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Hope and reality: EU accession's impact on Hungarian agri-food trade

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Abstract

The principal aim of this article is to examine how Hungary's agricultural trade has changed since EU accession and whether the country has managed to retain its position as a net exporter. After analysing the Eurostat database's latest statistical data we concluded that Hungary's agri-food trade position has deteriorated regarding both old and new EU member states. The central causes for this are not so much insufficient exports but rather a sharp rise in imports.. Future prospects hinge on further EU enlargement, changes in the EU's Common Agricultural Policy, the outcome of the WTO Doha Round, and trends in world agriculture. To adapt to expected changes and to capitalise on emerging opportunities, Hungary should alter its agricultural export commodity structure in order to increase its competitiveness and diversify its geographical structure.

Key words

EU accession, Hungarian agricultural trade, trade balance, commodity structure, geographical structure

Introduction

When Hungary joined the EU it was the only net agricultural exporter among the ten new member states. At that time its major agri-food trade objective² was to retain or perhaps improve this position to help rectify the country's balance of payments problems (Kiss, 2002). However, it has since become apparent that this objective might not be attained. By early 2005 Hungary had an agricultural foreign trade deficit with the new member states (Kiss, 2005a), and by July 2006 this also occurred with the old ones (Szabó, 2006). Fortunately, Hungary's agri-food trade balance with non-EU countries had always been positive, and thus the 674 million euro agricultural export surplus stemming from this (which existed in 2006) was able to counterbalance the 113 million euro deficit with the EU.

Therefore, the central questions and the focus of our study are as follows:

- What caused the undesirable and unexpected deterioration in Hungary's position in agricultural foreign trade?
- Why hasn't there been a major increase in exports in agricultural products in the post-accession period?
- Why were the old and new member states more efficient than Hungary when it came to capitalising on EU accession?
- Where exactly has the decline in Hungary's agri-food position occurred?
- What could and should be done to reverse this trend?
- And finally, what are Hungary's prospects?

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² In the coming text *agri-food trade* and *agricultural trade* are used interchangeably.

1. Stagnant exports and increasing imports in agricultural products³

Between 2003 and 2006 Hungarian total exports to the EU-24 increased from 30.935 billion euros to 43.924 billion euros, meaning a growth rate of around 42 per cent. However during the same period, Hungarian agricultural exports expanded by only 33 percent, from 1.663 billion euros to 2.210 billion euros (see *Table 1*). Consequently, the share of agricultural products in terms of total exports did not change significantly: between 2003 and 2005 it increased from 5.4 per cent to 5.5 per cent. Moreover, by 2006 the share of agricultural products in terms of total exports decreased to 5.0 per cent, indicating a fall in agricultural export dynamism.

Table 1

Hungarian foreign trade with the EU countries (2003 – 2006)
(million euros)

| | 2003 (EU-15) +10 candidate countries | 2004 (EU-24) | 2005 (EU-24) | 2006 (EU-24) |
|-----------------------------------|---|-----------------|-----------------|-----------------|
| Total exports | 30,934.70 | 35,456.70 | 38,681.00 | 43,924.00 |
| Agricultural exports | 1,663.00 | 1,972.80 | 2,130.80 | 2,210.00 |
| Share of agricultural exports (%) | 5.37 | 5.56 | 5.50 | 5.03 |
| Total imports | 26,663.20 | 32,565.20 | 36,223.40 | 40,912.00 |
| Agricultural imports | 994.30 | 1,631.30 | 2,091.70 | 2,323.00 |
| Share of agricultural imports (%) | 3.73 | 5.00 | 5.77 | 5.68 |

Source: author's own calculations based on Eurostat database⁴

When comparing exports and imports, one observes more movement on the import side. Between 2003 and 2006 Hungary's total imports from the EU increased by 53.4 per cent, but Hungary's agricultural imports more than doubled, increasing by 133.6 per cent. Therefore, agricultural goods' share of total imports grew from 3.7 per cent (2003) to 5.7 per cent by 2006, implying a surge in import penetration.

