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Influence of the EU accession on the Hungarian Wine Industry – Three years experience of the CMO-wine implementation

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Agricultural Economics and Transition:

**„What was expected, what we observed,
the lessons learned.”**

Corvinus University of Budapest (CUB)

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ABSTRACT

In our communication, we give a detailed analysis on the results of the EU accession of the Hungarian wine sector, while it is one of the significant wine producers of New Member States, and we have nearly three years experience of application of the CMO-wine.

We show what was expected by the actors of the Hungarian wine industry from this accession. For this reason, we analyze deep interviews made in 2003 with several represents of the wine enterprises and the represents of the professional organizations before the entry to the EU. Then we examine the implementation of the CMO-wine at the level of the national regulation and we analyzed the available statistics (*sources: KSH, HNT, MVH*) in relation of the measures of the CMO-wine applied in the wine sector, and its effect on the Hungarian wine economy. After that, we study the effect of the EU accession to the Hungarian wine exchange, the wine export and import of the recent period. Finally, we touch upon the probable influence of the actual version of the CMO-wine reform on the Hungarian wine industry.

Our study underlines that the operators of the Hungarian wine sector expected a foreseeable and relatively stable regulation system of wine production or wine markets and therefore they projected a rather stable subvention system. Among the CMO-wine measures, for Hungary, the primary is the restructuring and re-conversion of vineyards, but we examine the exploitation of the other CMO-measures like the distillations, the private storage, the aid for musts usage and the export refund for wine exportation into third countries.

Then we analyze the tendency of wine export after the EU accession, which reduced drastically during the recent period for the reason that the concurrence is more and more intensive at the international markets and the cause for the lack of marketing investments. At the same time, the structure of wine import has changed. Its volume rests still marginal, but it shows an increasing tendency, particularly in the category of the bottled wine with favourable quality/price rate, which means a direct concurrence for the Hungarian quality wines in the super-, hypermarket and hard discount chains.

INTRODUCTION

In 2004, among the ten New Member States six wine producer countries jointed to the EU, where Hungary was the most important wine maker considering the vineyard surface and volume of wine production. With the last enlargement (1st of January 2007), two other relevant wine producers, Bulgaria and Rumania entered the European Community (*tab. 1.*). For the New Member States and especially for the central and oriental European countries, this accession presents not only several new possibilities, but new challenges as well, namely the implementation of the EU regulations like the Common Organization of Market in Wine (*CMO-wine*) and the adherence to an enlarged and open common market with its all advantages and disadvantages.

In our communication, we would like to give a detailed analysis on the results of the EU accession of the Hungarian wine sector, while it is one of the significant wine producers of New Member States, and we have nearly three years experience of application of the CMO-wine.

In our paper, we show what was expected by the actors of the Hungarian wine industry from this accession. For this reason, we analyze deep interviews made in 2003 with several represents of the wine enterprises and the represents of the professional organizations before the entry to the EU. Then we examine the implementation of the CMO-wine at the level of the national regulation and we analyzed the available statistics (*sources: KSH, HNT, MVH*) in relation of the measures of the CMO-wine applied in the wine sector, and its effect on the Hungarian wine economy. After that, we study the effect of the EU accession to the Hungarian wine exchange, the wine export and import of the recent period. Finally, we touch upon the probable influence of the actual version of the CMO-wine reform on the Hungarian wine industry.

| New Member States | Vineyard surface (ha) | % | Wine production (hl) aver. 2000-2004 | % |
|-------------------|-----------------------|------|--------------------------------------|------|
| Chypre | 11 000 | 7,3 | 425 000 | 6,1 |
| Tchech Republic | 14 000 | 9,3 | 523 000 | 7,5 |
| Hungary | 93 000 | 61,6 | 4 490 000 | 64,7 |
| Malta | 1 000 | 0,7 | 67 000 | 1,0 |
| Slovakia | 20 000 | 13,2 | 438 000 | 6,3 |
| Slovenia | 10 000 | 6,6 | 994 000 | 14,3 |
| Total | 151 000 | | 6 937 000 | |
| Bulgaria | 95 000 | | 2 206 000 | |
| Roumanie | 228 000 | | 5 654 000 | |

Source: DG Agri, 2006

Tab. 1 : Vineyard surface and average wine production (2000-2004) of New Member States

WHAT EXPECTED – WHAT REALIZED?

The operators of the Hungarian wine sector expected a foreseeable and relatively stable regulation system of wine production or wine markets and therefore they projected a rather stable subvention system. According to the most pessimistic opinions, a diminution of wine export and an increasing wine import were estimated after joining to the EU. This phenomenon was explained by the rising concurrence on the European and world wine market, by the unutilized custom free wine quota toward the EU during the pre-adhesion period, and the more and more opened European market, and Hungarian market in consequence of the European accession. In accordance with the optimists, the Hungarian wine sector could profit of the European subventions regarding the CMO-wine and of the enlarged common market which means a great potential considering the wine consumption trends in the traditional wine importer and in the new wine consumer member states. Moreover, the bilateral agreements (between the EU and third countries), in general, could contribute to the European - and potentially to the Hungarian - wine export as well.

