	13.1	13.0	13.8	12.4	14.6	15.4	13.8	14.6
<b>Animal products</b>									
Milk and dairy products in equivalent milk 3,5% fat (butter excluded)	litres	140.1	215.0	225.0	238.9	239.2	246.6	252.8	254.7
Eggs	pieces	246	238	239	289	284	277	268	267
Fish and fish products (fresh fish equivalent)	kg	5.1	3.2	3.5	3.9	4.5	4.6	3.8	4.0
Meat, meat products and edible offal (equivalent fresh meat)	kg	61	54.3	60.3	65.5	68.3	69.9	66.7	66.6
Animal fats (gross weight)	kg	5.1	4.0	3.4	3.8	3.6	3.8	3.3	3.3
<b>Beverages</b>									
Soft-drinks	litres	18.9	101.1	112.4	110.2	115.7	134.1	146.6	n/a yet
Beer	litres	43.5	56.0	60.6	71.1	68.6	78.2	92.0	n/a yet
Wine and wine products	litres	18.5	27.0	23.1	30.0	16.4	21.1	23.4	n/a yet
Distilled alcoholic beverages (in equivalent alcohol 100%)	litres	3.2	4.8	3.8	2.7	2.7	1.9	1.6	n/a yet

Source: National Institute of Statistics, 2010

Limited per capita incomes and previous reliance on traditional markets and other “informal” outlets determined a strong emphasis on staple and non-branded, often home-made foodstuffs. This situation has been changing with the entry of large multinational retailers, demographic factors (including higher number of Romanian working abroad and bringing back a more western lifestyle), general economic growth over 2004-2008 and EU membership (2007).

As income levels will grow over the medium term, a larger number of consumers will seek branded goods as a guarantee of high quality, safety and convenience. Still, given the significant segment of the population affected by poverty and the fact that around a third of the population is working in agriculture, open markets and small enterprises will account for a large volume of food sales for the foreseeable future. In the short-term, too, recent adverse economic conditions still have the potential to negatively impact the development of food consumption in the country.

*Trade.* Romania continues to import more food, drinks and tobacco than it exports, although higher growth rates are expected for exported products.

Food, drinks, tobacco imports and exports (mil. Euro)

Trade flow	2008	2009	2009/2008
<b>Import</b>	3829.9	3403.3	-11.1%
<b>Export</b>	1945.2	2029.4	+4.3%
<i>Foreign Trade Deficit</i>	-1884.7	-1373.9	-27.1%

Due to the effects of the economic-financial crisis - which determined a decrease in agri-food imports, the agri-food trade deficit decreased by 27% in 2009 compared to 2008.

On the short and medium term, the overall trade balance is expected to remain in favour of imports. As the industry will still require some time to meet EU safety standards and productivity in many areas, this will put a brake on the development of export values.

Mirroring consumption trends, pork represents one of the major agro-food trade items, with up to 70% of all pork consumed in the country being imported, as commercial farms are scarce and cannot meet demand. Around 20% of total poultry consumption is covered by imports. In terms of exports, cereals and sunflower seeds and oil are some of the more prominent goods. Agro-food exports represent around 3% of total export values, compared with imports, at around 9-10%. Exports of cereals are mostly destined for Hungary, as well as countries in the Middle East. Overall, the EU is Romania's main agro-food trade partner.

## 2.2 Main Sub-Branches

### 2.2.1 Meat industry

Romania's transition to a market economy which started in 1990 had a dramatic impact on the primary animal production sector as a result of the dismantling of state-owned or cooperative establishments and market liberalisation. After steep declines in the '90s, livestock numbers have been more or less stable in the last couple of years. However, after EU accession, the number of cows and pigs started to constantly decrease, reflecting the difficulties of these sectors to operate in the common EU market.

#### **LIVESTOCK** (on December 1)

<b>000's heads</b>	<b>1991*</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009/2008 (±%)</b>
Cattle, of which:	6,291	2,934	2,819	2,684	2,512	-6.41
<i>cows, buffalo cows and heifers</i>	2,468	1,810	1,732	1,639	1,569	-4.27
Pigs*, of which:	11,671	6,815	6,565	6,174	5,793	-6.17
<i>sows for breeding</i>	1,023	520	442	376	359	-4.52
Sheep and goats	16,452	8,406	9,334	9,780	10,059*	+2.85
<i>sheep</i>	15,435	n.a.	n.a.	n.a.	n.a.	-
<i>goats</i>	1,017	n.a.	n.a.	n.a.	n.a.	-
Poultry, of which:	113,968	84,991	82,036	84,373	83,843	-0.63
<i>laying hens</i>	49,390	50,278	45,208	45,529	45,046	-1.06

Source: National Institute of Statistics and Ministry of Agriculture, Forests and Rural Development, 2010

\* of which 8573 ewes and she-goats

Statistical data shows that on December 1, 2009 there were around 2.5 million cattle (down by more than 6% compared to the previous year), 9.8 million sheep and goats (almost 3% more than in 2008). The number of pigs went below 6 million heads, for the first time after many years – plunging by 6% compared to 2008. The poultry number slightly decreased, with a bigger decrease in the number of laying hens).

## ANIMAL PRODUCTION

		1990	2005	2006	2007	2008	2009	2009/2008 (±%)
MEAT, TOTAL - live weight	000's tonnes	2,420	1,508	1,398.1	1,503	1,426	1588	+11.36
of which:								
- beef	000's tonnes	633	383	318.1	333.3	306.4	322.8	+5.35
- pork	000's tonnes	1,010	605	617.8	641.5	605.5	624.7	+3.17
- mutton and goat meat	000's tonnes	203	114	101	110.2	103.8	141.8	+30.60
- poultry meat	000's tonnes	552	401	361.2	418.2	410.2	498.3	+21.48
EGGS	million pieces	8,077	7,310	7,429	6,522	6692	6097	-8.89
WOOL	tonnes	38,167	18,390	18,544	20,216	22.1	21.8	-1.36

Source: National Institute of Statistics and Ministry of Agriculture, Forests and Rural Development, operational data -2010. Includes production obtained in rural households (used mainly for self-consumption and direct sales)

The traditional Romanian diet is based on meat, the annual average meat consumption per capita being around 65 kg. As purchasing power increases, it is expected that meat consumption will continue to increase in the future.

The number of companies active in this field has permanently increased before EU accession, while the total livestock continued to decrease especially between 1990-2001, indicating that meat processing plants have been increasingly using imported raw materials.

In the accession negotiations with the EU, Romania requested a transition period until 31 December 2009 for modernising and re-vamping slaughtering and meat processing units and has submitted lists of all establishments where transitional measures are requested and of those establishments which are expected to comply with EU requirements at the date of accession.

As of June 2007, there were 425 establishments producing and processing meat, of which 123 EU approved and 302 with a transition period. The companies in transition have priority in accessing EU funds. In 2009, Romania got an extension of the transition period until 2011.

	Number (000's heads)				Carcass weight (tonnes)			
	2007	2008*	2009**	2009/2008 (±%)	2007	2008*	2009**	2009/2008 (±%)
Cattle, of which:	1,190	1,076	952	-11.52	164,642	149,296	159,199	+6.63
<i>in specialised industrial units</i>	212	188	117	-37.77	43,477	39,821	24,909	-37.45
Pigs, of which:	5,662	5,317	5,697	+7.15	470,223	444,614	470,567	+5.84
<i>in specialised industrial units</i>	2,118	2,408	2,888	+19.93	162,250	184,267	222,071	20.52
Sheep and goats	6,127	6,018	6,756	+12.26	54,763	50,469	70,817	+40.32
<i>in specialised industrial units</i>	158	198	120	-39.39	1,849	2,138	1,349	-36.90
Poultry, of which:	208,148	205,445	241,128	+17.37	312,145	307,965	371,393	+20.60
<i>in specialised industrial units</i>	131,195	154,899	180,031	+16.22	210,986	255,774	289,874	+13.33

\* Final data

\*\* Provisional data. Data resulted from statistical research applications

Source: National Institute of Statistics, 2010

The large number of animals slaughtered outside specialised industrial units is a consequence of the substantial share of small farms (rural households) rearing just a few animals for home consumption and local sales. The situation is better in the poultry sector, where production takes place mainly in large industrial units, and it is improving in the pig sector, where the share of animals slaughtered in specialised units is increasing.

Romania is a net importer of meat (and edible meat offal, including pig and poultry fat). In 2008 it imported meat and offal amounting to 737 million EUR, while exports did not exceed 38 million EUR.

**Poultry** is one of the sectors which managed to recover faster than others. Although severely affected by the outbreaks of Highly Pathogenic Avian Influenza in late 2005 and first half of 2006, the sector - which had already invested heavily in its modernisation - has succeeded to overcome the crisis. While the broiler sector is flourishing, the egg sector is slowly shrinking. The poultry sector remains polarised, with some very large-scale integrated units and many small-scale household producers. The latter group produces mainly for home consumption and sells the little surplus production on the local (street) market.

The nature of the business (short production cycle), the organisation of the sector (characterised by large integrated companies), the availability of EU funds and the increasing demand for poultry meat have made it possible for the sector to recover and develop.

Many slaughterhouses have been modernised, some using Dutch technology (e.g. from Stork and Meyn).

The main poultry and poultry products producers on the market are:

- Agricola Bacau (north-east Romania); in 2008 it took over the egg producer Avicola Lumina in Constanta (south-east)
- Transavia Alba-Iulia (centre); acquired Avicola Brasov
- Agrisol International (south); owned by the Lebanese Laoun Group; took over the egg producer Toneli (Avicola Gaesti) in 2008
- Agroli (south); part of the Lebanese Agricola Holding, comprising the following companies: Avicola Crevedia, Avicola Tartasesti, Jackmorris (Avicola Gorneni) and Golden Fingers
- Avicola Calarasi

Competition is high and competitors are trying to take a better market share by offering better quality products and better prices (price remains an important criterion in the purchasing decision). Some companies have their own retail stores to market part of their production, the balance being distributed through the network of wholesale, cash-and-carry and supermarkets.

The Union of Romanian Poultry Breeders – which comprises the major players on the market – estimates that they sold 400,000 t of poultry meat in 2008, cashing more than 800,000 EUR.

In 2008, Romania imported some 115,000 t of poultry meat, of which 30.5% from the Netherlands and 23% from Brazil. Poultry meat was also imported from Hungary (7.7%), Germany (7.3%) and Belgium (5.3%). Exports totalled less than 10,000 t and were directed mainly to Bulgaria (47%) and Cyprus (20.3%).

**Pork** is however the preferred meat of the Romanian consumers and accounts for about 45% of the total meat consumption. This sector is also fairly polarised, with some large industrial units, holding about 25% of the total pigs, and very numerous small farms/households, accounting for 75% of the pigs - which are mainly used for self-consumption. This dual character of the Romanian pig sector is also reflected by the fact that less than 40% of the slaughtered pigs are slaughtered in industrial units.

As the majority of the pigs are held in individual households, with deficient feeding and husbandry practices, and generally poor genetics, the major problem that arises is the quality of the domestic pork supplied to the processing industry, and at the same time its high price. As a result, pork imports have expanded rapidly, becoming one of the top agricultural imports into Romania (according to the Ministry of Agriculture, imports cover 70% of the domestic demand for pork).

Major developments in the sector include the ongoing investments of US giant Smithfield Foods who plans to raise and slaughter in Romania about 4 million pigs per year, targeting also some neighbouring export markets. And the initiative of more than 300 pig farmers to set up a large cooperative (“Muntenia”), mainly with the support of EU funds. Meat producer and processor Kosarom Pascani (north-east) is promoting a contract-farming model in which farmers are provided with piglets, feed and technical assistance, and they deliver the fattened pigs back to the Kosarom slaughterhouse.

Major areas of concern in pig production are: the endemic presence of Classical Swine Fever and the bio-security practices (outbreaks occurred in 2007 at three of the Smithfield farms) – however, no outbreaks have been reported in 2008; the disposal of waste material (pig manure) and the pressure on the environment; and the inadequate rendering system.

In 2008, Romania imported 245,000 t of pork, most of it from Germany (28.1%). Hungary ranks second with 18.4% of pork imports, followed by Spain (10%), France (8.5%), and Austria (7.9%). The Netherlands is on the 6<sup>th</sup> place, with nearly 16,000 t (6.5% of total imports). Due to Classical Swine Fever, Romania cannot export pork to the EU for the time being.

**Beef** and veal are not exactly traditional in the consumption pattern, with some 15% share in the total. The beef sector does not really exist as a distinct sector and production is mostly seen as a by-product of the dairy sector. Cattle production (beef but also dairy) in Romania has a major weakness in its small-scale fragmented systems. The predominance of cattle on peasant/small farms makes the sector somewhat less visible.

The Romanian cattle herd is has been decreasing in recent years. The efforts of the Ministry of Agriculture are many times directed towards the introduction of specialised beef versus dairy production breeds, improvements in feed and forage practices at farm level, and advanced techniques for animal husbandry. Live cattle (alongside sheep) accounts however for an important share of Romania’s agricultural exports.

