Hungarian food processing on a slippery slope

Norbert Potori

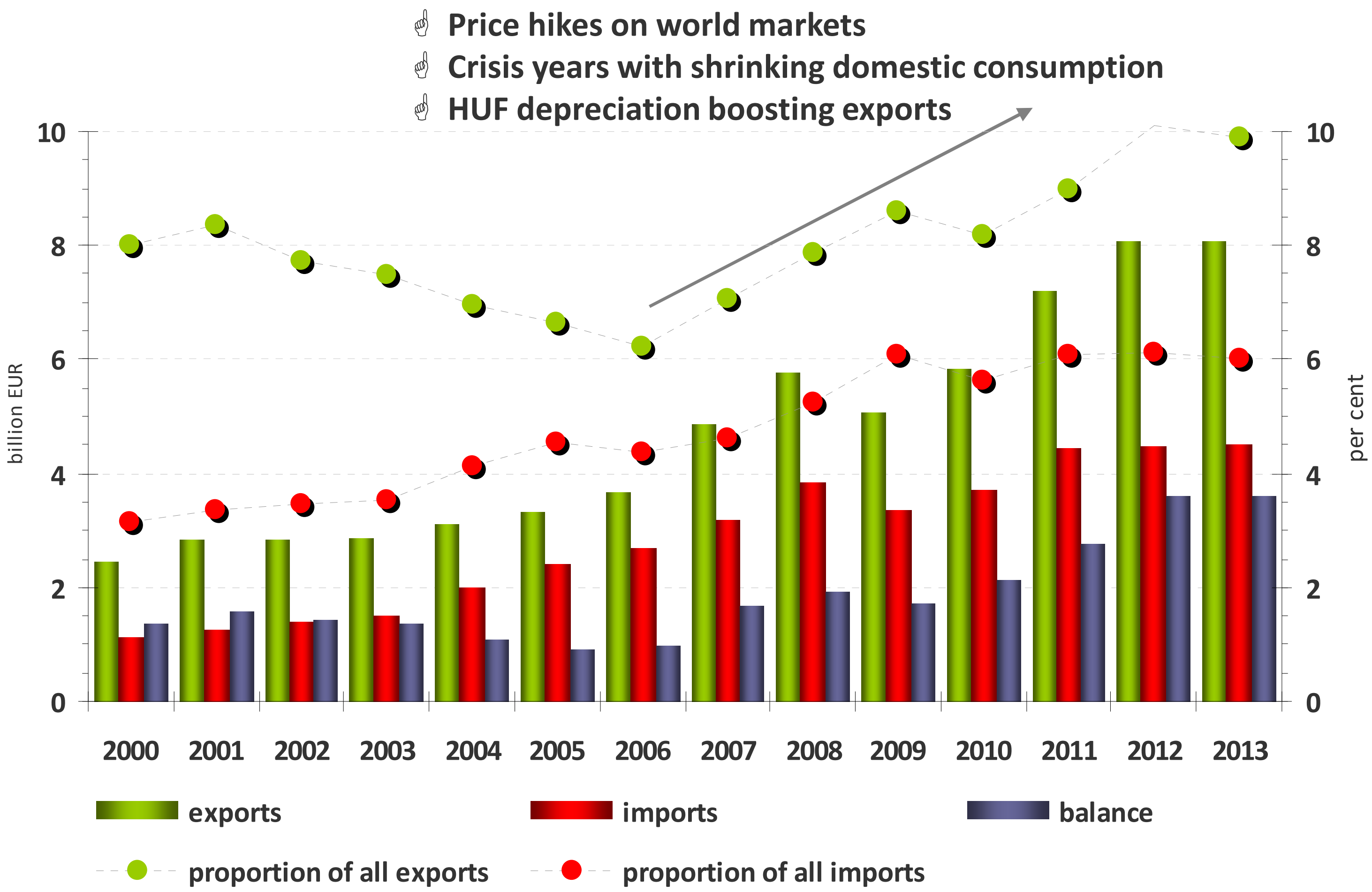
AKI

Achievements and challenges in the food sector and rural areas during the 10 years after EU enlargement

