INSTITUTE FOR

WORLD ECONOMICS

HUNGARIAN ACADEMY OF SCIENCES

WorkingPapers

No. 115 May 2001

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THE AGRICULTURAL ASPECTS OF HUNGARIAN ACCESSION TO THE EU

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SUMMARY

Having analysed the post-transition development of Hungarian agriculture, this paper concludes that in spite of some significant achievements, Hungarian agriculture still struggles with certain crisis phenomena in production, profitability, efficiency, competitiveness, financing, employment and sales.

The prime agricultural objective of Hungary's accession to the EU is to modernize the country's agriculture and increase its efficiency and competitiveness. Fulfilment can be expected by obtaining equal and unlimited access to the EU financial funds. The main question is whether Hungary, on acceding to the EU, can gain equal access to these funds, and if so, under what conditions.

A second agricultural objective of accession is to find expanding markets and improved (free, unrestricted) market access for agricultural goods in the enlarged EU, since Hungary needs the annual export revenues of USD 1.5-2.0 billion produced by agriculture to maintain its trade and current-account balances.

The third and probably among the biggest gains from accession to the EU for agriculture and the rural population will be the benefits of the Common Agricultural Policy (CAP). This should mean that Hungarian agricultural products also enjoy the highest EU agricultural tariffs of the customs union, which will increase market protection against third countries. Furthermore, Hungarian agricultural exports directed to third markets will enjoy EU export refunds, and the purchasers' and producers' prices of agricultural products will increase to those prevailing in the EU, while the agricultural intervention system increases the stability of the Hungarian agricultural market. In addition, direct aid in the form of compensation to Hungarian producers will significantly increase their incomes, while boosting production and exports. The supplementary measures of CAP (such as support for young farmers, rural development and environmental projects) will also bring benefits for Hungarian agriculture.

The main EU aim is to increase its agricultural exports to the CEE countries to ease its problems of oversupply. The EU also hopes for unrestricted access to the applicant countries' still cheap factors of production (natural endowments, cheap and good quality land, cheap and qualified labour force, cheap agricultural raw materials, developed services), which would improve the grouping's currently weak international competitiveness and offer profitable investment possibilities. The lower degree of environmental degradation in the applicant countries is also attractive to the EU, as it opens the possibility of moving environmentally less sound branches of agricultural production to the new member-states. The EU has a strong interest in establishing an agricultural division of labour in which the CEE countries would specialize in agricultural products that are in short supply in the EU, or uneconomic or environmentally undesirable. Furthermore, it would like agricultural producers in the new member-states to refrain from producing agricultural products of which there is oversupply on the EU market.

To sum up, there is a basic agricultural paradox in Hungary's accession to the EU. Only full membership would let Hungary attain its main objectives named above, whereas the EU can and has achieved most of its goals without awarding Hungary such membership.

Hungary will undoubtedly accomplish a great number of agricultural tasks before gaining accession, or even without gaining it. These are as follows:

* To develop and modernize Hungarian agriculture. This entails settling uncertain land-ownership and land-use relations, creating viable agricultural economic units, increasing efficiency and competitiveness, establishing an appropriate information system for

financial and market advice, and solving the problem of capital shortage and agricultural financing.

* To apply the *acquis communautaire*, enforce legal harmonization, meet veterinary and phytosanitary requirements, create EU compatibility in the Hungarian food industries, and establish institutions for promoting the market access of Hungarian agricultural products and receiving and distributing EU transfers.
* To solve the problem of land and producers' registration, build up a reliable information centre, collect data on producers, production structure and trade, and develop agricultural statistics and information systems.
* Agro-environmental protection.
* To build the information base for rural development, prepare the country's rural development plan and assemble the institutional system of rural development.
* To prepare and develop human resources.
* To prepare the rural population and agricultural producers for accession.
* To include in the preparations groups and professional organizations representing sectional interests.

It is probable that Hungary's agricultural accession will be accomplished later than expected. Consequently, the position of Hungarian agriculture will be determined for some time by conditions in the pre-accession stage.

It is difficult to predict the impact of accession on agriculture while neither the timing of the accessions nor their terms (which countries will become EU members and under what conditions) are known. The two aspects of timing and terms are closely related. An attempt was therefore made in this study to outline various scenarios representing combinations of them.

1) HUNGARIAN AGRICULTURE AT THE TURN OF THE 21ST CENTURY

1.1. Decreasing weight in the economy

The marked structural changes in the Hungarian economy in the last ten years have included a decline in the weight of the agricultural sector in the economy as a whole. *(Table 1)* When the transition began in 1989, agriculture was producing 13.7 per cent of GDP, employing 17.4 per cent of the workforce and generating 22.8 per cent of the export revenues. By 1999, the shares were down to 4.7, 7.1 and 8 per cent – figures close to those prevalent and accepted in the EU, where agriculture contributed 1.9 per cent to GDP in 1999 and an average of 4.1 per cent to employment. EU countries with similar agricultural-employment shares are Finland (7.7 per cent), Italy (7.5) and Austria (7.3). Those of Greece (20.4 per cent), Ireland (12) and Portugal (11.5) are higher.

The sharp fall in the contribution of agriculture to GDP and employment is due mainly to a dramatic decline in the value and volume of agricultural production and a marked contraction in livestock. *(Table 2* and *Figures 1* and *2)* Between 1989 and 1993, agricultural production dropped by 35 per cent. Although it has risen slightly since, it has still not reached its pre-transition level.[1] The volume of Hungarian agricultural production in 1999 was still 30 per cent below the level of the early 1990s. The decline in animal husbandry was especially sharp and recovery – due to the low number of livestock – still seems far away. The national cattle herd in 1999 stood at 50.7 per cent of its 1988 level. For pigs, the proportion was 64.0 per cent, for sheep 42.1 per cent, for chickens 45.6 per cent, and for geese 83.5 per cent. Only the duck and other poultry stocks surpassed the 1988 levels, by 13.2 per cent and 37.3 per cent, respectively. *(Table 3)*

[1] According to estimates in Udovecz, ed. (2000), the value of agricultural production lost between 1989 and 1998 was HUF 1100 billion at constant (1991) prices.

1.2. The main causes of the production decline

Among the main causes of the sharp decline in Hungarian agricultural production was the *transformation of agriculture*. This caused radical shifts in land ownership, land use and corporate structure (Dorgai *et al.*) to private ownership, through the compensation process, conversion of cooperatives, and privatization of state farms and food-industry installations. Only 7 per cent of farmland in 1990 was privately owned. The share was 50 per cent by the mid-1990s.

One of the unwanted and undesirable results of the Hungarian agricultural transformation was *fragmentation* of land ownership. *(Table 4)* Hundreds of thousands of tiny agricultural holdings appeared: 81 per cent of private holdings in the mid-1990s (about 1 million holdings) had areas of less than 1 ha. Latterly, there has been some concentration, with the number of small-scale producers falling from 1.396 million in 1991 to 960,000 in 2000. However, 71 per cent still farm less than 1 ha, which is quite uneconomic in EU terms, and 90 per cent farm less than 5 ha, producing a value of less than HUF 1 million a year. Only 0.03 per cent of the 960,000 private farmers cultivate a land territory of 100–300 ha. *(Tables 5* and *6)*

Besides the 960,000 private farms in 2000, there were 8200 agricultural business units, by contrast with 2600 in 1991. Of these, 21.13 per cent farmed areas of 10–50 ha, 19.51 per cent areas of 100–300 ha and 20.07 per cent areas of 1000–5000 ha. So the ten years after the beginning of transition left the land structure with a combination of numerous dwarf holdings juxtaposed with large-scale farms managed by various types of business organization. Medium-sized family farms are almost entirely lacking.

The business units are dominated by organizations employing a handful of people. In 1999, 72 per cent of the 8100 agricultural legal entities (5864 firms) employed up to 9 persons and only 11 per cent of them over 50. *(Table 7)*

The other undesirable consequence of the agricultural transformation was the *separation of land ownership from land use*, which had an adverse impact on crop production and animal husbandry. As land rent joined the production costs, the competitiveness of agricultural production was affected. In 2000, 27 per cent of the 8200 agricultural business units rented all their land. Furthermore, in those farming more than 50 ha, three-quarters of the area were rented and only a quarter owned.

While agricultural businesses farmed 62 per cent of the country's land in 1989, the share had decreased to 44 per cent by 1999, when their share of the productive land was 29 per cent. The area farmed by agricultural cooperatives halved between 1994 and 1999, while their share of the productive land decreased from 32 per cent to 18 per cent, and of the arable farmland from 40 per cent to 24 per cent. At the same time, land farmed by private producers more than doubled. In 1999, they were farming half the country's agricultural land, 54 per cent of the productive land and 57 per cent of the arable land. *(Tables 8* and *9)*

Other hindrances to the development of Hungarian agriculture have included the *marketization* of agriculture and the *liberali- zation of trade*. The former brought total liberalization of prices and a marked fall in state subsidies to agriculture. This caused the prices of farm inputs (machinery, fodder, fuels, energy, fertilizers, plant protection and veterinary products, and water) to increase much faster than prices for agricultural products. According to estimates (Udovecz, ed., 2000), HUF 340 billion of income was lost to agriculture between 1989 and 1998 as the agricultural 'price-scissors' opened. *(Table 10* and *Figure 3)*

Consequently, the *profitability* of agricultural production and the income of agricultural producers decreased sharply. Up to 1998, post-tax earnings on fixed assets varied between 3.7 and 4.0 per cent, which was half the national economic average, half the average for manufacturing, and only 40 per cent of the expected values (Udovecz, ed. 2000). In 1998, the personal incomes of agricultural producers were 30 per cent below the national average. The average monthly wages of agricultural employees in that year were HUF 48,595. In 1999, they were HUF 53,521, which was 69 per cent of the national average.

Unfortunately, the opening of the agricultural 'price-scissors' and the fall in agricultural incomes were not offset by *state subsidies*. *(Tables 11* and *12)* The real value of state support in 1997 was 23 per cent lower than in the period 1986–90. The nominal value of state support varied between HUF 40 and 110 billion between 1992 and 1998. In 1999, the value of agricultural support was HUF 137 billion.

The level of state support for Hungarian agriculture was low by international standards as well. In the period 1986–8, Hungary's PSE indicator (the ratio of agricultural support to the value of agricultural production) lagged slightly behind the EU average, but in the 1990s, the gap widened significantly. *(Table 13)*

Because of insufficient income and budget support, one of the most pressing problems in Hungarian agriculture today is the *financing of agricultural production*. Furthermore, the weak self-financing capacity and insufficient state support cannot be offset by agricultural and rural banking. Bank financing is hindered by high interest rates (relative to profits) and lack of suitable collateral.

