

THE SITUATION OF HUNGARIAN AGRICULTURE

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ABSTRACT

Hungarian agriculture has gone thru a long and difficult development since the First World War. The semi-feudal agriculture of the Horthy era between the two World Wars was followed by a land distribution after the Second World War, which created an agricultural system dominated by smallholders. However, the small farms were soon collectivized. Despite the forced collectivization, the large farms developed well and the living standard of the peasantry grew significantly. After the collapse of socialism in Hungary in 1990, political parties decided again to restructure agriculture. A new land distribution was carried out which created an agricultural system based on smallholdings. On the mostly too small, scattered holdings, the technical and technological levels, and the productivity are low. A small number of larger farms produces most of the marketed products. The only out way of this situation is farm-concentration and the cooperation of smallholders.

Key words: Agriculture, farm structure, food industry, foreign trade, Hungary, land market, land tenure, privatization.

Main characteristics of agriculture

Agriculture is an important sector of the Hungarian economy. About 70% of the land area of the country is suitable for agricultural production, while one-third of the soils and the terrains are unfavorable for efficient farming. A great part of the country is lowland.

Hungary has an area of 9 303,000 ha, of which 83%, i. e. 7 689,000 ha, is used for agriculture; 48%, (4 506,100 ha) is arable land and 19% is forestland. Since 1996-2000, the area utilized for agriculture has decreased by 300,000 ha. Cereals occupy about 70% of the arable land. The major cereals are wheat and maize. The average yield of wheat is 45t/ha and that of maize 65t/ha. Other important crops are: potatoes, oilseeds, fruits, vegetables and wine grape.

The share of animal production is 40% of the total agricultural produce. Of the livestock, 70% of the cattle and cows, 63% of pigs and 50% of poultry are bred on corporate (cooperative farms and companies) farms; however, 86% of sheep are kept on individual farms. Before the transition, sheep were mainly reared on large farms.

The average milk yield is 6,500 l/cow/year.

Many corporate farms do not have sufficient forage and grass areas because these were privatized. They must purchase the feeding stuff and this makes production more expensive.

Organic farming is not yet widespread in Hungary. In 2007 it counted for 1.8% of the utilized agricultural area (UAA).

This paper deals with recent developments in Hungarian agriculture: its land privatization, its farm structure and land tenure, the food processing industry, and the role of agriculture in foreign trade.

The development of agriculture

Prior to the political and economic transition, agriculture was Hungary's most successful industry. It produced 17% of GDP - including the processing, trade and other industrial activities of the large farms – and employed about the same percentage of the labor force. The share of food exports was 22% of total exports. These proportions have decreased and the current figures are now 3.3%, 4.7% and 7%, respectively. The fall of these shares can be attributed partly to the shrinkage of agricultural production, and partly to the growth of other sectors of economy.

Between 1989 and 2007, agricultural production fell by about 25%. Gross agricultural production in 2007 (a year in which the harvest was extremely poor) was 31% lower than in 1989. Furthermore, animal farming has also been struggling, being at a mere 58% of its pre-transition level.

The major decrease took place at the beginning of 1990s. At that time, animal production fell to 63% and the crop production to 70% of their pre-1990s' level. Crop production has recovered since then –with cereals accounting for a growing – but animal production has continued to decrease. The other gainful activities of farms have disappeared almost completely. At present the latter account for 2.5% of all farm produce. The agricultural trade balance was always positive in Hungary. Although it remains positive, the agricultural surplus has diminished. Prior to the transition, livestock and animal products accounted for about 50% of total agricultural exports, and fresh and processed horticultural products about 25%. Nowadays the greatest part of agricultural exports consists of cereals, and the share of unprocessed produce is more than 60% (as against 40% earlier).

What are the causes behind this situation? First, some external factors of the deterioration need to be considered, and then the internal ones.

