

MARKET EXPECTATIONS OF ECOLOGICAL PRODUCTS IN HUNGARIAN ANIMAL HUSBANDRY

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SUMMARY

Within agricultural technologies the environment-consciousness, environment saving approaches have become increasingly significant in recent years. The main objective of this trend is to find the proper balance within the human-plant-animal environment. In the last few years, rural policies also encouraged the sustainable way of production in agriculture. Organic farming is one of the opportunities of introducing these theoretical approaches into practise. The paper evaluates the results of a survey made of ecological animal keeping farms. It was found that producers were mainly motivated by their commitments to environmentalism. Considering prospects for the future – taking also aspects of profitability into account – they are optimistic about forthcoming development of market outlets, but they still focus on foreign markets. This trend apart domestic markets need to be urgently developed.

INTRODUCTION

Although the development of organic farming and related activities seems to have slowed down in recent years, the products of organic farming are gradually increasing their market share. With accession of 10 new members into the EU the question is how will this affect the single market? Of the new members Hungary is considered to be a “front runner” as a traditional supplier of the European market.

In recent decades the green movement in agriculture has given birth to the green movement in technology and policy making. To produce more food and other agricultural products on less land with less water and energy, the use of modern technology, ecological assets and traditionally wise farming practices are needed. Ecological sustainability and

economic efficiency should be combined with assistance of governmental and non-governmental sectors to improve the productivity and profitability of farming systems (12). Ecological production may be a feasible resolution of the above-mentioned considerations, reflecting the new directions in agricultural policies. According to Csete (2003) smaller or bigger alterations in production structure, modification of ratios may facilitate sustainability and strengthen the local role and significance of agriculture activity. In view of these prospects the authors pay special attention to ecological farming (5).

This topic has a relatively new legal regulation in the Common Agricultural Policy. Denmark was the first country to introduce a national programme to support eco-production in 1987. By 1996 all EU member states, with the exception of

Luxembourg, introduced policies to support organic farming in the rural environment programme (EC Reg. 2078/92). Despite the common framework for this programme (the regulatory base provided by EC Reg. 2092/91), the payment rates, eligibility and other conditions of the schemes vary widely in each country, particularly with regard to livestock production (11).

The Hungarian regulations follow the basic European measures. The detailed Hungarian regulatory environment for organic plant production and animal husbandry came into force in 1999 and in 2000. In addition to the new measures (especially on the ecological livestock products) the Community designed an action plan as well in order to reach the proposed objectives. The development and implementation of this action plan was carried out with the participation of the representatives of member states, producers, processors, traders and local action groups. The latest action plans are to promote the distribution and consumption of ecological products. The measures proposed by Spanish experts were for example:

- Promote a variety of channels of distribution
- Ensure traceability
 - Regulate distribution
 - Indicate origin of products on labels
 - Prioritise shorter supply chains
- Clarify logos
 - Information campaigns
 - Maintain differentiated logos (1).

Representatives from the Hungarian market also focused on promotional work, which would aim at influencing consumer habits and provide the consumer with a wide range of reliable data retrieval systems.

According to *Reuter and Schade (2004)* the main problems with central

and eastern European countries like Hungary are weak internal markets, high export orientation, lack of stable political decisions and the lack of specialised research work (15). Hungary has also drawn up her main objectives for cultivated areas according to the action plan: at least 400,000 ha of farmland are to be drawn into the scheme. The area of ecologically cultivated farmland was 116,335 ha in 2003. The greatest increase in this area was observed in 2002 due possibly to increases in available state subsidies. The National Agricultural-Environmental (NAKP) was introduced in 1997. Available support for the scheme was increased substantially, but it still lags far behind the subsidies available in EU 15 states and in some years (e.g. 2004) no payments have been made at all. After joining the EU ecological production together with EAGGF is financed through the National Rural Development Plan. Ecological husbandry unlike ecological plant cultivation is relatively underdeveloped even though the two branches of agriculture are closely related and depend on one another. Ecological animal keeping has to be tailored to ecological plant cultivation according to Radics et al (14). This is because ecologically kept animals have to be fed on ecologically cultivated feeding materials, amongst others. Thus plant production, animal breeding, animal keeping and related areas are all intertwined.

