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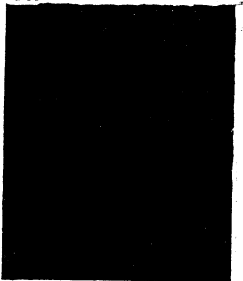
**No. 77**  
**1992**

ИССЛЕДОВАТЕЛЬСКИЙ ИНСТИТУТ ЭКОНОМИКИ СЕЛЬСКОГО ХОЗЯЙСТВА  
RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS  
FORSCHUNGSINSTITUT FÜR AGRARÖKONOMIE

BUDAPEST

1. The first part of the report

is a description of the  
method used in the study.



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**No. 77**  
**1992**



AGRÁRGAZDASÁGI KUTATÓ INTÉZET  
RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

Bulletin No.77. .

BASIC PRINCIPLES OF THE FUNCTIONING MECHANISM AND  
MODERNIZATION TRENDS OF THE AGRARIAN MARKET REGULATION  
IN HUNGARY

BUDAPEST

1991

RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

Director general:

Dr.Lajos HARZA

Edited by:

Ádám BISZTRAY

HU ISSN 0541 9417

ISBN 963491 3156

Editorial Office:

RESEARCH INSTITUTE FOR AGRICULTURAL ECONOMICS

H-1355 Budapest, 55. Zsil u. 3/5. Hungary

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## INTRODUCTION

This Comprehensive Study tries to recapitulate the analysing works carried out between 1 July and 30 September 1991 in the Research Institute for Agricultural Economics, by appointment of the Ministry of Agriculture, in a brief form focusing on the proposals. Herein, we intend to systematize the messages of the studies of sources which are in connection with agrarian market regulation and which have been discussed collectively during the workshop work, however, also reflecting the individual standpoints of the participants and regarded as the own intellectual product of the research workers, in an integrated system. These works - compiled in two volumes - tightly correlate with the Comprehensive Study and they both constitute the completion of the task undertaken.

We have considered the statements, recommendations and concrete proposals made by the authors of altogether 27 part studies in the course of public scientific disputes and partly - where it has been necessary - we even confronted them with one another and with the opinion of other works elaborated in this subject. This final study has been prepared mainly based upon these disputes and by utilizing, in part, the concrete assistance rendered by the research workers to the individual chapters of the Comprehensive Study of which its elaborators but mainly the Project Responsible will bear the professional responsibility. All these facts are also give an explanation, to the readers, of the Comprehensive Study's being of different, in fact, simply opposite final conclusion in several respect than that of the background studies. An explanation is mostly given also by the fact that this has been the finishing phase of the job. We are convinced that these might still contribute to the message of the Comprehensive Study as the presentation of different ways of the possible solutions may stimulate the further works to be continued with absolute certainty.

Both the employer and the collective that assumed to complete the task were aware of the unparalleled difficulties of this work, of the short time available and the limited practical experience gained in this field. All this is, of course, no excuse but it is, at most, a modest explanation for that our work's final result is not up to the high-standard expectations in some respects. We consider it as natural that we are not at the end of the work related to the market regulation but just at the beginning of it and that the Government will achieve the required results by the thorough analysis of the practice and by the continuous correction of the decisions made.

We divide this Comprehensive Study into four parts. In the first part, we review the general objectives and principles, in the second one, the functioning mechanism and functions of the market regulation while in the third one, the related institutional and organizational system. Finally, the fourth part reviews the most important vertical systems concerning the market regulation searching for the sectoral peculiarities and for the connecting, general principles. All this derives from the two-directional approach whereas we have partly tried to process the most important sectors with a view to the requirements laid for market regulation, partly we have attempted to set up the tasks to be completed in the framework of regulation by approaching same from general market economy and regulation technique as well as to set up their system of instruments. In this latter approach, the factual basis was rendered mostly by the international practice and, within this, mainly the regulation of the EC. It is, however, essential to emphasize here too that there is no scheme, even the mostly elaborated and best operating, could serve as a guide in itself or, in particular, imitable in the Hungarian food economy.

## I. PRINCIPLES, OBJECTIVES AND EXPERIENCE

Securing the acceptance of the agrarian market regulation by the society and by the state administration largely depends on how one has succeeded in making the objectives of and reasons for its introduction understood and in securing the acceptance thereof, respectively. The prevention of unfounded expectations related hereto and that of the disappointment following them as well as the gaining the favour of the widest possible circle of those concerned largely depend on how one succeeds in formulating the principles and in expounding the introductory ideas clearly. In this regard, we deem necessary to emphasize especially the following:

- The agrarian market regulation has to be distinctly separated from the crisis managing and other, ad hoc programmes, e.g. from the privatization, from the restructuring of enterprises and companies etc. The market regulation serves for preventing and absorbing disturbances in the market, in relation to what objectives are set by the legal regulation and the current agrarian policy which determine the market regulation and to what instruments are rendered by them in order to implement such objectives.

- The agrarian market regulation - wherever it functions successfully - is the result of a long-lasting preparatory work, being a system continuously developing and adjusting itself to the indigenous and foreign economic requirements. We also should not disregard this fact and we should recognize that we are in the stage of switching over to the market economy system, having little experience and with a comparatively great number of tasks and problems to be completed and solved, respectively. Therefore, we should also prepare ourselves to the necessity of improving, amending the scheme to be introduced, during the years following this introduction.

- The successful functioning of the agrarian market regulation assumes not only a good and consistent scheme as it is but also an economic background proportionate to the task undertaken

and a financial resource volume that can be mobilized as required. To put it more simply: the task we could assume also depends on the size of funds we may reckon with.

- Based upon considering the preceding two facts we deem reasonable to clearly formulate that the state (the Government and the Ministry of Agriculture, respectively) should only promise - in respect of the introduction of the agrarian market regulation - it will be able to keep. For this reason,

- on the one hand, the state should announce less at first; i.e. securely based solutions, a sphere of regulation and guarantee for the first stage of the practical enforcement of law,

- on the other hand, all possible efforts should be made in order that the necessity of co-operation and the "co-responsibility" of the sphere of producers and distributors, i.e. the entrepreneurial-corporate sphere affected by the regulation manifest themselves and enforced, respectively.

#### 1. Basic principles of the agrarian market regulation

For our research project, it is decisive how we understand - for the whole of the market economy - the market regulation serving for intervention, limitation and guiding but, at the same time, for upkeeping the competition and, in fact, for creating its real conditions as well. Therefore, keeping an eye on the prescriptions of the law of competition uniformly applicable to the whole economy, and based upon the peculiarities of agricultural production, the reason for, the extent and way of deviation should be regulated in a statutory manner. To this, a starting point is constituted by the objective of the market regulation which regards the protection of producers, the creation of their employment and income at an appropriate standard of security, the mitigation of fluctuations in the agrarian markets imputable to natural or economic reasons, after all, keeping the supply within appropriate limits, as being its primary task. This primary objective, at the same time, is in accordance with the interests of domestic consumers and those of the national economy, too, mostly

with regard to the efficient exports assisting in upkeeping the balance of foreign trade and to establishing a well-balanced domestic foodstuff market. The availability of agrarian market relations that can be calculated and well-balanced within real limits is a precondition also to that the agricultural production and the producers may play their role of growing importance in the protection of natural and human environment.

The agrarian market regulation is the alliance between the state and the economic participants of the agrarian sector which is based upon mutual advantages, based, in part, on mutual agreements, in accordance with the structure of interests already mentioned. Therefore, the assumption of task by the state, always in proportion to its current economic force, and the discipline, "co-responsibility" assumed voluntarily by the participants of the economic life which will have to be co-ordinated and represented by the business federation of expectedly very variegated structure being developed from below.

The market of agrarian products - to our view - can be divided, in respect of economic and other regulation, into three major groups and the regulation itself, too, should accordingly be considered not as an integrated whole extending uniformly to everything but as a system being structured also internally and being homogenous neither in time nor in space.

- The "regulated market" needing intervention by the state, clarified and pre-announced in terms of both principles and methods has to extend to those products of key importance the well-balanced supply of which cannot be created without the market regulation due to the incalculable fluctuations of the production and of the foreign markets outside their sphere of influence and, consequently, the changes in the market conditions impose undesirable burdens on the producers and consumers alike. It is this "regulated market" where the agrarian market regulation prevails in the most comprehensive and consistent manner without the possibility that could be available for us to strive for uniformity in terms of content and form of the products, in the

system of guiding prices and of the attached system of guaranteed or interventional or ceiling prices, in the automatism of interventions attached thereto, in the institutional and organizational system. We can quote the cereals and milk by way of example.

- The "market influenced" by the state extends to products that play an important part in the domestic supply and in the exports alike, but the establishment of their market balance either does not require direct and automatic intervention, by the state, operated in an enclosed system or under the given and limited financial resources, the sufficient economic securities for assuming guarantee by the state are not available (yet). In respect of certain products, possibility is rendered by the direct market regulation mentioned under the preceding point for influencing the market as, e.g. the guarantees for the cereals directly influence the market relations of the feeder grain and, through this, those of the fodder consuming branches as well, thereby rendering the announcement of the so-called informative or orientation prices possible, too. In respect of other products, the state (itself or along with the sectoral councils) eliminates market disturbances by way of ad hoc interventions and the voluntary associations of producers and of the other participants in the economy operate market regulating principles and scheme. We can quote the vegetables or fruits or the wine by way of illustration.

- Finally, as third one, we may understand the term "non-regulated market" as one with prices always changing in accordance with the rules of demand and supply, there is no state will or it is enforced only indirectly (e.g. through the regulation of authorizing the exports and imports or its regulation of subsidizing and creaming off thereof, respectively). The economic participants in the market, are, however, free to set up - in accordance with the current rules of competition - associations that are for creating the market stability, for guaranteeing the quality etc.

After all, such three-part grouping of the market means that the market regulation need not, in fact, must not be uniform either in respect of products or rules or effectiveness in terms of time. As a matter of fact, the market regulation need only be enforced in the sphere what we call "regulated market" and one may enter this sphere but one may as well get out of this sphere (without so much as one should understand and treat the border of such sphere rigidly).

Mention must also be made on the fact that the Hungarian agrarian market regulation how much should resemble or approximate to that of the EC. In this regard, the intention to make use of experience gained from the EC should not conceal the decisive importance of basic differences in the initial status, for instance, the fact that in the EC the protection of the internal market is the main objective whereas in Hungary, the main goal is the export offensive; in the EC, the agrarian sectors is financed by the rest of the economy, whereas in Hungary, the agrarian sector is bearing the rates and taxes at least to an equal extent compared to the other sectors; in the EC, the agrarian sector is of little importance in terms of national economy, alike in Hungary, its role is indispensable etc. All this implies the conclusion that the agrarian market regulation in Hungary should be economical and, in fact, its resource should be created by the agrarian sector. This is - according to the next point hereunder - a realistic requirement. After all, the regulation should comply, as soon as possible, with the EC-norms not so much in respect of the number of sectors or products involved in the sphere of regulation or of stabilizing the whole agrarian market but much more in respect of quality, standardization and hygienic issues, whereas concerning the other issues, the alignment should be implemented in the pace of association and then, of creating the expected membership.

It is important to emphasize that the agrarian market regulation constitutes an element and component of the current agrarian policy; it is a more and more important instrument,

nevertheless, it does not determine it and does not extend either to all elements of economic regulation or to numerous important points of the legal-administrative regulation of the agrarian sector. All this we can put briefly that the regulation is an important part, but it is a just a part, of the agrarian policy and that of the mechanism of management.

## 2. Financial aspects of the agrarian market regulation

The intervention in the market, i.e. the regulation require not only a high rate of organizedness but, to our calculations and to the experience of western countries too, they also require considerable pecuniary resources. The more high-standard objectives are set, the more considerable are the expected costs, and vice versa; the available resources also set limits to the objectives. In fact, there is no objective gauge in terms of costs required by the regulation of agrarian markets; thus the most reliable - however only approximate - estimate can be made by comparing the foreign experience, the previous practice and the calculative computations.

It has by all means to be seen that we have no chance for a market subsidy similar to that in the EC as, in Hungary, the per-capita Gross Domestic Product is about the half of that in the EC whereas the contribution of the agrarian sector to the GDP is about thrice as much as that in the EC. To our opinion, in the next 2 or 3 years - in addition to the planned normative export subsidy - about 4 to 5 per cent of the revenues from agricultural commodity production should be spent for stabilizing the markets. To an intervention fund of such nature, the tax-payers (the state budget), the economic participants in the agrarian sector and the foodstuff consumers together might provide resources.

