

ハンガリーにおける地理的表示への取り組みに関するヒアリング調査結果

弦間 正彦

早稲田大学総合社会科学総合学術院教授

Development of Agricultural and Food Processing Sectors under the New International Trade Framework: Case of the New Member Countries in the European Union

Masahiko Gemma

In Hungary, 14 food items have been registered as Geographically Indications (GI). One item is under the review by the European Union (EU). (See Table 1) With the existence of a variety of local and traditional food items in Hungary, one would wonder why the number of the GI products so small. It seems that Hungarian food sector is not taking advantage of new opportunities which became available after the integration to the EU in 2004. The objectives of this paper is to understand the current condition of Hungarian food processing sector and to understand the reasons for not active use of GI for promoting own food products in Hungary.

Table 1 List of GI products for Hungary

<u>Dossier Number</u>	<u>Designation</u>	<u>Country</u>	<u>ISO</u>	<u>Status</u>	<u>Type</u>	<u>Last relevant date</u>	<u>Product Category</u>	<u>Latin</u>	<u>Submission d</u>	<u>Publication d</u>	<u>Registration d</u>
HU/PGI/0005/00912	Szentesi paprika	Hungary	HU	Registered	PGI	21/02/2014	Class 1.6. Fruit, vegetables and cereals fresh or processed		30/11/2011	15/08/2013	21/02/2014
HU/TSG/0007/0060	Teperős pogácsa	Hungary	HU	Registered	TSG	14/11/2013	Class 2.3. Confectionery, bread, pastry, cakes, biscuits and other baker's wares		27/09/2010	20/06/2012	14/11/2013
HU/TSG000701113	Rögös túró	Hungary	HU	Applied	TSG	16/05/2013	Class 1.3. Cheeses		16/05/2013		
HU/PGI/0005/0389	Szőregi rózsafő	Hungary	HU	Registered	PGI	25/07/2012	Class 3.5. Flowers and ornamental plants		21/10/2004	22/10/2011	25/07/2012
HU/PDO/0005/0393	Kalocsai fűszerpaprika-örlemény	Hungary	HU	Registered	PDO	05/07/2012	Class 1.8. other products of Annex I of the Treaty (spices etc.)		21/10/2004	14/10/2011	05/07/2012
HU/PDO/0005/0516	Alföldi kamillavirágzat	Hungary	HU	Registered	PDO	25/02/2012	Class 1.8. other products of Annex I of the Treaty (spices etc.)		21/12/2005	16/07/2010	25/02/2012
HU/PGI/0005/0722	Magyar szürkemarha hús	Hungary	HU	Registered	PGI	14/12/2011	Class 1.1. Fresh meat (and offal)		07/04/2009	17/03/2011	14/12/2011
HU/PGI/0005/0388	Gönci kajszibarack	Hungary	HU	Registered	PGI	20/05/2011	Class 1.6. Fruit, vegetables and cereals fresh or processed		21/10/2004	14/09/2010	20/05/2011
HU/PDO/0005/0395	Szegedi fűszerpaprika-örlemény/Szegedi paprika	Hungary	HU	Registered	PDO	04/11/2010	Class 1.8. other products of Annex I of the Treaty (spices etc.)		21/10/2004	20/02/2010	04/11/2010
HU/PDO/0005/0390	Csabai kolbász/Csabai vastagkolbász	Hungary	HU	Registered	PGI	19/06/2010	Class 1.2. Meat products (cooked, salted, smoked, etc.)		21/10/2004	16/10/2009	19/06/2010
HU/PDO/0005/0394	Gyulai kolbász / Gyulai pároskolbász	Hungary	HU	Registered	PGI	19/06/2010	Class 1.2. Meat products (cooked, salted, smoked, etc.)		21/10/2004	16/10/2009	19/06/2010
HU/PDO/0005/0387	Makói vöröshagyma ; Makói hagyma	Hungary	HU	Registered	PDO	06/11/2009	Class 1.6. Fruit, vegetables and cereals fresh or processed		21/10/2004	24/03/2009	06/11/2009
HU/PDO/0005/0391	Hajdúsági tomla	Hungary	HU	Registered	PDO	22/10/2009	Class 1.6. Fruit, vegetables and cereals fresh or processed		21/10/2004	18/02/2009	22/10/2009
HU/PGI/0005/0396	Budapesti téliszalámi	Hungary	HU	Registered	PGI	21/04/2009	Class 1.2. Meat products (cooked, salted, smoked, etc.)		21/10/2004	13/08/2008	21/04/2009
HU/PDO/0005/0392	Szegedi szalámi ; Szegedi téliszalámi	Hungary	HU	Registered	PDO	15/12/2007	Class 1.2. Meat products (cooked, salted, smoked, etc.)			20/04/2007	15/12/2007

Major protected Hungarian food products are as follows.