At present more than 11,800 animals are kept under ecological conditions in Hungary and their number is increasing every year according to the Ministry of Agriculture and Rural Development. In addition to published data there are numerous small self-sufficient farms in cultivation (Tables 1, 2).

Table 1

Development of area under ecological farming and number of certified enterprises

Activity of the enterprise	1999	2000	2001	2002	2003
Certified cultivated area (ha)	35 979	53 664	79 178	103 700	116 535
Number of enterprises					
Agricultural producer	333	495	764	1117	1272
Beekeepers	76	165	207	193	177
Wild plant collectors	4	6	8	10	11
Processors	25	41	67	100	215
Trade unit	36	54	72	92	53
Importers	1	1	1	5	47
Total	475	762	1119	1517	1775*

Source: Ministry of Agriculture (FVM): The Hungarian agriculture and food industry in numbers, Budapest, 2004.

Table 2

Development of the number of registered ecological animal farms

Year	Number of registered animal farms	Changes %
2001	72	-
2002	83	15,3
2003	137	90,3

Source: Biokontroll Hungaria Ltd

MATERIALS AND METHOD

This study, an introduction to the present and future of Hungarian ecological husbandry, was based on a questionnaire survey. The investigation focused on the first segment of production chain, the production of raw-materials. The Biokontroll Hungaria KHT, one of the two companies appointed to control and certify ecological farming, distributed the questionnaire to the farmers. Of the 120 questionnaires sent out, 43 were returned but only 30 questionnaires could be assessed. Data on the remaining 13 forms indicated either that the farm in question was not suitable for assessment or it was under conversion. These figures highlight the fragmentation of this sector and the difficulties involved in this study.

RESULTS

During these investigations, in addition to the collection of useful data the authors also had an opportunity to get acquainted with the opinions, hopes and fears of the producers.

THE MOTIVATION ELEMENTS OF THE ECOLOGICAL PRODUCTION

It is relevant to investigate the key reasons that motivated producers to undertake organic farming. In all 80% of producers gave increased consumer awareness of food safety issues and environmental concerns as reasons, 16% mentioned other considerations and 4% chose organic farming at the advice of an expert. Other considerations included

preservation of traditional Hungarian species and changes in attitude to life (Fig. 1) as well as economical concerns, such as profitability and state subsidies. Similar observations were made in Fehér's study, who investigated the concerns of organic farming. He quoted a Canadian survey to demonstrate his point of view, where 29% of respondents referred to environmental issues, 27% to their own and their families' health and 33% indicated giving up the use of chemicals as the main cause for their switch to organic farming. Only 9% highlighted profitability as a concern (6). Thus the authors' findings are supported by data in the international literature. In many respects farmers in Hungary follow the same ecological considerations.

Changes in numbers of ecologically kept livestock between 1999-2003

Fig. 2 displays changes in the number of animals on ecologically certified animal farms. Cattle, pig and poultry stocks were assessed in the survey, which shows that the number of animals of all species reared under organic conditions increased year by year. Cattle stock increased around 13% per annum. The largest average increase of cattle stock of over 30% occurred in 2002 on farms producing mainly milk and meat, which included ecologically produced beef and veal originating from traditional Hungarian Grey Cattle stock. According to data from Biokontroll Hungaria KHT and our own survey these products were sold primarily on the Hungarian market. Pig stocks kept under ecological conditions increased by five fold between 1999 and 2003, while poultry stocks rose by just 8%.

Impacts of the European Union accession

The worldwide sales of ecological products exceed 20 billion US Dollars per

annum. The annual development of this market segment is around 20-30%. That is why it became one of the most dynamically developing sectors in agriculture and food industry (2). According to the mid-term market review of European Union's Agenda 2000 the market share of ecological product will attain 15-20% by the year 2010 (13). In all 68% of the respondent producers declared that there would be an increasing demand for organic products mainly from European markets and only 17% thought that their market opportunities would narrow.

