

## HOW WILL BE CHANGE THE HUNGARIAN FARMERS' LIFE AFTER EU INTEGRATION

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### **Abstract**

On 13<sup>th</sup> December 2002 Heads of State and Government of the EU and ten candidate countries reached an agreement on a formula to enlarge the EU by ten new member states by the year 2004. Hungary will join the EU on 1<sup>st</sup> May 2004.

The Hungarian agricultural subsidiary system is different from the EU's and it is important to help the agricultural sector preparing for the integration. Thus, Hungarian agricultural subsidies aim to help increasing and improving the sector's competitiveness and profitability. The subsidies are essential and account for a significant percentage of the financial resources of smallholders.

In the European Union, the farms are classified by different methods. One is the European Size Unit (ESU) with a subsidy of 1,200 EUR/unit. In Hungary the smallest unit is 2 ESU. More than 90% of the Hungarian agricultural farms belong to the first category and only about 70,000 farms' agricultural area exceeds 5 hectares and have more than 5 standard animal-units.

This analysis is based on the data of the Hungarian Farm Accountancy Data Network.

### **Introduction**

Hungary's territory is 93,030 km<sup>2</sup>. It is the fourth largest among the 12 Candidate Countries and it will be the twelfth largest member state of the new EU of 27 member states. Hungary's land area represents almost 9% of the Candidate Countries' (CC-12) surface and 2.2% of the EU-27's surface. (Table 1)

**Table 1. Hungary – Area, Population and GDP in 2000 compared with CC-12 and EU**

	Area 000 km <sup>2</sup>	Population End of period (million)	Density Inhabitants km <sup>2</sup>	GDP in PPS <sup>(1)</sup>		
				Bio EUR PPS	000 EUR per capita PPS	PPS/capita % of EU-15
Hungary	93	10.02	107	117	11.7	52*
<b>CC-12</b>	1,088	106	97	929	8.8	39*
<b>EU-15</b>	3,236	375	116	8,510	22.5	100
<b>EU-27</b>	4,324	481	111	9,439	19.6	87*
<b>Hungary in % of CC-12</b>	8.6	9.5	111	12.6	133	
<b>Hungary in % of EU-15</b>	2.9	2.7	93	1.4	52	
<b>Hungary in % of EU-27</b>	2.2	2.1	97	1.2	59	

\* = estimate

(1) PPS = Purchasing Power Standard

Source: Agricultural Situation in the Candidate Countries. Country Report on Hungary. European Commission Directorate-General for Agriculture. Brussels, 2002

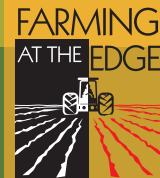
Hungary's population is 10 million. It is the fourth largest country among the 12 Candidate Countries and in EU-27 will be the twelfth. 9.5% of the CC-12's population lives in Hungary and the country will contribute to the EU-27's population by 2.1%. The total gross domestic product (GDP) of Hungary is around 13% of all the CC-12's and will amount to 1.2% of the EU-27's. The GDP of 11,700 EUR per capita is 133% comparing to the level of the CC-12, but only reaches 52% of the EU-15's average. [5]

### **Hungarian agriculture**

From the total land area of 9.3 millions ha, Utilised Agricultural Area (UAA) represents 5.8 million ha. It is 62.9% of the total land area. This is the highest share of cultivated land in all the CC-12 countries and EU member states. The EU-15's average is 40.6% and EU-27's average will be 44%. Arable land represents approximately 76%, permanent crops 5% and permanent grassland nearly 3.1% of the UAA's of the EU-27.

