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Koninkrijk der Nederlanden

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

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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 in the last years, 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 is rapidly developing due to changes in consumer behaviour caused by a retail sector that is expanding beyond expectations. In the year 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 is growing and this is reflected also by the increasing number of food outlets. Modern retail has continued its upward evolution, as consumers increase 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, higher disposable incomes have permitted more people to shop at these stores and buy a larger variety of products.

The huge 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.

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.

In 2008, local and multinational retailers have opened 134 stores - on a total investment of about 589 million EUR – out of the 176 initially planned. Some 56 discount stores have been opened, 49 supermarkets, 27 hypermarkets and two cash&carry outlets.

After a break of 3 years – used to modernise its existing chain – *Metro Cash&Carry* has opened its 24th store in Deva (west Romania), investing approximately 20 million EUR. *Selgros* (the cash&carry division of the German Rewe group) planned two store openings, but it achieved one only, in Braila, this being its 17th store in Romania.

Hypermarkets continued their expansion in 2008, with the exception of Cora. *Carrefour* was the most dynamic hypermarket in 2008, concluding the year with twice the number of stores it had in 2007. In 2008 it opened 10 new hypermarkets, one Carrefour store in Brasov and 19 supermarkets resulting from the rebranding of the acquired local Artima chain into Carrefour Express. Total investments in 2008 reached about 180 million EUR (including 6.5 million EUR for the Artima chain rebranding).

Real, the hypermarket division of the Metro group, has opened six out of the seven initially planned stores, on a total investment of approximately 128 million EUR. As of the end of 2008, Real had 20 stores in Romania, investing some 425 million EUR in 2 years and 9 months.

Auchan opened two of the three hypermarkets planned for 2008, bringing to six the total number of stores in Romania (plus a supermarket). Investment in one Auchan outlet is around 20 million EUR. The local hypermarket chain *Pic* opened its 5th outlet in autumn 2008. At the same time, German retailer *Kaufland* has reached 39 stores, by opening in 2008 eight new outlets, investing some 8 million EUR in each.

In the supermarkets segment, a major transaction took place in 2008: the 14 La Fourmi

supermarkets have been taken over by *Mega Image* (operated by the Belgian retailer Delhaize). Following this 18.6 million EUR transaction, Mega Image has become the supermarket chain with the biggest number of outlets in Romania. Out of the 10 planned supermarket openings, *Billa* opened only six stores in 2008, reaching 34 stores in total. Another supermarket chain that did not meet its expansion plans for 2008 was the Dutch retailer *Spar*, with 7 openings compared to the 20 initially announced. On the other hand, the local supermarket chain *Ethos* has opened in 2008 nine new stores in small towns, four more than initially announced by the company's officials, on a total investment of 2.4 million EUR.

Plus Discount invested 31.5 million EUR in 21 new stores in 2008, reaching 71 outlets in total. Rewe Romania operates the same number of discounters (71) through its two discount store formats: *Penny Market* (20 new stores opened in 2008) and *Penny XXL* (one new store in 2008). Also the *Profi* discounter inaugurated 8 new outlets and continued at the same time the rebranding of the Albinuta stores acquired in 2007. German discount store network *Lidl* could open its first stores on the Romanian market in 2010, after in 2009 it will finalise its office buildings a possibly a logistic centre in Chiajna, near Bucharest.

According to the data of the National Institute of Statistics, the volume of retail turnover (excluding vehicle and motorcycle sales) increased by 13% in 2008 compared to 2007, a progress generated by both non-food products sales (+ 14.4%) and food/beverage/tobacco sales (+ 11.4 percent).

Nationwide, modern retail plays an increasingly important role, covering in 2008 about 41% of the value of consumer goods market, compared to 38% in 2007, according to a report of the GfK Romania market research company.

1.2 Food Retail Development Plans for 2009

For 2009, retail chains have disclosed new store openings totalling 162 outlets.

CHAIN	Number of existing outlets (as of the end of 2008)	Planned expansion (in 2009)
Auchan	6	2
Billa (Rewe)	34	10
Carrefour	21	10
Carrefour Express	19	10
Cora (Louis Delhaize)	3	1
Ethos	22	7
Fidelio	17	6
G'market	6	2
Interex	11	5
Kaufland (Lidl&Schwartz)	39	12
Mega Image (Louis Delhaize)	40	8
miniMax	19	15
Oncos	21	n/a
Penny Market (Rewe)	65	25
Penny XXL (Rewe)	6	2
Pic	5	3
Plus Discount (Tengelmann)	71	25
Primavara	9	0
Profi (Louis Delhaize)	51*	8
Real (Metro)	20	5
Selgros (Rewe)	17	1
Spar	21	n/a
Trei G	6	0
Trident	5	5
Wolf	4	n/a
Total	538	162

In the context of the financial and economic crisis, it is expected that in 2009 supermarkets and discounters will be in a better position 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.

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 in the last years, 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.

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.

The number of food processing units and their respective production capacities, as registered with the Romanian Ministry of Agriculture in 2007 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	24565	1672	1337.4*	14558.1**	507.6	704.7
No. of units***	876	1007	2228	6353	159	529

Source: Ministry of Agriculture, Forests and Rural Development, 2008

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

**10806.2 thousand t – milling products; 3751.9 thousand t bakery products

*** an important number of dairy and meat establishments have however ceased activity in the meantime 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 can be found 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.

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

Source: National Institute of Statistics, 2009

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, with relatively slight increases and decreases.

LIVESTOCK (on December 1)

000's heads	1991*	2005	2006	2007	2008	2008/2007 (±%)
Cattle, of which:	6,291	2,862	2,934	2,819	2,684	-4.8
<i>cows, buffalo cows and heifers</i>	2,468	1,812	1,810	1,732	1,639	-5.4
Pigs*, of which:	11,671	6,622	6,815	6,565	6,174	-6.0
<i>sows for breeding</i>	1,023	494	520	442	376	-14.9
Sheep and goats	16,452	8,298	8,406	9,334	9,780	+4.8
<i>sheep</i>	15,435	7,611	n.a.	n.a.	n.a.	n.a.
<i>goats</i>	1,017	687	n.a.	n.a.	n.a.	n.a.
Poultry, of which:	113,968	86,552	84,991	82,036	84,373	+2.8
<i>laying hens</i>	49,390	49,725	50,278	45,208	45,529	+0.7

* as of December 31

**the number of pigs on December 31 is considerably lower than on December 1, due to Romanian Christmas traditions (end-December 2006: 5,175,000 pigs; end-December 2007: 4,789,000 pigs)

Source: National Institute of Statistics and Ministry of Agriculture, Forests and Rural Development, 2009

Statistical data shows that on December 1, 2008 there were almost 2.7 million cattle (down nearly 5% compared to the previous year), 9.8 million sheep and goats (almost 15% more than in 2007). The number of pigs was almost 6.2 million heads – down 6%. The poultry number increased by some 3% in 2008 compared to 2007, to 84 million heads (with a smaller increase in the case of laying hens).