Improper financing, low income and shortage of capital have led to reduced *use of inputs*, which has curbed investment *(Table 14)*, postponed maintenance and led to neglect of research and development. (In 1998, agricultural investment came to only 73 per cent of what it had been in 1990.)

Consequently, there was a sharp deterioration in the utilization of productive forces, including land, labour and working capital, leading to falling yields, low capacity utilization in the food industry, and acceleration of the processes of capital erosion and asset shrinkage. In the main branches of arable farming, almost all production indicators lagged behind the level of the previous year, not to speak of EU averages. In cereals, the average yields (varying according to years and producers) reached only 50–80 per cent of EU yields. With industrial crops, average yields lag behind those of competitors by 30–40 per cent, and with fruit and vegetables by 50–70 per cent. The branches of animal husbandry show the same trend. The main causes are low stock concentration, a backward variety structure and deteriorating feeding and breeding technologies.

The production, profitability, financial and efficiency problems just analysed decreased producers' incomes and increased their indebtedness and rate of bankruptcy. Between 1990 and 1998, the proportion of debt to assets in agriculture increased from 27 to 44 per cent. The outstanding commitments of agricultural businesses equalled HUF 363 billion. This increased redundancies in the agricultural sector, fuelled growing agricultural and rural unemployment and impoverishment. *(Table 15)* By 1999, the number of employees in agriculture had fallen to 270,000, the number in the food industry to 120,000. Besides the employees, there is a body of about 1 million small-scale agricultural producers, unable to produce enough even for their own consumption.

1.3. Foreign trade in agricultural products

While the falling shares of agriculture in GDP and employment was due to declining agricultural production, the sector's decreasing export share resulted from changes in the overall structure of exports, where machinery and other manufactures gained strongly. Agricultural exports grew 1.7 times over between 1989 and 1995 (the low point in the agricultural production crisis), against shrinking domestic demand. Thereafter, agricultural exports declined slightly and then more steeply in 1999. Meanwhile agricultural imports more than doubled, so that the agricultural trade balance fell below USD 2 million. *(Table 16)*

Hungary's agricultural exports to the EU fluctuated widely, growing only 1.5 times over between 1989 and 1999, despite the improved market access provided under the Association Agreement signed in December 1991. Hungary's agricultural imports from the EU, on the other hand, increased 3.5 times over. The export/import coverage ratio therefore dropped from 6.7 in 1989 to 2.8 in 1999. The EU share of Hungary's agricultural exports increased by only 5.2 percentage points, while the EU share of Hungary's agricultural imports increased by a massive 21.8 percentage points.[2] *(Table 17)*

The main causes of the disappointing agricultural export growth are as follows:

* A drop in agricultural production and livestock herds, which led to diminishing or disappearing exportable surpluses. This was partly offset by a contraction of the domestic market, due to a 20 per cent fall in per capita food consumption between 1989 and 1997.
* The decreasing international competitiveness of some agricultural goods, due to a rigid production structure, increasing production costs and input prices, insufficient input use, lack of technological development and innovation, deficiencies in the supporting infrastructure, lack of competitive packaging and marketing, and quality problems.
* Lack of an appropriate export promotion and marketing system, including insufficient export subsidies *(Table 18)*

[2] For more detail on Hungarian-EU agricultural trade, see Fertő (2000).

and unsatisfactory export financing, export credits and export credit guarantees.

* Decreasing effective demand in Hungarian agricultural export markets.

* In relation to the EU, low and fluctuating quota utilization depending on importers' demand. Some product groups (such as cereals except wheat, dairy products except cheese, sugar, *etc.*) were not covered by the EU concessions. In other cases, Hungarian agricultural goods were squeezed out by variable levies in force up to July 1999 or other prevailing non-tariff barriers (quotas, minimum prices) and/or insufficient concessions, or oversupply in the EU market. Furthermore, some open protectionist measures were also applied (*e.g.* the meat and live-animal embargo in April 1993).

On the other hand, dynamic agricultural import growth can be explained by the following factors:

* Declining agricultural production meant that some effective domestic demand had to be met by imports. This led to increasing imports of agricultural raw materials, inputs and certain food items in shortage;

* Consumption patterns have changed due to income polarization, increasing the effective demand for luxury consumer goods, tropical products, quality foods, *etc.*

* As foreign interests acquired important positions in the Hungarian food industry, their activity increased import demand for agricultural raw materials, ingredients, industrial inputs and processed agricultural and food products, usually manufactured by affiliates abroad. Imports were also encouraged the vigorous publicity campaigns launched by Western European firms and by the fact that most retail outlets in Hungary were bought by Western European retail chains wont to buy from their customary sources.

* A factor in turning the emerging and/or induced import demand for agricultural products into actual import flows came from the liberalization of Hungarian agricultural trade, which lifted most import restrictions and non-tariff barriers, and reduced customs duties.

* The high export subsidies and indirect export promotion means of the EU have helped to accelerate Hungarian import growth. (Since 1991, the increase in purchases of subsidised agricultural exports from the EU has been greater than the increase in purchases of unsubsidised exports).

1.4. The main tasks for Hungarian agriculture

Having analysed the post-transition development of Hungarian agriculture, it can be concluded that in spite of some significant achievements, Hungarian agriculture still struggles with certain crisis phenomena in production, profitability, efficiency, competitiveness, financing, employment and sales. The essential tasks include providing food for the population in sufficient quantity and quality, generating export revenues, providing rural employment, developing rural areas, protecting the rural environment, developing backward regions, and utilizing natural endowments, agricultural potentials, comparative advantages, and accumulated agricultural tradition and skills. Before the sector can succeed in these, the following problems have to be solved:

* Finalize the process of transformation, settle land-ownership relations, eliminate legal uncertainties about land ownership and deficiencies in land registration, and create viable agricultural units and a functioning land market.

* Level up agricultural production, revitalize the livestock, develop and modernize the agriculture and food sector, and increase its efficiency and competitiveness by solving problems of

low profitability and incomes, capital shortage, agricultural financing, low investment and technological backlog.

* Modernize forward and backward industries and supporting infrastructure.
* Find expanding markets and improve market access for agricultural export products.
* Establish a WTO-compatible system of market protection.
* Create an efficient, WTO-compatible system of state support and market regulation for agriculture.
* Build a system of agricultural institutions able to strengthen the bargaining positions of agricultural producers.
* Solve the pressing problems of rural unemployment and impoverishment by the combined means of agricultural, rural and regional development.
* Finally, prepare the agricultural and rural population for EU accession.

To solve these tasks, Hungary has to follow an export-oriented, economically efficient and competitive, WTO and EU-compatible, socially acceptable and environmentally sound agricultural, rural and regional development policy. The strategy should form an integral part of the country's overall development strategy. The farm-and-food sector should be handled in a comprehensive way that includes primary production, crop production, animal husbandry and the totality of agri-business through to processing, final consumption and rural development.

2) EU ACCESSION IN RELATION TO HUNGARIAN AGRICULTURE

2.1. The main agricultural objectives for Hungary's accession

The prime agricultural objective of Hungary's accession to the EU is to modernize the country's agriculture and increase its efficiency and competitiveness. Fulfilment can be expected by obtaining equal and unlimited access to the EU financial funds: to the Orientation and Guarantee Section of FEOGA, which absorbs about 40 per cent of the EU budget, to the agricultural and rural-development sections of the Structural Funds, and to the Cohesion Fund. The main question is whether Hungary, on acceding to the EU, can gain equal access to these funds, and if so, under what conditions.

Hungary needs the annual export revenues of USD 1.5-2.0 billion produced by agriculture to maintain its trade and current-account balances. A second agricultural objective of accession is to find expanding markets and improved (free, unrestricted) market access for agricultural goods in the enlarged EU. This applies all the more because the Association Agreement signed in December 1991 provided only limited market access for Hungarian agricultural products, in spite of a tariff decrease and quota increase. Moreover, Hungarian agriculture has only made use of the concessions in part, due to domestic problems of production, quality, competitiveness and export promotion. Consequently, the improved market access has not been converted into dynamic export growth. Furthermore, the EU has been able to make better use of the concessions provided by Hungary, due to its greater efficiency, bigger export subsidies and stronger marketing.

However, it is questionable whether full membership will bring free and unlimited movements of agricultural products. The situation and competitiveness of Hungarian agriculture at the time of accession is still unknown, so that it is uncertain whether Hungary will be able to make use of free, unlimited market access. Another consideration is that full membership will offer free access for EU agricultural products, so that Hungary can expect further deterioration in its agricultural trade balance with the EU. This is not a favourable prospect for the unstable

budgetary balance of the Hungarian economy.

The third and probably among the biggest gains from accession to the EU for agriculture and the rural population will be the benefits of the Common Agricultural Policy (CAP). This should mean that Hungarian agricultural products also enjoy the highest EU agricultural tariffs of the customs union, which will increase market protection against third countries. Furthermore, Hungarian agricultural exports directed to third markets will enjoy EU export refunds, and the purchasers' and producers' prices of agricultural products will increase to those prevailing in the EU, while the agricultural intervention system increases the stability of the Hungarian agricultural market. In addition, direct aid in the form of compensation to Hungarian producers will significantly increase their incomes, while boosting production and exports. The supplementary measures of CAP (such as support for young farmers, rural development and environmental projects) will also bring benefits for Hungarian agriculture.

However, the detrimental impact of applying the EU agricultural system should not be ignored. The increase in agricultural producers' prices will raise food prices, which will endanger the sustainability of single-digit inflation. The precondition for eligibility for compensatory payments is the registration of agricultural producers. The customs union may be exploited to dump EU agricultural products on the Hungarian market.

2.2. Will the EU meet Hungary's accession expectations for agriculture?

2.2.1. Access to financial resources

As far as unlimited, equal access to EU financial resources is concerned, the EU seeks an arrangement that will not increase EU budget spending any further and not decrease drastically the budgetary support given to present recipients. This double task was resolved by resolutions at the Berlin Summit of EU heads of state and government in March 1999. There, a budget for 2000–2006 was accepted in which agricultural expenditures were frozen at the level of €40.5 billion and a special pre-accession and post-accession budget for Eastern enlargement was envisaged. However, the EU starting point in calculating the enlargement budget was not the eligibility of candidates for EU financial resources, EU financial willingness to pay them.

According to the Berlin resolutions, the EU envisages providing agriculture in candidate countries with €520 million of support in the 2000–2006 pre-accession period, under the SAPARD programme (Special Pre-accession Programme for Agriculture and Rural Development). Another €1.6–3.4 billion is to be provided for agriculture in the new member-states after 2002.

These financial provisions are lower than the ones in Agenda 2000, submitted in July 1997, which indicates that EU willingness to make financial sacrifices is declining as time passes. In addition, the EU retains the Agenda 2000 ceiling on the financial support obtainable by any new member, at 4 per cent of its GDP. In Hungary's case, this maximizes the EU transfer at €1.8 billion, assuming that the country's GDP in 2002 will be €45 billion.