In relation with the implementation of the CMO-wine, we can establish that for the moment of the accession, a new Wine Act and its executive orders were prepared, but after two years experience, some of them need revisions and amendment, namely the orders that deal with the vineyard restructuring and conversion.

1. Treatment of the production potential

With the EU accession, the most important changes have occurred in relation of the wine production potential. As a consequence of the accession, Hungary introduced the planting rights system and the former liberal vine plantation came to end, but the grubbing-up realized by authorization between 1st of May 1996 and 30th of April 2004 are recognized as replanting rights, and can be used in plantation until 31st of July 2010. For this reason, actually 12 500 ha of replanting rights are available at the new plantations.

In spite of the abundant available replanting rights, the diminution of the Hungarian vineyard surface continues. The erosion of surface started in the 1980's, because of the alcohol consumption limitation, the overproduction problems in the Eastern Block and the unfavourable climate conditions (frost, draught). Furthermore, the transition period (land privatisation, shattered integrated wine industry, loss of markets etc.) aggravated the fall of vine surface. Until now, since the 1960's, Hungary has registered a significant decline (-62%). In 1989, Hungary had 140 000 ha vineyard, but during the last 16 years 35% of the surface has disappeared.

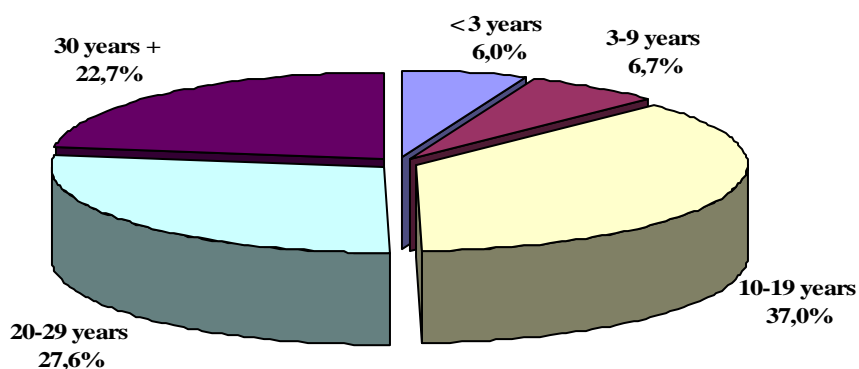
The explanation factors of the surface diminution are linked to the weak proportion of vineyard conversion (replanting) in the 1990's. During 8 years (between 1990-1998), in total 2500 ha vine were planted in stead of 3000-5000 ha per year that is necessary to normal replacement of vineyard

in order to adaptation vine supply to vine demand. Furthermore, the banks considered very risky the viticulture and the wine market development that rendered more difficult to obtain credits for the investments in the wine sector.

Since 1997, Hungarian government applied a subvention system to stimulate new plantations and to preserve the viticulture potential. Wine growers could demand a subvention to finance plantation costs (40-50% of total costs of plantation). The result of this subvention was clear: between 1996-2001, 9000 ha new plantations were realised. This type of subvention and the liberal plantation system operated until EU accession in order to plant the utmost vineyard. Consequently, 1 899 ha in 2002, 3 505 ha in 2003 and 2 032 ha in 2004 new plantations were realised, so since 1st of May 2004, accordingly to the wine-CMO, Hungary like the other Member States, can not enlarge the vineyard surface and the replanting rights system is introduced to the production potential management. However, after the adhesion, the plantations (with use of planting rights) have dropped radically, because of the wine market conjuncture, where the trends are not so advantageous and the consequence of the lack of differentiations in the vineyard restructuring and conversion system elaborated in Hungary.

The acceleration of plantations before the EU adhesion was not enough to detain the decline of vineyards, but the subvention contributed to the modernisation and qualitative restructuring of one part of plantations. It is very important because, according to the viticulture census realised by KSH (Hungarian Central Statistical Office) in 2001, the age structure of Hungarian vineyards are unfavourable: vineyards older than 20 years represent more than 50%, and 25% older than 30 years (tab.2.).

Age of vineyards in Hungary (2001)



Source: KSH (Hungarian Central Statistical Office),

Tab. 2 : Ages of Hungarian vineyards in 2001

During the accession negotiation, Hungary agreed with the EU that the grubbing-up realized by authorization between 1st of May 1996 and 30th of April 2004 are recognized as replanting rights, and can be used in plantation until 31st of July 2010. For this reason, actually 12 500 ha of replanting rights are available at the new plantations.

According to the national regulation, new planting rights can be changed without restraint between the wine production regions. The professionals expected a movement of vineyard from the zones less favourable to regions more adapted to vine growing and market demands concerning the quality. The problem is that the market of replanting rights has not formed yet, because the national reserve does not exist (there is no budget attributed to create this reserve and to buy planting rights

for this reserve). Actually one hectare replanting rights on the free market is between 50 000-150 000 HUF (190-570€/ha).