ANIMAL PRODUCTION

		1990	2004	2005	2006	2007	2007/2006 (±%)
MEAT, TOTAL - live weight	000's tonnes	2,420	1,561	1,508	1,398.1	1,648.7	+15.20
of which:							
- beef	000's tonnes	633	391	383	318.1	427.4	+25.57
- pork	000's tonnes	1,010	627	605	617.8	668.6	+7.60
- mutton and goat meat	000's tonnes	203	166	114	101	146.3	+30.96
- poultry meat	000's tonnes	552	372	401	361.2	406.4	+11.12
EGGS	million pieces	8,077	7,381	7,310	7,429	6,408.6	-15.92
WOOL	tonnes	38,167	17,505	18,390	18,544	20,216	+8.27

Source: National Institute of Statistics 2009 and Ministry of Agriculture, Forests and Rural Development, operational data 2008. 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.

LIVESTOCK SLAUGHTER

	Number (000's heads)				Carcass weight (tonnes)			
	2006	2007*	2008**	2008/2007 (±%)	2006	2007*	2008**	2008/2007 (±%)
Cattle, of which:	1,156	1,190	1,116	-6.22	159,313	164,642	190,616	+15.78
<i>in specialised industrial units</i>	156	212	188	-11.32	33,111	43,477	39,770	-8.52
Pigs, of which:	5,469	5,662	5,660	-0.04	451,832	470,223	455,330	-3.17
<i>in specialised industrial units</i>	1,642	2,118	2,408	+13.69	123,260	162,250	178,660	+10.11
Sheep and goats	5,641	6,127	6,321	+3.17	45,246	54,763	65,602	+19.79
<i>in specialised industrial units</i>	195	158	167	+5.70	2,551	1,849	1,857	+0.43
Poultry, of which:	184,365	208,148	211,293	+1.51	273,305	312,145	343,062	+9.90
<i>in specialised industrial units</i>	116,967	131,195	154,899	+18.07	184,348	210,986	255,679	+21.18

* Final data

** Provisional data. Data resulted from statistical research applications

Source: National Institute of Statistics, 2009

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
- Agrolis (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 6th 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 fairly stable. 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 (and also 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 10th, 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 Angst, Aldis, TC Affaires (Caroli) and Tabco Campofrio Romania, Reinert,

Kosarom. 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 Meats¹

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

Source: Euromonitor International, 2009

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 2004-2008 (%)

(% retail value)

	2004	2005	2006	2007	2008
Bacon	10.0	11.0	11.0	9.0	8.0
Boiled sausages	7.0	9.0	10.0	10.5	11.0
Bologna	10.0	9.0	8.0	6.0	5.0
Chorizo	2.0	3.0	4.0	5.0	6.0
Ham	20.0	18.0	17.0	16.0	15.5
Liver pâté	10.0	10.0	11.0	11.0	11.2
Mortadella	4.0	3.0	2.0	1.0	1.2
Salami	14.0	15.0	15.0	15.0	15.2
Sausages	6.0	6.0	6.0	8.0	9.0
Smoked ham	11.0	12.0	13.0	14.0	14.8
Others	6.0	4.0	3.0	4.5	3.1
Total	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 is expected to continue, however at a much slower pace, compared to the previous years, as the market increasingly approaches maturity.

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 6th place, with slightly more than 4.5 million EUR (6.5% of total imports).

2.2.2 Dairy industry

Total milk production was 5.3 million tonnes in 2007, of which only 22% (about 1.1 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.

¹ 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.

MILK PRODUCTION

		1990	2004	2005	2006	2007	2007/2006 (±%)
Milk (cow)	000's hl	40,311	55,444	55,334	58,307	54,875	-5.88

Source: National Institute of Statistics, 2009. Includes production obtained in rural households (used mainly for self-consumption and direct sales)

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. On the other hand, 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	2008/2007 (±%)
Milk collected by processors	tonnes	1,108,696	1,107,021	1,144,097	1,122,770	-1.86
Average fat content	%	3.65	3.67	3.69	3.71	+0.54
Average protein content	%	3.20	3.21	3.03	3.05	+0.66
Milk for consumption	tonnes	159,464	191,335	184,055	198,527	+7.86
Sour cream	tonnes	33,940	39,374	46,159	47,297	+2.47
Yoghurt and other fresh (acidified) products	tonnes	92,331	116,229	129,951	143,121	+10.13
Butter	tonnes	6,563	7,714	8,216	8,484	+3.26
Cheese	tonnes	65,547	67,393	67,304	69,618	+3.44
of which from cow milk	tonnes	56,913	61,429	61,877	64,892	+4.87

Source: National Institute of Statistics, 2009

Despite the fact that the quantity of raw milk collected by processors has decreased, the production of 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 is 3,057,000 tonnes, of which 1,251,000 tonnes for deliveries to processors and 1,806,000 tonnes for direct sales². Romania is also entitled to a reserve quota of 188,000 tonnes to be allocated in 2009.

According to the Romanian Milk Quota Department, there are 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 is expiring on December 31, 2009. An extension was requested until 2011, however no official answer has been received yet from the European Commission. If the sector is to develop fast, priority should be given to: better feed and forage practices 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.

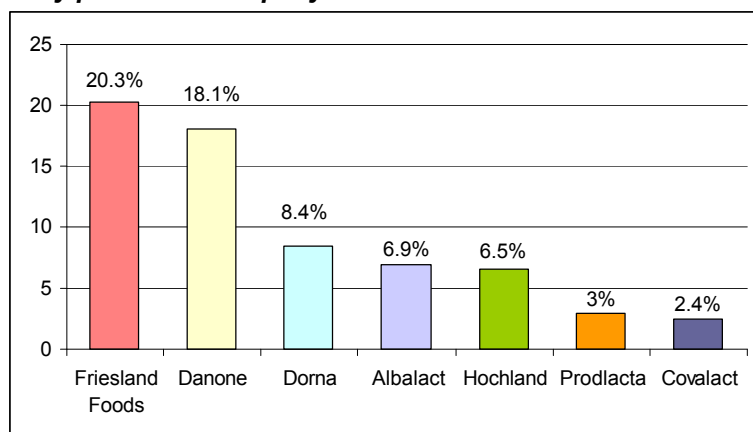
As in the case of meat establishments, Romania requested the EU a transition period until 31

² 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.

