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STIMULATING THE ATTRACTION OF INVESTMENTS IN THE PROCESSING SECTOR – A NECESSITY IN THE CONTEXT OF EUROPEAN MILK MARKET LIBERALIZATION

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Abstract

A main challenge for the players on the world dairy market is to efficiently respond to the changes of the local markets characteristics, in the context of an increasingly fierce competition for the raw milk obtained on the farms. From the analysis, it results that the performance of the Romanian milk sector is seriously affected by the excessive fragmentation of supply, which reveals the subsistence and semi-subsistence phenomenon that persists in the milk sector, as the main factor that constrains competitiveness growth. In reference to the volume of investments in the dairy processing sector, it results that this had a slow growth rate in the investigated period, the share in total investments in the food sector ranging from 7.8% (2000) to 16.9% (2011). The investments in agriculture in total investments accounted for 4.9% in the year 2012. In order to adapt to the competition on the European Single Market, the Romanian sector has to receive support through investments, in the conditions in which there is a favourable global conjuncture for the consumption of dairy products, in which their prices are expected to raise on the basis of the increasing demand of the development regions.

Key words**:** *investments, milk market, productivity, farm size*

INTRODUCTION

In the context in which the milk market will get liberalized and it will be no longer restricted by production quotas beginning with the year 2015, the competitiveness of milk production and its derivates will depend not only on price, but also on quality to a very large extent. A good product quality starts with the efficient use of agricultural resources for obtaining the raw products, in concordance with the processing industry requirements, ending up with an appropriate distribution system, which would provide the necessary guarantees so as the high standards of the food products should not be lost in the retail trade system. Thus, quality should become a priority, in all the production, processing and distribution stages of dairy products.

For the primary sector of milk production, the processing industry represents an opportunity for ensuring a reliable outlet market. Yet this sector is not sufficiently developed. In order to meet the EU quality standards and to facilitate the access to the export markets, it is necessary to attract foreign capital for modernization purposes as well as to boost the domestic investments on the Romanian processing companies [1].

In the context in which the nature of competitiveness in the dairy markets is significantly changing, the market approach strategies also evolve. The strategic alliances, the partnerships with foreign firms and the foreign direct investments provide flexibility to companies at regional level, so as they can cope with the changes on the local markets.

MATERIALS AND METHODS

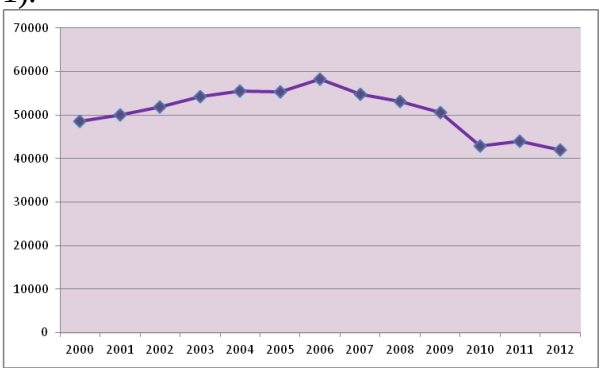
The utilized method was the comparative analysis of a set of indicators specific to the milk sector for the period 2000-2012. The main aspects regarding the milk market in Romania were revealed on the basis of the national data supplied by the National Institute of Statistics, through the official

publication *Romania's Statistical Yearbook* as well as the Tempo-online database.

RESULTS AND DISCUSSIONS

The milk supply

The integration into the European Union structures has not brought any revigoration of the milk production sector in Romania; on the contrary, it resulted in a strong decline of production and livestock herds. Thus, milk production on December 31, 2012 totalled 48337 thousand hl (including the consumption of calves), out of which cow milk and buffalo cow milk represented 42036 thousand hl (Fig. 1).

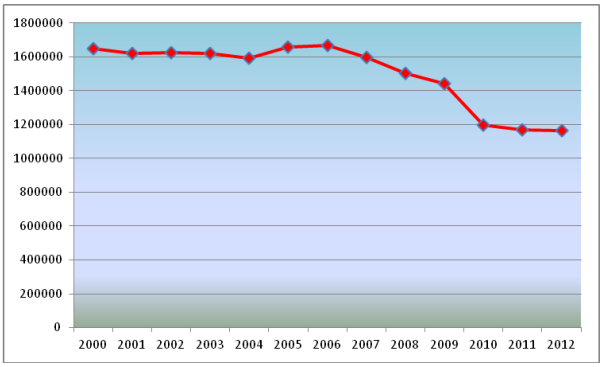


Source: National Institute of Statistics, Tempo online, 2014

Fig. 1. Cow milk and buffalo cow milk evolution in the period 2000-2012 (thousand hl)