In 2008, Romania imported some 12,700 t of meat of bovine animals, 26% originating from Austria, followed by Italy (16%), Germany (14.9%), Hungary (10.6%) and France (8.7%). The Netherlands ranks 10<sup>th</sup>, accounting for merely 1.3% of beef imports. Romania exported some 3,200 t beef and offal, 66% of which went to Austria and 10% to Belgium.

**Meat products.** The processing sector continued to develop over the years, going hand in hand with the increasing demand for meat products.

The leader of chilled processed food is Cris-Tim, with a value-share of 21%. Other important players are Aldis, Angst, TC Affaires (Caroli), Tabco Campofrio Romania, Kosarom and Agricola International. Producers have directed their investments at enlarging and improving production capacities but investments have also made in logistics, distribution and publicity.

### **Retail Sales of Chilled Processed Meats<sup>1</sup>**

	2003	2004	2005	2006	2007	2008	2009
Chilled processed meats - Volume - 000's tonnes	94.5	110	125	136	150	161	171.2
Chilled processed meats - Value - EUR mn	297	328	432	495	655	771	575

Source: Euromonitor International, 2010, processed

Ham, salami, liver pâté and sausages are the most popular type of chilled processed meat. Charcuterie products in general are an important part of the meat processing industry. This is largely due to the fact that Romanians consume chilled processed meat products such as salami regularly for breakfast (they are more popular than breakfast cereals).

### **Chilled Processed Meat by Type: Value Breakdown 2004-2009**

(% retail value)

	2004	2005	2006	2007	2008	2009
Bacon	10.0	11.0	11.0	9.0	8.0	7.8
Boiled sausages	7.0	9.0	10.0	10.5	11.0	11.2
Bologna	10.0	9.0	8.0	6.0	5.0	4.6
Chorizo	2.0	3.0	4.0	5.0	6.0	6.3
Ham	20.0	18.0	17.0	16.0	15.5	15.1
Liver pâté	10.0	10.0	11.0	11.0	11.2	11.4
Mortadella	4.0	3.0	2.0	1.0	1.2	1.3
Salami	14.0	15.0	15.0	15.0	15.2	15.4
Sausages	6.0	6.0	6.0	8.0	9.0	9.3
Smoked ham	11.0	12.0	13.0	14.0	14.8	15.1
Others	6.0	4.0	3.0	4.5	3.1	2.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

The growth of the chilled processed products was expected to continue (even if at a much slower pace) if the economic situation had not worsened.

Canned/preserved meat is dominated by Scandia Sibiu (Swiss owned), with an estimated 46% of the market, followed by Ardealul and the Czech producer Hamé Foods. The canned/preserved meat market is expected to continue to grow in value terms but decline in volume terms, as the demand is close to saturation.

In 2008, Romania imported meat products/preparations totalling almost 70 million EUR. Nearly 20% came from Hungary, 13.8% from Thailand, 12.9% from Germany, 10.2% from Poland, followed by Italy with 6.7%. The Netherlands was on the 6<sup>th</sup> place, with slightly more than 4.5 million EUR (6.5% of total imports).

## **2.2.2 Dairy industry**

According to the preliminary data of the Romanian Ministry of Agriculture, the total milk production in 2009 was for the first time in many years below 5 million tonnes, of which less than 1 million tonnes was delivered for processing to commercial plants. It is estimated that a significant percentage of the production (27%) is marketed directly either as milk or dairy products, 41% is retained for self-consumption, while the balance goes for calf feeding.

### **MILK PRODUCTION**

	1990	2006	2007	2008	2009	2009/2008 (±%)
Milk (cow) 000's hl	40,311	64,607	61,048	53,089	47,088	-11.3

<sup>1</sup> Packaged processed meat (beef, pork, lamb, poultry) sold in self-service shelves of retail outlets. This includes burgers, nuggets, sausages, frankfurters, mortadella, pâté, ham, salami (also dried), pepperoni, chorizo, chilled snacks. Excludes unpackaged chilled processed meat sold over-the-counter.

Source: National Institute of Statistics and Ministry of Agriculture, Forests and Rural Development, operational data, 2010. Includes production obtained in rural households (used mainly for self-consumption and direct sales, but also calf feed)

Milk production has decreased as a result of the withdrawal of some small producers who could not cope anymore with milk quality requirements and high production costs. Also the quantity of the raw milk collected for processing has decreased, processors having started to import cheaper milk from neighbouring countries.

#### **Collected Milk and the Production of Dairy Products**

		2005	2006	2007	2008	2009*	2009/2008 (±%)
Milk collected by processors	tonnes	1,108,696	1,107,021	1,144,097	1,051,481	983,376	-6.48
Average fat content	%	3.65	3.67	3.69	3.72	3.73	+0.27
Average protein content	%	3.20	3.21	3.03	3.21	3.23	+0.62
Milk for consumption	tonnes	159,464	191,335	184,055	196,689	221,912	+12.82
Sour cream	tonnes	33,940	39,374	46,159	47,673	46,424	-2.62
Yoghurt and other fresh (acidified) products	tonnes	92,331	116,229	129,951	143,577	143,274	-0.21
Butter	tonnes	6,563	7,714	8,216	9,198	10,486	+14.00
Cheese	tonnes	65,547	67,393	67,304	70,268	68,854	-2.01
of which from cow milk	tonnes	56,913	61,429	61,877	65,513	63,993	-2.32

\*2009 data are provisional

Source: National Institute of Statistics, 2010

Despite the fact that the quantity of raw milk collected by processors has decreased, the production of some dairy products has increased. This can be explained by both an increase in the fat content of the collected milk and in imports of raw milk into Romania.

The total milk quota set for Romania in 2008/2009 was 3,057,000 tonnes, of which 1,251,000 tonnes for deliveries to processors and 1,806,000 tonnes for direct sales<sup>2</sup>. Romania is also entitled to a reserve quota of 188,000 tonnes, added in 2009. Although after EU accession there were complaints about the small quota allocated to Romania, in April 2010 the national reserve quota reached the record level of 1.014 million tonnes. Some 613,971 tonnes are available for allocation to dairy farmers: 86,538 tonnes for deliveries to processors and 527,433 tonnes for direct sales. The balance represents the part of the quotas unfilled by the farmers and which will be kept at their disposal in the national reserve for two years.

According to the Romanian Milk Quota Department, in 2009 there were some 870,000 quota holders. About 250,000 farmers have delivery quotas for selling raw milk to about 400 milk purchasers (processors or collectors). The farmers owning the quotas for direct sales can be divided into two categories: more than 5 tonnes (about 50,000 farmers) and less than 5 tonnes (550,000 farmers, generally with 1-2 cows). Direct sales consist of sales of milk or dairy products to final consumers (especially in the rural areas).

Milk quality remains a major issue, the authorities estimating that about 60% the raw milk meets EU standards (spring 2009). The transition period for raw milk quality granted by the EU upon Romania's accession expired on December 31, 2009, however the EU decided to extend it until 2011. If the sector is to develop fast, priority should be given to: better feed and forage practices

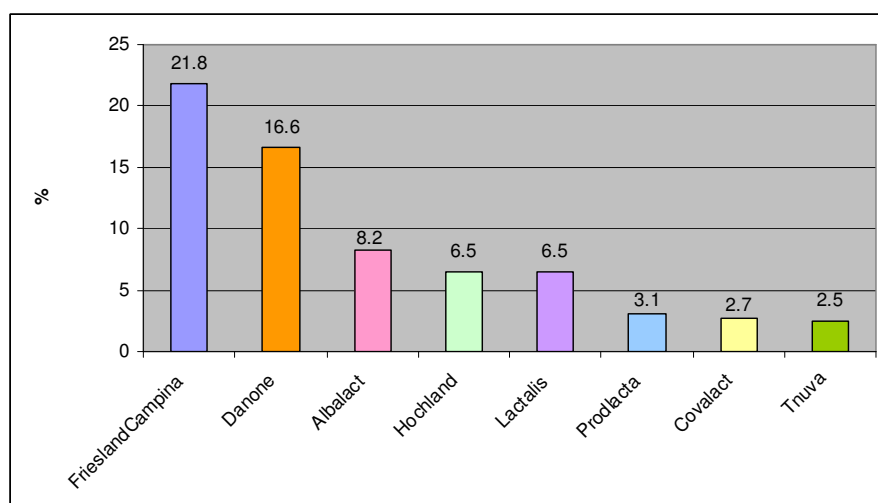
<sup>2</sup> This structure is the result of the amendment approved by the European Commission for a transfer of 158,000 tonnes from direct sales to deliveries. According to the results of the Health Check of the Common Agricultural Policy (2008), in the quota year 2008/2009 the milk quota of each Member State is increased by 2%, and by 1% in the following years before the abolition of the milk quota system.

at the farm level, investments in milking machines and cold storage, and introduction on a larger scale of good genetics - since the average annual milk yield is about 3,500 litres only.

As in the case of meat establishments, Romania requested the EU a transition period for modernising an important part of its milk processing units. Out of the 259 dairy processors existing in June 2007, 52 fulfilled EU requirements while 207 were granted a transition period till end-2009 (extended).

The milk processing sector has attracted an increasing number of foreign investors: Dutch (FrieslandCampina), German (Hochland), French (Danone, Lactalis), Israeli (Tnuva) while others have expressed their interest to enter the market. Important domestic producers are Albalact and Brailact.

#### **Dairy products: company market shares in 2008**



Out of the 258 dairy processors existing as of 31.03.2009, 60 of them process around 80% of the milk and they are member of the Romanian Dairy Association "APRIL".

The shares of the top companies active in the dairy market differ by market segment:

#### **Drinking Milk Products: Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Albalact SA	8.1	10.0	14.3	18.5	19.0
Friesland Romania SA	3.0	7.0	12.0	12.5	14.1
Dorna Lactate SA	19.0	18.4	16.5	15.6	12.7
Napolact SA	1.8	3.4	4.9	5.9	6.0
Brailact SA	0.6	1.2	1.8	2.9	4.2
Covalact SA	0.9	1.6	2.3	3.1	3.5
Raraul SA	3.2	4.1	4.6	4.1	3.4
Prodlacta SA	1.0	1.3	2.0	2.3	3.2
Euro Food Prod SRL	1.6	2.2	2.9	2.9	2.4
Danone Romania SRL	0.2	0.3	0.9	2.4	2.2
Tnuva Romania Dairies SRL	-	-	-	-	2.1
Malita Prod Com Srl	2.6	3.1	3.7	2.6	1.9
Remetea SA	2.4	2.6	3.3	2.3	1.6
Lacta SA	0.2	0.3	0.7	0.8	0.9
Ecolact Prod SRL	-	-	-	0.7	0.9
Lactag SA	0.4	0.6	0.7	0.8	0.9
Vranlact SA	0.2	0.3	0.5	0.5	0.5

Source: Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates



**Yoghurt: Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Danone Romania SRL	61.9	60.3	57.3	55.3	50.6
Friesland Romania SA	12.4	12.4	12.2	12.5	14.6
Albalact SA	0.8	2.1	5.0	7.5	9.1
Tnuva Romania Dairies SRL	-	-	-	3.3	6.8
Napolact SA	5.9	5.8	4.6	4.4	3.8
Covalact SA	6.1	6.1	5.4	3.9	2.6
Prodacta SA	2.0	1.7	2.1	2.3	2.2
Brailact SA	0.9	0.9	1.9	1.8	1.8
Muller Dairy RO SRL	-	-	-	-	0.9
Delaco SRL	-	-	-	0.8	0.7
Ecolact Prod SRL	-	-	-	0.7	0.7
Lactag SA	0.6	0.5	0.5	0.4	0.4
Dorna Lactate SA	-	0.2	0.4	0.4	0.4
Lacta SA	0.3	0.3	0.4	0.4	0.2
Multicom Group SA	0.2	0.2	0.3	0.2	0.1

Source: Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates

**Cheese: Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Hochland Romania SRL	26.4	26.5	29.6	29.7	32.0
Dorna Lactate SA	15.4	17.6	16.9	16.4	12.1
Friesland Romania SA	9.4	9.2	9.3	8.8	9.3
Delaco SRL	0.7	2.2	2.7	4.2	6.1
Napolact SA	4.7	4.1	4.6	5.2	6.0
Prodacta SA	4.5	3.5	3.5	4.0	4.2
Gordon Prod SRL	2.3	2.5	3.0	3.0	2.8
Unilever South Central Europe SRL	1.4	2.0	2.0	1.6	1.9
Kraft Foods Romania SA	0.4	1.2	1.7	1.7	1.7
Covalact SA	2.8	2.4	1.7	1.6	1.7
Cortina International Food Co Srl	2.1	1.9	2.0	1.9	1.2
Casa Mediterana Import SRL	-	-	-	1.1	1.2
Lactalis International	1.7	1.6	1.6	1.5	1.0
Industrializarea Laptelui Harghita SA	2.0	1.8	1.5	1.2	0.7
Cavior SRL	-	-	-	0.5	0.7
Fromageries Bel SA	0.7	0.7	0.8	0.7	0.5

Source: Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates

The purchase of Dorna Lactate SA by Groupe Lactalis in spring 2008 represented the acquisition of the sole domestic producer of organic hard cheese in Romania, creating an opportunity for the expansion of both operations and exports. The acquisition of Covalact SA, Primulact SA and Industrializarea Laptelui Harghita SA by the US investment fund SigmaBleyzer is expected to lead to the creation of a large manufacturer of cheese in central Romania based on three companies with strong traditions in cheese production. Friesland (now FrieslandCampina) has restructured its production facilities in Romania, by concentrating production in just a few locations. Albalact has invested last year in a new production capacity and it acquired dairy processor Raraul Campulung Moldovenesc. While Tnuva achieved a prominent position on the Romanian dairy market soon after it started production in summer 2007, thanks to a very aggressive advertising campaign.