Protected Designation of Origin (PDO)

- Szeged Winter Salami (2007)
- Hajduság Horseradish (2009)
- Mako Onion (2009)
- Szeged ground paprika (2010)
- Gönci Apricot (2011)
- Alföld camomile flower (2012)

Protected Geographic Indication (PGI)

- Budapest Winter Salami (2007)
- Csaba Sausage (2010)
- Gyula Sausage (2010)
- Hungarian Grey Cattle (meat) (2011)

Traditional specialities guaranteed (TSG)

- ❖ Crackling Scones (2013)



The interviews have been conducted in May, 2014 in Hungary to understand the cases of meat processing, milk processing and production of local agricultural products with traditional varieties.

Case of Hungarian Gray Cattle processing

An interview with Director of Marketing was conducted at Dömsöd.

What have been the reasons for success in the development of Hungarian food processing industry?

We take an example of Dömsöd, which is an integrated firm in animal

husbandry and meat processing using the stock of Hungarian Gray Cattle, mule, detached farm poultry etc. This firm is an individual entrepreneur firm with special legal status.

What is the advantage of this status? What is needed for being certified as this status?

Primary agriculture producers are another group of firms. The uniqueness of the operation is the production and meat processing of Hungarian gray cattle. The stock of Hungarian gray has been increased from 200 to 250 in 2012, from 550 to 1000 in 2014, and will be expanded to 1250 in 2015. 4000 authentic Hungarian gray cows and beef cattle exist in Hungary. For small manufacturing units, the status is easiest to control of all parts of business activities. Less people are employed for individual entrepreneur firms. For this company, 15 people are employed in production and meat processing. It is easiest to control fixed costs with this status. Investment is financed by own and by applying EU application money. For buildings and processing facilities, the EU funding can be used. Keeping traditional meatpacking technology can be useful in applying the EU funding.

In 2010, the processing unit was established. Core operations started in 1989. Breeding poultry, margaricza pig, were then produced. Native animals have been important. Mule was also important. Expansion of the production capacity is continuing still now.

What have been the roles of the policies?

The EU funding has been useful for raising money for investment in buildings and development of processing units. The owner was granted with a pronatura (excellence in natural way) medal. Only one person in Central Europe holds this medal. This helped getting funding from the EU.

How has the standardization of rules and regulations through EU accession impacted their businesses?

Accession affected native breed production. Small entrepreneurship approach by this firm can provide good products which are in need in the Hungarian market. Local food chain development is expected to further develop. Local food chain will stick with small scale operation. They can

work with small traders and restaurants that are interested in serving local food products. Processing had 6 years to prepare for the EU standards. An important channel of product sales is a new tourist spot of WAMP. Every two weeks, the firm's products can be tasted and sold there. Earlier, let foreign tourists taste food was only a slogan. Trade policy exists for this group of businesses that do not have to rely on large supermarket chains. Cora, a super market chain was buying and selling local foods. Ocean abolished the supply chain after the purchase of Cora. Preservation of traditional production technology was attempted by Cora. However, under the new ownership, price competitiveness is set as most important for former Cora stores.

How has the integrated approach for the business activities benefitting the businesses?

Frauds exist in the meat market in Hungary. The firm wanted to avoid frauds by integrating the whole process of production, processing and marketing by themselves. Information in the market places is not asymmetry. Cows have been occasionally sold as calves, too.

Where are the animals slaughtered? How old are they when slaughtered.

The information can be provided to the consumers. The information can be checked through SMS system. Traceability is also guaranteed for their salami products.

.

Szeget salami has been a product under the protected designation of origin (PDO). However, the PDO label has not been effective because inputs have to come from a limited number of countries. Meeting the criterion for PDO has been observed difficult.

27% value added taxes for pigs have been declined to be 20%. 8 weeks maturity (production) period can be shortened. Prices are fixed. No change for two years.

Prices are not yet premium prices for their meat products. In the future, premium prices will be given with larger popularity than now in the international as well as domestic market.

President of the company holds a comment on the challenge the company is facing. The issue is securing human resource. The company cannot obtain qualified workers for the low wages. Five different accounts need to be paid for hiring workers. The costs associated with workers limit the expansion of businesses.

Another interview was conducted with a former director of quality control for Dömsöd. This person also used to work as quality manager for CORA. He has a career of the past 15 years as engineer for technology in food industry. Seven CORA shops with the individual floor area of 15,000 m³ were in operation. Food quality was considered most important and fresh food was sold at CORA.

Places animals are raised for Dömsöd

4500 hectares of land for meadows and pasture is used for animal production. 2/3 of animal production is based on the use of national park land supported by the EU for protection of national land. 1200 hectares of arable land is also used.