We would consider as most appropriate if this fund would not be transferred from budget allotment i.e. not through the usual re-distribution system but by being attached to the agri-

cultural products, respectively, as a part of a self-contained system, directly, to the intervention fund.\* Accordingly, the following should or could be reckoned with:

- The customs duties of agricultural products which would, after a raise in tariffs serving for appropriate differentiation and for safeguarding the domestic producers as well, constitute a resource of several billion forints.

- From the creaming off of the exports under favourable conditions and, occasionally, from the compensation of the import price, a varying but, in long run, considerable revenue would derive.

- From the transfer of turnover taxes imposed on agricultural inputs to the agrarian sector, in particular from the returning of tax imposed on gas oil to the agricultural producers (which is a practice in several countries and which has been a practice formerly in Hungary, too), a more proportionate relation could be created between the volumes of subsidy and production.

- The most considerable amount of even several ten billion forints could be gained from turnover taxes and excise duties imposed on foodstuffs and consumer's articles, especially if the General Sales Tax is extended to foodstuffs as well.

- Nevertheless, we would disapprove of further re-grouping of supports granted to regions of handicapped situation for this purpose since this contradicts both the practice in the EC and the GATT-principles and the general economic considerations.

Based upon the foregoing, we are - accordingly - of the opinion that the economic participants in the agrarian sphere should as well contribute to generating the funds, either mak-

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\*After all, this would also affect the budget, in form of revenues missed, but it would make clear that the agrarian sector "produces" the pecuniary resources of subsidies "by itself". Thus it would stimulate the economical management of expenses and the mitigation of the inclination to impose taxes, as well.

ing the extent of this appropriately proportionate or connecting same with the volume of the generation of resources by the state and by the consumers. With regard to income relations prevailing nowadays, this can be foreseen to be implemented out of paying in from income before taxes only. It is not only desirable but it would as well be of favourable effect if security funds (e.g. income risk fund) could be generated in the same way, even on voluntary basis. Given the rentability relations of production today, it would not be realistic to assume that - this way - a rapid and high-rate income reserves would be achieved, in fact, it is much more to be expected that the amounts paid in by the producers can reach more considerable volumes only in the long run, being well behind the pace deemed necessary.

### 3. Major international experience regarding agrarian market regulations

The markets of agricultural products - more or less differing from the general regulation - are regulated, in fact, by every country of developed economy separately. The outlets of interventions, i.e. those of guiding in between limits, can generally attributed to solving a crisis. There present schemes developed in a wide range and co-ordinated, being of unamiguously preventive intention reflect the result of experience gained during over half a century. The basic objective is simple: to stabilize (eventually support) the position (income) of agricultural producers via establishing more secure conditions (quantity, price) of sale.

The practice means the regulation of the production and sales of clearly identified products, thus the number and nature of products (cropland products, garden- or animal-derived products, products of homogenous or differentiated quality, storable or perishable products etc.) involved in the market regulation is of decisive importance. Namely, these differences have a strong effect on the income and sales security of agri-

cultural producers but largely determine the limits of the scope of regulation, its financing and operation too, in fact, the applied regulating factors as well. Though, the number of these is not significant but, to the international experience, a great number of combinations and application methods is available. Both factors, i.e. the scope of products regulated in the framework of the market regulation and the regulating factors (their combination and the attached institution system) depend on the developedness, national economic and agrarian resources, legal order, market participants, institution system of the country applying same. For this very reason, it is not possible to adapt the market regulations as a recipe; only the pragmatic application of solution elements is possible.

Market orders (market regulations) apply, in genera, to cropland mass and to the most important animal-derived products. Most examples are available. all over the world, in respect of wheat and milk, providing the greatest security based upon subsidizing by the state, to a smaller or greater extent. A practical reason for this - in addition to its decisive importance in terms of agricultural income - is constituted by the fact that the sales, storage and processing measures becoming necessary can be managed better than in case of perishable products or of those marketable in a small market segment only. The other market regulations, in particular the market regulation for feeder grains, are less strict and this is even more characteristic of oil seeds, slaughter cattle and slaughter pig. In respect of poultry, fruits, vegetables the availability of comprehensive market orders is exceptional only and the regulation of the market of these products is within the scope of activity of the smaller or larger organizations of those concerned which activity, however, is - in most cases - fostered and stimulated by the state. For instance, the more moderate regulation of pig and poultry markets is made possible by the stricter market order of feeder grains etc. The processed products belong to the framework of market orders in a limited number only; these are mostly

mass products (raw meat, butter, milk powder, tomato concentrate, table wine). However, in the recent period, the vertical extension of market orders can be experienced, mainly in the EC and more and more food industrial regulations have been published.

The market regulations may relate to domestic and foreign trade and obligatory (production quotas, prescribed by the state or by producers' amalgamations, fixed prices, interventions, export subsidies, customs duties, import cream-off etc.) or facultative in whole or in part. In the latter case, the undertaking of them is stimulated by receiving certain benefits (e.g. a higher price, more secure sales etc. in the case of limiting or reducing the production). A peculiar and frequent form is the amalgamation, of those concerned, in co-operatives, i.e. the transfer of operating the market regulations to the co-operatives. The combinations in respect of applying regulations concerning foreign relations represent a great number. Yet, it can be mentioned as a typical fact that - in the case of a significant and permanent import - the domestic market is regulated (stabilized or subsidized), as a "cheap solution", by limiting the imports. Nevertheless, considerable fund is required for stabilizing the domestic market, based upon upkeeping or establishing the interest in exports, which is based on an intervention and/or export subsidy. Recently, the so-called income supplementing subsidies have again become due, rendering the upkeeping of producer's income possible, by way of subsidizing, without stimulating the production.

At present, considerable state funds are everywhere utilized for stabilizing the market. The funds and resources compensating the favourable or unfavourable sales periods, respectively, have failed to operate one after another as their resources have not been sufficient for covering the subsidies. In practice, the re-grouping the resources available for the various products is not possible either, therefore the contribution by the state to the stabilization of market orders continues to be indispensable. The two major types of state sub-

sidey are the allocation of budget provision (USA) and that of customs duties and cream-offs. These methods are, in most cases, combined and resources supplemented by financing by the producers are operated.

The experience, whereas the efficiency of market orders mainly depends on whether those concerned accept the information constituted by the regulation and if they enforce same in their short- and medium-term decisions, is very important. The clear identification of products involved in the market regulation and the unambiguous clarification of operational conditions, mechanisms, automatisms, intervention and decision possibilities or duties constitute a precondition to that those concerned identify themselves with the regulation. The market regulation functions duly only if all details are regulated, if those made liable to make decisions are appointed, if full publicity, calculable operation and accessibility are provided. To foreign experience, the modifications becoming necessary at regular intervals are fully natural but the date and way of such modifications have to be prescribed, too. (In the USA, a 5-year skeleton law, in the EC an annual price revision and exact prescription are provided in respect of compulsory or permissive amendments, based upon the market situation of the preceding year).

In operating the market orders, the associations, business federation of concerned producers etc. play everywhere a great and growing part. The involvement of those concerned is not at all formal; they take a significant part in respect of decision-making, regulation, financing. Nevertheless, considerable differences exist in the field of establishing and operation of business federations. In general, it can be stated that it is advisable to amalgamate those concerned being homogenous. There are, nevertheless, different solutions for creating such amalgamations by state support and/or setting them up from below. The clear situation of interest and full publicity are very im-

portant in utilizing the resources of market orders. The regrouping in financing the different products has just to be prohibited in order to preserve the confidence of producers. The controllers of this and of generating and utilizing the resources are the groupings representing homogenous producer's interests.

## II. FUNCTIONS OF THE REGULATION

### 1. The domestic price regulation

In developing the price system of the agrarian market regulation, two types of basic decisions are essential:

- As market regulations of different strictness are reasonable for the different product groups (and, accordingly, we can speak about regulated, influenced and free markets), different tasks are to be completed in terms of the state's role in determining or influencing the prices, too. To these tasks, different price mechanisms have to be attached. Thus, the decision is meant for identifying the product groups and regulation forms.

- On the other hand, in the price system of the market economy, price categories differing from the former ones are necessary, too, and in the price mechanisms to be attached to the different product groups, different price categories are applicable. Thus, decision has to be made on the role of price categories that might come into question, in the regulation forms of different strictness.

In making such two types of decisions, the objectives (e.g. the stimulation of exports) of the national economy and the direct goals of establishing the market regulation (e.g. regulation of supply, upkeeping of market balance, the approach to the system of the EC, the stabilization of producer's and consumer's prices) have to be taken into consideration alike.

At the same time, we have to emphasize that the development of the price system of market regulation cannot be made independent from the regulation of foreign trade (from the scheme of export subsidies, import customs duties and cream-offs), and from the scheme of intervention by the state either.

It is typical of the regulated markets that, in the case of the products concerned, the co-ordination of interests, the domestic price guarantee, the intervention and the regulation

of foreign trade by the state are enforced alike. The regulation reduces the changing interval of the current domestic market price and keeps same in between the limits deemed desirable, by determining and enforcing a minimum price (the guaranteed or intervention price and a maximum price (ceiling price). Thus it protects the producers and consumers (users) against the development of too low or too high prices. Consequently, the negotiations on co-ordinating the producer's and consumer's interests can be attached to the determination of these price categories. All this can, technically, be carried out in two ways. On the one hand, by fixing the minimum and maximum prices or by determining a guiding price and the minimum and maximum price may deviate therefrom to a prescribed extent (e.g. by  $\pm$  10 to 15 per cent). It is, at the same time, reasonable to adjust the changing interval of the domestic price to the world market prices as well. In Hungary, in respect of export stimulation, a situation would be favourable whereas the intervention price should only approximate the export price increased by the subsidy but it possibly should not exceed same. Nevertheless, in order to prevent the undesirable effects (violating the interests of producers seriously) of the import competition or at least to brake same, the import price increased by the customs duty and cream-off (the so-called threshold price) should exceed the domestic ceiling price by a small amount.

In the case of the influenced markets, only one price category, i.e. the guiding price would be determined, instead of the two prices setting lower and upper limits. Its function would be to render information and it would mainly try to influence the price level. Therefore, to this regulation form, neither a price guarantee nor an automatic intervention by the state would be attached (unless, at most, an ad hoc action taken by the state for utilizing the product overplus). Nevertheless, the interest co-ordinating negotiations and the product councils may operate price guarantees financed by own resources. As for the regulation of foreign trade, both the role of the state and of producer's associations are of equal importance.

In the case of free markets, the level and changing interval of domestic prices will only be determined by the development of the supply and demand in the market. In this case, only the regulation of foreign trade by the state (the extent of export stimulation and the intensity of competition in imports) exert certain influence on the development of domestic prices, however, it is not excluded in this instance either that the participants in the market assume market-stabilizing solutions by themselves.

Taking the various aspects into account, the following regulation forms may be suggested in respect of major products:

- regulated markets: for cereals, slaughter cattle and milk,
- influenced markets: for slaughter pig and wine,
- free markets: e.g. for vegetables and fruits, vegetable oil.

Based upon the practice in the EC, it would be sufficient to set the minimum and maximum prices, as well as the guiding prices once in a year. To this frequency, the process of co-ordinating the interests could be well attached. At the same time, it might be necessary to some regulation, partly in respect of the factors of changing from year to year which are to be considered and of the possibility of interim differentiation as well. As regards the former, factors may be allowed for such as world market prices, the trend of inflation or production cost, whereas, concerning the latter, the interim prices differences justified by storage, price development in the domestic Stock Exchange and the seasonality of supply.

In the course of developing the price system, the government has important, initiative (co-ordinating and financially establishing) tasks to be completed especially in respect of quality regulation (observation of standards), of operating the state intervention, of regulating the foreign trade (mainly of

establishing new customs tariffs and export subsidies) and of the safeguarding of interest (of cost calculation related to products, of establishing and operating an appropriate information system).

