

³¹ Despite failure to reach the status of a governing party, the Russian wing party "Harmony Center" has succeeded in capturing the majority in Riga City Council since 2009.

³² In 2014, only 20% of members of Latvia's Parliament were parliamentarians who served in 2002. Out of six parties active in Parliament in 2002, no more than three were still active in 2014. Moreover, only one of them - the conservative Union of Greens and Farmers - did not change its structure.

³³ With GDP of 23 billion euros (0.18% of EU-27 GDP) in 2013 Latvia came fourth after Malta, Estonia and Cyprus in terms of smallness of economy among the entrants of 2004.

³⁴ There are a number of theories which help to shed some light on the dynamics of Latvia's boom-and-bust experience; however, none of them can explain it completely. For sure, each country has its own particular, non-replicable political economy. Some scholars have applied the theory developed by Francisco Rivera-Batiz in 2001 called "emerging market disease". Basically, Rivera-Batiz argues that capital liberalisation leads to a surge in foreign investment and economic boom, which ends in crisis and capital flight due to accumulated debt burden and expectations of currency devaluation. Other researchers point out to a phenomenon called "convergence play", when a combination of real appreciation and declining long-term interest rates due to falling inflation and country risk premium leads to domestic consumption boom, severe overheating and repeated inflationary pressures.

³⁵ The Nordic countries supplied 1.8 billion euros, the IMF – 1.7 billion euros, the World Bank 400 million euros, the Czech Republic 200 million euros, and the European Bank for Reconstruction and Development, Estonia, and Poland 100 million euros each. See "IMF Press Release" No. 08/332, 19 December 2008, available at <https://www.imf.org/external/np/sec/pr/2008/pr08332.htm>.

³⁶ See *Innovation Union Scoreboard 2014*, DG Enterprise and Industry, European Commission, 2014.

³⁷ *Republic of Latvia: Selected issues*, IMF Country Report No. 13/29, January 2013.

³⁸ According to national census, between 2000 and 2011 the population of Latvia decreased by 13% (9% on account of emigration and 4% on account of demographic decline). Due to emigration Latvia has lost about 14% of its working-age population. About 3/4 of adult emigrants were younger than 35 at the moment of their departure. See M. Hazans, "Emigration from Latvia: Recent trends and economic impact" (in:) *Coping with emigration in Baltic and East European Countries*, OECD, 2013, pp. 65-108.

³⁹ M. Laar, *ibidem*, p. 248.

WSPÓLNA POLITYKA ROLNA

HUNGARIAN AGRICULTURE A DECADE AFTER EU ACCESSION: HOPES, FACTS AND LESSONS

*Miklós Somai**

Spring 2014 is fully packed with expert meetings and conferences that are aimed at taking stock of Hungary's experiences of its 10-year membership of the European Union (EU). The introduction of the Common Agricultural Policy (CAP) and the gradual application of its main support schemes for farmers are, beyond doubt, emerging as key issues of interest in the above-mentioned events. Apart from giving a short outline of pre-accession expectations and preparations, as well as putting the whole issue into historical context, our intention with this paper is to highlight the main lessons learned from Hungarian experience in the agricultural sector during its first 10 years as an EU member; to display, first and foremost, how production and trade flows have changed and to explore the reasons behind these changes. By doing so, also some attention needs inevitably to be paid to pre-transition developments, as well as to the role of the hidden economy.

Expectations and preparation

Based on Hungarian agriculture's undeniable key strength as natural endowments – i.e. the size and qual-

ity of the arable land (excellent soil and topographic conditions) the amount and distribution of rainfall and the number of hours of sunshine during the vegetation period – significant trade surplus with both developed and developing countries, high level of production/technology standards and agronomic knowledge in market-oriented farms, not only politicians but also professionals and even scientists had long expected serious results from the country's European integration¹. Expectations were high in two ways:

- ☞ first, that CAP support would result in faster technological progress, hence in improving competitiveness;
- ☞ second, that EU membership would bring about a stable regulatory framework for farmers whose level of subsidisation used to be very dependent on, hence fluctuating with the ever-changing economic conditions and political climate of the country.

As for the preparation process to membership, we only treat it in as much as it is a common belief that Hungarian agriculture was not sufficiently prepared for participation in the Single Market by the time of EU accession. Part of the process was done correctly: e.g. the transposition of EU law into the national one. And the implementation of "training and development of human resource program" in the ministry and other public bodies also progressed on schedule. Besides, already since 1995, courses on EU policies were available at agricultural high schools². But other parts of the preparation process were not so much of a success: the establishment

and accreditation of certain institutions as well as the whole communication strategy aiming at enhancing the knowledge of farmers and of all stakeholders about the CAP were permeated with party politics, nepotism and corruption.

The worst case of what backlog in institution-building could cause came at the end of the first year of membership. The setting up of the Agricultural and Rural Development Agency (MVH in Hungarian) – the institution receiving and evaluating applications and paying out supports – got a huge delay which, in turn, caused delay in the establishment of the IT system and the recruitment and training of the staff. Thus, the MVH had long been struggling with great arrears in evaluating farmers' application and paying off support. As a result, by the end of the first year of EU membership (2004), Hungarian producers got only HUF 10 billion out of the expected HUF 76.3 billion under the SAPS, and HUF 50 billion out of the planned HUF 91 billion as national *top-ups*. The delay in paying out direct payments to farmers in 2004/2005 caused serious liquidity problems and led to a three-week protest consisting of blocking the roads with over 1.500 tractors in Budapest³.

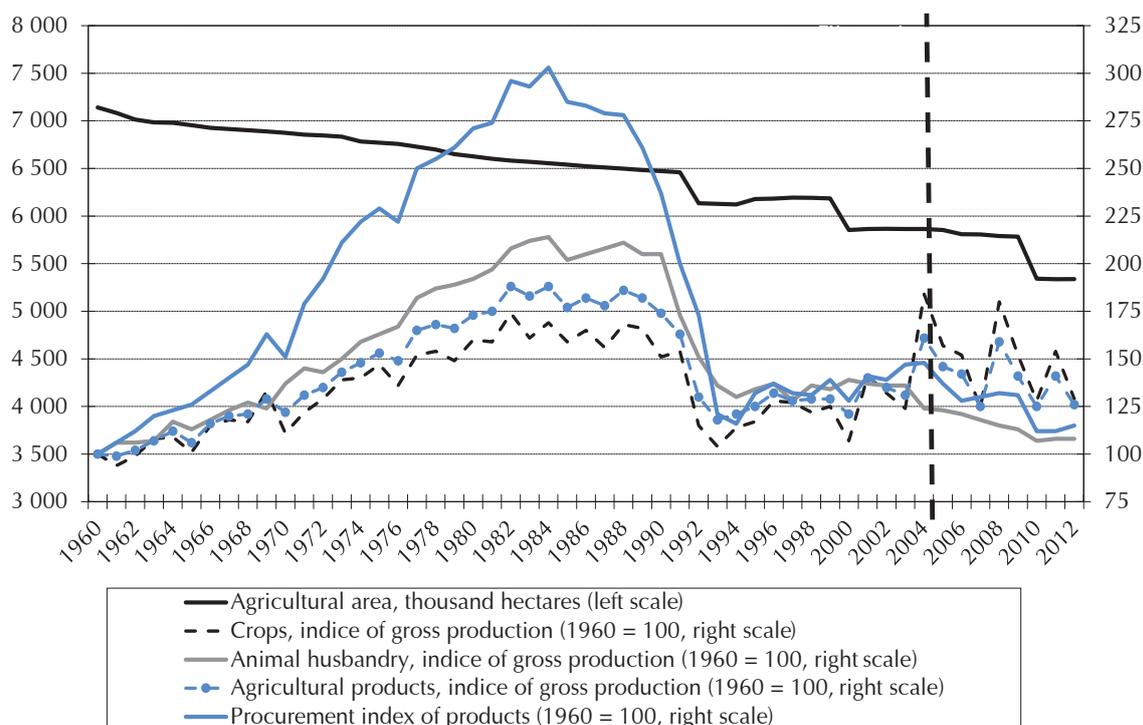
The preparation for accession of the market participants were also well below the desirable level. Shortcomings stemmed from the delayed setting up of the required infrastructure (storage and cold storage facilities, transporting systems, etc.), the lagging behind technolo-

