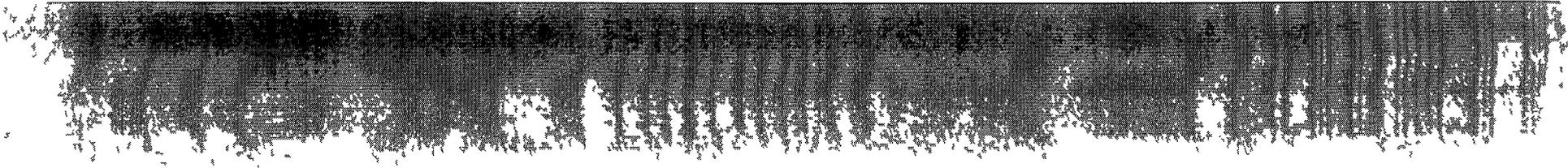


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**LAND O'LAKES ROMANIA
Environmental Analysis of the
Romanian Poultry Sector
1996-1998**

June 1999



Land O'Lakes România

Environmental Analysis of the
Romanian Poultry Sector: 1996-1998

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Disclosure

We have focused our efforts on “effective” demand or demand derived from cash transactions

Data for consumer demand was obtained from a Land O’Lakes survey conducted between May 25-June 1, 1999 in 25 cities across Romania, each with more than 100,000 inhabitants

Data on production figures and poultry companies was supplied by the Romanian Union of Chicken Breeders (RUCB) whose members produced approximately 92% of the poultry meat and 85% of the eggs consumed (from domestic production) in urban Romania (12.3 m people) between 1996 - 1998

RUCB import/export data for 1996-1998 was compared to data furnished by the Romanian Center of Foreign Trade (RCFT) In cases where there were discrepancies between the two sets of figures, RCFT data was used.

Sector Description

- **Market Definition :** *Industrial Poultry Meat and Eggs from Romania (effective demand)*
- **Rationale:** *Poultry Meat and Eggs*
- **Market Size (initial inventory + production + imports) - (final inventory + export)**

		<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>+/-LY</u>
Poultry meat	thou. tons	122 4	130 7	120 5	-8%
Eggs	in million	1,792	1,864	1,874 7	+1%

- **Key Success Factors**

- **Current:**

- Urban market is made up of 12.3m people;

- Romanians traditionally consume large quantities of poultry;

- Romanians are open to new poultry products.

- **Future:**

- Romania's 12.3m urban population on the rise.

Competitive Landscape

Sector Competitors:

- Domestic Romanian Industrial Poultry Meat and Egg Producers, small farmers
- Foreign Hungary -- Imports from Hungary alone represented 36% of total poultry & egg imports in 1998