## 2. The market intervention

The objective of the market intervention is to upkeep the balance between domestic demand and supply in the market of the respective products and thereby to create a certain level of security in respect to the income of agricultural producers. The intervention is an instrument to influence the supply which - in case of overproduction - comprises two activities. The one is the (final or transitory) withdrawal of commodity from the market or the limitation of supply in another manner, whereas the other one is the utilization of commodity withdrawn from the market, differing in time and space. In the case of a high rate of lack of supply, however, an intervention of reversed direction might as well be necessary. This may be of particular importance in the mitigation of shortage in seed and multiplying material, in the elimination of transitory market disturbances in respect of basic food articles and, in optimum case, in preventing such disturbances.

The intervention may be implemented in state form or in the self-regulation of the given vertical system as well. The agrarian market regulation should regulate the former but it should as well allow the latter, in fact, it is reasonable for it to supports same.

On selecting the product line involved in the intervention or the state or self-regulating form, the nature of the product may not be disregarded:

- its importance in the production  
(how wide producer's circle it affects),
- how export-oriented the product is,
- whether it can be stockpiled or whether an alternative method of use is feasible.

Therefore, the methods of establishing harmony between demand and supply are specific to products, thus an only intervention form or solution cannot be recommended for the Hungarian market regulation to be introduced either.

In the case of products that can be stockpiled for a longer period, the intervention may imply the purchase of a determined quantity of products or the retarding of its entering the market. In the former case, the costs of storage until marketability and the costs of full purchase have to be covered out of intervention resource, a part of which returns upon the immediate or later sale of the product in the market (foreign or domestic alike). In the simplified form of this, no stockpiling by the state is attached to the intervention but the state bears the private stockpiling costs of the entrepreneurs undertaking this voluntarily or under pressure.

In the case of products that cannot be stockpiled for a longer period, the intervention may be targeted at:

- financing the difference between the foreign or domestic market price, including or excluding purchase,
- the purchase of the product and its final withdrawal from the market. In this latter case, the whole product value has to be financed at the intervention price, and
- finally, the creation of pecuniary resources of alternative possibilities of utilization.

As regards the method of the intervention, the following main versions are available:

- fully automatic, i.e. in case the market price drops to below the intervention price level, purchase operations are automatically launched at this price. Now the intervention is unlimited in terms of time and it is not bound to any special quality requirements either;
- automatic but limited in terms of time;

- automatic but at a price level lower than the announced basic price. Now the price level depends on the quantity of commodities offered for intervention, on the total volume of crop, on the bids if there is tendering or on other stipulations:

- automatic but it is enforced till a certain stock level is reached;

- automatic but in certain quality categories only and a differentiated price by categories;

- only that producer may receive intervention who has concluded a contract and previously and voluntarily subjected himself to certain measures, thus the circle of producers is limited.

An intervention purchase may be carried out by intervention organizations, by trading organizations (on commission basis), by producer's organizations or by the producers themselves using their own storage facilities or against a subsidy, respectively. We note that this solution involves less expenses to be financed out of the budget than any other mentioned hereabove.

In Hungary, the initial steps have been taken for introducing the intervention scheme, these, however, are solutions related to crisis management. In the framework of the agrarian market regulation it will be important to clearly indicate the products involved in the intervention, to allow those concerned to learn the scheme, to allow the scheme to function automatically, i.e. in a manner calculable in advance, needing no repeated (individual) decision-making. The strict specialization in products, the exclusion of regrouping the financing funds to other products or for other purposes and the full publicity in this field are very important. It is necessary to (periodically) identify the price level requiring intervention, to allot funds to the operating organization, to be informed about the available storage facilities etc.

The application of state intervention is advisable in a very limited circle only, mainly for products belonging to the product group subject to strict regulation. More specifically, it is reasonable in sectors where

- there is a production cycle in which the timely adjustment to the market fluctuation is not feasible,
- national economy interests are attached to the stabilization of sectoral positions (in respect of both domestic supply and export revenues).

We propose a market regulation connected with intervention in respect to cereals and, more specifically, to bread-grains and we suggest a preventive intervention for wine. As regards the other produces, such as the vegetable oil production, the potato, tobacco and sugar, furthermore in the fruit-vegetables sector, we propose no state intervention, which does not, at all, exclude the voluntary intervention of product ranges, created by own resources, however not guaranteed by the state.

As for the range of animal-derived products, the influencing of milk and slaughter cattle production by way of intervention can be mentioned. In the milk sector, the intervention serves for stabilizing the production bases of domestic consumption, whereas the regulation of the market of slaughter cattle, wine and slaughter pig by occasional intervention correlates mostly with the upkeeping of export commodity stocks and with their eventual subsidizing. State intervention is advisable to be applied in the range of products of determined quality.

For carrying out the intervention, appropriate organizational, infrastructural and technical conditions have to be created since, without them, the intervention is not functional and, thus, in the case of its announcement and of its might-be unsuccess, the regulation itself would become questionable.

### 3. The competition regulation

Parallel to the establishing and organizational restructuring of the agrarian market furthermore to the liberalization of regulating and licensing the foreign trade, competition will increase in the Hungarian agricultural sphere, as well.

From the point of view of agrarian market regulation, it is a key question how much the general regulation of competition should relate the agricultural products, too. It is, of course, reasonable to support the evolvement of competition also in the fields of agriculture and food industry. This is in the common interest of the producer, processor, trader and consumer, especially in the long run. However, the agricultural products are products with an increased risk in respect of both production and market to an extent whereas they should not be directly subjected not only to the economic effect but to the effect of the free competition either, which are strongly affected also by the unavoidable natural effects, on the other hand, due to the peculiar nature of the participants in the market, the general regulation of competition cannot be enforced automatically in their case. In a developed market economy, too, it is a generally accepted practice that the agricultural products constitute, in certain aspect, an exception to the general rules of competition regulation.

It is especially reasonable to consider the application of exceptions to the general competition regulation in respect of indigenous agricultural products, in the case of:

- vertical agreements,
- cartellization, co-ordinated behaviour of competitors (incl. allying),
- reducing the production, withdrawal of commodity stocks from the market.

Of course, an automatic exemption from the regulation of competition of agricultural products for every situation but, in the developed market economies, a separate organization decides whether, in certain cases, it should be enforced and how. By all means, this conflict between the regulation of competition and the agrarian regulation has to be resolved.

In this present, undeveloped stage, the solution can be recommended whereas the Act LXXXVI of 1990 on the prohibition of unfair market attitude should be complemented by a paragraph that authorizes the Minister of Agriculture to license - in agreement with the Economic Competition Agency - the conclusion of vertical arrangements in order to regulate the production of agricultural products. The agreements made in the product councils are to be considered as being such arrangements as well.

The number, trait, market force position, competitive position and ownership and interest relations of participants in the Hungarian agrarian market are undergoing basic changes. Now we are just at the beginning of this process and this transformation will take place as many as several years. This advises us whereas it would not be appropriate to develop the agrarian market regulation affecting the market attitude of the agrarian and foodstuff markets' participants, having an effect on the volume, structure and export-orientedness of agricultural production and a competition regulation co-ordinated therewith (or just comprising the exceptions thereto) as an enclosed scheme but it is advisable to develop a flexible framework regulation adjusting itself to the market conditions which would allow the adjustment to new situation and the free admission of new participants entering the market alike. To this, the following are indispensable:

- a market easy to survey,
- establishment of the network of wholesale markets and further urging of establishing agrarian Stock Exchange centres,

- the development of an information system serving for the operation of all these.

#### 4. The regulation of agrarian foreign trade

The fact that all essential agricultural and food industrial products belong to the category subject to license, in terms of both exports and imports, significantly determines the possibility of functioning the agrarian market regulation in the field of foreign trade. For this very reason, it is to be considered whether the licensing of foreign trade distribution of agrarian and food industrial products should rather take place in the framework of agrarian market regulation. This seems to be a feasible solution to enforcing the sectoral peculiarities in the foreign trade. Of course, this approach makes the enforcement of foreign trade relation aspects more difficult. Should we decide either this way or that way, it would be advisable to achieve that the number of products subject to licensing should decrease in the agrarian sector.

In reducing the range of products subject to licensing, the basic principles might be as follows:

- the products under strict market regulation should by all means remain in the circle of products subject to licensing, in respect of both export and imports,
- it is also advisable to keep the export articles not belonging to the previously mentioned range but being subsidized, in the list of products subject to licensing and, in terms of imports, also those products that import cream-off is (or might be) imposed on,
- in the case of products representing a considerable share in the exports to EC countries, it is as well reasonable to preserve the nature of being subjected to licensing, mainly due to the fact that we can meet our commitments assumed by us "voluntarily" for regulating the exports meant to EC countries,

- those products that belong to the "guiding price" (informative price) category might be the subject of occasional consideration,

- the products belonging to none of the categories should not be required to be subject to licensing.

Along with the development of the agrarian market regulation, the export subsidizing scheme needs further upgrading, too. During the transformation, the organization-neutrality of the present scheme has to be maintained. As regards product-neutrality, there might be preferred, more or less subsidized products, however, between much smaller limits than those existing.

Also allowing for the expected international changes, it is advisable to transform our export subsidizing scheme so that it will be functional in a comparatively long run, similar to the scheme of the European Community and also allowing for the prescription of GATT.

As for the new subsidizing scheme, we can consider three solution versions and the combination of these, respectively. The development of combinations should be subjected to the optimum production and export structure serving agrarian and trade policy objectives and it is to be considered that certain disadvantages might arise whichever solution is chosen.

- The one feasible solution is that the producers should automatically receive the total value of the difference between the current world market price and the domestic price being higher than that, by right of export subsidy. This scheme, of course, can only be imagined in a very limited circle of products, mainly in respect of products regulated strictly in the framework of agrarian market regulation. In the range of products that can be granted automatic export subsidizing, if the world market price is higher than the domestic price, export cream-off shall be applied which is to be imposed on the pre-determined share of the price dif-

ference. Nevertheless, we think that, in the case of the Hungarian agriculture, the open-approach (such as in the case of the present cereals exports) and the hidden type export taxation (if the domestic producer's price is lower than the foreign market price) is reasonable in a limited product range only.

- The other possible option is the subsidizing of exports to a percentual rate which is similar to the present scheme. The advantage of this is the organization-neutrality which, however, implies certain disadvantages as well, whereas most part of the agrarian foreign trade is conducted by some large foreign trade companies.

- The third option is the fix-amount subsidy scheme we propose to be introduced in respect of a wider range of products. It is advisable to attach a determined product volume to the fixed subsidy amount which - in case of a volume exceeding it - would be connected with a gradual degressivity and/or with the issuance of a tender invitation.

As regards the fix-amount subsidy scheme, the organization-neutrality should be a very strict criterion. We may disregard the product neutrality but the differentiation according to target countries is reasonable. In such a scheme, the budget expenditures can be planned more easily and the producer can better adjust themselves to the annually pre-announced conditions that do not change during the year as well.

Also, the regulation of the agrarian imports has to be connected with the agrarian market regulation. Namely, in addition to the import liberalization, the appropriate customs system and cream-off will, in future, serve for protecting the indigenous producers. The governmental decree on the import quota of consumer's articles and the way of its announcement, respectively, is similar to the system usual in the de-

veloped market economies. Nevertheless, the further liberalization of the imports is feasible in respect of certain commodities only as the Hungarian agriculture and food industry (especially in terms of background industry and infrastructure) will not be in a sufficiently strong competitive position in the long run either. Therefore, the liberalization should only take place in a very careful and co-ordinated manner, with the simultaneous consideration of the agrarian foreign economic interests. Namely, failing to do so would violate not only and maybe not mainly producer's interests but, considering a longer run, rather consumer's interests.

### III. INSTITUTIONAL SYSTEM

We have to develop and upgrade the institutional system necessary for operating the agrarian market regulation with a high grade of circumspection, gradually, by making use of experience and the Government has, with due tact and stimulation, to foster the foundation of organizations based upon self-organizing which develop with interruptions and slower than necessary, in lack of due experience and pecuniary resource, which are meant to represent the economic participants in the market. The present situation is made largely difficult by the fact that - mostly but not exclusively - in addition or following the transformation of ownership relations, the enterprise and plant organizations are undergoing a radical transformation, re-alignment too or they are just preparing themselves for this. Therefore, it may be deemed natural that the new system of farmers and their common institutions has to be established at a time, so to say: in an iterative manner and they have to be involved in organizing the market scheme upon collective basis.

