DEVELOPMENTS IN FOOD AND AGRICULTURE IN CENTRAL EUROPEAN COUNTRIES

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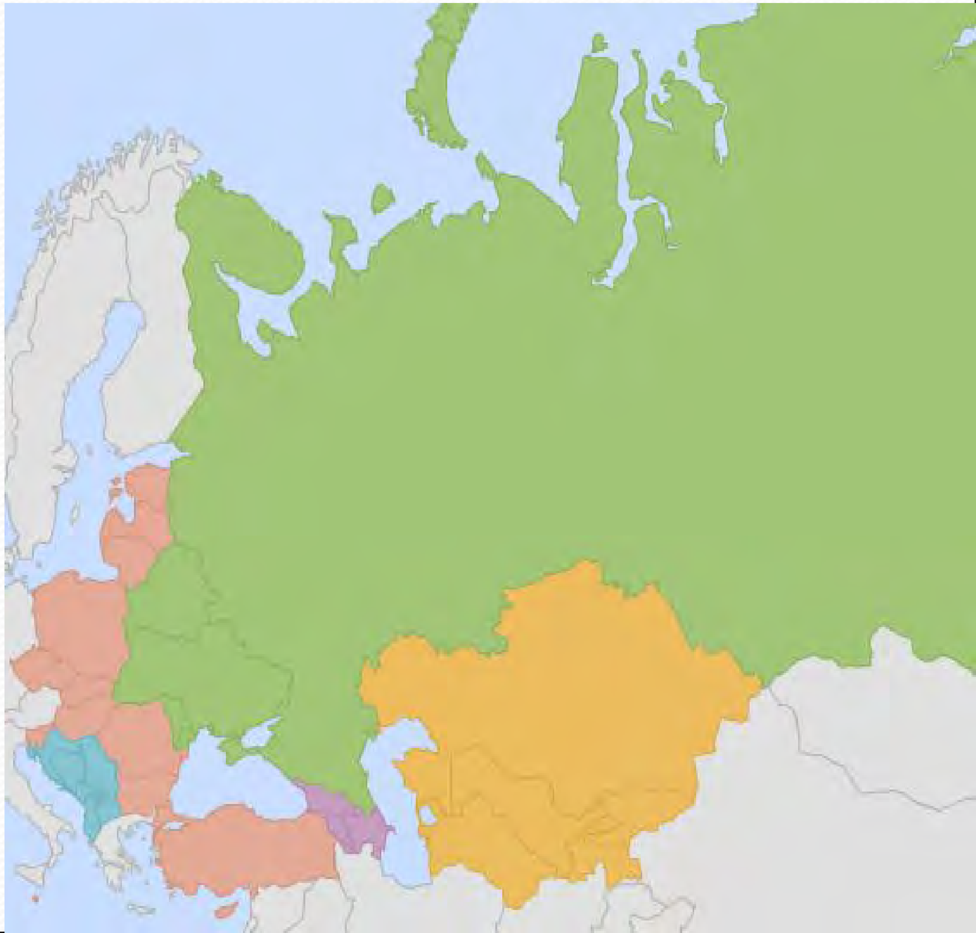
CEE in a Broader Regional Context

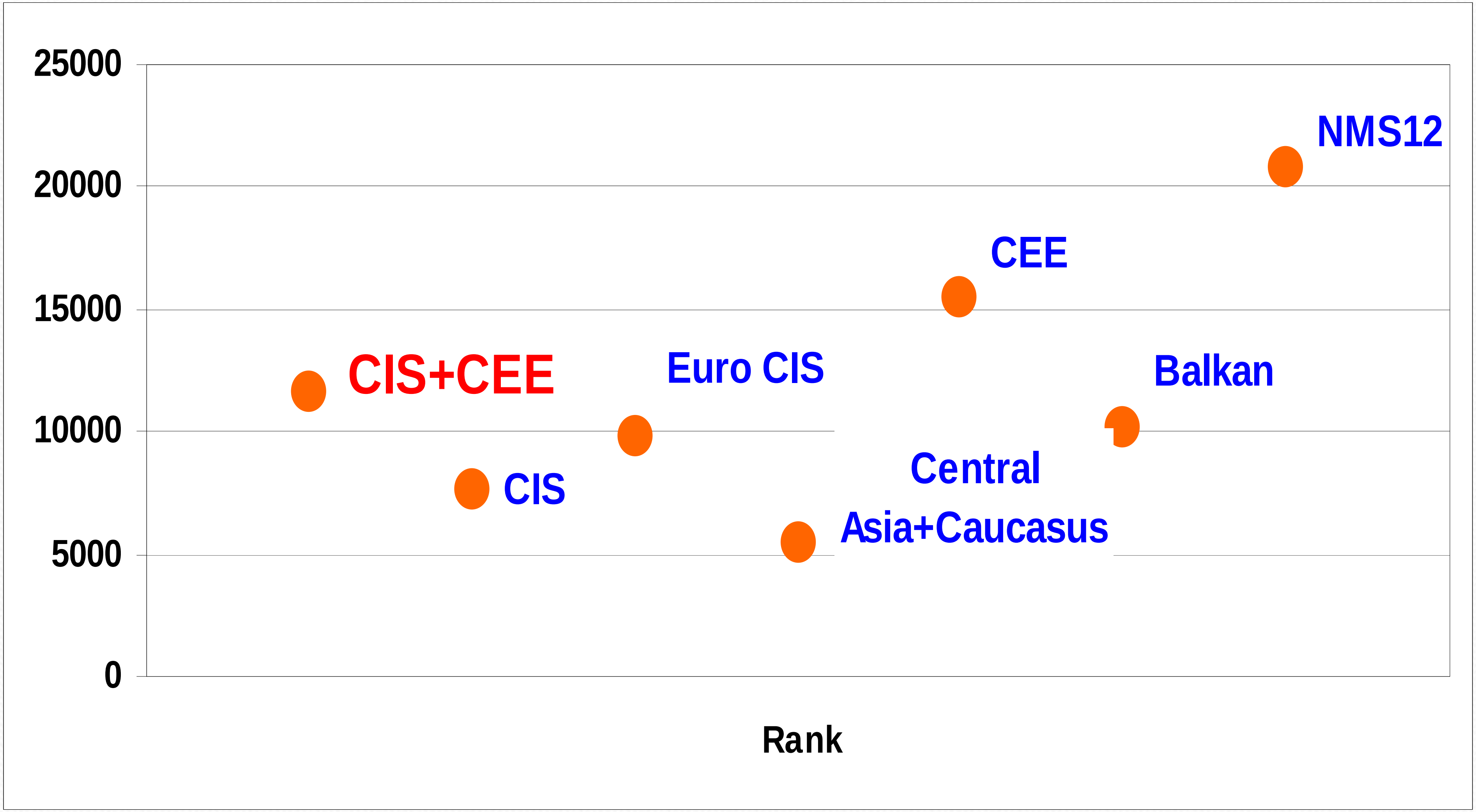
- EU Members (EU12)
- Rest of Eastern-Europe (Balkan)
- CIS
  - Euro CIS
  - Central Asia + Caucasus