gies, the inefficient use of grasslands and orchards, etc. Co-operation between farmers like the establishment of Producer Organisations started too late and progressed at a very low pace. Consequently, the ability of Hungarian producers to respond to new opportunities and challenges related to EU membership turned out to be rather limited, at least on the short and medium run.

Historical context

When evaluating the performance of the Hungarian agriculture during the last ten years, it is impossible to do so without placing it into a broader, historical context. That is why in Figures 1-3 we display data since the early 1960s, the period when the political stabilization following World War II and the 1956 crisis made it possible for agriculture to start a process of modernisation. The first 20-25 years can be regarded as a success story – with a growing rate of self-sufficiency of almost all temperate climate products and per capita export surplus ranking among the highest in the world⁴. Based on the large-scale production and the intelligent organisation of the agrifood chain, the use of the most advanced technology available to the country at that time, and the protected market of the CMEA⁵, in the 1970s and 1980s Hungary was able to produce twice the amount of food it needed⁶.

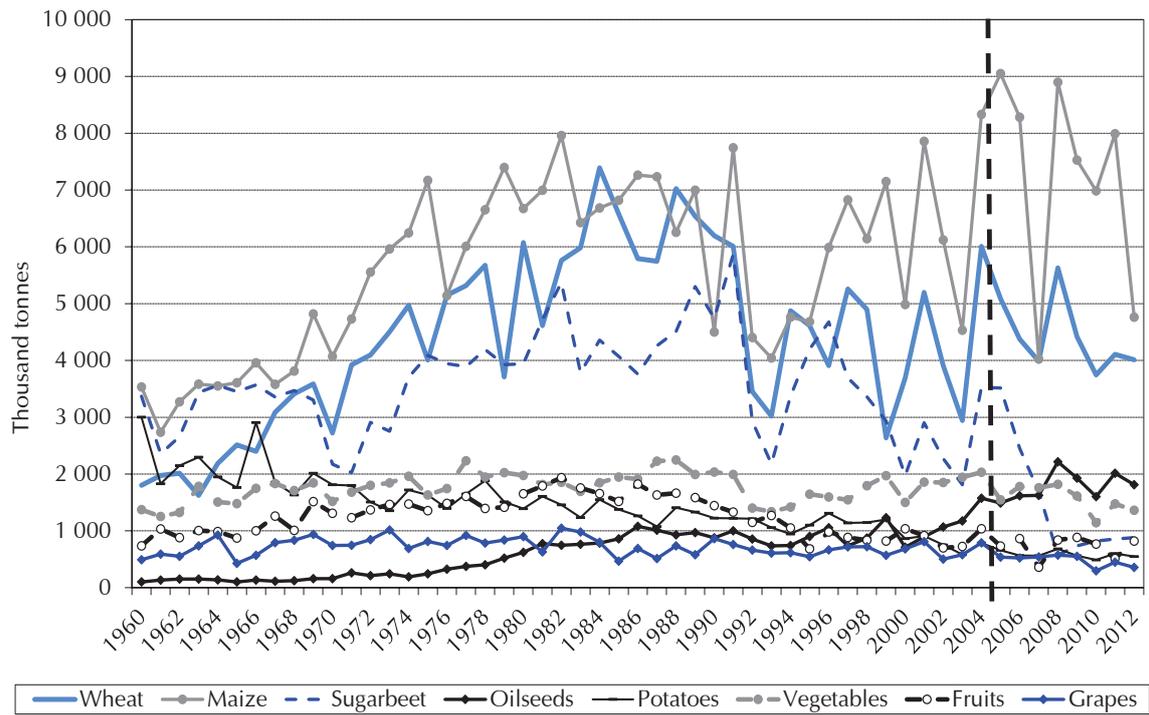
Figure 1
Main indicators of Hungarian agriculture, 1960-2012



Source: KSH (web) – http://www.ksh.hu/docs/eng/xstadat/xstadat_long/h_omf001a.html

Figure 2

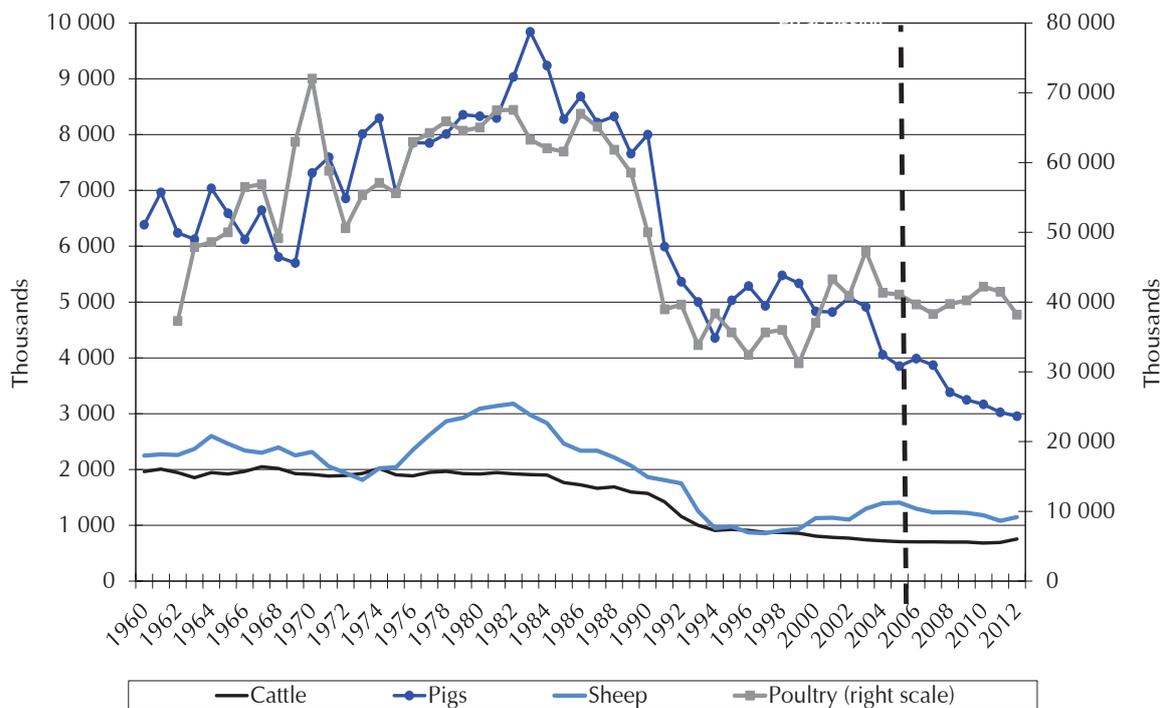
Production of main crops in Hungary, 1960-2012