Furthermore, access to financial support is tied to a 25 or 50 per cent co-financing capacity, which makes access highly dependent on the budget situation in each candidate country. What is more, new members will also have to contribute to the EU budget up to 1.27 per cent of their GNP. If Hungary joins the EU in 2002, the country will have to pay in €571 million (equivalent to HUF 143 billion), which means that its net EU transfers will fall in the first year after accession. *(Table 19)*

No decision was reached at Berlin about how the pre- and post-accession EU transfers will be distributed among the

Central and Eastern European (CEE) candidate countries. This uncertainty discourages cooperation among them in harmonizing their accession strategies and may lead to disappointment. That was the case with Hungary in 1999, when it emerged that it would receive only €38.054 million a year under SAPARD, instead of the €50–52 million expected. The main question is how and for what reasons the financial provisions will change in the period 2002–6. *(Table 20)*

A further unfavourable indication from the Berlin Summit for the candidate countries' agricultural producers is that neither the pre- nor the post-accession financial provisions include direct aid, in other words, compensatory payments. This principle had not previously been declared specifically, although the EU had already alluded to the ineligibility of the CEE agricultural producers for such payments, which compensate EU farmers for price cuts. Hungary argues that withholding the compensatory payments from newly admitted countries amounts to discrimination their farmers, which conflicts with the principle of fair competition and works against the single market. This makes it unacceptable to the candidates and incompatible with their full membership. However, it is easy to explain the EU reluctance, as huge sums are involved. The 7.5 million farmers of the EU receive €20-25 billion a year as direct payments and there are about 10 million agricultural producers in the candidate countries. Even if the payments were confined to the first-wave candidates (the Czech Republic, Estonia, Hungary, Poland and Slovenia), the cost would rise by €13–16 billion. According to estimates by the Hungarian Agricultural Economic Research and Informatics Institute, Hungary would be eligible for compensation payments of HUF 221 billion in 2002. By contrast, the EU currently assigns altogether €853 per Hungarian farmer in 2002, while each EU farmer will enjoy agricultural support of €5833.

Due to this mainly financial consideration, the EU has an interest in postponing accession and/or introducing a transition period, during which new members would not be supported in the same way or to the same degree as incumbents. The Hungarian standpoint is straightforward: only an accession without a transition, based on equal rights and obligations, is favourable and acceptable for Hungarian agriculture.

2.2.2. Opening of EU agricultural markets

Hungary's second agricultural objective is improved market access and market expansion. The EU has hardly anything to gain from increases in the CEE countries' agricultural exports. Indeed, the EU is still struggling with the problems of overproduction, despite various attempts to reform CAP. Furthermore, there are constraints on disposing of agricultural surpluses by way of export refunds, under the EU's GATT/WTO obligations and the low competitiveness of its products. The EU, in the coming years, will also be compelled under the next WTO round to open its agricultural markets to a greater degree to more competitive external producers, which will not be a beneficial development for the acceding countries, with their relatively low agricultural competitiveness. The provision of unrestricted market access for new members will not necessarily result in an increase of their agricultural exports.

The EU would like to limit the quantity of agricultural products coming into its market. One possible way to do so is to prescribe a transition period, during which existing border controls, animal and plant health regulations and price and support differences would leave the agricultural products of the acceding countries at a competitive disadvantage. Another possibility is to apply production quotas. Limits on production quantity, production area and livestock would curb applicant countries' agricultural production and export capacity.

The main question when determining the production quotas is selection of a base year. Hungary (and the other candidate countries) want the EU to take the best years (for instance, 1986–90), which would mean that more agricultural support could be claimed and higher export growth achieved. The standpoint of the EU is just the opposite: selection of the 'worst' years as base years would leave acceding countries eligible for less agricultural support. It would also mean that their agricultural production and export growth would be curbed, the oversupply on the EU market would not increase, and the increasing demand for agricultural products in new member-states would be met by EU farmers.

2.3. What the EU hopes to achieve

The main EU aim is to increase its agricultural exports to the CEE countries to ease its problems of oversupply.

The EU also hopes for unrestricted access to the applicant countries' still cheap factors of production (natural endowments, cheap and good quality land, cheap and qualified labour force, cheap agricultural raw materials, developed services), which would improve the grouping's currently weak international competitiveness and offer profitable investment possibilities. The lower degree of environmental degradation in the applicant countries is also attractive to the EU, as it opens the possibility of moving environmentally less sound branches of agricultural production to the new member-states. The EU has a strong interest in establishing an agricultural division of labour in which the CEE countries would specialize in agricultural products that are in short supply in the EU, such as oilseeds, or uneconomic or environmentally undesirable (such as pig farming). Furthermore, it would like agricultural producers in the new member-states to refrain from producing agricultural products of which there is oversupply on the EU market (such as cereals, beef and milk).

There is a basic agricultural paradox in Hungary's accession to the EU. Only full membership would let Hungary attain its main objectives (access to EU funds and CAP supports, unrestricted market access and market expansion), whereas the EU can and has achieved most of its goals without awarding Hungary such membership.

2.4. The process of Hungary's agricultural accession

Hungary submitted a membership application to the European Commission on April 1, 1994. The first response came two years later, on April 26, 1996, when the EU sent a questionnaire about the state of the country and its agriculture, with a tight deadline for completion: July 1996. The *avis* of the European Commission, based on evaluation of the questionnaire and further investigations, was published on July 15, 1997. Hungary was declared eligible to start accession negotiations. In December 1997, the Luxembourg Summit of the European Council decided to start entry negotiations with the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus. The negotiations with Hungary commenced on March 31, 1998. The first phase of the accession process was the *acquis screening* for compliance with EU law.

2.4.1. The screening of Hungarian agriculture[3]

During the process of acquis screening, Hungary was screened to see whether it had incorporated into its legal system all EU legal stipulations, including directives, rules, resolutions and decisions, and whether Hungary would be capable of applying them after accession. Screening of the agricultural acquis (which constitutes about half the complete *acquis communautaire*) occurred from September 1998 to September 1999 in nine rounds, each with a multilateral and a bilateral phase. During the multilateral

[3] Great reliance was placed in this section on Maácz (1999).

phase, a competent expert from the EU Commission gave information to the six candidates on the regulations in a certain field, with special regard to laws whose adoption and application would be essential to accession. In the bilateral phase, problems deriving from legal harmonization were identified and the Commission had separate talks with each applicant country. The law-screening lists provided by an applicant were surveyed. The Commission investigated the extent to which the applicant was ready for adaptation, with special regard to the institutional system, investment needs and derogations. Essential issues were not negotiated during the screening rounds. Issues raised were noted by the candidate and the Commission. In some cases, the latter requested supplementary information.

The screening of Hungarian agriculture related directly to Chapters 7 (agriculture), 8 (fisheries) and 21 (regional policies and structural means), and indirectly to the free movement of commodities, services and capital.

The legal issues of fisheries were screened in July 1998. Here Hungary undertook to adopt and apply all EU laws from the first moment of accession. This does not require special preparation, as very few EU laws relate to freshwater fisheries. Laws relating to sea fishing were simply noted by Hungary. In the case of fisheries, the negotiations have already been accomplished and the chapter was closed temporarily in May 1999.

The main topic during the first screening of the agricultural chapter was arable crops (cereals, oilseeds and protein crops) and fruits and vegetables. This round took place in September 1998. The Hungarian side put forward its main principles of agricultural negotiation: accession without transition, and equal rights and obligations. At the same time, it proposed the second half of the 1980s as the base years for production and yield references in calculating compensatory payments (direct income supports), thereby expressing its claim to such payments.

In fruit and vegetable production, Hungary wishes to provide state support for new plantations. Here Hungary asked for a derogation for establishing and supporting of fruit and vegetable producers' organizations.

The institutional structure, tasks and functioning of the Intervention Agency were also discussed in this round. Besides, Hungary was to establish an EU-compatible intervention, market-regulation and information system, and the land-registration system was to be brought into line with EU requirements from the time of accession.

In regulating the fruit and vegetable market, the institutional framework for establishing, acknowledging and controlling producer organizations needs to be created. The quality-control system, already functioning in the case of export products, has to be extended to imports and later to domestic products.

The second round of agricultural screening took place in October 1998. The topic was animal health protection. The Hungarian party indicated that the adoption of EU laws was proceeding well, although there were slight modifications to be made in the field of enforcement. Hungary submitted six derogations. Two were in animal breeding: Hungary would like to maintain its stronger protection against *Leptospires* in the semen and embryos of domestic animals of bovine and porcine species for a transitional period of ten years from accession. Three were in animal protection: protection of laying hens in battery cages, and protection of calves and pigs in installations, for a transitional period lasting until December 31, 2009. One concerned slaughterhouses and butchery plants, for a transitional period of five years from accession.

In animal health protection, a supplementary screening round was held in March 1999, which surveyed the EU conformity of animal-product processing capacities.

The third agricultural screening round took place in December 1998 and January 1999. The main topics were these:

* The paying agency – the national administrative body for administering agricultural support financed by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund; the organization, structure, controlling and supervision of the same.
* The Integrated Administration and Control System for supervising the provision of compensatory payments to producers.
* Intervention purchases and public storage.
* Financial provisions of the Guidance Section of the European Agricultural Guidance and Guarantee Fund.
* The horizontal, the regional and the local measures of rural development.
* Early retirement.
* Agro-environmental measures.
* Support granted for processing and marketing agricultural products.
* Forestry policy.

In this round, the EU surveyed the administration of various forms of agricultural support and compared the present Hungarian support system with the EU institutions, rules and regulations. The EU asked Hungary for detailed plans and programmes concerning agricultural support payments, market interventions (state purchase and storage, export subsidies), compensatory (direct) payments, investment and environmental measures.

The round surveyed the extent to which the Hungarian agricultural support system (its goals and its means) corresponds with EU structural measures and what steps should be taken to bring it gradually closer. However, the Commission noted that the present Hungarian agricultural support system differs essentially from the EU system. While the EU support system is multi-annual, the Hungarian system is an annual one, and its objectives and targets differ.

The Hungarian side announced that it would establish the paying agency by the time of accession, when it could start operation immediately. The main task of the paying agency will be to administer the financial transfers from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. Hungary would like to take part in all the structural programmes of the EU from the moment of accession, with the exception of early retirement. It therefore intends to build an EU-compatible agricultural support system before accession.

With the ongoing structural changes and reorganization of Hungarian agriculture, the goals, means and conditions of the Hungarian agricultural support system in the pre-accession period will be determined in line with the national strategic goals. However, Hungary would like, after accession, to take part in all the programmes co-financed by the EU. Apart from that, Hungary wishes to identify the whole territory of the country as an Objective 1 area, since per capita GDP does not reach 75 per cent of the EU average.