In Hungary the abandonment premium did not exist before the accession and this measure was not planed at the moment of the EU adhesion (during 2 years) because the plantation and the qualitative conversion of vineyard had priority. In contrast because of the great harvest of 2004 (4,8 million hl of wines) and the high stocks (3,3 million hl) in 2004/2005, the buy prices of the grape decreased by 30-40%, the winemakers who wanted to abandon the activity because of the low profit and the decrease of the revenue demanded the implementation of abandonment premium for grubbing-up in the wine year of 2005/2006. As a result Hungary cut down 3800 ha de vine this year by abandonment premium mainly in those regions where table and country wine (table wine with geographical indication) are produced.

What's more the aid (which varies between 4600 -6300 €/ha connectedly the average harvest yield of the 5 last year) for the definitive cut down is very attractive for the producers. This measure is very popular the producers want the authorities to continue the grubbing-up with abandonment premium in 2006/2007. The grubbing-up with no limit proposed by the Commission in the reform of wine CMO (4th July 2007) can be very dangerous because the vineyard can disappear in those regions where this phenomenon is not desired because of social-economic or agro-environmental causes. A lack of wine can be shown up in Hungary which opens the door to the import. So in the future OCM-wine the subvented grubbing-up is not acceptable because it can completely destroy the equilibrium of the wine market in certain Member States mainly in which the subventions are more then the revenue gained from viticulture activity or then the price of soil. If we count with the average prices (40 HUF/kg – 180 HUF/kg of grape) of the year 2005 the revenue varies (in function with the quality and the region) between 300 000-1 200 000 HUF/ha (1 150 – 4 800 €/ha), but the costs of the grape production are between 500 000-700 000 HUF/ha (1 900 – 2 700 €/ha). *Tab.3.*

In this way the rate of subvention for grubbing-up is much more higher than the revenue of winemakers although there is an aid called single area payment (with a symbolic amount of 70€/ha) and an other for the integrated viticulture (350€/ha). This is not very surprising if the winemakers want to grub up the vineyards and if the subvention increases according to the Commission's suggestion, the will for the definitive grubbing-up will certainly surge.

| Caracteristics | 2005¹ |
|---|--|
| Grape prices | 40-180 HUF/kg = 0,15-0,70 €/kg |
| Income (average yield in 2005 :7,5 tons/ha) | 300 000 – 1 350 000 HUF/ha = 1 150-5 200 €/ha |
| + <i>single area paiement</i> | 70 €/ha |
| + <i>aid for ecological farming</i> | 350 €/ha |
| <i>Incomee with aides²</i> | 1 570 – 5 620 €/ha |
| Production costs | 500 000 – 700 000 HUF/ha = 1 900 – 2 700 €/ha |
| Revenue | - 750 – 2000 €/ha |
| Vineyard price | 500 000 – 3 000 000 HUF/ha – 1 900 – 11 500 €/ha |
| Replanting rights price | 50 000-150 000 HUF/ha =190 – 580 €/ha |
| Abandonment premium | 4 600 – 6 300 €/ha |

¹ note : 1 € = 260 HUF

² note : revenue if the producer asks for these aides and takes part in the program of integrated agriculture he can have higher revenue

³ note : the price of vineyards varies per location, country, age, variety, vineyard technique management etc.)

Source : National Council of Wine Communities

Tab. 3 : Revenue of viticulturists in Hungary

2. Vineyard restructuring an conversion

Among the CMO-wine measures, for Hungary, the primary is the restructuring and re-conversion of vineyards. This measure is the most perspective one, because it aims the harmonization of wine supply and demand considering particularly the wine quality with varietal changes, re-location of vineyard and modernization of vineyard management techniques. For Hungary, a budget of 10 million € per year is allocated to the vineyard restructuring (it means 2/3 of the budget used for the totality of CMO-wine measures in Hungary). After two years experiences, the principles of the restructuring application have been changed, and since the vine year of 2006/2007, the strategic principles are highlighted for the financial allocation of the different type of restructuring measures. The results of changes are visible: in 2006/2007 500 ha vineyards were replanted and modernization of vineyard management technique occurred on 800 ha.

Repartition of 450 millions € Community budget in 2004 and in 2005 :

| | 2004/2005 definitive | | 2005/2006 indicative | |
|--------------|----------------------|--------------|----------------------|--------------|
| | surface (ha) | aids (Mio €) | ha | aids (Mio €) |
| Czech Rep. | 84 | 0,8 | 526 | 1,8 |
| Germany | 1 975 | 12,7 | 1 998 | 12,5 |
| Greece | 988 | 7,0 | 1 249 | 8,6 |
| Spain | 19 888 | 149,3 | 21 131 | 151,5 |
| France | 13 691 | 108,2 | 11 380 | 106,3 |
| Italy | 14 633 | 103,8 | 13 874 | 99,7 |
| Cypre | 193 | 2,3 | 206 | 2,4 |
| Luxembourg | 10 | 0,1 | 10 | 0,1 |
| Hungary | 1 132 | 9,1 | 1 331 | 10,6 |
| Malta | 15 | 0,2 | 23 | 0,1 |
| Austria | 1 275 | 7,2 | 1 077 | 6,6 |
| Portugal | 7 153 | 45,6 | 5 747 | 45,0 |
| Slovenia | 172 | 2,9 | 153 | 2,3 |
| Slovakia | 221 | 0,8 | 299 | 2,5 |
| Total | 61 429 | 450 | 59 002 | 450 |