Source: KSH (web) – http://www.ksh.hu/docs/eng/xstadat/xstadat_long/h_omf001b.html

Figure 3

Livestock numbers in Hungary, 1960-2012



Source: KSH (web) – http://www.ksh.hu/docs/eng/xstadat/xstadat_long/h_omf001c.html

But since the mid-1980s, the sources of extensive development dried up: growth first turned into stagnation, then, with the systemic change of the early 1990s, into severe contraction. Without going into details, we can mention that elements of the failure included heritage of the past – as reforms had been slowing down since the mid-1980s – contraction of both export and internal markets, and political mistakes of the new elite denying everything that worked in the old system (property patterns, subsidisation policy and vertical integration, etc.).

Mistakes committed by governments in power during the pre-accession period – mistakes like to make entire product lines profitable artificially through subsidies while knowing that once in the EU, they would cease to be eligible to any such thing but exposed to very strong competition – and mistakes committed by the stakeholders themselves – e.g. by not converting all subsidies into technological investments in order to reduce production cost until accession – so, all these mistakes have already been presented in various comprehensive scientific papers and lectures⁷. We only mention here that representatives of uncompetitive sub-sectors (like dairy, pig and poultry farmers and processors; or sweet corn, cucumber, onion and tomato producers and processors) received most of the subsidies while potentially competitive commodities received less than necessary support. Cereal farmers e.g. entered the EU with no sufficient storage capacity and growers of fruit and vegetable crops with no efficient producer organisations, or sufficient greenhouse and irrigation facilities⁸.

Despite of all mistakes and weaknesses, in the approximately 10-year period between the mid-1990s and the EU accession (in 2004), the Hungarian agriculture has stopped declining, its situation has stabilised somewhat, and for some important products and product groups (like maize, oil seeds, poultry and vegetables) even some growth could be observed (see Figures 1, 2 and 3). What is more, at the last moments before accession, the government significantly increased the framework for investment aid, remembering that once in the EU, there would be much less room for supporting capacity building, as the structural component of the CAP giving support to farm investments would mostly be focused on qualitative development: as a result, a record amount of HUF 40.000 (~EUR 130) of net investment per hectare was recorded in 2003, a level that has never been matched since then⁹.

Within these circumstances, politicians as well as stakeholders were eagerly looking forward EU membership which would, as it was hoped, bring about stable regulation, guaranteed prices and huge subsidies as a final solution to the long lasting problems of the Hungarian agriculture stemming from lack of capital, lack of confidence, weak inclination to co-operation, and under-developed post-production activities (like storage, wrapping, transport, marketing, etc.). Unfortunately, hopes for stable regulation, guaranteed prices and huge subsidies

only came true partly, and/or not at all, and/or much later than politicians had expected.

Production

What can be clearly seen in Figures 1, 2 and 3 is that since the EU accession, crop and livestock production have followed two different paths: the former continuing, even if at an observably higher level and with increased year-by-year volatility, its earlier trend of near-stagnation; the latter showing sharp decline. While crop production has been fluctuating between unprecedented peaks and valleys with a ratio of 1 to 1.4-1.5 (and for some particular species, like maize, with a ratio of 1 to more than 2), livestock production first went straight down and then (since 2010) has been stagnating at a level typical of the early 1960s (!).

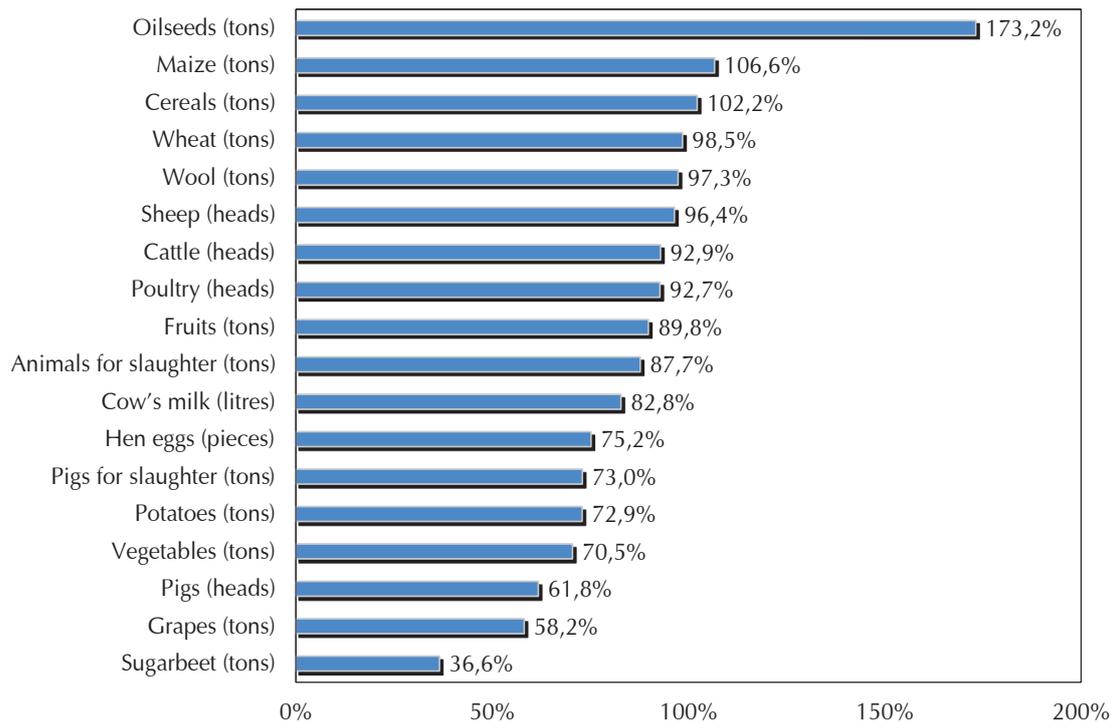
In terms of individual sub-sectors, there are winners and losers of the last ten years, although the number of the latter is several times larger than that of the former (see Figure 4). Among winners and relative winners, one can find those types of production (like arable crops and grazing) which, because of their key role in land use, had traditionally been amongst the most generously supported ones – even in this limited and distorted version of the CAP in which it was introduced in Hungary. These products partly overlap with those few items (like oilseed or mutton) for which the EU is not yet self-sufficient. Unfortunately, losers' list is much longer: in ascending order of the size of the decline, we have such sub-sectors as milk, eggs, vegetables, pigs, grapes and sugar beet. As for the reasons behind, we will discuss them later in this paper. Here we only make some remarks.