The major external causes of the decline:

- The collapse of the Soviet market.
- The decline of production on those farms, which, earlier, had produced, mainly for the Soviet market.
- The shrinkage of domestic demand for food products owing to the falling living standard.
- The growing competition of liberalized imports.
- The curbing of state subsidies.
- The increase in input and energy prices.

The major internal causes of the decline:

- Owing to the worsening financial situation and indebtedness of farms, many of them have turned to more extensive production, mainly to grain production.
- Many agricultural enterprises have gone bankrupt.
- However, most of the internal causes are connected with the disarray induced by the privatization of agriculture. This process caused significant losses of capital and thus contributed to the decline.

Privatization

In the agriculture of most Central European countries, unlike other sectors, land restitution became a major form of privatization. In fact, in Hungary a mix of restitution, land selling for compensation bonds, and some small redistribution of land for employees of state farms and members of production cooperatives were the methods chosen for land privatization. At the same time, in most countries (including Hungary) the farm equipment fell into the possession of the present and previous members of the cooperatives and their heirs.

At the beginning of the transition, the Hungarian Smallholders' Party - being a part of the right-wing coalition government - decided to recreate the smallholder agriculture which had prevailed before post-war collectivization (Swinnen, 1997; Swinnen et al., 1997; Csaki - Lerman, 1997). Its aim was to establish individual farmers on the Western model and in this way gain more rural voters.

This policy led to the creation of millions of scattered parcels of land; such parcels could not be mechanized, or only at great expense, and they could not be cultivated productively.

According to the Hungarian statistical data, after the “new” land redistribution there were 1.8 million landowners among the 10 million inhabitants of the country on the 8 million ha of agricultural and forest area, and the average land area of each farm was 4.4 ha. Thousands of new owners emerged; some of these were retired people, and some the heirs of former owners. The latter had not been engaged in agriculture and most of them did not live in rural areas. Instead of cultivating the land, they rented it to the corporate farms and individual farmers, thus making the production of the latter even more expensive.

The dragging on of the privatization process, and its poor results, together contributed to the decline of agriculture.

It is true that the injustice of forced collectivization had to be dealt with and private ownership restored. However, better methods of land privatization (e.g. privatizing it to the benefit of active members of production cooperatives and compensating former owners in other ways) could have been found which would not have created such an inefficient agricultural structure. The earlier collectivization, once it had been completed, had also some advantages. It created economies of scale, better possibilities for using machines, the modernizing production, and the raising of productivity. Large size was not the reason that these possibilities were not used sufficiently (or at all) under socialism. Bureaucratic management, prescribed forms of organization, mistaken central directives, targeted investment and production, lack of interest, and forced farm-mergers which created excessively large farms were the relevant factors, which led to the inefficiency of the cooperatives and state farms.

Collective agriculture in Hungary

It has to be mentioned that, while the agricultural systems of the East European socialist countries had been weak, that of Hungary had differed in many senses from the others. In Hungary, there had been successive reform measures: prices were partially liberalised, plan directives abolished, and both industrial firms and farms received significant independence in their decision-making.

After collectivization, 75% of agricultural land in Hungary became cooperative. Most new cooperatives received considerable state support. Between 1965 and 1975, arable farming was completely mechanized, and the modernization of technology and the introduction of improved species significantly raised yields, thus approaching the standards of the most advanced European countries.

Central control and regulation of the agricultural cooperatives was also more liberal than in other socialist countries, allowing the system to develop in such a way that a high degree of motivation was generated. Some rudimentary democratic practices were also introduced, such as the election of the leaders, and the involvement of the cooperative members in the running of the farm.

The general economic reforms of the “New Economic Mechanism” of 1968 brought further freedom of action to the cooperative farms. They were allowed to decide on their production and trade, and the disposition of their incomes. Even state farms were no longer tied to a central plan. Farms could extend their activities into high-earning industrial, trading and service occupations and sell products from these; at first this was in a limited way, but from the end of the 1970s such activities could be pursued on a larger scale. The subsidiary activities compensated in some measure for the reduction in subsidies.