Higher purchasing power was mainly responsible for the good performance of the dairy market in Romania until 2008. However, sales were also supported by the rapidly expanding large multinational retail chains which helped to change consumer purchasing habits, encouraging sales of packaged products and brands. However, sales of fresh milk and cheese from own-farm

production and consumption from self-production units remained high. This situation is the result of traditional consumption patterns for milk and of the perception that milk purchased from individual farms is far more healthy and natural than packaged varieties.

In 2008, Romania imported almost 65 million kg of milk and cream - not concentrated nor containing sugar, 11.7 million kg of milk and cream – concentrated or containing sugar, 13 million kg buttermilk, sour cream and yogurt, 6.6 million kg of butter and dairy spreads, and 37.4 million kg of cheese.

Out of the total 65 million kg imported milk and cream, almost 53% originated from Hungary, 17.6% from Poland, 13.4% from Germany, 8.8% from Slovakia and 3.4% from the Czech Republic. With regard to cheese, out of the 27.4 million kg imported in 2008, almost 34% came from Germany, 16% from Poland, 10.7% from Italy, 9.2% from Hungary. The next positions were occupied by Bulgaria (7.7%), France (5.4%) and the Netherlands (5.3%).

### 2.2.3 Milling and bakery industry

Romania has a large crop base, resulting from its 9.5 million hectares of arable land. Almost 60% of the cultivated arable area is represented by cereals. The main cereal crops are maize, wheat and barley. In addition some rye and oats are cultivated on relatively small areas. Yields are unstable (being strongly dependent on weather conditions) and well below potential and EU averages.

#### **CEREALS PRODUCTION**

	Area - 000's ha -				Production - 000's tonnes -				2009/2008 (±%)	
	2006	2007	2008	2009	2006	2007	2008	2009	%ha	%t
<b>Cereals,</b>	5114	5129	5211	5356	15759	7815	16826	14934	2.78	-11.24
<i>of which:</i>										
Wheat	2013	1975	2110	2185	5526	3044	7181	5205	3.55	-27.52
Barley and two-row barley	332	364	394	524	773	531	1209	1183	32.99	-2.15
Oats	197	209	200	203	347	252	382	296	1.50	-22.51
Maize	2520	2525	2441	2373	8985	3854	7849	8035	-2.79	2.37

Source: National Institute of Statistics, 2010

The year 2007 was one of the worst agricultural years ever, Romania being affected by severe drought (see the extremely low production levels in the table above). While 2008 was a very good year concerning cereals. During normal agricultural years, Romania is self sufficient in cereals. For example, in 2008 cereal exports totalled 653 million EUR while the value of imports was 303 million EUR.

The number of companies active in the milling and bakery industry has been increasing after 1989. About 3,300 units are active in the milling sector and 5,500 in the bakery sector.

Vel Pitar (a company controlled by the US investment fund Broadhurst) is the biggest player on the Romanian bakery market. Its main competitors are Titan (former Loulis, bought in 2007 by the Austrian company Leipnik Lundenburger Invest - controlled by the Raiffeisen group) and Dobrogea – Constanta.

The product range and quality of bakery products have been constantly increasing.

### **Baked Goods: Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Vel Pitar SA	1.1	4.0	7.4	8.9	9.7
Titan SA	-	-	-	6.5	8.5
Dobrogea Grup SA	1.8	2.5	3.9	5.2	5.6
Chipita Romania SRL	1.8	2.0	2.3	2.4	2.3
Snack Attack SRL	0.2	0.3	0.5	0.8	0.8
Cadbury Romania SA	-	-	-	-	0.4
Alka Co SRL	-	-	0.1	0.3	0.3
Can Serv SRL	0.2	0.2	0.3	0.2	0.2
Pan Group SA	0.1	0.2	0.2	0.2	0.2
May Day 2000 Prod Impex	0.1	0.2	0.2	0.2	0.2
Best Foods Productions	-	0.1	0.1	0.1	0.1
Goldfein SRL	0.1	0.1	0.1	0.1	0.1
Ülker Gıda Sanayi ve Ticaret AS	0.2	0.2	0.2	0.2	0.1
Kraft Foods Romania SA	-	-	-	-	0.1
Primo SRL	0.1	0.1	0.1	0.1	0.1
Boromir Ind SA	-	-	-	0.0	0.1
CIT Romania SA	0.1	0.1	0.1	0.1	0.1
Artisanal	84.3	75.8	67.5	61.2	62.1

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

The average consumption of milling and bakery products in Romania is approximately 108-110 kg per capita, significantly higher than in the EU where the average is around 78-80 kg/capita. While pasta consumption in Romania is considerably lower than in the rest of the EU.

### **Retail Sales of Baked Goods by Subsector: Volume 2004-2009**

(000s tonnes)

	2004	2005	2006	2007	2008	2009
- Bread	1,825.9	1,847.6	1,890.4	1,842.7	1,817.2	1,746.1
-- Packaged/industrial bread	99.6	195.0	316.0	418.0	432.0	405.0
-- Unpackaged/artisanal bread	1,722.8	1,648.7	1,570.1	1,420.0	1,380.0	1,335.7
-- Bread substitutes	3.5	3.9	4.3	4.7	5.2	5.4
- Pastries	9.3	10.1	10.9	11.6	12.5	12.6
-- Packaged/industrial pastries	7.4	7.9	8.3	8.7	9.3	9.2
-- Unpackaged/artisanal pastries	2.0	2.3	2.6	2.9	3.2	3.4
- Cakes	35.3	35.6	37.2	42.0	48.8	51.3
-- Packaged/industrial cakes	7.2	7.8	8.7	10.5	12.3	12.8
-- Unpackaged/artisanal cakes	28.2	27.8	28.5	31.5	36.5	38.5
Baked goods	1,870.6	1,893.4	1,938.4	1,896.3	1,878.5	1,810.0

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

Traditional unpackaged baked goods accounted for the majority of sales in 2008, as a consequence of the strong fragmentation of mainly bread production. Fragmentation was very high at the regional level, where each county and district generally has two or three larger producers as well as hundreds of small producers that are very active in bread production. Unpackaged (artisanal) bread accounted for the vast bulk of sales in Romania, with small bakeries often representing the sole source of fresh bread in smaller communities.

In the future no spectacular changes are expected – at least in the bakery sector, due to the already high per capita consumption of bread. Longer working hours and higher incomes will

result into busier lifestyles and greater health awareness. This, in turn, will encourage the consumption of packaged/industrial bread, perceived as healthier and having a longer shelf life, which fits with the growing preference for weekend shopping.

The milling sector, however, will continue its development and modernisation – also with the help of EU funds – which will result in higher cereal storage capacities (silos) and the setting up or upgrading of flour and feed mills.

In 2008, Romania imported products of the milling industry totalling 124 million EUR, mostly malt (77.6 million EUR) and wheat flour (24.2 million EUR). Exports stayed as low 6.4 million EUR. Imports of preparations made of cereals/flour (such as pasta, breakfast cereals, malt extract, bread, pastry, biscuits and cakes) amounted to 193 million EUR, while exports totalled 46 million EUR.

## 2.2.4 Edible oil industry

This sector experienced an ascending evolution, mainly due to a constant increase of sunflower production, triggered by a constant demand of sunflower seeds and oil on the external market.

### **OILSEEDS PRODUCTION**

	Area - 000's ha -				Production - 000's tonnes -				2009/2008 (±%)	
	2006	2007	2008	2009	2006	2007	2008	2009	%ha	%t
<b>Oilseeds,</b>	1298	1340	1239	1280	2050	1047	1942	1753	3.31	-9.73
of which:										
- sunflower	991	836	814	781	1526	547	1170	1083	-4.05	-7.44
- soybeans	191	133	50	49	345	136	91	85	-2.00	-6.59
- rapeseeds	110	365	365	430	175	362	673	572	17.81	-15.01

*Source: National Institute of Statistics, 2010*

While areas under sunflower are relatively stable, those under soybeans have dramatically decreased after Romania joined the EU and growing GMO soya was banned. Rapeseed has become increasingly appealing, being used as raw material for biofuel production.

The processing industry evolved rapidly towards high concentration around a few large players, domestic and international, which dominate the oilseed market and coexist with small-scale rural units which produce mainly for household self-consumption.

Romania is a traditional producer of sunflower seeds sunflower oil. In recent years, higher incomes and changes in lifestyle determined an increase in demand for healthier products. Producers started focusing also on maize, soy and other speciality oils like rice, saffron, grape seed, nut, and sesame oil. However, these products gained only a marginal share of the market, due to the long-standing usage of sunflower oil in the Romanian diet. Although there is no tradition in the consumption of olive oil in Romania, the growing popularity of Mediterranean-style cuisine has contributed to increased awareness and volume growth, although sales remained limited to higher income households in urban areas.

### **Sales of Oils and Fats by Subsector: Volume 2004-2009**

000's tonnes

	2004	2005	2006	2007	2008	2009
Olive oil	0.4	0.6	0.8	1.4	2.2	3.0
Vegetable and seed oil	188.6	195.1	196.2	177.0	161.8	151.9
Cooking fats	-	-	-	-	-	-
Butter	6.4	7.5	8.5	9.0	9.8	9.4
Margarine	6.7	7.1	7.4	8.4	8.6	8.7
Spreadable oils and fats	19.3	20.2	21.5	24.3	23.5	23.2
- Regular spreadable oils and fats	19.0	19.9	21.1	23.8	22.9	22.6
- Functional spreadable oils and fats	0.2	0.3	0.4	0.5	0.6	0.6
Oils and fats	221.4	230.5	234.4	220.2	205.8	196.2

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

As seed oil accounts for the majority of oils and fats value sales, its principal manufacturers also account for the largest company shares. Bunge Romania is the undisputed leader and its dominant position was strengthened following the acquisition of the oils division of Agricovert in 2007. As a result of this deal, sales of oils and fats became even more concentrated in the hands of multinational companies, with only Argus (Constanta), Prutul (Galati) and recently Ulerom (Vaslui) remaining as the principal domestic producers.

### **Oils and Fats Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Bunge Romania SRL	-	21.6	20.7	30.2	27.0
Cargill Oils SA	-	10.3	10.1	11.2	11.1
Prutul SA	4.7	7.0	6.4	8.0	9.3
Argus SA	13.4	9.2	9.1	9.2	8.0
Orkla Foods Romania SA	3.5	3.8	10.2	8.3	7.0
Unilever South Central Europe	3.1	4.2	5.2	5.4	6.5
Ulerom SA	3.1	3.2	1.4	2.0	3.4
Ultex SA	2.1	4.6	4.0	3.1	3.1
Expur SA	-	2.5	3.1	2.8	2.9
Albalact SA	0.6	0.7	1.2	1.5	1.8
Friesland Romania SA	1.7	2.0	2.0	1.3	1.3
Napolact SA	0.9	1.0	0.9	0.7	1.1
Covalact SA	1.0	1.2	1.2	0.8	0.9
Lactalis International	0.8	0.9	1.0	0.8	0.7
Dorna Lactate SA	0.3	0.5	0.8	0.6	0.7
Brailact SA	0.2	0.1	0.4	0.3	0.6
Costa d'Oro Srl	0.2	0.3	0.3	0.4	0.6
Prodacta SA	0.6	0.6	0.6	0.5	0.6
Ardealul SA	3.9	2.7	2.1	1.3	0.4
Minerva SA	0.2	0.2	0.3	0.3	0.4

Source: Trade associations, Trade press, Company research, Trade interviews, Euromonitor International estimates

Improved consumer purchasing power is bringing about important changes in lifestyle. This is expected to lead to a lower growth rate for basic oils and fats such as sunflower oil and growth for alternatives oils. However, consumption will remain low compared to potential manufacturing capacity.

Romania is a net exporter of oilseeds but a net importer of edible oils. In 2008, Romania exported 483 million EUR of *oilseeds* (of which 261 million EUR rapeseeds and 197 million EUR sunflower seeds) while it imported oilseeds with a value of 202 million EUR (54 million EUR sunflower, 40 million EUR soya beans and 39 million EUR rape seeds). It also imported *fats and oils* amounting to 233 million EUR and exported less than half of this value (112 million EUR). Most of the imported oil is *sunflower oil* (75,000 t), 51% of it coming from Hungary, 22%

from the Republic of Moldova, 10% from Bulgaria, 8.3% from Ukraine and 3% from the Russian Federation. Imported *rape seed oil* (15,400 t) originates from the Republic of Moldova (almost 32%), Germany (23.3%), Poland (16.3%), Ukraine (10.4%) and Hungary (5.7%). Some 20,000 t of *margarine* and edible mixtures were imported in 2008, mostly from Poland (27.8%), Turkey (12.6%), Bulgaria (12.5%), Italy (10.4%) and Sri Lanka (8.9%). The Netherlands ranked 11<sup>th</sup>, accounting for 1.9% of the margarine/edible mixture imports into Romania.