Well before EU accession, experts, among them those of the Research Institute of Agricultural Economics (AKI in Hungarian), the background institute of the Ministry of Agriculture, warned, in various publications, about the risks arising from the revealed competitive disadvantage of certain animal sub-sectors (mainly poultry and pig). If the poultry sector still appears resistant, this can be attributed to changes in consumer tastes, differences in price (chicken-meat being a bit cheaper compared to pork), and the fact that poultry farming happens to be a lot less expensive and complicated activity than pig fattening. But what the experts did not foresee was the significant decrease in vegetable production. And what called for the formation of a parliamentary special committee, in 2012, was the quasi disappearance of the Hungarian sugar industry¹⁰. Last but not least we have to add that quantitative data on viticulture are not good enough to describe the state of the sector; it is most encouraging that in recent years a lot of efforts have been undertaken to move further towards quality wine production¹¹.

Placing the output performance of the Hungarian agriculture into a wider international context, it can open the door to a lot of different interpretations. At the conferences and other events celebrating the 10-year

Figure 4

Changing performances: 3-year average of 2010-2012 compared to 2001-2003



Source: KSH (web) – <http://www.ksh.hu/agriculture?lang=en>

Table 1

Output of the agricultural industry: Production value at basic price (€ million)

	2002-04	2005-07	2008-10	2011-13	2005-07/	2008-10/	2011-13/
	3-year av.	3-year av.	3-year av.	3-year av.	2002-04	2002-04	2002-04
	in %						
EU-27	337 704	335 661	362 347	403 282	99.4	107.3	119.4
EU-15	292 001	286 598	303 041	336 947	98.1	103.8	115.4
Hungary	6 036	6 264	6 791	7 824	103.8	112.5	129.6
EU-7	22 164	25 647	30 492	36 322	115.7	137.6	163.9
Poland	14 029	16 197	20 010	23 352	115.5	142.6	166.5
Czech Rep.	3 226	3 634	4 039	4 913	112.6	125.2	152.3
Lithuania	1 250	1 772	2 070	2 852	141.8	165.7	228.2
Slovakia	1 676	1 723	1 953	2 313	102.8	116.5	138.0
Slovenia	1 075	1 087	1 116	1 185	101.1	103.8	110.2
Estonia	450	604	635	863	134.2	141.1	191.7
Latvia	458	631	670	845	137.8	146.3	184.4
Romania	13 267	13 002	17 187	17 106	98.0	129.6	128.9
Bulgaria	3 462	3 382	4 042	4 233	97.7	116.8	122.3

Notes: Output of the agricultural industry is made up of the sum of the output of agricultural products, agricultural services and of the goods and services produced in inseparable non-agricultural secondary activities. The basic price is defined as the price received by the producer, after deduction of all taxes on products but including all subsidies on products.

av. – average;

EU-7 – the seven new Member States having joined the EU in 2004 except for Hungary, Malta and Cyprus.

Source: Eurostat.

anniversary of the Eastern enlargement we have already mentioned in the *Introduction*, representatives of the government do proudly point out that Hungarian agriculture grew faster than the European average. However, if we take a closer look at the available data of the last twelve years, a slightly more nuanced picture emerges. In Table 1, we divided the examined period into four equal (3-year) parts, taken the first one (2002-2004) as the basis and comparing the others to it¹². If it is true that indices for Hungary are higher than those for the EU-27 or the old member states (EU-15), especially towards the end of the scrutinised period. Such comparison is, however, severely biased by the fact that data includes all subsidies on products. And, while such support more than tripled for the Hungarian farmers, it remained constant for their homologues in the old EU member states. So, it is to be suspected that without this inevitable bias, the Hungarian indices would be substantially closer to the average.

Much more reliable conclusions can be drawn if we compare Hungary's data to those of the other new members of the EU. If we exclude Cyprus and Malta, and of course Hungary, the agricultural output of the rest of the group joining the EU in 2004 (EU-7) grew, on average and depending on the selected time period, twice to four times faster than that of Hungary (see Table 1). Out of the EU-7, there is only one country, the smallish Slovenia, which has got worse results than Hungary. But its agriculture had, at the moment of EU accession, undoubtedly been at the highest level within group of the candidate countries; this is not quite by chance that its per hectare direct payment level, a mirror of historical production patterns, happens to be not only above both new and old member states' average, but also above that of France and Germany¹³. Also, out of all new member states with a communist past, Slovenia is by now the only one to have adopted the Single Payment Scheme (SPS) regime starting in 2007; so, in this element of the CAP, it is Slovene farmers – and them alone in our region – who have since then been getting access to

direct payments on entirely equal footing with their colleagues from EU-15¹⁴. Just to make things more interesting, also included are in the table data for Romania and Bulgaria. Obviously, in spite of the more-than-three-year time lag vis-à-vis the group of 2004 enlargement round these two countries entered the EU, their performance is quite comparable to Hungary's.

Trade

As already mentioned, the Hungarian agriculture was not fully prepared to exploit the benefits of the single market at the moment of EU accession, which is also confirmed by what can be seen from Table 1. Apparently, some years were to elapse before the sector could move into a higher gear. No wonder, the same story emerges from the trade statistics. In the first 2-3 years of membership, imports from both the old and new member states rose much faster than exports. Although, this phenomenon was not quite unique to Hungary's post-accession development – as other new member states, with the notable exception of Poland, also experienced a sharp deterioration in their agrifood trade balance with the EU-15¹⁵ – the case of Hungary is, however, special as it involved a deterioration of the trade balance with the new members, at least with the most important ones, too (see Table 2). While the trade surplus with the EU-15 declined to one-third of what it was in the early 2000s, the former trade surplus with the Visegrád countries turned into deficit; and with Poland into a growing one.