**Table 2. The Role of the Agricultural Sector in Hungary**

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	Utilized Agricultural Area		Gross Value Added of Agriculture <sup>(1)</sup>		Agricultural employment <sup>(1)</sup>		Food expenditure
	000 ha	% of the total area	Miloin EUR	Share of agriculture in GDP (%)	000	% of total employment	% of total
Year	2000						1998
<i>Hungary</i>	5,854	62.9	1,913	3.9	227	6.0	26.6
CC-12	58,808	54.1	18,552*	4.5	8,950	22.0	39.1
EU-15	131,619	40.6	167,197	2.0*	6,767	4.3	17.4 <sup>(2)</sup>
EU-27	190,427	44.0	185,748	2.2	15,717	7.9	19.5
Hungary in % of CC-12	10.0		10.3		2.5		
Hungary in % of EU-15	4.4		1.1		3.4		
Hungary in % of EU-27	3.1		1.0		1.4		

<sup>(1)</sup> = Including Forestry, Hunting and Fishing sector

<sup>(2)</sup> = 1997

Source: Agricultural Situation in the Candidate Countries. Country Report on Hungary. European Commission Directorate-General for Agriculture. Brussels, 2002

In 2000 Hungarian agriculture accounted for 3.9% of the country's GDP (the EU-15's average was 2.0%). [5] [6]

Hungary is one of the few CC's with a positive agricultural trade balance. Agricultural trade has a share of 9.1% of total exports and 3.7% of total imports. While total trade links Hungary mainly to the member states of the EU (62% of imports and 74% of exports), agricultural trade with EU countries has a share less than 50%. Higher proportion of agricultural trade links the country with other CEECs, the former Soviet Union and the rest of the World. [2]

In the transition process until 1995 the value of agricultural production has declined, falling into 70% of the 1989-1991 years' average. Since then, agricultural production has been stabilised and reached a level of 76% in 1999.

## The farming structure

At the beginning of 1990's in Eastern European countries changes of the social system resulted in economic changes. These changes caused the significant transformation of some countries' agriculture, such as of land proprietorship and land-use. The farm structure is not uniform in the Eastern European countries. There are big farms in the Czech Republic and Slovakia, but small farms characterize Poland or Slovenia. After land-privatisation and compensation schemes /partial refunding of the property confiscated in the socialist era/ individual farmers with small agricultural land have appeared on the market. Around 2.5 million ha of collective land and people received a land of less than 2 hectares each. Hungary's land privatisation program generated a great diversity in the legal status, size- and ownership of agricultural holdings. The majority consists of nearly one million private holdings with an average land size of 4 ha. These farms cultivate around 60% of the total agricultural area while 8,382 corporate farms (0.87% of total holdings) cultivate 40.5% of the land.

**Table 3. Private and corporate agricultural holdings in Hungary (2000)**

	<b>Number of holdings</b>	<b>in %</b>	<b>000 hectares</b>	<b>in %</b>	<b>Average size in ha</b>
Total	966,916	100	6,448	100	6.7
<b>Private holdings</b>	958,534	99,1	3,834	59.5	4.0
<b>Corporate farms</b>	8,382	0.9	2,614	40.5	311.9

Source: Statistical yearbook of agriculture 2001. Hungarian Central Statistical Office. Budapest, 2002

The development of farming structures in Hungary reveals that from 1991 to 2000 the total number of farms declined. Especially individual farms are shrinking in number. In 2000, this number declined by about 30% in comparison to that of 1991. The number of farms of lower size up to 1 ha declined by about 50%, while those between 1 to 10 ha increased in number. However, farms of 10 to 100 ha increased the most in numbers.

**Table 4. Number of individual farms by land size (thousands)**

Category	<b>1991</b>	<b>1994</b>	<b>2000</b>
<b>0- &lt;0.2</b>	645	458	374
<b>0.2- &lt;0.5</b>	412	345	204
<b>0.5- &lt;1.0</b>	200	152	99
<b>1.0- &lt;10.0</b>	138	225	232
<b>10.0- &lt;100.0</b>	1	22	49
<b>100.0-</b>	0	0	2
<b>Total</b>	1396	1202	960

Source: Agricultural Situation in the Candidate Countries. Country Report on Hungary. European Commission Directorate-General for Agriculture. Brussels, 2002

Small farms are located around settlements. The greater the distance is from the residence, the larger the fields are. In Hungary small farms are excused from paying certain taxes, so there is an incentive to register several farming operations within one family, even if the land is cultivated as one territorial unit. On the other hand farms exceeding 100 ha can be made economies of scale.