Apparently most animal breeders, especially poultry and cattle keepers, trust the market outlook after EU accession. They are expecting increasing market opportunities in this respect and hope to benefit from market expansion. Some pig breeders on the other hand displayed pessimism after the continually chaotic internal markets of recent years (Fig. 3). *Tóth et al.* studied dairy units producing eco-milk and drew the conclusion that despite lots of problems and difficulties farmers are still optimistic about the future of ecological farming as well as of their own farms (16).

Internal demand

In judging the future of internal markets respondents were not so optimistic. Most producers reflected that the real breakthrough in the market of ecological products has not happened yet. More than half of respondents thought that consumer demand has not yet approached supply. Only 40 % thought that local inhabitants produced satisfactory demand for the supply of their ecological products (Fig. 4).

According to *Kürthy (2002)* a severe obstacle to the development of the ecological production is the tiny internal market. The reasons for this are mani-

fold. The term ecological product is difficult to explain. The prices of these products are too high and their variety is small. The product contains too little processing value (10).

Sales of certified products from ecological animal keeping and their marketing channels

Most Hungarian organic farmers produce for external markets and the raw materials and end-products produced are primarily sold outside the country in the EU and in Switzerland. One reason for this is the limited domestic demand described above. The demand for Hungarian produce in foreign markets exists and prices are 20-70% higher there than at home (9).

Domestic experiences show that the identification of proper marketing channels is a difficult task for organic producers in Hungary. The search requires time and assumes considerable number of contacts and relations with the representatives of sales channels; success depends on the volume and homogeneity of products and the continuity of supply. About 60% of producers chose indirect marketing channels such as processing plants and wholesalers but organic shops also play an important role in the sales of eco-products (Fig. 5). Although international experiences indicate that supermarket chains and retail chain stores play an important role in sales, the Hungarian practice shows a different picture. One reason for this difference is the lack of suitable product volume and homogeneous quality, and consequently the bargaining power of suppliers is low and results in high sales costs. Retail chain stores do not yet play a significant role in retailing organic products.

As for direct sales most producers (69%) preferred to retail from the farm, but some indicated sales directly to

homes (take away), which is quite a new approach (Fig. 6). However, local sales should increase significantly in future as more and more cities open ecological markets and producers' chain stores according to Frűchwald and Mokry (7).

Use of brands/protected labels

To help public acceptance and spread of ecological farming and its control regime, in December 1999 the European Union introduced a new, uniform logo for organic products to distinguish them from normal products (8). The EU labelling system is a crucial act in helping customers to identify organic products. Since August 2000 Commission Regulation requires that all controlled organic products sold within the European Union should be provided with such a label. On the basis of EU information 60% of Hungarian producers surveyed insisted that EU label should not be used. In their opinion, the quality of Hungarian organic products is higher than that originating in the EU. Therefore the use of uniform labelling, they fear, might damage consumers' judgement of Hungarian organic products. They would insist on using the Hungarian labels because the control and certification of organic products are stricter in Hungary, as the qualification is not awarded to the producer or farm, but to the product itself. On the other hand 40% of respondents considered the uniform labelling system to be very important. According to them it is essential that in a uniform market labelling should also be uniform, because this means recognition throughout the EU and customers may trust their products more readily.

CONCLUSIONS

According to answers to the questionnaires completed by ecological animal

keepers, in view of international trends and projections the respondents expected an increased demand for ecological products in future. However, they intend to focus primarily on foreign instead of domestic markets because they can realise higher prices there despite intermediate distributors. According to some studies the vast majority of Hungarian eco-products (more than 90%) is sold on foreign markets. The market share of ecological animal products is around 1.5% of all animal products. That is why the marketing channels of eco-products differ from those of the rest. Unfortunately the participants of this market segment are not yet sufficiently interested in developing the local market and tailor their products to local demands (3, 4).