December 2009 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.

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 2007³



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 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Dorna Lactate SA	24.1	19.0	18.5	16.9	16.5
Albalact SA	0.3	8.1	10.0	14.7	15.8
Friesland Romania SA	1.8	3.0	7.1	12.2	12.9
Napolact SA (owned by Friesland)	1.9	1.8	3.5	5.0	6.3
Raraul SA	2.5	3.2	4.1	4.7	4.3
Covalact SA	0.5	0.9	1.6	2.4	3.4
Euro Food Prod SRL	1.7	1.6	2.2	3.0	3.1
Malita Prod Com Srl	2.1	2.6	3.2	3.8	2.8
Brailact SA	-	0.6	1.2	1.9	2.7
Danone Romania SRL	-	0.2	0.3	0.9	2.5
Prodlacta SA	0.6	1.0	1.4	2.0	2.5
Remetea SA	1.8	2.4	2.6	3.4	2.5
Lacta SA	0.1	0.2	0.3	0.7	0.9
Lactag SA	0.1	0.4	0.6	0.7	0.9
Ecolact Prod SRL	-	-	-	-	0.7
Vranlact SA	0.1	0.2	0.3	0.6	0.6

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

³ Tnuva entered the Romanian market in mid-2007; at the end of that year it was on the 10th place with 0.9% of the market

Yoghurt: Company Shares 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Danone Romania SRL	61.6	61.9	60.3	57.3	55.1
Friesland Romania SA	9.7	12.4	12.4	12.2	12.3
Albalact SA	0.8	0.8	2.1	5.0	7.4
Napolact SA (owned by Friesland)	6.9	5.9	5.8	4.6	4.4
Covalact SA	2.2	6.1	6.1	5.4	3.9
Tnuva Romania Dairies SRL	-	-	-	-	3.2
Prodlacta SA	2.8	2.0	1.7	2.1	2.3
Brailact SA	1.2	0.9	0.9	1.9	1.8
Delaco SRL	-	-	-	-	0.8
Ecolact Prod SRL	-	-	-	-	0.7
Lactag SA	0.7	0.6	0.5	0.5	0.4
Dorna Lactate SA	-	-	0.2	0.4	0.4
Lacta SA	0.4	0.3	0.3	0.4	0.4

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

Cheese: Company Shares 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Hochland Romania SRL	25.9	26.4	26.5	29.8	29.7
Dorna Lactate SA	14.2	15.4	17.6	16.9	16.4
Friesland Romania SA	8.9	9.4	9.2	9.3	8.8
Napolact SA (owned by Friesland)	4.9	4.7	4.1	4.6	5.2
Delaco SRL	0.9	0.7	2.2	2.7	4.2
Prodlacta SA	6.3	4.5	3.5	3.5	4.0
Gordon Prod SRL	2.1	2.3	2.5	3.0	3.0
Industrializarea Laptelui Harghita SA	1.9	2.0	1.8	2.2	1.9
Cortina International Food Co Srl	2.0	2.1	1.9	2.0	1.9
Kraft Foods Romania SA	0.0	0.4	1.2	1.7	1.7
Covalact SA	2.9	2.8	2.4	1.7	1.6
Unilever South Central Europe SRL	0.5	1.4	2.0	2.0	1.6
Lactalis International	1.5	1.7	1.6	1.6	1.5
Casa Mediterana Import SRL	-	-	-	-	1.1
Fromageries Bel SA	1.3	0.7	0.7	0.8	0.7
Cavior SRL	-	-	-	-	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 during 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 -				2008/2007 (±%)	
	2005	2006	2007	2008	2005	2006	2007	2008	%ha	%t
Cereals, of which:	5866	5114	5129	5211	19345	15759	7815	16834	+1.60	+115.41
Wheat	2476	2013	1975	2103	7341	5526	3044	7144	+6.48	134.69
Barley and two- row barley	485	332	364	399	1079	773	531	1211	+9.62	+128.06
Oats	215	197	209	208	377	347	252	429	-0.48	+70.24
Maize	2629	2520	2525	2435	10389	8985	3854	7837	-3.56	+103.35

Source: National Institute of Statistics, 2009

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). 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 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Vel Pitar SA	0.3	1.2	3.6	6.2	7.8
Titan SA	-	-	-	-	6.6
Dobrogea Grup SA	1.0	1.9	2.6	4.0	5.3
Chipita Romania SRL	1.7	1.8	2.0	2.2	2.1
Snack Attack SRL	0.1	0.2	0.3	0.5	0.8
Kandia-Excelent SA	-	0.2	0.2	0.2	0.2
May Day 2000 Prod Impex SRL	0.1	0.1	0.2	0.2	0.2
Can Serv SRL	0.1	0.2	0.2	0.3	0.2
Alka Co SRL	-	-	-	0.1	0.1
Primo SRL	0.1	0.0	0.0	0.0	0.1
Bega Pam SA	0.1	0.1	0.1	0.1	0.1
Victoria SA	0.1	0.1	0.0	0.0	0.0
Danesita Hungária Kft	0.1	0.1	0.0	0.0	0.0
Loulis SA	-	-	2.9	4.8	-
Romanian Flour Mills - Loulis SA	1.0	2.0	-	-	-
Excellent SA	0.2	-	-	-	-
Artisanal (traditional, unpackaged)	90.9	86.0	77.3	68.8	62.7
Others	4.4	6.3	10.6	12.6	13.9
Total	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 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 2003-2008

(000's tonnes)

	2003	2004	2005	2006	2007	2008
- Bread	1,847.6	1,826.0	1,847.7	1,890.4	1,842.7	1,765.2
-- Packaged/industrial bread	52.0	99.6	195.0	316.0	418.0	510.0
-- Unpackaged/artisanal bread	1,792.7	1,722.8	1,648.7	1,570.1	1,420.0	1,250.0
-- Bread substitutes	2.8	3.5	4.0	4.3	4.7	5.2
- Pastries	8.8	9.3	10.1	10.9	11.6	12.3
-- Packaged/industrial pastries	7.0	7.4	7.9	8.3	8.7	9.2
-- Unpackaged/artisanal pastries	1.8	2.0	2.3	2.6	2.9	3.1
- Cakes	31.4	29.9	29.7	30.6	31.5	32.2
-- Packaged/industrial cakes	1.8	1.7	1.9	2.1	2.4	2.7
-- Unpackaged/artisanal cakes	29.6	28.2	27.8	28.5	29.2	29.5
Total baked goods	1,887.7	1,865.2	1,887.5	1,931.9	1,885.9	1,809.7

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.