The topic of the fourth agricultural screening round was the regulations concerning milk, beef and veal, sheepmeat and goatmeat, eggs, albumin and honey. This round took place in February and March 1999.

The Hungarian side indicated that it would conduct essential negotiations on the regional ceiling of the special beef premium, on the individual ceiling of the suckler-cow premium and on the slaughter premium. The special beef premium relates to the number of animals entitled to it. The Hungarian request is well above the present number of animals, so that the request cannot be substantiated by statistical data. However, it can be explained in agro-environmental and land development terms.

In the case of milk, Hungary asked for authorization to market drinking milk with

a fat content of 2.8 per cent in Hungary for five years from accession. Furthermore, Hungary intends to negotiate on the milk quotas and the reference years. The milk quota is a production quota, limiting the quantity of milk production. The requested milk quota is well above the production of the most recent years, but it can be justified by domestic consumption, which is expected to increase.

The topics at the fifth agricultural screening round were the foreign-trade mechanism, quality policy, the agri-monetary system, state support, agricultural statistics, non-annex II processed agricultural products, and sheepmeat and goatmeat, pigmeat, poultry, eggs, albumin and honey, from the previous screening round. The round took place in April and May 1999.

With sheep and goatmeat, the Hungarian side raised one issue for negotiation: Hungarian eligibility for ewe premium. This, like the beef premium, is a support quota, which aims at an enhanced production level.

With pigmeat, adoption and application of the acquis will be possible from the first day of accession at the latest. The EU regulations for poultry are included in the Hungarian Food Codex that came into force in January 1998. With eggs, the technical base is lacking for distributing, marking, labelling and packaging the eggs according to quality and weight.

The Hungarian foreign-trade mechanism needs to be harmonized with that of the EU, to make Hungarian agricultural exporters eligible for the EU export-promotion means. Preference should be given to export-promotion means that can be monitored. The system of tenders and competition widely used in the EU should be applied in Hungary as well. In competing for import quotas and export refunds, the deposit system should be applied widely and generally, with consideration for Hungarian conditions.

With the export-import regime, Hungary is capable of adopting the acquis from the first day of accession, but enforcement of the law needs further efforts, especially in public administration, at customs offices and at the paying agency.

At this screening round, Hungarian state support to agriculture was widely discussed. Having presented the various forms of Hungarian state aid, the Hungarian side announced that it would like to conduct negotiations on re-organizational state aid, whose maintenance is essential for increasing the competitiveness of Hungarian agriculture. It has to be examined what kind of Hungarian state aid is incompatible with CAP and the conflicting points should be discussed.

As far as the non-annex II processed agricultural products are concerned, adoption of the trade system for them would cause no problems and the Hungarian side has not requested any derogation.

The sixth agricultural screening round, in May and June 1999, dealt with the following products: wine, sugar, raw tobacco, rice, hop, bananas, cotton, olive oil, flax and hemp, seeds, cut flowers and other plants, and dried fodder. Hungary expressed its intention of conducting substantive negotiations on production and support quotas for sugar and isoglucose, raw tobacco and dried fodder, on the import quota for bananas, on the reference rice-producing area, and on the support granted for cut flowers and to producers of living plants.

In the sugar sector, the adoption of the EU sugar regime would mean higher incomes for sugar producers and the Hungarian sugar industry. However, accession would mean a 70–80 per cent consumer sugar-price increase. The sugar and isoglucose quota required by Hungary can be justified by the production data in recent years.

With raw tobacco, Hungary asked for quotas higher than present production. This is justified because the production of raw

tobacco provides employment in a less developed, crisis-hit region of the country.

A special screening round was held in September 1999, to review the CAP reform of March 1999. As the main principles of market regulation are unchanged, the Hungarian side did not submit any new derogation requests. In some cases, previously submitted derogation claims had become unnecessary because of changed regulations. For instance, the prohibition of supporting capacity-increasing investments was eliminated.

The issues of phytosanitary legislation, pesticide authorization, seed control, eco-management and fodder were screened in October and November 1999.

To sum up, during the agricultural screening rounds, the Hungarian side requested very few derogations for a transitional period, not wishing to delay the process of accession. At the same time, it indicated its intention of conducting substantive negotiations on vital issues such as quotas, direct payments, reference areas and base years, which determine the future of Hungarian agriculture after accession.

2.4.2. The Hungarian position paper

The submission of the applicant country's negotiating-position paper is a prior requirement for starting accession negotiations. Hungary presented its position paper on November 29, 1999. In the introduction, it states that it accepts the acquis in agriculture, it is willing to apply from the time of accession all the CAP rules and mechanisms, and it will take appropriate measures to create conditions for implementing it successfully.

The main principle of Hungary's agricultural negotiating position is accession based on full rights and obligations, with equal and full membership without a transitional period.

(1) The Hungarian government expects CAP as a whole to be extended to Hungary from the first day of accession, including the direct support schemes. It believes that the farmers of the country should be fully entitled to receive direct (compensatory) payments under the various income-support schemes, all the more because these have become stable, quasi-permanent and substantial instruments of CAP. Their main purpose is rather to stabilize the markets and incomes of farmers than to offset the cut in institutionalized prices. Based on the non-discriminatory nature of the acquis, Hungary is confident that Hungarian farmers will be granted the same benefits of direct payments under various support schemes as the farmers of other member states.

Full application of CAP, including the direct support schemes, is justified on legal grounds and also imperative to ensure fair conditions of competition. The situation of Hungarian farmers is largely similar to that of their EU counterparts. Costs of most production factors (machinery, fertilizers, plant-protection chemicals, *etc.*) are determined largely by European or world market prices. The income from the EU support scheme is also needed to ensure a fair standard of living for the Hungarian agricultural community.

(2) The quotas – determining the production controlling measures and the amount of direct supports – are set by the Hungarian party on the basis of the country's national interests. The quotas differ from one product to the other. The Hungarian party requests the acceptance of such reasonable quotas that:

* reflect the actual Hungarian production potential,
* ensure utilization of the country's favourable agricultural endowments,
* promote the agricultural activity vital to the rural population,
* contribute to environmental and nature protection,

* meet domestic consumption in the long run, and
* boost agricultural exports in branches where Hungary has comparative advantages.

To enforce these principles, Hungary in most cases requested quotas above present production levels. Most of these are based on the production level of the pre-crisis and pre-transition period, in the second half of the 1980s.

Hungary asked for especially high quotas for milk, beef and cereals. The 2.8 million-t annual-reference milk quota is well above the average annual production of 1.9-2.0 million t in 1994–8. The Hungarian government takes the view that the quota should be based on the performance over a long period: milk production exceeded 2.8 million t a year in 1987–90. The production decline in the first half of the 1990s was due to widespread changes in the ownership of holdings and the unpredictable economic outlook connected with the transition to a market economy. As these occurrences were out of the ordinary and temporary, they cannot serve as a basis for a long-term arrangement. Furthermore, the present depressed level of domestic milk consumption will increase after a time. The quota size is crucial to the chances for dairy farmers and the farming community as a whole.

After accession, Hungary would like to revitalize its beef sector as well. It has therefore requested that the number of head entitled to benefit from the special beef premiums (the direct payments to cattle breeders) should be set at 245,000 a year. For the suckler-cow premium, 300,000 premium rights are requested. (The present number is 20,000 head.) For the slaughter premium, a national ceiling of 480,000 animals is requested instead of using 1995 as the reference year, which would produce an entitlement of 250,000–300,000 animals. For the additional payments, the Hungarian government proposes a global amount of €12 million.

With sheepmeat, Hungary requests an overall ceiling of 1.5 million eligible animals for premiums to producers. The Hungarian sheep stock in 1998 was 909,000 head. For goatmeat, Hungary requests an overall ceiling of 50,000 eligible animals and designation of the whole country as an area where goatmeat producers are entitled to premiums.

For cereals, the requested national base area is 3,628,298 ha and the average cereals yield 5.19 t/ha. Consequently, Hungary considers itself eligible for area payments on 18.8 million t of cereal production. In recent years, cereals have been grown on an area of 2.8-2.9 million ha.

With durum wheat production, the position paper underlines that this has occurred in Hungary for about 30 years. The climatic and natural conditions allow the country to produce durum wheat of high quality. The production area has decreased recently, due to the widespread changes in ownership, but this is a temporary occurrence. In the medium and long term, the potential for durum wheat production is excellent and the area under it is expected to increase. Hungary is requesting that the limit on the maximum guaranteed area for durum wheat in traditional production zones be set at 15,000 ha and in non-traditional production zones at 50,000 ha.

The government calls for Hungary's inclusion among the rice-producing countries, with a national base area of 18,000 ha, compensatory payments at €340/ha.

In the sugar sector, the Hungarian requests are less ambitious: 480,000 t of sugar and 140,000 t of isoglucose as basic quantities. This practically equals the production level of the years 1994–8. At the same time, annual Hungarian sugar consumption was above 0.5 million t in 1989–91.

As far as raw tobacco is concerned, the government requests an annual processing quota of 15 000 t. This is 2 t higher than the production level of 1998, but below the

averages for the periods 1971–80 (22,000 t) and 1981–90 (16,475 t).

For dried fodder, Hungary calls for a national guaranteed quantity of 200,000 t per marketing year. *(Table 21)*

Hungary's main intention is to achieve full membership without a transition period. With the aim of securing an early accession, Hungary has asked for few derogations in agriculture. The country is felt to be prepared for EU membership in most fields. Some of the derogations are of a technical nature. Hungary will not be in a position, in the coming years, to meet all the requirements for animal protection (with special regard to the protection of laying hens, calves and pigs), some veterinary requirements concerning slaughterhouses, or some preconditions for establishing fruit and vegetable-producer organizations. In these cases, the Hungarian side has asked for derogations of five years from the time of accession. Meeting these requirements calls for significant investments, for which producers need more time in the transitional periods.

With other derogations, Hungary would like to maintain temporarily regulations that are tighter than those of the EU. These derogations reflect Hungarian economic interests or derive from specific Hungarian consumption habits. They refer to the animal-health requirements of boars and bulls for service, to the phytosanitary regulations for weed seed and to authorization to market in Hungary drinking milk with a fat content of 2.8 per cent.

The third group of derogations refers to state aid. The position paper's starting point is that if all the benefits and financial resources under the single-market organizations, direct-support schemes the rural-development measures are extended to Hungary from accession, without reductions and restrictions, Hungary will accept the Community's rules for state aid. However, it wishes to maintain after accession some schemes of national aid:

* Hungary signed contracts with farmers on interest-rate subsidies granted on loan agreements, debt easing or rescheduling, and concluded contracts on state guarantees offered to support loan agreements. Hungary wishes to respect these obligations after accession.
* Farmers under 40 years of age may qualify for set-up grants of up to HUF 15 million, which is equivalent to about €60,000. Hungary wishes to set a ceiling of €60,000 for the combined Community and national contributions.
* Support for setting up producer groups, permitted in the pre-accession phase, should continue to be permitted after accession.

