

# The preparation of Hungarian agricultural policy for the EU accession

## *Příprava maďarské zemědělské politiky na vstup do EU*

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**Abstract:** In the enlargement process, the agriculture and food sector merits particular attention because trade and policy issues between the candidate countries and the EU are more important in this sector than in any other. In 2001, Hungarian agriculture's contribution to GDP was 4.5 percent and agriculture represented 6.2 percent of the total employment. The share of agricultural and food products in total exports was 7.5 percent. Agricultural policies in Hungary have developed in the context of a transition towards market economy and in anticipation of entry into the EU Common Agricultural Policy (CAP). Producer prices in Hungary are by up to 20 percent lower than EU domestic producer prices (with the exception of beef, maize and sugar-beet). Domestic consumer prices are, in average, closely aligned with the world market prices, and in 2001, consumers were paying the world market prices. Progress made so far by Hungary provides a good basis for implementing the *acquis* in the agricultural sector, however, strengthening of the administrative capacity with regard to the Common Market Organisation mechanisms and structures relating to the European Agricultural Guarantee and Guidance Fund is a priority. For Hungary, the issues of equality of treatment and no distinction between the old and new members of the EU are at least as important as the level of transfers it will receive. The revised draft common position of the European Commission does not seem particularly equitable and should be improved by the end of the accession negotiations.

**Key words:** agriculture, Hungary, agricultural trade, producer prices, subsidy, rural development, EU accession

**Abstrakt:** V procesu rozšíření EU o země střední a východní Evropy (ZSVE) si zemědělský a potravinářský sektor zaslouží zvláštní pozornost, protože otázky obchodu a politiky, které jsou předmětem diskuse mezi kandidátskými zeměmi a EU, jsou v tomto sektoru důležitější než v kterémkoli jiném. V roce 2001 činil podíl maďarského zemědělství na HDP 4,5 %, zemědělství na celkové zaměstnanosti se podílelo 6,2 %. Podíl agrárního vývozu na celkovém vývozu činil 7,5 %. Zemědělská politika v Maďarsku se rozvíjela v kontextu přechodu na tržní ekonomiku a v očekávání vstupu do Společné zemědělské politiky EU (SZP). Ceny zemědělských výrobců (CZV) v Maďarsku jsou až o 20 % nižší než CZV v EU (s výjimkou hovězího masa, kukuřice a cukrové řepy). Domácí spotřebitelské ceny v průměru sledují světové tržní ceny a v roce 2001 spotřebitelé platili na úrovni světových tržních cen. Dosažený pokrok v Maďarsku poskytuje dobrý základ pro implementaci „*acquis*“ v zemědělství, nicméně posílení administrativní kapacity, pokud jde o aplikaci mechanismů organizace společného trhu a tržních struktur ve vztahu k Evropskému orientačnímu a garančnímu fondu pro zemědělství, je prioritou. Pro Maďarsko jsou otázky rovného zacházení a nerozlišování mezi starými a novými členskými státy EU přinejmenším tak důležité jako úroveň transferů, které se podaří vyjednat. Revidovaný návrh společného stanoviska Evropské komise ke vstupu ZSVE do EU nevypadá zcela nestranně a měl by být upraven ve prospěch ZSVE ještě k datu ukončení vyjednávání o vstupu.

**Klíčová slova:** zemědělství, Maďarsko, agrární obchod, ceny zemědělských výrobců, podpory, rozvoj venkova, vstup do EU

### CURRENT STATUS OF HUNGARY'S AGRICULTURE

In 2001, agriculture's contribution to GDP was 4.5 percent. Agriculture now represents about 6 percent of the total employment. The share of agriculture in total investments has been lower than the share of agriculture in GDP in the last decade. At the same time, the contribution of agriculture and food industry to the total exports declined, but increased to 7.5 percent in 2001. The share

of food products in the average household budget has remained high (see Table 1).

Agricultural production has experienced a major adjustment in the early 90s, with, in particular, a large reduction in animal production. This adjustment reflects the change in demand and, in particular, the change in real incomes of Hungarian consumers after the reforms. In 2001, the total output of agriculture was higher than in 2000. Animal products and crops represent about 50 percent of the total gross agricultural production (see Figure 1).