Rawa Mazowiecka, 12-14 May 2014

Hungary, once a food basket in Europe

Development of the foreign trade of agro-food products in Hungary*

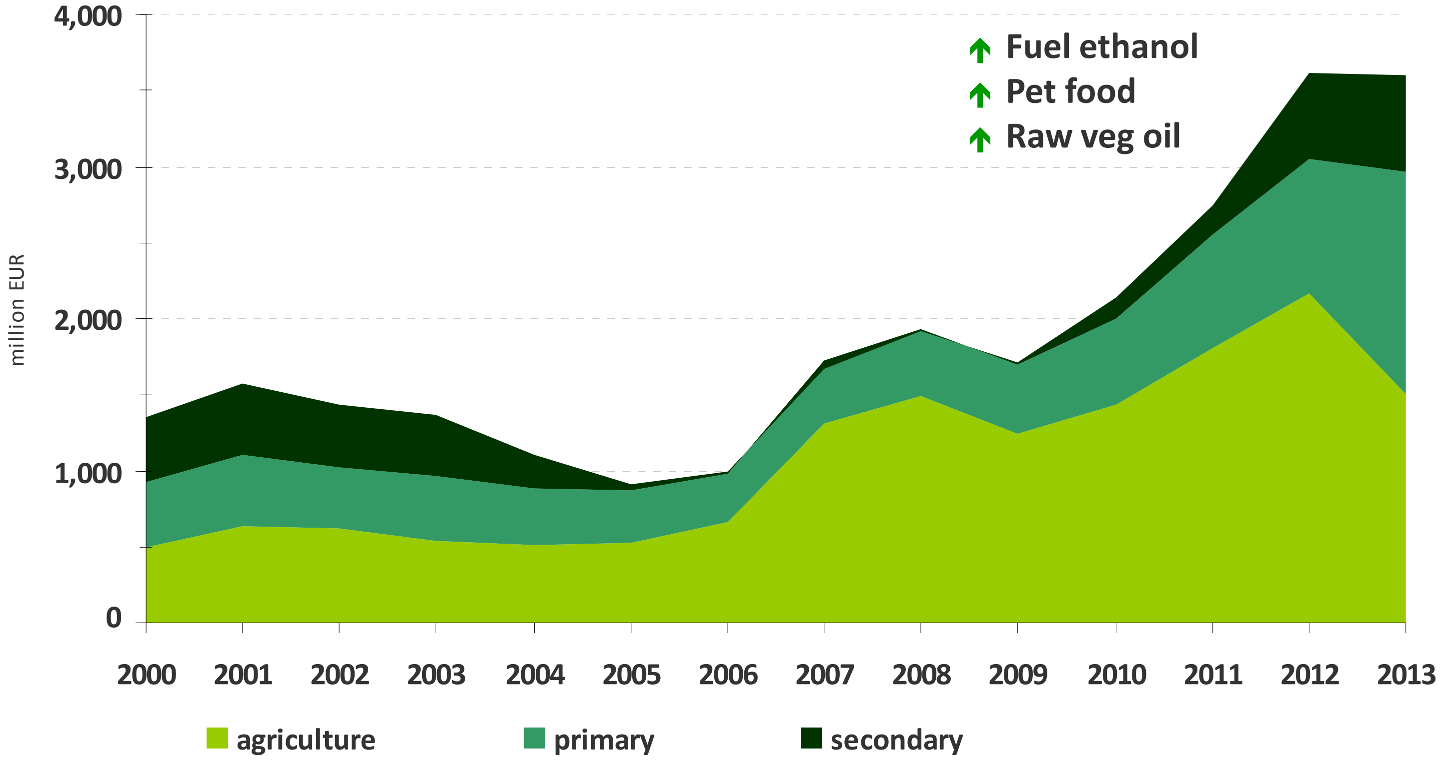


* Including industrial products from agricultural raw materials

Source: calculations based on KSH data

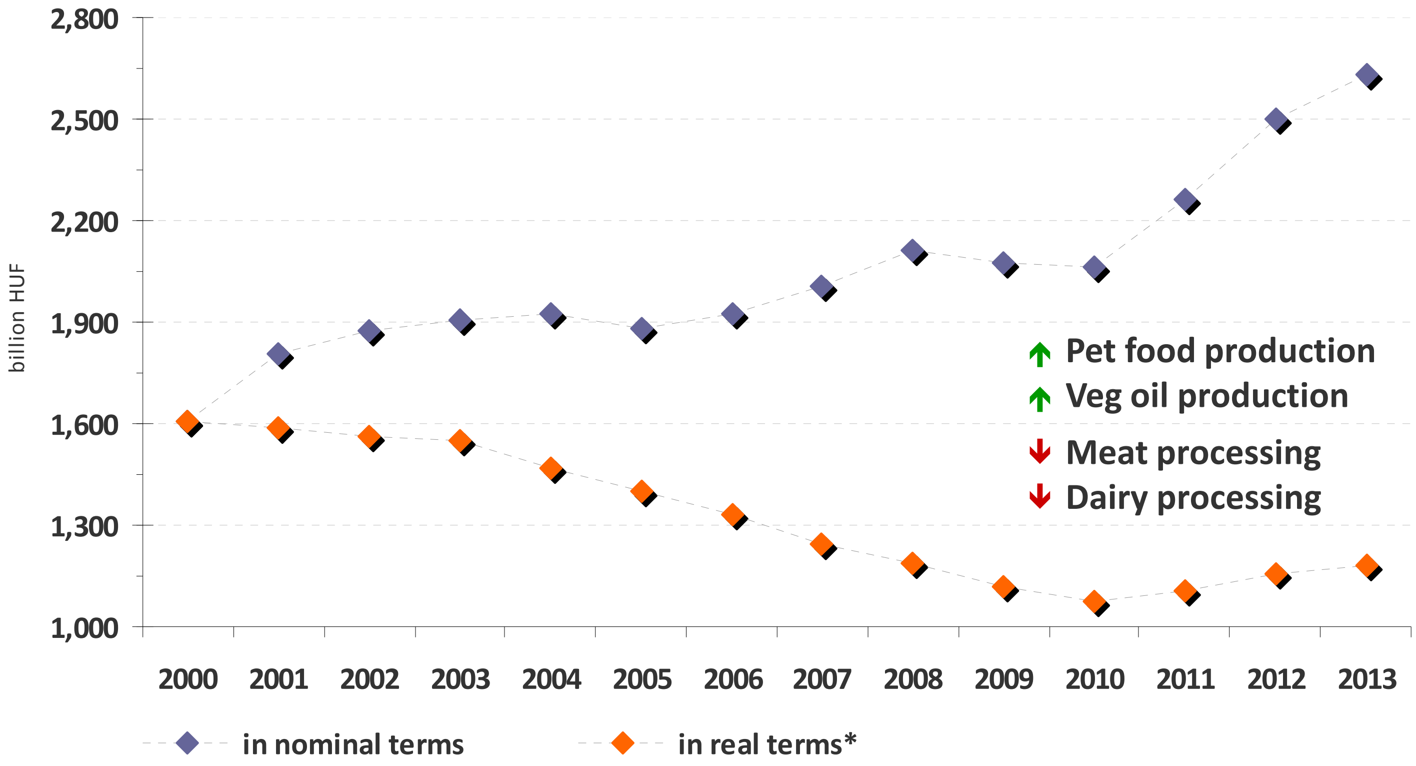
Development of the structure of the agro-food trade balance in Hungary*