In Hungary's view, these aid schemes are consistent with the acquis. Should the EU not share this view, Hungary will ask for a transitional period of five years from accession.

The Hungarian position paper covers all the obligations deriving from membership. Hungary accepts an obligation to take all necessary measures and build all institutions needed for effective application of CAP regulations by the time of accession. The preparation of Hungarian agriculture requires special treatment. Besides legal harmonization,[4] the main emphasis should go on institution building and state support for preparing agriculture for accession.

2.4.3. The negotiating position of the EU

The European Commission officially sent its common position on the Hungarian negotiating position on July 14, 2000.

So far, the EU has not had a clear-cut opinion and standpoint on such vital issues as the base years, quotas, derogations and direct (compensatory) payments. Logically, the EU requests supplementary information and emphasizes the applicant countries' tasks by the time of accession.

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[4] Half the 80,000-page *acquis communautaire* refers to agriculture.

On the essential issues, the EU response is very terse. To determine the quantitative reference levels (quotas) for each product group, the EU invites Hungary to provide information and data on relevant quantities for the period 1995–9, as the Hungarian quota requests are considered too high and not properly justified. *(Table 22)* The EU rejects the approach by the candidate countries of taking the agricultural production data before the transition as reference quantities, since there was no functioning market economy in agriculture at that time. The fact that Hungarian agriculture was in a totally different situation from agriculture in the other applicant countries before the transition is not taken into account. Also ignored is the fact that agricultural production data for the last three years before accession were taken as reference levels during the last enlargement (Austria, Finland and Sweden).

By reducing the reference levels of the applicant countries to the level of present production, the EU seeks to prevent an increase in agricultural oversupply in the enlarged EU market and reduce the support demand of new members.

If the reference level of the period 1995–9 preferred by the EU were agreed, the Hungarian base area for cereals would be 4–5 per cent less and the reference cereals yields 14–16 per cent less. Hungary would then be eligible for €63/t direct payments on cereal production of 15–17 per cent less than requested. In the case of milk and of sheep and goats for slaughter, Brussels would prefer 40 per cent lower quotas than those required by the Hungarian side. The Hungarian quota requirement for milk, based on the production level of 1987–90, is 2.8 million t, while the average annual production in 1995–8 was 1.99 million t. With beef, the EU quota offer is a fraction of the Hungarian request. The EU rejects the Hungarian request for a national guaranteed quantity of 200 000 t for dried fodder and a national base area of 18,000 ha for rice, and even the very modest request for quotas of 480 000 t of sugar and 140 000 t of isoglucose. If the EU efforts to control production succeed, agricultural production in Hungary will become hopeless in unfavourable regions, the development scope for animal husbandry will narrow, new crisis areas will emerge, the country will be unable to utilize its production potential, and agricultural exports will decline. The expected increase in domestic demand as economic growth accelerates, for instance in the case of milk,[5] will have to be met by imports – from the EU, of course.

The Hungarian derogations submitted in the position paper were noted by the EU, which requested further information and statistics to support them. However, the EU declared its general negotiating position. Transitional measures are to be exceptional and limited in time and scope. They should be accompanied by a plan that defines stages for applying the acquis. They must not disrupt the proper functioning of the rules of the Union or lead to significant distortion of competition. The EU accepts that Hungary provides supplementary support to its producers from the state budget. However, the EU erects three preconditions. The contracts should be concluded with the eligible producers before accession. All EU regulations on state aid have to be adhered to. Information should be provided on young farmers' setting-up costs. Brussels intends to authorize the marketing of stocks of wine in 0.7-litre bottles after accession.

At the same time, the EU does not agree with providing the same type of supplementary support to the Hungarian fruit and vegetable producer organizations as happened with the Portuguese producers. The EU rejects the Hungarian request for exemption from mandatory distillation of grape products for the whole country.

As for the essential issue of direct (compensatory) payments (whether Hungarian producers will be eligible, and if so, from when and under what conditions),

[5] This has happened in Italy, Spain and Greece, where the market has become saturated in the wake of low domestic production quotas.

the Commission will take a position at a later stage in the negotiations, after a thorough examination. Some experts hold that this type of aid will not be provided to new members, as they will not suffer income losses after accession due to the higher producer prices in the EU. It is also mentioned that no budget expenditure is envisaged for direct payments to new members over the period 2000–2006. According to others, there should be decreasing compensatory payments, whereby direct aids would have reached so low a level by the time of Eastern enlargement that paying them to the CEE countries would not be a serious budgetary burden. Furthermore, there are WTO regulations that should not be ignored.

It is good news that Franz Fischler, the EU agricultural commissioner, seems more flexible. He is not against gradual extending the system of compensatory payments to new members, say 5–7 years after accession. This would prevent the emergence of a double agricultural system after accession, within the single European market, and allow the production-control measures (quotas, set-aside) to be applied to new members.

Among the open questions are 1000 t national thresholds for peaches and pears, classification of Hungarian wine-growing areas, recognition of *Tokaji eszencia* as a quality wine produced in a specified area, the tariff-rate quota for bananas imports, the national production quota for tobacco, special beef, suckler-cow and slaughter premiums, and authorization to market milk with a fat content of 2.8 per cent. The issue of protecting animal welfare will be discussed later. At present, the EU asks the Hungarian side to clarify its request for derogation until 2009. As far as zoo-technical legislation is concerned, the EU invites Hungary to provide further information, including a timetable for transposing and applying the acquis in this field. The EU has noted the Hungarian request for derogation for slaughterhouses and cutting plants. It has invited the country to provide a detailed work programme for each establishment and identify the relevant obligations, to ensure there will be full compliance with Community rules at the end of the transitional period.

Furthermore, the EU asked for detailed statistical, technical, chronological and budgetary information on Hungary's preparation for accession and on the data in the Hungarian position paper.

Although the EU acknowledges that Hungary has made significant progress in applying the *acquis communautaire* and in legal harmonization, it encourages Hungary to accelerate the process, implementation and enforcement, and to develop before accession policies and instruments as close as possible to those of CAP. The common position emphasizes the importance of reaching full compliance with EU requirements in the veterinary and phytosanitary fields, and in food safety and consumer protection.

The EU underlines that Hungary must demonstrate, well before accession, that it possesses the administrative capacity for effecting and enforcing the acquis. Hungary should have the mechanisms for managing the various Common Market organizations. The EU invites Hungary to provide clear plans, including a precise timetable, for establishing a functioning Integrated Administration and Control System, a paying agency for export refunds, an issuing body for export/import licences, a body for collecting export taxes, *etc*. It is also essential to establish the administrative network for data collection on agricultural units and production. Without proper registration of primary producers and smallholders, these producers would be deprived of EU support and crowded out of agricultural production. Hungary should provide more information on the definition of regions, sample size and the minimum size of agricultural unit.

The EU concludes that Hungary's acceptance of the acquis implies its readiness to apply Community prices for agricultural products upon accession. The EU invites Hungary to provide information on its plans for approximating its

institutional prices to Community prices in the period before accession, in particular for cereals, sugar, beef and milk products.

To sum up, the EU common position states clearly the interests of the EU and EU agriculture and agricultural producers. The EU acts in every way (for instance, in selecting reference years and determining quotas) to prevent agricultural production increasing in the new member-countries, avoid increasing the oversupply on the EU agricultural market, and defend the privileges (such as compensatory payments) enjoyed by incumbents' agricultural producers. The EU clearly wants a less costly accession, but it fails to take into account the costs of meeting accession requirements. The EU has not yet taken a position on the most delicate issues (such as base years, quotas and compensation payments), but instead is requesting supplementary information and data. This shows it is not aiming for a rapid and smooth accession. Bearing in mind the abundance of agricultural provisions, rules and regulations, the EU can at any time postpone an accession by saying that a minimum number of requirements have not been met. The possibility of postponement is there anyway, since CAP is likely to change in the coming years, due to internal and external pressures. The EU states in its common position paper that some aspects of CAP will be subject to formal reviews in the appropriate framework in the next few years.

2.4.4. The Hungarian response to the EU position paper

Hungary's response to the EU Common Position Paper was given in September 2000. In this document, the Hungarian side took a position on vital issues such as:

* the transition period,
* base years, reference quantities and quotas,
* compensatory payments,
* derogations,
* agricultural prices and price differences,
* state aid to agriculture,
* veterinary and phytosanitary measures,
* food safety and food quality, and
* the institutional framework.

Hot debates were expected on the first three. According to the Hungarian standpoint, the years reflecting the actual consumption (utilization) should be taken as reference years. Furthermore, the regulations of the acquis do not justify selecting 1995–9 as reference years. When setting present member-states' quotas for arable crops (cereals, oilseed and protein crops), the base years were 1989 and 1991, and 1986 and 1991 were accepted as reference years for yields.

At the same time, neither the time of accession, nor the application of the acquis communautaire will be a topic of discussion. As far as the land issue is concerned, it will be discussed under the chapter on free movement of capital.

Having received the Hungarian response, the EU is expected to take a position on the essential issues. Only then can the agricultural negotiations on accession start. After these are concluded, a protocol on accession will be prepared. This will include the detailed preconditions for Hungary's accession to the EU. This will be the document approved by the parliaments of the member states and by the Hungarian Parliament.

2.4.5. The main tasks to be accomplished for the sake of accession

Hungary will undoubtedly accomplish a great number of agricultural tasks before gaining accession, or even without gaining it. These are as follows:

* To develop and modernize Hungarian agriculture. This entails settling uncertain land-ownership and land-use relations, creating viable agricultural economic units, increasing efficiency and competitiveness, establishing an appropriate information system for

financial and market advice, and solving the problem of capital shortage and agricultural financing.

* To apply the *acquis communautaire*, enforce legal harmonization, meet veterinary and phytosanitary requirements, create EU compatibility in the Hungarian food industries (see Juhász and Mohácsi, 2000), and establish institutions for promoting the market access of Hungarian agricultural products and receiving and distributing EU transfers.
* To solve the problem of land and producers' registration, build up a reliable information centre, collect data on producers, production structure and trade, and develop agricultural statistics and information systems.
* Agro-environmental protection.
* To build the information base for rural development, prepare the country's rural development plan and assemble the institutional system of rural development.
* To prepare and develop human resources.
* To prepare the rural population and agricultural producers for accession.
* To include in the preparations groups and professional organizations representing sectional interests.