Things only started to get better from 2007 on and this happened in two waves: first, in 2007/2008 when – thanks to Romania's entering the EU and Hungary's improving export performances in EU-15 markets – trade balance with the EU as a whole climbed back to its pre-accession level; second, from 2010/2011 on, with the advent of an overall net improvement in Hungary's position (vis-à-vis almost all its trading partners) and a dou-

Table 2

Hungary's agrifood trade in 2000-2013 (HS 1-24) (€ million)

Balance with:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Czech Rep.	53	42	46	37	-8	-2	33	25	-1	11	38	97	98	95
Poland	59	18	29	1	-41	-164	-211	-159	-180	-223	-256	-185	-180	-182
Slovakia	10	23	0	0	-38	-32	2	-16	85	83	268	490	317	159
V3	122	83	75	38	-88	-198	-176	-150	-95	-130	50	402	235	72
Romania	115	173	105	183	143	128	145	481	729	628	650	622	769	666
EU-12	381	418	318	334	190	59	80	520	876	647	850	1 219	1 246	985
EU-15	633	768	724	684	472	260	241	590	341	520	550	698	1 490	1 650
EU-27	1 014	1 186	1 042	1 017	662	319	321	1 111	1 217	1 167	1 400	1 917	2 736	2 635

Source: Eurostat – DS-045409-EU27 Trade Since 1988 by HS2, 4, 6 and CN8 – <http://epp.eurostat.ec.europa.eu>; V3 = V4 – Hungary = CZ+PL+SK (V4 = Visegrád countries: Poland, Slovakia, the Czech Republic and Hungary).

bling surplus. Only, the deficit against Poland, ranging between EUR 150-250 million yearly, failed to be reversed. It is all the more striking because it reminds us that Hungary had not only lagged behind Poland in the field of preparation for EU accession, but also that the Polish agriculture is continuously performing better than the Hungarian one both in terms of adaptation of the CAP and the use of its resources. And for sure, unlike with Germany or the Netherlands, in the case of Poland the deterioration of the Hungarian trade balance had nothing to do with trade diversion, i.e. the shifting of imports of tropical products (e.g. coffee, tea or other fruits) to European ports like Hamburg or Rotterdam. The Polish surplus consists mainly of semi-processed food (e.g. meat, dairy products or preparation of cereals) having a lasting competitive advantage over the corresponding Hungarian products¹⁶.

The fact that during the first years of membership, in Hungary's agrifood trade with the EU, imports had been growing much faster than exports, involved that EU's share in Hungary's imports had as quickly as in 2004 raised above 80%, and has been stagnating at around 90% since 2005, while its share in exports reached 80% only in 2007 and has been stagnating between 80 and 85% since then. As for this intra-EU part of the Hungarian agrifood trade, both exports and imports are highly and increasingly concentrated, and not only by country but also by product group. In the period of 2010-2012, 65% of the exports went to the top-5 destinations (i.e. to Germany, Romania, Slovakia, Italy and Austria), and 67% of the imports came from the top-5 partners (i.e. from Germany, Poland, the Netherlands, Slovakia and Austria). As for the evolution of trade structure, EU membership had clearly bigger impact on the exports – with growing share for cereals and oilseeds (all stuffed with CAP support) and lowering one for meat or fruits and vegetables – than on the imports, with no major changes among the main product groups. The top-5 export product groups consisted of cereals, meat and edible meat offal, oilseeds and oleaginous food, residues from the food industry and preparations of vegetables and fruits. Imports were mainly made up of residues from the food industry, meat and edible meat offal, dairy products, miscellaneous edible preparations and preparation of cereals. What has not changed too much since EU accession is that the Hungarian agrifood exports consists for more than 40% of raw materials, which together with the group of semi-processed products, amounts to around 60-65%. On the other hand, in the country's food imports, the share of highly processed products is still over 50%, which together with the group of semi-processed products amounts to between 75-80%¹⁷.

Reasons behind

When assessing the whys of the above described production and trade patterns, we must make a clear distinction between those circumstances that affected the other

countries of the region in the same way as Hungary and those which resulted from the specific development of the country. As for the latter, there are three points that are worth to be mentioned:

- ☞ first, the application of a ten-year transitional period in the new member states with gradual phasing-in of direct payments – the main instrument of the CAP – for their farmers, but provisions for an immediate and reciprocal market opening at the moment of enlargement, as set out in accession treaties at the Copenhagen Summit in December 2002; a combination never seen before¹⁸. This arrangement put farmers of the new member states practically on unequal foot with their homologues of the old ones during the first years of membership,
- ☞ second, there was this extraordinary CAP reform in 2003, so just before the Eastern enlargement took place and in the elaboration of which the new members had no say. The central element of the reform was the introduction of the Single Payment Scheme, a support replacing all then-existing direct payments provided to farmers on different grounds. This SPS has to be paid out to each farm in lump sums, calculated as an average of support they received between 2000 and 2002. The new EU members were given an opportunity to apply a simplified area-based system (SAPS), first introduced for three years but later postponed in several steps until 2020. In practice, there are two different systems in force in the EU: one for the old member states, with more room to differentiate the support by farm or by region, and one for the new member states – except for Slovenia and Malta – where such possibility is nonexistent;
- ☞ third, in any case when normative CAP rules would be “too” beneficial to some of the new member states, the old ones act immediately and change the rule. Already, in preparing the 2003 CAP reform, the Commission – for fear coupled direct payments would attract the conversion of more arable land into rye area and/or encourage a shift from potatoes to rye in the new member states (especially in Poland) – proposed the abolition of the rye intervention¹⁹. Similarly, soon after the enlargement when, thanks to successive good harvests, the European intervention stock of maize increased to 40% of that of cereals (and of which 93% were stored in Hungary), the Commission did not wait for a long time but proposed to end public intervention for maize²⁰. Hungarian farmers were pointed at and blamed for having an interest in selling into intervention rather than trying to export²¹. So, there was no question whether or not giving them time to adapt to their new environment.

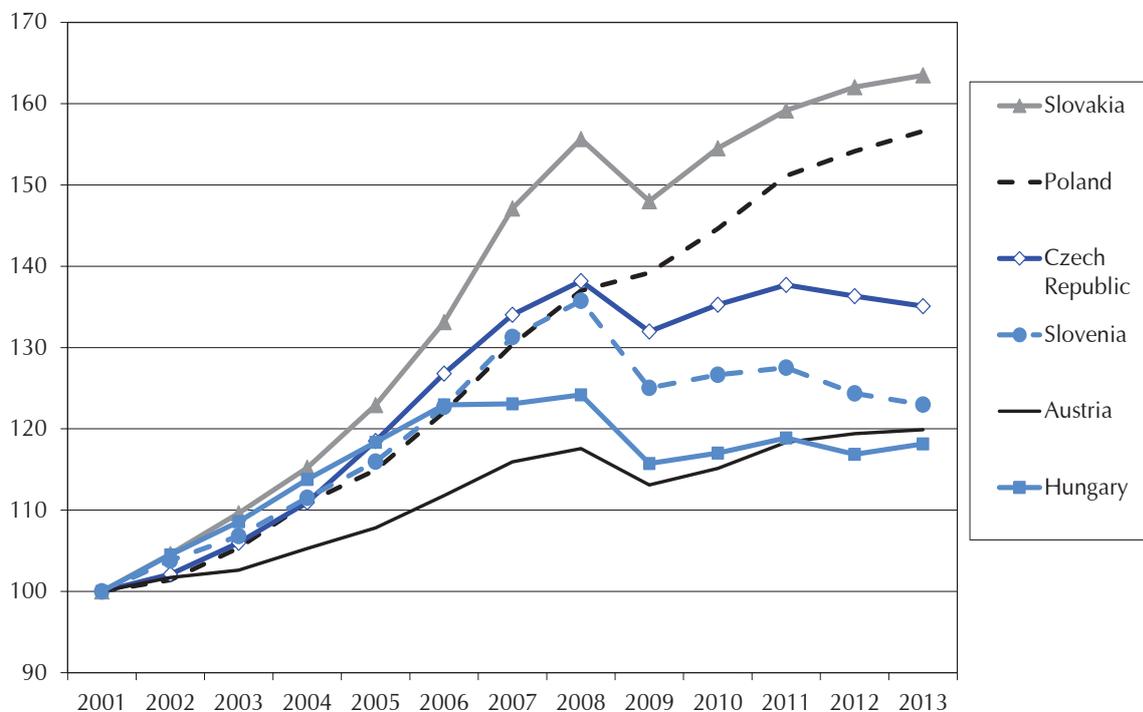
Before getting on to the specialties of the Hungarian agriculture one general remark must be made: there was a basic feature of the Hungarian transition process that made the difference with its main rivals: in no other candidate country had there been so much struggle against a functioning sector of the economy in order to redistribute its capital goods, subsidies, political power and other