Retail Sales of Bakery Products

	2003	2004	2005	2006	2007	2008
Bakery products - Volume - 000's tonnes	1923.7	1903.4	1931.4	1981.7	1941.4	1870.3
Bakery products - Value - EUR mn	1160.9	1194.2	1496.8	1710.6	2242	2725.2
Bread - Volume - 000's tonnes	1847.6	1826	1847.7	1890.4	1842.7	1765.2
Bread - Value - EUR mn	848.5	905.6	1160.6	1342.4	1771.4	2178
Pastries - Volume - 000s tonnes	8.8	9.3	10.1	10.9	11.6	12.3
Pastries - Value - EUR mn	26.6	28.1	37.7	46.7	60.4	71.1
Cakes - Volume - 000's tonnes	31.4	29.9	29.7	30.6	31.5	32.2
Cakes - Value - EUR mn	201.6	173.8	180.7	177.5	202.4	208.1
Biscuits - Volume - 000's tonnes	33	34.2	38.1	41.6	44.9	47.8
Biscuits - Value - EUR mn	72.9	72.3	93.7	108.3	149.8	190.2
Breakfast cereals - Volume - 000's tonnes	3	4	5.8	8.2	10.6	12.7
Breakfast cereals - Value - EUR mn	11.3	14.4	24.1	35.6	58	77.7

Source: Euromonitor International, 2009

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 -				2008/2007 (±%)	
	2005	2006	2007	2008	2005	2006	2007	2008	%ha	%t
Oilseeds, <i>of which:</i>	1206	1298	1340	1246	1803	2050	1047	1941	-7.01	+85.39
- sunflower	971	991	836	809	1341	1526	547	1159	-3.23	+111.88
- soybeans	143	191	133	50	313	345	136	91	-62.41	-33.09
- rapeseeds	88	110	365	377	148	175	362	682	+3.29	+88.40

Source: National Institute of Statistics, 2009

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.

Retail Sales of Oils and Fats by Subsector

	2003	2004	2005	2006	2007	2008
Oils and fats - Volume – 000's tonnes	213.1	221.4	230.5	234.4	220.2	217.5
Oils and fats - Value - EUR mn	232.2	236.7	275.3	292.3	490.2	614.7
Olive oil - Volume – 000's tonnes	0.4	0.4	0.6	0.8	1.4	1.8
Olive oil - Value - EUR mn	1.7	1.8	2.5	3.3	7	10.1
Vegetable and seed oil - Volume – 000's tonnes	182.5	188.6	195.1	196.2	177	170.8
Vegetable and seed oil - Value - EUR mn	186.2	185	204.6	206.8	367.2	461
Cooking fats - Volume – 000's tonnes	-	-	-	-	-	-
Cooking fats - Value - EUR mn	-	-	-	-	-	-
Butter - Volume – 000's tonnes	5.5	6.4	7.5	8.5	9	9.6
Butter - Value - EUR mn	18.8	21.5	28.5	33.3	45.8	58.8
Margarine - Volume – 000's tonnes	6.4	6.7	7.1	7.4	8.4	9.1
Margarine - Value - EUR mn	6.7	7.5	11.2	13.9	21.4	25.9
Spreadable oils & fats - Volume - 000's tonnes	18.5	19.3	20.2	21.5	24.3	26.2
Spreadable oils & fats - Value - EUR mn	18.8	20.9	28.5	34.9	48.8	59

Source: Euromonitor International, 2009

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 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Bunge Romania SRL	-	-	21.6	20.7	30.2
Cargill Oils SA	-	-	10.3	10.1	11.2
Argus SA	16.6	13.4	9.2	9.1	9.2
Orkla Foods Romania SA	3.9	3.5	3.8	10.2	8.3
Unilever South Central Europe SRL	2.9	3.1	4.2	5.2	5.4
Prutul SA	3.4	4.7	3.9	4.9	5.2
Expur SA	-	-	1.8	3.1	2.8
Agricovert SA (bought by Bunge)	4.8	7.3	8.2	8.3	-
Royal Brinkers Romania SRL (bought by Orkla)	3.5	4.4	5.4	-	-
Unirea SA (bought by Bunge)	22.6	18.6	-	-	-
Olpo Ulei SA	13.8	10.9	-	-	-
Muntenia SA (bought by Bunge)	4.2	4.4	-	-	-
Private Label	2.0	6.1	11.4	11.7	13.9

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 11th, 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 -				2008/2007 (±%)	
	2005	2006	2007	2008	2005	2006	2007	2008	%ha	%t
<i>Sugar beet</i>	25	40	29	20	730	1152	749	784	-31.03	+4.67

Source: National Institute of Statistics, 2009

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 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Wrigley Romania Produse Zaharoase SRL	4.0	5.7	6.9	14.6	23.4
Kraft Foods Romania SA	23.5	23.1	21.9	20.5	19.1
Chupa Chups (Grupo) SA	16.6	16.9	16.2	14.5	12.8
Perfetti Van Melle Romania Srl	4.5	8.1	9.5	10.2	10.6
Kandia-Excelent SA	-	14.4	13.4	11.6	7.8
Feleacul sa	3.2	4.3	6.0	4.6	3.7
Ferrero SpA	2.1	2.9	2.7	3.0	3.4
Kent Gida Maddeleri Sanayii ve Ticaret AS	5.1	5.2	4.7	4.2	3.0
Nestlé Romania SRL	2.0	2.0	2.3	2.3	2.3
Saff Trading SRL	-	-	0.7	1.5	1.8

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 2003-2007

(% retail value)

Company	2003	2004	2005	2006	2007
Kraft Foods Romania SA	30.7	29.2	28.8	28.1	26.1
Kandia-Excelent SA (bought by Cadbury Schweppes)	-	27.3	24.3	24.7	21.5
Supreme Chocolats SRL	7.3	11.1	12.6	11.8	11.2
Nestlé Romania SRL	3.4	4.6	5.4	6.2	6.8
Mars Romania SRL	-	-	-	-	6.7
Heidi Chocolats Suisse SA	6.2	6.8	6.2	6.2	6.3
Ferrero SpA	4.8	4.2	4.3	4.6	4.9
Modares Food SRL	2.6	2.5	2.2	2.2	2.0
Perfetti Van Melle Romania Srl	0.6	1.6	1.6	1.7	1.2
Alka Co SRL	0.2	0.3	1.1	1.0	1.2

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 2.9% (269,000 ha) of the arable area, with orchards covering a further 1.6% (149,000 ha) of the arable area.

