

Title: Economic and market connections of production and trade of organic foods in Hungary – with special regard to the product chain of organic milk

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Case Proposal

The importance of ecological farming – as an environment friendly form of agriculture – has increased in recent decades. Its publicity and acceptance have strengthened within the population. The market value of ecological products – due to their added value – is higher than that of the conventional products. A segment of consumers prefer and concentrate on quality foods. Food scandals led to a trust crisis and rebuilding the trust requires the production of pure, natural and healthy foods. This trend is the basis of organic farming which can be an alternative to mass production.

Most families in the countryside (primarily in the villages) can live on agriculture or the same activity contributes to their incomes. In the 70s and 80s small scale producers comprised one third of the agricultural output, in case of pig and broiler branch their share was cca. 50% and in labour intensive horticultural segments they reached even higher rates.

The described tendency is not exclusive for the mentioned period, even today a number of rural people choose agriculture to live on. Our opinion is that the agro economic potential (and potential reserve) of small scale farms can be exploited even these days. Due to their production structure the small farms are the most promising spots for ecological production.

Organic production is not only a tool for developing rural life, but it has effects on the population keeping ability and on improving touristic attractiveness of a region as well and these issues are of crucial importance in the rural development and environment protection policies of the country.

Relevant changes can be expected only if administration takes measures that support environment protection and ecological farming effectively. Timid adjustments have

been taken in taxation and in subsidizing recently, but these changes fail to have strong motivation effect on production or consumption. In Hungary the institutionalization of organic production began in 1983. Biokultura Club converted into an association; its activity was similar to a civil movement. Growing interest led to the acquisition of full legal regulation of EEC and consequently in 1987 IFOAM declared Hungary as a member country. In 1996 the Association established an independent qualifying organization, Biokontroll Hungaria Plc. Since then the mentioned organization has covered about 95% of quality control activities concerning organic production, processing and trade.

In Hungary controlled organic farming was carried out on 122 270 hectares in 2007 (FVM, 2008). Production structure can be characterized by the dominance of crop production (arable production). Organic animal production has a slight role and a lot of people are unsuccessfully seeking organic fruits and vegetables. Actual data, however, on ecological production and the share of distribution channels are still in a kind of “mystic fog”. They are available mostly only after some years’ delay, so the market itself has already passed the point the data describe.

Total turnover of ecological products is about 10.5-14 billion HUF in Hungary. It is less than 1% of total food turnover. The consumption level of organic foods is even lower, about 0.5% of the total. Despite the unfavourable market tendencies and competition sharper than ever the organic products of Hungary are sold mostly abroad. The dominance of raw material production seems to continue. Producers, processing plants and certain commercial companies are endangered not only by the narrowing export possibilities, but also by the widening import channels.

Milk production is a specific field of organic farming all over the world as well as in Hungary. All age groups – independently of regions and income – consider milk consumption to be healthy due to its role in whole value nutrition (Hemme et al., 2002).

Unlike some European countries, such as Switzerland, Austria or Germany, the development of organic dairy farming has been slow in Hungary. The reasons for this phenomenon can partly be attributed to the structure of conventional dairy farming in the country. In Hungary, the feeding of dairy cows has traditionally been based on crop production. On the market of organic products, due to the high crop prices, the break even point of milk production would be higher than, or at least as high as, that of crop production only at an extremely high milk price. Further difficulty is that the produced crop is paid for in cash, whereas a dairy farmer would have extra storage cost. This is the reason for that only a few larger farms produce organic milk with most of them keeping only a few cows in the backyard.

According to the results of our surveys on 12 organic farms there were 555 milk type cows in Hungary (Tóth and Szente, 2004). The annual milk yield per cow ranged from 3.5 to 7500 litres, with a mean yield of 5 000 litres (weighted average at 6.7 thousand litres). The fat content of milk was 4%, and the protein content of milk was 3.5 % (with standard deviations of 0.38 and 0.31, respectively).

On all dairy farms involved in the study, the whole food chain was present from feed production through to its conservation, heifer rearing, and milk handling or even processing to the marketing of final products (raw milk, cheese, curd, butter). This kind

of “separation” is economically reasonable, because crop purchase is expensive and difficult, and if the feedstuffs come from conventional farms, their share in feed ration is limited by regulations.

The strengths of small farms are their local specialities, however, their low volume of production is not suitable for commercial production and, therefore, the necessary investments are not available for them. For these small producers, only the traditional marketing channels provide income, such as selling from home and on markets, providing only part of the farmer’s income. These farms can only provide appropriate income supported by the government, or with other functions, such as organic tourism, catering, outwork or seasonal work.

Imported organic milk products have appeared on the Hungarian market and threaten the home production. In certain regions of Europe oversupply of organic milk is characteristic, and some organic milk products can be found in the Hungarian stores. In order to avoid the increasing supply of import products the Hungarian organic milk producers should gain ground both inland and abroad. Today the organic milk products produced in Hungary are sold inland; there is no export or its share is very low.

Despite the lot of advantages, the sector faces several difficulties. One of these is feeding. Organic feeds have to be produced on the same farm if possible, but it is allowed to be bought from other organic farms. It is, however, cost demanding to buy in forage due to the long distances and the difficult transport. Another source of threat is animal hygiene in organic dairy farming. In the field of elimination and treatment of diseases, the most important things are prevention and resistance.

A further challenge is the marketing of the products of smaller producers. A significant amount of the milk produced by them is sold as liquid milk, while in smaller farms milk is processed to make cheese and curd, because these have longer life and are more varied. As these farms represent a low amount of products on the market, on the one hand they cannot provide enough raw materials for the processors, and on the other hand they cannot be launched into larger food chains, therefore, their products should be sold on local markets or from home. Despite all this, some of these farms have good ideas, and process and sell their milk using their own potentials (Tóth, 2005). It is necessary to mention here that processing is a great challenge of organic milk production. For many farmers, it is highly challenging to meet the stricter requirements of food and animal hygiene rules. Only a small number of processors are given permit, so the products can not be merchandised, which influences the market situation of organic milk products and allows only for a few consumers to be introduced to the products and their advantages.

Recent studies reveal that the elaboration of a strategy which can contribute to strengthening the market positions on product chain level is needed. The results show that organic milk production is not a success branch because the improvement is very slow. Nowadays it is very important to keep organic milk producers and processors, because Hungarian consumers need not only inland products, but also sustainable environment.