Table 1. Agriculture's place in Hungary

Basic statistics	1990	1995	2000	2001
Share of agriculture in GDP (percent)	12.6	5.9	3.6	4.5
Share of agriculture in employment (percent)	14.2	8.0	6.5	6.2
Share of agriculture in total investments (percent)	7.9	3.0	2.9	3.0
Household income spent on food (percent)	39.2	34.5	29.2	31.0
Share of agricultural and food products in total export (percent)	23.1	22.0	6.9	7.5
Net foreign trade of agricultural and food products (Billion HUF)	98.0	227.6	302.2	374.8

Source: Central Statistical Office, Hungary 2002

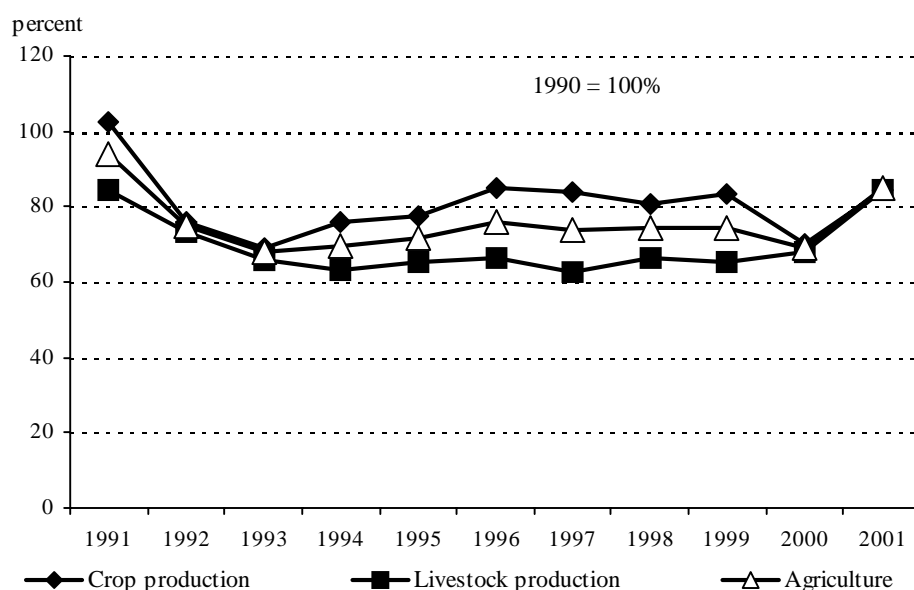


Figure 1. Changes in agricultural output index of Hungary

Source: Central Statistical Office, Hungary 2002

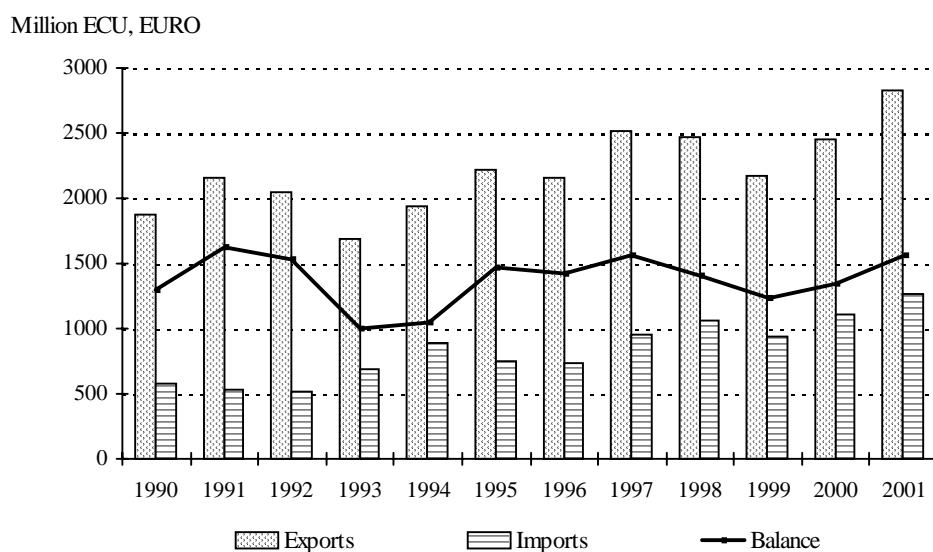


Figure 2. Agriculture and food trade of Hungary

Source: Research and Information Institute for Agricultural Economics, Budapest 2002