*** Including industrial products from agricultural raw materials**



Source: KSH and calculations by the Food Chain Analysis Dep. of AKI

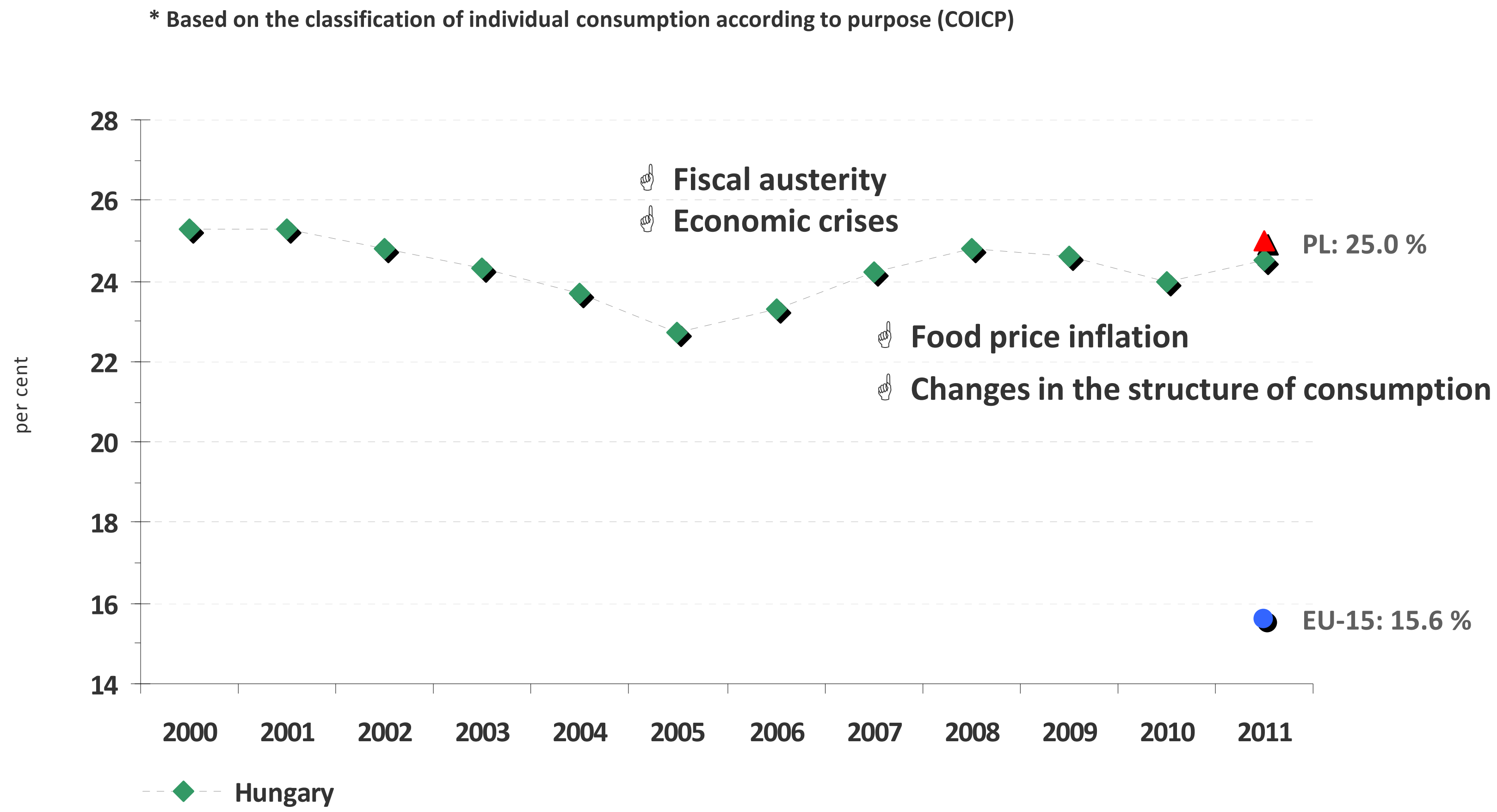
Development of the output value of agro-food processing in Hungary



