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**1. HUNGARIAN EXPERIENCE
WITH STRUCTURAL ADJUSTMENT AND PRIVATIZATION
OF AGRICULTURE**

by

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Introduction

The food and agriculture industry currently plays a decisive role in the Hungarian economy. It generates 17 % of the GDP, employs 18 % of the active population, supplies 25 % of the total exports, and is vital in maintaining a positive balance of payments. Moreover, statistics show that during the last 50 years our trade surplus in agricultural products always had a fundamental and positive impact on the balance of payments of the Hungarian national economy.

For this reason the agricultural and food exports of Hungary have a pivotal role in our integration, firstly with the European Economic Area, given that Hungary is a European country, as well as with the world economy. Further, it should be stressed that the future development of the Hungarian economy and the success of the country's integration into the European Economic Area will continue to rely heavily on the performance of its agricultural exports.

Trade Strategy

At the heart of the agricultural and trade policy, as we learnt during the EC beef embargo in 1974, free competition is possible only under real and undistorted market conditions. The traditional and obvious markets for the Hungarian food industry, due to the country's location and favorable transport infrastructure, are in Europe. After the collapse of the markets in Eastern Europe, we cannot regard

as only temporary the recent development in which 90 % of the Hungarian food exports are directed to Europe, 40-45 % of which are sold in the European Community. The European markets, therefore, are really very important for us. Recent data shows that only 1 % of the total EC food imports comes from Hungary, so clearly, food imports from Hungary are not as important for Europe or for Western Europe. It has to be added also that this 1 % share is way below the level of the historical, traditional flow of trade.

Regional Links

In that context, with the collapse of the markets in Eastern Europe, the dimension of the problems in the Hungarian agriculture extend over our borders and have become a regional problem. The critical agricultural situation in some neighboring Eastern-European countries gives us a limited time, which should be used for thinking about and resolving several related issues. These are of major importance for Hungarian agriculture and include: the direction in which our former Eastern-bloc partners will develop their agriculture, their agricultural policy, and how the traditional trade links could be restored throughout Europe without damaging the interests of the European partners. From a purely economic point of view the question could also be raised: how to make the Hungarian agricultural export strategy complementary in Western Europe to serve as a model for other East-European countries in facilitating the development of their agriculture in an advantageous and consistent direction?

We believe that the closer Hungary and Hungarian agriculture can integrate with Western-European markets, the greater chance there would be for the development of complementary instead of competing structures. Following a relatively long, and in respect of the structure and capacities of our agriculture, a thorough investigation, the Association Agreement has been signed between Hungary and the EC, the trade elements of which are already operative. It is obvious that while granting us concessions our partners had to consider the complementarity of the structures, so they made concessions to those products where they could utilize the advantages of the special Hungarian agricultural production with minimum impact on the interests of their own producers.

The real market indicators (prices, quality, volumes, selling strategies) probably have never had nor will have in the future as critical an importance for Hungarian

agricultural production than during the present process of radical structural transformation.

The Market Economy

While talking about the international agricultural markets we cannot avoid mentioning the issue of production and export subsidies. Hungary is not in the economic position to join its regional partners in subsidizing agricultural production for several reasons: the importance of agribusiness to the gross national production, the lack of capital in the Hungarian economy, and the severe deficit of the state budget. For Hungary, unlike many of our European trading partners, export trade is not an expedient for getting rid of surplus produce originating from a socially-driven, economically unbalanced and interventionist-oriented agricultural policy. Rather Hungary has to live on its agricultural exports. In the course of the restructuring the sector from public to private ownership, the government is relentlessly pursuing a policy which is forcing agricultural production systems and structures to retain their economic focus, at the same time it is not unmindful of the social consequences of these policies. Present indications suggest that the new type agricultural cooperatives reorganized on private ownership basis will be the dominant production unit.

For those who are familiar with the international subsidy levels it is significant that even now Hungarian agriculture is a net contributor to the state budget, and our export subsidy level, at slightly over 10 %, is very small compared with those developed industrial countries.

The law on agricultural market regime, which is intended to determine the framework for control and intervention in the agricultural markets, has recently been adopted by the Parliament. The government wants to create a self-supportive agriculture with the help of the new agricultural market regime. It is not the goal of the Hungarian agricultural market regime to guarantee farmers' incomes; this should be the a result of the market economy processes guided by the rational regulation framework.

Agribusiness in Hungary cannot take part in the European subsidy competition because of its importance in the national production and under capitalization of the Hungarian economy. According to OECD calculations, the Hungarian Net Subsidy Indicator (PSE) is negative, meaning that by international standards the

agricultural sector as a whole is a net financial contributor to the national economy.

Transformation of the Hungarian economy, which in many respects is unique in the international context, including the building up of legal and asset ownership structures of a truly market economy and the adjustment to the competitive international trading requirements, will be successful only if the newly established production units are organized on the basis of competition arising from market driven pressures. This implies the full utilization of our existing comparative advantages: Crop production has the biggest permanent comparative advantages originating from the favourable climate, fertile soil and large field sizes, to which relatively cheap labor and low land price may be (temporarily) added.

Structural changes and privatization

However, to create a really competitive agribusiness, thus enabling Hungary to join the European integration, we have to complete a rigorous, occasionally painful economic restructuring.