## 2.2.5 Sugar industry

Sugar beet production has constantly decreased in Romania in the past years. Although the sector has been strongly supported by authorities, no positive results have been recorded and the area planted with sugar beet has decreased to 20,000 hectares in 2008.

### **SUGAR BEET PRODUCTION**

	Area - 000's ha -				Production - 000's tonnes -				2009/2008 (±%)	
	2006	2007	2008	2009	2006	2007	2008	2009	%ha	%t
<i>Sugar beet</i>	40	29	20	20	1152	749	707	685	0	-3.11

Source: National Institute of Statistics, 2010

As a result of the EU accession negotiations, Romania obtained a sugar production quota of 109,164 t, a sugar processing quota of 329,636 t and an isoglucose quota of 9,981 t.

If in 1990 Romania had 38 sugar beet processing plants with a production capacity which covered the domestic demand and even allowed for exports, during the sugar quota year October 2007- September 2008, the Ministry of Agriculture allocated the national quota to 8 companies. According to the estimates of the Sugar Employers' Association, in 2010 there might be only two processing plants left. Most of the sugar processor are processing imported raw sugar.

Agrana is one of the main sugar producers in Central and Eastern Europe, including Romania where it started activities in 1998, as Agrana Romania.

The sugar consumption in Romania is estimated at 600,000 tonnes/year, with an average of 28 kg/capita (compared to 35 kg in the EU).

With regard to confectionery, according to a sector survey, chocolate holds 52% of the market, followed by chewing gum with 35% and candies with 5% of the sweets market.

The takeover by Cadbury Schweppes of Kandia-Excelent in mid-2007 concentrated sales of sugar confectionery in the hands of the major multinationals Cadbury Schweppes, Wrigley and Perfetti Van Melle. The importance of domestic producers will most likely continue at regional level, where they will focus on independent food stores in small cities, towns and villages. While the major multinationals focus on premium and average-priced products, small regional producers concentrate on economy brands.

**Sugar Confectionery: Company Shares 2004-2008**

(% retail value)

Company	2004	2005	2006	2007	2008
Wrigley Romania Produse Zaharoase SRL	5.6	6.7	14.2	23.1	26.1
Perfetti Van Melle Romania Srl	7.9	9.2	24.6	23.2	24.6
Cadbury Romania SA	-	-	-	-	23.2
Ferrero SpA	2.8	2.7	2.9	3.3	3.6
Kent Gida Maddeleri Sanayii ve Ticaret AS	5.1	4.6	4.1	3.0	2.1
Nestlé Romania SRL	1.9	2.2	2.3	2.3	1.9
Feleacul sa	4.2	5.8	4.6	3.6	1.7
Saff Trading SRL	-	0.6	1.5	1.8	1.7
Bon Sweet Bon Srl	1.1	1.4	1.4	1.2	1.7
Rommac Trade SRL	-	-	0.5	0.7	1.3
Tecsa Business SRL	-	0.2	0.6	0.8	0.9
Chimica Daily SA	0.8	0.7	0.7	0.6	0.5
Mars Romania SRL	-	-	-	0.3	0.4
Haribo GmbH & Co KG	0.1	0.3	0.3	0.3	0.3
Arcor SAIC	0.5	0.6	0.5	0.3	0.3
Procter & Gamble Marketing SRL	0.1	0.0	0.0	0.1	0.2

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

While quantities of sugar confectionery products continued to slowly decrease in the last years, the sales value had a strong upward trend, indicating an increasing consumer preference for premium products.

Chocolate confectionery sales continued to grow over the years in both quantity and value terms. The main players shared a chocolate market estimated at around 250 million EUR in 2008.

**Chocolate Confectionery: Company Shares 2004-2008**

Company	2004	2005	2006	2007	2008
Kraft Foods Romania SA	28.8	28.4	27.8	25.9	25.7
Cadbury Romania SA	-	-	-	-	20.0
Supreme Chocolats SRL	11.0	12.5	11.6	11.0	11.3
Mars Romania SRL	-	-	-	6.7	7.6
Nestlé Romania SRL	4.5	5.3	6.1	6.8	7.3
Heidi Chocolats Suisse SA	6.7	6.1	6.1	6.2	6.3
Ferrero SpA	4.2	4.2	4.6	4.8	4.9
Modares Food SRL	2.5	2.2	2.1	2.2	2.1
European Food SA	0.5	0.8	0.9	1.1	1.3
Alka Co SRL	0.3	1.1	1.0	1.2	1.1
Perfetti Van Melle Romania Srl	1.6	1.6	1.7	1.2	1.1
Ülker Gida Sanayi ve Ticaret AS	1.4	1.0	0.6	0.9	0.9
Storck GmbH & Co	0.5	0.6	0.7	0.6	0.7
Nardo Trading Co SRL	-	0.0	0.3	0.3	0.4
Transilva Ciocolata SRL	0.3	0.3	0.3	0.3	0.3
Cream Line Romania SA	0.2	0.2	0.2	0.2	0.2
LS Marlen SRL	0.1	0.2	0.1	0.1	0.1

Source: Official statistics, trade associations, trade press, company research, store checks, trade interviews, Euromonitor International estimates

The growth of this sub-sector is expected to be slower in the next coming years, as chocolate confectionery is expected to reach maturity.

With regard to foreign trade in sugar and confectionery, in 2008 Romania imported 533,000 t of sugar, 73.5% of it originating from Brazil, 11.2% from Bulgaria, 6.8% from Hungary, 3.2% from

Austria and 2.8% from the Republic of Moldova. Imports of sugar confectionery stood at 15,600 t, 29.3% of the imported quantity coming from Germany, almost 27% from Turkey, 7.6% from Spain, 5.4% from Bulgaria and 5.2% from the Netherlands. At the same time, the Netherlands is - in quantitative terms - the second export destination of Romanian sugar confectionery products, accounting for 21.5% of the total 2000 t exported in 2008, the top place being occupied by the Russian Federation (31.1%)

## 2.2.6 Fruit and vegetables industry

Fruit and vegetable production is very much focussed on small scale, family units and a high proportion of fruit and vegetable production is retained on farms for home consumption or sold directly to consumers, through street (peasant) markets. The number of commercial producers of fruit and vegetables is very low. The association process, although increasingly considered as a must in this sector, has proven to be long and difficult, mainly due to the farmers' negative attitude towards working together. At the end of 2008, there were only four producer groups preliminarily recognised by the authorities and one producer organisation. The association process is however expected to continue, also stimulated by the availability of EU funds for horticultural associations.

The area cultivated with vegetables in 2008 represented 2.8% (265,000 ha) of the arable area, with orchards covering a further 1.5% (144,000 ha) of the arable area.

### VEGETABLES & FRUITS

	Area - 000's ha -				Production - 000's tonnes -				2008/2007 (±%)	
	2006	2007	2008	2009	2006	2007	2008	2009	%ha	%t
<b>Vegetables*</b> , of which:	280	253	269	265	4139	3117	3820	3877	-1.49	+1.49
- tomatoes	51	46	51	51	835	641	814	756	0	-7.13
- cabbage	46	46	49	49	1106	893	965	997	0	+3.32
- cucumbers	16	13	13	13	156	120	174	175	0	+0.57
- carrots	19	16	18	18	266	185	235	216	0	-8.09
- onions	34	34	35	35	391	325	396	378	0	-4.55
- peppers	35	19	20	20	642	185	239	247	0	+3.35
- melons and water melons	n/a	31	30	34	n/a	408	562	662	+13.33	+17.79
<b>Pulses</b>	n/a	44	37	39	n/a	36	62	52	+5.41	-16.13
<b>Potatoes</b>	278	268	255	255	4016	3712	3649	4011	0	+9.92
<b>Fruit trees,</b> of which:	157	156	149	144	n/a	660	673	693	-3.36	+2.97
- apples	59	59	55	53	417	362	325	380	-3.64	+16.92
- pears	n/a	5	5	4	n/a	23	20	21	-20.00	+5.00
- plums	79	76	75	74	285	225	278	250	-1.33	-10.07
- cherries and sour cherries	7	8	8	7	48	26	26	23	-12.50	-11.54
- apricots	n/a	3	3	3	n/a	9	11	7	0	-36.36
<b>Vineyards**</b> , of which:	191	188	195	185	912	873	1010	1004	-5.13	-0.59
- grafted vineyards	n/a	93	101	95	n/a	511	603	598	-5.94	-0.83
- hybrid vineyards	n/a	95	94	90	n/a	362	407	406	-4.26	-0.25

\*Includes the production obtained in open fields, plastic tunnels, greenhouses and backyard vegetable gardens

\*\*Includes also the production obtained in backyard orchards

Source: National Institute of Statistics, 2009

It is estimated that only 10% of the production of fruit and vegetables is sold through modern retailers, due to the inability of the sector to meet quantity and quality conditions.

The production of preserved (canned) vegetable decreased dramatically after 1989. The processing sector was highly affected by the transition period (characterised by more or less successful privatisations) but also by the change of consumer preferences towards fresh or frozen



vegetables. Domestic production is slowly recovering due to investments in the sector, estimated to some 40 million EUR in the last two years.

#### ***Canned/preserved fruit and vegetables – market size***

	2003	2004	2005	2006	2007	2008	2009
Canned/preserved vegetables Retail Volume – 000's tonnes	28.8	29.3	30	30.6	31.8	33.7	34.9
Canned/preserved vegetables Retail Value - EUR mn	10.1	11.3	15.8	19.5	26.1	31.4	n/a
Canned/preserved fruit - Retail Volume – 000's tonnes	4	4.2	4.4	4.7	5	5.4	5.7
Canned/preserved fruit - Retail Value - EUR mn	5.1	5.4	6.9	8.6	11.6	13.9	n/a

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

The diversification of frozen vegetable products, their wide availability thanks to the continuous expansion of modern retail chains and the growing health concerns determined sales to double in the last five years (largely based on imports).

#### ***Frozen vegetables and potatoes – market size***

	2003	2004	2005	2006	2007	2008	2009
Frozen processed vegetables - Retail Volume - 000's tonnes	0.2	0.2	0.3	0.3	0.4	0.4	0.4
Frozen processed vegetables - Retail Value - EUR mn	0.3	0.4	0.5	0.7	0.9	1	n/a
Frozen processed potatoes - Retail Volume - 000's tonnes	0.4	0.5	0.6	0.7	0.9	1.1	1.2
Frozen processed potatoes - Retail Value - EUR mn	0.5	0.7	1	1.3	1.9	2.5	n/a

Source: Official statistics, trade associations, trade press, company research, trade interviews, Euromonitor International estimates

The fruit and vegetables sector offer opportunities in all the segments of the chain (storage, sorting, grading, packaging of fresh products as well as processing).

In 2008 Romania imported *vegetables* with a total value of 156 million EUR (of which almost 51 million EUR of tomatoes and 14 million EUR of potatoes) while vegetable exports stood at 40 million EUR. Most of the imports originated from Turkey (27.6%), followed by the Netherlands (11.4%), Italy (10%), Poland (7.2%) and Belgium (6.7%). Romania imported also *fruit* totalling 250 million EUR, mainly from Ecuador (20.1%), Greece (15.8%), Turkey (14.2%), Italy (12.3%) and the Netherlands (6.3%). Exports of fruit (mainly walnuts and berries) amounted to 31.2 million EUR and had as main destination Germany (20.6%) and Italy (17.1%).

With regard to *processed fruit and vegetables* (canned, frozen, juices, jams, etc.), in 2008 imports totalled nearly 186 million EUR while exports were 10 times less than imports (17.6 million EUR).

### **2.2.7 Fish processing**

The fisheries sector witnessed a continuous decline after 1989. Although the sector accounts for a small share of the economy (0.006% of GDP) it plays an important role for the coastline population. The fisheries sector includes aquaculture, inland and marine fishing. Aquaculture production represents 55% of the total fish production while inland water fishing and Black Sea fishing account for 30% and 15% respectively. It is estimated that domestic fish production does not cover more than 15% of demand.

Until the end of the 80's, Romania had an important fish processing industry. In the 90's, industrial fish processing almost ceased. This was partly caused by the collapse of production, following the cessation of the activities of the high sea fleet, to the shift of consumers' preferences towards innovative imported products and the obsolete (non-competitive) production

units.

After a sharp decline until 2000, processed fish production began to increase, especially after 2004. This increase of production was determined mostly by the new units built after 2000 and the upgrading of some of the old ones through the EU SAPARD pre-accession programme. However, the degree of utilisation of existing fish processing capacities does not exceed 50%, as they are physically and morally worn out.

The main species for processing are imported sea species, especially mackerel and herring. Imports consist mostly of frozen fish (mackerel, herring, sprat, Alaska cod, whiting, sardines and anchovies). Local species for processing are carp (90% of the local fish processed), trout, zander, pike, European catfish and perch.