Million ECU, EURO

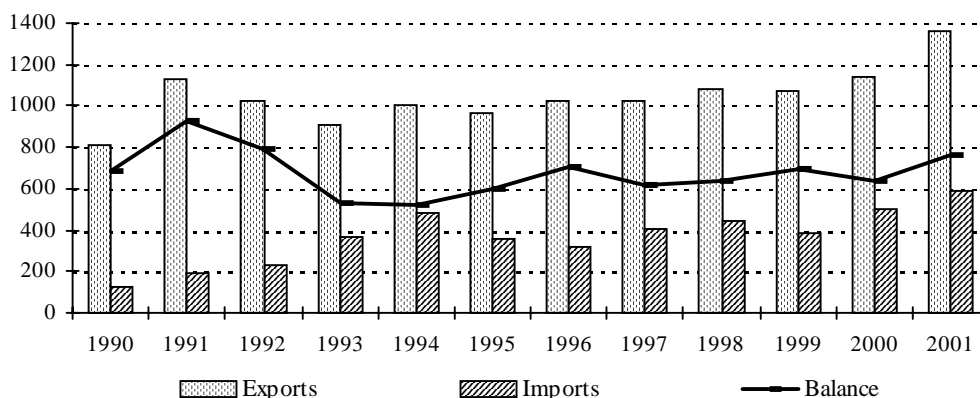


Figure 3. Agricultural and food trade between Hungary and the EU

Source: Research and Information Institute for Agricultural Economics, Budapest 2002

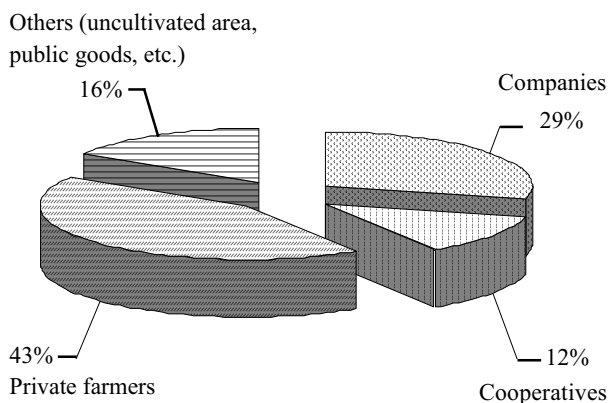


Figure 4. Land utilisation by type of farms in 2000 (out of the total land of 9.3 million ha)

Source: Central Statistical Office, Hungary 2002

Agricultural and food exports have displayed a positive trade balance in the 90s bringing 2.8 billion EURO to the country in 2001. Agriculture and food imports have increased and amounted to 1.3 billion EURO in 2001. Trade surplus in this sector consistently fluctuated between 1–1.5 billion EURO over the past 10 years (see Figure 2).

Hungarian agricultural and food products are traded mostly with European countries (50 percent with the EU). Net trade surplus with the EU fluctuated over the past decade and reached 700 million EURO in 2001 (see Figure 3).

The privatisation of land based on a compensation policy and restructuring of collective farms is complete, but farm restructuring is still continuing. 88 percent of agricultural land is privately owned but 41 percent of the total land (almost 50 percent of agricultural land) is farmed by companies and co-operatives and 43 percent