**Table 5. Distribution of farm size and cultivated area in Hungary (2000)**

	Unit	<10	10<to< 50	50<to<1 00	100<	Total
<b>Number of holdings</b>	1,000	909.9	44.6	5.4	7.2	967.1
<b>Share of total</b>	%	94.1	4.6	0.6	0.7	100
<b>Area cultivated</b>	1,000ha	1308.3	1371.9	507.7	3259.7	6,447.6
<b>Share of total</b>	%	20.3	21.3	7.9	50.5	100

Source: Agricultural Situation in the Candidate Countries. Country Report on Hungary. European Commission Directorate-General for Agriculture. Brussels, 2002

### Results of the accession negotiations

The accession means a culmination of a 13-year-long process, during which favorable results could already be felt or will be felt after the 2004-2006 period. Therefore, immediate positive effect of the accession is of less significance.

If non-accessing to the EU Hungarian agrarian sector would stagnate as its capital-attracting capability is too weak. If accessing to the EU the changes in the subsidiary policies, the expansion of markets and investments and participation in the integrated food industry it would assure a much faster growth (3-5% p.a.) and a catching up with the developed countries. At the very beginning, the EU accession will not result in higher financial assistance for Hungarian agricultural sector, but this assistance will be more concentrated. Around 10% of the farmers will receive financial assistance. The largest winner will be grain production, which will receive about 70% of the total funds. The situation in the beef- and veal sector will possibly be stabilised and the situation of the sugar- and tobacco sectors will possibly improve. In the case of sectors with no quotas (swine keeping, poultry, maybe fruit- and vegetable production) the elimination of subsidies will cause problems in the first years. [1]

As a result of the negotiations Hungarian farmers will possibly produce within the common market of the European Union in such a subsidizing system that provides them conditions of fair trade. Hungarian agricultural producers from the first day on will take part in interventional measures (food crop, beef meat, milk powder, butter and wine) in export- and rural development subsidies with the same conditions as producers of other EU countries. They would get a subsidy for the same products as French, Danish or Dutch farmers. Direct subsidies amount to the largest part of agricultural subsidies of the EU. These will gradually be introduced after members states had long discussions whether new member states are entitled for these subsidies or not.

In 2004 farmers of the new members states from community budget will get 25% of the direct subsidies, in 2005 30% and in 2006 35%. This percentage will gradually increase until it will reach 100% in 2013. As a result of the negotiations there is a

possibility to round off direct subsidies from the national budget every year by utmost 30%. It is very important and has to be emphasized that according to the public law neither of the member states can pay direct subsidies from its national budget without an EU approval.

The possibility that direct subsidies can be round off by 30% from the national budget means that Hungarian producers in the first year will get more than half (55%) of the subsidies EU producers can obtain (in the first year 55%, in the second year 60%, in the third year 65%). With this rounding off the transition period will decrease to 6 years and from the seventh year on as EU contribution will reach 70% with Hungarian rounding off the total amount will reach 100%.

For the Hungarian budget the problem to be solved is that producers would have access to EU subsidies payed in a differentiated time-lag. This is a problem to be solved by the Hungarian government.

When determining the direct subsidy per hectare historical reference yields are very important. This reference yield is 4,73 t/ha for Hungary. As a result Hungarian producers from the first year on will get the same amount of subsidies as Spanish or Portuguese producers as in those countries average yields are well below the Hungarian average. Table 6 shows the tune of direct subsidies. [3] [6]

**Table 6. Direct payments in transaction period**

	% of the present member states' subsidy									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU resource	25	30	35	40	50	60	70	80	90	100
EU+ national resource	55	60	65	70	80	90	100	100	100	100

Source: Madari Ákos: Gazdálkodj okosan az Európai Unióban. Földm\_velési és Vidékfejlesztési Minisztérium. Budapest, 2003. (p.3.)

