

THE SITUATION OF THE HUNGARIAN DAIRY SECTOR FROM POLITICAL CHANGES 1989 TO TODAY AND FUTURE PROSPECTS IN THE EUROPEAN UNION

SITUACE MAĎARSKÉHO MLÉČNÉHO SEKTORU OD POLITICKÝCH ZMĚN 1989 DO DNEŠKA A VÝHLEDY DO BUDOUCNA V EVROPSKÉ UNII

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Abstract:

Due to the political changes in the 1990s, there was a significant structural change in the Hungarian agriculture; several state companies and cooperatives were broken. In the different levels of the dairy sector, the number of the new market members enlarged. As a result of the enlarged supply, an intensive competition developed in the Hungarian dairy sector that led to the shift of the sector's poles.

Keywords:

dairy sector, price transmission, milk producers, processors, traders, prices.

Anotace:

Díky politickým změnám v 90. letech minulého století došlo k významným strukturálním změnám v maďarském zemědělství. Rozpadlo se několik státních společností a družstev. Na jiné úrovni mléčného sektoru se zvětšil počet nových členů na trhu. Výsledkem rozšířené nabídky je rozvoj intenzivní soutěže v maďarském mléčném sektoru, který vede k posunu sektorových pólů.

Klíčová slova:

mléčný sektor, cenová transmise, výrobci mléka, zpracovatelé, obchodníci, ceny

INTRODUCTION

Dairy sector has a great importance in Hungary's food industry. Since the political changes in 1989, the dairy sector has been going through radical transformation. The number of participants on the market has increased on the different stages of milk production, at the same time new, versatile contacts have emerged among members of the milk production chain. Comprehensive studies on the competitiveness and effectiveness of the Hungarian dairy sector show that, due to these changes a rather effective and intensive competition has started.

OBJECTIVES AND METHODS

Primary objective of the article is to overview the changes that have happened in Hungary's dairy sector since 1989, and to show how, these changes have led to competition on the milk processing industry. Finally, the paper would like to study whether this new market can be considered effective in the European Union. Besides studying national and international publications, also a statistic analysis of data gathered about the industry was used.

DISCUSSION

Table 1 shows a thought-provoking trend about the change in Hungary's dairy stock between 1980 and 2000. Data show that the decrease in dairy stock has been continuing since 1980, the year with the highest number of stock. The years before and after the political change (1990) differ only in the scale of decrease. The decrease of dairy stock between 1980 and 1990 was 18.1%, during the following 9 years it was 45.4%, in other words, the decade of the political change has brought an accelerated decrease in dairy stock. (Szakály, 2001)

Table 1

Dairy stock in Hungary between 1980-2000

Év	Stock, (thousand)	
	Cattle	Cow
1980	1918	765
1987	1664	673
1990	1571	630
1992	1159	488
1994	910	415
1996	909	414
1997	871	403
1998	873	407
1999	857	399
2000	845	390
Change in percentage compared to the first year	-55,9	-49,0

Source: Szakály, 2001

Decrease of livestock has brought on a decrease in the milk production. During the nineties, the amount of milk produced fell with 25 % (Table 2), despite the fact that milk production per cow increased with 10 %, as Table 3 shows.

Table 2

Milk production in Hungary between 1990-2000

Year	milk production million liter
1990	2763.0
1992	2234.1
1994	1878.2
1996	1918.1
1998	2045.2
1999	2044.5
2000	2080.6