* Deflated by CPI of food products

Source: KSH

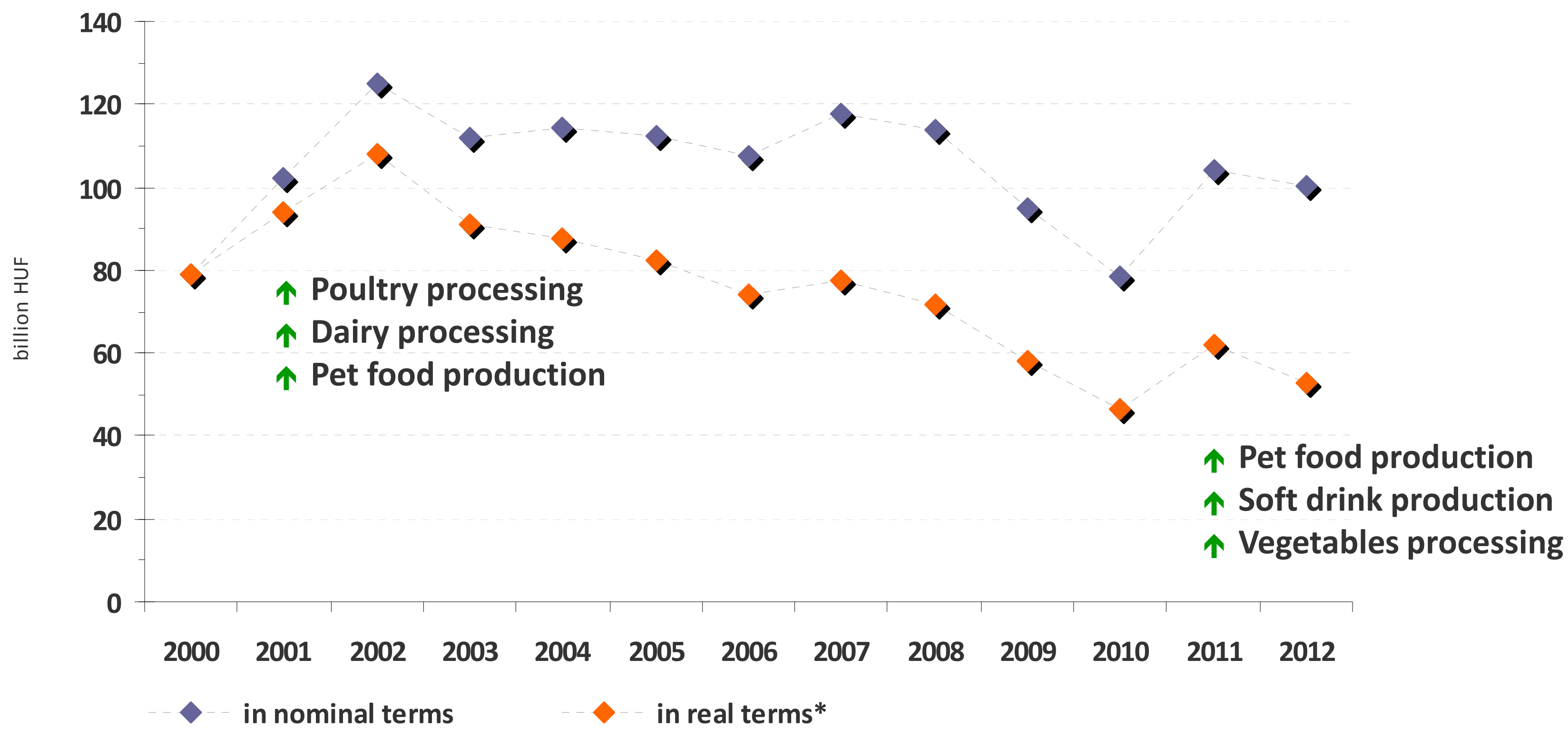
The share of consumer spending on food in Hungary*