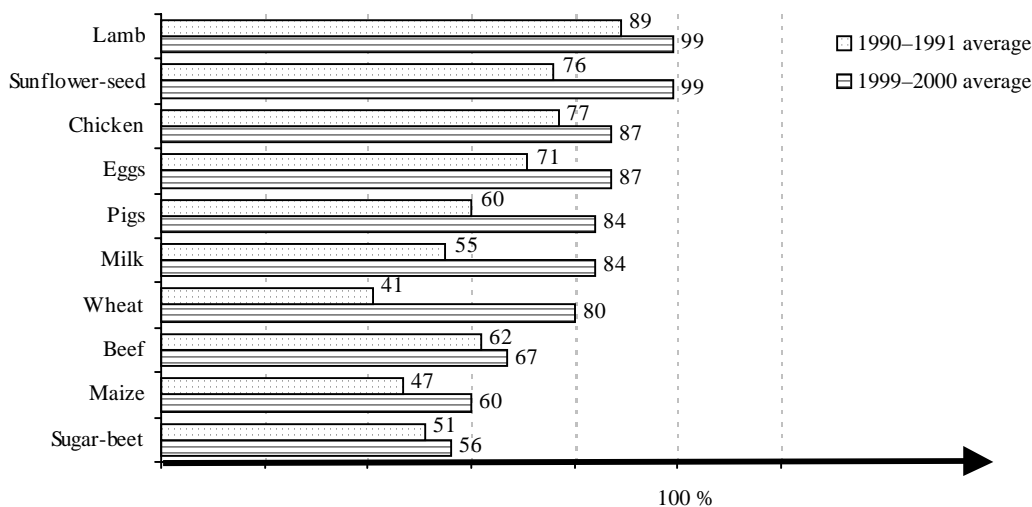


Figure 5. Producer prices in Hungary in comparison with the prices in the EU (100 = EU-15 average prices)

Source: Research and Information Institute for Agricultural Economics, Budapest 2002

by private farmers (see Figure 4). It means that farms are often cultivated by organisations other than the actual owners. By law, an individual farmer cannot own more than 300 hectares; legal entities (companies of various kinds) cannot own agricultural land at all.

The extension of the Single Market to the new member states will mean that the administered prices in the EU will also apply to them from the date of accession. This will involve, for most of the new member states, substantial increases for some products and smaller increases for others. In terms of the relative level of agricultural prices between Hungary and the EU, the broad picture is that significant price gaps exist for beef, maize and sugar-beet, but the price gaps are much less for cereals, pig meat, poultry meat, eggs and milk. To some extent, the price difference for beef reflects quality differences (see Figure 5).

### Existing subsidy schemes

The agricultural support is around 190 billion HUF (about 800 million Euro).

Market regulation is a major element of agricultural policy in Hungary. Important support to agriculture is also provided through area payments and payments based on the use of inputs. Market regulation policies rely mainly on the system of institutional prices, combined with public purchases, storage programmes and export subsidies. The Office for Agricultural Market Regulation (OAMR) and the Agricultural Intervention Centre (AIC) are the two agencies that implement the market regulation policies for all the main commodities. The AIC monitors and controls export subsidy spending. The activities of the OAMR are co-ordinated with the "Product Boards".

Each year, the OAMR sets guaranteed prices (for milling wheat, feed maize, beef and veal, pork and milk) as well as guidance prices (for beef and veal, pork and milk) and announces minimum and maximum intervention prices (for milling wheat, feed maize, beef and veal, pork, milk, sugar beet and sugar). The OAMR intervenes when the market price is lower (higher) than the minimum (maximum) intervention price. Intervention may take the form of public purchases, storage programmes and/or export subsidies. Storage programmes concern milling wheat and feed maize and consist mainly of subsidised credits granted to farmers with public warehouse receipts (for the quantity stored) in order to finance their working capital. For livestock products (milk, beef and pork), budgetary payments based on output are used to cover the gap between market prices and guidance prices. Budgetary payments are paid either to farmers or to processors: they are granted to farmers when market prices are lower than guidance prices and to processors when market prices are above guidance prices. In addition, price premiums for high-quality production are provided for beef, milk, pork, poultry and game meat. As for crop products, export subsidies constitute an important policy instrument to regulate animal product markets (especially for

poultry and pork). For milk, domestic production is constrained by an output quota. The prices of other products are supported mainly through import tariffs.