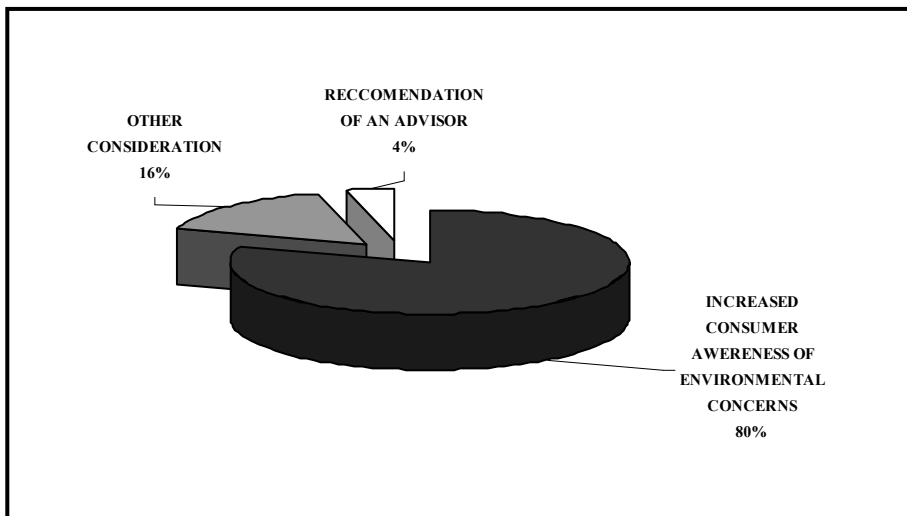
The distribution system used by the eco-farms studied is not yet organised efficiently. Producers expect the resolution of this problem from the higher echelons of decision makers, institutions and organisations. Responses to the questionnaires clearly indicated that producers found it hard to locate the appropriate marketing channels; they do not have sufficient information about marketing procedures. They lack the appropriate partner connections or these have not yet been forged and they do not possess sufficient marketable commodity stocks. Of course, these problems, deficiencies favour foreign trade, although in these days this counts as intra-EU commerce. To achieve favourable sales conditions we recommend that the efficiency of community marketing should

be enhanced where organic products should be properly placed. The difficulty of processing questionnaires, the paucity of available data about organic farms highlights the deficiencies in the operational activities of this agricultural branch. To organise an efficient ecological product chain, it would probably help to investigate and adopt an operational model from the developed market economies. The decision supporting regimes used in these days are capable to integrate and manage the various levels of product chain.

Keeping domestic ecological potentials in mind it is necessary to find a proper balance between conventional and ecological production. Further research is required to analyse and understand the economic and social conditions that affect the decision making process in agricultural enterprises. Do they all have the necessary information to make a proper decision? Probably not. Do all participants in the eco-business (producers, processors, traders) attach to the term "ecological production" the same significance? Probably not. How many producers consider the economic aspects of production? Probably all of them. But when discussing motivation, all producers highlight different considerations whether they are Hungarian eco-farmers or not. The increased consumer awareness of food safety issues and environmental concerns are very important. Food quality is partly a subjective concept; in practice it is defined largely by consumer choice.

Figure 1

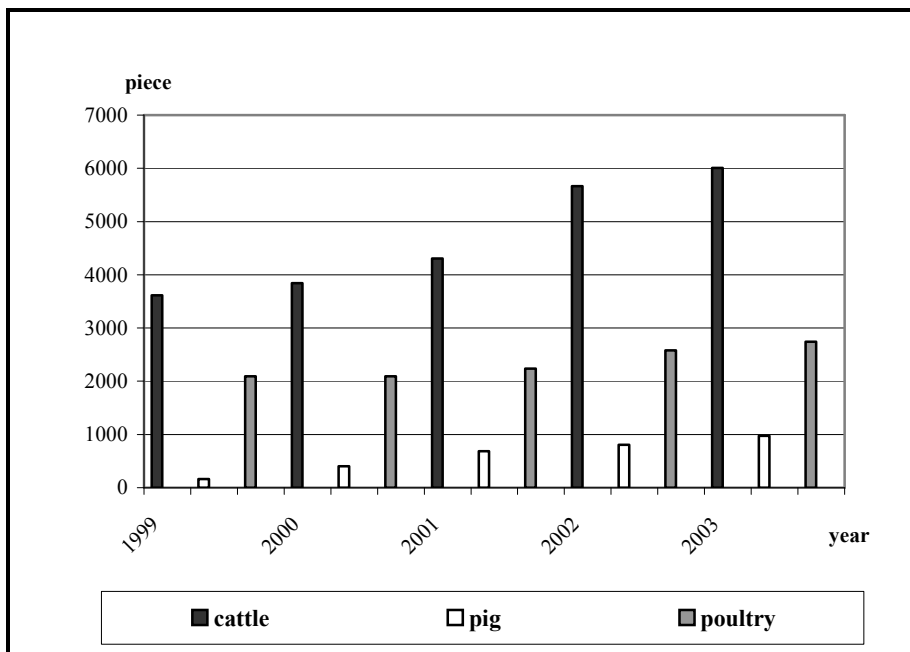
Motivations for choosing ecological farming



