Major changes in Hungarian agricultural economy as a result of EU-membership

Vajda, László – Baksa, Adrienn

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Summary findings, conclusions, recommendations

The Common Agricultural Policy of the EU has been a dominant factor in the development of the Hungarian agricultural economy for several years; and it will continue to be in the years to come. CAP is in a state of continuous change; it is constantly being reformed and developed. In relation to this, the common budget of the enlarged European Union should cover the finances of the existing Community policies, and meet the criteria of enhancing competitiveness. To arrive at this balance is a great challenge for the EU. At the same time, maintaining a common financing policy in the long term is of special interest to Hungary. To maintain a suitable level of Community preference (import protection) is also important for us, because European requirements on food quality, environment and animal health are stricter than those prescribed by international partners. Our market must be defended from products appearing on the globalized market that are of uncertain origin, of poor quality and do not meet all food safety rules.

When working on the further development of CAP or on the shaping of Hungarian agricultural policy, we have to reach a certain harmony, to realise the synergy of economic, environmental, social and rural development functions of agriculture.

Introduction

We have been existing now within the framework of the Common Agricultural Policy for more than three years. In order to bring the necessary complex regulatory system into operation, we needed a long and expensive preparation period. During this time, the requirements and regulations applied in the EU have gradually become part of Hungarian legislation and administration. Legal harmonization and institutional harmonization were promoted efficiently by PHARE[1] and SAPARD[2] programs. Being a Member State of the EU, Hungary takes part not only in the shaping of the agricultural policy, but also in its elaboration, and in the establishment of new rules.

Material and methods: the aim of this publication is to analyse and to show, how the Hungarian agricultural economy could integrate to common agricultural policy, and what we have experienced as from the date of the accession. We analyse in detail the main factors which influenced the most of the tendencies in Hungarian agriculture since the time of accession. The experiences concerning agricultural and rural development supports are discussed.

The analysis is based on own official documents and papersthroughout the years, own conference materials, national and EU statistical data, studies made by the

[1] Poland and Hungary Asistance for Restructuring of the Economy
[2] Special Accession Programme for Agriculture and Rural Development

Agricultural Economics Research Institute, and least, but not last on experiences gained by us formally and informally during practice.

The position of the Hungarian agriculture and rural development in our days

Hungary has excellent geographical, natural and ecological endowments, which open the opportunities to maintain a multifunctional and competitive agriculture with an export surplus.

Besides increasing production volumes, the aspects of product quality and the requirements of food safety are more and more emphasized.

Consequently, the main considerations to be paid more attention to during elaborating agricultural policy and agricultural measures both on the national level and on the Community one are as follows

- to maintain rural values;
- to exploit good production possibilities;
- to enhance the competitiveness of the Hungarian farmers (on the international level);
- to ensure the provision of safe and high quality food;
- to protect environment and rural landscape.

Hungarian territory is considered to be rural area in 87%; that is area, where population density is below 120 people per km2. They include 96% of our communities, and 47% of inhabitants live here. Rural areas are in a close relation with agriculture as regards agricultural production, environment protection and maintaining population. Plans and measures must be determined upon a wide consensus of those involved, so that they assure long term opportunities for rural areas.

In Hungary, the share of agricultural area is higher (70%) than the European average. We have 2 million registered land owners, almost 80% of which live in rural areas. The number of farmers applying for direct payments under the CAP-scheme is 208 thousand; they cultivate the lands of one and a half million land owners.

In Hungary, the social role of agriculture is much more important than its economic one. So the situation of agriculture and rural life is not only an issue for the farmers, but also the interest of a society of 10 million people.

As a consequence of its multifunctional character, the Hungarian agricultural economy has a much greater role in society and in national economy than its direct contribution to GDP. The contribution of agriculture to GDP has been decreasing since 2000; its share is between 5.4-4.3%[3] (see Table 1). Agricultural raw material production was 4.3% in 2006.

In case that we consider agribusiness in a wide sense, including also the phases preceding and following the agricultural production phase[4], the share of agriculture in GDP can reach 12-15%. It means that, besides effective production, we also consider food processing, farm machinery, distribution, wholesale, research, training, consulting, management and the various services arising from the multi-

Table 1

The role of agriculture in Hungarian economy

2000	2004	2005	2006
Share of agriculture in GDP (%)			
5.4	4.8	4.3	4.3
Number of people employed in agriculture, forestry and fisheries (thousand people)			
255	205	194	191

Source: KSH

[3] Fisheries, forestry and hunting included

[4] Processing, transport, storage, distribution, catering

functional character of agriculture: rural tourism, horse-tourism, non-food production[5], landscape management and bioenergy *(Udovecz, 2007).*

Strengths

• Among productive sectors, agriculture is the only one that has a stable positive trade balance (being HUF 265 billion in 2006), improving the overall commercial balance of Hungary.