Top Domestic Competitors

Agricola Internatinal Bacau
Avicola Buzau

Avicola Brasov
Avicola Crevedia

Avicola Constanta

Characteristics

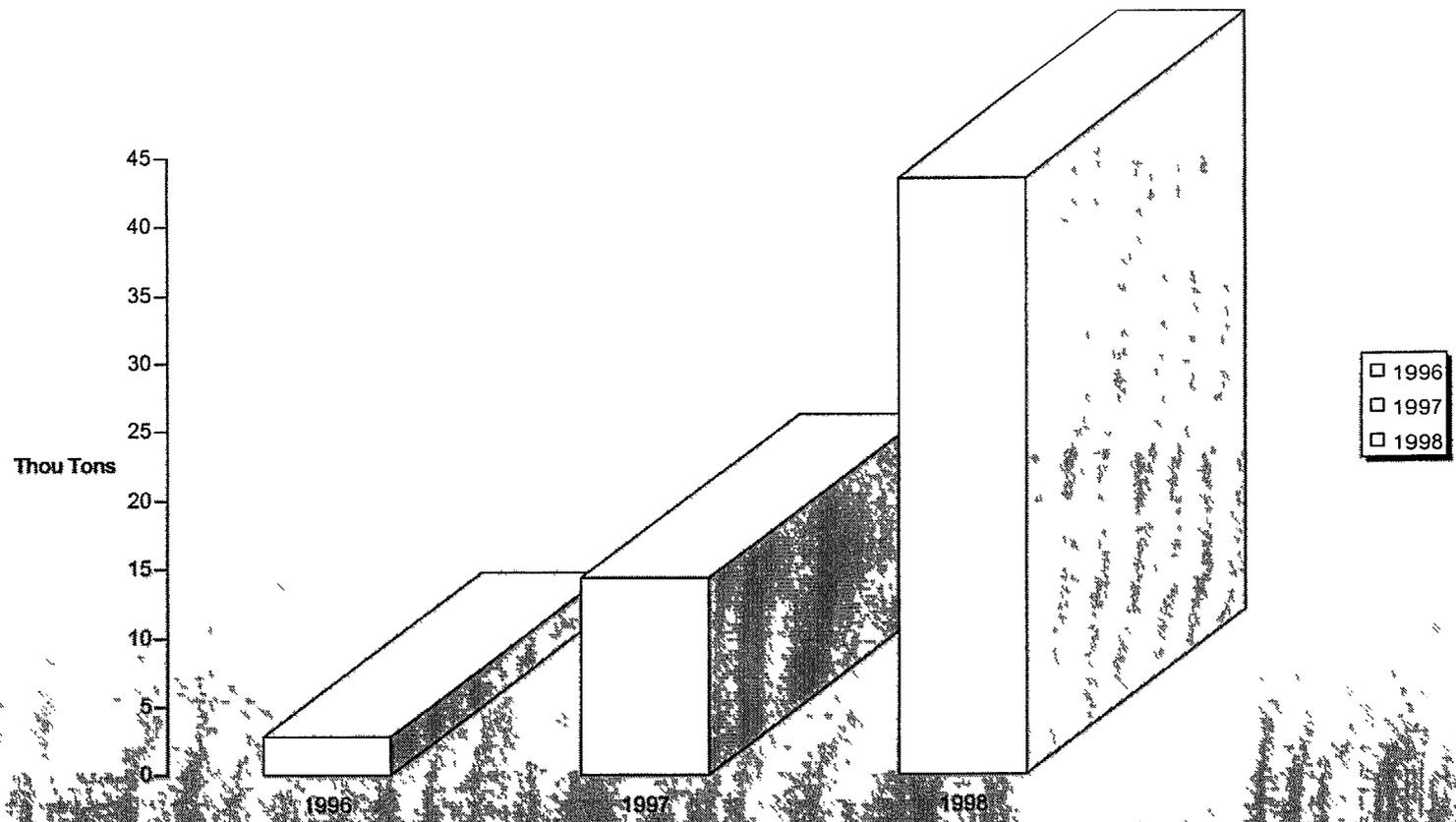
Romanian sales leader between 1996-1998, exports poultry.
Top quality poultry at a premium price; new, modern animal feed facility (built solely on debt).

In growth phase; 2nd largest company in sales 1996-1998.

Near Bucharest; main shareholder is Tec Miaco, a Romanian/American company with Romanian-American Enterprise Fund equity of \$4.5m.

First nationally branded poultry trademark ("Ferma naturala"); the main shareholder is Tec Miaco (see Avicola Crevedia)