Another liberalizing wave at the end of the 1970s again brought significant changes. A great part of the labour-intensive production was handed over to individuals. A large part of the livestock was kept on household plots; furthermore, the cultivation of wine grapes, fruit and some vegetables were contracted out to individuals and families, and land and equipment were rented out to them to carry out production.

In the mid-1980s individual producers took over the production of 80 per cent of vegetables and potatoes, 65 per cent of fruit, 50 per cent of wine and poultry, and more than 50 per cent of pork.

In the latter part of the 1980s, many production cooperatives turned into a mix of production, procurement, sales, services and processing cooperatives. Many of them took on a form, which only really corresponded to the original concept of a “production cooperative” in the area of completely mechanized arable crop cultivation, and beef and sheep farming requiring large fodder areas. The fall of the latter and the decline of agriculture were closely connected.

The favourable policy towards agriculture meant that Hungary was self-sufficient in all food products, which could be produced in the country, and it was able to export 1/3 of its agricultural produce. The living standard of the rural workforce became higher than the living standard of industrial workers (Burger 1994).

The present farm structure

Fortunately, the structure of land tenure did not become as inefficient as that of land ownership after privatization. Members of many cooperatives had voted against the breaking-

up of their farm. Thus a part of the big farms have survived either as renamed and restructured cooperatives or as different companies organised from the former cooperatives and state farms. Land tenure is much more concentrated than ownership. In Hungary, the corporate farms at present cultivate 60 per cent of the utilized agricultural area and keep a large part of the livestock.

The structure of farms registered by the Ministry of Agriculture and Rural Development is shown on Table 1.

According to the Farm Structure Survey in Hungary – 2007, - which included the farms of at least 1 ESU (European Size Unit) - about one-fifth of the agricultural holdings (i.e. 141,000) had an economic size of at least 1 ESU. They used about 4.05 million ha of UAA (Utilized Agricultural Area), an increase of 0.2% compared with 2005. This area represents 95% of the UAA in Hungary and an average of 29 ha per holding (compared with 26 ha in 2005). However, there are altogether about 707,000 holdings in Hungary; most of them less than 1 ESU, and their average area is about 3 ha.

Corporate farms only use the land they cultivate; they are prevented from owning it.

The land law

In 1994 a law was enacted which prohibited cooperative farms and companies and foreigners from buying agricultural land. After the accession to the EU it became clear that this legislation is in contradiction to the EU rules.

The free movement of capital was provided in the Treaty of Rome. EC Article 54 (3) (e) of the EC Treaty provides that the Council and the Commission shall carry out their duty to enable a national of any member-state to acquire and use land and buildings situated in the territory of another member-state (van der Velde - Snyder, 1992). Access to farmland by any natural or legal person in a member-state is an essential rule of the CAP.

Adapting to this rule could serve to strengthen the development of those large corporate farms, which provide the bulk of agricultural products. Furthermore, it could promote foreign direct investment into agriculture. Hungarian agriculture lacks capital. Capital import by foreign farmers is a major possibility for alleviating this situation.

Most of the food--processing industry and food chain-trade is already partly or totally in the hands of foreign owners. Stronger large farms, strong agricultural trade associations, and cooperation between family farms could create a better bargaining position for agriculture in

business deals with the trade chains and with the food- processing industry. However, neither the cooperation among individual farmers is enough strong in Hungary.

Globalization has an everyday impact on the whole world, on all countries and on all sectors of the economy. One has to strive to use its advantages and avoid its drawbacks. However, most of the new accession countries, among them Hungary, did not recognize the advantages.

Exemption from the EU rule

In the negotiations related to agriculture in connection with the EU accession, the candidate countries asked and received a period of 7-12 years exemption from the EU rule relating to free access to farm land. Hungary received an exemption of seven. The negotiating delegation claimed that a transitional period would be necessary because land prices are much lower in Hungary than in the “old” EU 15 countries. It claimed that without such an exemption land would be bought cheaply by people of the “old” EU countries, thus causing land scarcity for domestic farmers. However, the statistical data – which indicate that there are relatively small and decreasing numbers of people involved in agriculture and also a decline in the areas used for farming - do not support the fears about land scarcity at present or in the future. The reasons for “keeping away” foreigners and corporate farms from land ownership are partly ideological, and they partly stem from the fear of farmers’ organizations with respect to the supposed increase in competition that would arise.