Source: questionnaire survey

Figure 2

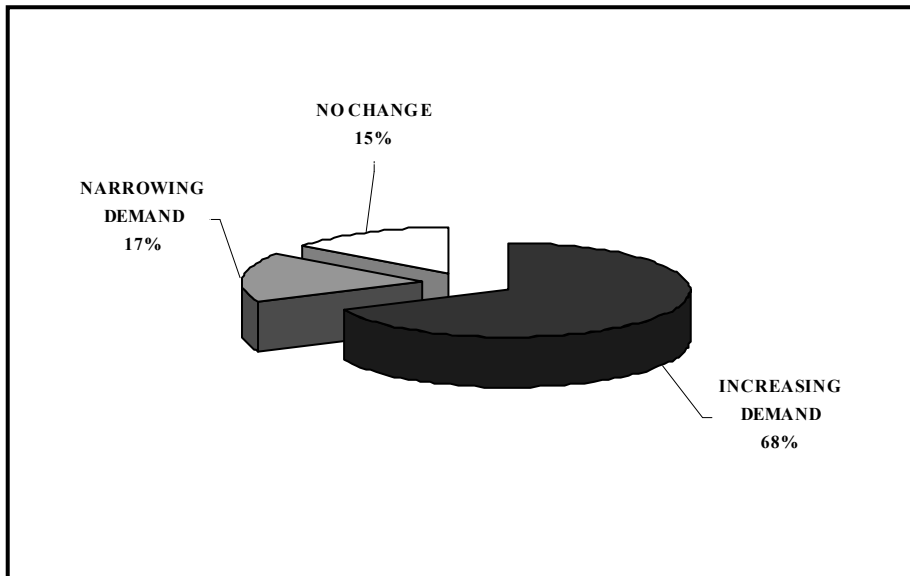
Development of livestock numbers in the farms investigated



Source: questionnaire survey

Figure 3

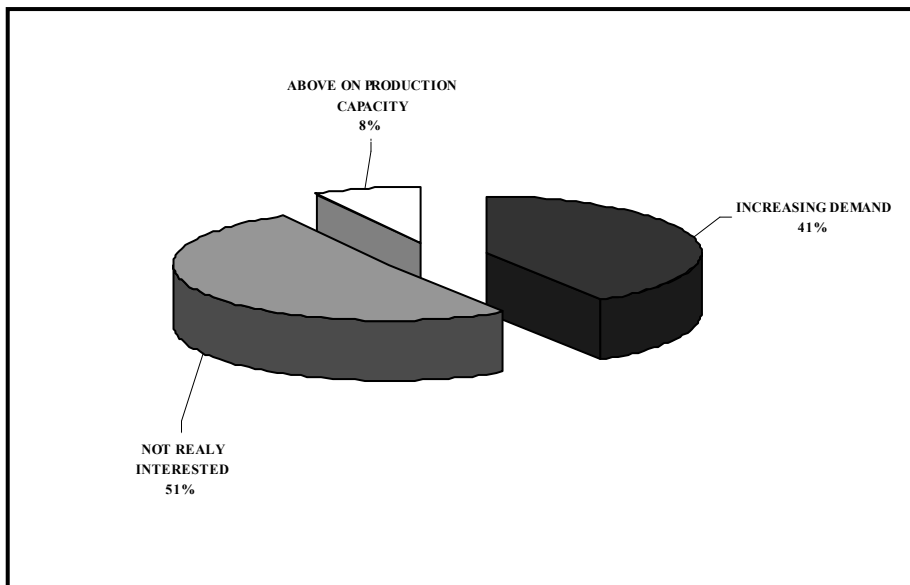
Impact of European accession on foreign demand



