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Hungarian meat sector restructuration in the post-EU accession period

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Abstract

In Hungary corporate concentration in the meat processing industry based on revenue is lower than in other Hungarian food industry sectors and also compared to the concentration level in West European countries. In the sector the share of foreign capital is also very low (17%). Because of the low share of foreign capital and relatively small concentration, structural and ownership changes were to be expected, resulting in a more concentrated and competitive sector. The restructuring process involved a number of steps. First of all, Sándor Csányi acquired Délhús and then later acquired Pick Szeged, and in 2005 these two corporations' sectoral share was about 25%. As for the other two large corporations – R-KO-N and Carnex – in late 2005 the latter weakened significantly causing a loss in market share and the bankruptcy of two companies within its industrial group. Currently the meat sector is undergoing rationalisation of costs and activities, coordination, and an elimination process, all brought on by increasing competition. Pork consumption tends to run counter to the rising standard of living as consumption has been stagnating for years. Domestic production of pork is going down but imports (mainly live pigs) are shooting up. Now a portion of produced pork (mainly carcass meat) can be sold in Hungarian's export markets at the pre-accession level. Even today the elimination process is affecting numerous abattoirs. Changes in ownership structure could hasten the elimination process, leading to a reduction in the large surplus capacities. For example, in 2003 50% of pig slaughtering capacities were used, similar to the capacity used in salami and sausage production.[3]

Key words

Pig, food industry, EU Accession, trade

1. Corporate structure, concentration and ownership structure

The meat-processing sector entails the following: cattle and pig slaughtering, processing and *further processing*, meaning activities of Nos 1511 and 1513, but not including poultry processing companies. The meat-processing sector generates the food industry's largest revenue. The major market players in pig processing are the following: Pick, Délhús, Pápai Hús, Kométa and Debreceni Hús Rt, which accounted for 34% of the entire 2004 sector. The top 10 corporations account for 53% of the sector's total revenue and 74% of exports. The top 10 processing companies share of 2004 net revenue did not match the 1997 level and concentration according to export income also dropped. In meat processing **concentration is only moderate and** has dropped slightly (Table 1).

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3 In the preparation of the paper we took into account the relating publications of Orbánné et al. (2006), Fórián (2005), Kartali et al. (2004), Juhász et al. (2005), Kőnig et al. (2004), Orbánné (2003), Szabó (1999), Lakner – Réti (2005), Tóth (2005), Zsarnóczay (2004), M&H CIU (2006), Hazafi (2006), Oláh (2005), Gehlhar (2003), Lienhardt (2004).

Table 1

Corporate concentration between 1997 and 2004, %

Number of corporations	Net revenue in total sales			Net revenue in export sales			Registered capital		
	first 3	first 5	first 10	first 3	first 5	first 10	first 3	first 5	first 10
1997	28.6	41.3	60.7	38.2	55.7	79.4	29.1	37.1	56.8
2000	27.9	40.4	57.3	39.0	48.6	75.3	31.7	39.0	57.7
2004	25.0	34.5	53.3	30.9	38.1	73.7	20.0	34.5	56.1

Source: own calculations based on the data from Hungarian Tax Authorities and AKI

The extent of concentration in meat processing lags behind other sectors, and the sector also suffers from a lack of foreign capital. Foreign capital's share of registered capital is significantly below 52%, which is characteristic for the food industry as a whole (Table 2). **In 2004 foreign capital's share in meat processing was 17% indicating a significant decrease from the previous years**. Pig processing has mainly Hungarian ownership.

Table 2

Foreign participation in the registered capital, %

Year	in the case of the first 3 corporations	in the case of the first 5 corporations	in the case of the first 10 corporations	All the corporations
1997	79.6	74.3	48.9	41.2
2000	61.1	60.3	47.5	37.6
2004	20.3	17.3	19.6	17.4

Source: own calculations based on the data from Hungarian Tax Authorities and AKI

Kometa is a major foreign company and it is located in Kaposvár. Kometa is owned by the Italian Pedranzini family. In Kuskunfélegháza, the slaughterhouse's owner is also an Italian family by the name of of Pini. Up to 1999 they owned the now Kometa Co. Other than the phenomenom of decreasing concentration, it is also clear that foreign capital is also leaving the country. The main reason for this is the 2001-2004 transfer of ownership between Zimbo and Délhús (from Austrian to Hungarian ownership). Because of the ownership transfer between these two major companies, the sector's level of foreign ownership has sharply declined. This can be explained by a decentralized processing system, the surplus capacity, a weak internal market, and a lack of strong brand names.