Consumption is growing and fishery products are more widely available in supermarkets and restaurants.

### **Fresh Fish and Seafood: Market size**

(000's tonnes)

	2003	2004	2005	2006	2007	2008
Fish and seafood <sup>3</sup>	45.9	48.2	50.5	52.5	54.2	55.4
Fish	41.5	42.9	44.8	46.1	47.7	48.9
Crustaceans	3.8	4.6	5	5.7	5.8	5.8
Molluscs and cephalopods	0.6	0.7	0.7	0.7	0.7	0.7

Source: Euromonitor International, 2009

Although fresh fish consumption is gaining ground, most of the fish consumed is in frozen form. Consumption of molluscs and crustaceans is increasing, although it remains well below western European levels.

### **Retail Sales of Chilled and Frozen Fish Products**

	2003	2004	2005	2006	2007	2008
Frozen processed fish/seafood - Volume – 000's tonnes	0.2	0.2	0.3	0.3	0.3	0.4
Frozen processed fish/seafood - Value - EUR mn	0.8	1	1.4	1.8	2.5	3.1
Chilled fish/seafood products - Volume – 000's tonnes	4.2	4.3	4.5	4.7	4.9	5.1
Chilled fish/seafood products - Value - EUR mn	20	21.1	26.1	29.6	37.1	41.9

Source: Euromonitor International, 2009

The availability of EU funds through the Sectoral Operational Programme for Fisheries<sup>4</sup> is expected to prompt investments in both fish production and processing. After a considerable delay, this programme has become operational in 2010 – see Annex 3 for more details.

Most of the fish and fishery products consumed in Romania is imported. In 2008, imports of fish, seafood and molluscs totalled 103.6 million EUR, the main exporters being Spain (19.6%), Italy (13.1%), the Netherlands (9.3%), Poland (8.1%) and Norway (6.2%).

<sup>3</sup> This is the aggregation of fish, crustaceans, molluscs and cephalopods. Only include fresh uncooked and unprocessed fish and seafood (packaged and unpackaged) and unpackaged processed fish and seafood, eg. smoked salmon sold from fish/seafood counters in retail outlets. All packaged/processed fish and seafood products are excluded.

<sup>4</sup> Available at <http://www.madr.ro/pages/page.php?self=01&sub=0105>

## **CHAPTER 3 – EU Funds for the Romanian Food Sector**

### **3.1 EU Funds for Food Processing in the Pre-Accession Period 2000-2006 (SAPARD)**

During 2000-2006, a financial aid amounting to 379.51 million EUR (public funds) was granted through measure 1.1 “Improvement of processing and marketing of agricultural and fishery products” of the SAPARD Programme for the setting up and modernization of processing and marketing units for agricultural and fishery products. Most investments targeted the implementation of Community requirements needed to be met by the accession date.

Out of the 202 investments made through measure 1.1, 85 belong to the “Meat and eggs” sector, 48 to the “Milk and dairy products” sector, 27 to the “Cereal” sector, 24 to the “Wine” sector”, 17 to the “Vegetables, fruit and potatoes” sector and 1 to the “Oilseeds” sector. Thus, a number of 2,232 jobs have been created, the majority of them in the meat (1,243) and milk (515) processing sectors.

### **3.2 EU Funds for Food Processing in the Post-Accession Period 2007-2013 (EAFRD)**

The National Rural Development Programme (NRDP) for 2007-2013 is the basic document that allows Romania to benefit of some 8 billion EUR from the European Agricultural Fund for Rural Development. NRDP comprises several themes (“measures”) which can be financed using European funds (see Annex 1). Among them, Measure 123 called “Adding value to agricultural and forestry products” is specifically designed to co-finance investments in food processing.

#### **3.2.1 Overview of Measure 123: Adding value to agricultural and forestry products**

##### **Objective**

Support the investments aiming at the improving the processing and marketing of agricultural and forestry products.

##### **Scope**

The support through this measure is granted for tangible and intangible investments of establishments which process agricultural products; these are establishments which process raw materials included in Annex I of the Treaty establishing the European Community and that obtain products included or not included in that Annex (except for fishery products which are covered by a different programme - the Sectoral Operational Programme for Fisheries).

##### **Type and size of beneficiaries**

The beneficiaries eligible for support granted by this measure are:

- *Micro, small and medium enterprises*; defined in compliance with EC Recommendation no. 361/2003
- *Other enterprises* which are not micro, small and medium enterprises, defined in compliance with Article 28 of EC Regulation no. 1698/2005, with less than 750 employees or with a turnover of less than 200 million EUR.

##### **Priority sectors**

Priority sectors are: (i) milk and dairy products; meat, meat products and eggs, (ii) cereals, (iii) vegetable, fruits and potatoes, (iv) oilseeds, (v) honey, and (vi) wine.

Meat and dairy companies which obtained a transition period until the end of 2009 in order to comply with EU standards are considered priority companies. These are 276 red meat establishments, 26 poultry meat establishments, 207 milk and dairy products establishments and 22 eggs collecting centres. Their list is included in the NRDP (available on: <http://www.madr.ro/pages/page.php?self=03&sub=0302&tz=030202&lang=2>)

### Selection criteria

	Selection criterion	Points
1	Units that have restructuring programmes until 2011 and are included in the list agreed with DG Sanco, in order to comply with the Community standards.	5
2	Micro-enterprises adjusting to newly introduced Community standards*	7
3	<b>Units in the following priority sectors:</b> (i) milk and dairy products; meat, meat products and eggs (ii) cereals (iii) vegetables, fruits and potatoes (iv) oilseeds (v) honey (vi) wine**	(Maximum 30) 30 30 27 25 25 25
	<i>For projects which foresee investments in renewable energy</i>	10
4	SMEs situated in areas with available raw materials and without processing capacities***	10
5	Associative forms created minimum 6 months prior to the application, according to the legislation in force	5
6	Did not benefit of previous support from SAPARD/EAFRD for the same type of activity	5
7	SMEs that are both producers of raw materials, as well as processors	8
8	SMEs processing traditional products or similar products (DOC)	10
9	Collecting and/or processing organic products	10
	<b>TOTAL</b>	<b>100</b>

**Minimum score: 20 points**

### Types of investments (tangible / intangible)

Support shall be granted for tangible/intangible investments to enterprises in the agri-food processing industry.

### Tangible investments (indicative list):

- New buildings and/or modernization of buildings used for production, including environmental protection buildings, internal infrastructure, utilities and couplings.
- New construction and/or modernization activities for product storage, including wholesale low-temperature warehouses.
- Purchase or lease-purchase of new machinery, installations, equipment and devices, as well as installation costs.
- Investments in improving the internal control for the quality of raw materials, semi-products, end-products and by-products, in processing and marketing units.
- Purchase or lease-purchase of new specialized transport vehicles needed for production and marketing.

\* only for modernisations and expansions (no new investments); EU standards are mentioned in annex 2 of the Technical Fiche for measure 123 - available in the applicant's guide. The points are granted only for the application of standards for which companies obtained a transition period beyond 1.01.2010

\*\* except for the investments which will be carried out starting with 2009 from Pillar I of the Common Agricultural Policy

\*\*\* applicants must prove that at least 50% of the used raw materials come from the county where the investment is located (or from neighbouring counties)

Also eligible are investments in the production and usage (within the company) of energy from renewable sources, with the exception of biofuel production.

**Non-tangible investments (indicative list):**

- a) Organization and implementation of quality and food safety management systems, if they are related to the tangible investments of the project.
- b) Purchase of technologies (know-how), patent rights and licenses for the implementation of the project.
- c) General costs of the project according to Art. 55 of (EC) Regulation no. 1974/2006, such as: fees for architects, engineers and consultants, feasibility studies, taxes for obtaining certificates, permits and authorisations necessary for the project preparation/implementation (max. 8% of the eligible value of the project - if the project involves constructions and max. 3% - if the project does not involve constructions).
- d) Purchase of software, identified as necessary through the Feasibility Study.

**Investments which cannot be funded through this measure:**

- i. The processing of sugar beet which is not included in the allocated quota, as well as the processing of sugar cane.
- ii. Processing of tobacco.
- iii. Investments in rendering units.
- iv. Investments in research activities aiming to obtain new products and technologies related to the processing and marketing of agricultural products.
- v. Investments which directly support retail sales.

**Non-eligible investments and costs:**

- i. Construction or modernization of home residences or social headquarters\*.
- ii. Purchase of second-hand goods.
- iii. Purchase of land.
- iv. VAT, except for non-recoverable VAT.
- v. Operational costs, including maintenance and rental costs.
- vi. Bank commissions, costs with guarantees and similar expenditures.
- vii. Costs regarding the contribution in kind.
- viii. Costs for the promotion of products on the domestic market through fairs, ads and publicity.
- ix. Costs incurred through currency exchanges, taxes and losses due to currency exchanges.
- x. Costs related to leasing contracts: management tax, interests, insurance premium etc.
- xi. Costs incurred before project approval, except for technical studies, business plans and feasibility studies, certificate issuance, fees for architects, engineers and consultants.
- xii. Purchase of transport vehicles needed for personal use and transportation of persons.
- xiii. Investments made within the support schemes according to Article 2 (2) of Regulation (EC) no. 1974/2006.
- xiv. Investments made by the producer organizations the in fruit and vegetable sector which benefit from support within the Common Market Organisation.

**Aid intensities**

*Micro-enterprises and small and medium sized enterprises*

The support is 50% of the eligible value of investments and the maximum ceiling of the non-refundable public aid is 2,000,000 EUR/project.

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\* social headquarters are areas that serve the general activity of the company: offices for administrative personnel, meeting rooms, protocol rooms, kitchens and canteens, accommodation areas, etc.; areas for production personnel are eligible (examples: labs, locker rooms, veterinary offices, areas for serving meals, etc.)

The support is 50% of the eligible value of investments and the maximum ceiling of the non-refundable public aid is 3,000,000 EUR/project for the investments belonging to an associative form and serving its members;

The support intensity in the Development Region no. 8 (Bucharest-Ilfov) cannot exceed 40% of the eligible value.

*For other types of enterprises:*

The support is up to 25% of the eligible value of investments and the maximum ceiling of the non-refundable public aid is 2,000,000 EUR/project.

The support intensity in the Development Region no. 8 (Bucharest-Ilfov) cannot exceed 20% of the eligible value.

Projects with a total eligible value of less than 5000 EUR are not accepted.

### **Financing**

The financial allocation for this measures during 2007-2013 is:

*Public expenditure:* 1,071,174,126 EUR

*Total project costs:* 2,708,792,184 EUR

### **3.2.2 The implementation of Measure 123 in 2008**

The Paying Agency for Rural Development and Fisheries launched measure 123 "Adding value to agricultural and forestry products" in March 2008, after the approval of the National Rural Development Programme 2007-2013 in February 2008.

In 2008, a total number of seven sessions for submitting food industry projects were organised: in March, April, May, June, July, August and the last one in November-December. This analysis is based on the results of all the seven sessions.

In total, 440 food industry projects were submitted and 322 approved. During the first five sessions (March-July), the total value of the submitted projects was below the funds allocated in each session, therefore it was not necessary to carry forward (put on a waiting list for the next session) any submitted eligible projects.

#### **MARCH-DECEMBER 2008 (7 sessions in 2008) – GENERAL OVERVIEW**

	<b>number</b>	<b>total eligible project value (EUR)</b>	<b>total grant value (EUR)</b>
<b>submitted projects</b>	440	n/a	425,459,044
<b>approved projects</b>	322	617,291,925	305,263,606
<b>postponed projects</b>	79*	186,420,764	86,146,972

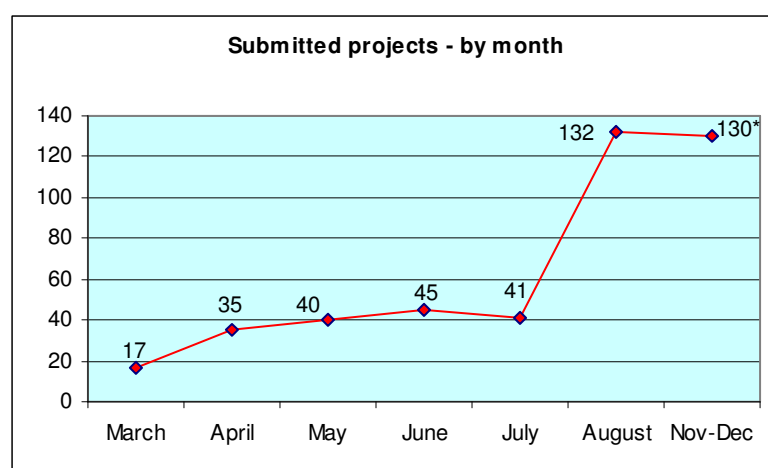
*\*73 in August and 6 in November-December*

The situation changed in the August session, when the requested funds were 3.5 times more than the available funds allocated for this particular session.