The legal background of the modern cooperatives and private farms has already been established, and the transformation is to be completed by the end of the year. Along with over 1500 production cooperatives, 50-60 thousand private farms will be formed. As a result of the enactment of the laws on restructuring and compensation, in a short time, more than 90 % of the land will be in private hands, including former owners or their descendants. The proportion of private ownership in agriculture has already reached 80 %, and with the privatization of state farms only about 2 % of the arable land will stay permanently in state hands.

Out of the 121 state farms we deemed 25 to be of national importance because of their role in seed and breeding stock supply and to be, therefore, kept in state ownership, although in those 25 farms there are some scattered activities in various places which are considered saleable. The remaining state farms are up for privatization.

Until the compensation process is finished no state land in Hungary will be privatized, but will be rented for productive purposes.

The privatization of the food processing industry and trade is proceeding faster and more successfully than other sectors of the national economy. Foreign capital is very active in this sector and we expect that this participation will improve the standard of processing and trade and the upgraded technologies introduced will improve the quality of the processed foodstuffs.

The privatization of Hungarian food industries started in 1990. The Government has, upon the suggestion of the Ministry of Agriculture, accepted the concept of the state owned food processing industries. There are however five producer companies with traditional Hungarian food trade-marks which will be exempt from this rule. In these enterprises only the use of the trade-marks will be controlled by the state.

The Ministry of Agriculture is coordinating the privatisation of various food industry branches, and implementation has already started. Out of the 138 state food industry companies, 36 have been privatized to date with another 40 companies currently ready for this process. Of the 36 companies 28 have been purchased by foreign investors and 8 by local Hungarians.

Confectionery and vegetable oil companies have fully been privatized, as have the major part of breweries, tobacco companies and sugar mills.

Privatization is just beginning in three staple-food industries, i.e.: in meat, dairy and grain production. Employees and producers are expected to be majority investors in these companies.

All companies producing agricultural machinery and equipment, as well as insecticides and fertilizers presently under Ministry control will be privatized with the exception of one company being in charge of phytosanitary and veterinary equipment.

We have conducted an investigation into the agricultural and food industry research institutes and proposed to cut their number. At least one basic research institute will, as a matter of course, be kept in each branch, however, it has also been decided to fully or partly privatize research.

When privatization started, the state - as owner - was represented by the Ministry of Agriculture, but later this authority was vested into the State Property Agency. Ownership rights have been exercised by the State Property Agency since 1992 which year also marked changes in the role of the Ministry: i.e. the professional preparation of every company's privatization process. Policy matters will have to be taken into consideration in this work as well as the assistance to be given to agricultural producers and employees of the food industries. Need less to say, the establishment of an agricultural bank-network and related activities are indispensable for the achievement of these goals.

The social and economic changes in Hungary and the relatively rapid collapse of the previous East-European integration are a great challenge for Hungarian agribusiness. The loss of the East-European markets, restructuring of production, surplus of the processing capacity and the reduction (temporary) of employment opportunities necessarily go together with the decrease of the GDP and, through this, a decrease of the visible domestic demand. The formal domestic trade of food products has dropped by more than 30 %.

Government Support

The limited resources of the Hungarian government, guided by the Ministry of Agriculture, will be used to promote and encourage the market driven evolution of the sector, especially for infrastructure and institutional strengthening. Credit facilities, research, and extension based on a private consultants, are being remodelled to provide vital support to the new agricultural enterprises and for the support of the reorganization of those enterprises which are forming on the land and with the equipment and buildings of the previous large scale farms. To use these resources for export subsidies is considered a low priority option.

At the same time, consistent with the subsidy approach of the developed market economies, we recognize that there are several aspects of Hungarian agriculture which warrant state assistance. These include, i) the resource-poor rural areas, and ii) environment protection. The former is an agricultural problem only because unfortunately these areas are not well endowed with basic resources and at the same time in these regions the strategic importance of agriculture is higher than the average. Otherwise the Hungarian government treats the problem of the development of these backward areas as an integrated task.

It is also realized that environmental protection and the agricultural production are closely related. On one hand it is a state subsidy issue and on the other hand it is an issue involving profound direction changes in modern agriculture away from exploitative systems which rely heavily on artificial inputs in favour of more sustainable conservation-conscious farming systems, as well as food quality factors. The most important element of the quality is that the food product has to be free of toxic chemicals and environmental damage. To achieve this status the Ministry is going to establish an integrated quality control system, which sets standards not only for the final product but also for the whole production process and, in so doing, will also protect the environment.

Conclusion

With the new conditions in the world economy, the problems of agriculture could be a major drawback in the course of the creation of the United Europe. We have to be prepared for this and somehow it has to be dealt with. That is why it is important to coordinate the national or regional agricultural policies. Only this way we can ensure a reasonable compromise in a problem which extends far beyond Hungary.

Another major condition for linking agribusiness to Europe is the technical and intellectual development of agricultural education and extension and strengthening the institutional support networks for entrepreneurs (such as the rural banking system, the legal and institutional background of the mortgage system, and the agricultural insurance system).

It is necessary to establish the legal and institutional framework of agricultural trade as soon as possible. Accordingly we have to strengthen the emergent commodity exchange, and introduce the institution of public storehouses as well as to enlarge the system of wholesale markets. To achieve these goals we cannot do without the professional and financial support of the developed European countries and their institutions.