• Agricultural incomes have grown as a consequence of the excellent yields in 2006, and the agricultural receipts are increasing more than expenditures. The beneficial effects of income growth can be seen in the increasing investments of producers and in the high degree of fixed resources *(MARD Report on Agricultural Economy, 2006).*

• Payment amounts available for agricultural producers have grown with EU accession. In 2004, the level of payments was lower than planned; but the payments disbursed till 2006 have risen twofold. The whole amount of payments granted to agricultural operators in the period between 2004-2006 is indicated in Table 2. The whole amount of payments allocated for 2007 is HUF 455 billion, of which HUF 320 billions EU payment and HUF 145 billion is national resource. (The amounts of payments will be discussed in a later section of this paper.)

Table 2

Agricultural and rural development payments granted to agricultural producers since the beginning of our EU membership

Denomination	2004	2005	2006	Change 2006/2004, %
Sum of direct payments (billion HUF)	204.9	411.6	429.6	209.7
Out of which:				
SAPS	10.0	148.0	93.5	
National payments	178.2	159.2	149.4	
Market payments	-	6.6	59.8	
Agricultural and Rural Development Operational Programme	-	18.4	51.8	
National Rural Development Plan	1.8	49.7	65.9	
SAPARD	14.9	29.7	9.2	

[5] Vegetable lubricants, plastics, pharmaceutical products, packaging materials

• Being a consequence of the earlier development programmes, the New Hungary Rural Development Programme (NHRDP) was adopted by the European Union on the 19th of September 2007. So an amount of payment of HUF 5.1 billion is available for the Hungarian agriculture and rural areas for the period 2007-2013.

Weaknesses

• In the years preceding EU accession, the development of agricultural investments was quite important in order to enhance closing up. In 2006, the reduction of the supports resulted by governmental budget in the decrease of the investment level. Storage capacities have grown, but the modernisation of animal welfare and animal hygienics establishments was slow.

• The rate of employed in agriculture[6] have fallen from 11.4% to 5% (that is from 460 thousand people to 194 thousand people, see Table 1) in the period 1991-2005. It means that 60% of former employed have got out of agriculture. Rural employment must be promoted; a good solution can be to develop labour intensive agricultural branches like vegetable production, plantations, animal breeding.

• The structure of land ownership is inadequate: land property and land use is plotted. The average area of individual holdings was 3.4 hectares in 2005. Medium size holdings are lacking in the Hungarian farm structure *(Csáki, 2007).*

• Agricultural innovation activities need enhancement: professional training, high education, research and consulting must be developed with more care and in practical aspects.

Hungarian agriculture has good natural backgrounds, but its competitiveness and economic performance is lower as compared to its conditions. In spite of the favourable tendencies in the last few years, the problems are enhanced by the growing age of rural population and by the inadequacy of their professional knowledge. The shortcomings of public services result in the migration of rural population.

The effects of the EU accession

On May 1 2004, our Hungarian agricultural economy and food market have become integrated part of the (consumer) market of 450 million people of the enlarged European Community. From this time on, our products can access to the Single Market of the EU without trade barriers and customs frontiers. However, our domestic market became also significantly exposed and unprotected at the same time.

The first year brought mixed experiments, one reason of which was that Hungarian agriculture had great expectation as regards the EU-membership that time. We expected that our earlier positive trade balance and our good exportation ability will enjoy further advantages for Hungary in the inner market without barriers.

Considering the data of our external trade in 2004, our exports grew by 6.5%, or imports by 25% (see Table 3). Our products had an insufficient market acces s, their marketing and logistics were not strong enough. Market conditions were worsened by the significant expansion of multinational food processing and commercial companies, supermarkets and hypermarkets. These market participants set up strict requirements concerning price, provision, transport conditions and stable high quality of products. To meet these require-

[6] those who earn money, or have income in an individual or collective holding or institution, in a full-time job; who are cooperative members; who are working members in a collective holding; who are individual entrepreneurs or their family members; who are casual workers; who are day-labourer; who are employed pensioners

ments was hard both for small producers and big ones, these latter being in a relatively easier situation. That's why producer cooperation and the assistance of producer distribution organisations are so important *(Vajda, 2005)*.