Area payments are granted to farms up to 300 hectares of agricultural land. The rate of payment falls with the farm size. The area based payment scheme was established in 1999 and remains one of the main programmes providing direct payments to farmers. Under this scheme, payments per hectare of arable crops, which decrease with farm size, are provided to all farms from 1 to 300 hectares. Among payments based on the use of inputs, the most important are subsidised credits and capital grants, and fuel-tax subsidies. Budgetary support, based on capital, is provided mainly in the form of subsidised interest rates for farm credit (for investments as well as for working capital) and capital grants (for land improvement and irrigation, for purchases of breeding animals or for farms that would otherwise have difficulty getting access to credit). Part of the support, in the form of capital grants, is provided to young farmers. Fuel tax concessions are granted to farms based on standard fuel consumption per hectare of agricultural land (arable land, plantations, grassland) and per dairy cow.

Environmental improvement and rural development is supported mainly through capital grants, interest-rate subsidies and tax concessions. Subsidies for farmers using farming technologies limiting soil erosion and subsidies for farmers shifting from traditional to organic farming are the two main environmental policy measures.

In the crop sector, Hungary experienced a very large harvest in 2001. Wheat and barley production increased by 40% compared to 2000, while maize production increased by 46%. As the domestic production rise was only partially offset by consumption growth, grain surplus increased substantially and domestic market prices fell. This movement was particularly marked for feed maize causing the OAMR to intervene directly in the maize market through intervention purchases at the end of 2001. In December, the OAMR offered to purchase 500 000 tonnes of maize at HUF 18 000 per tonne (i.e. the minimum intervention price). In addition, in storage programmes, the interest-rate subsidy was increased while a 15 HUF/tonne/week storage subsidy was implemented. Excess supply also occurred in the grape and wine sector in 2001. In this case, market regulation took the form of subsidies for the distillation of wine and concentrating of must produced from the 2001 harvest and for the storage of high quality wines. Export subsidies were also granted to grape juice.

In the livestock sector, the milk quota and the penalty scheme for milk delivered above the quota were unchanged in 2001. The quota remained at 2 billion litres or 2.06 million tonnes. However, in 2001 the Milk Product Board set an initial amount of 1.9 billion litres and an additional amount of 100 000 litres that farmers could purchase for HUF 10 per litre (USD 3 cents). The penalty for milk delivered above the quota was slightly modified. In previous years, the penalty was set at HUF 10 (USD 3 cents) per litre for the first 100 000 litres and at HUF 30

per litre (USD 10 cents) beyond. In 2001, the penalty is set at HUF 30 per litre delivered above 105% of the quota. In addition, when the delivery falls below 95% of the quota, the unused 5% is withdrawn from the farmer.

In previous years, budgetary payments based on output included mainly "quality payments" and various payments used in addition to direct market intervention, in reaction to market price developments. Quality payments were provided mainly to livestock products (especially beef, milk, poultry, pork and game meat) while other payments could be granted to a large range of products (both livestock and crop products). In 2001, the quality payments were extended to some vegetable products, namely onions, pepper, potatoes for human consumption, tomatoes for industrial processing, sweet maize and tobacco. In addition, a new programme aimed at supporting quality production was implemented. Following the expiry of Hungary's waiver from its URAA export subsidy commitments and the resulting restrictions on export subsidies, the freed budgetary resources were used to fund this new programme.

Export subsidies are used as a market regulation instrument for various commodities. In 2001, the total amount spent on export subsidies was HUF 11.3 billion (USD 39 million), down by more than 50% compared to 2000. This drop is partly explained by the expiry of Hungary's waiver from its URAA export subsidy commitments.

Overall, policy developments in Hungary have led to a reduction in support and protection during the 1990s and are in line with the long-term reform objectives of increased market orientation. It is particularly important in the case of transition economies that agricultural support not impedes the structural adjustment of the economy.

## PREPARATION FOR THE EU ACCESSION

### Horizontal issues

As regards horizontal issues, the existing databases and data networks should be improved to establish the Integrated Administrative and Control System (IACS). Progress still needs to be made to complete the land parcel identification system, especially as regards digitalisation of land parcels according to the EC requirements. The identification and registration of animals, completed for bovine, has been extended to pigs, sheep and goats. The current Farm Accountancy Data Network, operated by the Ministry of Agriculture, will be harmonised with the EC requirements by the end of 2002. In the field of land reform, the laws on land consolidation and on the national land fund have been adopted.