Source: règlements de la CEE (2004/638/CEE, 2004/688/CEE, 2005/715/CEE, 2005/716/CEE)

Tab. 4 : Aid for vineyard restructuring and conversion by Member States in 2004/2005 and in 2005/2006

The new member countries receives 4,4% of the total budget of this measure which means 19,8 million € for the year of 2005/2006. Among the new member states Hungary has the biggest budget, 10 million € per year (*tab.4 and 5*).

For Hungary it is the measure which includes the biggest amount of aid among all the wine CMO measures. Hungary spends 3,5 milliard HUF (13,4million €) on the CMO-wine measure from which 2/3 is spent on restructuring and conversation of the vineyards (change the variety, re-localisation of the vineyards, change the vineyard technical management) Each year the newly modernised surface represent 1,3% of the total vineyard area.

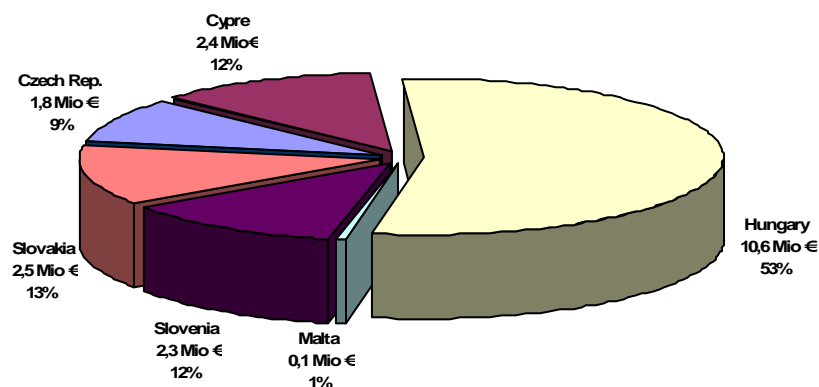
3. Wine production

The conditions of wine making changed significantly as well with the CMO-wine implementation in Hungary, namely with the introduction of the definition of “quality wine produced in specified region” (*quality wine psr.*).

In the group of Central and Eastern European Countries Hungary is the second producer after Romania with a harvest of 4 million hl of wine. After the significant decrease of the times of the political transition the yield of harvest was stabilised around 4 million hl per year. This is nearly equivalent to the production of Greece. The yields of vineyards are higher then in Romania, it varies 45hl/ha. The production of quality wines psr. and table wines represent 50-50% of the total

production. By colour, the white wine production is dominant (69%) but the production of red wine shows a dynamic increase (from 25% to 29% from 2000) in the total production of Hungarian Wines.

Repartition of budget of vineyard restructuring and conversion budget for the New Member States (2005)



Source: CEE regulation (2004/638/CEE, 2004/688/CEE, 2005/715/CEE, 2005/716/CEE)

Tab. 5 : Distribution of the budget of vineyard restructuring and conversation in the New Member States (in 2005)

The most important vines in Hungary (division per territory)

| Variety | Colour | Surface (ha) |
|--------------------|--------|---------------|
| Olasz rizling | white | 7 349 |
| Zala gyöngye | white | 4 265 |
| Furmint | white | 4 033 |
| Rizlingszilváni | white | 3 989 |
| Ezerjő | white | 3 300 |
| Chardonnay | white | 3 130 |
| Chasselas | white | 3 000 |
| Arany sárfehér | white | 2 687 |
| Cserszegi fűszeres | white | 2 553 |
| Hárslevelű | white | 2 448 |
| Zöld veltelini | white | 1 869 |
| Rajnai rizling | white | 1 778 |
| Kövidinka | white | 1 732 |
| Kunleány | white | 1 692 |
| Kékfrankos | red | 8 423 |
| Zweigelt | red | 2 742 |
| Cabernet sauvignon | red | 2 283 |
| Merlot | red | 1 459 |
| Kadarka | red | 1 389 |
| Cabernet franc | red | 1 087 |
| Pinot noir | red | 699 |
| other | | 24 808 |
| Total: | | 87 017 |

Source: National Council of Wine Communities (HNT)

Tab. 6 : Most important varieties in the Hungarian vine-growing by colour and surface

A new phenomenon has shown up recently: the foundation of AOC in the category of quality wine psr. simple or general. The appellation of AOC are reserved for the special Hungarian products or particular sub-regions of quality wine psr. that offer exceptional characters. Among these specialities Tokaji, Egri Bikavér, Debrői Hárslevelű, Villányi, Izsáki have been already acknowledged as AOC by the Act of Wine and the declarations of the minister.

