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Rising food prices – a major concern in Romania

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Report Highlights:

Food prices have been on an upward trend since July 2010 and have become subject to daily debates in Romania since then. Statistical figures show that food products were 6.45 percent more expensive in December 2010, compared to a year before. Potatoes, food oil, fruits, wheat flour and bread prices had the largest increases among food products. Wheat acreage declined in the fall of 2010, as a result of unfavorable sowing conditions, sunflower seeds area is expected to grow.

General Information:

Food prices have been on an upward trend since July 2010 and have become subject to daily debates in Romania since then. Newspapers publish regularly articles about the growing world food demand and trade measures taken by different countries to insure supply, which affect the Romanian consumers. Although food price is a topic of interest in a certain extent for any citizen, regardless the income level, it becomes extremely important theme in Romania where food spending continues to eat a significant percentage of consumers' income. According to the data provided by the National Statistical Office (INSSE), in average, 41 percent of the total expenses of a household go to food products, on an upward trend from 2008 (40 percent). This is equivalent with food spending of 27 percent of the total income per household. The percentage is much higher for low-level income families. Staple products, like bread, sunflower oil, and potatoes have been among the products which received the most attention from industry associations, Romanian Government and media channels.

Consumer purchasing power deteriorated constantly, several factors contributing directly to this outcome in 2010. Increase of Value Added Tax (VAT) from 19 percent to 24 percent for food and non-food products, wage level drop by 25 percent in the public sector (accounting for one quarter of employees at national level) and restructuring in the public sector were among the austerity measures adopted by the Romanian Government July 2010 in an effort to reduce the public deficit.

Food prices continue climbing

Statistical figures show that food products were 6.45 percent more expensive in December 2010, compared to a year before. Potatoes price rose by 45 percent, bread price by 5.8 percent, wheat flour price by 9.5 percent, fruits by 18 percent and food oil by 21 percent. The peak was in July when food prices grew by 2 percent, increase attributed to VAT rise from 19 percent to 24 percent. Only eggs price declined over the last year. In January 2011, food prices continued climbing by 1.14 percent against previous month, or by 7.21 percent versus January 2010.

For comparison (December to December), food prices grew by 0.38 percent in 2009, 6 percent in 2008, and 9.1 percent in 2007 (in 2007 the domestic agricultural production was affected by a severe drought, with dramatic effects on wheat and sunflower yields).

In January 2011, the milling and bakery industry association (ROMPAN) announced that the current stocks level will only fill the needs through February, and imports will become the primary source for raw materials at much higher prices than 6 months ago, leading to bread price increase. Ministry of Agriculture reacted promptly by stating that Romania has enough stocks to cover the demand and is not on the edge of a food crisis. This announcement came also in the context of the report published by Nomura Bank, which ranked Romania on the 12-th place considering the vulnerability in the case of a food crisis.

In February 2011, the leaders of the agricultural producers union AGROSTAR - warned population about the upcoming 15 percent increase in bread price, 30 percent increase in sun oil price and 5 percent increase in dairy and meat products prices as a result of more expensive grains and oilseeds. The Union accused Ministry of Agriculture for not using any mechanism to prevent wheat and sunflower seeds exports. Ministry of Agriculture rejected these allegations explaining that as a member of the European Union, Romania has to comply with certain market regulations and trade measures as the ones adopted by non-EU member states (export restrictions) are no longer possible. In the view of Ministry of Agriculture the situation would have looked different now if milling and baking industry would have purchased higher volumes of wheat when the price was reasonable.

The alarming warning of AGROSTAR leader that the sun oil price will grow soon by 30 percent prompted a reaction from the crushing industry which rejected it. According to them, there are sufficient sunflower stocks on the market to cover the crushing demand until mid-year 2011, when rapeseeds crop will be ready for harvest. In their opinion, the lack of certainty for price would be more related to the utilities price evolution (energy and fuels), rather than raw materials.