The products from Dömsöd are also sold at the WAMS market every two weeks in Budapest with a sales booth to taste and purchase their products. The firm also participates in promotional events within Hungary to directly contact potential customers.

Concepts for the promotion of traditional products at CORA were to deliver quality products for consumers. Prices were not the first priority. The products sold were local craftsmanship based products not from mass-production processes. Modern mass production products are not promoted. Consumer education was useful. A Popular Chef series of food products contributed to promote local foods by demonstrating how to cook with local high quality products. Ocean which succeeded in the business of CORA did not continue the efforts to maintain Taste and Tradition trademarks by switching to mass-production sales with price competition.

Why did he switch his work to the meat processing sector at Dömsöd?

The need existed to further develop the marketing efforts to promote local and traditional food products such as traditional salami. However, the owner of Dömsöd was not able to accept certain proposals. Slaughter house needed upgrading. The EU support was for agricultural environmental, not for modernizing the meat packing facilities.

What adjustment has been needed for higher meat quality?

Product differentiation was not possible. Raw Hungarian Gray meats from different national parks are needed to be separately produced. Live animals and processed items need to be separated. Animal age also makes a difference in tastes. PH values are important, but the owner said that the checking is not necessary.

Hungarian meat processing has a long history. Raw materials were exported, but not much of processed products were exported. The European Union requested to make differentiation among products. The experienced companies did not have to change the method of meat processing. The companies without experiences had to invest in facilities. However, most inexperienced companies only paid attention to technical details. Improvement in beef packaging was not considered so seriously.

The export of poultry products increased very fast with improvement in packing technologies. The methods of packaging broiler, beef and pork are different. For a comparison of pork and poultry, processed broiler was able to expand the production activities in Hungary in recent years. Product development for broiler was also better. Pork industry in Hungary has been dominated by small producers. Quality management and product development were weak for pork.

Is vertical integration popular?

Vertical integration is useful. However, cooperation among vertical sectors is weak.

Can GI be useful for Hungarian food producers? Can GI producers get premium prices? Positive characteristics are not well represented. Tradition, taste and region are already in the existing Ministry's labels. Too many logos

to confuse the decisions of consumers, at least in the Hungarian retail market.

Case of milk processing of FUCHS Milk Co. Ltd., Valkóin, Hungary

An interview to the president of the company was conducted to learn the reasons for success in survival in business of agricultural product (food) processing even after the country becomes a member of the European Union. Dairy products have been considered mass-production items in Hungary. Even before 2004, the supermarket shelves were filled with international brand name products. The competition became even keener after 2004.

Have there been any EU rules and standards which have been useful to be competitive in the domestic, EU and non-EU markets?

The adjustment was rough process. Stainless was required for processing production line, but it did not mean stainless materials needed to be used. Only the list of things to do was shown without mentioning how to do. There was no benefit from the EU rules in this regard. Animal breeders were only able to sell fresh milk. This has limited the activities on farm.

Better changes exist under the Common Agricultural Policy (CAP). Loan and subsidy opportunities became available after 2004. However, small producers do not have resources to take advantage of the opportunities. Large scale operators only benefit from the opportunities. Exceptions for small scale operations and retailers have been considered, but these have not been finalized for adaptation.

Their shops are supervised by veterinary doctors by rule. They have different diagnoses. Different veterinarians give different advices. The rules are determined by these street experts. Sometimes they receive bribes to bend rules.

Institutional changes have been taking place. For cleaning of shops, they need to register detergents they use with paying fees for registration.

How has your company made efforts to differentiate your products from others in the markets?

Milk, yogurt, cheese, goat milk and goat cheese are produced and sold at

their own shops nearby and Budapest as well as at domestic retail shops. Freshness, without additives, no pasteurization and better taste, these attributes differentiate their products from others. However, no formal third party certifications have been utilized to prove its high and unique quality. In outside retail shops, the products of this shop receive about 20% price premiums. Prices for outside retail shops are higher than direct shops.

What market tools have you been using to add extra values to your products like labels, certificates, advertisement, tasting at shops and food fairs, etc.?

Labels with information and expiration dates, homepage with information, tasting are utilized for attracting consumer attentions.

Flyers are also distributed with information on location of production, pictures of products and the trademark with a picture of a fox with a piece of cheese. Several own shops carry out promotional activities.

Small scale producers with 5 cows can be more profitable than the medium scale producers like this. The small ones can take advantage of exemptions given to them. Hygiene controls are not strictly enforced for the small scale production.