These products has been protected for very long times and there exists specific regulation of standards and regional rules but in order to better protect these special products the AOC system has been launched. Since the EU accession the number of the AOCs is increasing and this trend is set to continue because the producers tends to develop the quality of their products and the make their products different from the others on the basis of terroir and tradition (*tab.7*).

The qualitative aspect of the production is very important in Hungary. By the vintage reports 2/3 of the produced grapes are classified as quality wine and 1/3 as table wines. According to the Hungarian rules the quality wine are classified by the sugar content of the must (more than 150 g of sugar/kg of must), the origin and the yield (max 100hl/ha). In contrast the Act of Wine which went into effort 1st May 2004 forecast the classification – above the mentioned criterias- by vine, with a yielding more limited and with own rules to each wine-producing region. According to the vintage report the proportion of the quality wine psr. and the table wine is the equal (50-50%).



Source: HNT (Conseil National des Communautés de Vins), 2004

Tab. 7 : Hugarian « specified wine regions »

4. Measures linked to the market mechanisms

At the level of market measures linked to the wine-CMO, we can appoint, based on the application the measures during two years after EU accession, that the total budget spent (1,3 millions €) is widely dominated by vineyard restructuring and conversion, 2/3 of this budget was spent to this unique measure. The rest, 1/3 of the budget is divided among the market measures and restitution of export. In 2005/2006 the expenditure for abandonment premium (for 3800 ha) was very close to dispense of restructuring and conversion measure.

1. Distillations

1.1. By-products distillation

With the EU accession, Hungary assumed to apply the obligatory distillation of by-products that was no obligatory practice before the adhesion. The reason of this method is to contribute to the quality improvement, to control the use of by-products and to avoid the overpressing of grapes. The other little wine producer member states like Czech, Slovakia and Slovenia, do not apply this obligation, considering the little volume of by-product and the size of exploitations minuscule. So these Member States can retire the by-products under supervision.

In Hungary, in function of the yield volume, 60 000-80 000 tons of marc arise during the harvest. Hungary made an effort to fulfil the distillation obligation, but because of the situation quasi-monopolistic at the level of distilleries (practically there is only one distillery that can receive lees and 90% of marc, the other 7 distilleries receive the rest 10%); and the collect of by-products is not resolved, there is a large number of minuscule exploitations that deal with many varieties, the harvest period is rather long (mid-August to beginning of November) and by-products arise with relatively little volume by variety. The biggest distillery can be found far (400 km) from the Nord-East and Nord-West wine regions, so the transportation costs are extremely high (the price paid for by-products does not cover the transportation costs and in several cases, the wine-grower sustain a loss significant to fulfil the distillation obligations). This measure is economic only for the great exploitations. For this reason, Hungary demanded derogation for the wine-growers who produce wines of a maximum quantity of 500 hl per year in order to retire by-products under supervision. Every year Hungary has to demand this derogation from the Commission. The execution of the obligation is controlled by the Custom, by the National Wine Qualification Institute and administratively by the Paying Agency.

Concerning the reform of wine-CMO, Hungary holds by withdraw of by-products, but without attributed subvention for distillation and without the obligation of by-products distillation. In the future wine-CMO, Hungary prefers the alternative by-products transformation practices like marc distillation for potable alcohol, as a traditional practice, withdraw des aromas, colorants, grape pip, composting etc.)

In 2004/2005 :

- ✓ 50 000 tons of marcs
- ✓ 130 000 hl of lees

were distilled.

1.2. Distillation of dual-purpose grapes

In Hungary there is no variety classified for dual purpose.

1.3. Distillation for potable alcohol

This measure has no great relevance in spite of the relatively high price of aid for table wines delivered for distillery as potable alcohol, because the distilled volume depends on the distillery and not on the intention of wine-growers. In 2004/2005, there was only one distillery that engaged to this measure for distillation of 55 000 hl of wines. Theoretically, in Hungary, 1 million hl of wine (25% of total wine production) can participate at this measure, but realised distillation is a little volume, because the spirits market is saturated (by the spirits made from cereal, potato, or elaborated with “cold” methodology – it is the cheapest aromatised alcohol) and the distillery can not purchase more products on the spirit market.

Statistics concerning potable alcohol distillation:

- ✓ 1 distillery according with Paying Agency,
- ✓ 27 suppliants (producers)
- ✓ Volume demanded : 50 070 hl of wine
- ✓ Volume accepted by Paying Agency: 50 055 hl
- ✓ Volume accepted by the Commission : 42 196 hl of wine (0.8% of wine production in 2004/2005)

✓ Total payment : 197 millions HUF (750 000 €)
In 2005/2006, only 35 485 hl of wine was demanded for distillation.