☞ Consumer incomes strongly influence the demand for food

Source: KSH

Development of the investments in agro-food processing in Hungary

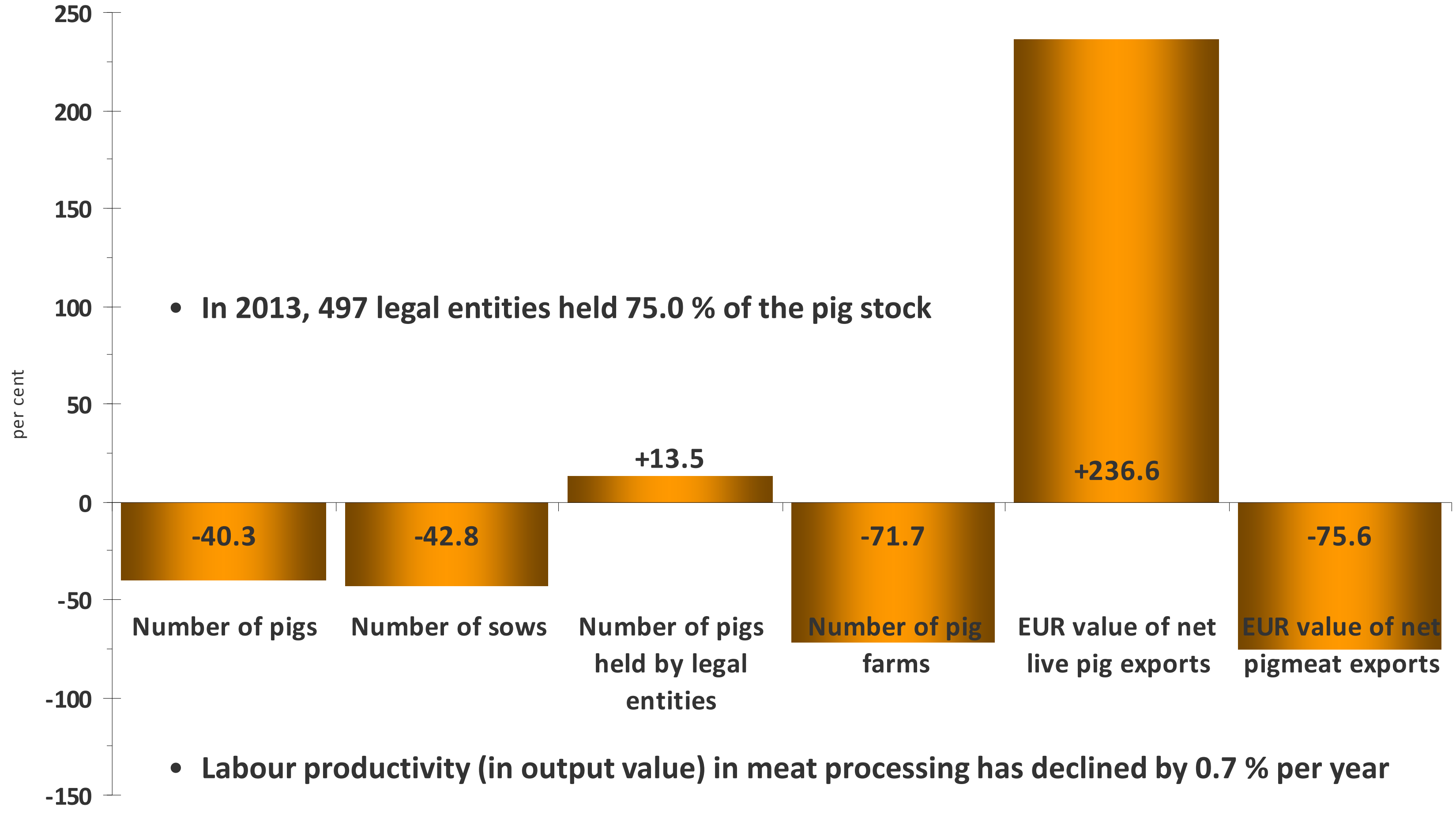


* Constant 2000 prices