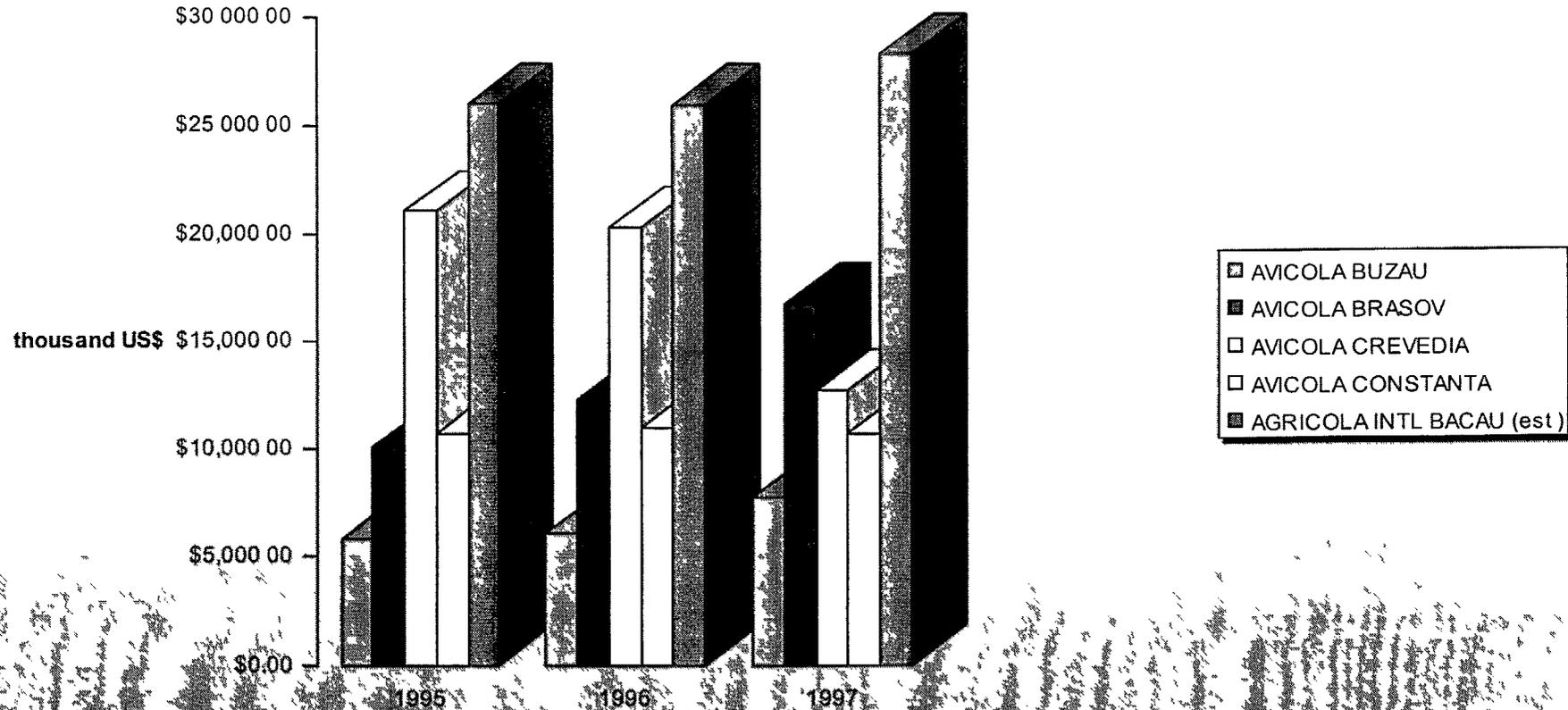
POULTRY MEAT IMPORTS 1996-1998



Key Takeaways

- Romania is a net importer of poultry products and its trade deficit in poultry increased by \$39.6m in 1998 and was made up of trade of live chickens (6%), meat and salamis (76%), and eggs (18%).
- The trade deficit for poultry in January-February 1999 was \$3.8m.

Competitor Analysis of Romanian Poultry Companies



Key Takeaways

- All main Romanian poultry companies are private.
- Each company has several poultry farms in their counties/regions.