1.4. Crisis distillation

Because of the high volume of vintage in 2004 (5,2 million hl), high volume of stocks (3,3 million hl) and the market difficulties (price fall, decrease of export, stagnation of domestic market). May of 2005, Hungary demanded to open the crisis distillation for 500 000 hl of wine. October 2005, the Commission decided the distillation of 400 000 hl table wine (for 1.914 €/°/hl) and 100 000 hl quality wine psr. (for 2,3 €/°/hl), when it was clear that harvest volume was the lowest for last 10 years. There fore wine-growers did not want to deliver wines for distillery in order to satisfy the wine demand in 2005/2006.

Statistics linked to the crisis distillation:

- ✓ 1 distillery according to Paying Agency,
- ✓ 17 suppliants (producers) where 12 accepted by Paying Agency,
- ✓ Volume demanded : 56 243 hl of wine
- ✓ Volume accepted by Paying Agency : 45 083 hl (0.86% of wine production in 2004/2005)

2. Utilisation of musts (CM, RCM) for enrichment

This measure is less used by Hungarian wine-growers, because the chaptalisation is authorised in Hungary (in conformity with the EU legislation of 1493/1999) as traditional enrichment practice. The big enterprises, that dispose concentrator machine, use must aid for enrichment, because they buy excess grape from their suppliers, with whom they have long term partnership. Some of them buy rectified concentrated must (RCM). The product, RCM, is unknown for the majority, therefore they are reserved to use this new technology (chaptalisation is traditional method, saccharose is cheaper: 0,59 €/kg, no routine to aid demand), but the innovative enterprises are interested in RCM.

Statistics linked to the use of musts for enrichment:

- ✓ 19 suppliant where 16 accepted
- ✓ CM used : 9 603 hl
- ✓ Enriched musts : 195 380 hl (3.5% of total wine production in 2004/2005)
- ✓ Total payement for enterprises : 180 millions HUF (700 000 €)

3. Manufacture of grape juice

This measure is not used by grape juice producers. There are two demands per year, but no accepted one. The societies that produce soft drink are not so interested in this subvention, although it exists the enterprises that produce grape juice. We suppose that they use the cheapest concentrated must origin of third countries.

4. Private storage aid

Less used in Hungary, only the large societies demand this aid. One part of wine-growers does not engage to this measure, because they consider it very demanding and they can not purchase wine under private stock contract if they find an offer for attractive price or simply a buyer for their wine.

Statistics linked to private storage:

- ✓ 32 suppliants where 30 accepted
- ✓ Must volume in storage : 2 171 hl
- ✓ CM volume storaged: 194 hl

- ✓ Table wine storage : 130 000 hl (2.5% of total wine production in 2004/2005)
- ✓ Total payment for enterprises : 119 millions HUF (~470 000 €)

As a conclusion the application of market measure, we can appoint that these measures do not play a great role to eliminate wine excess and we have to mention as well that the harvest of two last years was significantly below the average volume (3 million hl in 2005 and 2006). This fact resolved the overproduction problem. Hungary, contrary to other wine producer Member States, does not suffer from structural overproduction problem. The volume beneficiary of European aid represent only a little proportion (4,5%) in comparison with the total wine production. Furthermore, neither crisis distillation nor potable alcohol distillation was able to fulfil its role to eliminate wine excess in 2005.

5. Oenological practices

Among the oenological practices we have to underline that avec EU accession, the wine-CMO took up the Hungarian traditional wine making practices like *aszú*, *szamorodni*, *bikavér* technology, and the traditional wine designation and indications as well.

We have to mention the use of sugar for must enrichment, which is a traditional and authorised practice in Hungary. Because of the climatic conditions, 7 years from 10, it is necessary to augment the natural alcohol contents of must to arrive a marketable product.

The future wine-CMO would like to forbid the use of sugar for enrichment in order to improve the use of concentrated must and RCM. Consequently, wine-making cost will increase with 25-30 % in Hungary that generates disadvantages in the competitiveness on the international and domestic market as well. Hungary positions their wine in the basic and premium price category (although their good quality), or the wine importer countries interesting in the cheapest products like Germany, Russia, Ukraine etc. where the price means the competitive advantage to obtain the market share. With this prohibition (or without aid for must used for increasing alcohol strength), we can project the acceleration of market share loss of Hungarian wines considering the intense concurrence of New World wines and other European wines, and a significant abandonment of viticulture activity, and definitive grubbing-up of vineyard.

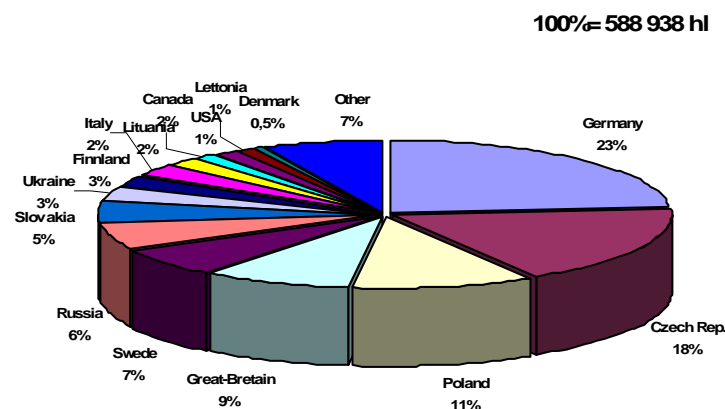
6. Wine trade

In general, Hungary export 25% of its wine production, but tendency shows diminution since 1998. In 2005, Hungary exported 560 000 hl wines, it is the half of the volume exported in 1998 (1,2 million hl). Before transition Hungary was among the important wine exporter country of the world, but nowadays the concurrence intensification on the world wine market has removed from this group.