#### 1. The Regulation Committee

Theoretically, the following organization forms may come into question:

a/ The presently operating institution will remain in a modernized form, i.e. the Committee consist of the delegates of state organs (permanent members: Ministry of Agriculture, Ministry of Industry and Trade, Ministry of International Economic Relations, Ministry of Finance and the permantly invited member is the Representative of the Economic and Competition Agency) and of those of business federation organs where everyone has an equal right to vote. This solution, of course, implies many conflicts but it creates the possibility or compulsion of the co-operation among those concerned, all along.

In this way of co-operation, the most difficult question is who might or should, at present, be the business federations. The state (and the Ministry of Agriculture, respectively) is in a difficult position as, for the time being - and expectedly still for a long period - one cannot assume with complete certainty what are the actual power relations like and how great forces (economic background) are behind which business federation. This issue will reliably be resolved by the time passing by; namely, within several years, the questions still being open now will be crystallized and decided.

The number and composition of business federation organs may, of course, be modified in accordance with the changing relations. It would be desirable to achieve that a functional organ having legitimacy in respect of decision-making, as soon as possible.

b/ The Committee may as well consist exclusively of the representatives of state organs which takes its view preliminarily and discuss the issue with the business federation subsequently only. A great disadvantage of this functional method is that it needs to discuss an already developed standpoint again and, to the experience, it is very difficult to come to a good agreement again.

An argument may be mentioned for this solution as well that as the money necessary for the operation of the regulation scheme is granted by the state, in fact the business federation organs have not much business in the process. This argument is, however, rather inappropriate, namely, the money owned by the state derives from the tax-payers - among them the producers. If, however, it is so, the same rights are due to the producers and to the producers' business federations as the state organs.

c/ The Committee might as well consist of the representatives of exclusively non-state organs if we consider the fact that those being closest to the economic life are able to

utilize the resources most efficiently and most reasonably. A Committee comprising even 20 members (!) might as well come into existence, with the participation of basic material producers, processors, traders, consumers, business federations, associations etc. The number and sphere of participants might, from time to time, be modified in relation to the changes in power relations, though this would not turn out to the benefit of the work. (One should, unfortunately reckon with this change in the present situation with great reality.)

In this solution method, it is sufficient if the state is represented by only one person who, however, may exercise his right of veto if a decision is unacceptable to the state. (Such a scheme is operating in Switzerland.) This scheme, of course, assumes already consolidated relations.\*

Accordingly, numerous solutions can be imaginable, nevertheless, it is not advisable to establish a solution that is not based on the continuous co-operation among those concerned. The identification of the objectives of agrarian policy and the controlling of agrarian regulation constitute governmental tasks. This task can, however, be completed only in close co-operation with the product councils, business federation and other organs efficiently.

## 2. The product councils

If we operate any regulation committee whatever, the product councils (or sectoral associations) are indispensable and they will play a greater and greater part in the process of regulation.

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\*Out of the three options, the best solution is, from the point of view of both the state and the other parties concerned, theoretically that if those concerned feel with good reason that they direct-manage the processes by themselves and the state is in the very comfortable position of playing the role of the "lamp" only.

Their task was, at the beginning, to declare their opinion on professional issues, to finalize the decisions made by the Regulation Committee, to break down, allotting the quantitative regulation etc.; later, in addition to the foregoing, to take over more and more state entitlements, to take a more and more active part in regulating the product course\*, to effect intervention purchases, in managing the subsidies and cream-offs etc. The product councils - being professional organizations - will play a decisive part in observing and in procuring to observe the quality requirements.

As regards the smoothest possible operation, the following are to be taken into consideration:

- The state "should not twirl its thumbs" but it should play an active role in the process of setting up the product councils: it should stimulate, in fact, mostly in the case of basic products, obligate those concerned to set up the product councils. The state may prescribe, e.g., that the setting up of product councils is, in certain sectors, compulsory (without prescribing its concrete form) but the state could, at the same time, prescribe that it is compulsory to join the product council over a specified rate of the volume of production or based upon the crop land, number of livestock, product output, turnover etc. The Ministry of Agriculture may as well stimulate the setting up of the product council by giving preference, in the regulation, to the product courses having product councils, based upon the fact that the one giving the money may as well set the conditions and who assumes the obligation arising from the regulation should benefit from same. (Otherwise, the foreign practice is based upon these principles.) Later on, when the process functions well, the state might "leave" the product councils "to themselves".

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\*E.g. in issuing the export and import licenses.

- Only one product council or product association\* should function for each product course, otherwise the process will become unmanageable.

- The state should accept a product council only which represents more than 50 per cent of a product course.

- If the voluntary agreements of the participants in the given product course extend to a comparatively large range (here, 30 to 40 per cent is sufficient already), so the state should extend the regulation to all participants.

- Instead of the uniform prescription, it should be left to those concerned (producers, processors, distributors, consumers) to what proportion they represent themselves in the product council.

The mass of small-scale producers should also be won over to the cause of product councils. This is especially essential in the case of vegetables, fruits, wine or pig, and the appropriate form of representation should be found as well.

### 3. The intervention organizations

In the EC, a very sophisticated, variegated, carefully established institution system of intervention is functioning. Nevertheless, the development and operation of such a scheme, which is an extraordinarily time-consuming and expensive process, may not even come into question in the present economic situation. We also have to take into account that if we are admitted to the EC, we would then be compelled by the Community

\*Presumably, a product council will not be set up for each product course but there will be product courses where a federation or association will play the part of the product council. Accordingly, the name is not important and one need not insist on this either but all the more on the other principles that should be enforced, whether a council or a federation or association functions.

anyway to adopt their institutions and if so, it would in all probability grant a support to this. All this, however, does not mean that we should not commence the modernization of our existing institutions of this nature and the establishment of such institutions, respectively. To this, however, it would be advisable to utilize mostly external resources (the PHARE-programme, the World Bank's projects aiming at the modernization of trade, including the agrarian trade etc.).

We should prefer the most efficient and, at the same time, cheapest solutions. Till we are obliged to apply the institutional scheme of the Common Market, we can use, for intervention,

- the present institutions serving for purchasing, stockpiling etc.,
- the organizations set up or to be set up by the Regulation Committee and/or product councils and, first of all
- the scheme of tendering.\*

In the latter case, anyone might bid for the completion of the given intervention approach and the tender would be won by that one offering the cheapest and most reasonable solution. In this case, the bidders would partly unload a large burden from the shoulders of the state, partly they could as well enforce their own interests indeed. The state, of course, would support actions of this kind, too (by compensating the interest charges in part or in whole, by contributing to the other costs etc.).

The establishment and operation of the network of institutions - whatever simple solution it is about - cost the state a lot of money. Later on, theoretically, the scheme may become self-supporting, however, to achieve this, we should adopt the practice of the EC - well before our admission!

\*We may utilize these institutions, naturally in a modernized form, after our admission to the EC, as well.

Based upon the economic-strategic importance of food economy, namely, a food economic fund should be generated out of a part of revenues deriving from the food economic processes (e.g. customs duties, taxes, cream-offs) which - among others - could also finance the process of modernizing and upkeeping the institutional scheme (for somewhat more details, refer to chapter I/2).

#### 4. The business federations

The establishment and operation of the agrarian market regulation are not feasible without the involvement of the widest possible range of those concerned, the business federations of basic material producers, processors, distributors, consumers and products.

In the developed countries, the present representation of interests is the result of a development of several decades. While their tasks and functions are identical, their organization systems still imply several national traits. Despite the difference in their organization, general (horizontal) and extraordinarily specialized (vertical) product representations operate. These are though self-supporting organizations but they have very close, mostly institutional relations to one another. The business federations have come into existence by building up from below, to a very different extent of contribution by the state.

To international experience, one of the most essential instrument of the enforcement of interest relations is the establishment of comparatively homogenous interest groups. It is not sufficient to operate only large sized business federations though they apparently represent a great power as they may wash the interest relations away and they are easier to manipulate from above. Also for this very reason, the establishment of the general and product-based business federation scheme, the distribution of its sphere of tasks and authority and its relation system are essential.

In Hungary, the new scheme has to be developed, established based upon the existing business federation, though the former (not full-range) business federation system has become weaker, automatized and is facing occasional problems related to its part to be played, is now in the stage of transformation. The backbone of the safeguarding of interests might be composed of variegated amalgamations ready and able to be transformed. Though the trend of transformations is still uncertain, it will be crystallized over time. There is a stratum (the private producers) the representation of which has been unsolved so far and now this representation should now be established.

The organization scheme of business federations would mostly comply with the general objectives if the general tasks related to safeguarding the interests would be completed by the regional and national business federations of the producers, processors and distributors and their top-level associations (which might as well have regional platforms for discussion). Whereas, the interests of producers, processors and distributors concerned in the individual vertical groups would be represented in the various product councils by those delegated by the general organization for safeguarding their interests. The connection between the product councils and the top-level federation of interest safeguarding may be established partly through the delegates mentioned above, partly through the Regulation Committee. In this Committee, the functions of safeguarding the interests would be completed, accordingly, by the top-level business federation. Here and in the product councils, the safeguarding of consumer's interests would expectedly play a greater and greater part, too.

The business federations should take part in preparing, making the decisions and in the implementation alike.

5. Product qualification, standardization,  
quality control

In the period to come, the most important and urgent task of the Hungarian economy - including the food economy - is the adjustment to the rules, norms, prescriptions of the EC as soon and as perfectly as possible. We should deal (or should have dealt) with these issues even irrespective of our admission to the Community as the EC has always been our important trade partner. Such efforts should intensify, with regard to the intention of association and admission, respectively.

The harmony between the state's and producer's (private) tasks in terms of standardization, qualification and quality control. The state may, of course, not renounce its directing the processes and setting the requirements; however, there is no obstacle for the private sphere (producers, product councils, federations etc.) to set requirements that are even stricter than those set by the state. The product councils, the professional federations have to play an important part in observing and procuring to observe the quality prescriptions.

In connection with quality regulation, first of all the quality requirements concerning the agriculture-derived food industrial raw materials and the products meant for consumption in raw form should be formulated in the regulation which are the basic conditions to their marketability. In such form, the quality regulation may as well be applied as an instrument of quantitative regulation.

The regulation should comprise those basic requirements which are the parts of the international regulation norms concerning foodstuff quality (e.g. the statutory rules, the directives) and which relate to the identification of the commercial quality of commodities, to their quality requirements. The international norms prescribe, in correlation with healthy nutrition, the strictest requirements that, in most cases based upon the EC directives, in international laws.

To this group, first of all, the provisions concerning agent remainders - on the permitted extent of pesticides, antibiotics, certain heavy metals (mercury) - which are strictly to be allowed for in the regulation.

Another basic condition to distributing the agricultural products is that their quality should be easy to identify. The product standards serves for this purpose. In the bilateral and multilateral trade, the parties concerned may, of course, agree upon other quality requirements. The identification of the product's commercial quality is especially necessary at the time of intervention purchases and of introducing the products into the Produce Exchange, respectively.

In the former case, namely, the identification of quality based upon standards is indispensable because it is reasonable that the state extends the intervention to the range of products only which comply with the pre-described (lower) quality threshold and the Produce Exchange assumes the exact knowledge of quality parameters from the outset.

In developing the standards, in addition to the basic standards institutions, the product councils will play a significant part, too. The quality certification and quality control are important parts of quality regulation.

The quality certification is the task of the authority and of the producer alike. From the point of view of the exportation of agricultural products it need be emphasized the importance of national quality certification which takes place in accrediting laboratories complying with the international standards.

In Hungary, the quality control can be regarded as partly solved only. In this field, one of the major problems is that this activity is conducted by organizations belonging to different supervisory organs (ÉHESZ, KERMI, MERT); even the foodstuff hygienic inspections belonging to the authority of one ministry are not co-ordinated by one organ either. Thus,

e.g., the vegetables purchased from the small-scale producers, at present, are inspected by one organ of the Ministry of Agriculture in respect of compliance with hygienic prescriptions if vegetables are transported to a canning factory and another organ inspects same if the produce in question is sold by the producers directly in the marketplace, as fresh vegetables or fruit. In the latter case, there is hardly any inspection, in practice.

The Ministry of Agriculture should co-ordinate the present - occasionally articulated - organizations serving for protecting the health and for sound nutrition to be an integrated system. It would as well be advisable to provide the control of quality as a commercial category, the identification of the compliance with the standards and that of the deviations therefrom by an organization belonging to under the supervision of the Ministry of Agriculture.