Impact of the rural-nationalist ideology

The ideological reasons are closely connected with the rural-nationalist ideology. Land has a crucial role in this ideology, especially with respect to its scarcity. Rural nationalism was born in the backward countries of the periphery of Europe at the end of the nineteenth and beginning of the twentieth centuries due to late agrarian reforms, backward and overpopulated agricultural systems, rural poverty, land scarcity and weak industrial development. In this ideology, the land itself embodies a symbolic meaning, which could be referred to as the concept of “national mother-earth” which must be protected from aliens. The ideology has survived even after the disappearance of its bases, i.e. rural overpopulation and genuine land scarcity.

Arguments claiming that, if foreigners were to be able to buy land inexpensively in Hungary, then domestic farmers would not have sufficient land for farming can be refuted easily. The counter-argument is the present cheapness of the land itself. If land really was scarce, the demand for it would be greater and land prices would be significantly higher

than now. On the Western border of the country, prices are much higher than elsewhere because there are already Austrian tenants (Erb, 2003) who are waiting for buying permission or who hold land with contracts that are not yet legal.

The land market

Land prices will be higher when the land market becomes genuinely free. It is common sense to see that land prices will not significantly increase until the restrictions on selling and buying land are lifted. The land market is weak in Hungary. It is weak partly owing to the low demand, and partly due to the “postponed” selling by those landowners who are waiting for higher prices. The demand is also weak because of the uncertain future of agricultural production, the low profitability of farms and the prevailing restrictions on ownership.

After Hungary’s accession to the EU, land prices have grown in the hope that restrictions will be lifted soon. But those prices are still low. The national average for the price of 1 ha of arable land is about € 1600.

Owing to the restrictions, corporate farms must rent the land. Land rents are also growing. The national average for renting arable land is € 68 per ha. This is much less than in the Western countries (e. g. it was € 290 in neighboring Austria in 2005), but owing to the low incomes of farms it is still a burden for those who rent farm land.

Land tenure

Table 2 shows the shares of owned and rented land for different farm types.

From Table 2 is clear that corporate farms rent almost all their land area. However, individual farms also rent a great part of their utilised land and this can be seen in Table 3.

Table 3 shows the results of a survey which was carried out by the author and her colleagues in six counties of Hungary among 613 individual farms of at least 1 ha.

According to the survey, the larger the farm size, the larger is the area of land, which is rented. Surveyed individual farms under 10 ha rent 14 per cent of their land area, those between 50 and 100 ha 72 per cent, and those over 100 ha 40 per cent. The causes of the high percentage of land renting are the following: first, the low supply of land for selling; second, the individual land ownership is limited by legislation to 300 ha; third, the future of agricultural production is uncertain; and fourth, some farmers consider that renting land is cheaper than buying it.

Land concentration

There has been an ongoing concentration of holdings since the nineties. The number and area of the smallest farms have decreased; those of the larger farms have increased. This is a result of the growing mechanization of individual farms and their need to increase productivity and profitability. Table 4 shows that there are many farms in the smallest farm-category; however, their area is small. The situation is the reverse for the largest farm categories.

It can be seen in Table 4 that farms that have at least 50 ha or more cultivate 43 % of the farm area. The bulk of farms, almost 73%, cultivate only about 5 % of the total area.

Most of the small farms are subsistence or semi-subsistence farms. Altogether 7000 holdings, which cultivate 75% of the utilized agricultural area, produce 72% of the standard gross margin. 51% of the 707,000 farms are producing for own consumption, 33% are selling as well, and only 16% produce mainly for selling.