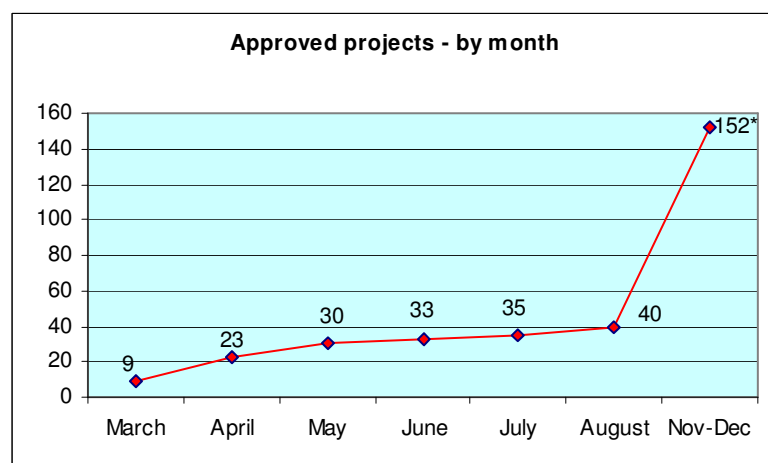
	(EUR)						
	March	April	May	June	July	August	Nov-Dec
available funds	33,390,775	51,053,886	50,604,594	48,060,910	42,137,272	39,301,843	150,073,792
requested funds	17,043,503	34,028,506	35,353,933	39,669,003	36,328,263	138,315,716	203,468,039*
approved funds	10,384,698	25,075,741	26,612,397	25,987,535	25,758,958	40,983,173	150,461,103
postponed requests of funds	0	0	0	0	0	78,747,919	7,399,053
unused funds	23,006,077	25,978,145	23,992,196	22,073,375	16,378,313	0	0

*\*of which 121,720,120 EUR were requested through newly submitted projects*

After a more difficult start – with only 17 projects submitted in March – and a more or less stable number of projects during April-July (around 40), the Paying Agency was confronted with a record number of financing requests in August (132). A number of 73 eligible projects had to be put on a "waiting list" due to insufficient funds. In the last session of the year (November-December) 130 new projects were submitted with a value of almost 125 million EUR, which had to compete – alongside the 73 eligible projects carried forward from August (amounting to 79 million EUR) – for the 150 million EUR available for this last session of 2008.

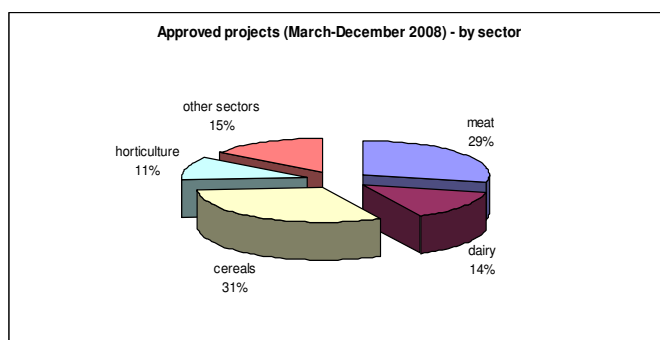


*\*the 73 projects carried forward from August are not included in the Nov-Dec figure*



*\*the approved projects include projects selected from the 130 projects submitted in November-December and the 73 projects carried forward from August*

Out of the 322 approved projects, 92 were in the meat sector, 101 in the cereals sector, 45 in the dairy sector, 35 in horticulture (fruit, vegetables and potatoes) and 49 in other sectors (wine - 24; food warehouses - 7; honey - 4; oilseeds - 3; rice - 2; petfood - 2; and one project in sectors such as malt, food ingredients).



The average eligible value of the approved projects was the highest in the meat sector (almost 2.1 million EUR) and the lowest in the dairy sector (around 1.6 million EUR).

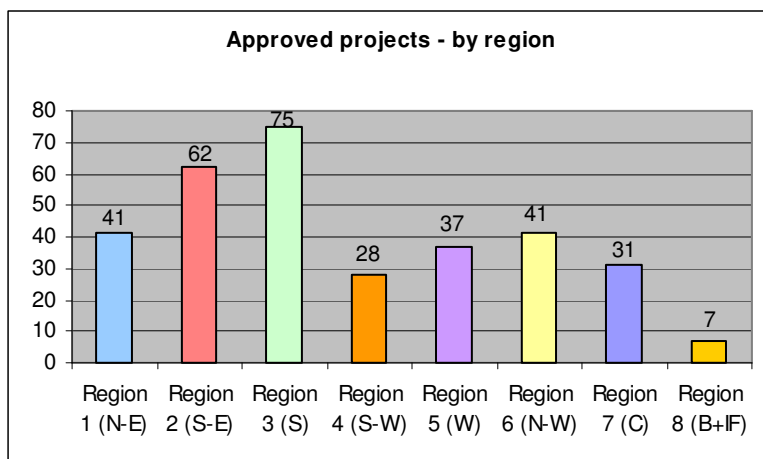
Sector	Average eligible value of approved projects (EUR)
meat	2,128,213
dairy	1,584,274
cereals	1,753,327
horticulture	1,942,561
other sectors	2,145,475

From the geographical point of view, there are interesting differences in project distribution across the eight development regions of Romania.

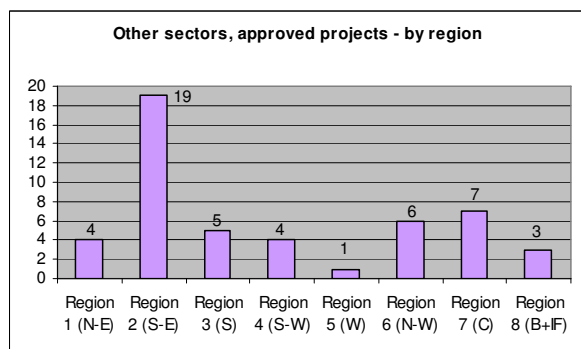
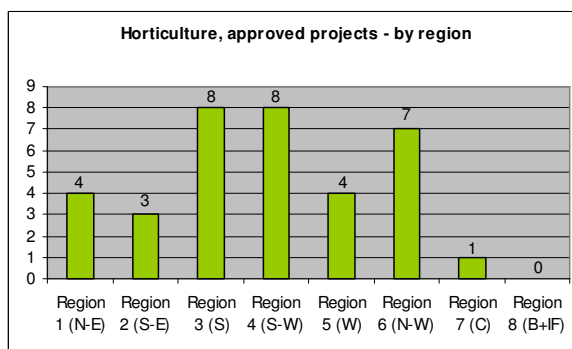
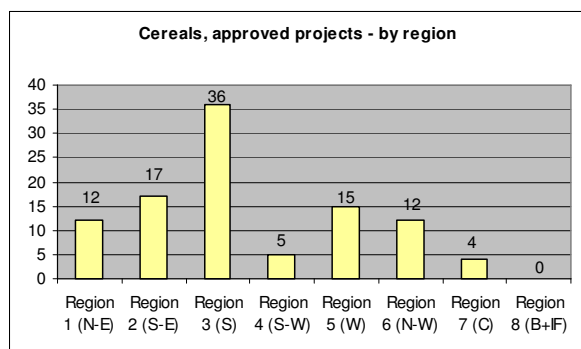
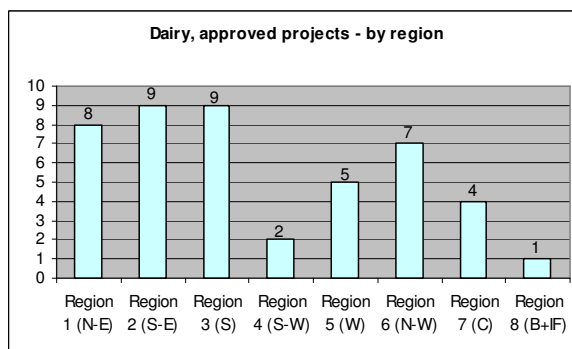
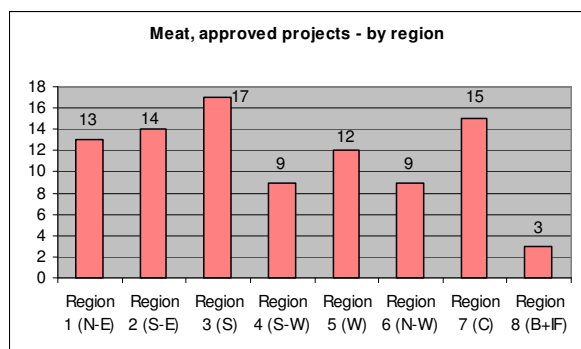
<b><i>Romania's 8 development regions:</i></b>	
1 - <b>North-East</b> Region: counties of Bacau, Botosani, Iasi, Neamt, Suceava, Vaslui	
2 - <b>South-East</b> Region: counties of Braila, Buzau, Constanta, Galati, Tulcea, Vrancea	
3 - <b>South</b> Region (Muntenia): counties of Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman	
4 - <b>South-West</b> Region (Oltenia): counties of Dolj, Gorj, Mehedinti, Olt, Valcea	
5 - <b>West</b> Region: counties of Arad, Caras-Severin, Hunedoara, Timis	
6 - <b>North-West</b> Region: counties of Bihor, Bistrita-Nasaud, Cluj, Maramures, Satu Mare, Salaj	
7 - <b>Centre</b> Region: counties of Alba, Brasov, Covasna, Harghita, Mures, Sibiu	
8 - <b>Bucharest-Ilfov</b> Region: county of Ilfov and the city of Bucharest	

Most of the approved financing applications came from the south and south-east regions of Romania (75 and 62 respectively) and they mainly targeted the cereals and meat sectors.





The dairy sector was particularly interested in EU financing in the south and the south-east regions, followed by the north-east region (where also most of the dairy cattle is located). Applications from the meat sector were somewhat evenly received from all over the country, however to a lesser extent from the western part of Romania, while most of the horticultural projects were approved in the south and south-western regions of the country.



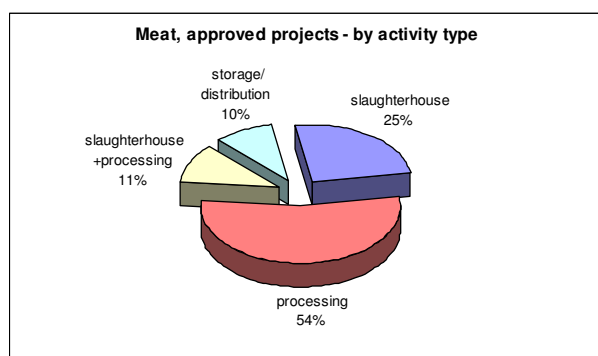
As the south-eastern part of Romania is traditionally a wine producing area and as most of the "other sectors" category comprises mainly wine projects, it is not surprising to see the south-east region leading in this particular category with 19 projects out of 49.

### *Meat*

During March-December 2008, the meat sector was particularly interesting for Romanian entrepreneurs, resulting in 92 financing applications approved.

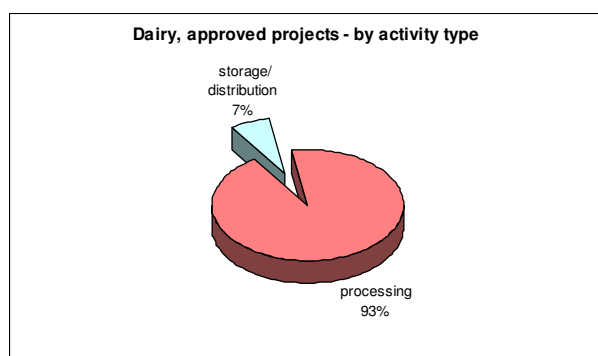
The average eligible value of the approved meat projects was 2.13 million EUR (of which 50% will be covered by the EU funds). Most of the investments relate strictly to meat processing (54%), while one quarter are in slaughterhouses.

The implementation of these 92 projects approved in 2008 will result in a total investment (public and private) in the meat sector of almost 196 million EUR.



### *Dairy*

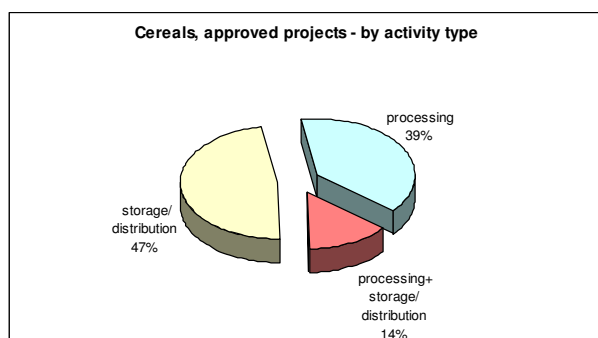
Some 45 projects were approved during the analysed period. The average eligible value of the approved dairy projects was 1.58 million EUR and most of the projects focused on processing (93%) and only a few on the storage and distribution of dairy products. Following the approval of these projects, some 71 million EUR (public and private funds) will be invested in the dairy sector.