#### 6. Agrarian education and consulting

An important conditions to the efficient operation of the market economy are the trained workforce, the appropriate information base and the consultancy network mediating them for coming into existence of which the regulating function of the agrarian market regulation is necessary, as well.

a/ The domestic labour market will not honour either the untrainedness or the disfunctional trainedness. Accordingly, the development of the market economy, the changes in the requirements necessitate the setting of new-type training objectives and the domiciliation of new vocational training trends and forms.

In the framework of university education, the teaching of such knowledge is necessary which allows the graduates to be employed in fields such as production, research, consulting, banking, public administration, trade, environmental protection etc. Inside the main directions of training, preference

should be given to teaching bio-technology, bio-technics, environmental protection, product quality, farming, enterprising and marketing and the acquirement of command of foreign languages.

In the training of agricultural skilled workers and in the vocational training in form of secondary education alike, the training of skill is to be improved. In the vocational training, a quickest possible spreading of economic and market knowledge has to be carried out and the re-training programmes have to be launched in this spirit, also adjusted to the expected requirements. It is also reasonable to upgrade, in terms of both organization and content, the form of farmer training courses serving for the thorough and continuous training of practising and future farmers, looking back on great traditions.

b/ The domestic consulting activity has so far followed a practice based almost exclusively, upon focussing on large-scale plants, technical profile and enterprising. It has not been clarified till now whether consulting is a state task or entrepreneurial activity and it is not clear either how much part the state should take in operating the consulting system. Although, the agrarian market regulation under preparation may not be authorized to decide this, it is sure that the foreign experience shows the existence of a consulting network closely connected with the safeguarding of interests.

In countries with developed market economies, the consulting and information systems were, at the outset, free-of-charge services and activities financed mainly by the state, and they have been transformed into services against fees, in part only. The state preferences cannot be indispensable for the setting up of domestic consulting systems either. It is advisable to set up the consulting and information bases so that they are integrated in the European systems and, the establishment of state-financed information

bases and the preparation of experts should be regarded as the first step of it.

Under our domestic conditions, the basic form of the consulting activity implying general information may be the free-of-charge state consulting that will be transformable into a service against payment, only parallel to the financial stabilization of private farming. The situation is different in respect of the special consulting activity that focuses on the solution of concrete tasks (e.g. individual investment project, concepts concerning production technique, market etc.) where, one has, of course, to pay for the services rendered.

#### 7. The information system

The efficiently operating regulation requires reliable and regular information and an analysing-valuing apparatus. The information system should adjust itself to the gradually changing economic environment (private producers, individual and family enterprises, transforming co-operatives etc.).

As regards the regulation it is not advisable to establish a self-contained, separated information system: the sub-system of the regulation operates as a part of the agrarian information system being also adjusted to the EC's system. To set up the sub-system, one should rely on the already operating information systems (the Ministry of Agriculture and its network of institutions, other information sources: Central Statistical Office, Ministry of Finance, Ministry of International Economic Relations, other ministries, commercial-market organizations, insurance and banking institutions, foreign data sources etc.) - sorting out the parallelities, supplementing it by the missing information. The most efficient and, at the same time, cheapest form of operating the information system should be found.

Theoretically, anyone may join the information system of the regulation, anyone may obtain data - under predetermined conditions - and supply data (incl. the producers and the

business federation)\* and anyone may establish optional sub-systems, although taking care of that also the information requirements laid by the Ministry of Agriculture can always be met.

As regards the agrarian market regulation, the information system's maybe most essential element is the obtainment of information concerning production (mainly in respect of our agriculture's sectors and products of decisive importance) and plant types (large-scale farms, small-scale commodity producing farms, family farms) so that it may as well indicate the producer's interest and intention of production. In this regard, the most complete data base is owned by the Statistical Economic Analysing Centre of the Ministry of Agriculture, based mostly upon data taken over from others and upon the own collection of data to a smaller extent. This data base - eliminating the existing shortages of sample-taking - may be a good basis, giving appropriate information to the regulation, on the development of the domestic production. However, it is necessary that sectoral and regional analyses (studies) be prepared by using the preliminary processings here and also using other information - for the purpose of agrarian market regulation. The present capacity of the Statistical Economic Analysing Centre is not sufficient for that, however, a closer and regulated co-operation with the Research Institute for Agricultural Economics seems advisable.

The technical conditions for operating the information system are in part available even now. The limit to their necessary expansion - as it is the case in respect of operating the whole system - is that who and out of what resource should finance the system. Pecuniary resources should be established to such activity conducted by several, separated organizations. The situation is made still more difficult by the fact that the organizations mentioned hereabove conduct other information-

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\*Accordingly, information would flow in this system not only in one direction.

-analysing activity as well. Due to the foregoing, it seems to be advisable if the basis of financing is the state and ministerial budgets complemented by other resources (such as the PHARE-programme). And, the one requiring the services pays a compensation for the service-like information (mostly for publications, for the data processings, for the special market services).

In order to lay the foundation for making better decisions, the state may, of course, prescribe that only those farmers may utilize the given regulation support who supply appropriate information to the market regulation institutions. Namely, the key issue of and condition to the market regulation is the exact and updated information on the trend of prices, on the actual size of production, on the parameters of the trade in the Produce Exchange etc. The interventions may, namely, be launched, in fact, be made automatic, if the market situation requiring the intervention cannot be doubtful. There are technical and organizational conditions to all this which should be established and made functional well before introducing the market regulation.

#### IV. THE SECTORAL PECULARITIES OF MARKET REGULATION

Both the domestic analyses and the foreign practical examples show that the general regulating principles of the market assemble into numerous forms of solution, mainly depending on what product's market it is about. Already in our study presenting the EC's economy, we came to the conclusion that almost "so many products, so many markets are functioning" and this stems from the physical peculiarities of the product itself (storability - perishability), from its domestic and international economic significance, from its level of its organizedness in terms of its participation in the economy etc. For this reason, we decided to - as briefly as possible - present the market of main agricultural products, the economic field and the problems that the regulation considering both peculiarities of the sector and the tasks and opportunities related to the assumption of tasks by the state is designed to regulate and influence.

We make attempt to answer the following questions, sector by sector:

- what - closer or looser - market regulation do we deem reasonable?
- what price and intervention system should belong to this?
- what organizational and institutional system is or would be necessary, respectively?
- how should the exports be treated?
- how should the imports be treated?
- what safeguarding of consumer's interests should be provided?
- should the development policy of the given sector be influenced by the state and, if so, in what manner?

We present the brief answers given to the most important questions, included in a separate matrix, as an appendix to the Comprehensive Study. We note that those described herebelow reflect the majority standpoint of the authors' collective, under the individual professional responsibility of the Project Responsible. It may occur this way that the recommendations included herein deviate, in some cases, from the individual understanding, standpoint of the authors of background studies, highlighting the interests of the specific sector in an understandable manner which we respect and publish in original formulation there, however, also demonstrating the possible differences of views.

#### 1. The cereal production

1/ To our standpoint, in the future, the scheme of a regulated market, i.e. market regulation has to be developed in the cereal production. This market regulation would directly extend to the bread-grain only which, however, by virtue of its key role, has an influence on the markets of the other cereal as well. Thus, the market balance of the whole vertical scheme can be achieved; in fact, due to the decisive role of the cereal sector, it regulates the prices and markets of the products of the fodder consuming livestock farming sectors to a certain extent and guides same in between appropriate frames, respectively.

In Hungary, the producer's price level of the cereal is much lower than that of the Western European countries but, in most years, it is also lower than the level of world market prices. The reaching of the level of western countries will not be possible in the foreseeable future. Nevertheless, the key role of the sector justifies that we should mitigate the risk of producers and, at the same time, we should as well make indigenous cereal market better balanced.

2/ With the cereals (with the table-grains and feeder-grains alike), we deem necessary to announce a guiding price and a ceiling price generated out of this, whereas with the bread-grain, in addition to them, to also announce an intervention price. Among the bread-grains, for the wheat of B<sub>1</sub> quality and better than that, a consistent intervention system not changing within one economic year in terms of its rules and extents has to be introduced and operated. The intervention system:

- extending to the whole product mass, may be automatic, reimbursing the producers for the amount by which the market price decreases to under the announced intervention price,
- but this product mass might as well be limited and now it will be reimbursed, bound to a certain volume, the extent of the lag in relation to the intervention price.

The concrete form of the intervention may be

- the actual purchase of the offered product mass and the financing of the storage of stocks withdrawn from the market,
- interconnection of the intervention and the export subsidy and the sale of the product in foreign markets,
- it may be as well be constituted by a combination of the forms enlisted hereabove, co-ordinated gradually to the respective quantities.

The condition to the operation of the intervention system is the consistent application of quality criteria, in addition to that the state should have sufficient pecuniary resources for announcing and applying the market regulation respectively.

In possession of the experience related to the stricter market regulation system operating in the case of bread-grain,

later, if we would deem it necessary, the operation of a similar intervention system is imaginable for the maize, too. What essential is that the outlined scheme assumes the application of an intervention price constituting an actual guarantee for which sufficient resources are necessary so that one of the formulas described hereabove may be applied.

3/ In the cereal production, a product representation amalgamating the market participants of every level in the vertical scheme is required. This can be implemented in the framework of the cereal council for the setting up of which an invitation has been made recently. The product council will have a decisive role in preparing the decisions concerning the whole sector but their more active participation is required in the implementation of decisions. In addition to assisting in developing the level of guiding prices, the operation of the intervention may be the task of the product council even in whole, creating and providing the pecuniary resources required to this, respectively.

4/ If we accept that the cereal belongs to the group of products of regulated market, so the subjection of its foreign trade to licensing continues to be justified. This is supported by our proposal on introducing the ceiling price and on the cream-off attached thereto and also our recommendation made for the imports.

In regulating the cereal exports, we should take our comparative advantages into account the utilization of which is braked mostly by a rather intensive support applied in the case of our competitors. Therefore, it is necessary to increase the chances of entering the market:

- by means of a comparatively small extent of support even if the foreign market price exceeds the domestic price but it does not surpass the ceiling price announced along with the guiding price and the intervention price. Above this, however, a cream-off of predetermined extent would

take place. Thereby, the provision of meeting the domestic demands can be created and the development of a seller's market, the forcing up of domestic prices can be avoided;

- a whole or partial automatism (reimbursement for the price difference) may be enforced in the export subsidy when the foreign market price drops to below the domestic price. This automatism is, due to the scheme, always launched in the case of products involved in the intervention (for the product mass limited by quality criteria, also in terms of quantity, from the outset).

5/ The present customs system of cereal provides due protection against the undesired imports as the domestic price level does not exceed that of the foreign market. Nevertheless, in future, with the increase in the domestic cereal price - which is unavoidable - the customs tariffs might require amendment and additional cream-off might as well become necessary.

6/ The price, intervention and foreign trade regulation outlined hereabove also influences the consumer's market and the safeguarding of consumer's interests may be provided through the product council.

7/ When developing the organized cereal market supported by state guarantees, the application of the strict quality standards is indispensable, as well as the establishment of the market information chain, the solution of liquidity problems, the setting up of an organization performing orientation and co-ordination tasks, mediating and representing sectoral interests.

## 2. The sunflower-seed production

1/ The great importance of sunflower-seed production is in that the raw oil is one of our products exportable also in the long run, promising long-lasting comparative advantages which provides foreign exchange revenue of changing in relation to the changes in world market prices. Its market is not reason-

able to be limited but we should strongly adjust ourselves to the export opportunities.

2/ We deem an orientation price necessary to be announced by the product council with informative trait, without any obligation for the state. The sector does not require any direct state intervention. However, it is justified that the participants in the vertical scheme should create an intervention fund. To this, a state assistance would be if such fund, in the case of the favourable trend of world market prices, could be generated out of the export revenue, free of tax.

3/ The conclusion of contracts remains the basis of co-ordinating the producer's and processor's phases. In such contracts, agreements are made on the volume, quality, price etc. of the sunflower-seed. The oil premium increasing progressively with the increase in the oil content of sunflower-seeds may foster the co-ordination of interests, the increase in efficiency.

4/ The reason why the scheme of exports subject to licensing should continue to exist is that, due to the depressed world market prices, the sector requires export subsidy. And this is justified by the even perspective important position of the product, the observation of long-term interests, the preservation of conditions of our remaining in the market, to the fullest possible extent.