VEGETABLES & FRUITS

	Area - 000's ha -				Production - 000's tonnes -				2008/2007 (±%)	
	2005	2006	2007	2008	2005	2006	2007	2008	%ha	%t
Vegetables* , of which:	267	280	253	269	3625	4139	3117	3809	+6.32	+22.20
- tomatoes	47	51	46	51	627	835	641	805	+10.87	+25.59
- cabbage	55	46	46	49	1009	1106	893	965	+6.52	+8.06
- cucumbers	11	16	13	13	143	156	120	173	-	+44.17
- carrots	17	19	16	18	222	266	185	235	+12.50	+27.03
- onions	36	34	34	35	364	391	325	395	+2.94	+21.54
- peppers	37	35	19	20	692	642	185	239	+5.26	+29.19
- melons and water melons	n/a	n/a	31	30	n/a	n/a	408	562	-3.23	+37.75
Pulses	n/a	n/a	44	37	n/a	n/a	36	62	-15.91	+72.22
Potatoes	285	278	268	255	3739	4016	3712	3649	-4.85	-1.70
Fruit trees , of which:	200	157	156	149			660	673	-4.49	+1.97
- apples	82	59	59	55	439	417	362	325	-6.78	-10.22
- pears	n/a	n/a	5	5	n/a	n/a	23	20	-	-13.04
- plums	94	79	76	75	305	285	225	278	-1.32	+23.56
- cherries and sour cherries	9	7	8	8	34	48	26	26	-	-
- apricots	n/a	n/a	3	3	n/a	n/a	9	11	-	+22.22
Vineyards** , of which:	191	191	188	189	506	912	873	992	+0.53	+13.63
- grafted vineyards	n/a	n/a	93	98	n/a	n/a	511	595	+5.38	+16.44
- hybrid vineyards	n/a	n/a	95	91	n/a	n/a	362	397	-4.21	+9.67

*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
Canned/preserved vegetables Retail Volume – 000's tonnes	28.8	29.3	30	30.6	31.8	33.7
Canned/preserved vegetables Retail Value - EUR mn	10.1	11.3	15.8	19.5	26.1	31.4
Canned/preserved fruit - Retail Volume – 000's tonnes	4	4.2	4.4	4.7	5	5.4
Canned/preserved fruit - Retail Value - EUR mn	5.1	5.4	6.9	8.6	11.6	13.9

Note: 2008 data is provisional and based on part-year estimates.

Source: Euromonitor International, 2009

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
Frozen processed vegetables - Retail Volume – 000's tonnes	0.2	0.2	0.3	0.3	0.4	0.4
Frozen processed vegetables - Retail Value – EUR mn	0.3	0.4	0.5	0.7	0.9	1
Frozen processed potatoes - Retail Volume – 000's tonnes	0.4	0.5	0.6	0.7	0.9	1.1
Frozen processed potatoes - Retail Value - EUR mn	0.5	0.7	1	1.3	1.9	2.5

Note: 2008 data is provisional and based on part-year estimates.

Source: Euromonitor International, 2009

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 ⁴	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 Fisheries⁵ is expected to prompt investments in both fish production and processing. After a considerable delay, this programme will become operational in 2009.

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%).

⁴ 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.

⁵ 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 2009 and are included in the list agreed with DG Sanco, in order to comply with the Community standards.	15
2	Micro-enterprises adjusting to newly introduced Community standards	15
3	Units in the following priority sectors: (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 27 27 25 25 25
4	SMEs situated in areas with available raw materials and without processing capacities	5
5	Associative forms created according to the legislation in force	5
6	Did not benefit of previous SAPARD/EAFRD support for the same type of activity	5
7	SMEs that are both producers of raw materials, as well as processors	10
8	SMEs processing traditional products or similar products (DOC)	10
9	Collecting and/or processing organic products	5
	TOTAL	100

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):

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

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 certificates, permits

and authorisations necessary for the project preparation/implementation (max. 8% of the eligible value of investments - if the project involves constructions and max. 3% of the eligible value of investments - 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.
- 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 exchange rates, 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.
- xii. Purchase of transport vehicles needed for personal use and transportation of persons.
- xiii. Simple replacement investments, according to Article 55 of Regulation (EC) no. 1974/2006.
- xiv. Investments made within the support schemes according to Article 2 (2) of Regulation (EC) no. 1974/2006.
- xv. 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 up to 50% of the eligible value of investments and the maximum ceiling of the non-refundable public aid is 2,000,000 EUR/project.

The support is up to 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.

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

IMPORTANT NOTE: In spring 2009, the Romanian authorities decided that all the available funds (the whole amount which was initially available until 2013) would be actually allocated in two years only: **2009** (60% of the available funds) and **2010** (40% of the available funds).

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. As of April 2009, only the selection results for the March-August sessions were finalised and published. Therefore, this analysis is based on the results available for these six sessions.

In total, 310 food industry projects were submitted and 170 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 postpone (put on a waiting list) any submitted eligible project.

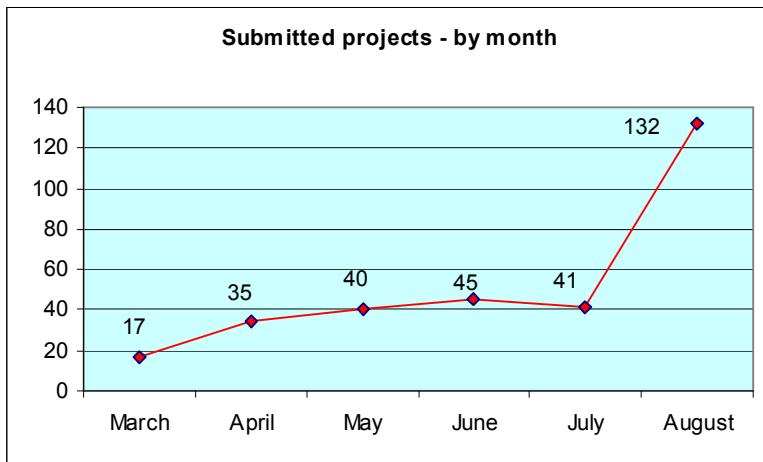
MARCH-AUGUST 2008 (6 sessions) – GENERAL OVERVIEW

	number	total eligible project value (EUR)	total grant value (EUR)
submitted projects	310		
approved projects	170	311,484,041	154,802,503
rejected/withdrawn projects	67	n/a	81,693,306
postponed projects	73	169,517,268	78,747,919