3) THE IMPACTS OF AGRICULTURAL ACCESSION

3.1. Impacts prior to accession

It is probable that Hungary's agricultural accession will be accomplished later than expected. Consequently, the position of Hungarian agriculture will be determined for some time by conditions in the pre-accession stage.

One important aspect of the pre-accession phase is the agricultural trade between the EU and Hungary. This is essentially determined by the agreement on agricultural trade liberalization, which came into effect on July 1, 2000. According to the so-called 'double-zero' principle, tariffs on more than 600 agricultural products are to be mutually eliminated without any quantitative restrictions. According to the 'quadruple-zero' principle, export refunds will also be abolished. These regulations refer to Hungarian exports of 101,250 t of poultry meat, 50,650 t of pigmeat, 3500 t of cheese and 400,000 t of durum and bread-making wheat and to Hungarian imports of 25,000 t of pigmeat, 15,000 t of poultry meat and 3500 t of cheese.

For a third group of products, contained in the so-called 'classical list', both sides offer each other further tariff reductions and quota increases. For Hungarian wheat exports, the preferential quota will increase from 290,000 t to 400,000 t, and for Hungarian maize exports, from 2000 t to 100,000 t, while the tariff concession will increase from 80 to 100 per cent. The tariffs on honey will decrease from 16 per cent to 6 per cent and the quantitative restrictions will be abolished. In exchange, the EU receives a duty-free quota for 40,000 t of rice and 100,000 t of rye. Further concessions are enjoyed by Hungary for honey, ground paprika, mushrooms, plums and apple juice, and by the EU for cut flowers, fresh and processed tomatoes, and apples.

The fourth list contains the concessions on processed agricultural products. With these, the tariffs consist of an agricultural and an industrial element. The industrial element has already been abolished, while on the agricultural element, the EU has given a 30 per cent concession, which will be increased to 80 per cent. Duty-free treatment is given to sweetcorn, one of the most important Hungarian export items. In exchange, Hungary has agreed to reduce tariffs by 20 per cent on processed agricultural products, as soon as the agreement on agricultural trade

liberalization comes into effect. It will be followed by further annual reductions of 10 per cent.

However, the agreement on agricultural trade liberalization does not cover wines and spirits, which will be regulated by a separate agreement. With wine, duty-free treatment has applied to a certain quantity since January 1, 2000: 400 000 hectolitres. Preparations for a longer-term wine and spirit agreement began in the second half of 2000.

Through the agricultural agreement on trade liberalization just described, 72 per cent of Hungary's agricultural exports to the EU may enter the EU market duty free, compared with the earlier 24 per cent. In exchange, 54 per cent of EU agricultural exports may enter the Hungarian market free of duty, compared with the earlier 10 per cent. According to preliminary estimates, the trade liberalization agreement will raise Hungarian agricultural exports to the EU by €80–100 million, notably chicken and turkey meat, duck products, wheat and cheese. Furthermore, export subsidies of HUF 5–6 billion will be saved according to the quadruple-zero principle. Hungarian firms will gain a HUF 10 billion advantage by elimination of these EU tariffs. Of course, only part of this can be translated into higher export prices.

However, the agreement also gives EU products easier access to the Hungarian market, which may lead to loss of market by some Hungarian products. This applies even more because the EU has eliminated export refunds for only 9 per cent of its agricultural exports to Hungary, so that it is still using export subsidies to maintain its competitive strength. According to preliminary estimates, Hungary's agricultural imports from the EU may rise by €30–40 million a year. The presence of products sold at dumping prices cannot be excluded, to the benefit of consumers,[6] but the detriment of producers. Price falls are also expected in tropical fruits, apples, cut flowers and vegetable oil. Hungarian producers of such products are not happy. Rice producers fear the 40,000-t duty-free rice quota for the EU will put them out of business. Sunflower producers consider that the 10,000-t duty-free vegetable-oil imports will be at the expense of some Hungarian production. With other products (cheese, pigs and poultry), the duty-free treatment will tend to lower prices, while eliminating export refunds will tend to raise them. The question is who will gain by the possible price falls: consumers or traders.

The other aspect of the pre-accession situation is access to and utilization of the pre-accession agricultural and rural development programme SAPARD. Access to the annual €38 million that Brussels envisages for Hungary depends on establishing the required institutions. The present plan is for SAPARD funds to be administered by the Hungarian Ministry of Agriculture and Rural Development. The second precondition is submission, acceptance and realization of proper applications, and the third to secure the required co-financing capacity.[7] *(Table 23)*

3.2. The post-accession impacts

It is difficult to predict the impact of accession on agriculture while neither the timing of the accessions nor their terms (which countries will become EU members and under what conditions) are known. The two aspects of timing and terms are closely related. An attempt will therefore be made to outline various scenarios representing combinations of them.

3.2.1. Scenario: accession of first-wave countries by 2005

This scenario assumes that the negotiations on accession, the ratification process and the

[6] It is estimated that the prices of rice and tomatoes imported from the EU will fall by 40–50 per cent after the abolition of tariffs.

[7] For further detail, see the background study for this project, Kiss (2000a).

referenda on accession will be completed by 2005 and the EU enlarged by 5 + 1 countries (the Czech Republic, Estonia, Hungary, Poland, Slovenia and Cyprus) in that year. The probability of this scenario is low, due to the EU's unsolved internal problems (reform of the institutional system and of the agricultural policy, the weakness of the euro, and the WTO negotiations) and the lack of a clear enlargement strategy. It is also unlikely in the light of the present progress with the accession negotiations and their neuralgic points (such as migration, agricultural supports and regional differences).

If the problems could somehow be solved in the next 4–5 years, agriculture would be the main loser by a relatively early accession. In other words, the EU would only be willing to integrate the agriculture of the candidate countries (including Poland, with a 25 per cent agricultural population) if it does not cost more than envisaged in the 2000–2006 budget and the position of its own agricultural producers is not worsened. Consequently, the acceding countries would have to be satisfied with agricultural supports that did not contain compensatory payments, with lower quotas, and with less favourable reference years. All these would lead to lower than expected production, exports and income growth in agriculture. The agricultural producers of the acceding countries would remain in a disadvantageous competitive position. Under this scenario, Hungary would be deprived of agricultural supports of €1.2 billion.

3.2.2. Scenario: accession of first-wave countries except Poland by 2005

This scenario is lent probability by the problems mentioned under the previous scenario. If only the smaller first-wave countries (the Czech Republic, Estonia, Hungary, Slovenia and Cyprus) acceded, there would place considerably less burden on the EU, especially financially, and public fears in the EU would be lessened. The scenario would pose less threat to the internal cohesion of the EU, as membership would be gained by the more developed and prepared candidates. Furthermore, the weakened credibility of the EU would be strengthened and support to enlargement would increase. However, the exclusion of Poland would produce new tensions in the EU, in Poland and in Central and Eastern Europe.

Under this scenario, the EU could be expected to be more generous over agricultural supports than under the previous scenario. Higher quotas would be provided, reference years more favourable to the candidates would be accepted, and compensatory payments might be granted (perhaps not to a due extent, or from the first day of accession, or perhaps under a different label from the one used to support EU farmers). Under such circumstances, the impact of agricultural accession on production, exports, incomes, budget and modernization would be stronger than under the previous scenario.

The impact of a relatively early accession was investigated by the Hungarian Institute of Agricultural Economics and Information (*A 2002. évi…*, 1998) by modelling accession in 2002. According to the findings, early accession would have a positive impact on producer prices, agricultural incomes and agricultural exports. The degree of price, income and exports growth would depend on whether Hungary received compensatory payments or not. Hungarian agricultural producer prices would be 11.5 per cent or 5.8 per cent higher in 2002 than in 2001,[8] and the income of Hungarian agricultural producers would increase by 20.3 per cent or 14.9 per cent.[9] Of course, the increase of producer prices would result in the increase of consumer prices: in 2002, the consumer prices would increase by 8.2, and 4.6 per cent, depending on the formulation of producer prices. Taking into account that

[8] Prices of crops would rise by 10 per cent and those of animal products by 2 per cent.

[9] The increase would be 25 per cent for crop producers and 6 per cent for livestock farmers.

presently the population spends around 26.5 per cent of its income on food, the increase of consumer prices would lead to 1.2 percentage point growth in inflation.

Agricultural producers would react positively to the price increases and provision of various agricultural supports. Hungarian agricultural production would increase by a moderate 1–2.4 per cent as a consequence of the price increases and by a more significant 6.2–8.5 per cent in response to the stimulation of compensatory payments and other premiums. Crop production, especially the production of cereals (wheat and maize), would increase, while a slight rise in production could be expected in labour-intensive products (tobacco, paprika, apples and grapes). Accession would have a minor impact on animal husbandry, with the exception of the beef sector, which is highly preferred even under the reformed CAP. The growth in food-industry production would surpass that of total agricultural production, with the former increasing by 7.6–10.5 per cent in 2002, due to increasing effective demand for foodstuffs.

As far as the impact of accession on agricultural trade is concerned, the value of Hungarian agricultural exports would be about USD 3.4–4.1 billion, with agricultural imports about USD 1.4–1.8 billion. This would give an agricultural trade surplus of about USD 1.7–2.5 billion, due to increasing agricultural production and improved market access.

Although the main objective of Hungary's EU accession is to exploit the advantages of the single market, the importance of financial resources cannot be neglected either. It is estimated that if Hungary joined the EU, it would enjoy agricultural support of altogether HUF 620–660 billion in 2002. Of this, HUF 300–330 billion would be due to compensatory payments and HUF 270 billion to support for rural development. According to this optimistic scenario, Hungarian agriculture would enjoy financial support of €2.4-2.6 billion, so long as all the supports enjoyed by EU farmers were granted. However, reality is expressed more closely by the budgetary provisions of the Berlin Summit of March 1999, where a sum of €662 million is envisaged for support for Hungarian agriculture in 2002 (see Kiss, 2000b).

3.2.3. Scenario: accession after 2005

As the EU has neither a clear enlargement strategy nor a detailed accession timetable, its tactics will quite probably be to play for time. The EU is also propelled in the same direction by the unresolved internal problems and the fears of enlargement. It hopes, during the time it gains, to settle the internal problems, strengthen internal cohesion, deepen integration, and allow the candidate countries to become more prepared and more developed, so that they present less ostensible danger to the EU and the EU public.

According to this accession scenario, applicant countries would encounter a different agricultural system. It is quite probable that CAP will change direction, towards 'more market and less support', for internal reasons (problems of competition, the budget, environmental degradation and oversupply) and due to external pressures (from the United States and the WTO). This will erode significantly the benefits for which the applicant countries are currently negotiating. The impact of accession on Hungarian agricultural production, exports and incomes would be smaller under such conditions, but greater emphasis would go on rural development and environmental protection.