5-6/ The domestic market is featured by a keen import competition in terms of vegetable oil products (cooking-oil, margarine). This, on the one hand, sets a limit to the domestic price of products, whereas on the other hand, it allows a wide-range assortment in the consumer's market and the supplement of insufficient domestic production of sunflower-seed. If privatization starts, the assortment of products may expand with the di-merger of factories, whereas with the involvement of capital, the volume of margarine production may increase as

well. Following this, it might as well be necessary to set appropriate limits to the imports.

7/ For keeping the export markets, it will, in future, be indispensable to reduce the costs, to increase the rate of processedness of the oil, to expand the storage capacity. It is in the interest of the state to foster this.

### 3. The sugar beet production

1/ The sugar is a very essential food article the price of which is undergoing extreme changes in the world market. Therefore - and also due to our existing resources - it is in our interest as well to endeavour to base the supply on domestic production. At present, however, we have a much bigger productive capacity than that and we have a more or less excessive volume of products annually. Thus, today, the market regulation alternative endeavouring to achieve a production completely meeting indigenous demands has a greater chance than the alternative being also possible which allows an intensive import liberalization and a more liberal competition and, accordingly, it does not by all means intend to meet the indigenous demands out of domestic production.

2/ In the case of a market order adjusted to the domestic demands, it is the Sugar Council that has to set a price - with a small extent of contribution by the state - for a predetermined volume of white sugar the guarantee of which may be established by the Council's own resources. To this, it is worthwhile for the state to render an appropriate assistance by way of supporting regulation factors (e.g. by way of licensing the generation of tax-free funds). Nevertheless, the price of products exceeding this volume and meant for export is completely liberal. However, if the export price exceeds the domestic price, the compliance with indigenous demands is protected by exports cream-off. The exports cream-off creates, at the same time, a resource for the Sugar Council and thus the "automo-

tive" market regulation of the sector may become complete. The price of sugar beet is determined on the basis of the white sugar's price; the volume of production should as well be prescribed by the product council (Sugar Council) and it should break it down, in one way or another, to the processors and, indirectly, to the producers, respectively. The export-oriented production may develop liberally, at the discretion of producers and processors or according to the arrangement determined by the product council.

To the other market regulation alternative, the activity of the individual participants in the vertical scheme is, in the sugar market, regulated fully by the market competition. It is essential that the prices, in both alternatives, duly reflect the quality of the product and that they stimulate an economic white sugar production.

3/ In the Sugar Council, the participants of the sugar market should take part in a proportion reflecting their importance. The horizontal and vertical organizations should alike be given opportunity for developing the concepts and decisions.

4/ In the case of the first alternative, the exports are subject to licensing, safeguarding the interests of domestic consumers in a manner complying with the decision made by the product council and with the fund of same. In the case of the second alternative, there is no state control.

5/ In the first alternative, importation would take place only in case of shortage in products. If a favourable foreign market price is available, so - through cream-off - partly the vertical scheme itself, partly the consumers would benefit from this but its disadvantages - in addition to the high prices - should be borne by the consumers. In the second alternative, the burden of market fluctuation would still more be imposed on the consumers as the imports develop liberally

and, in such a case, the consumer's prices should be adjusted to this, as well. Despite the present scheme of import licensing and the protectionist customs tariff (80 per cent), it is - due to the overproduction - to be expected that a part of the sugar factories will become bankrupt as the exportation is uneconomical. Should this be the case, so the superfluous capacities would cease, too. This, however, might be even of greater extent than desired if the customs tariff (based upon the conformity with GATT) would be reduced.

6/ In addition to the institutional safeguarding of consumer's interests, the representatives of the consumers should also take an active part in the Sugar Council. Accordingly, also consumer's aspects are to be enforced in developing an appropriate production and import policy.

7/ The main trend of improving the sugar market depends on the alternatives depicted hereabove.

#### 4. The tobacco production

1/ The market of the tobacco sector requires no direct intervention by the state. In the multi-phase vertical scheme, the resources necessary for the development of demand-supply relations in the long run can be found.

2/ The guiding price of raw tobacco to be announced by the product council should stimulate the production of tobacco in sufficient quantity for the whole industry and of adequate quality and composition. This three aspects are indispensable for the industry for the production of cigarettes of consistently good quality. It is this sector where the greatest possibility is available of an almost immediately implementable self-financing, by state licensing of supporting the generation of the requisite funds.

3/ Inside the multi-phase vertical scheme, the product councils should play a decisive part in co-ordinating the in-

terests. The organization of product councils should be initiated by the sub-let producers who has been in contact with the producers and factories so far, as well. In the product council, all the three vertical stage should take an equal part.

4/ The domestic cigarettes are not competitive in the world market. However, there would be opportunity for selling fermented cigarettes in the foreign markets. By this, at least the same foreign exchange revenue can be achieved as that sufficient to cover the imports indispensable for the domestic cigarette production. Nevertheless, our production of fermented tobacco may only become competitive in the world market by the modernization of fermenting, but there is an opportunity for this, too.

5/ Our products are protected against the imported articles by the import customs tariff of 80 to 90 per cent. In future, the customs tariffs will decrease with the liberalization of the imports, therefore the competitiveness of domestic products should be increased.

6/ In order to safeguard the consumer's interests, stricter quality prescriptions should be required in respect of the domestic products (lower nicotine, tar and carbon monoxide content).

7/ The tobacco industry provides an annual revenue of 20 to 25 billion Ft to the state budget. Yet, inside the vertical scheme, the situation of raw tobacco production is critical and the decreasing production does not allow to meet the basic material requirement of the tobacco industry. This requires a correction and the demand of the tobacco industry for raw material would be more reasonable to be based on the domestic production. Thereby, we might as well create jobs in the traditional tobacco producing regions facing depressing unemployment due to other reasons. For all this, the returning or leaving an insignificant share of the revenue to and at the production sphere would provide sufficient provision.

## 5. The potato production

1/ In the vertical scheme of potato, the processing plays an insignificant part only. Most of the products gets, following the agricultural production, through different distribution channels to the consumers. The consumption of own production is of decisive significance as somewhat more than half of the produced potato quantity turns into commodity only. The consumption responds to the changes in the supply and prices in a comparatively inflexible manner. The vertical scheme of potato did not belong, formerly, to the directly regulated group of products and its regulation by the state will not be necessary either which, however, does not exclude the possibility of intervention in a very justified case. Nevertheless, it is worthwhile for the state to promote the potato market's vertical organizations based upon self-regulation and self-organization.

2/ The prices of products - seed-potato and table-potato alike - are formed freely, differentiated according to quality by the market effects.

3/ In addition to the general organizations for safeguarding the interests, existing in the food economy, a sectoral organization would be appropriate and have the chance for safeguarding more specific interests, for preventing unfavourable market effects. The groups of vertical interest, coming into existence by way of self-organization, may have a favourable influence on stimulating the market competition and on the consumer's interest as well.

4-5/ The regulation of exports and imports, in addition to the quality and plant health criteria is unnecessary.

6/ In addition to the general safeguarding of consumer's interests, the consumers form and also orient the market in respect of quality, sort and price alike.

7/ No special development policy is required.

## 6. The vegetables-fruit branch

1/ To the basic principles of the agrarian market regulation, as we detailed them, the vegetables and fruit market does not belong to the market segments to be regulated. Thus, the intervention based upon budget resources can be imagined in this field in a limited range only and no state interventions targeting the restoration of market balance can be expected.

2/ Following the lack of state intervention, free prices prevail in the trade of vegetables and fruits. The relation between demand and supply can be identified by those concerned, in relation to the trend of market prices and this should also motivate their economic decisions. First of all - in respect of products produced in large volumes and bound to a specific region which are also important in terms of exports, e.g. apple, red pepper, onion, tomato - the announcement of orientation prices might be reasonable.

3/ In influencing the vegetables and fruit branch - considering the small extent of involvement assumed by the state - the product councils to be set up will be given a very important role. The establishment of an information system, the development and operation of an informative price system, the determination of quality parameters in relation to the prices, the standardization, the regulation of the volume and composition of production, the financing of market interventions of own sphere of authority etc. belong to their expected scope of responsibility. For the development of the aforementioned systems, time should be granted and, in the first years, the costs of their operation should be supported (money should be advanced to them). We deem important to clarify mainly the following issues:

- to what proportion should the producers, distributors, processors and consumers be represented?
- how can the masses of small-scale producers be won over to this cause and what form of representation would be suitable for them in the council?

- should there be one or two (vegetables and fruit) councils, and if two, what should be the concrete form of co-operation, due to the interdependence of the distribution and processing spheres?
- what should be the production- and market regulating mechanism like which treats the many sectoral vertical schemes and what organization should they have?

4/ The state subsidy of exports will be necessary in the future, too, but it is not the mass product exports that should be preferred but the exports of specialities that can be sold in the foreign markets at a good price. In order to protect the quality of Hungarian commodities of good biological value, acknowledged in the foreign markets, the observation of human health prescriptions should be taken and checked strictly which should be verified by means of certificates. For this reason, the exportation of such products should not be undertaken either.

5/ The protection of domestic production would require a more considered and stricter import regulation than that at present. The instrument of this is the seasonally differentiated import customs duty and the transitory ban on imports. In identifying the concrete instruments and extents, one can rely upon the proposals made by the product councils since these councils come into existence by way of co-ordinating the interests of producers, distributors and users.

6/ The safeguarding of interests of domestic consumers is performed by three different institutions. The checking of the observation of human health rules, which is a state responsibility, may be improved by an adequate laboratory network and more frequent inspections. The product councils are also the platforms of enforcing the consumers' interests where they can lay their requirements against the producers and distributors of a concrete group of commodities. Finally, there is also the horizontal interest-safeguarding organization of consumers as

the most general platform for representing the interests.

7/ The so-called "preventive intervention", the long-term influencing of production are required in the case of less flexible sectors needing long-term investments. We deem reasonable to stimulate the plantation of some fruit species and certain sorts, respectively, with the simultaneous, directed cutting out of others - in compliance with the expected market demands. Even more important are the production of virus-free propagation material under state supervision, the support of upkeeping and upgrading stock-plantations etc. The checking of products to be introduced to the market, in respect of foodstuff hygiene, and the respective stimulation require the involvement of the state.

#### 7. The grape-wine branch

1/ In the framework of the agrarian market regulation, it is advisable to apply different systems of instruments for influencing the production and market of good-quality and table-wines. For the former one, the origin-protection system serves which exerts its perspective effect by regulating the product quality. As for table-wines, the overproduction imputable to the loss of Eastern European markets - as it is about a plantation culture - cannot be solved by only applying a short-term crisis management programme but one should be prepared for a production- and market regulation in a longer run. This, on the one hand, means the directed (supported) cutting out of vine plantations suitable for making wines of poorer quality, while - on the other hand - the absorption of the table-wine oversupply by distilling.

2/ It is not the prices that play a main role in the state-control of the wine sector. (The wine sector is different from the strictly regulated market segments in this regard, as well). For those concerned in domestic and foreign trade, the product council might announce orientation prices of informative trait for the typical product categories.

3/ The two foundation pillars of the origin-protection system are the regulation of product categories and the regional regulation. Both sub-systems should fully co-operate: the production region, thereby the rate of production regulation (which may finally influence the value of the product as well) of the products defined on the basis of analytical, economic and ecological factors should be determined precisely. The regional regulation also implies the development of micro-regions and origin-protecting regions. For operating the origin-protecting system, adequate institutions are necessary for which a double requirement should be laid. On the one hand, they should be developed at several levels (international, national and regional levels), on the other hand, they should establish a platform, simultaneously, for the state supervision and for enforcing the producer's interests. This duplicity - the separation and close co-operation of the state and producer's lines - is the basis of the efficient operation of the system. The state control may be represented by the central origin-protecting institute and by its regional supervisors, whereas the producer's side - by the product council (Wine Council) amalgamating all those concerned, in the vertical scheme, and by its regional organizations, respectively. The Wine Council to be set up, in addition to functioning as an organization for safeguarding producers' interests in terms of origin-protection, might as well be the platform of safeguarding the sector's interests. (These functions may as well be completed by a wine-growing community adjusted to the requirements of our time.) The upkeep of the wine qualifying network belongs to the institutional system of the origin-protection which is, emphasizedly, a part of state supervision.

