THE ROMANIAN MILK SECTOR – CHARACTERISTICS AND POST-ACCESSION ASSESSMENTS

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Abstract: The paper investigates the evolutions of cow, buffalo cow, sheep and goat herds and their yields and productions in Romania, in the post-accession period (2007-2011), as well as the present and future trends of these evolutions, while having in view the new Common Agricultural Policy (2014 - 2020), which will have as main component the removal of milk quotas after 2014. In this context, each link in the chain was investigated with regard to milk production, at the level of raw milk collection for processing by the two sources (from the domestic production and from imports), in close connection with its quality and price evolution. At the same time, for the same period, the production of processed dairy products, Romania’s dairy imports and exports, and the milk and dairy products consumption were analyzed.

Key words: quota, herds, milk production, trade with dairy products, prices, quality

INTRODUCTION

The specific characteristic of the milk production and processing sector in Romania is the high fragmentation at producers level (Romania has the largest number of dairy farms in Europe), as well as the very large share of family holdings (about 87% of the total number of holdings have 1-2 cows on the average). Out of this reason, 39% of the milk production at national level goes to self-consumption, 27% to direct sales and only 23% of production is delivered to processing. At the same time, due to the very high share of family holdings, no efficient farm management can exist, and the raw milk production collected for processing has a strong seasonal character, with high values in summer time and by about 30% lower in the cold season. It is obvious that production fragmentation lowers the farmers’ bargaining power, these being practically obliged to accept the price offered by the processors.

PREVIOUS STUDIES AND METHODS

The utilized method was the analysis of certain sets of indicators specific to each link of the chain. The indicators taken into consideration for the analysis were the dairy animal herds by species (cows and buffalo cows, sheep and goats), milk production, raw milk quantity collected from the dairy farms and collection centers in the country, the sheep milk quantity from imports, producer milk price, processed milk quantity and the resulting products and the consumption of dairy products.

Another aspect worth mentioning is that the milk produced on an agricultural holding can have several destinations. Thus, part of the milk can be used on the farm (for suckling calves and feeding another animals), while the remaining milk (named milked milk) can be consumed by the farmer and his family or it can be sold; from this point of view, our analysis focused on the milked milk.

In order to capture the main aspects regarding the national milk market, the data provided by the National Institute for Statistics (NIS) were used, through the official publication “Romania’s Statistical Yearbook” as well as the NIS Tempo-online data base, as well as information from MARD and ANSVSA. The aspects regarding the evolution and quantitative and qualitative changes on the European and world markets had the data
of FAOSTAT Agriculture and EUROSTAT publications as data source. The information supplied by the above-mentioned institutions had its specific advantages and enable comparisons at EU level and Romania’s level across regions.

**RESEARCH RESULTS AND DISCUSSIONS**

The milk production evolution after the removal of quota depends on different factors, such as: CAP configuration after 2013 (market measures, direct payments, rural development), production costs, obligations with regard to the environment, job and production alternatives, milk market evolutions at national and world level, milk price evolutions inclusively.

The “Milk Package” from the new Regulation of the European Commission is designed so as to ensure favourable long-term perspectives for the dairy farm sector, after the milk quota system removal beginning with the year 2015. The Regulation was published on March 30, 2012, with certain issues that were enforced in April 2012 and in October 2012. The package provides for written contracts between the milk producers and processors, as well as the possibility to collectively negotiate the contractual clauses through the producers’ organizations. At the same time, it establishes the new EU norms specific for the inter-professional organizations. The package presupposes a series of measures enhancing the milk market transparency; these measures will be applied until the first half of the year 2020.

The Commission is mandated to report on the market situation and the implementation of measures in 2014 and 2018. These reports, which will be made by the Council and the European Parliament, will assess in particular the effect of these measures on the dairy farmers and milk production from the less-favoured regions and will cover the potential incentives to encourage farmers to conclude production agreements in common.

**Contractual relations in the milk and dairy sector**

As the written and formal contracts are not regulated by the EU legislation, the member states, according to their own legislation on contracts, can provide for the obligativity to conclude such contracts, while complying with the EU law and mainly the good operation of the domestic market and of the common market organizations. Having in view the diversity of situations existing in the Union, in order to respect the subsidiarity principle, such a decision should remain at the latitude of member states. However, in the milk and dairy sector, in order to ensure that the respective contracts are conform with the adequate minimum standards and to guarantee the good operation of the domestic market and of the common market organization, it is necessary to establish certain basic conditions at EU level for the utilization of such contracts. As the statute of some of the dairy cooperatives can already include regulations with similar effect, these cooperatives should be exempted from the obligation to conclude contracts, for simplification purpose. For the effectiveness of such schemes, this has to be applied in the case when the intermediaries collect milk from farmers for delivery to processors.