The release of 300,000 MT of wheat from the State Reserve has been circulated by milling and bakery associations as a solution to the current wheat market situation. Nevertheless, this release is allowed only under certain conditions, which are not currently met, in the view of the Agriculture Ministry officials. According to them, at the end of January 2011, wheat stocks were as high as 720,000 MT in authorized warehouses, from a total of 1.6 Million MT wheat stocks and this level is

considered adequate to cover the industry needs until the new harvest time. However, grains traders believe the stocks to be as low as 0.5 million MT.

Wheat – current market situation and prospects for 2011

According to the figures published by the National Statistical Office, Romanian farmers harvested last year 5.7 million MT, 10 percent higher production level compared to 2009 (see table below). Wheat crop enjoyed good weather conditions during the vegetation period creating premises for a large harvest. Nevertheless, adverse weather during the harvesting time generated significant delays in the harvesting process, leading to crop deterioration in terms of both quality and quantity. According to the Ministry of Agriculture about 60 percent of wheat was adequate for milling, of which 40 percent was very good for milling purpose and 15 percent good, while 10-15 percent were close to the milling parameters.

Wheat price responded locally to the world price hike following the low harvest in the Black Sea countries and the export restrictions imposed by Russia in August 2010. If at the harvest time, the wheat price was around 115-135 EURO/MT, the price grew to 180-200 EURO/MT three months later. Currently the price varies between 230-240 EURO/MT (FOB Constanta) for feeding wheat and about 250-270 EURO/MT for milling wheat.

Wheat, area and production, Romania, 2007-2010

WHEAT	2007	2008	2009	2010
Area (th. HA)	1,949	2,110	2,149	2,060
Production (th. MT)	3,042	7,181	5,202	5,727

Source: National Statistical Office

As it can be noticed in the below table, wheat exports rose significantly during July-October 2010 against 2009 (by 84 percent), in response to the foreign wheat demand. Unlike previous years where EU member states were the major buyers (75 percent EU versus 25 percent to non-EU), in the first four months of the MY, the focus switched to third countries, which could be no longer supplied by traditional suppliers in the Black Sea countries. Wheat was exported equally to non-EU and EU countries. Philippines (230,000 MT), South Korea (162,550 MT), Bangladesh (88,200 MT) and Thailand (72,000 MT) were among the largest non-EU buyers. Spain and Italy remained in 2010 the most important wheat destinations with 434,000 MT and 156,464 MT, respectively. According to the grains traders, the local market is currently more attractive in terms of price, thus export pace slowed down.

On the other hand, wheat import volume during July-October 2010 was higher than the previous year by 40 percent, Bulgaria and Hungary being the main suppliers. Wheat exports from United States occur rarely, the last import took place in 2004 (315,000 MT), after a severe drought dramatically affected the Romanian wheat crop.

Wheat Trade, Romania, 2007-2011

Trade	MY 2007/08	MY 2008/09	MY 2009/10		MY 2010/11
	July '07 – June '08	July '08 – June '09	July '09 – June '10	July – Oct 2009	July – Oct 2010
Imports (MT)	603,119	524,925	665,038	219,669	307,241
Exports (MT)	602,712	2,752,246	1,627,104	874,004	1,607,258

Source: Global Trade Atlas; trade includes both EU and third countries

In the fall of 2010, sowing was delayed in some areas as heavy rains prevented the process, while some regions suffered from water deficit. The sowing season continued throughout November, although farmers were aware that potential for high yields declines as the planting takes place outside the optimal time-frame. As a result of the adverse weather conditions, the acreage sown with wheat declined by 8-10 percent compared to the previous year. In terms of crop development, thick snow

blanket offered so far good shield from frosts to winter wheat in most regions. Melting snow improved the soil and subsoil moisture level throughout the country, thus there are good crop development perspectives.