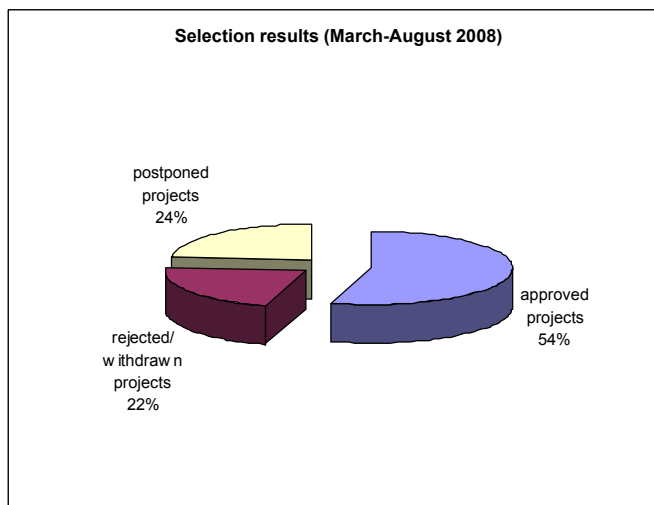
The situation changed in the August session, when the requested funds were 3.5 times more than the available funds allocated for this particular session.

	March	April	May	June	July	August	total
available funds	33,390,775	51,053,886	50,604,594	48,060,910	42,137,272	39,301,843	264,549,279
requested funds	17,043,503	34,028,506	35,353,933	39,669,003	36,328,263	138,315,716	300,738,924
approved funds	10,384,698	25,075,741	26,612,397	25,987,535	25,758,958	40,983,173	154,802,503
postponed requests of funds	0	0	0	0	0	78,747,919	78,747,919
unused funds	23,006,077	25,978,145	23,992,196	22,073,375	16,378,313	0	109,746,776

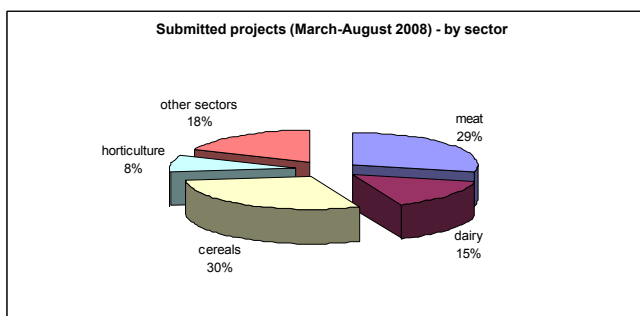
After a more difficult start – with only 17 projects submitted in March – and a more or less stable number of projects during April-July (around 40), the Paying Agency was confronted with a record number of financing requests in August (132). A number of 73 eligible projects had to be put on a "waiting list" due to insufficient funds.



It seems that the funds unspent during previous sessions are made available only in the last session of the year (in this case November-December 2008), a session which has also a settlement role.



Out of the 310 submitted projects, 93 were in the cereals sector, 89 in the meat sector, 46 in the dairy sector, 25 in horticulture (fruit, vegetables and potatoes) and 57 in other sectors (wine - 28; food warehouses - 8; honey - 5; oilseeds - 3; petfood - 3; malt, rice, protein meals, food ingredients – 1 each).



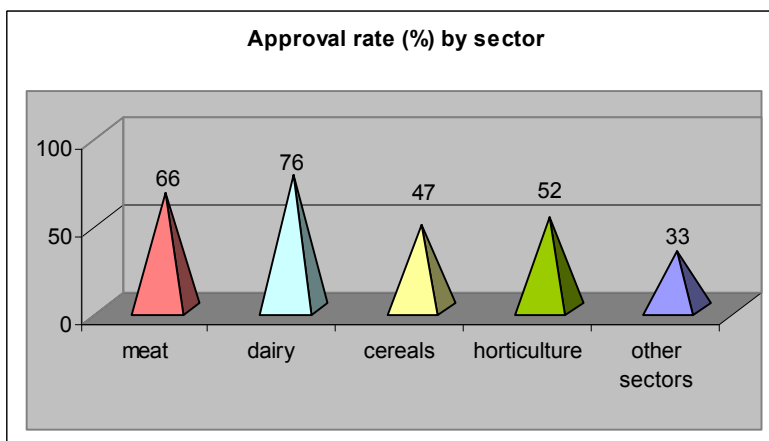
In terms of approved projects, however, most of the projects were in the meat sector (59), followed by cereals (44), dairy (35), and horticulture (13).












The average eligible value of the approved projects was the highest in the meat and horticultural sectors (2.1 million EUR) and the lowest in the cereal sector (1.4 million EUR).

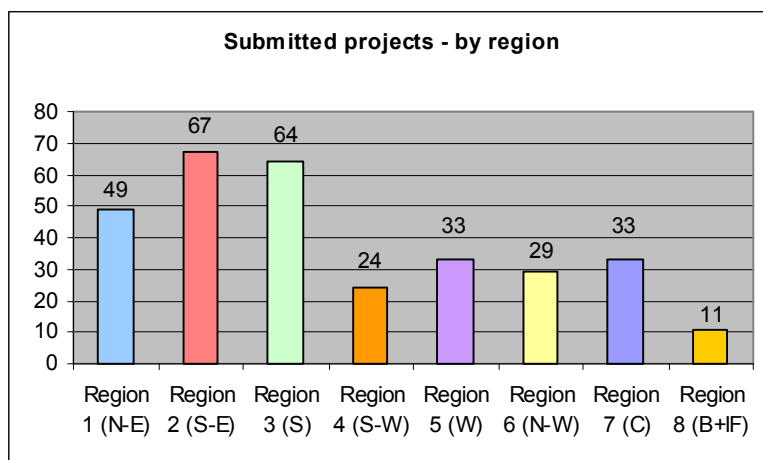
Sector	Avg. eligible value of approved projects (EUR)
meat	2,137,143
dairy	1,706,110
cereals	1,391,566
horticulture	2,138,451
other sectors	1,928,944

Dairy and meat projects had the highest approval rate (76% and 66% respectively), reflecting the exact priority order set in the National Rural Development Plan. This shows the urgent need of modernisation of meat and dairy processing units which are facing the risk of being closed down if they do not fulfil EU requirements by the end of 2009.