Hungary continues to upgrade the capacity of the agricultural administration and complete the preparations for the practical implementation and the enforcement of the management mechanisms of the Common Agricultural Policy, in particular market information systems (including price reporting), and the Payment Agency for the management of funds within the Common Agricultural

Policy. Hungary has officially designated the Agricultural Intervention Centre (AIC) for the preparation to fulfil the EAGGF Guarantee Section Payment Agency tasks. The setting up of the EU-compliant market information and price reporting systems is still under discussion in Hungary, as well as the future role of the produce boards. A market organisation similar to the EU market organisation was introduced in the sugar sector. The finalisation of the national implementing and payment system is currently the only remaining condition to be fulfilled before starting the implementation of the SAPARD in Hungary.

Agricultural trade relations between the European Community and Hungary continue to be positive. Following a very fruitful first round of liberalisation agreements (double zero), negotiations on a second round (double profit) proceeded in a very positive atmosphere. The results of these negotiations were implemented on an autonomous basis from July 1, 2002. As regards processed agricultural products, both parties welcome the entering into force of the agreement to improve liberalisation, in particular on mutual reduction of custom duties. A new round of trade liberalisation negotiations will be prepared in the near future.

Hungary has achieved progress in veterinary issues and needs to reach and maintain full compliance with the *acquis*. The Veterinary Act entered into force in 2001 and a number of implementing decrees have already been adopted, while some will be adopted by the end of 2002. Hungary also adopted a new Act of Feeding stuffs. Hungary is in the process of upgrading its food processing establishments with the view of meeting the EC food safety standards. Border inspection posts with third countries will also be upgraded by the end of 2002. Concerning the transmission of the bovine spongiform encephalopathy (BSE), Hungary has introduced in 2001 the EC rules on the specified risk materials (SRM) and started carrying out the EU-compliant prion tests. Hungary also improved its legislation on animal welfare.

In Hungary, the alignment with the *acquis* on phytosanitary issues (on pesticide use and registration and harmful organisms) continued with the implementation of the law on Plant Protection. The EC provisions related to plant passport and protected zones will be fully applied from the date of accession; however, a plant passport system fully in line with the relevant EC provisions was introduced on October 1, 2002. On plant health (pesticides), a new legislation on maximum residue levels (MRL) is being adopted. To complete the transposition of the *acquis* in seeds and propagating materials, a draft amendment to the existing law was submitted to the Parliament in 2002.

### Common market organisations

Concerning the implementation of the Common Market Organisations, the key management mechanisms for cereals are yet to be harmonised and the conditions for intervention established. The marketing standards for

fruits and vegetables, currently applied on exports to the EC, need to be extended to imported and domestic products. Further support is essential to promote the establishment of producer organisations. The law on statistical survey of the area under vines and fruit orchards was adopted in order to establish a national vineyard and orchard register.

### Rural development

In the area of rural development, the adoption of the National Agri-Environmental Programme has been followed by the establishment of the institutional structure and the budgetary allocations necessary to implement it. Support to rural development in Hungary has increased in the last years (see Figure 6). It seems that the current rural development instruments in the EU are not adapted to the challenge of rapid change in rural areas and do not necessarily reflect all the needs in the candidate countries. Hopefully, Hungary will be able to enjoy a wide range of transitional measures and national aid schemes in the transition period to cushion the impact of the EU accession.

### The negotiating position of the EU

According to the EU, the key question is how to achieve a successful transition towards full application of the Common Agricultural Policy (CAP) in the candidate countries. The Commission has stressed that most candidate countries are struggling to compete with the EU-15 in spite of their tariff protection and less constrain-

ing quality and health norms. This is largely due to a much lower investment, fragmented structures and less intensive production methods and inefficient feed conversion (roughly half of the EU level). Following transition, agriculture in these countries has become increasingly polarised between large holdings and semi-subsistence farming. Low profitability of the sector has consolidated this process. This would require relatively long transitional periods to carry out the economic and social adaptation of the sector. Such an approach would include strengthening aid for restructuring of the commercial sector, the progressive introduction of direct aids in order to avoid major destabilisation, a broad set of policies aimed at managing the rural exodus and a social safety net for semi-subsistence agriculture.