positions of influence than in Hungary²². Privatization, restitution (of lands to former owners) and land laws (restricting land ownership to domestic physical persons)

destroyed the confidence in the countryside, increased instability in land ownership, led to irresponsible land use and inhibited long-term investments²³.

Figure 5

Cumulative real GDP growths since 2001 (in volume)



Source: Eurostat.

Table 3

Annual per capita food consumption in Hungary

(kg)	Meat	Fish	Milk	Eggs	Fats	Flour & rice	Pota-toes	Sugar & honey	Fruits & vege-tables	Other plant prod.	Total
1980s (A)	76.2	2.4	183.6	18.7	35.0	111.5	56.1	37.2	154.5	4.0	679.0
2011 (B)	55.8	3.6	152.3	12.6	34.4	84.9	63.5	28.4	177.9	4.1	617.5
A/B	137%	66%	121%	148%	102%	131%	88%	131%	87%	98%	110%
B/A	73%	151%	83%	68%	98%	76%	113%	76%	115%	103%	91%

Source: KSH, http://www.ksh.hu/docs/hun/xstadat/xstadat_hosszu/elm14.html; 1980s = decade average.

Now, as for the specialities of the Hungarian case, the reasons that are behind our agricultural development within the EU, we can put forward the following:

- the competitiveness of the Hungarian livestock production has never been so high. Our natural endowments (lack of enough rainfall, hence lack of enough pastures and meadows) put us at a competitive disadvantage against our neighbours or the Western

European countries. In pre-transition times, the low profitability (or even the deficit) of the animal husbandry had long been hidden (and cross-financed) from the excellent profit of the auxiliary activities of the co-operatives²⁴. Then, the shock of the transition and the EU accession ran, in two waves, down the sector to its competitive core what it is today. Since the EU accession alone, nearly four thousand com-

mercial livestock farms have shut up shop in Hungary. And still exists the problem of low profitability, especially for pig and poultry breeding, the latter showing much better ability to react to market changes than the former;

- ☞ unfortunately, the decline of the animal sector has serious consequences for the whole sector. As the total number of livestock units in Hungary dropped to less than half of what it was in the mid-1980s²⁵, the lack of enough natural manure makes it more and more difficult to improve the quality of the soils and hereby indirectly fighting against drought²⁶;
- ☞ naturally, the state and the performance of the Hungarian agriculture cannot be separated from the broader context of the Hungarian economy. As, after 2006, Hungary detached itself from the regional mainstream and has since then followed a much slower path of development than most of its partners in Central Europe (see Figure 5), the domestic market for agrifood products has also sharply narrowed. In 2011, per capita food consumption was one tenth less than in the 1980s (see Table 3). Consumption decline was most dramatic in animal products, staple food (except for potatoes) and sugar, while major improvement occurred only for such foodstuffs (e.g. fish or fruits and vegetables) for which much of the increase was supposed to come from imports (e.g. tropical products);
- ☞ another factor which, in the course of the time, proved to become a further limitation of possibilities for agriculture, was the hastened privatisation of the food industry in the 1990s. It has happened in two rounds – first the luxuries (sugar, tobacco, beverages and confectionary), then the heavy artillery (cereal, milk, meat) – at a time when Hungary was still at the forefront of the transition process in the region. As the Hungarian Parliament had, at that time, been busy with weakening the old co-operatives, the farmers were not able to adequately participate in the privatisation, and more than half of the food industry, also entire segments of it, fell into the hands of foreign investors²⁷. Later on, as institutions of market economy have been gradually developed in the neighbouring countries, the regionally thinking new foreign owners of the Hungarian food industry started to rationalise (i.e. relocate) their production geographically²⁸;
- ☞ at last but certainly not at least, we have to mention the problem of hidden (or black) economy. Its share in the agriculture and the food industry is estimated to be at between 20 and 30%. Relatively high tax burden, weak legal security and mass unemployment represents ideal environment for the hidden economy in today's Hungary. The complex and discriminatory tax system creates motivation primarily for the small businesses to engage in tax evasion. But in this way, indirectly, larger businesses are also involved. High level of tax evasion in agrifood economy is most harmful as it impedes integration, retards con-

centration, reduces transparency and discourages farmers to form producer organisations²⁹.

Instead of conclusions

No sector of the economy can cut itself off from its broader social and economic surroundings and developments. A combination of inexperience, greed, stupidity and corruption of the new elite resulted in what Hungary is now: a stagnating economy with low or limited growth prospects where there is much more losers than winners of both the transition process towards a market economy and the ten-year membership within the European Union.

The agriculture also went mainstream. The number of the farms has been halved since 2000. The sector is becoming more and more specialised and focusing on field crops (mainly wheat, maize, sunflower and colza), while switching away from livestock breeding or other similarly labour-intensive activity like the production of certain vegetables, which gradually shrinking and/or stagnating at a very low level. CAP subsidies helped to improve productivity and profitability but Hungarian agriculture's per hectare and per worker indicators are still very far from those of its main competitors in Western Europe, and also partly beyond those of Poland. A significant part of CAP direct payments landed in landlords pockets in form of rent³⁰. Nevertheless, farmers made good use of the rest of their grants as net investment has in almost each year been positive. Most of rural development money served the interests of either the big commercial farms (as winners), or the agricultural machinery dealers (as suppliers), or the professional tender writers. In the absence of both sufficient information and an adequate information technology background, smaller farms had no chance to win³¹. So, the present development path of the Hungarian agriculture will certainly neither boost employment, nor bring prosperity for many. One can only hope that generous CAP support will at least be sufficient to prevent the sector from being further distanced by its main rivals.

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¹ In the last year before EU accession (in 2003), out of Hungary's total land of 9.3 million hectares, productive land (including forest and fish ponds) amounted to 7.8 and agricultural land to 5.9 million hectares. Out of the latter, 4.5 million hectares (77.5%) were used as arable land and more than 1 million as grassland (KSH – <http://statinfo.ksh.hu/Statinfo/haViewer.jsp>). The share of arable land and the land under permanent crops in Hungary has always been among the highest in the world (<http://www.sitesatlas.com/Thematic-Maps/Arable-land-and-permanent-crops.html>).