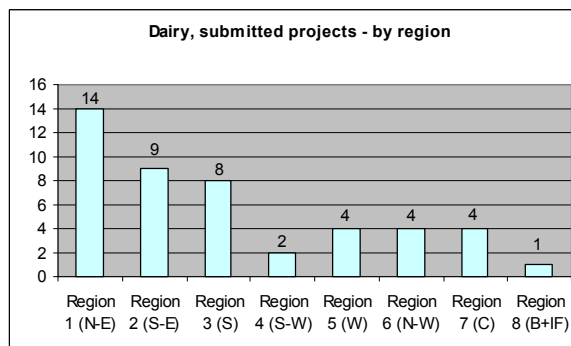
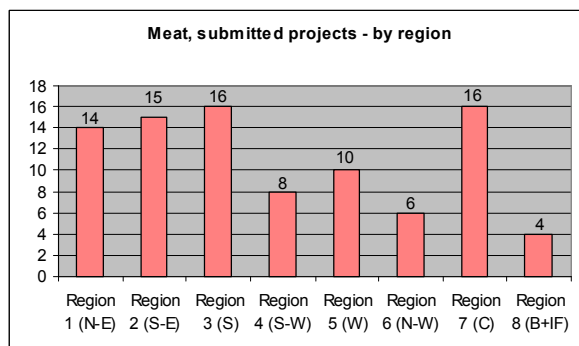


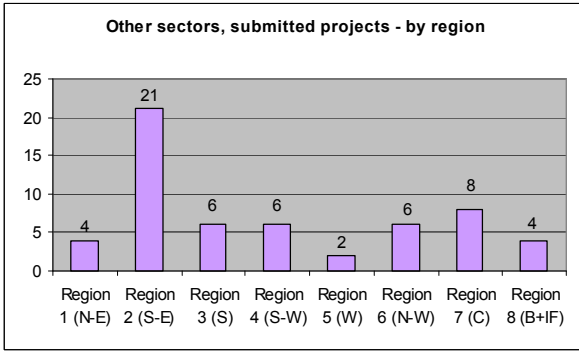
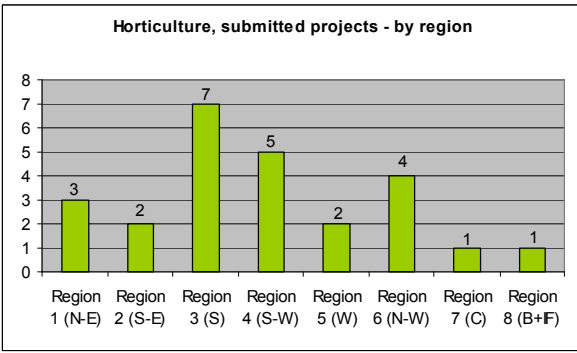
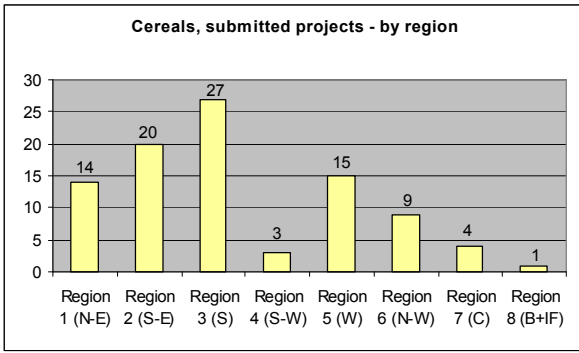
Romania's 8 development regions:	
1 - North-East Region: counties of Bacau, Botosani, Iasi, Neamt, Suceava, Vaslui	
2 - South-East Region: counties of Braila, Buzau, Constanta, Galati, Tulcea, Vrancea	
3 - South Region (Muntenia): counties of Arges, Calarasi, Dambovita, Giurgiu, Ialomita, Prahova, Teleorman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

From the geographical point of view, most of the financing applications came from the south-east and south regions of Romania (67 and 64 respectively) and they mainly targeted the cereals and meat sectors.



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

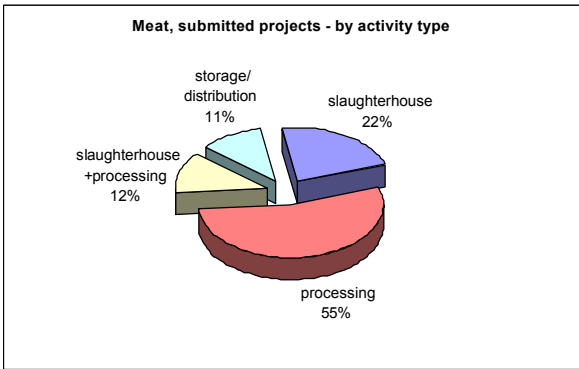




Meat

During the first six project sessions, the meat sector was particularly interesting for Romanian entrepreneurs, resulting in 89 financing applications of which 59 were approved. Another 16 were declared eligible but were put on the waiting list, due to insufficient funds in the August session. However, it is possible that they are eventually approved, following the 7th (and last) session of 2008 which took place during November 3 – December 15 (for which 100 million EUR were allocated).

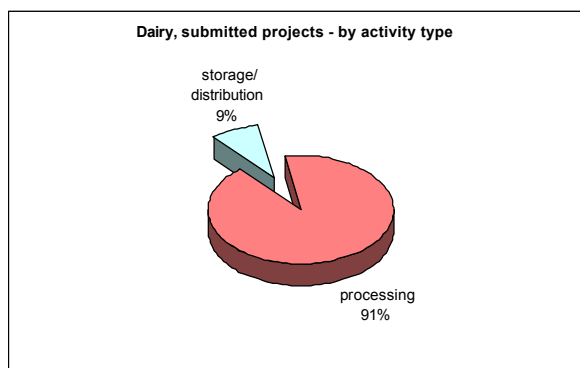
The eligible value of the approved meat projects was 2.14 million EUR (of which 50% will be covered by the EU funds). Most of the investments relate to meat processing (55%).



the storage and distribution of dairy products.