After drastically fall of wine export during the transition period, until mid 1990's, Hungary registered an increasing period of wine export thanks to the export subvention system financed by the government. The augmentation tendency returned to decrease during last 9 years. Export volume reduced with 50%, and with the volume of 589 000 hl in 2005, it arrived below the level of wine exportation in 1991.

During the recent period, wine exportation structure completely changed. Hungary lost again its export markets, specially the ex-USSR markets like Russia, Ukraine and Byelorussia), that represented in total 400 000 hl wine in 1996 and it reduced to 46 000 hl (-88%) during 9 years. EU became the most important export destination of Hungarian wines, 80% of total wine export is purchased in the other Member States. Furthermore, we can assess quick changes in the destinations: in 2003 in order of volume Germany, Great-Britain, Czech Republic, Slovakia and Poland were the most important partners, while actually Germany rests on the first place but with a significant decreasing volume (-27%), Great-Britain felt back to the 4th place with 47% of volume loss, Czech Republic became the 2nd, Poland the 3rd destination of Hungarian wine (*tab.8 and 9*).

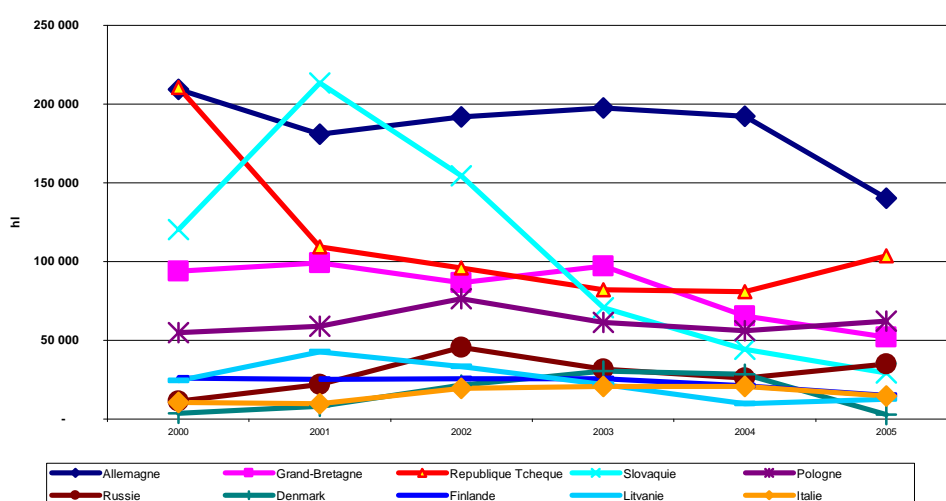
Wine exportation by destinations in 2005



Sources: KSH, Hungarian Central Statistical Office, 2005

Tab. 8 : Hungarian wine exportation by destinations in 2005

In parallel with the volume, the value of wine exports has shown a significant decrease between 1996 and 2001, from 130 million \$ to 64 million \$. Then a light increase came but in the last 2 years we could observe an important decline in the volume of export (56,5 million € in 2005). To the end of the last decade the average price of the Hungarian wine fall to 0,75\$/liter, to 2003 it has a bit recovered but it is still under 1\$/liter (0,96€/liter in 2005). Among the destinations in Great Britain and in the Scandinavian countries the Hungarian wine can be sold on a bit higher price (1,5€/liter) but in Germany and in the Czech Republic and Poland the prices are lower (0,5-0,7€/l) The Hungarian wines are situated in the category of « basic wine ». The Hungarian specialities are positioned in the « ultra premium » or « ikon » category but its quantity is very low. 95% of Hungarian wine is sold under 3\$/liter and 75% is under 1\$/liter.



Tab. 9: Evolution of Hungarian wine export by destinations (source: KSH, HNT)

The structure of the exported wine products can be divided into bulk and bottled wine, sparkling wine, must, concentrated must and vermouth. The bulk wine dominates the export of the Hungarian wines (48%) but after an increase in the last 2 years it decreased. We can observe a

climb concerning the bottled wine which represented 43% of the exports in 2005 while share of the must and the must concentrated have fallen in favour of the other products which represent a higher value.

The biggest challenge for the actors of the Hungarian wine sector is to stop the decreasing trend of the export and the strengthen country's position on the international market. After the EU accession the Hungarian wine export dropped from 743 million hl to 589 million hl (-20%). So Hungary couldn't benefit from the opportunities of the widen market.