Source: questionnaire survey

Figure 4

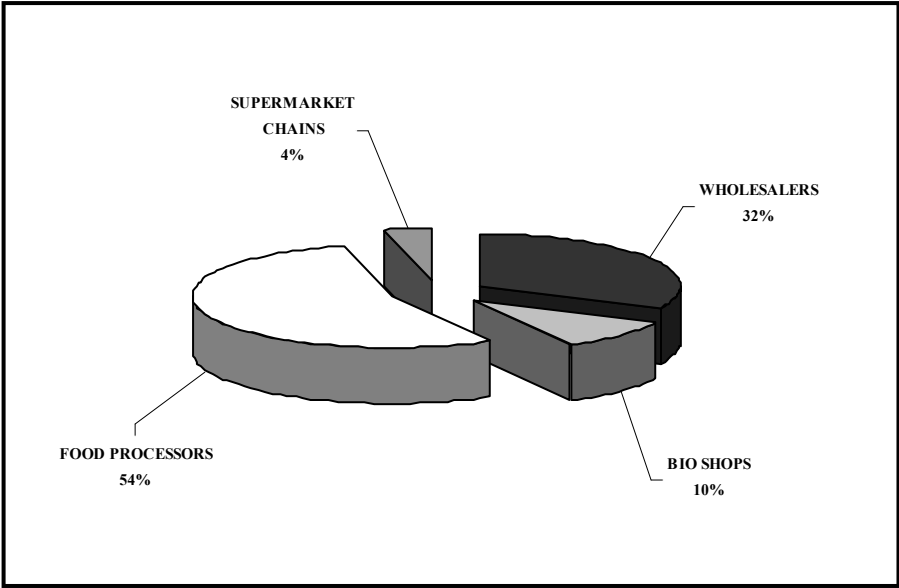
Relations for domestic demand



Source: questionnaire survey

Figure 5

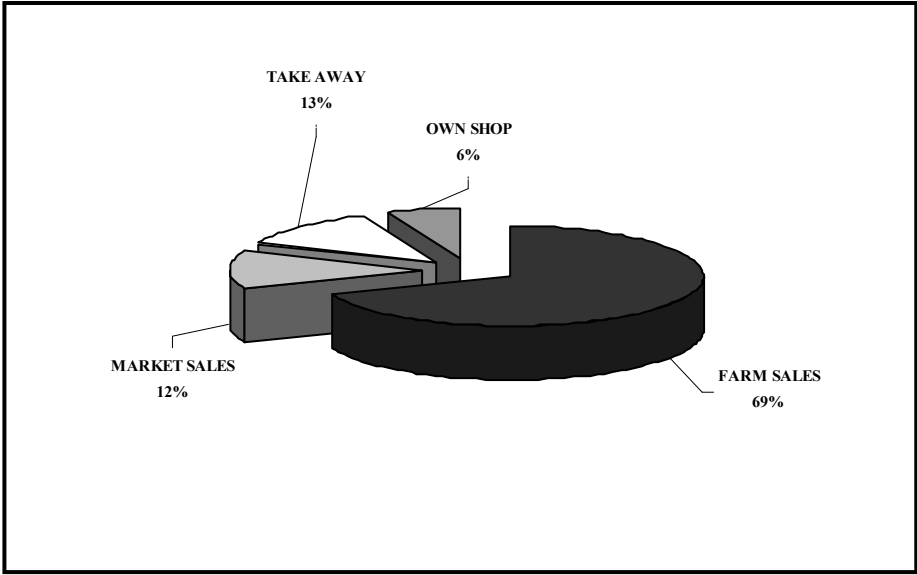
Sales trough indirect sales channels



Source: questionnaire survey

Figure 6

Sales trough direct sales channels



Source: questionnaire survey

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