2. The EU as a market and as a source of supply

Given that Hungarian agricultural exports to the EU have increased somewhat more than Hungarian total exports, the EU's significance as a market has grown slightly (see *Table 2*). However, this **5 percentage point market expansion** is rather modest: given that this is the totality (returns) of the unfettered market access enjoyed by post-accession Hungarian agricultural exporters regarding both the old and the new member states. It is necessary to acknowledge that with the old member states significant market expansion was not expected. This was because 92 per cent of their agricultural market had already been liberalised prior to accession (Kiss, 2005b), and very few market access obstacles remained.

³ By agricultural products we mean the SITC 0+1+29+41 commodity categories, namely: food and live animals, beverages and tobacco, raw animal and vegetable materials, and animal fats and vegetable oils.

⁴ A special thank you goes to Gábor Túry, research fellow of the Institute for World Economics for collecting data and compiling a database.

However, with the new member states greater market expansion was expected in the post-accession period. This was because of the high agricultural customs prevalent in the former CEFTA coupled with other trade barriers. One of the major reasons Hungary has not been able to cash in on improved market access is its poor (price) competitiveness.

Table 2
The EU-24's share in Hungarian agricultural trade

| | million euros | | | |
|----------------------------------|---------------|-------|-------|-------|
| | 2003 | 2004 | 2005 | 2006 |
| Total agricultural exports | 2,677 | 2,926 | 3,167 | 3,297 |
| Agricultural exports to the EU | 1,663 | 1,973 | 2,131 | 2,210 |
| The EU share (%) | 62.1 | 67.4 | 67.2 | 67.0 |
| Total agricultural imports | 1,461 | 2,004 | 2,408 | 2,624 |
| Agricultural imports from the EU | 994 | 1,631 | 2,092 | 2,323 |
| The EU share (%) | 68.0 | 81.4 | 86.9 | 88.5 |

Source: author's own calculations based on Eurostat database

As shown in Table 2, more significant changes occurred on the **import side** than on the export side. Between 2003 and 2006 the EU-24's share of Hungarian agricultural imports increased from 68 per cent to 88.5 per cent, a growth of more than 20 percentage points. Presently around **90 per cent** of Hungary's agricultural imports arrive from the enlarged EU.

The above increase can be partly explained by the fact that prior to accession "only" 85 per cent of the Hungarian agricultural market was liberalised regarding the EU-15. Moreover, due to their cost efficiency the new member states managed to make better use of the improved market access opportunities. Furthermore, increased import penetration from the enlarged EU was enhanced by a growing Hungarian agricultural market protection level leading to a diversion of agricultural imports from third countries towards EU countries. Another element stems from a change in the statistical system pertaining to imports. Now the basis for registration is no longer the country of origin, but the country that sent (forwarded) a given product. Consequently, agricultural import items originating from developing countries statistically appear as German or Dutch imports.

Further issues to be covered:

- in which countries (the old or new member states) and in which product categories did they manage to increase their market share?
- what is the impact of this process on Hungary's agricultural trade balance.

3. Hungary's agricultural trade relationship with the EU

As shown in *Table 3*, between 2003 and 2006 Hungarian agricultural exports to the EU-15 increased by 25.7 per cent, but Hungarian agricultural imports more than doubled. Therefore, by 2006 Hungary's agricultural trade surplus with the old member states vanished. As for new member states, Hungarian agricultural exports increased by 59 per cent, thus growing faster than the country's agricultural exports to the old member countries. At the

same time Hungary's agricultural imports from the new member states more than tripled, and by 2005 Hungary's agricultural trade balance became negative and in 2006 deteriorated further. The deficit in Hungary's agricultural trade balance is because **Hungary's agricultural imports increased faster than Hungary's agricultural exports**.