President of FUCHS Milk Co. Ltd. worked for a university farm after graduation from a university. He was a hunter. He kept a family farm with cows. He was selling milk before 1989. The factory to which he was selling his milk went bankrupt. He started selling milk using his own market channel. He had 50 cows, then. In 2003, he was able to buy the land. In 2004, a factory was built. He sold milk to selected local shops at first. His operation became bigger with larger number of animals. He also sells to large supermarkets now. The company is still in a small scale operation, but no additives are added. 2,000 liters a day, he buys from a farm in Tura. There is another partner from Tura. 800 liters a day from 400 goats he also buys. Raw milk is obtained for 4,000 liters to 5,000 liters from the own farm.

Their products have limitation on sales before rotten. Alfa toxin contents were higher than the standards. The competitor started the campaign against this firm. The sample was bought from not their shops. TV reported the problem. They had to close all the shops and had to prove that the products are good. The sales went down. The costs for inspection were high.

Legal actions were stopped because of costs. The importance of direct sales they realized after this incidence. External sales are done periodically. 60 employees they have. Minimum wages are growing. The personnel costs are getting high. 38 million Ft. is paid as taxes on wages. 27 % VAT needs to be paid for containers. 18% VAT is paid for milk.

Loans have been already taken. They cannot take new loans. The EU subsidy cannot be applied because of outstanding loans. Animal health grants could have been applied. Banks want to sell animals to banks. A farm management advisor advises the same way.

Investment in equipment for quality control is possible. Packaging is done by hands. It is costly to produce the products. They do not think of expansion. They plan to shrink the size of operation. Investment in technology is needed, but needs money.

EU certificates they have, but not enough. Quality is not any better. Training of employees is needed, but many employees are not qualified for training as they do have formal education. Employees were sent to training, but they were not trained as intended. The employees are not good enough to benefit from the training. This is not only his unique problem. Some employees steal equipment. Employees are accustomed to the socialist ways of work.

Case of production of traditional crops

In 1998, Hungary joined to the Euro terroirs program in the EU. In order to promote traditional and local food products, the HÍR (Hagyományok = traditions, Ízek = flavors, Régiók = regions) program was launched. The objectives of HÍR were to create a data base of Hungarian species of plants and animals, as well as local traditional agricultural and food products. HÍR collection contains 300 crop and animal species and food product descriptions. 'The HÍR program can be considered a treasury of national cultural heritage' according to its promotional leaflet.

An interview was conducted in May, 2014 to a young couple who is

developing a production site for original Hungarian crops.

Both graduated from agricultural programs at the university in Gödöllő, Hungary. One was majoring in agricultural engineering and the other was majoring in animal breeding. Organic dynamic technology which they have learned at college is applied to their crop production process. This technology is made possible with the combination of animal production and crop production. Compost equipment of DEMETER, which enables mold control, is used. The animals were not yet on farm, but had a plan to get deliveries of goats and chicken. Green peas and hay from the farm were supposed to be used to feed these animals.

Using 1.5 hectares of crop land, inherited from the wife's grandmother, is used to grow traditional Hungarian crops like landrace tomatoes, cauliflowers, spinach and sweet corn. Beans are also produced to maintain the fertility of the soil.

The products from the farm are sold at the local market at Fot called Fot Food Basket. Other household consumers place order through Internet and transactions are made by bank transfer. Some clients directly visit their farm to make a purchase by cash. On customer drives 16 km to obtain their products.

Direct payment from the CAP sources has been granted to the farm. The young farmer scheme has not been used yet, but the producers will file the application soon. An NGO group is supporting their preparation for the grant applications for the EU funding.

HUF 60,000 has been granted for vegetable production as direct payment. The land is registered as arable land, but the remote sensing tools by the government and the EU identify the land as kitchen vegetables.

For young farmer scheme with the EU, there are three types of categories to be qualified. The application for another land use category is considered for application. No prior farming experience and obtaining land from a farmer are the needed conditions for application. The funding can be flexibly used on crop production. After 5 years from the start of the project, the output from the project needs to be shown. The plan is to expand the operation to 3 hectares of crop production and 1,400 square meters of greenhouse based vegetable production. In the third year of operation, the sales and cost balance is break even with the revenue from vegetable production to be HUF

70,000 and HUF60,000 from the EU support of direct payment.

At this moment, premium prices cannot be charged to consumers. Many consumers are conscious about safety of products. Facebook has been useful for differentiating their products from others.

They do what they enjoy and others enjoy. They hope that the market in Fot to operate every week rather than every another week.

Observations

EU rules including the GI are for the benefits of the agricultural producers and food processors in designated areas in the EU. However, the Hungarian producers are not able to enjoy the price premiums which should be created by the protections provided by the GI and other rules and certification programs. High transaction costs are constraining the effective use of available protection measures by small scale individual agricultural and food processing producers. Development of market channels to differentiate the protected products from others is needed in a new member country of the EU of Hungary. Collective actions among the agricultural producers and food processors might be also required for the successful implementation of protective measures of the GI.