Sunflower seeds – current market situation and prospects for 2011

Sunflower seeds crop enjoyed excellent weather conditions during 2010, with good soil moisture, rains at the right moment (although water excess created in some areas favorable conditions for diseases incidence), and less heat episodes. The table below shows the sunflower seeds area and production. The sunflower seeds area is projected to expand by 10 percent in 2011, considering the high sun seeds price and the available land resulted from the drop in rapeseeds area cultivated in the fall.

**Sunflower seeds, area and production, Romania
2007-2010**

SUNFLOWER SEEDS	2007	2008	2009	2010
Area (th. HA)	820	814	766	823
Production (th. MT)	545	1,170	1,098	1,356

Source: National Statistical Office

Despite a plenty domestic crop last year, the world tension on oilseeds market put immediately its footprint on the sunseeds price which grew significantly, from about 380 \$/MT in August 2010 to 650 \$/MT in February 2011. The table below shows the trade figures in sunflower seeds, with 22 percent increase in exports in October 2010 compared to October 2009. United States has been a constant sunflower seeds supplier for the Romanian snack industry, the import volume reaching about 9,000 MT/year.

Sunflower seeds trade, Romania, 2007-2010

Trade	MY 2007/08	MY 2008/09	MY 2009/10	MY 2010/11
	Oct '07 – Sept '08	Oct '08 – Sept '09	Oct '09 – Sept '10	Oct 2010
Imports (MT)	50,789	145,362	152,868 MT (Of which October 2009 19,579)	19,923
Exports (MT)	375,275	563,851	469,722 MT (Of which October 2009 133,398)	163,295

Source: Global Trade Atlas; trade includes both EU and third countries

Inverted tax on the EU approval chain

Tax evasion in grains, oilseeds and fruits and vegetables sectors has been blamed by many players in agriculture and food-industry. According to some sources, this is estimated at 0.8 – 1 billion EURO per year, only VAT being considered. Taking this into account, in July 2010, the Romanian Government published Emergency Ordinance 54/2010 for combating fiscal evasion. Among various measures to be applied in this direction, inverted VAT payment was proposed. The new mechanism was supposed to apply to several categories of agri-food products: grains, bread, technical plants, vegetables, fruits, meat, sugar, wheat flour, and bread and bakery products.

In mid-January 2011, DG TAXUD, Taxation and Customs Union General Directorate of European Commission, forwarded to the EU Council, Romania's request to apply inverted tax to a short list of raw materials such as grains (wheat, corn, barley, two-row barley) and technical plants (sunflower, soybeans, rapeseeds, sugar beet), leaving aside the processed foods. This amendment was criticized by the milling and bakery industry, which believes tax evasion will continue if inverted tax is not applied throughout the whole chain.

If approved, inverted VAT would eliminate the incentives for the intermediaries to hide the transactions or declare lower prices for grains and oilseeds. Under such a scenario, only the final users of the respective products are would be held responsible for VAT payment not the suppliers or players involved in the marketing chain, from the producer level to the consumer level.

Retailers – partially assumed responsible for food price surge

Large retailers have been constantly over time criticized for food prices hikes by various organizations and institutions. In 2009, the long debated good practices to be applied in food products trade were published in the form of Law 321/2009, but its implementation failed to produce benefits to consumers in terms of retail price.

During 2010, various other ideas were floated with the purpose to reduce the power of the large retailers compared to the small format stores, such as convenience stores, and open markets. One idea advanced by the Bucharest mayor and supported by the Agriculture Minister was to prohibit hypermarkets construction inside cities, but the suburbs, assuming hypermarkets would be forced to practice lower margins when confronted with fewer customers. Prohibiting the hypermarkets to open the stores on Sundays was another idea promoted by members of the Parliament. This proposal was highly criticized by the Association of Large Retailers in Romania, who perceives this potential restriction as abusive and against retailers who are proven to be among the consumers' preferences in terms of shopping attitudes.

Another idea advanced by the Agriculture Minister was to include 2 different prices on the food products labels, the acquisition price used by retailers when purchasing the products from suppliers and the final sale price to consumers, with the purpose to increase transparency on the retailers' margins.