One of the sector's main problems is that numerous abattoirs only serve the domestic market. According to the National Food Investigation Institute, in September 2005 there were 287 such abattoirs in Hungary. 80 of the abattoir/processing plants had EU codes and there were 91 which were only involved in processing; the latter figure being the most noteworthy.

In 2003 the sector went through a series of closures. In 2003 the national **capacity use** level **was only 51%**, which is very low. At 38-53%, salami and sausage production lines were also under-utilized, while meat product production was slightly higher at 73%.

Due to surplus capacity and low concentration, structural and ownership changes were expected, and these changes will lead to a more concentrated and competitive sector. **In 2005 meat processing ownership structure changed significantly[4].** The most important change in ownership was Delhús's acquisition of Pick Szeged which meant that Pick's was transferred from Arago to Sándor Csányi. Their joint market share accounts for 20%. In the meat sector such a large market share is remarkable as the second largest owner accounts for less than 10% in revenue. In 2005 the three leading owners' share (Csányi, Mónos, Román) accounted for 40% of the sector (Table 3, Figure 1). Other than growing competition, the sector's restructuration was also explained by competitors biding their time until weak companies were eliminated. However, during this period they became indebted and one significant creditor grew strong enough to acquire Délhús and Pick and thus became a dominant market player. The next target for concentration and acquisition could well be the meat processing plant in Gyula as it shares traits with other companies that were either closed down or acquired (Zalahús, Pick). Like previous meat processing failures, the Gyula plant is suffering financially.

Table 3

Leading corporations in meat processing in 2005

Owners	Gyula Román R-KO-N-group	Péter Mónos CARNEX group*	Sándor Csányi
Corporations	Debreceni Húsipari Rt.	Pápai Hús Rt.	Délhús Rt.
	Csabahús Kft.	Falcotrade Rt.	Pick Szeged Rt.
	Sole-Meat Kft.	Borsi Húsipari Rt.	
	Kapuvári Hús Rt.		

* Remark: At the beginning of 2006 CARNEX became bankrupt.
Source: Szirmai 2005, articles and interviews with experts

In 2005, Hungarian meat processors lost both Hungarian and external markets. Among other reasons, this was due to increasing costs and to expensive Hungarian raw materials. In December 2003, two Carnex Rt companies declared bankruptcy. These were Falcotrade and Borsi which had lost about HUF 3 billion.

In 2006 sectoral structural changes continued. Délhús merged with Pick Szeged Rt. The new company's market share is expected to reach 30% and thus R-K-O-N group's share will be 17%. Also in 2006 CARNEX Group broke up. In 2006 Hungary-Meat may expect a 10% share while Kometa and Gyula will have to be satisfied with 7% each.

After EU Accesssion, competition strengthened and subsequent rationalisation, closures and liquidations (Ringa Sopronban, Zalahús, Gyulai Húskombinát, Borsi Rt.) seriously affected the sector. **About 3000 employees** were laid off, totalling 20% of the sector's employees. Closures and lay-offs signal a serious crisis. However, the new owners and professional financial investors feel that in the future the sector might enjoy stability.

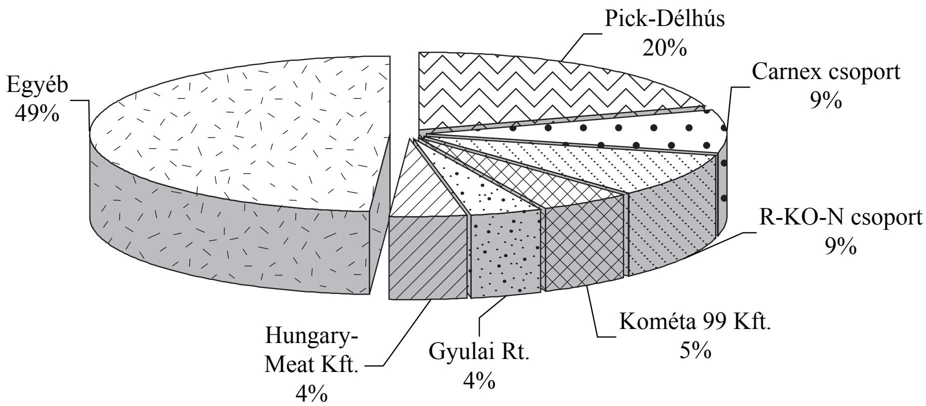
4 It is important to note that the structure of the sector analysed on the basis on the balance sheet data of APEH (2004) can reflect only approximately the permanently changing structure. It is probable that the data of 2003 reflect better the real position of the companies in the sector since at that time the balance sheet indicators were less affected by the changes performed in order to reach business interests (acquisition-sales).