Table 3
Agricultural trade balance

million euros

| | 2003 | 2004 | 2005 | 2006 |
|----------------------------------|---------|---------|---------|---------|
| Agricultural exports | | | | |
| EU-15 | 1,306.6 | 1,528.8 | 1,634.0 | 1,643.0 |
| EU-9* | 356.4 | 444.0 | 496.8 | 567.0 |
| Agricultural imports | | | | |
| EU-15 | 773.5 | 1,206.4 | 1,554.9 | 1,634.0 |
| EU-9 | 220.8 | 414.8 | 536.8 | 689.0 |
| Trade balance | | | | |
| EU-15 | 533.1 | 322.4 | 79.1 | 9.0 |
| EU-9 | 135.6 | 29.2 | -40.0 | -122.0 |
| EU-24 | 668.7 | 351.6 | 39.1 | -113.0 |
| Total agricultural trade balance | 1,216.0 | +922.0 | +759.0 | +674.0 |

* Referring to the new member states we use the term *EU-9* as the term EU-10 also includes Hungary and thus it has no relevance in relation to Hungary's foreign trade with the new member countries.

Source: author's own calculations based on Eurostat database

In order to determine where Hungary's agricultural trade balance has deteriorated the most, it is pertinent to analyse the country's agricultural trade relations.

As is shown in Table 4, among **old member states** Hungary's most important agricultural **export markets** are Germany, Italy and Austria as 62 per cent of Hungary's agricultural exports to the EU-15 went there. The major **import sources** are Germany, the Netherlands and Austria from where 66 per cent of Hungarian agricultural imports derive. As for Hungary's trade balance, the Hungarian agricultural trade deficit chiefly derives from trade with the Netherlands, Germany, Belgium and Denmark. With Denmark the import surplus is due to a Danish agricultural export offensive (in 2005 Danish agricultural exports to Hungary increased by 35 per cent compared to 2004). With Germany and especially with the Netherlands, the significant export surplus is linked to the two nations' geographic location. For example, a significant part of agricultural imports from developing or third countries lands in Rotterdam, Hamburg, or Bremen, and, according to new statistical regulations, these products are registered as EU imports upon arrival in Hungary. This change explains why in 2003 the value of Dutch and German agricultural exports to Hungary equalled 105, and 187 million euros, respectively, but by 2006 shot up to 253 and 557 million euros, meaning a respective increase of 2.4, and 3.0 times the previous figures.

Table 4

**Export and import markets in Hungary's agricultural trade EU-15
(2006)**

million euros

| | Exports | Imports | Balance |
|---------------------|---------|---------|---------|
| Austria | 236.3 | 169.1 | 67.2 |
| Belgium + Luxemburg | 53.9 | 69.3 | -15.4 |
| Denmark | 17.7 | 27.9 | -10.2 |
| Finland | 10.8 | 1.2 | 9.6 |
| France | 93.7 | 95.3 | -1.6 |
| Germany | 428.8 | 557.1 | -128.3 |
| Great Britain | 116.8 | 50.6 | 66.2 |
| Greece | 96.1 | 18.6 | 77.5 |
| Ireland | 4.0 | 7.6 | -3.6 |
| Italy | 311.6 | 139.7 | 171.9 |
| Portugal | 2.9 | 3.1 | -0.2 |
| Spain | 69.2 | 77.5 | -8.3 |
| Sweden | 30.2 | 7.7 | 22.5 |
| The Netherlands | 96.3 | 252.5 | -156.2 |

Source: author's own calculations based on Eurostat database

Regarding **new member states** Hungary enjoys a positive agricultural trade balance with seven countries (especially with Slovenia), but with Slovakia Hungary has a slight agricultural trade deficit: and a significant deficit with **Poland**. This is mainly due to Hungary's poor export performance (especially in relation to Poland) and the massive imports from new member states.