Compared to the year 2000, total production decreased by 3293 thousand hl (-6.4%), under the background of the decrease in cow milk and buffalo cow milk production by 6482 thousand hl (-13.4%), simultaneously with the increase of the ewe and goat milk production by 3189 thousand (+102.4%). The increase of ewe and goat milk production is mainly due to the development of the sheep raising sector and mainly of the goat sector. By estimating the economic efficiency indicators of the goat milk, for an average of 350 liters/head, it has been demonstrated that goat raising and exploitation is a profitable activity.

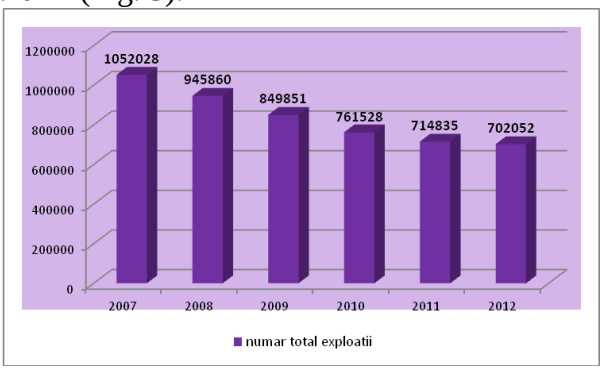
In the period 2000-2012, the number of cows and buffalo cows at national level was down by 486524 heads (-29.5%); this decrease was stronger in the period 2007-2010 (24.9%), and a stabilization of dairy herds followed afterwards (Fig. 2)



Source: National Institute of Statistics, Tempo online, 2014

Fig. 2. Evolution of the number of dairy cows and buffalo cows in period 2000-2012 (heads)

The performance of the milk sector in Romania is also seriously affected by the excessive fragmentation. The dairy farm structure is close related to the economic efficiency, as it is well-known that the higher the farm size and milk yield, the higher the economic efficiency [2] .Thus, at the level of the year 2012, 58 % of the total number of dairy cows was found on very small sized farms of 1-2 heads, number of farms totaling 702052, with an average size of 1.86 heads /farm (Fig. 3).



Source: National Institute of Statistics, Tempo online, 2014

Fig. 3. Evolution of the number of the farms with dairy cows, buffalo cows and heifers (2007-2012)

Out of the total number of farms, only 1717 are considered as professional farms that deliver milk directly to the processing units (farms with over 31 heads).

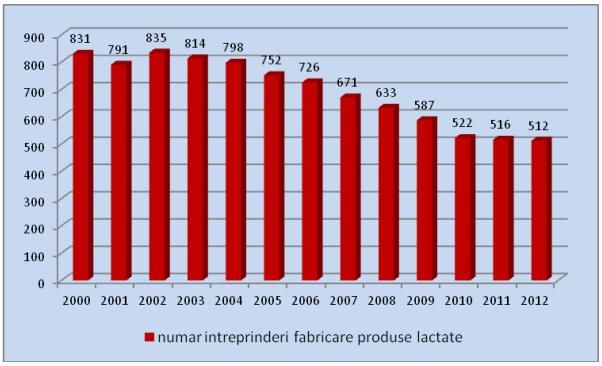
In the period 2007-2012, the total raw milk production collected by the processing units (in the country and from import) decreased by 233107 tons (- 19.4%).

The analysis of the two origin sources, namely milk collected from the country

and from import, reveals, on one hand, that the share of imported raw milk was up from 3.6% in year 2007 to 6.1% in 2012, while the raw milk collected from the country constantly decreased in share, from 96.3% in 2007 to 93.9%. Per total, in the period 2007-2012, the analysis shows a decrease of the raw milk quantity collected from the Romanian farms by 21.5% and the increase of the imported raw milk quantity by 35.1%. This situation is due to the fact that in Romania, the collecting system does not properly operate yet, and the prices offered by the milk collectors are not attractive for producers, so that the latter prefer to sell their production by themselves, through family businesses.

A characteristic of the milk production in Romania (2012) is that only 20% of the milk production is sold to the processing units, 38% is represented by family consumption, 32% is directly delivered on the market, and 10% is the consumption of calves.

According to the data supplied by the National Institute of Statistics, in the year 2012 there were 512 milk processing units, by 38% less than in the year 2000, most of them being small in terms of the number of employees (463 of units with less than 50 employees), practically replicating the structure at primary production level (Fig. 4).