In meat processing – as in poultry processing – **specialisation** has already started. Pick-Délhús has undertaken rationalisation measures. Under the new ownership domestic sales are managed from Délhús in Pécs and the export sales from Pick in Szeged. In Szeged sausage and salami continued while Délhús produces other meat products. Another sign of specialisation is that slaughtering and the production of finished products are done separately. For example, new processing companies are Alföld and Szigetfő.

A good example of **vertical integration** is that in spring 2005 the retail store **SPAR** opened its own **meat processing company** in Bicske. To counter the power of retailers, processors (mainly from the meat sector) plan to establish their own chain stores.

Figure 1

Market share of the leading meat processing corporations at of end of 2005*



* Value based, on 2004 revenues. Carnex Rt. Borsi Hús Rt revenue. is not included.
Source: databases of Hungarian Tax Authorities and AKI, Szirmai 2005, Kaiser Almanach 2004, Szirmai 2005, articles and interviews with experts

In the developed countries concentration in the meat sector is strong. It is increasingly frequent for companies involved in pig slaughtering to also slaughter poultry. In Germany the top 10 companies' share accounts for 62% in the value of total production (Kohlmüller, 2005), quadruple that of the 2003 indicators for Hungarian meat processing. However, one must consider that the German market is eight times larger, and the companies are all bigger than their Hungarian counterparts. The 10 largest EU abattoirs serve 30% of the common market (Table 4). First among the 10 largest companies is a Danish company, and there are four German and three French companies.

Table 4

The ten largest abattoirs in the EU (2003)

Name of the corporation	Market share, %	Member State
Danish Crown	10.0	Denmark
Vion Foods	8.0	Netherlands/Germany
Westfleisch	2.4	Germany
Tönnies	2.3	Germany
Cooperl	1.6	France
Socopa	1.6	France
Glon Sanders	1.0	France
Grampian	1.0	UK
Swedish Meats	1.0	Sweden
Gausepohl	0.8	Germany

Source: Harris, 2005

Concentration in EU meat processing is below the US CR4 indicator. In the USA the four largest meat processors in 1997 controlled 57% of the market. During the eighties concentration in the pig sector grew by 10 percent (Ollinger et al. 2005). However, it is necessary to mention that the four largest companies control only 20% of the market.

On the list of the world's 50 largest meat and poultry processors only two European companies are in the top ten. On the same list are mainly American companies, and one Japanese. Danish Crown, the top company in Europe, is only 9th on the world list (Annex 21). It is noteworthy that the revenue for the total Hungarian meat processing industry, including production of meat products, comes to HUF 350 billion. This equals only one fourth of the Danish company's revenue: EUR 6 billion (HUF 1,500 billion).

According to foreign experts' opinion, Danish and German investment will fuel future meat processing in Poland, the Czech Republic and in Hungary. The proximity to large markets in Ukraine and Russia will undoubtedly provide the new EU member states with opportunities. The large Swedish meat processors are targeting the Baltic markets, while the American Smithfield Foods is targeting Eastern Europe (Foreign Agricultural Service – USDA and CIAA).

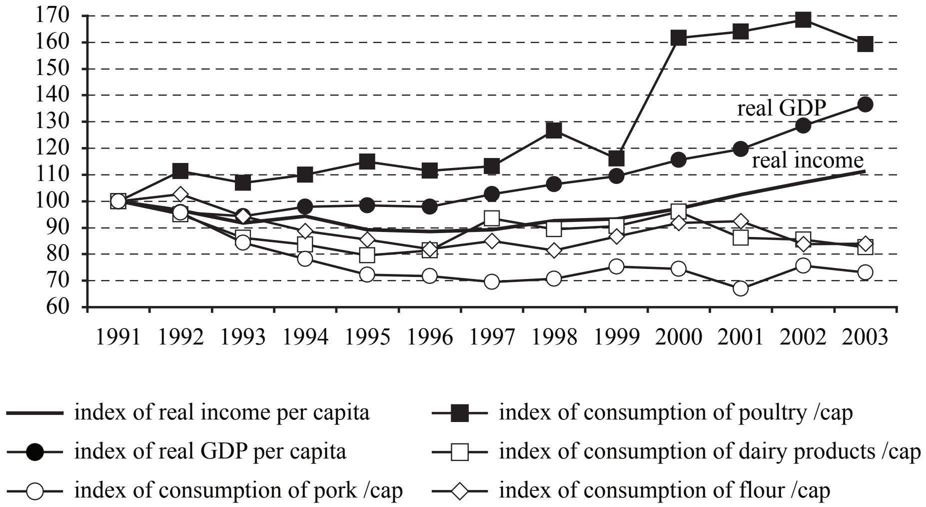
2. Supply and demand

In 2003 pork consumption decreased **by 3.2%** from the preceding year, but compared to the averages between 1995-2000 it increased by 1.1%. In other words, it is stagnating at 27.5 kg/capita. The demand for pork depends significantly on one's income. This is revealed by the more than 50% difference in expenditures between upper and lower income households. Hungarian consumption is significantly below EU consumption but the consumption in other Member States also varies considerably.