In the EU, an average of 33.7% of products is getting to the market from small holdings by means of producer (distribution) organisations. In Hungary, this rate is below 6% *(Csáki, 2007)*.

In 2004, the resources necessary for the payments were available, but administrative problems prevented producers to get the whole amounts. In some cases, producers failed to meet the eligibility criteria, in other ones, the applications were not correct or their processing was problematic (see later). A piling-up was caused by the great number of SAPARD applications (arriving by a deadline 2004 April 30), and the obligation to control direct payments at the same time. These first complications resulted in the reorganisation of the Paying Agency.

So the first year of our membership meant a great trial for both producers and the institution system wrestling with difficulties. Positive and negative phenomena evolved, sometimes they strengthened one another, and sometimes they weakened them or were in conflict. These tendencies are analysed shortly as follows.

Positive tendencies

• By way of accession, the Hungarian agriculture became a beneficiary of the Common Agricultural Policy of the EU in 2004.

• After the serious backlog resulting from the delayed launch of the SAPARD Office, producers could utilise the aids of the SAPARD Programme (the pre-accession financial resource) paid for investments, infrastructure and the development of the primary processing of food[7].

• By the time of accession, the institution system suitable for operating CAP was established, so the infrastructure receiving and distributing the EU payments was ready.

• As intervention purchase of grain were launched and even accelerated recently, the crop purchases covered by contracts were finished in time.

• The EU rules for animal and plant health, food safety and food quality were successfully adopted.

Negative tendencies

• The introduction of the CAP to Hungarian agriculture led to important structural changes and to a significant shift in the production structure. The conversion to the subvention system of the EU resulted in a fast restructuring of the main activities *(Halmai, 2007)*. The share of animal husbandry decreased as compared to plant cultivation, especially cereal production. In 2007, the rate of animal husbandry to plant cultivation was 40%/60%. On the one hand, some of the farmer animal breeders gave up production; on the other, the shortcomings of the modernisation of animal breeding mean limiting factors.

• As a consequence of accession, the traditional balance in exports and imports was upset. Imports began to rise at a high rate, while the increase in export remained moderate. In the single market, the traditional elements of market protection, customs, special instruments, preferential tariffs quotes cannot be applied.

• The applied exchange rate policy promoted importers, hindered exporters and worsened our export competitiveness;

[7] a detailed analysis can be read in Hungarian in Weisz-Kovács: Agrár- és vidékfejlesztési programok Magyarországon (2007-2013) [Agricultural and Rural Development Programmes in Hungary (2007-2013)] (Gazdálkodás 2007. 4. 51.)

that caused serious damage to Hungarian agricultural economy. The price competitiveness of our products weakened on external markets.

• Our market performance is too weak as compared to our opportunities. This is also entailed by a deficient logistic system of marketing. The deficiency of the logistics of Hungarian agriculture covers the transport infrastructure, the capacity of transports and storage meeting special requirements and operating economically for a long term, and the lack of suitable special transport vehicles.

• At the time of the EU accession, the Hungarian agricultural budget was also restructured. At the turn of 2004/2005 serious liquidity problems emerged. As a consequence of the delay in direct payments to March-April 2005, that resulted in economic and political tensions. The balance was re-established by the second half of 2005, and improved significantly in 2006.

Main factors influencing the first 3 and half years of accession

Agricultural Markets (conditions)

Our accession to the agricultural intervention system was a wholesome element of the adoption of the Common Agricultural Policy. In the next few paragraph, we summarize the main considerations.

After the serious damages caused by droughts for several years, the year 2004 brought quite favourable environmental changes. Good weather brought good yields. While grain production was not more than 8.7 million tons in 2003, it amounted to 16.7 million tons in 2004. As regards the changes in grain production, Hungary is unique among the Member States of the European Union. There is no other Member State where a double or a half quantity of grain production is realised from one year to another. This is caused mainly by climatic factors, or rather by the fact that irrigation is practically not in use in Hungary.

In the year of accession, producers and businessmen expected to reach higher incomes through intervention. But intervention necessitated intervention stores; and the intervention mechanism involved a delayed payment, which resulted in financial problems *(Vajda, 2005)*.

In 2005, grain harvest was outstanding again (16 million tons); and the favourable tendency continued also in 2006 (with 14.5 million tons of grains, including 4.4 million tons of wheat and 8.3 million tons of maize). The conditions for intervention storage improved a lot by 2006. The Commission made it possible for Hungary to use an amount of some 63,000 tons of intervention grains in the Food Aid Program of the EU.