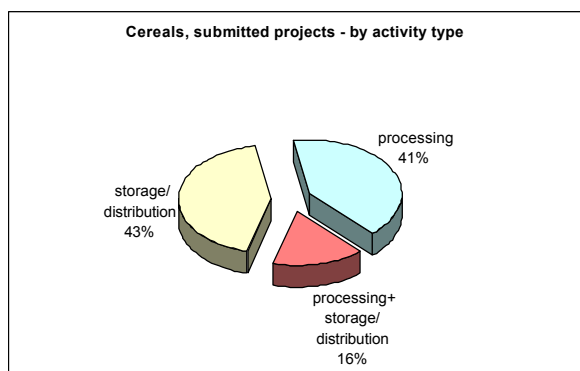
Dairy

Some 46 projects were submitted during the analysed period, of which 35 were approved and only 2 were put on the waiting list. The average eligible value of the approved dairy projects was 1.7 million EUR and most of the projects focused on processing (91%) and only a few on



Cereals

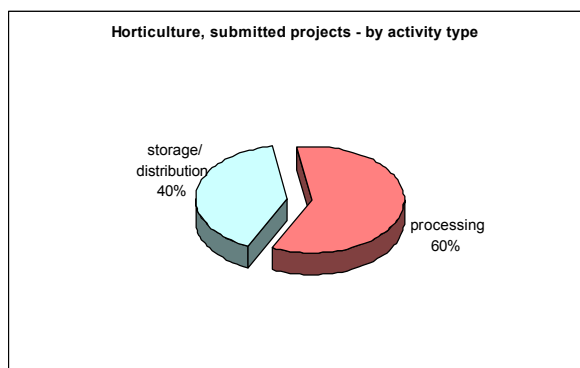
In the cereal sector, 93 projects were submitted and almost of them were in the milling sector. Most of them involved the modernisation or increase of the storage capacity (silos). Less than half were approved (44) while 32 are on the waiting list. The average eligible value of the projects approved in the cereal sector was slightly less than 1.4 million EUR.



Horticulture

This sector attracted the lowest numbers of applications during March-August 2008, namely 25, of which 13 were approved and 6 put on hold. However, the average eligible value of these projects was high, around 2.14 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.



Other sectors

	submitted projects	approved projects	rejected projects	postponed projects	approval rate %	avg. eligible value (approved projects)	tot. eligible value (approved projects)	tot. eligible value (postponed projects)
meat	89	59	14	16	66	2,137,143	126,091,452	31,772,761
dairy	46	35	9	2	76	1,706,110	59,713,858	5,053,525
cereals	93	44	17	32	47	1,391,566	61,228,923	77,753,601
horticulture	25	13	6	6	52	2,138,451	27,799,865	8,637,946
other sectors	57	19	21	17	33	1,928,944	36,649,944	46,299,436
total:	310	170	67	73	55	-	311,484,041	169,517,268

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"

This is a state aid scheme set up by Romania and launched in May 2008, 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. 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

XS 13/123A/2008	May	June	July	August	Total
Submitted projects	30	39	30	57	156
Approved projects	24	33	27	45	129
Rejected projects	2	3	0	1	6
Withdrawn projects	4	3	3	7	17
Total:	60	78	60	110	308

In the last session of 2008 (November-December) 91 projects were submitted. The results of the selection process have not yet been published.

Total value of approved projects (EUR)

XS 13/123A/2008	May	June	July	August	Total
Approved projects	17,050,000	6,120,000	8,490,000	20,960,000	52,620,000

In the first 4 project submission sessions (out of the total 5) 129 projects were approved, with a total value of 52.6 million EUR. Therefore, more than half of the total budget allocated for 2008 remained available for the last session of the year.

The vast majority of the projects (submitted and approved) targeted the bakery and pastry sector – 88% of the total.

Sector	Number of approved projects (May-August 2008)
Bakery & pastry	114
Pasta	4
Breakfast cereals	1
Ice cream	3
Biofuel	3
Composite food products	1*
Sugar products	1
Chocolate and cocoa products	1
Renewable energy	1
Total:	129

* diet sweets

Some 114 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. With regard to the three biofuel projects were in the field of biodiesel production.

As these scheme relies on funds from the state budget, it is not possible to estimate if it will be resumed in the next years.

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 31st 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
- Improving competitiveness over recent years
- Increased foreign and national direct investment
- 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
- 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

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

THREATS

- End of the transition period for meeting the EU standards (2009)
- 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)
- Recent financial-economic crisis that can result in lower sales (due to reduction of people’s disposable income) and difficult access to credits

Conclusions

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 6th 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>)

	Total public budget 2007-2013 (euro)	Starting date
<u>Axis 1 - Improving the competitiveness of the agricultural and forestry sectors</u>	3,967,311,581	
111 - Vocational training, information actions and diffusion of knowledge	119,019,349	n/a yet
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	n/a yet
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
<u>Axis 2 - Improving the environment and the countryside</u>	2,293,413,375	
211 - Support for mountain areas	607,754,544	n/a yet
212 - Support for Less Favoured Areas (LFAs) – other than mountain areas	493,083,876	n/a yet
213 - Natura 2000 payments, on agricultural land	0	Starting with 2010; budget included in total axis budget
214 - Agri-environment payments	963,233,617	n/a yet
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
<u>Axis 3 - The improvement of the quality of life in rural areas and rural economy diversification</u>	2,473,739,880	
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
<u>Axis 4 – Leader (Development of local initiatives)</u>	235,074,871	
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	
<u>Total axes 1, 2, 3, 4</u>	8,969,539,707	

ANNEX 2

Useful contacts

Organisations

The Romanian Food Industry Federation - ROMALIMENTA www.romalimenta.ro

The Romanian Meat Association - ARC www.rma.ro

The Association of Dairy Processors - APRIL www.april.org.ro

Employers Organisation - Milling, Bakery and Flour Products - ROMPAN www.rompan.ro

National Association of Flour Milling and Baking Industries - ANAMOB www.anamob.ro

Authorities

Ministry of Agriculture, Forests and Rural Development www.madr.ro (RO)

Paying Agency for Rural Development and Fisheries www.apdrp.ro (RO)

National Agency for Fisheries and Aquaculture www.anpa.ro (RO)

National Sanitary Veterinary and Food Safety Authority www.ansv.ro (RO)

Trade Fairs

INDAGRA-Food: Bucharest, every May (first edition in 2008) www.indagra-food.ro

INDAGRA-Farm: Bucharest, every November www.indagra-farm.ro

AGRARIA: Cluj Napoca, every May www.agraria.info.ro

Retail chains

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

Other

Embassy of the Kingdom of the Netherlands www.netherlandsemb.ro

Netherlands Economic Network www.hollandtrade.ro

The Netherlands-Romania Chamber of Commerce, Industry and Agriculture www.netherlands.ro

Nederlandstalig Platform Roemenië www.nederland.ro

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

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Ministry of Agriculture, Forests and Rural Development – operative data and reports, 2008
Ministry of Agriculture, Forests and Rural Development – National Plan for Rural Development
Ministry of Agriculture, Forests and Rural Development – Fisheries Operational Programme
Euromonitor International – sector reports, 2008-2009
United Nations Commodity Trade Statistics Database - COMTRADE
Embassy of the Kingdom of the Netherlands – The Romanian Livestock Sector, 2008
Trade press