Employment

According to the Agricultural Survey – 2007, the surveyed holdings employed 209,000 annual work units (AWU) – i.e. the equivalent of 209,000 people working full-time (10% less than 2005). However, including the non-paid family members, altogether 512,000 full-time workers were employed on the farms. Additionally, many people cultivate small house plots, gardens, hobby plots, etc. If the latter are taken into account, altogether, there are about one million or one and a half million people involved in farming in Hungary. Hence, the real agriculture employment is much more than 4.7% of the total. This figure includes only those people whose agricultural activity is their main job.

48 % of the individual owners are older than 55 years, and 36% of them have another gainful activity. (According to our survey, 31 % of the holders had agriculture as a main job.)

Farm incomes

The profitability of farms has been low or negative for a number of years. After the transition national agricultural subsidies decreased, while input prices increased. The free trade opportunities with the EU countries, connected with the Stabilization and Association Agreement, and the pre-accession supports – i.e. the SAPARD and PHARE programs and the Agricultural and Rural Development Operational Program - have eased the situation. However, major improvements took place only after the accession, with the introduction of the single area payment and price subsidies. This can be seen in Table 5.

Table 5 shows that profitability has grown by about 50% since the accession.

Food processing industry

Traditionally, the food processing industry is an important sector of the economy. It provides 2.6% of GDP, 10% of industrial production and 15% of production for the processing industry. Furthermore, it accounts for 2.8% of the total national employment.

The production of the food industry is many-sided. Most people work in industries dealing with meat-, poultry-, dairy-, vegetable and fruit-, or tobacco processing, and in bakeries.

About 60% of the firms are owned by foreign owners, 24% by domestic companies and individual ownership accounts for 14%. There are many small companies of less than 10 employees. Foreign companies took over a great part of the large firms; however, many of these have been shut down recently. The food processing industry has shrunk by one-fifth in the past five years. The milling, sugar, confectionery and tobacco industries have shrunk to a fraction of their former respective sizes due to the changing regional policies of multinational food firms, and as a consequence of the EU sugar reform. Of the 12 sugar companies that were once active, only one remains.

Foreign trade

As mentioned above, the Hungarian agricultural balance of trade has been always positive, but for many years; the surplus has been diminishing. Earlier, Hungary was a major food supplier of the neighboring countries and exported many agricultural products to the former Soviet Union. The traditional Hungarian food export surplus over Poland, the Czech Republic and Slovakia has turned into a deficit. In addition, even where Hungarian exports have expanded, this growth is vulnerable and fragile: the production of cereals and sugar are highly dependent on CAP rules such as intervention purchases, subsidies and the possible changes related to them. The large figure for grain exports is a consequence of the relatively unusual disproportion of cereals in arable production.

The share of high value-added products is increasing in imports, and decreasing in exports. A plain example is the dairy sector: big volumes of raw milk are exported to Italy while German and other imported cheeses have already achieved a 35% share in the Hungarian market. Imports have increased primarily in the case of livestock, meat and dairy products, reflecting the weak competitiveness of Hungarian production. The import of beverages (e.g. beer), having once been protected by high customs tariffs prior to accession, has soared similarly.

Table 6 shows the distribution of markets of Hungarian exports and the origins of imports.

It can be seen from Table 6 that Hungarian trade is diversified. The major trading partner is Germany. 80% of exports are directed to the EU and 89% of imports stem from there. Important trading partners are the neighboring countries, especially Romania, Austria, Poland, Slovakia and the Czech Republic.

SUMMARY

Hungarian agriculture was a prosperous sector of the economy prior to the transition. The privatization of land and the loss of its major markets made it vulnerable. Its production shrank, it became more extensive and profitability decreased. Profitability improved only due to EU subsidies provided after the accession. The food industry became dominated by transnational firms. However, many of them have shut down their Hungarian branches recently, owing to other orientations and changing EU rules. The agricultural trade balance is still positive but the share of unprocessed products and grain is growing in the exports. Earlier, animals and animal products, fresh and processed vegetables and fruits made up the major part of exports. It is a promising sign that the concentration of farm holdings is advancing. Large corporate and individual farms produce the bulk of the traded products. Unfortunately, only rarely do small farms cooperate for the sake of increasing their efficiency and trade opportunities. Hopefully, the lifting of restrictions in the near future relating to the selling and buying of land will promote concentration.