The European Commission, having analysed the Hungarian grain production capacity and its marketing possibilities in Hungary, in the EU and outside the EU after the accession, made a serious decision. In October 2006, the European Commission adopted the amendment to the Regulation on the stricter rules on the quality requirements for intervention maize, to be in force as from 1st of November 2006.

Considering that Hungarian producers had already made their decisions concerning crop system, preparation of soil and seeds buying, Hungary had no other choice but to apply for a legal procedure. The Hungarian Government instituted a legal action at the Court of First Instance of the European Community. In this action, it demanded an expedite procedure and the immediate suspension of the Regulation.

The conflict was aggravated by the fact that the soon after Commission made a proposition on the amendment of the Council Regulation on the common market organisation of grain. The main element of the proposition was the abolition of maize intervention. Finally, due to a successful Hungarian lobbying activity and a long conciliation process, a new proposition was elaborated. It sets limits to the amount of product to be bought up, so that the whole amount to be bought up from the 27 Member States by the European Union will be 1.5 million tons in 2007, 700 000 tons in 2008 and nil in 2009. The Commission made a promise to deal with this Regulation in the "Health Check" of the Common Agricultural Policy (expected in 2008).

However, the year 2007 opposed the fears of the EU decision makers. The rainy weather during the time of harvesting caused a decline in both quantity and quality in the main grain producing countries. A relative shortage of product occurred in Central and Eastern Europe, and the supply on the world market decreased as well

These considerations show that many times, the conditions not foreseeable have smaller or greater influences, and conditions are determined by market. Previous prognoses can be false and it is the final result that matters.

The pig sector was in hard and problematic situation in last 10-15 years. (It is characterized low concentration, scattered farm-structured, the lack of technology and of producer cooperation.) The unprofitable pig meat production was due to dry climatic conditions, high feed price and decreasing prices of pig meat in 2003. Some private pig producers ceased their pig keeping because of the uncertainty in sale, loss in production, low profitability and the lack of meeting standards in the field of food safety, animal welfare and environmental.

Table 3

Grain production of Hungary in 2007

Wheat		4.00 million tons
Maize		3.98 million tons
Others :	Barley	1.055 million tons
	Triticale	0.397 million tons
	Oat	0.125 million tons
	Rye	0.840 million tons
Total		9.641 million tons

Source: AKI

Further aggravating factor influencing the sector is that Hungary became net importer in both pig meat and live pig due to unreadiness for the free market conditions at the time of EU accession, inadequate marketing activities and unorganised sector.

The regulation of the livestock sectors has been modified along with the accession of Hungary to the EU. The situation of the pig sector was not helped by this new common market organisation. The CAP does not apply community subsidies in this sector and the former direct sector-specific state aids ceased. It is truth in general these is not enough possibility for taking direct measures. (a detailed analysis can be read in Hungarian in study made by *Agricultural Economics Research Institute* 2006 10. 53-58 p. 51.)

The circumstances of Hungarian pig sector and the regulation of common market organisation for pig meat will predictably be not changed in the following years. The lower grain production in 2007, high feed and energy price, decreasing supply of pig products may result further recession in 2008 (high level of prices in EU and in Hungary).

Impacts on foreign trade of agricultural products

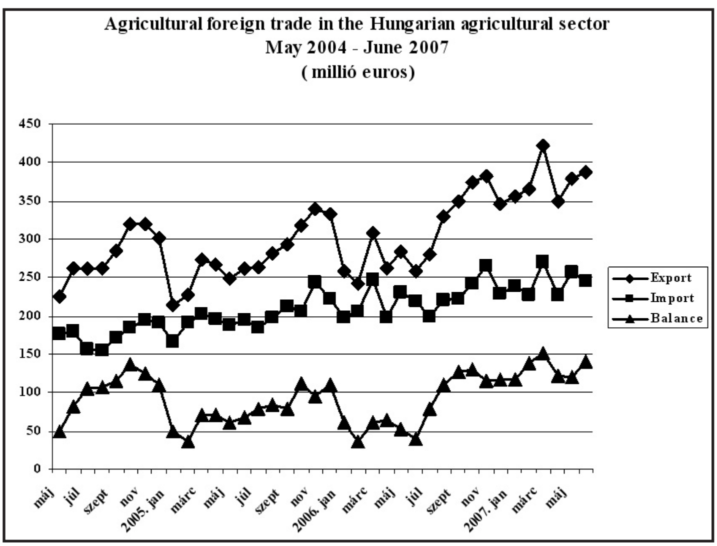
In the period after accession, the tendency in exports and imports of agricultural and food products was disadvantageous for us. As we have already mentioned, our exports grew by 6.5% in 2004, while our imports, by 25%. Other Member States could take better advantage of the enlargement. Considering final result, the year 2004 was successful, for our exports increased with some EUR 200 million as compared to the previous year; and our net revenue amounted to above EUR 3 billion *(Garay – Petőné – Vágó, 2007).*

The foreign trade data of 2005 (see Figure 1) show an overall improvement. Our agricultural exports calculated in euro increased by 13.3%, our imports, by 16.8%. The value of the agricultural exports was EUR 3.5 billion, that of agricultural imports, EUR 2.3 m billion. So the surplus of balance increased to close to EUR 1.2 billion.