☝ Swings can be attributed to the activities of a few large scale enterprises

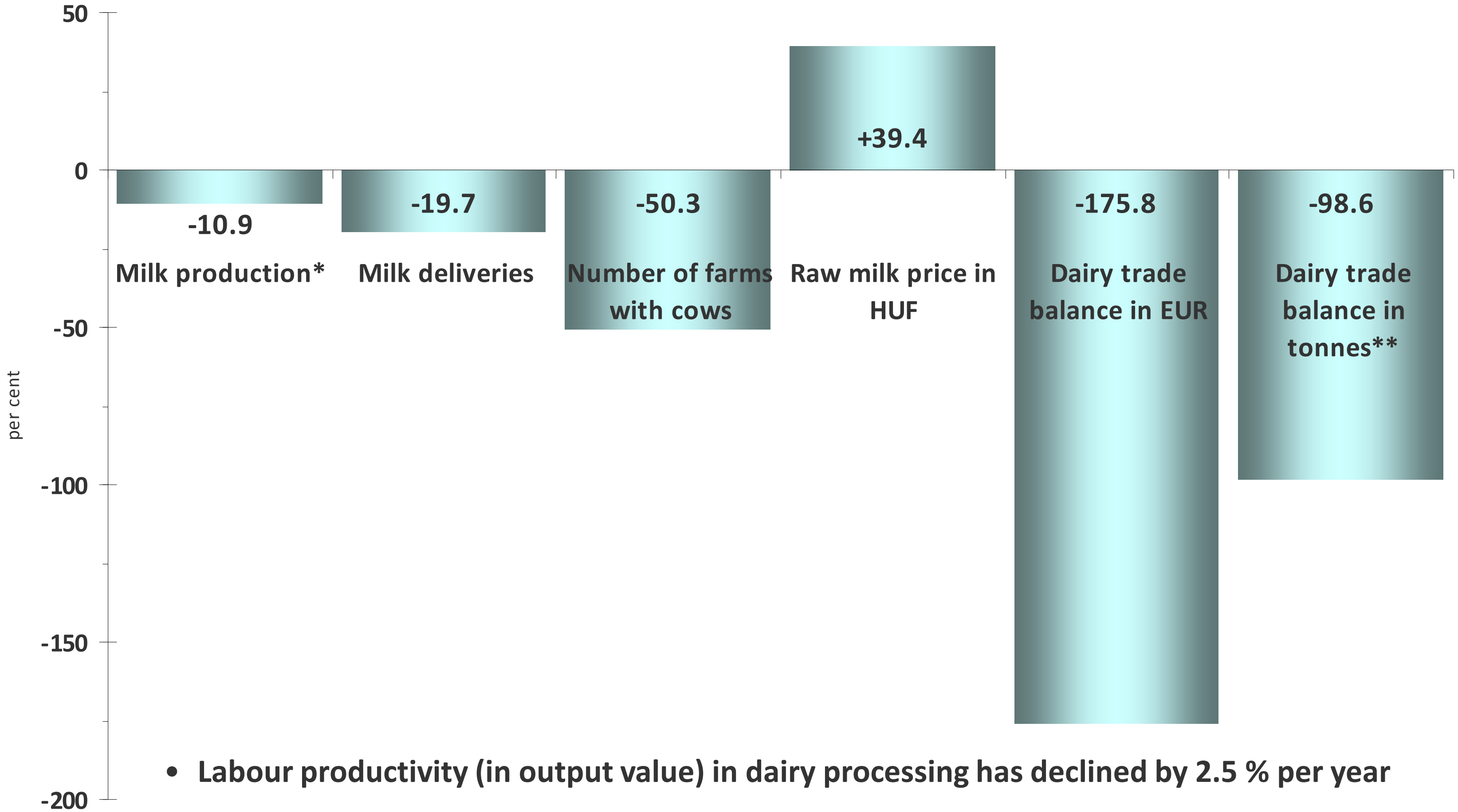
Source: KSH and NAV

Changes in the pigmeat supply chain in Hungary 2013 vs 2003



Source: KSH and calculations by the Statistical Dep. of AKI