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Table 1**The structure of registered* farms and their average farm size**

| Land tenure | Land area ha,% | Average farm size |
|--------------------|-----------------------|--------------------------|
| Individuals | 49 | 9.04 ha |
| Cooperatives | 7 | 360.65 ha |
| Companies | 40 | 303.93 ha |
| Other** | 4 | 103.67 ha |

*"Registered" refers to those farms, which receive subsidies, hence, not all farms.

**Farms owned by local councils, prisons, the state, etc.

Source: Hungarian Ministry of Agriculture and Rural Development, 2006.

Table 2**Owned and rented land according to farm types (in percentage)**

| Farm types | Owned land | Rented land |
|-------------------|-------------------|--------------------|
| Individuals | 47 | 53 |
| Cooperatives | 2 | 98 |
| Companies | 8 | 92 |
| Others | 27 | 73 |

Source: Hungarian Ministry of Agriculture and Rural Development , 2006

Table 3**Owned and rented land area of individual farms (in percentage)**

| Farm sizes | Owned area | Rented area | Altogether |
|--------------------|-------------------|--------------------|-------------------|
| 1-5 ha | 94.1 | 6.0 | 100 |
| 5-10 ha | 96.2 | 3.8 | 100 |
| 10-20 ha | 85.7 | 14.0 | 100 |
| 20-50 ha | 76.1 | 22.9 | 100 |
| 50-100 ha | 71.8 | 28.2 | 100 |
| Over 100 ha | 58.3 | 41.6 | 100 |

Source: Burger - Szép, 2006

Table 4**Number and area of individual farms in 2005**

| Farm types | Number of farms % | Area of farms % |
|-------------------|--------------------------|------------------------|
| < 1 ha | 72.67 | 5.35 |
| 1 – 5 ha | 16.89 | 11.59 |
| 5 – 10 ha | 4.35 | 9.24 |
| 10 – 20 ha | 2.80 | 11.92 |
| 20 – 50 ha | 2.00 | 18.61 |
| 50 – 100 ha | 0.76 | 16.31 |
| 100 ha > | 0.51 | 26.98 |

Source: Hungarian Agricultural Survey - 2005. Central Statistical Office, Budapest, 2006

Table 5

Change in the profitability¹ of the Hungarian farming sector 2000=100

| 1999 | 2002 | 2004 | 2006 | 2007* |
|-------------|-------------|-------------|-------------|--------------|
| 104.5 | 91.4 | 148.6 | 160.5 | 149.1 |

¹ real net added value/AWU

Source: Eurostat

Table 6**The major trade partners of Hungary in 2007**

| Exports | % | Imports | % |
|----------------|----------|----------------|----------|
| Germany | 14.4 | Germany | 23.1 |
| Italy | 11.5 | Poland | 12.3 |
| Romania | 11.5 | Netherlands | 11.0 |
| Austria | 7.1 | Austria | 7.1 |
| Netherlands | 5.6 | Slovakia | 6.7 |
| Poland | 4.7 | Italy | 6.3 |
| Slovakia | 4.4 | Czech Republic | 5.0 |
| Russia | 3.8 | France | 3.3 |
| Czech Republic | 3.7 | Romania | 3.3 |
| France | 3.4 | Spain | 2.8 |
| Greece | 3.2 | Belgium | 2.5 |
| Great Britain | 2.5 | Slovenia | 1.9 |
| Croatia | 2.4 | Great Britain | 1.9 |
| Slovenia | 2.3 | Croatia | 1.5 |

Source: Hungarian Ministry of Agriculture and Rural Development , 2006