For a rational development of production and for a decent life standard for the dairy producers, their bargaining power with the processors should be enhanced, which would lead to a more equitable distribution of the value added along the supply chain. Hence, in order to fulfil these CAP objectives, a legal provision should be adopted, in order to enable the producers’ organizations consisting of the dairy farmers or their associations to negotiate the contractual clauses, price included, for a part of their members’ production or for the entire production of members who own a dairy farm. In order to maintain an efficient competition on the dairy market, this possibility should be subject to certain adequate quantitative limits.
From one year to another, the milk quotas gradually become less relevant, as milk production is lower than the quota in an increasing number of member states. Thus, the quota non-utilization percentage increased from 1.6% in the quota year 2007/2008, to 7% in the quota year 2010/2011. The percentages correspond to a non-utilized quantity amounting to 2.2 million tons in 2007/2008, to 11 million tons respectively in 2010/2011, with significant differences across the member states.

Among the main signals that an “easy landing” is under way, we can mention the “quota rent” erosion. The quota rent is defined as the difference between the price under the quota (higher than the market price in the case when quotas are compulsory) and the marginal production costs. The milk quota price decreases as the quota system is going to end, and in most member states it is low or close to zero. This situation can be seen from three perspectives:

1) **The member states whose milk deliveries are much lower than the ceilings established by the quota system.**

   In the member states whose milk deliveries are much lower than the ceilings established by quota, the quota price is already very low or equal to zero. In certain countries, administrative measures were taken at national level in order to establish a decreasing quota price from one year to another, which should be zero in 2015.

   For the member states where the quota price is not set by administrative measures, but still it is very low or equal to zero, the quota prices are expected not to be much different from the current levels, on the condition the production levels follow the recent trends. In the member states where a quota market is in place, a price for the milk quotas is still established, although no tax on the surplus is paid. As far as the year 2015 is getting closer, all quotas will fully lose their value, with the decrease of their importance for the market and with approaching the deadline for their removal.

2) **The member states whose milk deliveries are close to the ceilings established by the quota system.**

   In the member states whose milk deliveries are close to the quota ceilings, the quota price is influenced by the provisions or expectations in relation to the tax on surplus. In the case of national milk quota under-utilization, the quota prices decrease. In the future, it is expected that the quota acquisitions will get closer to zero, with fluctuations due to the surplus production and milk prices.

3) **The member states whose milk deliveries exceed the quota.**

   In the small number of states whose milk deliveries exceed the quota, the quota prices are maintained at a relatively high level and experienced recent growth. In these member states, the producers seem to be either sufficiently competitive or obliged to fully use their capacities to continue to produce, eventually paying a tax on surplus. In these states no easy landing can be guaranteed.

   **Romania’s total milk production** was 50074 thousand hl (sucking calves consumption included) on December 31, 2011, out of which cow and buffalo cow milk 43947 thousand hl. Compared to previous year, total production increased by 945 thousand hl (1.9%), under the background of an increased production of cow and buffalo cow milk (+2.6%) simultaneously with the decrease of sheep and goat milk production (-2.8%).

   In the period 2007-2011, the cow and buffalo cow herds at national level were down by 426.2 thousand heads (-26.7%), with a stronger decrease in the period 2009-2010, a stabilization of herds following in the year 2011.

   The evolution of sheep and ewe herds largely fluctuated in the investigated period 2007-2011. After increasing by 8.4% in the period 2007-2009, the herds diminished by 480
thousand heads (-6%) in the year 2010, another increase in the number of herds following in the year 2011, by 1.4% compared to 2010.

The goat herds experienced an almost linear evolution in the period 2007-2009, followed by a significant increase by 37% (277 thousand heads) in the year 2010, compared to 2009. In the year 2011, the goat herds decreased by 2% compared to 2010.

In the period 2007-2011, the total raw milk production collected by the processing units (from Romania and from imports) was down by 203693 tons (-16.9%). The collected cow, buffalo cow and goat milk quantity decreased, the most significant diminution being noticed in the case of buffalo cow milk (-79.5%).

Table 1

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<tbody>
<tr>
<td>Cow milk</td>
<td>1136372</td>
<td>1051481</td>
<td>991588</td>
<td>903750</td>
<td>897348</td>
<td>-239024</td>
<td>-21.1</td>
</tr>
<tr>
<td>Buffalo cow milk</td>
<td>4689</td>
<td>3538</td>
<td>2139</td>
<td>1393</td>
<td>963</td>
<td>-3726</td>
<td>-79.5</td>
</tr>
<tr>
<td>Goat milk</td>
<td>4250</td>
<td>4026</td>
<td>4008</td>
<td>3856</td>
<td>3366</td>
<td>-884</td>
<td>-20.8</td>
</tr>
<tr>
<td>Sheep milk</td>
<td>12608</td>
<td>13634</td>
<td>13729</td>
<td>16406</td>
<td>14345</td>
<td>+1737</td>
<td>+13.8</td>
</tr>
<tr>
<td>Total raw milk collected from the country*</td>
<td>1157919</td>
<td>1072679</td>
<td>1011464</td>
<td>925405</td>
<td>916021</td>
<td>-241898</td>
<td>-20.9</td>
</tr>
<tr>
<td>Raw milk from imports</td>
<td>43856</td>
<td>51707</td>
<td>80636</td>
<td>87309</td>
<td>82061</td>
<td>+38205</td>
<td>+87.1</td>
</tr>
<tr>
<td>Total raw milk for processing</td>
<td>1201775</td>
<td>1124386</td>
<td>1092100</td>
<td>1012714</td>
<td>998082</td>
<td>-203693</td>
<td>-16.9</td>
</tr>
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</table>

* milk collected from agricultural holdings and milk collection centers

As it has been mentioned above, “the milk package” refers to the Romanian farmers’ contracting power increase, as it is provided that the professional associations in the industry can contract up to 13% of the national milk production under a single entity, without being affected by the Competition Law.