The competition becomes sharper on the European market by the evolution of New World countries and by the efforts made by the traditional European producers in order to maintain their market share. In the former USSR above the European wine the wines of the Central and Eastern European Countries (Bulgaria, Moldavia and Georgia) are sold on higher prices than the Hungarian ones.

In order to be able stay competitive in this environment the quality should be developed and the product differentiation enables a better valorisation. It is also essential to match the supply to demand and to force the steps of the collective communication.

The professional organisations are trying to benefit from the promotional and informational programs of the EU in the third countries as well as on the internal market. R (CE) 2702/1999 and 2826/2000). Until this time two Hungarian professional organisation received European aid to realise their promotion program on the European market and a third one is in progress with two French interprofessionals CIVA and Inter-Rhone with an amount of aid of 1 500 000€ for 3 years. The professional organisations have to face a huge problem, the state of Hungary does not provide contribution to the finance of the program with a maximum rate of 30% of the total amount of the program. This contribution is an option for the member states, the Hungarian agricultural minister provide 0% of aid to the promotional programs made by the Hungarian professional organisations, while the other Member States contribute in general 5-20%. In this way the Hungarian producers finance 50% of the programs and ask for 50% European aid and this is a huge disadvantage over the other EU producers.

Finally it is necessary to improve the image of the Hungarian wines. Certain Hungarian specialities like Tokaji and Egri Bikavér and the late harvested wines make the Hungarian wine more known, but the general image of the wines from the Central and Eastern European Countries especially that of the Hungarian is not made yet on the international market. They are known as a medium quality wine with high prices even though the modernisation in techniques and the development in quality. The Hungarian professionals have to make a lot of efforts to improve this image.

The volume of the imports is still marginal to the exports and to the domestic market. It is between 30 000-100 000 hl in order to widen the supply. Between 2000 and 2003 the imports increased. Since the EU accession the import stabilised around 66 thousand hl in contrast with the structure of the packaging of the import which shows a a radical change.

For a long time Italy and Spain was the biggest supplier of wine of Hungary. These two countries exported red bulk wine in order to complete the domestic production because Hungary is rather a producer of white wine but the demand for red wine is higher than its supply. Italy remains the biggest supplier but sells less and less bulk wine. In general the market share of the three big categories in import : the bottled wine, the bulk wine and the sparkling wine is near the 1/3 one by one.

France is the 5th exporter with a low quantity, 1550 hl which are mainly Champagne and AOC wines. The wines from the New World are not present on the Hungarian market yet with huge quantity, they are rather in HORECA channel with not a really important quantity (790hl – 1% of the total volume of imports)

The evolution of import of the bottled wine can be explained by the establishment of the hard discount channels (Lidl) in the last 2 years. They mainly offer imported wines with a very advantageous quality/price ratio. The other explanation is the evolution of the demand because the consumers with higher buying power are open to discover foreign wines. So we can find foreign

wines on the channels of hyper and supermarkets and HORECA which creates a sharp competition between the foreigner suppliers and the Hungarian producers.

CONCLUSION

With the EU accession Hungary introduced in its national regulation the Community legislation, the measures of wine CMO. After 3 years experience we can assess that the most perspective measure is the vineyard restructuring and conversion, while it contributes to the modernisation and qualitative changes of Hungarian vineyard. It plays a role considerable in the wine quality development. The other important measure is the grubbing-up with abandonment premium, but not for the reason of over-production, this measure is very popular because of the high amount of subvention and low profitability of viticulture. The market measures play marginal role in the Hungarian wine sector subvention.

Actually, for the Hungarian wine sector, the wine CMO reform arise the most important challenge and several risks, because Hungary and the other CEECs have just left behind the transition, they are not enough strong and competitive to battle with concurrent on the international and domestic market. They need development at the level of vineyard, production structure and marketing.

The first risk is the grubbing-up project of the Community with raised amount of abandonment premium for 200 000 ha in the EU. This measure will be attractive for the Central and Eastern European Countries (Hungary, Bulgaria, and Rumania) while for short term, the subvention will represent considerable supplementary revenue for vine-growers. However, for long term if these Member States will grub-up excessively, the vine surface regression will accelerate and it means the risk of quick loss of production potential and no satisfaction of intern wine demand that will be replaced rapidly by the cheaper products of competitors.

For Hungary, but the other wine producer Member States as well, need rather the qualitative development an aid for wine marketing than the production potential destruction, because their efficiency is very ambiguous. It is not sure that the Member States suffer from structural over production will eliminate the excessive surface. It is more possible that the CEECs will use grubbing-up to obtain higher revenue.

The heritage of socialist viticulture is visible at the level of the vineyard management technique and the state of vineyard, where one part is obsolete, the other is old, and the conversion proportion is weak that can not drive to qualitative wine production and quality improvement. Therefore the aid for vineyard restructuring is essential for Central European wine producer member states. So we prefer the augmentation of total European budget for vineyard modernisation and giving more chance to wine-makers having good markets.