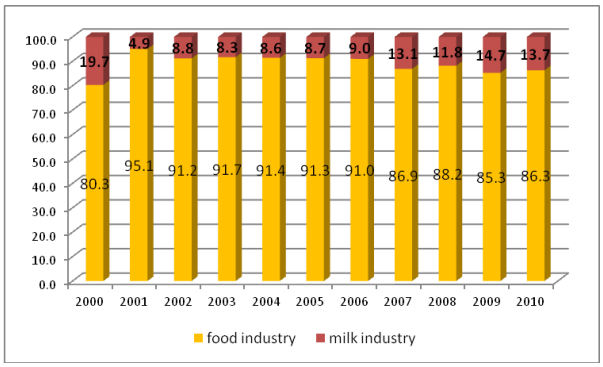
Source: National Institute of Statistics, Tempo online, 2014

Fig. 4. Evolution of the number of units for dairy products' fabrication

In the period 2000-2012, the dairy production resulting from industrial processing increased in all the assortments, the most spectacular increase being noticed in fresh dairy products (269.7%), followed by cheeses 130.6%.

Investments in the milk sector

The analysis of the volume and structure of investments in the milk production and processing sector in the period 2000 – 2011 reveals the aspects mentioned below.(Fig. 5 and Table 1)



Source: National Institute of Statistics, Tempo online, 2014

Fig. 5. The share of the value of investments in the milk sector, in total investments value in the food industry, in the period 2000-2011 (%)

-In the period 2000 – 2011, the investments value in the milk sector was of 760,9 mil. euro, with a peak volume in the year 2007 (149. mil. euro);

-The volume of investments in the milk industry in total investments in the food industry sector, per total investigated period was 11.3%;

Table 1. Evolution of investments in the food industry and in the milk industry (million euro)

Year	Food industry	Milk industry
2000	292.1	57.4
2001	471.0	23.2
2002	389.7	34.3
2003	463.6	38.4
2004	438.3	37.6
2005	597.8	52.0
2006	836.4	75.2
2007	1143.2	149.4
2008	810.7	95.5
2009	444.4	65.4
2010	429.6	58.7
2011	435.5	73.8
Total	**6752.3**	**760.9**

Source: "Results and performances of the units in industry and constructions", 2000-2008, Tempo online, 2014, National Institute of Statistics

-The highest share of investments in the milk sector in total investments in the food industry was in the year 2000 (19.7%);
-In the majority private sector, the share of the investments increased from 84% to 100% in the same reference period.

As we can see from the data in the table presented above, the highest volume of investments in the milk industry was in the year 2007 (the year of Romania's accession to the EU); after that moment, a decreasing trend followed, a revigoration being noticed in the year 2011, as compared to the previous year (+25.7%).

For the about 700000 Romanian farmers, it is estimated that milk quota removal will affect them, mainly in the case of those dairy farmers who own 1-2 cows (86.8%) and, who will not be able to compete with the farmers in the states with a developed milk sector, because the production costs are high, the subsidies lower, this being reflected in the final price. That is why the investments in equipment, in advanced technologies, genetics, to lower the production costs, represent a reliable modality to increase the productivity per animal head and to narrow the productivity gap between Romania and the EU-27 member states.

CONCLUSIONS

One conclusion can be drawn: the share of investments in milk industry in total food industry in the investigated period (2000-2011), i.e. 11.3%, is still low and capital inflows are necessary in the attraction of new projects for the sector modernization and for performant technologies.

Anyhow, the big large processing companies are developing projects, partially financed from EU funds, which provide financial support to the family farms to produce milk at the level of EU standards.

For the animal husbandry sector, the associative forms could represent a solution for the investment part, in the sense of purchasing milking machines and equipment and milk cooling tanks. In this respect, the Government adopted, in November 2013, Government's Decision on granting the *de minimis* support for the purchase of milk cooling tanks, which will benefit the agricultural producers, the livestock farmers who own up to 5 dairy cow heads and who are organized into a single associative form for this purpose, established at the level of each commune. This measure is meant to facilitate both the diminution of costs for the small farmers, and the diminution of the non-conform milk quantity. Yet putting this measure into application is constrained by certain aspects, including the fact that the cooling tanks must be purchased for the milk that must go to processing, which eliminates from the very start those farmers who sell the milk on the markets, within the direct sales component. Another problem that must be taken into consideration is the collection of milk from the small farmers in the mountain areas, in the less-favored areas, where there is no infrastructure, and out of this reason the processors cannot get there to collect the milk.

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