Changes in the dairy supply chain in Hungary 2013 vs 2003



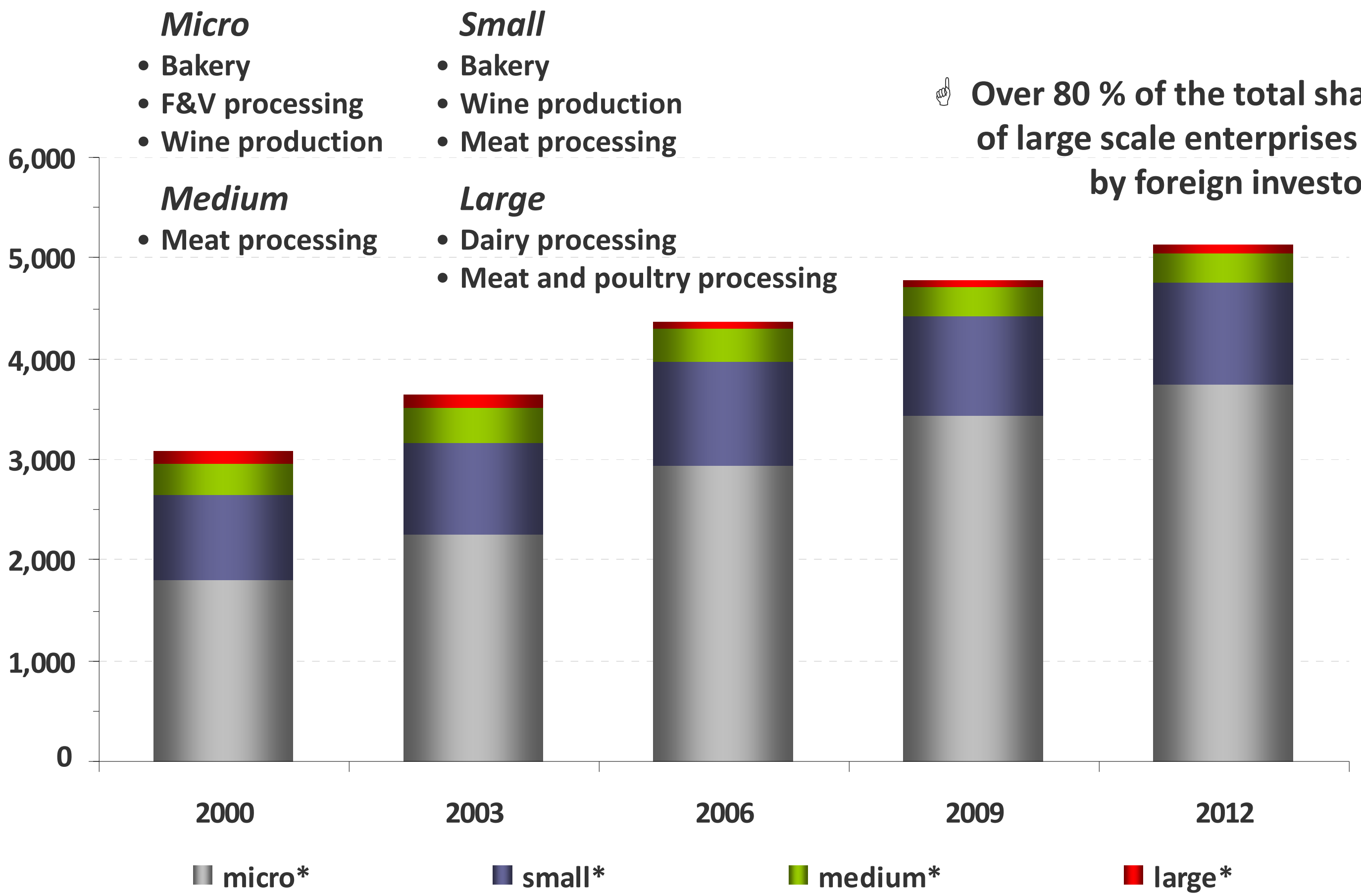
- Labour productivity (in output value) in dairy processing has declined by 2.5 % per year