### *Cereals*

In the cereal sector, 101 projects were approved and almost of them were in the milling sector. Most of them involved the modernisation or increase of the storage capacity (silos). The average eligible value of the projects approved in the cereal sector was almost 1.75 million EUR. More

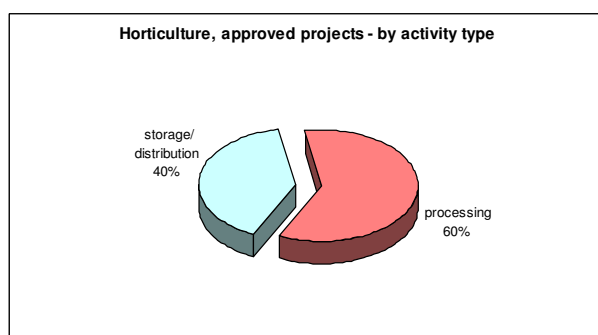
than 177 million EUR will be invested in this sector with the support of measure 123 of the National Rural Development Programme.



### *Horticulture*

This sector attracted the lowest number of applications during March-December 2008, resulting in 35 approved projects. The average eligible value of these projects was around 1.94 million EUR.

Of all submitted projects, 40% targeted the storage of fruit and vegetables, reflecting also the need of appropriate storage capacity in the Romanian horticultural sector. The development of this sector, and therefore the related investments, are hampered by the structure of the primary horticultural sector which is characterised by a high fragmentation (large number of small producers) and lack of associations. This problem will partly be addressed by Measure 142 "Setting up producer groups" which was launched only in December 2008.



Through the implementation of the approved projects, almost 68 million EUR will be invested in this sector.

## Summary of the 7 project sessions open in 2008

<b>MARCH</b>	(session 1)	33,390,775	EUR available	1 EUR = 3.6665 RON	
		10,384,698	EUR approved		
		23,006,077	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	
<b>meat</b>	4	3	2,459,442	7,378,326	
<b>dairy</b>	5	3	2,353,694	7,061,083	
<b>cereals</b>	3	1	380,262	380,262	
<b>horticulture</b>	3	2	3,012,091	6,024,183	
<b>other sectors</b>	2	0	0	0	
<b>total:</b>	<b>17</b>	<b>9</b>		20,843,854	
<b>APRIL</b>	(session 2)	51,053,886	EUR available	1 EUR = 3.7212 RON	
		25,075,741	EUR approved		
		25,978,145	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	
<b>meat</b>	12	9	2,626,092	23,634,832	
<b>dairy</b>	7	4	2,728,054	10,912,217	
<b>cereals</b>	8	6	1,597,206	9,583,238	
<b>horticulture</b>	3	3	934,469	2,803,406	
<b>other sectors</b>	5	1	4,123,073	4,123,073	
<b>total:</b>	<b>35</b>	<b>23</b>		51,056,766	
<b>MAY</b>	(session 3)	50,604,594	EUR available	1 EUR = 3.6856 RON	
		26,612,397	EUR approved		
		23,992,196	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	
<b>meat</b>	13	11	1,979,362	21,772,985	
<b>dairy</b>	4	4	781,192	3,124,766	
<b>cereals</b>	14	9	1,511,590	13,604,306	
<b>horticulture</b>	1	1	1,740,223	1,740,223	
<b>other sectors</b>	8	5	2,484,149	12,420,743	
<b>total:</b>	<b>40</b>	<b>30</b>		52,663,024	
<b>JUNE</b>	(session 4)	48,060,910	EUR available	1 EUR = 3.6445 RON	
		25,987,535	EUR approved		
		22,073,375	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	
<b>meat</b>	12	9	1,743,314	15,689,822	
<b>dairy</b>	7	6	2,468,092	14,808,551	
<b>cereals</b>	13	9	1,129,052	10,161,468	
<b>horticulture</b>	2	2	1,310,707	2,621,414	
<b>other sectors</b>	11	7	1,312,380	9,186,663	
<b>total:</b>	<b>45</b>	<b>33</b>		52,467,919	

<b>JULY</b>	(session 5)	42,137,272	EUR available	1 EUR = 3.6518 RON	
		25,758,958	EUR approved		
		16,378,313	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	
<b>meat</b>	11	10	2,273,584	22,735,838	
<b>dairy</b>	9	8	813,709	6,509,671	
<b>cereals</b>	10	10	1,085,382	10,853,817	
<b>horticulture</b>	4	4	2,669,646	10,678,584	
<b>other sectors</b>	7	3	569,406	1,708,217	
<b>total:</b>	<b>41</b>	<b>35</b>		52,486,127	
<b>AUGUST</b>	(session 6)	39,301,843	EUR available	1 EUR = 3.5381 RON	
		40,983,173	EUR approved		
		0	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	<b>postponed projects</b>
<b>meat</b>	37	17	2,019,770	34,879,648	16
<b>dairy</b>	14	10	1,862,591	17,297,570	2
<b>cereals</b>	45	9	2,302,425	16,645,833	32
<b>horticulture</b>	12	1	1,795,714	3,932,054	6
<b>other sectors</b>	24	3	2,775,534	9,211,246	17
<b>total:</b>	<b>132</b>	<b>40</b>		81,966,351	73
<b>NOV-DEC</b>	(session 7)	150,073,792	EUR available	1 EUR = 3.6375 RON	
		150,461,103	EUR approved		
		0	EUR unspent		
<i>projects:</i>	<b>submitted</b>	<b>approved</b>	<b>avg. eligible value (EUR)</b>	<b>total eligible value of approved projects (EUR)</b>	<b>postponed projects</b>
<b>meat</b>	<i>n/a</i>	33	2,112,248	69,704,184	1
<b>dairy</b>	<i>n/a</i>	10	1,157,849	11,578,490	0
<b>cereals</b>	<i>n/a</i>	57	2,032,581	115,857,110	2
<b>horticulture</b>	<i>n/a</i>	22	1,826,807	40,189,754	0
<b>other sectors</b>	<i>n/a</i>	30	2,282,612	68,478,345	3
<b>total:</b>	<b>130 new + 73 carried forward from August</b>	<b>152*</b>		<b>305,807,884</b>	<b>6</b>
* it includes projects carried forward from August					
<b>Cumulated eligible value of approved projects during March-December 2008: 617,291,925 EUR</b>					

In **2009** there was only one session open for Measure 123 (August-September 2009) during which 166 projects were submitted with a total request public contribution of 200 million EUR. Some 83 projects were approved, accounting for a public contribution of 100 million EUR.

For **2010**, see in Annex 2 a calendar of project sessions.

### **3.2.3 The State Aid Scheme XS 13/123A/2008 "Stimulation of SMEs processing agricultural products obtaining food products other than those listed in Annex I of the EC Treaty as well as those processing agricultural products for renewable energy and biofuels"<sup>5</sup>**

Although this is actually a state aid scheme set up by Romania and launched in May 2008, it is very similar to measure 123 of the National Rural Development Programme. It is meant to support small and medium sized enterprises (SMEs) which:

- produce products not listed in Annex I of the EC Treaty, such as: sugar products; cocoa paste, butter, oil or powder; chocolate; malt extracts; food products made of flour, including: pasta, breakfast cereals, bread, pastry, biscuits; soups and soup preparations; baby food, functional and diet food; ice cream;
- process products either included or not included in Annex I of the EC Treaty and which are used for the production of renewable energy; the electricity, biogas, heat or hot water obtained in this way must be used only for the company's own needs;
- produce biofuels (biodiesel and bioethanol for transport)

The funds available for 2008 amounted to 118,125,000 EUR, of which some 20 million EUR remained unused. The public co-financing for one project cannot exceed 50% and is limited to 3 million EUR. Although for 2009 no funds will be allocated to this state aid scheme due to the critical situation of the State Budget, it is useful to analyse the use of these funds in 2008, in order to determine the amounts and sectors in which these funds have been invested.

#### ***Number of projects***

<b>XS 13/123A/2008</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>Nov-Dec</b>	<b>Total</b>
Submitted projects	30	39	30	53	91	243
Approved projects	24	33	27	45	83	212
Rejected projects	2	3	0	1	6	12
Withdrawn projects	4	3	3	7	2	19

In the last session of 2008 (November-December) a record number of 91 projects were submitted.

#### ***Total value of approved projects (EUR)***

<b>XS 13/123A/2008</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>August</b>	<b>Nov-Dec</b>	<b>Total</b>
Approved projects	17,050,000	6,120,000	8,490,000	20,960,000	44,451,208	97,071,208

In the 5 project submission sessions of 2008, 212 projects were approved out of the 243 submitted, with a total value of 97 million EUR, almost half of it being allocated in the last session of 2008.

With regard to the sectors/activities for which projects have submitted, the vast majority of the projects (submitted and approved) targeted the bakery and pastry sector – almost 90% of the total.

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<sup>5</sup> Although it is a state aid scheme, it is included in this chapter due to the fact that it follows the same rules and procedures used for Measure 123 of the National Rural Development Programme financed through EAFRD, however for food industry sub-sectors which are not eligible under Measure 123 .

<b>Sector</b>	<b>Number of approved projects (May-December 2008)</b>
Bakery & pastry	190
Pasta	4
Breakfast cereals	1
Ice cream	6
Biofuel	3
Composite food products	1*
Sugar products	3
Chocolate and cocoa products	2
Renewable energy	2
<b>Total:</b>	<b>212</b>

*\* diet sweets*

Some 190 companies from the bakery and pastry sector will therefore receive funds to upgrade their production units (out of the approximately 5,500 companies operating in this field) and new production units will be set up as well.

With regard to the three biofuel projects, they were in the field of biodiesel production.

As this scheme relies on funds from the state budget, which is under hard constraints, it is not possible to estimate when it will be resumed.

## CHAPTER 4 – Sector Analysis

### 4.1 Sector analysis

Despite a relatively positive performance, the food industry is still confronted with a number of challenges:

• ***A dualistic industry still populated by too many small companies lacking economies of scale, for which capacity utilisation results in low average productivity and poor competitiveness.***

Generally speaking, the concentration in the food industry sector is low, particularly in sectors such as bakery, sugar confectionery and meat processing. Two thirds of the 11,000 food processing companies are small (with less than 9 employees), and about 1% are considered large (more than 250 employees). The small processing plants produce mainly for the local market, and their limited access to credit prevent them from modernizing and rationalizing their production. Relatively large companies (with more than 50 employees) dominate a few industries such as sugar, wine, and beer in particular.

• Raw material problems and under-investment in many agricultural and food companies have led to ***poor compliance with EU standards and inadequate food safety***. Food processors have significant problems because of their non-compliance with European standards (including the ISO and HACCP standards) and require significant investment in upgrading and modernization. The compliance level in meat production and processing in June 2007 shows that, out of a total number of 425 units, 123 were in line with the EU norms and therefore approved for intra-Community trade, while the remaining 302 were approved to operate during a transition period until the 31<sup>st</sup> of December 2009. In the dairy industry, out of the total number of 259 units, 52 were in line with EU standards and authorized for intra-Community trade, while 207 were granted a transition period until the end of 2009.

• ***Heavy dependence on raw material imports, as the primary production sector is underdeveloped.*** In general, the Romanian processing industry is still poorly integrated with the large majority of agricultural producers and remains therefore sensitive to supply fluctuations and unstable quality of raw materials compared to processors in other Member States. Therefore, exchange rate fluctuations have a direct impact on the food industry sector.

• ***The structural problems of the primary agricultural sector affects the entire food supply chain.*** Romania's agricultural structure hinders the development of a competitive, cost-efficient primary sector. Land fragmentation subsequent to the restitution of state owned land to previous owners, coupled with lack of financial means, insufficient modern agricultural knowledge and reluctance towards working together, has resulted into an non-competitive agricultural sector, characterised by high production costs and low or inconsistent quality. More active professional extension services, the setting up of producer groups and organisations, good use of available EU and national funds for modernisation (including investment in post-harvest activities), the certification of production processes and products which can provide quality and food safety guarantees to the retail sector and therefore to the end-consumer, are all key ingredients for well functioning supply chains.



## **4.2 SWOT analysis**

### **SWOT analysis of the Romanian food industry sector:**

#### **STRENGTHS**

- Large consumer base
- Food expenditure continues to grow, even if from a low base
- The share of food in total expenditure will remain high for several more years
- Improving competitiveness over recent years
- Increased foreign and national direct investment (the country provides multinationals with a low-cost production base for exports within the EU)
- Wide range of traditional products (1.500 nationally registered)

#### **WEAKNESSES**

- Large number of small companies, with low economies of scale, low capacity utilisation, low compliance with EU standards
- Large segments of the population (especially rural) remain too poor to consume significant amounts of processed food products)
- Supply of local raw materials not fulfilling quantitative and qualitative requirements, due to the underdeveloped and disorganised agricultural sector
- Lack of well established and transparent supply chains
- Weak and under-financed applied research
- Weak link between the education system and the production sector
- Lack of adequate workers (many of them finding employment abroad)

#### **OPPORTUNITIES**

- Further increase of Foreign Direct Investments following EU accession
- “Compulsory” restructuring due to EU accession (for milk, meat, and eggs)
- (Potentially) large raw material resources
- Scope for further modernization and restructuring
- Increased demand for traditional, quality products
- Consumers open to new products
- Booming retail sector supporting the development of food sales in the coming years
- Fragmented food industry, offering opportunities for acquisition-based entry/expansion to foreign companies
- Availability of EU funds for investments

#### **THREATS**

- End of the transition period for meeting the EU standards (2011)
- Foreign competition
- Inability to improve the quality of raw materials
- High cost of borrowing, affecting the co-financing capacity of beneficiaries of EU investment funds
- Exchange rate fluctuations (mainly for raw materials, but also for exports of foodstuffs)
- Financial-economic crisis resulting in lower sales (due to reduction of people’s disposable income) and difficult access to credits; consumer purchasing power remains very vulnerable to wider economic climate
- Eastward expansion of the EU to countries with lower cost of production
- Slow progress in tackling corruption and excessive red-tape.