The second aspect of this package targets milk labelling. According to the “Milk package”, each label of the product on the store shelf should include four elements, i.e. the country of origin of the milked milk, the quantity of whole raw milk in the product, the quantity of reconstituted milk and other ingredients that were legally added in the product. This is extremely favourable for the milk sector from Romania, as the Romanian farmers can benefit from the same contracting, price and payment conditions like the farmers from the member states. There are at least three great producers’ organizations in Romania that can negotiate a milk price for a certain delivery period at regional level. Hence this contractualization would provide a certain security to producers with regard to milk price and delivered quantities without setting the limits that exist in the milk quota system, where farmers cannot produce more than the milk quota. So, from 2015 onwards, the milk producers will produce the quantities that they are able to sell and for which they can find an outlet. In other words, they will no longer be constrained by the current milk quota system, yet they will have a security element, i.e. the possibility to negotiate the contracts on a collective basis, including the milk prices and quantities.
At the same time, performing analyses on the milk sector is also stipulated, so as to intervene by other support measures as well, mainly in the less favoured areas, from the hilly and mountain regions, where there is a higher risk of milk production disappearance after removing the milk quotas.

### Table 2

**Evolution of assigned and utilized milk quota in Romania**

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<tr>
<td><strong>Total assigned quota (t), out of which:</strong></td>
<td>3057000</td>
<td>100.00</td>
<td>3118140</td>
<td>100.00</td>
</tr>
<tr>
<td>Deliveries to processing (t)</td>
<td>1320555</td>
<td>43.20</td>
<td>1429140</td>
<td>45.83</td>
</tr>
<tr>
<td>Direct sales (t)</td>
<td>1736444</td>
<td>56.80</td>
<td>1688999</td>
<td>54.17</td>
</tr>
<tr>
<td><strong>Total utilized quota (t), out of which:</strong></td>
<td>2233824</td>
<td>73.07</td>
<td>2039604</td>
<td>65.41</td>
</tr>
<tr>
<td>Deliveries to processing (t)</td>
<td>954275</td>
<td>72.26</td>
<td>996340</td>
<td>69.72</td>
</tr>
<tr>
<td>Direct sales (t)</td>
<td>1278549</td>
<td>73.69</td>
<td>1043262</td>
<td>61.77</td>
</tr>
</tbody>
</table>

*Source: calculations on the basis of data supplied by the Agency of Payments and Intervention in Agriculture (APIA)*

Although at the moment of ending the accession negotiations, the milk quota assigned to Romania (2.1% of total quota at EU level) was considered under the country’s potential, the evolution of quota fulfillment in the first three quota years reveal that the sector is still under restructuring, and the milk deliveries to processing are under the expectations. The ratio of the two quota components, i.e. milk deliveries and direct sales, remained almost unchanged, the share of direct sales being still higher than that of deliveries. As a trend, in the 5 quota years, the share of milk quantity delivered to processing increased to the detriment of quantities for direct sales. At the same time, the number of quota owners decreased in the last years, both in the case of delivery quota and in the case of direct sales quota.

**CONCLUSIONS**

Compared to the farmers from other sectors, those from the milk sector have a less flexible behaviour as regards production adjustment to the changes on the market: the production remains constant, it cannot be reduced or re-oriented on short term, while the high costs of investments in equipment and animals make it difficult to change the nature of production.
Having in view that milk is an organic product with a high standardization level, the farmers from the sector have limited possibilities to improve their market competitiveness, through supply diversification; the only existing variant is the orientation to the organic production.

The structural measures and other support forms oriented to the individual holdings cannot provide enough support to dairy farmers to face the challenges on an increasingly liberalized and competitive EU or world market; that is why, for an increased efficiency, these farms will have to improve the cooperation between them, in the direction of their association. These cooperation forms, more complex than the milk collection in common, imply a stronger integration of production capacities. A typical example is that in which the farmers supply their milk production on an organized basis, in the upstream sector, for the purpose of obtaining dairy products with longer shelf life (for instance cheese and kashkaval) that are sold at a price established by the cooperative that implies a uniform price for the farmers who supply comparable products. These associative organization forms can be considered competitive structures that foster sector modernization and improve the marketing of agricultural products, by enabling a large number of small producers to participate to the economic process from a larger geographic area.

At the same time, it should be highlighted that the cooperative organizations make it possible to negotiate the contractual terms on a collective basis, thus enhancing the milk producers’ bargaining power in the relation with the great processors.

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