3.3. Accession chances as a function of the agricultural situation

It follows from the scenarios just analysed that Hungary has a strong interest in an early accession, which would provide more concessions and require fewer reciprocal concessions from the Hungarian side. If the new member-states are chosen for their level of preparedness and development,

Hungary currently has a good chance of being among the first. One question, however, is whether postponement of enlargement would slow the pace of preparation.

The various accession scenarios each put Hungarian agriculture in a different situation. With an early accession, it would also have EU resources to help it to develop and modernize and the EU market would be open to it earlier. At the same time, it is uncertain whether Hungary with a weak agriculture could negotiate toughly on quotas, reference years, compensation payments and derogations, and withstand the competition of strongly subsidized EU producers.

If accession occurs after 2005, there are two variant situations possible for Hungarian agriculture. According to the optimistic variant, the governments in power in Hungary will recognize the economic and social importance of agriculture, make efforts to put agriculture on an export-oriented development path, and boost production by increasing producer prices and investment. These efforts could solve the production, profitability, competitiveness, financial and employment crisis in Hungarian agriculture, increase agricultural production, livestock and agricultural exports, and modernize and develop Hungarian agriculture. The resulting 'stronger' agriculture would increase the bargaining power of the country, so that higher quotas could be reached, more favourable reference years negotiated and more concessions obtained, while fewer derogations would be needed. The main question is whether Hungarian agriculture, without accession and without EU transfers, can be salvaged and developed, and expanding markets found for its products. The other unknown variable is the direction in which CAP will change in the meantime and how possible concessions may be eroded.

According to the other, less favourable variant, Hungarian governments will fail to solve the agricultural problems with the country's own resources. That means the crisis deepens, production stagnates or declines; farmers' incomes sink further, capital shortage endangers modernization and even functioning, exports stagnate or decline and imports increase, worsening the balance of agricultural trade, the technical level and competitiveness of agriculture diminishes, social problems deepen and rural impoverishment grows more prevalent. Under such conditions, Hungarian agriculture will need EU agricultural supports more than ever, but will its bargaining power be too weak to obtain them? On the other hand, Hungarian agriculture in such a depleted state would certainly be seen as less 'dangerous' and more welcome to the EU, due to its lower support requirement. However, the mounting social problems would be a deterrent.

3.4. Winners and losers

It is self-evident that Hungary's accession to the EU ought to bring more benefits than drawbacks. Otherwise, there would be no reason to accede. However, this does not hold true for all sectors, regions and actors. The agricultural balance of accession can only be drawn and winners and losers named once the following factors are known:

* the time of accession,
* the countries that accede at the same time,
* the results of the agricultural negotiations, and
* the situation of agriculture at accession time.

Taking these factors into consideration, the agricultural balance will be in Hungary's favour if the following conditions apply:

* Hungary manages to accede as soon as possible, to enjoy the 'blessings' of CAP while they last.

* The EU is enlarged by a small number of well-prepared, relatively developed countries.
* Hungary gains the maximum concessions and give the minimum of concessions in return at the agricultural negotiations.
* Hungary's agriculture manages to increase its bargaining power by a good performance and a clear-cut strategy for agricultural development.

The main winners in agriculture will be:

* The agricultural producers, if producer prices and incomes increase, if they gain access to EU agricultural supports, including the compensatory payments, and if they find expanding markets for their increasing production.
* The agricultural exporters, if they gain unlimited access to the enlarged single agricultural market of the EU, and if they manage to sell their products on third markets with the help of EU export refunds.
* The regions and districts of the country that benefit from EU rural-development and regional programmes.
* The Hungarian state budget, through the EU transfers.

However, there will also be losers, even by the most favourable agricultural accession scenario:

* The consumers, especially in urban areas, due to the rise in retail prices (food).
* Some agricultural producers, due to increasing production costs, which may erode their competitiveness and crowd them out of the domestic market.
* Those agricultural producers, mainly smallholders, whose circumstances fail to qualify them for EU support or who fail to gain access to it.

To minimize the number of losers calls for an agricultural policy, even prior to accession, that attempts to forestall their losses,[10] prepares the potential losers and provides treatment for them. On the other hand, the appearance of the losses after accession calls for a programme or plan of action that sets out to compensate the losers and offset the detrimental effects of accession. Only under such conditions can support for EU membership be expected from the branches of the economy, regions of the country and strata of the population that will, or feel that they will lose by the accession.

* * * * *

[10] For instance, concentration of land holdings could be promoted, to raise the hectarage that qualifies for EU support.

TABLES AND FIGURES

Table 1
The share of agriculture in the Hungarian economy,
(1989–99, %)

	GDP	Employment	Exports
1989	13.7	17.4	22.8
1990	12.5	17.0	23.1
1991	8.6	15.2	25.1
1992	7.8	13.0	24.0
1993	7.1	9.3	22.6
1994	6.9	8.8	20.6
1995	7.0	8.5	22.9
1996	6.7	7.9	21.0
1997	5.7	7.7	14.9
1998	5.2	7.5	12.0
1999	4.7	7.1	8.0

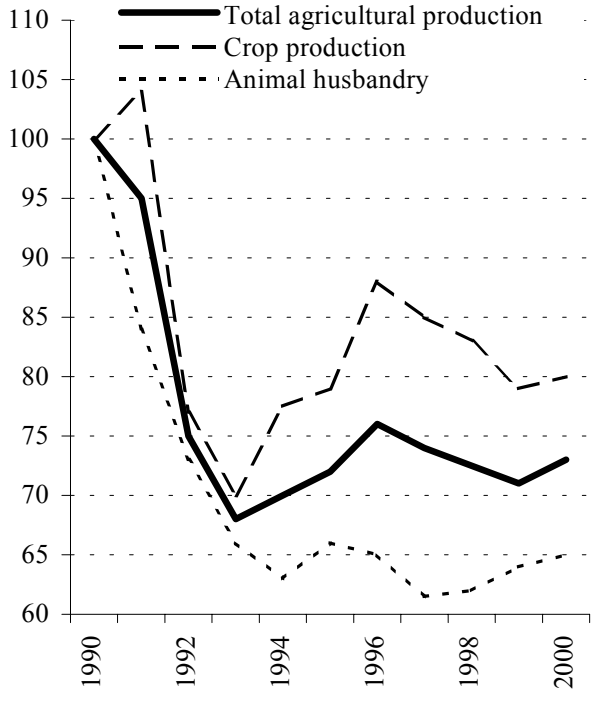
Source: Statistical Handbook of Agriculture and the Food Industry. Budapest: Central Statistical Office (hereafter CSO), various issues; *Hungarian Statistical Yearbook.* Budapest: CSO, various issues; export data: Office of Agricultural Market Regime, Ministry of Agriculture and Rural Development.

Table 2
Indices of gross agricultural production
(1989 = 100)

	Crop production	Animal husbandry	Total
1990	91.0	100.0	95.6
1991	94.6	84.4	89.6
1992	69.9	73.7	71.4
1993	63.9	66.3	64.8
1994	69.9	63.4	66.5
1995	71.1	65.4	68.7
1996	78.3	66.8	72.5
1997	76.5	62.4	69.8
1998	69.9	66.3	68.7
1999	70.6	65.8	68.7

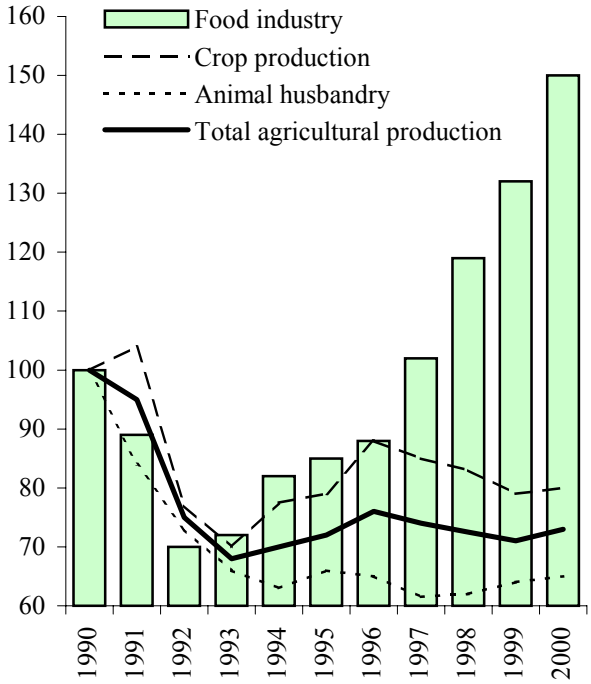
Source: Statistical Handbook of Agriculture and the Food Industry. Budapest: CSO, various issues; *Hungarian Statistical Yearbook.* Budapest: CSO, various issues.

Figure 1
Volume indices of agricultural production, 1990–2000 (1990 = 100)



Source: Magyar Mezőgazdaság
(Hungarian Agriculture), October 27, 1999, p. 11.

Figure 2
Volume indices of agricultural and food-industry production, 1990–2000
(1990 = 100)



Source: Magyar Mezőgazdaság, June 21, 2000, p. 6.

Table 3
Livestock
('000 head)

	1988	1993	1998	1999
Cattle	1690	999	873	857
Pigs	8327	5001	5479	5335
Sheep	2216	1252	909	934
Poultry	88,554	55,425	35,955	31,244
Chickens	56,719	30,813	30,557	25,890
Geese	1519	876	1074	1269
Duck	2005	1304	2378	2269
Turkeys	1361	836	1986	1859

Source: As Table 2.

Table 4
Changing land-ownership relations, 1990–95
(%)

Year	State	Cooperatives	Coop members	Private owners
1990	27	42	24	7
1991	27	39	23	11
1992	24	31	26	19
1993	23	19	23	35
1994	21	-	40	41
1995	20	-	33	48

Source: Agricultural Situation… (1998), p. 41.

Table 5
The size structure
of private farms in 2000
(ha, '000 units)

Size of holding	1991	2000
< 0.2	645	374
0.2–0.5	412	204
0.5–1.0	200	99
1.0–10.0	138	232
10.0–100.0	-	49
> 100.0	1	2
Total	1396	960

Source: Magyarország mezőgazdasága… (2001).

Table 6
The ownership structure of agricultural land
in 2000 by size of holding
(ha, %)

Size of holding	Private farms		Business units		All farms	
	Holdings	Area	Holdings	Area	Holdings	Area
< 1 ha	70.4	7.7	31.0	0.0	70.1	3.1
1–10 ha	24.2	27.7	9.2	0.1	24.1	11.2
10–100 ha	5.1	47.7	27.1	2.3	5.3	20.6
> 100 ha	0.2	16.9	32.6	97.6	0.5	65.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Agrár Európa (Agrarian Europe), June 2000, p. 34.