Eggs: Sector Market Share (in millions of eggs)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>+/- LY</u>
Imports	2	150	245.7	+63.8%
(% of total consumption)	0.1%	8%	13%	
Romanian producers (total sales-export)	1,790	1,714	1,629	-5%
(% of total consumption)	99.9%	92%	87%	

Key Takeaways

- A Land O'Lakes survey conducted between May 25-June 1, 1999 in 25 cities with more than 100,000 inhabitants showed that egg penetration was very strong with 99.3%
- Urban Romanians purchase eggs an average of 4.4 times per month and consume eggs an average of 20.2 times per month. The average quantity of eggs purchased at one time was 22.2 eggs. The main reason given by the few who do not consume eggs was that they "did not like them".
- Regarding egg imports in 1998, Hungary was the main foreign supplier of eggs for incubation, Turkey of eggs for consumption, and Belgium for egg powder.

Poultry: Sector Market Share (thou. tons)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>+/- LY</u>
Imports	2 8	14 4	48 62	+237 6%
(% of total consumption)	2%	11%	40%	
Romanian poultry (total sales-exports)	119 6	116 3	71 9	-38%
(% of total consumption)	98%	89%	60%	

Key Takeaways

- A Land O'Lakes survey conducted between May 25-June 1, 1999 in 25 cities with more than 100,000 inhabitants showed that Romanians consume poultry products an average of 6.8 times per month. Those not consuming poultry meat, 38% of respondent, mentioned that poultry was "too expensive"
- Frozen chickens (parts - 45%, without legs & head - 21%) continued to represent the main percentage of imports in 1998.

Poultry Consumption Characteristics

Key Takeaways

A sampling of results from a Land O'Lakes survey conducted between May 25-June 1, 1999 in 25 cities across Romania with more than 100,000 inhabitants showed

- 98% of urban Romanians consumed poultry meat, of which only
 - 23.1% consume turkey
 - 9.2% duck, and
 - 7.9% goose meat
- Poultry is consumed 6.8 times per month, turkey 2.3 times, goose & duck 1.7 times each per month.
- Romanian women eat more poultry on average than men (6.9 times per month), though men consume turkey, geese, and duck more frequently than women.
- Whole chicken penetration rates of 75.5%, followed by chicken legs at 61.5%.
- Whole chicken had the highest market share (37.8%), followed by chicken legs (23.4%).

Characteristics of Egg Consumption

Key Takeaways:

A sampling of results from a Land O'Lakes survey conducted between May 25-June 1, 1999 in 25 cities across Romania with more than 100,000 inhabitants showed the following

- Eggs have tremendous penetration (in consumption) in urban Romania 99.3%
- Women tend to consume eggs more eggs on average than men (20.5 times per month)
- Eggs are purchased most often in food stores (43.2%) and the open market (34.3%)
- Romanian-made eggs were preferred by 92.5% of respondents because they are
 - perceived to be fresher (59%)
 - better quality (10.5%), or
 - less expensive (8%).
- The main reason given for purchasing imported eggs was that "they are better" (42.9% of those not purchasing domestic eggs);
- Regarding packaging for eggs:
 - 26.6% of all respondents declared they prefer to purchase loose, un-packaged eggs because "they can buy as many as needed"
 - 26.3% said they were indifferent to packaging
 - 24.3% prefer 30-egg cartons
 - 22.5% prefer 10/15-egg plastic cartons.

Industry Opportunities & Threats

Threats

- Lack of good market information
- Under-utilization of production capacities of the former state-owned, privatized poultry facilities & smaller, entrepreneurial processing facilities
- Significant seasonal differences in consumption habits for eggs (low demand for eggs during spring and summer, high demand in winter)
- Competition from small farmers selling poultry and eggs at open markets
- Taxation: a Romanian pension fund exists for employees working in agriculture made up of a 2-4% sales tax for producers, processors, & traders of agricultural products
- Romania's accession to the Central European Free Trade Agreement (CEEFTA) on July 1, 1997 (due to the different subsidy mechanisms in place in other CEEFTA member countries)

Opportunities

- 12 3m person urban market
- Highly skilled labor force
- Lack of variety in poultry choices