## *Conclusions*

As income levels are set to grow over the medium term, a larger number of consumers will seek branded goods as a guarantee of high quality, safety and convenience. Still, given the significant segment of the population affected by poverty and the fact that around a third of the population is working in agriculture, open markets and small enterprises will account for a large volume of food sales for the foreseeable future. In the short-term, too, recent adverse economic conditions still have the potential to negatively impact the development of food consumption in the country, as the economic downturn results in rising unemployment and salary cuts. The medium and long term prospects, however, remain positive.

Performance in the food industry has improved significantly, but much more remains to be done in terms of restructuring the sector in order to remain competitive and meet EU food safety and quality standards, and in terms of establishing well-performing marketing links between the food industry and the large majority of farmers.

Competition on the food processing market is quite high. The stringent need for modernisation of production capacities (accelerated by Romania's EU membership) as well as the availability of EU funds for investments, provide interesting opportunities for suppliers of equipment and technology in most of the food industry sub-branches.

The increasing consumption of food products in Romania, coupled with the booming retail sector, has attracted and continues to attract foreign investments in food processing. As of December 2007, this sector has attracted 5.2% (that is 2.2 billion EUR) of the total foreign direct investments in Romania. This places the food industry sector on the 6<sup>th</sup> position in terms of foreign direct investment, after banking & insurance, commerce, constructions & real estate, metal processing and postal services & telecommunications.

Suppliers of raw materials for the food industry can also find interesting opportunities on the Romanian market, as the country is – despite its agricultural potential – a net importer of agri-food products.

## ANNEX 1

### Overview of the measures that are financed from the European Agricultural Fund for Rural Development

(source: National Rural Development Programme

<http://www.madr.ro/pages/page.php?self=03&sub=0302&tz=030202&lang=2>)

	<b>Total public budget 2007-2013 (euro)</b>	<b>Starting date</b>
<b><u>Axis 1 - Improving the competitiveness of the agricultural and forestry sectors</u></b>	<b>3,967,311,581</b>	
111 - Vocational training, information actions and diffusion of knowledge	119,019,349	May 2010
112 - Setting up of young farmers	337,221,484	Operational as of December 2008
113 - Early retirement of farmers and farm workers	0	Starting with 2010; budget included in total axis budget
114 - Use of advisory services	0	Starting with 2010; budget included in total axis budget
121 - Modernisation of agricultural holdings	991,827,895	Operational as of March 2008
122 - Improving of the economic value of forests	198,365,579	n/a yet
123 - Adding value to agricultural and forestry products	1,071,174,126	Operational as of March 2008
125 - Improving and developing infrastructure related to the development and adaptation of agriculture and forestry	476,077,390	March 2010
141 - Supporting semi-subsistence agricultural holdings	476,077,390	Operational as of December 2008.
142 - Setting up of producer groups	138,855,905	Operational as of December 2008.
143 - Providing farm advisory and extension services	158,692,463	n/a yet
<b><u>Axis 2 - Improving the environment and the countryside</u></b>	<b>2,293,413,375</b>	
211 - Support for mountain areas	607,754,544	March 2010
212 - Support for Less Favoured Areas (LFAs) – other than mountain areas	493,083,876	March 2010
213 - Natura 2000 payments, on agricultural land	0	Starting with 2010; budget included in total axis budget
214 - Agri-environment payments	963,233,617	March 2010
221 - First afforestation of agricultural land	229,341,338	n/a yet
223 - First afforestation of non-agricultural land	0	Starting with 2010; budget included in total axis budget
224 - Natura 2000 payments, on forestry land	0	Starting with 2010; budget included in total axis budget
<b><u>Axis 3 - The improvement of the quality of life in rural areas and rural economy diversification</u></b>	<b>2,473,739,880</b>	
312 - Support for the creation and development of micro-enterprises	383,429,681	Operational as of September 2008
313 - Encouragement of tourism activities	544,222,774	Operational as of September 2008
322 - Village renewal and development, improvement of basic services for the economy and rural population, conservation and upgrading the rural heritage	1,546,087,425	Operational as of March 2008
341 - Skills acquisition and animation with a view to preparing and implementing a local development strategy	0	To be implemented starting with 2010; budget included in total axis budget
<b><u>Axis 4 – Leader (Development of local initiatives)</u></b>	<b>235,074,871</b>	
4.1 Implementation of Local development strategies:	171,604,657	
4.21 Implementing cooperation projects	4,701,496	
4.31 Running the Local Action Groups, acquiring skills and animating the territory	58,768,718	
<b><u>Total axes 1, 2, 3, 4</u></b>	<b>8,969,539,707</b>	

## ANNEX 2

### EU Funds for Rural Development: tentative calendar and fund allocation of the calls for projects in 2010

Measure	Number of sessions	Period	Allocation per session (euro)	Total allocation 2010 (euro)
112 Setting up of young farmers	2	01.06 - 30.06	50,000,000	100,000,000
		01.09 – 30.09	50,000,000	
121 Modernisation of agricultural holdings	2	03.05 – 31.05	150,000,000	250,000,000
		01.10 – 29.10	100,000,000	
123 Adding value to agricultural and forestry products	1	01.06 – 30.06	170,000,000	170,000,000
Scheme_M123 Stimulating regional development by investments in processing agricultural and forestry products, for obtaining non-agricultural products	1	01.07 – 30.07	Agriculture: 79,200,000 (80%)	99,000,000
			Forestry: 19,800,000 (20%)	
125 Improving and developing infrastructure related to the development and adaptation of agriculture and forestry	2	15.03 – 15.04	148,774,185	297,548,370
		15.10 – 15.11	148,774,185	
141 Supporting semi-subsistence agricultural holdings	2	15.04 – 14.05	75,000,000	150,000,000
		15.10 – 15.11	75,000,000	
142 Setting up of producer groups	continuous session			6,942,795 (corresponding to the year 2008)
211 Support for mountain areas	1	01.03-17.05 - without penalties 18.05-11.06 - 1% penalty/1 working day of delay	57,100,000	57,100,000
212 Support for Less Favoured Areas – other than mountain areas	1	01.03-17.05 - without penalties 18.05-11.06 - 1% penalty/1 working day of delay	44,000,000	44,000,000
214 Agri-environment payments	1	01.03-17.05 - without penalties 18.05-11.06 - 1% penalty/1 working day of delay	186,000,000	186,000,000
312 Support for the creation and development of micro-enterprises	1	14.06 – 15.07	95,857,420	95,857,420
313 Encouragement of tourism activities	1	01.07 – 30.07	136,055,694	136,055,694

The National Rural Development Programme 2007-2013 is available on:

[http://www.madr.ro/pages/dezvoltare\\_rurala/NRDP\\_consolidated\\_version\\_December-2009.pdf](http://www.madr.ro/pages/dezvoltare_rurala/NRDP_consolidated_version_December-2009.pdf)

Source: Romanian Ministry of Agriculture and Rural Development.

## ANNEX 3

### The Operational Programme for Fisheries 2007-2013

The Romanian Ministry of Agriculture and Rural Development has announced on the 26th of March 2010 the launching of two important financing measures for the fish sector: Measure 2.1 Productive investment in aquaculture and Measure 2.6 Investments in processing and marketing. The funds are available from the European Fishery Fund. The call for proposals is a continuous one until the end of this year. Beneficiaries can be micro enterprises or SMEs (in which case the own contribution of the applicant is 40% of the total eligible costs of the project) or even larger companies - however with maximum 750 employees or a turnover of less than 200 million eur - (in which case the own contribution of the applicant should be 70% of the eligible costs of the project). The maximum public contribution is 3 million EUR per project.

The Operational Programme for Fisheries is available on

[http://www.madr.ro/pages/piscicultura/fisheries\\_operational\\_programme\\_2007\\_2013.pdf](http://www.madr.ro/pages/piscicultura/fisheries_operational_programme_2007_2013.pdf) (in English) while the applicant's guides are available on

<http://www.madr.ro/pages/page.php?sub=2002&self=20> (in Romanian only).

Overview of the measures of the Operational Programme for Fisheries and their timetable for 2010:

MEASURE	ALLOCATION 2007-2013 (EUR)	FUNDS AVAILABLE FOR 2007-2010	DATE FOR LAUNCHING MEASURES IN 2010
<b>Axis 1: Measures for the adaptation of the Community fishing fleet</b>	<b>13,300,000</b>	<b>5,992,310</b>	
Measure 1.1 – Public aid for permanent cessation of fishing activities	4,655,000	2,097,308.50	25 May
Measure 1.2. - Public aid for temporary cessation of fishing activities	665,000	299,615.50	
Measure 1.3 - On board investment and selectivity	3,325,000	1,498,077.50	
Measure 1.4 – Small scale fisheries	1,995,000	898,846.50	
Measure 1.5 - Socio-economic compensation	2,660,000	1,198,462	
<b>Axis 2: Aquaculture, inland fishing, processing and marketing of fishery and aquaculture products</b>	<b>140,000,000</b>	<b>63,011,200</b>	
Measure 2.1 Productive investment in aquaculture	79,800,000	35,916,384	26 March
Measure 2.2 Aqua-environmental measures	3,500,000	1,575,280	15 April
Measure 2.3 Public health measures,	1,400,000	630,112	25 May
Measure 2.4 Animal health measures	1,400,000	630,112	25 May
Measure 2.5 Inland fishing	6,300,000	2,835,504	25 May
Measure 2.6 Investments in processing and marketing	47,600,000	21,423,808	26 March
<b>Axis 3: Measures of common interest</b>	<b>40,000,000</b>	<b>18,272,000</b>	
Measure 3.1 Collective actions	12,000,000	5,481,600	25 May
Measure 3.2 Protection and development of aquatic fauna and flora	16,000,000	7,308,800	
Measure 3.3 Fishing ports, landing sites and shelters	8,000,000	3,654,400	
Measure 3.4 Development of new markets and promotional campaigns	2,600,000	1,187,680	
Measure 3.5 Pilot projects	1,400,000	639,520	
<b>Axis 4: Sustainable development of fishing areas</b>	<b>100,000,000</b>	<b>19,500,000</b>	
Measure 4.1 Selection of Fisheries groups	97,500,000	19,500,000	10 February
Measure 4.2 Support for undertaking cooperation actions	2,500,000	0	
<b>Axis 5: Technical Assistance</b>	<b>14,318,942.70</b>	<b>6,163,329.00</b>	permanent
<b>TOTAL</b>	<b>307,618,942.70</b>	<b>112,938,839.00</b>	

Source: Ministry of Agriculture and Rural Development, 2010

## **ANNEX 4**

### **Useful contacts**

#### **Organisations**

The Romanian Food Industry Federation - ROMALIMENTA [www.romalimenta.ro](http://www.romalimenta.ro)

The Romanian Meat Association - ARC [www.rma.ro](http://www.rma.ro)

The Association of Dairy Processors - APRIL [www.april.org.ro](http://www.april.org.ro)

Employers Organisation - Milling, Bakery and Flour Products - ROMPAN [www.rompan.ro](http://www.rompan.ro)

National Association of Flour Milling and Baking Industries - ANAMOB [www.anamob.ro](http://www.anamob.ro)

#### **Authorities**

Ministry of Agriculture, Forests and Rural Development [www.madr.ro](http://www.madr.ro) (RO)

Paying Agency for Rural Development and Fisheries [www.apdrp.ro](http://www.apdrp.ro) (RO)

National Agency for Fisheries and Aquaculture [www.anpa.ro](http://www.anpa.ro) (RO)

National Sanitary Veterinary and Food Safety Authority [www.ansvsa.ro](http://www.ansvsa.ro) (RO)

#### **Trade Fairs**

INDAGRA-Food: Bucharest, every November (first edition in 2008) [www.indagra-food.ro](http://www.indagra-food.ro)

INDAGRA-Farm: Bucharest, every November [www.indagra-farm.ro](http://www.indagra-farm.ro)

AGRARIA: Cluj Napoca, every May [www.agraria.info.ro](http://www.agraria.info.ro)

#### **Retail chains**

<http://mcir.doingbusiness.ro/en/retail.html>

#### **Other**

Embassy of the Kingdom of the Netherlands [www.netherlandsemb.ro](http://www.netherlandsemb.ro)

Netherlands Economic Network [www.hollandtrade.ro](http://www.hollandtrade.ro)

The Netherlands-Romania Chamber of Commerce, Industry and Agriculture [www.netherlands.ro](http://www.netherlands.ro)

Nederlandstalig Platform Roemenië [www.nederland.ro](http://www.nederland.ro)

Embassy of Romania in the Netherlands <http://haga.mae.ro>

NL EVD Internationaal [www.evd.nl](http://www.evd.nl)

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