Hungarian food processing on a slippery slope

Norbert Potori

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

- Price hikes on world markets
- Crisis years with shrinking domestic consumption
- HUF depreciation boosting exports

* 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

* Based on the classification of individual consumption according to purpose (COICP)

Fiscal austerity
Economic crises
Food price inflation
Changes in the structure of consumption

Consumer incomes strongly influence the demand for food

Source: KSH
Development of the investments in agro-food processing in Hungary

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

* Constant 2000 prices
Changes in the pigmeat supply chain in Hungary
2013 vs 2003

- In 2013, 497 legal entities held 75.0% of the pig stock
- Labour productivity (in output value) in meat processing has declined by 0.7% per year

Source: KSH and calculations by the Statistical Dep. of AKI
Changes in the dairy supply chain in Hungary
2013 vs 2003

- Milk production*  -10.9
- Milk deliveries -19.7
- Number of farms with cows -50.3
- Raw milk price in HUF +39.4
- Dairy trade balance in EUR -175.8
- Dairy trade balance in tonnes** -98.6

* 2012 data  ** In raw milk equivalent

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

Source: KSH and calculations by the Statistical Dep. of AKI
Development of the size structure of food processing enterprises in Hungary

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

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

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
- Weakening bargaining positions
- Underutilization of capacities
- High interest rates
- Lack of product, process and organizational innovation
- Cut back of support
- Market integration
- Failure to adjust
- Shrinking market share
- 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
- Restructuring domestic food demand
- HUF depreciation
- Limited access to credit
- Uncertainties in legislation

Lack of strategic thinking

Transition

Pre-accession

EU membership

Economic crisis
## Value Added Tax for food products in the EU member states

<table>
<thead>
<tr>
<th>Preferential VAT for all food products</th>
<th>Standard VAT for all food products</th>
<th>Both preferential and standard VAT for food products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferential VAT (%)</td>
<td>Normal VAT (%)</td>
<td>Preferential VAT (%)</td>
</tr>
<tr>
<td>Malta</td>
<td>0</td>
<td>6; 12</td>
</tr>
<tr>
<td>Bulgaria</td>
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<td>21</td>
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<tr>
<td>Luxemburg</td>
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<td>Estonia</td>
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<td>19</td>
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<td>Spain</td>
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<td>21</td>
</tr>
<tr>
<td>Lithuania</td>
<td>21</td>
<td>France</td>
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<tr>
<td>Italy</td>
<td>4 / 10</td>
<td>24</td>
</tr>
<tr>
<td>Romania</td>
<td>24</td>
<td>Ireland</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6</td>
<td>0 / 4.8 / 13.5</td>
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<tr>
<td>Denmark</td>
<td>25</td>
<td>Cyprus</td>
</tr>
<tr>
<td>Slovenia</td>
<td>9.5</td>
<td>5</td>
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<tr>
<td>Latvia</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Austria</td>
<td>10</td>
<td>18*</td>
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<tr>
<td>Finland</td>
<td>14</td>
<td>27</td>
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<tr>
<td>Greece</td>
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<td>Czech</td>
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<tr>
<td>United Kingdom</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>Croatia</td>
<td>5 / 13</td>
<td>25</td>
</tr>
</tbody>
</table>

*Source: European Commission (2014)*

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

<table>
<thead>
<tr>
<th></th>
<th>HU</th>
<th>SK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>129 thsd MT</td>
<td>185 thsd MT</td>
</tr>
<tr>
<td>Imports</td>
<td>34 thsd MT</td>
<td>63 thsd MT</td>
</tr>
</tbody>
</table>

Example of sugar trade between Hungary and Slovakia in 2010

<table>
<thead>
<tr>
<th></th>
<th>HU</th>
<th>SK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>166 thsd MT</td>
<td>75 thsd MT</td>
</tr>
<tr>
<td>Imports</td>
<td>25 thsd MT</td>
<td>58 thsd MT</td>
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</tbody>
</table>

Source: Oil world Source: Eurostat
Conclusions?
Dziękuję za uwагę!