In general, economic progress (increasing incomes and purchasing power) favour consumption. However, Figure 2 shows that, despite economic progress, pork consumption is losing out to other products. These tendencies confirm that growth in **pork consumption** is **not, despite economic progress, meeting expectations.** The main reason for this is improving health consciousness and growing poultry consumption.

Figure 2

Trends in the standard of living and the consumption of main food products (indices: 1991 = 100)



* Between 1999 and 2000 poultry consumption increased by approximately 10 kg/capita according to the data of Central Statistical Office.However, it is doubtful the recorded annual increase is accurate. According to various experts' opinion, 2-3 years previous to this consumption volume was already larger than that recorded by the Central Statistical Office.

Source: Food balances, own calculations base on the data of the Central Statistical Office, Kőnig (2005).

Due to unprofitable production and the current market environment**, supply of Hungarian raw materials is uncertain**. **The high raw material prices and other low market prices favour** (both regarding trade and processing) **an increase in imports**. In 2005 the number of pigs went below 4 million, and in early 2005 there were only 3.9 million pigs.

After the 2004 EU Accesssion, the pig sector's export value did not decrease and this also held true for 2005. Moreover in 2005 it reached its highest level since the turn of the century. This was first of all thanks to the growing export income generated by pork. In considering export volume, we see that it **dipped** slightly **in 2004, meaning that more valuable meat parts were exported.** Moreover, the volume of highly processed products such as salami and sausages dropped for the fourth time in six years time (Table 5).

Table 5

Export of the Hungarian pig sector, 2000-2005

Product	2000	2002	2003	2004	2005	2005/2000
Million USD						%
Live pig	32.3	25.5	14.3	17.5	27.5	85.1
Pork	185.9	199.5	194.8	223.4	247.8	133.3
Sausage, salami	57.2	51.7	54.8	62.3	56.7	99.1
Bacon	5.6	6.1	5.2	4.0	4.0	71.4
Total	280.9	282.8	269.1	307.2	336.0	119.6
Thousand tonnes						%
Live pig	34.0	22.9	15.5	12.9	16.9	49.7
Pork	105.0	84.5	83.0	81.0	82.9	78.9
Sausage, salami	32.9	15.7	11.3	10.1	7.9	24.0

* estimation
Source: AKI database and preliminary data of KSH

Hungary's main **export market** is the European Union. In 2005 the EU-25 composed 48% of Hungary's pork exports. Traditionally Spain and Germany are important markets for Hungary, but so are Japan and South Korea to which special meat products including fat are exported. Hungary's main exports are pricey meat parts, while its imports tend to be cheap raw materials which could potentially replace Hungarian raw materials.

In the four years previous to Accession imports in the sector were very low, but in 2004 **the number of imported live pigs shot up** and imported meat products tripled (Table 6). This stemmed from price competitiveness and the problems detailed above. In 2005 the increase in imported pork and live pigs increased and in one year live pig imports doubled. **Most of the live pigs came from Holland.** In 2005 pork volume increased by one third against the already high 2004 volume. In 2005 the pig sector's external trade balance showed a surplus of USD 51 million compared to 2003 which totalled USD 227 million.

Table 6

Import of the Hungarian pig sector, 2000-2005

Product	2000	2002	2003	2004	2005	2005/2000
Million USD						%
Live pig	0.2	0.4	0.3	47.1	95.8	..
Pork	31.1	50.9	39.5	122.1	177.3	570.1
Sausage, salami	0.7	1.2	2.2	6.2	11.7	1,671.4
Thousand tonnes						%
Pork	26.8	38.6	26.9	60.0	78.4	292.5

Source: AKI database and preliminary data of KSH

During recent years transformation involving meat processors – often hard to trace – created a fragmented corporate structure and consequently a weakned lobbying position and weakened sectoral competitiveness. The 2005/2006 corporate restructuration is a by-product of EU Accession, which has created greater transparency and enhanced competition, but which has also revealed the Hungarian sector's weaknesses. During the last years the sector has undergone a process aimed at increasing efficiency, decreasing capacities and hastening a natural elimination process. Though painful, one can only hope this process will eventually strengthen the meat sector. In fact, the first signs of this are now modestly apparent, hinting at greater cooperation in the sector. Using Hungarian resources, the goal is to satisfy the still stagnant domestic demand. In doing so, it is hoped that one can counterbalance increasing imports and enhance the current stagnant state of Hungarian exports.

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