The year 2006 was also successful in agricultural foreign trade. Exports grew by 7%, imports, by 11% as compared to the previous year. However, as a consequence of the favourable tendencies in prices and exchange rates, the export values calculated in euro grew by 9.8%, the import values, by 10.3%. The product structure of the exports is dominated by grain, meat, fruit and vegetable products and feed. As regards imports, slaughter pig, processed dairy products and processed tobacco products were significant.

When analysing the situation of dairy market, the problem of feed shortage in 2007 must be mentioned. We need to im-

Figure 1



Source: AKI (Petőné Varga, É.)

port feed, and the available statistical data show that the expenses spent on feed purchases (EUR 158 million) were the highest in the first half of 2007 *(source: AKI).*

According to statistical data there was an expansion in foreign trade in Hungary, however the share of agricultural and food products showed a declining trend. Analysing the situation of the main product groups, it is a regrettable fact that we became net importers in pig meat and dairy products.

In the first half of 2007, the value of exported agricultural and food products was EUR 2260 million, that of those imported, EUR 1468 million. Our agricultural foreign trade resulted in an active balance of EUR 792 million. As compared to the same period of 2006, exportation grew by 40%, importation, by 13%. This significant increase in exportation was caused mainly by maize exports from the intervention stocks. The active balance of EUR 792 million in the first half of 2007 included an active balance of EUR 483 million in the trade with the EU; this amount was only EUR 2 million a year ago *(Garay – Petőné – Vágó, 2007).*

It is essential to notice that the country structure of the exports is also influenced by the applied statistical methods. As from the date of our accession, export calculations are made not anymore according to the country of origin, but according to the country of consignment, in accordance with Community rules. That means that main part of the import coming from outside the EU is calculated as the consignment of the country arranging the customs clearance. When analysing imports, this calculation method must be considered, for that is the main reason of the dominance of the European countries in our agricultural foreign trade *(MARD Report on Agricultural Economy, 2006).*

On the basis of foreign trade data we can summarize the following facts:

• The Hungarian internal market is shortly filling up for imported goods; slowing of the increase of import is expected.

• In 2006 imported goods arrived mainly from Germany (the most important export and import market for Hungary), Poland and the Netherlands.

• Further development of generic marketing is needed for the long term increase of the Hungarian export.

• Purchasing policy of multinational trade companies and production relocating decisions of food producers have big impact on our foreign trade.

• According to the opinions of food sector's participants Hungarian consumers are price-sensitive and this is determinant in the decisions of retail food traders (they prefer imported good if it is cheaper).

• The strong influence of media should be emphasized: it presents always negative examples, and Hungarian consumers tend to buy products at unrealistically low prices *(Kürti – Stauder – Wagner – Kürthy, 2007).*

Situation on the milk market:

Quantity of both the produced and bought up raw milk has been decreased since the EU accession. According to the two past quote year's data this decrease is slowing down. In the sharpening situation the associations of milk producers may gain more importance. Hungary does not fill up the available national reference quantity (quote), so there is still a production leeway for the future. Price of raw milk is increasing in the economic situation changed by milk shortage; prices reach the ones in the neighbouring countries. In the same time milk shortage is evolving in Europe and demand market is characteristic. Tendencies in world trade has also been changed (developing Asian countries become importers of milk products, the demand for these products increased especially in China).

Export perspectives for Hungarian milk products are limited, domestic companies concentrate on the maintenance of inner markets – or in case of a few companies the well running foreign markets (for example cheese export to Arabian countries). The import of milk products has increased above all in the high value added production. In this situation the biggest opportunity is the export of raw milk: e.g. among the newly accessed countries Hungary is the biggest exporter of raw milk to Italy (114.000 tons in 2005, 229.000 tons in 2006.) This huge export quantity could be the reason of milk being in short supply at the end of August 2007. According to experts export of raw milk could be a short term solution for the correction of producers' income, however, the long time interest of Hungary is to process this quantity of raw milk within the country (increasing value added), and processed products should be exported to other European states *(Tamás, 2007)*.