4/ In order to protect the quality and origin of wines, it will, also in future, be advisable to subject the exports and imports to a quality certificate. The state subsidy of wine exports is necessary till we establish the image of our wines of good quality by applying a self-functioning origin-

-protection, and this is verified by their being sold in the foreign market at a price complying with their actual worth.

5/ The import of wine, for consumer's purpose, should be restricted by sufficiently high import customs duties. An exemption to this may be only the importation of improving and colouring wines used in wine-making.

6/ The interests of producers and consumers meet in respect of absorbing the excessive amount of wine being of poor quality and of improving the wine culture. To this, it would be reasonable to reduce the rate of the turnover and excise taxes and, on the other hand, a wider quality range of the domestic wine demand and the related price range should be developed. (A good basis is given to this by the scheme of origin-protection.)

7/ The influencing of plantation by the state and the state subsidy of regions of unfavourable or disadvantageous situation meet at many points and this relation should by all means be deliberately strengthened.

#### 8. The milk and slaughter cattle production

1/ Similar to the practice in developed countries, it is reasonable to keep the milk and slaughter cattle production in between regulated market limits so that the production provides a normal living standard for the producers and a supply of sufficient volume and adequate economicalness for the national economy.

The elaboration of general rules requires the consideration of the following:

- how great is the population's effective demand for the milk and beef?
- is it necessary to maintain the foreign currency earning position of slaughter cattle production and what efficiency requirements should be met in order to provide this?

- to what extent can also indirect economic considerations influence the production, such as reasons, requirements in respect of land utilization, regional issues, employment, landscape and environment protection, respectively (which can be regarded as typical in the international practice)?

The cattle farming is not in a real competition position and it is not expected to be in such position in future either. The slow return on invested capital - due to biological conditions - cannot be accelerated mostly by improving the efficiency, and the alternative utilization of the crop land servicing this sector is strongly limited, too. These disadvantageous factors can only be compensated by economic aid granted to the milk and slaughter cattle production, by restricting the spontaneous production-regulating effect which, no doubt, requires sacrifices as well. It should also be taken into account that the milk and slaughter cattle production is not able to be quick enough to respond to the changes in the market. A good basis is provided for the regulation by the several decades of experience of the EC and of the developed, non-EC countries, too.

In the market regulation to be developed, mainly the producer's circle should be protected in respect of earnings and market which conducts the milk or slaughter cattle production as a full-time job and with the involvement of a considerable amount of capital, in compliance with the minimally expectable efficiency requirements.

For a continuous milk supply during the whole year, by about 10 to 15 per cent more milk should necessarily be produced than the total quantity required by the population. A "overplus" of such extent is the condition to the normal functioning of the milk and dairy product market. If the exports of dairy products arising from this would not be economical, so the deficit of the exports should be covered out of subsidy.

2/ The price in the market of milk and slaughter cattle should provide a high-rate sales security and an acceptable income in relation to the general economic situation.

Inside the price form fixed to a significant extent, we propose the announcement of a guiding price for both products, by the simultaneous application of an intervention price - making out a certain percentage of the guiding price - bound to a determined quantity (in the case of milk, it might be differentiated in time and eventually in respect of region, too) and to strict quality criteria.

The intervention price takes effect if the market price would decrease, to a predetermined extent, to below the announced guiding price. The difference between the market and intervention prices could be claimed, out of central resource, by the processor and by the distributing organizations. By the instruments of intervention, one should achieve that the milk production be kept continuously in between desirable limits. To achieve this, one should continuously purchase the milk supply appearing as an overplus in the domestic market but not exceeding the quantity limit in the respective period. For the milk volume exceeding the quantity limit, there is no state guarantee of any kind. The intervention should solve the following financial problems:

- granting credit for purchasing the milk of determined quantity and reimbursing for the interest charges to be paid on the credits,
- advancing money for the costs of processing and storage,
- reimbursing for the might-be price losses of exports.

It is advisable to commission the Milk Council with the completion of the intervention. The price and sales security granted by the intervention may only be reasonable in the milk production by contract.

In the case of the slaughter cattle, it is advisable to carry out the intervention similar to those described for the milk, for the circle having a contract on production which fully complies with the strict quality requirements. To our present knowledge, the young fattened cattle complies with this criterion, being able to meet the requirements of western exports. The concrete regulation is to be graded into the sphere of the product council's responsibility. To this circle, intervention purchase, price subsidy and export price subsidy should be applied. An intervention would take place if the decrease in the price would be considerable (e.g. of 15 per cent) in relation to the guiding price. Its completion should reasonably be carried out by the Meat Council.

3/ In the milk and slaughter cattle production, at present, no such volume of income arises which would constitute an adequate interestedness for any participant of the vertical scheme. A real integration could not be developed for this reason and the relation between the producers and the processors and traders heavy with tensions. An improvement in merit will be possible only if the consumer's prices of milk and dairy products and good quality beef are raised. This, at the same time is the condition to the improvement of contractual discipline and to releasing the tensions between the market participants, as well. For the consolidation of the situation of milk and slaughter cattle production, the improvement of the safeguarding of interests is indispensable, as well. The product councils endeavouring to develop co-ordinated interests may constitute a peculiar form of safeguarding the interests, more specifically, the Milk Council and the Meat Council. These councils - as described under the preceding point - will have a key role in developing the prices but mainly in performing the intervention bound to quantity.

4-5/ In addition to the sales of unavoidably arising overpluses of only smaller volume, even if a quantitative regulation is applied, it is not reasonable to subsidize the exports of milk and dairy products. It is not advisable, either, to expect a milk import of significant volume, however, one need not have fear for the sector of such possibility at all. Nevertheless, the EC's intervention sales may, some time, make the imports of butter, cheese and milk powder attractive. The domestic production should be protected against this by way of imports cream-off.

In the case of beef and slaughter cattle, the situation is, in part, different. The meat industry is interested in the imports of cheap beef that can be purchased periodically. This may, though, violate the interests of domestic producers but only if difficulties arising in sales in foreign markets are imputable to this. However, the sharply changing profitability of exports and the sales problems arising regularly would make reasonable that the producers can help themselves in eliminating such problems by applying more liberal basic training licences than those at present.

6/ The milk and beef supplies have for years been featured by local lack of supply, by poor assortment and by continuously objectionable quality. The most important task of the safeguarding of consumer's interests is to provide a good quality and stable supply to the consumer.

7/ The development concept of the sector is worthy of promoting by state interventions in a certain circle and in specified cases, mainly by occasional purchasing of the breeding stock and by its putting out for rearing, also stimulated.

#### 9. The slaughter pig production

1/ Both in the consumption by the population and in the agricultural production and exports, the slaughter pig is of decisive significance, requiring specific and particular

treatment. The state regulation of its market should also be performed with a view to the requirement for creating a steady indigenous supply and keeping an eye on the more and more urgent tasks to be completed in respect of improving the quality.

The sector is export-oriented to a great extent and it is of adequate quality but with a product being cheaper than so far our chances in the market would be more favourable. To our opinion, there is no need for a direct quantitative regulation but the state should assume a certain orientation of producers. The main reason for this is - in addition to the cyclic character typical of the pig sector; being, in fact, rather moderate in Hungary - that due to its high rate of export-orient- edness, the producers cannot undertake the risk of the supply's and demand's becoming frequently unbalanced. Accordingly, a kind of state intervention is by all means necessary but - due to the lack of sufficient resources - there is no real chance for introducing the strict market regulation system. A loosely influenced market may be procured to be enforced, with a guiding price announced along with a determined quality.

2/ The guiding price should be developed so that it creates security only for those producing an adequate quality, economically and, at the same time, it should not impose in- executable tasks on the national economy. Its level could be bound to the aggregate amount of the world market prices and of the normative export subsidy. And, the fluctuation of the world market price - to the model of the EC - could, for in- stance, be reduced by taking the average of the preceding quarter of the year. The trend would, this way, also provide an adequate guarantee but only for the producers producing under contracts and for those participating in the security fund established voluntarily.

3/ The basic requirement for operating the system is to make the taking over of the final product according to its quality a general method. So that a real progress will be achieved in the quality, the price guarantees constituting the security of producers should be bound to a determined quality (classes I and II).

To prevent the cyclic character frequently causing problems in the pig sector we deem the continuous upkeeping of a hog stock of determined size and genetical base considerable. To achieve this, the product council should organize subsidized actions occasionally of stimulating effect, when the breeder's fancy in the country declines, and otherwise, promoting the sales of hogs. The most realistic option among the potential methods of intervention would be if the producer and the state would jointly create and also operate the security fund, allotting same jointly as well. As for the producers, the establishment of the security fund could be performed through the integrator. An amount determined for this purpose should be paid in and separated at the time of prosperity which would serve for intervention at the time of recession.

The product council's responsibility, in addition to the market regulation described herein so far, is to survey the market opportunities in view of creating security for the producers and also to take an active part in fodder management co-ordinated with pork production.

4/ The Hungarian products, without export subsidy, are not competitive with the subsidized products of the developed countries in the world market. It is advisable to bind the subsidy, in fact, the right to export too, to the purchase of a basic material of best possible quality and, at the same time, to prefer the more economical exports.

5/ The importation of slaughter pig will, also in future, take place probably in consequence of a transitory shortage of product only, in order to maintain the balance of domestic

supply and to preserve our exports markets. It is advisable to complete the import-reexport transactions, even in addition to the intention to keep the markets, with a view to economicalness.

6/ To our view, we should - in future - expect an increasing flexibility of consumer's prices. In the case of the simultaneous, lasting decline of demand in the domestic and foreign markets, an intervention in the consumer's prices is possible in future as well but it may take place not upon the initiative of the state but upon the initiative of the product council and financed out of its fund.

7/ The vertical pig scheme belongs to the sectors in which privatization can be expected more than the average of other sectors. To this, more favourable credit opportunities than those existing should be created.

#### 10. The chicken meat production and goose breeding

1/ Both subject sectors - in addition to meeting the considerable domestic demands completely - are unambiguously export-oriented. At the same time, in the world market of these products, very depressed prices have developed due to very strong subsidies the major exporters are given and to the importers' economic and administrative measures making the importation more difficult. This has reacted on our exports, too, the decreasing subsidy of which has resulted in the regression of production and in the intensification of disturbances in the domestic market.

In the market of the product of broiler chicken and goose breeding (liver, feather, meat), an intensive intervention by the state is not possible but it is not necessary either. The task to be completed is to apply rules eliminating market disturbances and measures creating a balance between demand and supply by means of state instruments and state instruments

complementing other instruments at the time and in exceptional cases when, in lack of such actions, a severe loss would be fall the producer's sector; accordingly, for absorbing the short-term recession, for maintaining the existing market positions etc.

2/ This can be achieved by the announcement of orientation prices serving for a realistic economic calculation. As a basis for this, the corn prices (being prices of major expenditure) and the currently expectable foreign market prices may be taken into account. It would be desirable if, based upon these prices, lasting relations could develop in the individual vertical product schemes and this, at the same time, would constitute a certain price guarantee as well, for the producer and processor alike.

3/ As, in the economic regulating system of the sector, the relations between demand and supply are decisive; the responsibility and tasks of the product council (or the sectoral product councils) to be set up are much over the average in the field of price orientation, projection of prosperity, strengthening the integration ties and also in the field of establishing an intervention system developing, after all, of own funds. In the present situation, this necessitates not only an initiative by the state but also a certain financial support (at least, advancing money for resources).

4/ The exports having a considerable share in the foreign market revenues of the agrarian sector, can, at present, be performed with subsidizing only. There would be a radical turn in the situation if the customs tariffs and cream-offs in the EC-markets would be mitigated, as well as the other restrictions concerning the exports to those markets. It is a key issue that we should make a progress in this regard but - till that time - the quality, hygienic conditions should be completely established which conditions are set as requirements for our exports.

5/ There is hardly any importation of these products and it cannot be expected either till our chance for entering the EC-markets expand. However, we should prepare ourselves for that the liberalization being advantageous in respect of the exports will also affect the imports, creating thereby harder and harder conditions regarding competition in the domestic market as well.