* 2012 data   ** In raw milk equivalent

Source: KSH and calculations by the Statistical Dep. of AKI

Development of the size structure of food processing enterprises in Hungary

☝ Over 80 % of the total share capital of large scale enterprises is owned by foreign investors



* Size categories: micro up to 9 employees; small with 10-49 employees; medium with 50-249 employees; large from 250 employees

☝ Large scale enterprises generate over 50 % of the total revenue and around 65 % of the export revenue of agro-food processing in Hungary

Source: calculations based on NAV data by the Food Chain Analysis Dep. of AKI

Decisive factors in the development of food processing in Hungary

- COMECON collapse
- Privatization
- Acquisitions and operations financed through loans
- Foreign capital inflow to gain market share

- High inflation
- Failure to invest into modernisation
- Failure to prepare for competition
- Retail chains establish their market positions

- Cut back of support
- Market integration
- Failure to adjust
- Shrinking market share

- Restructuring domestic food demand
- HUF depreciation
- Limited access to credit
- Uncertainties in legislation

- Weakening bargaining positions
- Underutilization of capacities
- High interest rates
- Lack of product, process and organizational innovation

- Indebtedness and lack of capital
- Unprecedented hikes of agricultural raw material prices and slow price transmission
- Weakening contractual relations
- Large scale investments by multinational companies

Lack of strategic thinking

Transition

Pre-accession

EU membership

Economic crisis

Value Added Tax for food products in the EU member states

Preferential VAT for all food products		Standard VAT for all food products		Both preferential and standard VAT for food products		
	Preferential VAT (%)		Normal VAT (%)		Preferential VAT (%)	Normal VAT (%)
Malta	0	Bulgaria	20	Belgium	6; 12	21
Luxemburg	3	Estonia	20	Germany	7	19
Spain	4 / 10	Lithuania	21	France	5.5 / 10	20
Italy	4 / 10	Romania	24	Ireland	0 / 4.8 / 13.5	23
Netherlands	6	Denmark	25	Cyprus	5	19
Slovenia	9.5			Latvia	12	21
Austria	10			Hungary	18*	27
Finland	14			Poland	5 / 8	23
Greece	13			Portugal	6 / 13	23
Czech	15			Slovakia	10	20
				Sweden	12	25
				United Kingdom	0	20
				Croatia	5 / 13	25

* Milk and dairy products, unflavoured; food prepared from cereals, flour, starch or milk.

Source: European Commission (2014)

'Black' and 'grey' economy

- 20 to 30 % in most agricultural branches and in the downstream industries
- Tax burdens are relatively high, legal security is weak, unemployment is widespread
- Lack of transparency in the taxation system corrupts above all the tax morality of smaller enterprises, and forces larger processors into the 'grey zone'

⇨ Tax avoidance

- Ø *integration*
- Ø *concentration*
- Ø *market transparency*
- Ø *efficient representation and assertion of interests*

Example of rape seed trade between Hungary and Slovakia in 2011

	HU	SK
Exports	129 thsnd MT	185 thsnd MT
Imports	34 thsnd MT	63 thsnd MT

Source: Oil world

Example of sugar trade between Hungary and Slovakia in 2010

	HU	SK
Exports	166 thsnd MT	75 thsnd MT
Imports	25 thsnd MT	58 thsnd MT

Source: Eurostat

Conclusions?

Dziękuję za uwagę!