Characteristics of the present situation

• increasing price and shortage of feeds;

• lack of marketing strategy and of strong trade marks in case of domestic products;

• realizable profit is imbalanced among the three partners since the biggest share is realized at the salesman (only 3-5% is realized at the producer, 10-12% at the processor, all the remaining at thesalesman);

• stronger presence of consumers' protection authorities is needed for the protection of domestic markets (penalties are low in case of substandard, low quality products sold in super- and hypermarkets).

Poultry sector: EU-membership caused changes also in poultry sector. Considering the emergence of bird flue in 2005 – affecting also Hungary in the spring of 2006 – problems appeared on the market of poultry products. As a consequence of bird flue a 25-30% loss was manifested in the sector. In order to compensate the economic consequences of the reduction of poultry and egg consumption caused by bird flue, the EU – on the base of the suggestion of its member states, also Hungary – decided to provide 50% ex post facto community co-financing for the member states.

The total sum of support available in Hungary for poultry producers is HUF 2.5 billion (cca 10 million euros) *(MARD yearly report, 2007)*.

We can summarize that in 2007 shortage in poultry products was throughout Europe, since the European consumption regenerated after the shock of bird flue, however, production did not go after this increase. The shortage in supply is expected to generate an increase in prices, both in Hungary and throughout Europe *(Fórián, 2007)*.

Process of production, sale and consumption on the Community's market are determining the Hungarian poultry meat production from the EU-accession. Our internal market is strongly characterized by the import products for example, Hungary became net importer in poultry meat. Generally speaking Hungary lost our important export markets in poultry meat e.g. Germany, Italy, France and countries of ex Soviet Union.

In the future the competitiveness of the sector could improve with high value added and good quality products e.g. Hungary plays a determinant role in goose- and duck-liver production in the European Union.

Different types of subsides (EU and national supports)

As part of the preparation for the EU accession the requirements, directives and objectives of the EU had become gradually the integral parts of the Hungarian Law and public administration. This process was supported from the resources of the PHARE programs (1990-2003). Within the agricultural sector these programs aimed at the development and restructuring of institutions, enhancement of investments, establishment of loans and development of the registry of real estates.

From the date of the EU accession three types of support are available for producers: market support; single area payment scheme (SAPS), a determinant part of the EU's agricultural policy; rural development support and national subsidy (top-up) given from the national budget, in accordance with the EU's rules, for the completion of the SAPS (30%) *(Vajda, 2006).*

Between 2004 and 2006 Hungary paid HUF 329 Mrd as EU direct payments. From this sum HUF 252 Mrd. was paid within the framework of SAPS, approximately HUF 66,4 Mrd. was paid as market (intervention) support. Direct payment improved the situation of holdings involved in plant growing and crop production or mixed farming, but very little in animal husbandry.

Experiences with SAPARD

The SAPARD program assisted in the preparation for the implementation of the Common Agricultural Policy by giving objectives, instruments for the implementation and institutional background. Considering the whole term of the program (from the end of November 2002 to April 30, 2004) altogether 8828 applications arrived.

The arrival of applications was periodic from the announcement and beginning of the Program, it was characterized by peaks and strong disproportion both in number and composition of applications. The reason of this phenomenon was — beyond the strict deadline of the sending-in period and the first time expectations — that the traditional national support measures were no longer available *(Report on SAPARD, 2006).*

From the beginning of 2003 the Agricultural and Rural Development Agency[8] evaluates the applications, however, the process of evaluation was significantly slowed down because of the incompleteness of applications, and usually a lot of supplemental data and information was to be required later on. In the case of these applications the evaluation could start only after the closure of the completion process. As a consequence of the permanently implemented modernizing, updating and rationalizing measures (concerning the Agricultural and Rural Development Agency) and practical experiences the treatment of applications improved significantly. A large number of control staff was needed for the control of project advance and accounts. At the first times shortage in human resources and material conditions also appeared (2003/2004). The ARDA solved this problem by the rearrangement of human resources.

During the year of 2006 institutional tasks changed significantly, since controls, monitoring and final payments got special emphasis.