Source: Hungarian Central Statistical Office, 2000

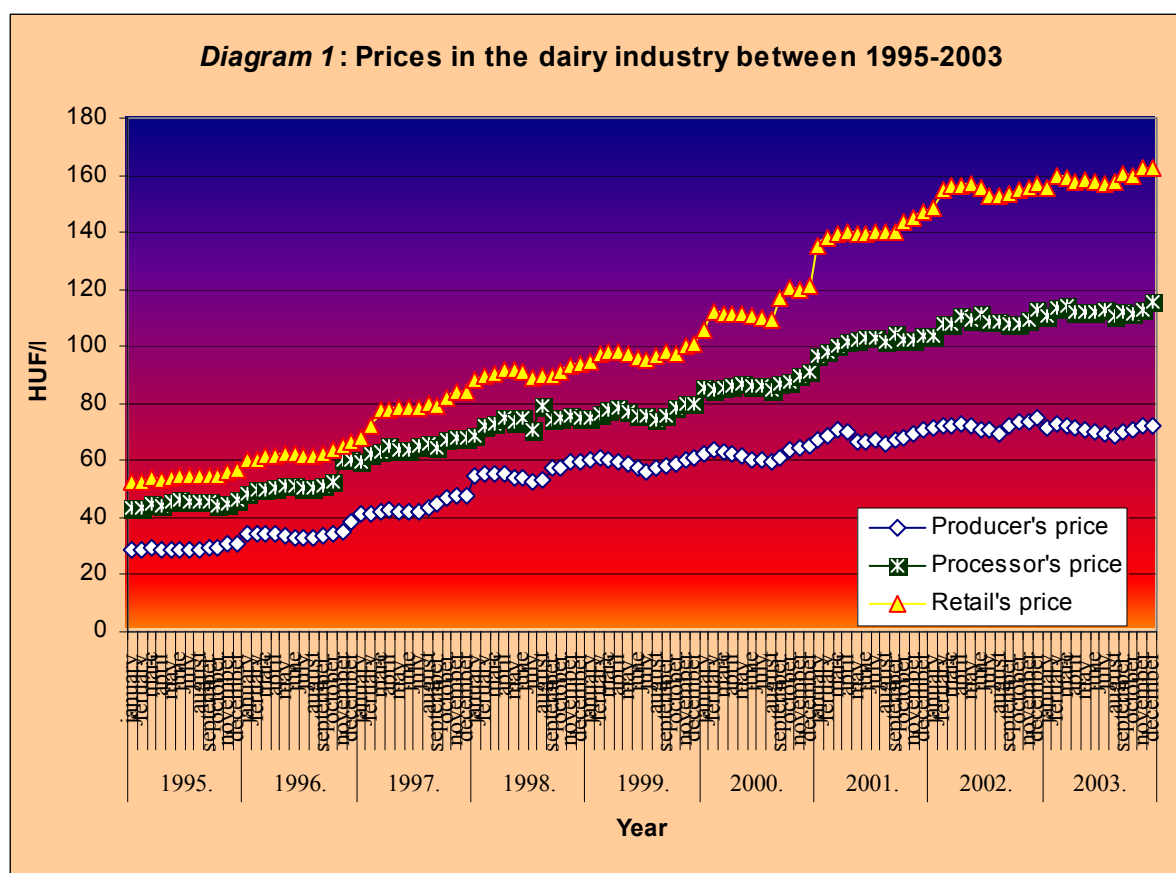
Table 3

Lactation milk production in Hungary and in the EU between 1987 and 1999

Year	Lactation milk production, kg/cow	
	Hungary	EU average
1987	4722	4661
1990	4935	4798
1994	4660	5408
1996	4846	5497
1997	4985	5542
1998	5362	5616
1999	5310	5780

Source: Szakály, 2001

At the same time, a significant structural change has taken place in the 90's, after many cooperatives had been divided up or closed down. Many of the biggest ones have been divided. The number of farmers keeping only 3-4 cattle increased. There are about 300 000 families keeping 20-50 cows, but their share of milk production is only 3%. (Tóth, 1999) Due to shortage of capital, only a few producers were able to improve their farm in order to reach the expected efficiency level. Still, the biggest problem was the industry's low profitability, which especially came upon the farmers. The gap between the differences of profits realised on each stage of milk sector is growing. Besides costs, these profits are determined by the prices achieved on the different production stages. (Popovics, 2002) Relations among the prices realised by the producers, processors and the retailers can be analysed by examining the price transmission. Generally, the increase and decrease of the retail price follows the change in the producer price. However, only the increase in producer prices is followed by retail prices. This fact entails the theory that price transmission between producers and retailers is imperfect, that is, changes in producer prices are not in accordance with retail prices. (Fertő, 1999) Due to this fact, as the price margin is increasing, most of the profit is realised by the retail sector. The profit between the price of 1 l raw milk and 1l bottled milk sold in a shop is not distributed equally among the 3 participants of the industry. Farmers gain an ill-proportionally low percentage of the margin, although they bear the significant costs of animal feed, machinery and labour. Processors are in a better situation, bearing also several expenses (transport, infrastructure, labour, packaging, marketing, etc.), but gaining more profit than farmers. The reason for this difference can be in the fact that processors are better in promoting their interests, especially multinational companies, where capital is highly concentrated. In contrast, representation of interests of producers is not that well-organized to be effective in negotiations with processors and retailers. Also, the common goal of these two influential participants of the industry is to keep producer price low. For the time being, producers are powerless against this resistance. In the dairy sector, similar to the whole food industry, retailers are in the best situation. They can achieve the highest profit and the lowest expenses, and they try to keep their favourable position in any case. (Internet 2) This explains the fact that in our country retail prices only follow the increase in producer prices. Processors and retailers often increase their prices with a higher degree than producers. On the other hand, due to the complexity of the industry and the vertical build-up of the production stages, price increase on the processor and retailer levels are delayed, which cause financial problems especially for processors. These tendencies are supported by Table 1, which show data originated from the database of the Hungarian Central Statistical Office. The table shows data of 8 years, broken down to months, including prices of the producer, processor and retailer stages. To avoid the effect of inflation, prices are deflated by the consumer price index.