² L. Vajda, *Expectations, reality, opportunities for the future* – paper presented at the conference “Experiences of the first 10 years

of our membership in the EU: Agriculture and rural development”, AKI (Research Institute of Agricultural Economics), Budapest, 10 April 2014, http://www.gazdalkodas.hu/files/Konferencia_pdf/VajdaLaszlo.pdf

³ L. Vajda, A. Baksa, *Major changes in Hungarian agricultural economy as a result of EU-membership*, “Scientific Journal on Agricultural Economics”, Vol. 52, Special Issue, No. 22, 2008, pp. 2-16.

⁴ Key elements of this success story included concentration of the production into big entities (1,274 co-operatives and 127 State farms working on an average of 3,800 and 6,100 hectares respectively), highly developed vertical integration involving about 640 thousand market-oriented household farms in close relation with the big entities, and the spreading of the so-called *auxiliary activities* across the whole sector which first had come down to the mere processing of agricultural raw materials and to on-field machine-works, but later on developed towards industrial niche products and services becoming increasingly among the most profitable activities of the co-operatives. See A. Buday-Sántha, *Agrárpolitika-Vidékpolitika - A magyar agrárgazdaság és az Európai Unió*, “Agricultural policy, rural development policy - The Hungarian Agriculture and the European Union”, Budapest-Pécs 2001, Dialóg Campus Kiadó, p. 463.

⁵ CMEA = Comecon (the Council for Mutual Economic Assistance).

⁶ J. Gráf, lecture delivered by the former Minister of Agriculture and Rural Development of Hungary at the conference “*Opportunities Seized, Opportunities Missed – Ten years in the European Union*”, House of Hungarians, Budapest, 28-30 April 2014.

⁷ See e.g. G. Varga, *Hungarian agriculture within changing circumstances: Progress report at the time of EU-accession*, “Stratégiai Füzetek”, No. 17, 2004, Prime Minister Office, Center for Strategic Analyses; J. Kiss, *Possibilities of Hungarian agriculture in world economy*, Akadémiai Kiadó, Budapest 2005; T. Éder, *Thoughts on the economic competitiveness of Hungarian food industry at the end of 2012*, paper presented at Európa Klub on 18 December 2012; G. Raskó, *Hungarian agriculture – the big loser of the systemic change*, paper presented at Európa Klub on 18 December 2012.

⁸ M. Somai, *Empirical research on whether the Hungarian agricultural producers are well prepared for EU-accession*, “Európa”, No. 3, 2002, pp. 40-51; M. Somai, *Transformation of the Hungarian Agriculture*, Tome I and II, MTA VKI, VKI Műhelytanulmányok, Budapest, November 2004.

⁹ Between 2004 and 2012, there was only one year, that of 2009, when average net investment per hectare exceeded one half of that of the exceptional year 2003 (I. Kapronczai, Sz. Keszthelyi, I. Takács, *Changes in profitability and asset and investment efficiency of Hungarian farms*, paper presented at the conference “*Experiences of the first 10 years of our membership in the EU: Agriculture and rural development*”, AKI, Budapest, 10 April 2014, http://www.gazdalkodas.hu/files/Konferencia_pdf/Kapronczai_Keszthelyi_Takacs.pdf

¹⁰ S. Székely, *This is why Hungarian sugar factories went bankrupt*, 6 March 2012, http://www.mfor.hu/cikkek/A_kormanyzati_szandek_hianya_is_a_cukorgyarak_vesztet_okoza.html

¹¹ Both in 2010 and 2012, the production of wine under *Protected designation of origin* (PDO) represented 66% of total production in Hungary, a very high share in European comparison, the EU-27 average being at 35%. In Hungary, the share of wine production under *Protected geographical indication* (PGI) was 23% in 2010 and 18% in 2012, so the share of all quality wine (under PDO or PGI) was 89% and 84% respectively, against a European average of about 50% (HNT, *Statistics on the year 2012*, <http://www.hnt.hu/index.php/statisztikak>; European Commission – AND International, *Value of production of agricultural products and foodstuffs, wines, aromatised wines and spirits protected by a geographical indication*

(GI), Final report, October 2012: http://ec.europa.eu/agriculture/external-studies/2012/value-gi/final-report_en.pdf).

¹² For the sake of simplicity, we added the year of 2004 to the basis, as neither EU membership nor the extension of the CAP to Hungary played any significant role in the agricultural production of that year.

¹³ Council of the European Union, *Average direct payments per hectare for the year 2017*, 2011: <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2012734%202011%20INIT>

¹⁴ J. Potočnik, J. G. Lombardero, *Slovenia’s Road to Membership in the European Union* (in:) *Slovenia: from Yugoslavia to the European Union*, eds. M. Mrak, M. Rojec, C. Silva-Jáuregui, p. 379, <https://openknowledge.worldbank.org/bitstream/handle/10986/15032/283760PAPER0Slovenia.txt?sequence=2>

¹⁵ A. Jámbor, *Comparative advantages and specialisation of Visegrad countries agri-food trade* “Acta Oeconomica et Informatica. XVI”, No. 1, 2013, pp. 4-5, http://ageconsearch.umn.edu/bitstream/144684/2/Jambor_aoei_01_2013.pdf

¹⁶ Naturally, in the case of Germany and the Netherlands, the deterioration of balance was only partly due to trade diversion. For the most part, it originated from the growing inflow of high value added and price-competitive processed products (e.g. yoghurt, packet soup and confectionary).

¹⁷ A. Jámbor, M. Vásáry, *An overview of the situation of Hungarian agricultural trade ten years after the EU accession*, paper presented at the conference “*Experiences of the first 10 years of our membership in the EU: Agriculture and rural development*”, AKI, Budapest, 10 April 2014, http://www.gazdalkodas.hu/files/Konferencia_pdf/Jambor_Vasary.pdf

¹⁸ During the previous enlargements, either phasing-in of CAP support went parallel with phasing-out of duties still in force between the old and the new member states at the time of accession, or both things happened abruptly, from one day to the other, without any transition period as it was in the case of the so-called EFTA-enlargement in 1995. Logically – given the existence of the single market – this latter *big bang* scenario should have been applied to the Eastern enlargement, too.

¹⁹ European Commission, *Enlargement and Agriculture: Successfully integrating the new Member States into the CAP – Issues Paper*, Brussels, 30.1.2002, SEC(2002) 95 final, p. 7; European Commission, *Mid-term review of the Common Agricultural Policy, July 2002 Proposals, Impact analyses*, February 2003, p. 60, http://ec.europa.eu/agriculture/cap-history/2003-reform/impact-analyses_en.pdf

²⁰ European Commission, *European Commission proposes to end public intervention for maize*, Brussels, 15 December 2006, IP/06/1818, http://europa.eu/rapid/press-release_IP-06-1818_en.htm?locale=en

²¹ European Parliament, *Maize: Parliament against sudden abolition of intervention system*, 24 May 2007, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+IM-PRESS+20070516IPR06776+0+DOC+XML+V0//EN>

²² G. Varga, *Hungarian agriculture within...*, op. cit.