90% of direct subsidies are for cereals, cash crops and protein plants, but cattle- and sheep breeders, as well as tobacco producers may also get significant subsidies.

### **Analysis of the Farm Accountancy Data Network**

This analysis is based on the representative data of FADN.

This network is still under development in Hungary. In 2001, 19 counties provided data for the database within which private and collective farms are treated separately.

In 2001 for private farms the consolidated profit was 15,170 HUF per hectare (around 60 EUR) and the rate of production value profitability was 10.90%. The aggregate capital productivity was 6.56% (this includes not only profit as taxes and interests were paid as well); and the net assets productivity was 6.94%.

In case of collective farms, the results are not very favourable. In 2001 the consolidated profit per hectare was 11,030 HUF (44 EUR). The aggregate capital was 7.44% and the net assets productivity was also negative of -6.40%. Out of collective farms, co-operatives had the worst results. This difference is partly due to the fact that collective farms needed more investments in order to develop, and a significant percentage of their profits is now used to repay loans. The corresponding out-goings are smaller in the case of private farms.

We conclude that subsidisation systems have to find a way of supporting co-operatives: due to their overall size, turnover, assets, facilities and number of employees, they could play a more significant in agriculture, and it should be guaranteed that their resources could fully be used. [7]

When analysing productivity, the figures of Gross Margin (which is defended as difference between Production Value and Variable Cost) can be taken into consideration. The related Standard Gross Margin Index (Gross margin calculated for a unit of measurement, such as one hectare or one animal) is suitable for comparing the financial results of businesses of different forms and sizes. Three sizes of business are distinguished within both private farms and collective farms.

In the European Union, the farms are classified by difference points. One is the European Size Unit. (Table 7) In the Hungarian system, the smallest territorial unit is 2 ESU and more than 90% of the Hungarian agricultural farms belong to this category. (Table 8) According to the data of the Hungarian Central Statistical Office there are about 70,000 farms which possess agricultural land exceeding 5 hectares and have more than 5 standard animal-units. The majority of part-time working hours is on family farms and these farms use 72% of the crop land and keep 69% of the total animal stock.

**Table 7. Farms classification**

Size categories	Size limit in ESU	Top limit	Top limit	Categories name
		(in EUR)	(in HUF)	
I.	<2	2400	600	very small
II.	2-4 ESU	4800	1200	
III.	4-6 ESU	7200	1800	small
IV.	6-8 ESU	9600	2400	
V.	8-12 ESU	14400	3600	medium-small
VI.	12-16 ESU	19200	4800	
VII.	16-40 ESU	48000	12000	medium-high
VIII.	40-100 ESU	120000	30000	large
IX.	100-250 ESU	300000	75000	very large
X.	250 ESU <			

1 ESU (European Size Unit = 1,200 EUR

**Table 8. This typology is made by Agricultural Census in 2000**

	Size categories										Total
	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	
Number of the farms	873332	50224	15942	7654	6832	2980	4307	1539	790	860	964460
Ratio (%)	90,6	5,2	1,6	0,8	0,7	0,3	0,4	0,2	0,1	0,1	100
SGM ratio (%)	23	8,7	4,8	3,3	4,2	2,6	6,5	5,8	8	33,1	100

Source: Kovács Gábor: Adatszolgáltató mez\_gazdasági üzemek az EU információs rendszerében (FADN). Gazdálkodás, XLV.évfolyam 6. Szám (p.63-66)

### Summary

As a result of the negotiations Hungarian farmers will possibly produce within the common market of the European Union in such a subsidizing system that provides them conditions of fair trade. Direct subsidies amount to the largest part of agricultural subsidies of the EU. These will gradually be introduced after members states had long discussions whether new member states are entitled for these subsidies or not. As a result of the negotiations there is a possibility to round off direct subsidies from the national budget every year by utmost 30%.

We have problem the farm structure, more than 90% of the Hungarian agricultural farms belong to 2ESU category. We have to solve this problem, too as soon as possible.

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