Source: my own calculations

RESULTS

After the expansion of the European Union in May 2004, milk production will increase with 20 %, the same rate as population. The high degree of labour in agriculture and the broken dairy farming explain that in the new member countries, the proportion of milk processed is significantly lower than in the EU 15. In the EU 15, 95 % of milk is sold to the processors, while in the newly joining countries this rate is only 72%. Also, the quality of milk in joining countries is diverse. In Hungary and in the Czech Republic, 95 % of milk satisfies the EU's expectations, in Poland this rate is only 50%. Due to this fact, during the transmission period ending in 2006, milk and dairy products not meeting the EU's hygienic expectations can only be sold to the internal market. Improving hygienic situation needs significant investments. Most of the small farms cannot meet these requirements and are likely to close down. Foreign investments might help to solve the shortage of capital. The dairy industry of some new member countries is controlled by foreign companies. 30% of milk produced in Poland and 15% of milk produced in Hungary is processed by Nutricia Dairy. Madeta, which is considered up-to-date in the region controls 25% of the internal market. Milk consumption per capita in the new member countries is much lower than in the EU 15. Selling the surplus milk causes more and more problem every year. Demand in the internal market is limited, and only if support is given can these countries export their milk products. The rate of concentration of dairy farms in the EU 15 is lower than farms in other livestock sectors. The reason for that is the support policy, because billions have been spent on the industry to keep small farms alive. As shown in Table 4, the average number of stock in dairy farms is 29. Comparing to this number, farming is even less concentrated in the 10 new

countries, where farmers keep only 3 animals average per farm. Milk production per cow in these countries averaged 4100 kg in 2001, about 2/3 of the EU 15's production. Milk production in Hungary and in the Czech Republic is less underdeveloped while production in Cyprus is higher than the average in the EU 15. (Agrár Európa, 2004)

Table 4

Characteristics of dairy farms

	Number of the cow keeping farms (2000)	Number of cows 1000 (thousand) (2002)	Average stock per farm	Milk production per cow, kg (2001)
Estonia	3200	123	41	4658
Latvia	75000	204	3	4003
Lithuania	225000	442	2	3440
Malta	200	8	50	4964
Poland	1200000	2851	2	3774
Slovakia	-	241	-	4627
Slovenia	47071	125	3	3123
Czech Republic	3900	481	140	5413
Hungary	33000	346	12	5532
Cyprus	250	24	96	6108
Expected 10 EU members	1589621	4846	3	4100
EU-15	734000	19848	29	6000
EU-25	2323621	24694	15	-

Source: Agrár Európa, 2004

CONCLUSIONS

Because the level of direct support in the dairy industry will get lower, profitability is also likely to decrease. In Hungary, producer price is likely to decrease from the current 70-72 HUF/l (0,27-0,28 €/l) and could stabilize at a max. 64-68 HUF/l (0,25-0,27 €/l), putting those farms at risk, that produce at higher production costs than the average. About 35% of family farms and 30-40% of partnerships might be closed down, influencing the income of 10-15 thousand families. (Ángyán, 2004)

Table 5

Planned cost and profit situation of the milk production for the years 2004-2005, in the agricultural partnerships

Determination	Data for the year 2000	Data for the year 2001	Data for the year 2002	Data for the year 2004	Data for the year 2005
Production cost (HUF/t)	59922	65203	67593	73033	73740
Production value I. (HUF/t)	62266	77456	80331	64372	65506
<i>Profit I. (HUF/t)</i>	9344	12253	12738	-8661	-8234
Direct national subsidy/ Top-up (HUF/l)	619	2329	2402	2196	5155
Production value II. (HUF/t)	69885	79785	82733	66568	70661
<i>Profit II. (HUF/t)</i>	9963	14582	15140	-6465	-3079
Average yield (kg/cow)	6080	6144	6515	6515	6515
Average price (HUF/t)	63329	71719	75045	64372	65506

Source: Nyárs et. al., 2004 (1Euro = 252 HUF)

Some calculations point out that each business in the dairy sector, due to the increasing production costs and the low prices paid to the farmers will lose 42 thousand HUF (167 €), which means 6.5 HUF (0,025 €) loss per litre. Thanks to increasing direct support payments, a slight improvement is likely in 2005, but the industry will still produce a loss (Table 5). In the short term, a reduction in output is expected.

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