Problems of application rejection. More than 50% of rejected applications were refused because of administrative reasons or deficiency of regard the eligibility criteria. The most common faults were the following ones

• the application was submitted on a wrong application document or the documents of the different application packages were mixed together;

• submitted documents were filled in incompletely;

• submitted documents were not signed and sealed properly (signature, seal, date);

[8] Paying agency in Hungary, the institution that forwards the EU supports to Hungarian beneficiaries (farmers, producers, enterpreneurs, processors and local governments)

• certain certificates, expert opinions by authorities were missing, were not submitted in the prescribed form or their validity period expired;

• documents of guarantees were lacking, incomplete or invalid;

• the applicant's legal, entrepreneurial form did not fall within the scope of subjective eligibility;

• data in the submitted application differed from the data in the declarations and business plan;

• the intended project would have led to unauthorised expansion of capacities;

• long term competitiveness and viability was not confirmed by the business plan *(Report on SAPARD, 2006).*

On the whole, the implementation of the Programme was successful in the improvement of technical or asset conditions of production (machinery, equipment, building) especially in the case of the larger production units (agricultural plants operating on a land area exceeding 1000 hectares, enterprises with a turnover of more than HUF 2 billion).

The main goal of SAPARD was the preparation for the accession – as declared also in the relevant provisions –, the establishment of a practical and viable system which is appropriate for the effective allocation of community resources and meets the EU's requirements. The programme fully met this goal, experiences gathered during its implementation were used in the creation of the operating conditions for both ARDOP and European Agricultural Fund for Rural Development (EAFRD).

Experiences with the Agricultural and Rural Development Operational Programme

The Agricultural and Rural Development Operational Programme (ARDOP) and the National Rural Development Plan (NRDP) gave the framework of the EU's agricultural and rural development supports between October 1, 2004 and December 31, 2006[9]. Sums of support are presented in Table 2.

Within this period 10 776 applications were submitted, the majority (53%) of which connected to the "Rural Areas" measure.

These co-financed ARDOP programs aimed at the improvement of the competitiveness of agriculture, diversification of production and the enhancement of the multifunction character of agriculture. The NRDP measures[10] aimed at the improvement of the quality of life of the rural population, the support of investments enhancing the correspondence with the requirements of environment management, the enlargement of the country's forest area (compared to the EU 15 new types of supports are also prevalent, for example the ones aiming at the operation of producer groups or the ones concerning semi-subsistence farms).

About applications:

• Rate of rejections because of formal incompleteness decreased as the application system become simpler and applicants gained experience in application. Formal incompleteness is manifested in filling out forms and not submitting obligatory annexes and certifications.

[9]Detailed analysis can be read in Weisz-Kovács: Agricultural and rural development programs in Hungary (2007-2013) – results and perspectives. (Gazdálkodás 2007. 4. 51.)

[10]Detailed analysis can be read in Weisz-Kovács: Agricultural and rural development programs in Hungary (2007-2013) – results and perspectives. (Gazdálkodás 2007. 4. 51.)

• The informational activity of the Intermediate Body[11] (ARDA) played a special role in the improvement of the quality of the applications.

• After evaluating all applications and selecting the best ones, in 2006 some applications had to be rejected because of the lack of resources.

• In order to eliminate or decrease the administration charge, a preparatory system for decision-making had been established within the ARDOP. In this system a constant staff of experts evaluated the applications. As decision-making was supported by a consistent system of viewpoints for reconsideration, evaluations became more reliable.

• Some applicants withdraw their application in the period of the decision-making. The reasons were changes in the conditions of farming, financial reasons (lack of own resources) or the loss of interest because of the long time of the application process *(Report on ARDOP, 2007)*.

The New Hungary Rural Development Programme should lay more emphasis on consulting, preparing and training activities and the development of skills and abilities. According the practice of ARDOP the resources open up periodically, not only once. This helps to dispense the charge of administration in time, therefore support resources may flow out continually and steadily.

The main objectives and priorities were mostly achieved; however, in case of the implementation of some measures disproportions were noticed, that needed correction.. In spite of that the ARDOP was useful for the agricultural sector by utilizing the comparative advantages, improving the market and financial positions of producers, enhancing the sustainable agricultural conditions in less favoured areas and the practice of associated activities.

About state aid

Besides the measures of the Common Agricultural Policy and being in accordance with the EU directives the member states have the opportunity to apply certain national supporting measures for a transitional period *(Halmai, 2004)*. EU –conform supports belong also to the sphere of national supports. A new state aid measure may be introduced in accordance with the community law (without hurting the internal market) and with the approval of the European Commission.

National agricultural supports being valid at the time of Hungary's accession and reported to the European Commission within four months were called existing supports up to the end of the third year after accession. Hungary reported 108 such constructions, 47 of which were operated by the MARD, while 34 measures, tax allowances or warrants belonging to the sphere of other ministries or organizations were also available for agricultural producers *(MARD, 2007)*.