Direct payments will be extended to the new member states gradually, in the first step equivalent to the level of 25 percent in 2004. In relation to production and premium quotas, the EU has pointed out that the national quota levels for each product concerned must be determined on the basis of historical production data during a reference period to be defined. The candidate countries have been requested to provide information on the relevant products and levels of production for each of the years from 1995 to 1999. The EU has underlined that quotas will be based on annual average production levels over that period.

For the candidate countries, the issues of equality of treatment and no distinction between old and new members of the EU are at least as important as the level of transfers they will receive. The revised draft common position of the European Commission does not seem particularly equitable and should be improved in the accession negotiations.

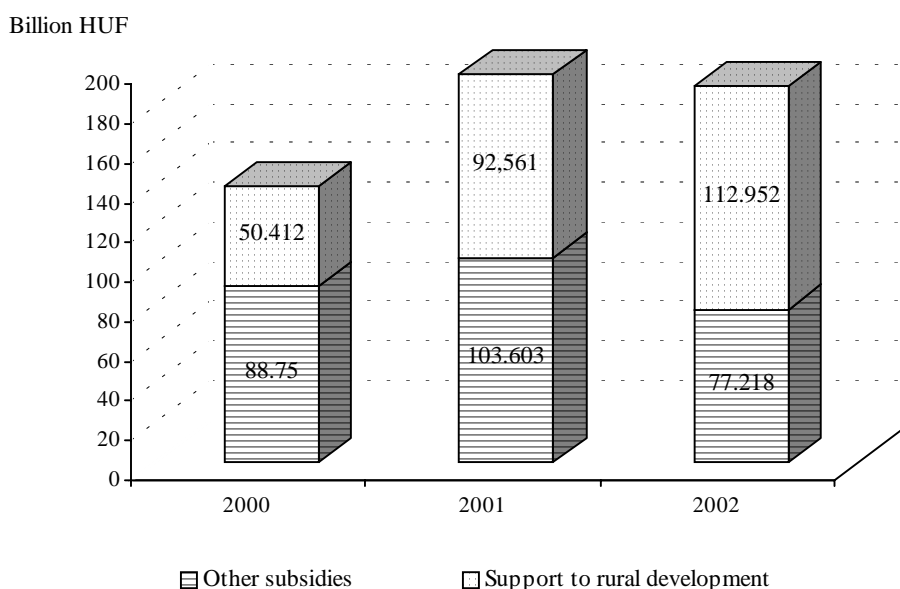


Figure 6. Budget transfers to agriculture (2000–2002)

Source: Research and Information Institute for Agricultural Economics, Budapest 2002

## CONCLUSION

Agricultural policy in Hungary is characterised by relatively low and declining levels of support. Policies have developed in the context of transition towards market economy and in anticipation of the entry into the EU Common Agricultural Policy (CAP). Policy developments in Hungary have led to a reduction in support and protection during the 1990s and are in line with the long-term reform objectives of increased market orientation. Domestic consumer prices are, in average, closely aligned with world market prices, and in 2001 consumers at the farm gate were paying world market prices. Input payments, mainly investment and capital aid, are the most important category among other payments. Although such payments are likely to affect production, especially in the long-term, they can contribute to the restructuring of the agricultural sector in order to increase production efficiency. However, while the rebalancing of support towards smaller farms might impede overall efficiency, it has the potential to meet social and rural development goals.

Progress made so far by Hungary provides a good basis for implementing the *acquis* in the agricultural sector, however, strengthening of the administrative capacity over the last year has been hindered by slow decision making in regard to the Common Market Organisation mechanisms and structures relating to the European Agricultural Guarantee and Guidance Fund. The revised draft common position of the European Commission does not seem particularly equitable and should be improved in the accession negotiations.

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