Table 5

Hungary's agricultural trade with the new member states (2006)

million euros

| | Exports | Imports | Balance |
|----------------|---------|---------|---------|
| Cyprus | 7.5 | 2.6 | 4.9 |
| Czech Republic | 134.4 | 109.3 | 25.1 |
| Estonia | 9.7 | 0.5 | 9.2 |
| Latvia | 10.3 | 0.8 | 9.5 |
| Lithuania | 17.9 | 3.8 | 14.1 |
| Malta | 2.1 | 0.1 | 2.0 |
| Poland | 136.4 | 351.0 | -214.6 |
| Slovenia | 96.8 | 38.6 | 58.2 |
| Slovakia | 143.2 | 153.9 | -10.7 |

Source: own calculations based on Eurostat database

4. How the commodity structure changed

After analysing the background behind the Hungarian agricultural market loss and import penetration, the next issue to be discussed is changes in the commodity structure. (*Table 6*)

According to Table 6, the major Hungarian agricultural **exports** were the following: meat products, cereals, fruit and vegetables, plus sugar and food stuffs. Between 2003 and 2006 sugar, wheat, and rape exports increased markedly. The most important **imports** were the following: coffee, tea, cocoa, spices (typical off-shore products entering Hungary as EU import goods), plus food stuff for animals, beverages, tobacco, fruits and vegetables, plus raw animal and vegetable materials. Some of these products are not available in Hungary, and hence their imports play a complementary role. Between 2003 and 2006 the most significant import growth occurred for the following product groups: pork, pigs, tobacco, cheese, milk, sugar, beverages and spirits.

Table 6
**The commodity structure of Hungary's agricultural trade with the EU-15
(2006)**

| Commodity group (SITC) | Exports | Imports | Balance |
|---|---------|---------|---------|
| 0 – food and live animals | 1,504 | 1,263 | 241 |
| 00 – live animals | 87 | 26 | 61 |
| 01 – meat and meat preparations | 384 | 185 | 199 |
| 02 – dairy products and eggs | 56 | 116 | -60 |
| 03 – fish | 4 | 19 | -15 |
| 04 – cereals and cereal preparations | 349 | 98 | 251 |
| 05 – vegetables and fruit | 288 | 246 | 42 |
| 06 – sugars, sugar preparations | 101 | 35 | 66 |
| 07 – coffee, tea, cocoa, spices | 34 | 151 | -117 |
| 08 – feeding stuff for animals | 118 | 186 | -68 |
| 1 – beverages and tobacco | 55 | 145 | -90 |
| 11 – beverages | 41 | 106 | -65 |
| 12 – tobacco | 12 | 28 | -16 |
| 29 – crude animal and vegetable materials | 75 | 177 | -102 |
| 4 animal, vegetable oil, fat | 9 | 49 | -40 |
| Agricultural goods | 1,643 | 1,634 | 9 |

Source: author's own calculations based on Eurostat database

Regarding the commodity structure of Hungary's agricultural trade with the **new member states**, the major export items were: meat products, cereals and cereal products, fruit and vegetables, and food stuff for animals. The trade deficit is due to increasing milk and dairy product imports, live animals, meat, and beverages.

Table 7

**Commodity breakdown regarding Hungary's agricultural trade
with new member states (2006)**

| Commodity group (SITC) | Exports | Imports | Balance |
|---|---------|---------|---------|
| 0 – food and live animals | 494 | 563 | -69 |
| 00 – live animals | 11 | 57 | -46 |
| 01 – meat, meat preparations | 48 | 32 | 16 |
| 02 – dairy products and eggs | 27 | 84 | -57 |
| 03 – fish | 0 | 11 | -11 |
| 04 – cereals and cereal preparations | 77 | 65 | 12 |
| 05 – vegetables, fruit | 81 | 55 | 26 |
| 06 – sugars, sugar preparations | 67 | 26 | 41 |
| 07 – coffee, tea, cocoa, spices | 93 | 69 | 24 |
| 08 – food stuff for animals | 39 | 56 | -17 |
| 1 – beverages and tobacco | 60 | 94 | -34 |
| 11 – beverages | 45 | 37 | 8 |
| 12 – tobacco | 13 | 53 | -40 |
| 29 – raw animal and vegetable materials | 6 | 29 | -23 |
| 4 animal, vegetable oil, fat | 4 | 3 | 1 |
| Agricultural goods | 564 | 689 | -125 |

Source: author's own calculations based on Eurostat database

5. Conclusions and prospects

Prior to accession it was hoped that Hungary would manage to hold and/or improve her position in the field of agricultural trade, but this hope failed to materialise first regarding the new member states and later the old member countries. By 2006 Hungary's agricultural EU-24 trade balance turned negative and this is increasingly difficult to offset with the surplus in other areas. Despite Hungary's 2006 positive agricultural trade balance, its value (674 million euros) still represents a decline⁵ from previous years. This decline is noteworthy given that, under optimal conditions, Hungarian agriculture is capable of generating a multi-billion euro surplus and, since EU accession, the sector has enjoyed unparalleled financial support.