Table 7
The structure of agricultural business units by number of employees, end of 1999

Employees	Number of units	Proportion of total (%)
< 9	5864	72.4
10–19	618	7.6
20–49	743	9.2
50–249	791	9.8
250–499	55	0.7
< 500	29	0.4
Total	8100	100.0

Source: Magyar Mezőgazdaság
(Hungarian Agriculture), June 2000, p. 34.

Table 8
The structure of agricultural land by type of farm
('000 ha)

	1994	1995	1996	1997	1998	1999
Business units	3086	2593	2615	2358	2410	2620
Cooperatives	2727	2208	2010	1825	1671	1495
Private farmers	2074	4035	4192	4627	4745	4689
Others	1417	467	487	483	477	500
Total	9303	9303	9303	9303	9303	9303

Source: Magyarország mezőgazdasága… (2001).

Table 9
Land use in 1996

	Business units	Cooperatives	Private farms
Number of units	4300	2100	1,200,000
Proportion of farmland (%)	18	28	54
Proportion of forest (%)	66	8	26
Proportion of productive land (%)	28	24	48

Source: Agricultural Situation… (1998).

Table 10
The agricultural 'price-scissors'
(1989 = 100)

	Producer prices	Input prices	'Scissors'
1990	128.5	145.5	113.3
1991	127.3	192.9	151.5
1992	138.3	208.3	150.7
1993	163.8	250.0	152.6
1994	204.6	295.2	144.2
1995	260.1	365.1	140.4
1996	334.0	513.6	153.8
1997	379.0	590.0	155.7
1998	393.8	619.7	157.5
1999	397.3	651.0	[?]

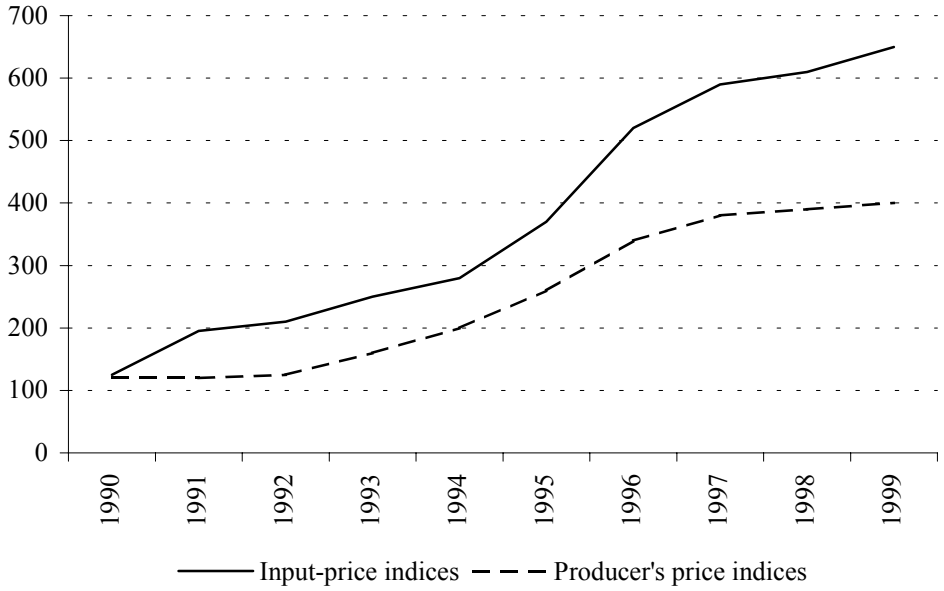
Source: As Table 2.

Table 11
State support to agriculture
(HUF billion)

	At current prices	In real terms	Real-value indices
1986-1990 (average)	80.3	80.3	100.0
1994	74.4	31.0	38.6
1995	73.1	23.8	29.6
1996	92.7	24.4	30.4
1997	87.4	19.4	24.2
1998	109.0	21.2	26.4
1999	128.6	22.8	28.4
2000	259.4		
2001 (target)	309.7		
2002 (target)	318.9		

Source: As Table 2.

Figure 3
The agricultural 'price-scissors'
(1989 = 100)



Source: Világgazdaság, July 4, 2000, p. 6.

Table 12
The distribution of state support to Hungarian agriculture
(HUF million)

	1993	1994	1995	1996	1997	1998
Support to agricultural activity:						
Market access	42707	46732	47531	45079	38565	38964
Promotion of market access					6495	14147
Agricultural and food-industry export promotion	25531	40040	45055	42982	27273	18799
State procurement	17176	6692	2475	2097	4797	6018
Diminishment of production costs		9909	11620	16388	18349	29963
Financing of agriculture		2594	3258	6091	6496	12737
Agricultural production		5551	8016	2438	5782	11652
Land use		0	0	5969	6071	5574
Other supports		1764	347	1890		
Individual production and enterprises	1024	966	212	31	101	22
Interest-rate refunds on working capital	626	667	0			
Interest-rate refunds on agricultural and food-industry investments	398	299	212	31	101	22
Eliminating forestry damage	100	100	200	129	201	261
Reorganization	1225	4979	7453	10878	4147	2969
Investment support						
Amelioration and irrigation	980	1219	1446	1283	1776	2117
Support to agricultural infrastructure		642				
Afforestation	450	572	1000	1000	1300	1400
Supports for other objectives						
Agricultural investments	4000	7000	3200	15398	19760	30360
Communal objectives in forestry		200	300	200	200	200
Forest railways	20	45	51	58	65	65
Welfare park forests	65	65	68	79	85	83
Uninsurable damage by forces of nature	650					1977
Agricultural land use and development	710	1995				
Agricultural informatics	0	0	0	300	250	200
Recovering damage to animal stocks				1875	2566	1883
Total state support	*51930*	*74424*	*73081*	*92697*	*87364*	*110563*

Source: Udovecz, ed. (2000), p. 50.

Table 13
A comparison of agricultural support in Hungary and the EU

	1986–8	1991–3	1996–8	1997	1998
EU					
USD million	99619	131028	116271	109670	129808
PSE, %	46	47	39	38	45
Hungary					
USD million	3073	901	585	433	642
PSE, %	47	17	10	8	12

Source: Agrár Európa (Agrarian Europe), June 1999.

Table 14
Investment in Hungarian agriculture

	At current prices (HUF billion)	Proportion of total investment (%)	Volume indices 1989 = 100
1989	29.0		
1990	28.0	…	83.0
1991	17.0	4.3	41.0
1992	7.0	2.9	14.0
1993	7.0	3.1	13.0
1994	19.0	2.9	30.7
1995	24.0	2.9	31.0
1996	36.8	3.5	36.2
1997	56.0	3.6	46.5
1998	90.0	3.6	68.9
1999	70.0	3.3	48.8
2000		3.0	

Source: As Table 2.

Table 15
Agricultural employment

	Employees ('000)
1990	813.3
1991	709.7
1992	552.6
1993	359.8
1994	326.2
1995	308.5
1996	283.8
1997	294.3
1998	278.0
1999	270.0

Source: As Table 2

Table 16
Agricultural trade
(USD million)

	Total agricultural trade			Agricultural trade with the EU		
	Exports	Imports	Balance	Exports	Imports	Balance
1989	1724	591	1133	762	114	648
1990	1916	606	1310	854	128	726
1991	2636	627	2009	1169	173	996
1992	2653	660	1993	1108	230	878
1993	1974	799	1175	878	347	531
1994	2307	1060	1247	997	467	530
1995	2901	978	1923	1257	468	789
1996	2746	940	1806	1300	405	895
1997	2849	1087	1762	1157	458	699
1998	2769	1196	1573	1210	494	716
1999	2310	995	1315	1145	409	736
2000*	2400–2500	900–1200	1300–1500**			

Source: Office of the Agricultural Market Regime, Ministry of Agriculture and Rural Development.
Notes: * See Zacher (2000). ** Estimate made by the Institute for Financial Research.

Table 17
The EU share of Hungary's agricultural trade
(%)

	Exports	Imports	Balance
1989	44.2	19.3	57.2
1990	44.6	21.1	55.4
1991	44.2	27.6	49.6
1992	41.8	34.8	44.1
1993	44.5	43.4	45.2
1994	43.2	44.1	42.5
1995	43.3	47.9	41.0
1996	47.3	43.1	49.6
1997	40.6	42.1	39.7
1998	43.7	41.4	45.5
1999	49.6	41.1	56.0

Source: As Table 16.

Table 18
The value of Hungary's agricultural export subsidies
(1991–1998)

Year	Export subsidies, HUF million
1980–1990 average	45.3
1990	23.2
1991	26.8
1992	22.9
1993	25.5
1994	40.0
1995	45.1
1996	43.0
1997	27.3
1998	18.8
1999	15.8

Source: As Table 16.

Table 19
Support for agriculture during Eastern enlargement
(€ million)

	2000	2001	2002	2003	2004	2005	2006
Pre-accession	520	520	520	520	520	520	520
Post-accession	-	-	1600	2030	2450	2930	3400

Source: Presidency Conclusions – Berlin, European Council, 24 and 25 March 1999.

Table 20
Financial support expected by Hungary after accession
(€ million)

	2002	2003	2004	2005	2006
Agricultural support	256	325	392	469	544
Structural support	406	749	1062	1362	1731
Total of above	662	1074	1454	1831	2275
AGENDA 2000	816	1200	1600	2000	2384

Source: Kiss (2000a).

Table 21
Production and support quotas requested by Hungary

Cereals	3 628 298 ha
Durum wheat in traditional zones	15 000 ha
Durum wheat in non-traditional zones	50 000 ha
Rice	18 000 ha
Special beef premium	300 000 head
Suckler cows	245 000 head
Slaughter premium	480 000 head
Ceiling for sheep	1 500 000 head
Ceiling for goats	50 000 head
Milk	2 800 000 t
Tobacco	15 000 t
Dried fodder	200 000 t
Sugar	480 000 t
Isoglucose	140 000 t

Source: Negotiating Position… (1999).

Table 22
Hungarian quota requirements and actual production in 1995–1998

	Quota requested	Actual production			
		1995	1996	1997	exports
Milk (1000 t)	2800	1974	1972	1977	2045
Cereals (1000 ha)	3628	N/A	2807	2937	2835
Sugar (1000 t)	480	480	555	489	424
Sheep (1000 head)	1500	977	872	858	909
Tomato (1000 t)	321	N/A	N/A	220	330
Tobacco (1000 t)	15	N/A	N/A	11	13

Source: Világgazdaság, May 12, 2000, pp. 1 and 4.

Table 23
Duty-free agricultural trade for the various lists of products (% of total agricultural trade)

	Hungarian	EU
	exports	
Double-zero	9	25
Quadruple-zero	34	9
Classical list	5	10
Subtotal	48	44
Earlier duty-free	24	10
Total	72	54

Source: Hungarian Ministry of Foreign Affairs.

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