After the three years (from May 1, 2007) only state aid measures fully complying with all the community requirements are accepted. The new system of supporting is more complicated, since some of the earlier national titles were not fully EU-conform and even the EU regulations changed significantly by the time. According to the new provisions the support has to contain some kind of stimulating elements or a requirement which the beneficiary has to meet; it must not limit to the financing of operation costs.

During the creation of the new system experts took into consideration the furt-

[11]This is the institution that executes the tasks laid down in the decree on the delegation of tasks and the Memorandum of understanding.

her development of the CAP (EU and co-financed supporting constructions), the relevant community regulations, the objectives of agricultural policies and the expected budgetary resources. According to this concept supports focusing on animal husbandry (for example prevention and prophylaxis, monitoring and immunization in veterinary issues), the improvement of the market position of producers and supports assisting in financing (new loans for modernizing animal keeping premises) are accentuated. In connection with these supports the Ministry elaborated the law on the national agricultural compensation system that may improve the income security of producers *(MARD, 2007).*

Establishment of supports focusing on fishery, game management, forestry and community agricultural marketing activities

Summarizing further priority tasks

We expect that the better or even maximal utilization of EU and domestic resources will improve the income safety of Hungarian producers, production will become more competitive.

The competitiveness and the Rural development objectives of the period 2007-2013 are determined in the New Hungary Rural Development Programme: to improve the life conditions of rural population by promoting competitive agricultural holdings based on good agricultural conditions, involved in the employment of rural population and in the modeling of local society and providing services for small producers of the area and integrating them.

A similarly important element of the NHRDP is to promote family farmers, young farmers and small holdings, which are able to increase production and productivity and to carry on activities involving important labor forces by means of the rural development financial resources. Other opportunities for long term production and subsistence are to enter to special markets producing high added value or the diversification of economy (e. g. bioenergy).

Beyond all these considerations, rural development must promote the employment of rural population, as far as it is possible, also outside agriculture. It must encourage rural micro-enterprises, namely on a territorial basis, in an integrated way, considering the particularities of the area and new opportunities.

Based on these three development tracks, we can reach our goals to have employers creating new employments in every rural community, able to utilize the qualities of the area and to vitalize local economy, and to promote the collaboration of enterprises *(Ficsor, 2007).* Competitiveness can be enhanced not only by the creation of new commodities, but also by the improvement of human resources. So education, training, new techniques and technologies and innovation must be imperatively supported in order to reach our long term objectives.

Suggestions:

• To avoid migration of people from rural areas, by the improvement of the economic, social and cultural conditions and by insuring fair income possibilities.

• To apply stricter rules for animal health and food quality and food safety controls in order to save the competitiveness of the Hungarian products.

• To correct the unbalances between plant production and animal breeding, to developanimal breeding, horticulture and bioenergy.

• To increase agricultural production to increase added value.

• To safeguard Hungarian interests in the negotiations on the agricultural reforms of the EU.

• In the course of rural development, the investments furthering the enhancement of competitiveness must be promoted both in raw material production and in food processing.

• There is an insufficiency in the knowledge of farmers concerning investments, market access and even agricultural techniques and animal breeding, so the effectiveness of the advisory activity must be improved.

• The main findings of the first 3.5 years of our EU membership are that the market positions of Hungarian agricultural producers and food processors are not strong enough, and there is a need for a further enhancement (marketing).

We hope that if the above mentioned middle term aims are also realized, these favorable changes would also enhance the economic force of Hungarian agriculture and rural areas and the position of agriculture in Hungarian economy will be stabilized

The restructuring and the reforming of the Hungarian agricultural economy is not yet completed. Our present position can not be compared to those of the West European countries, hardened in the market economy for several decades. We need further adaptation for closing up; we need time and balanced competition conditions for holding on.

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Address:

Vajda László, főosztályvezető, Földművelésügyi és Vidékfejlesztési Minisztérium EU Koordinációs Főosztály, 1055 Budapest, Kossuth L. tér 11., Tel.: 1/301-4299, Fax: 1/301-4659, E-mail: vajdal@fvm.hu

Baksa Adrienn, EU agrárpolitikai referens, Földművelésügyi és Vidékfejlesztési Minisztérium Közösségi Ügyekért Felelős Szakállamtitkári Titkárság, 1055 Budapest, Kossuth L. tér 11., Tel.: 301-4362, Fax: 1/301-4659, E-mail: baksaa@fvm.hu