#### 11. The egg production

1/ This sector serves mostly for the domestic consumption. Our table egg supply has been free of disturbance for decades but the order of egg distribution is rather unbalanced; there is a considerable seasonal fluctuation. The efforts made by the producers and distributors for avoiding the almost regularly occurring "egg wars" have failed in most cases. It is, however, true that the fluctuation of prices reaches a balance in a longer run, thus, after all, there are no definite winners or losers. There is, nevertheless, a concept whereas the market regulation should literally "make order" in this sector, too, in fact, they directly recommend the scheme of quantitative regulation for establishing consolidated market conditions both in the propagation and commodity production sphere. To our opinion, the egg market should not (in fact, must not!) be influenced by the state in future either.

2/ In a market free from state intervention, the free prices prevail whereas, to achieve a stricter regulation, the application of pre-determined lowest prices would be necessary. We deem the latter a realistic effort only in the case if the prices would be determined by the trade federations or jointly by the product council and distributors, in the possession of sufficient information and if they would not require any assistance from the Government either. Nevertheless, it is probable that even if this solution would be introduced, the seasonal price would not be dispensable in the steady egg

supply in the winter months which accepts the extra costs incurring in the winter period.

3/ It is reasonable to operate the relation system of the vertical egg scheme in the framework of contractual relationship, just in order to provide a certain market order. Even the partial implementation of the second alternative assumes that the rather heterogenous circle of producers and the similarly variegated trade sphere can be amalgamated in a strong association for the protection of common interests. Nevertheless, there are not even chances to be seen for this.

4-5/ For absorbing the periodical overproduction, the paste-making alone is not sufficient, the exportation, however, does not seem to be an economical solution. There is no significant importation of this product.

6/ The consumers should be able to enforce their interests in the product council. The situation is coloured by the fact that most of those producing egg in small quantities are, at the same time, egg buyers, too. It is, even now, typical of the small-scale producers that they meet their own demand for egg in the dead season by purchasing.

7/ We do not deem necessary to apply a central development strategy, however, we consider a quality and hygienic control as necessary.

## 12. The slaughter sheep breeding

1/ The slaughter sheep has a comparatively small share in the production value of the agriculture but its role in the exports is considerable. We do not suggest the involvement of this product in the sphere of regulated market order, however, we deem a certain assumption of participation by the state and mainly a voluntary market organization by the producers necessary. The main reasons for this are as follows:

- for the production of slaughter sheep, there is a regulation in force in the countries of the EC as well,
- the total exports may well be above the quantity that can be supplied to the EC under self-limitation contract, thus the regulation of the proportion of milk-type and weanling lamb will become important,
- in the case of a compulsion regarding the reduction of the volume of agricultural production, the size of areas that can most reasonably be utilized by sheep breeding,
- the duly regulated increase in the production volume is all the more important as the chances for expanding the exports are better than the average.

2/ In the price system, we propose the application of orientation prices to be announced by the producer's business federations, i.e. there would be no direct intervention by the state. However, this need not be determined for all three quality categories either but it is sufficient to do so for the most important products. Also, the concrete method of guarantee attached to the price should be set by the product council itself.

3/ The most urgent task in the organization structure of the vertical scheme is to develop a strong, duly articulated business federation, an organization for safeguarding producer's interests, however supported in its establishment. In addition to the issues belonging to the sphere of decision of the Ministry of Agriculture (export subsidy, customs duty, registration in the herd-book and certification thereof) all tasks related to upkeeping a regulated market could be assigned to the product council, including the breeding and breeds policy adjusted to the market requirements.

4/ It is reasonable, at the outset, to raise the subsidy of slaughter sheep exports to the level of subsidy of the slaughter cattle till the justified expansion of production is reached. This could later be reduced to the level of customs tariff applied by the importers.

5/ A customs duty might become necessary to be imposed on imported slaughter sheep and mutton only later on, in order to protect the domestic production.

6/ Due to the low quantity of mutton consumed, we see no reason for a separate safeguarding of consumer's interests.

7/ Our unutilized development resources (grazing lands and other area for producing mass fodder) and the fact that the conditions of production are available mostly in regions of economic backwardness and unfavourable conditions and facilities where there is a manpower overplus, justify the increase in the production volume and its stimulation by the state.

### 13. The wool production

1/ It is not necessary to influence the domestic wool market by state intervention other than import regulation. Nevertheless, the wool market has completely collapsed this year, mainly due to the fact that the withdrawal of the state from this field coincided with the severe balance problems in the world market of wool. Yet, most part of the crisis management measures is not of material nature; it is mostly about actions to be taken for creating settled market relations in terms of organization, ownership, protection of domestic production. We deem subsidizing reasonable only transitorily (for a transitory period of about 2 years) so that the producers can adjust themselves to the changed market conditions. The sector could utilize the subsidy necessary for this if the sales price would drop to below a minimum level (e.g. to below 3 USD in the case of the quality A/B).

2/ As regards the wool, we do not consider the influencing of price as reasonable. Nevertheless, it would be advisable to apply a price mechanism operated by the producers during the operation of which, following the stabilization of the wool market (e.g. in the case of a price above 3.5 USD computed to washed basic material in the case of an A/B wool), a determined share (e.g. 1.5 to 2.0 per cent) of the sales earnings would be paid into a fund that would assist the domestic production in avoiding a collapse similar to the present one.

3/ The wool producers' county-level, regional and national organization for safeguarding their interests should be set up with the active moral and financial support by the Ministry of Agriculture.

4/ We do not deem reasonable to subsidize the wool exports, though in 1991-1992, till the present problems are solved, this would be very useful.

5/ As a lasting element of protecting the domestic production we propose to effect a cream-off in respect of imported wool, proportionate to the domestic prices, and to raise the customs tariff applied to wool and wool-type industrial basic materials to 20 per cent.

6/ The user sphere (the wool industry) will expectedly need no extra protection.

7/ State assistance (organization support and money) should be granted for organizing consultancy for breeding, propagation-biology and animal health, as well as marketing and finances. Later on, this activity might become self-financing. It is reasonable to treat the certification of quality (entering into the herd-book) and the protection against epidemic as a state task, also in the long run.

Annex No.1Major market regulation principles for the sectors of  
agricultural production

(Schematic review)

| Sector<br>or<br>product      | Order of<br>market<br>regulation | The role of<br>State in de-<br>veloping the<br>price catego-<br>ries | The proposed state mea-<br>sures for influencing<br>the market   |
|------------------------------|----------------------------------|--|--|
| Cereal                       |                                  |  |  |
| bread-grain                  | regulated<br>market              | guiding price,<br>intervention<br>prices and<br>ceiling price        | intervention purchase,<br>storage, export and im-<br>port licensing, export<br>and import cream-off                            |
| feeder-grain                 | influence<br>market              | guiding price<br>and<br>ceiling price                                | export and import<br>licensing, export and<br>import cream-off   |
| Sunflower-<br>seed           | free market                      | free price   | none   |
| Sugar                        | free market                      | free price   | export and import<br>licensing   |
| Tobacco                      | free market                      | free price   | none   |
| Potato                       | free market                      | free price   | none, except for the<br>ad hoc limitation on<br>imports  |
| Wine                         | influenced<br>market             | free price   | withdrawal of goods<br>from the market, export<br>and import licensing   |
| Milk                         | regulated<br>market              | guiding price<br>and interven-<br>tion price                         | quantitative limitation,<br>intervention purchase  |
| Slaughter<br>cattle          |                                  |  |  |
| Fattened<br>young cattle     | regulated<br>market              | guiding price<br>and interven-<br>tion price                         | intervention purchase,<br>export and import<br>licensing   |
| other<br>slaughter<br>animal | free market                      | free price   | export and import li-<br>censing; ad hoc inter-<br>vention by putting out<br>breeding stock for rear-<br>ing and by purchasing |

| Sector<br>or<br>product          | Order of<br>market<br>regulation | The role of<br>State in de-<br>veloping the<br>price catego-<br>ries | The proposed state mea-<br>sures for influencing<br>the market             |
|----------------------------------|----------------------------------|--|--|
| Slaughter<br>pig                 |                                  |  |  |
| fattened pig<br>of class<br>I-II | influenced<br>market             | guiding price,<br>sliding inter-<br>vention price                    | withdrawal of commodity<br>from the market, export<br>and import licensing |
| other<br>slaughter<br>animal     | free market                      | free price   | export and import<br>licensing   |
| Chicken                          | free market                      | free price   | export and import<br>licensing   |
| Goose                            | free market                      | free price   | export and import<br>licensing   |
| Egg                              | free market                      | free price   | none   |
| Slaughter<br>sheep               | influenced<br>market             | free price   | export and import<br>licensing; EC export<br>quantity limitation           |
| Wool                             | free market                      | free price   | import cream-off   |

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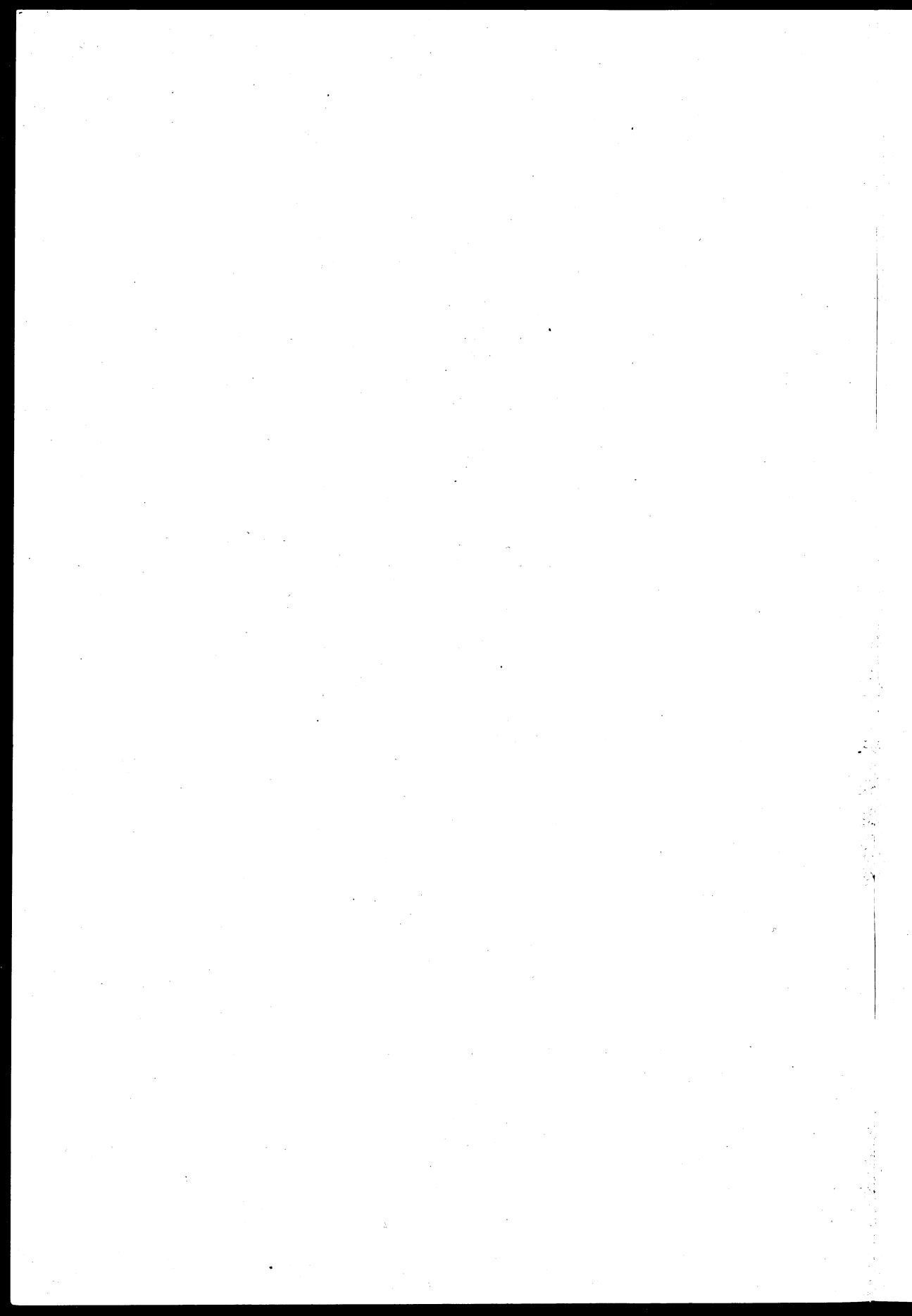
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