²³ P. Juhász, *Law making a la Bolsheviks*, Magyar Narancs”, 2012 (43), <http://magyarnarancs.hu/belpol/ilyen-a-bolsevik-jogalkotasi-mod-82202#>

²⁴ In the 1970s and 1980s, the Hungarian statistical office (KSH) had not even reported data on the net profitability of the livestock sector. G. Szabó – Professor Emeritus of the University of Debrecen, Comment made at the conference “*Experiences of the first 10 years of our membership in the EU: Agriculture and rural development*”, AKI, Budapest, 10 April 2014.

²⁵ KSH, https://www.ksh.hu/docs/hun/agra/html/tab11_5_2_1.html

²⁶ So, the increased volatility in crop yields, reflected in increased volatility in crop production (see Figure 2), comes not only from weather condition (or climate change), but also from the lack of such common element as manure.

²⁷ The share of foreign capital in subscribe capital of the Hungarian food industry was at its highest in 2000 at 63%. See Z. Fórián, *Az EU-csatlakozás vesztese: a magyarországi élelmiszeripar*, Agrár Európa Kft., November 2009, p. 7.

²⁸ This move gained momentum as the Hungarian economy slowed down after 2006. Between 2003 and 2010, the output of the food industry lost one fifth in volume. Even if there has been a slight recovery since then, no clear reversal of the trend can be observed yet (N. Potori, *Implementation of the CAP and its impacts in Hungary*, paper presented at the conference "Experiences of the first 10 years of our membership in the EU: Agriculture and rural devel-

opment", AKI, Budapest, 10 April 2014, http://www.gazdalkodas.hu/files/Konferencia_pdf/Potori_Norbert.pdf).

²⁹ There are sectors where the reason why there is no inter-branch organisation is that traders are not interested in transparency. Ibid.

³⁰ Between 2004 and 2012, rents went up by 73% while agricultural wages only increased by a mere 5%. (I. Kapronczai, Sz. Keszthelyi, I. Takács, *Changes in profitability and...*, op. cit.).

³¹ M.Z. Kis – President of the Hungarian Chamber of Agriculture, speech at the Conference: *Ten years in the EU: we catch up or remain behind?*, Magyarok Háza, Budapest, 30 April 2014.

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WAŻNE DLA PODMIOTÓW GOSPODARCZYCH

CO NOWEGO W PRAWIE UNII I DOKUMENTACH KE?

BEZPIECZEŃSTWO ŻYWNOŚCI

- 1) Rozporządzenie Komisji (UE) nr 202/2014 z 3 marca 2014 r. zmieniające rozporządzenie (UE) nr 10/2011 w sprawie materiałów i wyrobów z tworzyw sztucznych przeznaczonych do kontaktu z żywnością. DzUrz UE L 62, 4.03.2014 r.
- 2) Decyzja wykonawcza Komisji 2014/154/UE z 19 marca 2014 r. zezwalająca na wprowadzenie do obrotu soli glukozaminowej kwasu (6S)-5-metylotetrahydrofoliowego jako nowego składnika żywności zgodnie z rozporządzeniem (WE) nr 258/97 Parlamentu Europejskiego i Rady. DzUrz UE L 85, 21.03.2014 r.
- 3) Decyzja wykonawcza Komisji 2014/155/UE z 19 marca 2014 r. zezwalająca na wprowadzenie do obrotu oleju z kolendry jako nowego składnika żywności zgodnie z rozporządzeniem (WE) nr 258/97 Parlamentu Europejskiego i Rady. DzUrz UE L 85, 21.03.2014 r.
- 4) Decyzja wykonawcza Komisji 2014/176/UE z 27 marca 2014 r. w odniesieniu do wkładu finansowego Unii na rzecz skoordynowanego planu kontroli w celu ustalenia skali występowania oszukańczych praktyk przy wprowadzaniu do obrotu określonych rodzajów żywności. DzUrz UE L 95, 29.03.2014 r.
- 5) Zalecenie Komisji 2014/180/UE z 27 marca 2014 r. w sprawie drugiego skoordynowanego planu kontroli w celu ustalenia skali występowania oszukańczych praktyk przy wprowadzaniu do obrotu określonych rodzajów żywności. DzUrz UE L 95, 29.03.2014 r.
- 6) Zalecenie Komisji 2014/193/UE z 4 kwietnia 2014 r. w sprawie ograniczenia obecności kadmu w środkach spożywczych. DzUrz UE L 104, 8.04.2014 r.
- 7) Rozporządzenie wykonawcze Komisji (UE) nr 400/2014 z 22 kwietnia 2014 r. dotyczące wieloletniego skoordynowanego unijnego programu kontroli na lata 2015, 2016 i 2017, mającego na celu zapewnienie zgodności z najwyższymi dopuszczalnymi poziomami pozostałości pestycydów w żywności pochodzenia roślinnego i zwierzęcego oraz na jej powierzchni, a także mającego na

celu ocenę narażenia konsumenta na te pozostałości. DzUrz UE L 119, 23.04.2014 r.

BUDŻET

- 8) Komunikat Komisji do PE, Rady, EKE-S i KR. Ostateczna tablica wyników w dziedzinie uproszczenia w odniesieniu do wieloletnich ram finansowych na lata 2014-2020. KOM(2014) 114, 3.03.2014 r.
- 9) Rozporządzenie Parlamentu Europejskiego i Rady (UE) nr 378/2014 z 3 kwietnia 2014 r. zmieniające rozporządzenie (WE) nr 1166/2008 w odniesieniu do ram finansowych na lata 2014-2018. DzUrz UE L 122, 24.04.2014 r.

CŁA

- 10) Rozporządzenie wykonawcze Komisji (UE) nr 265/2014 z 14 marca 2014 r. zmieniające rozporządzenie (UE) nr 642/2010 w sprawie zasad stosowania (należności celne przywzowowe w sektorze zbóż) rozporządzenia Rady (WE) nr 1234/2007. DzUrz UE L 76, 15.03.2014 r.

ENERGIA

- 11) Rozporządzenie Parlamentu Europejskiego i Rady (UE) nr 256/2014 z 26 lutego 2014 r. w sprawie zgłaszania Komisji projektów inwestycyjnych dotyczących infrastruktury energetycznej w Unii Europejskiej, zastępujące rozporządzenie Rady (UE, Euratom) nr 617/2010 oraz uchylające rozporządzenie Rady (WE) nr 736/96. DzUrz UE L 84, 20.03.2014 r.

HANDEL ZEWNĘTRZNY

- 12) Decyzja wykonawcza Rady 2014/149/UE z 18 marca 2014 r. odrzucająca wniosek w sprawie rozporządzenia wykonawczego nakładającego ponownie ostateczne cło antydumpingowe oraz stanowiącego o ostatecznym pobraniu cła tymczasowego nałożonego na przywóz niektórych rodzajów obuwia ze skórzanymi cholewkami