The major reasons for the above-mentioned trends are not so much **inadequate export performance**, but rather a **sharp growth in imports**.⁶ Luckily, this sharp rise in imports is partially due to reclassification of imports (see the Dutch and German cases), but this does not explain why Hungary's agricultural trade balance with the new member states began to run a deficit. Hungary has to tackle problems in production, competitiveness, quality, food

⁵ In November 2004 Hungary's agricultural trade balance equalled 875 million euros. One year before – that is prior to accession – it was 1110 million euros.

⁶ Despite the significant import penetration the share of imported goods in the Hungarian domestic market is around 15 per cent.

safety and marketing. Moreover, Hungary has to reckon with expanding competition in the (Hungarian) domestic market. Imports of cheap and poor quality agricultural products should be countered by increasing the bargaining power of domestic producers and by severe quality control measures, meaning Hungary should strengthen its market protection system while still conforming with WTO standards, and thus promote fair competition.

However, there are few grounds for optimism. In January 2007 Romania and Bulgaria joined the EU. These two countries have significant agricultural potential and with them Hungarian agricultural trade may show the same tendencies as with the EU-9.⁷ In the coming years Hungarian agricultural producers will receive greater financial support, but eventually the EU's **Common Agricultural Policy** is expected to change and not favour either production or export increases,⁸ (Kiss, 2006). The extent of these changes highly depends on the outcome of the **Doha WTO Round**. Though the details of the projected agreement are not known, some tendencies are apparent and a preliminary impact analysis can be made:

- because of **decreasing agricultural tariffs** (customs), the EU's market protection level (including in Hungary) will diminish, and thus competition seems destined to become keen(er) in the EU as well as in the Hungarian (domestic) market;
- **market access** might also improve, however, but this will hold true only for 30 per cent of the nation's total agricultural exports as market access conditions will not change regarding the EU-26. The question is whether Hungary will be capable of capitalising on improving market access opportunities outside the EU, and can withstand increasing competition from OECD-countries and especially from developing countries in third markets;
- the above issue is all the more relevant as Hungarian **export subsidies** may decrease and be completely eliminated from 2013;
- moreover, the WTO agriculture agreement will oblige member countries to decrease their **domestic agricultural support**, which in Hungary's case are due to increase until 2013 according to the EU accession agreement.

There is, however, some room for optimism. Various forecasts on **international agriculture** (OECD-FAO, 2006) predict that in the coming decade world agricultural markets will be demand-driven. Overall demand for agricultural products will increase because of population and income growth in developing countries and also because of rapid urbanisation. Thus, demand will especially rise in developing countries. At the same time demand structure will tend toward highly processed and animal products. Though the real prices of agricultural products will not increase significantly, a nominal price increase can be expected.

If oil prices remain high, energy crop production will intensify leading to accelerated demand for land and water. This process might bolster the position of countries with significant agricultural potential. Luckily, Hungary belongs to this "distinguished club".

In order to withstand competition Hungary should change its production and **export commodity structure** toward high value added processed goods, animal products, and fruits and vegetables. It should increase its competitiveness via decreasing production costs, increasing efficiency, improving quality, building up sales infrastructure and an efficient marketing system. Target markets should also be modified as it is predicted that demand for agricultural products will increase mainly in developing countries and emerging markets.

⁷ In the first half of 2006 our agricultural trade with Romania had a 90 million euro surplus and with Bulgaria a 9 million euro surplus (Szabó, 2006).

⁸ See the reform of the sugar, wine, fruit and vegetable sectors or the change of the intervention system.

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