Basic facts on CEE&CIS agriculture

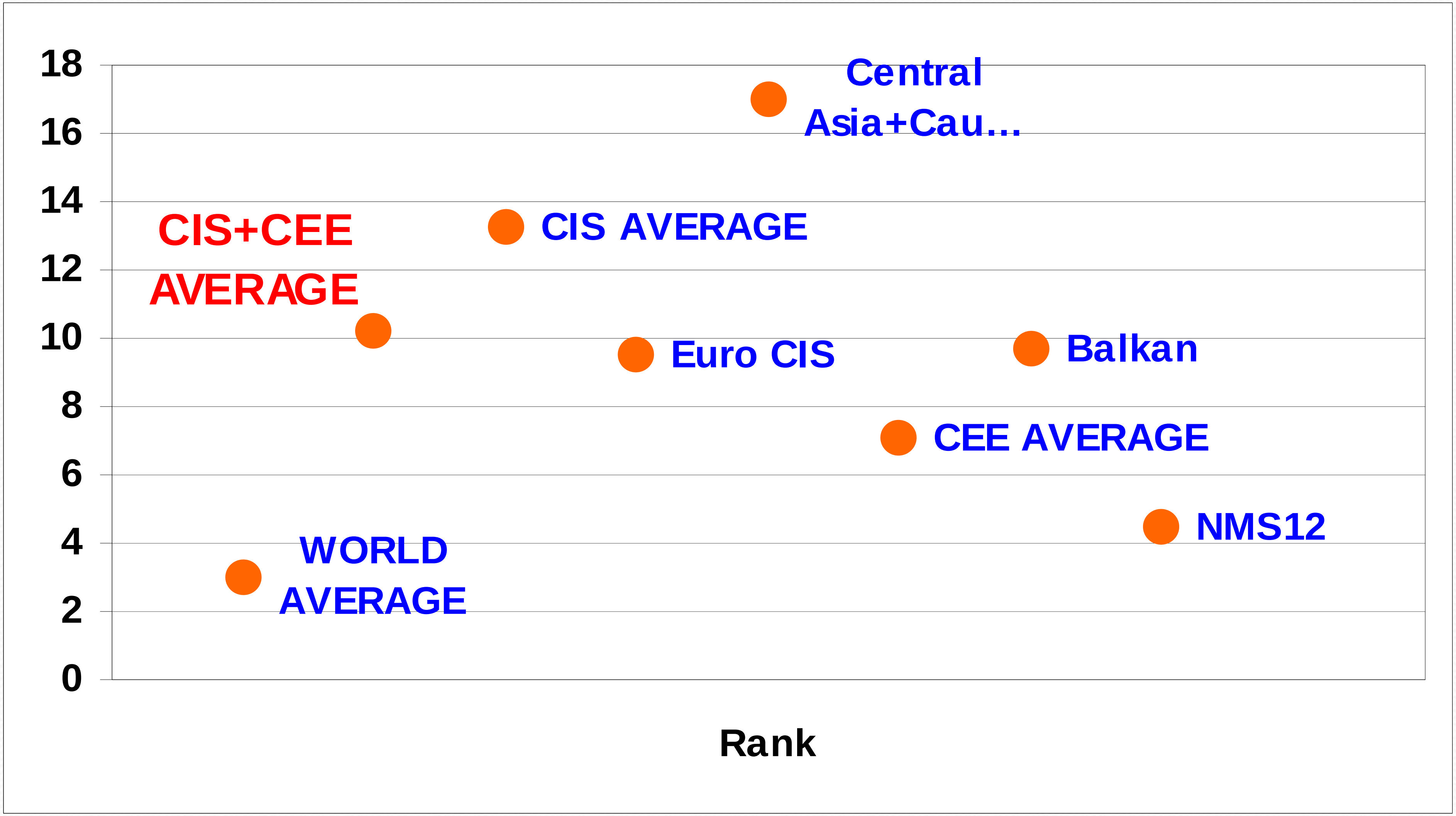
- About 17% of global agricultural resources
- Only 6% of global population
- 10% of GDP from agriculture
- 7% of population is active in agriculture
- 17 % of global arable land (250 mn ha)
- 10 % of global cereal and 6.7 % of meat outputs
- 15 % of global milk production

GDP/capital based on PPP in current international dollars in 2008



Source: Own composition based on IMF (2009)

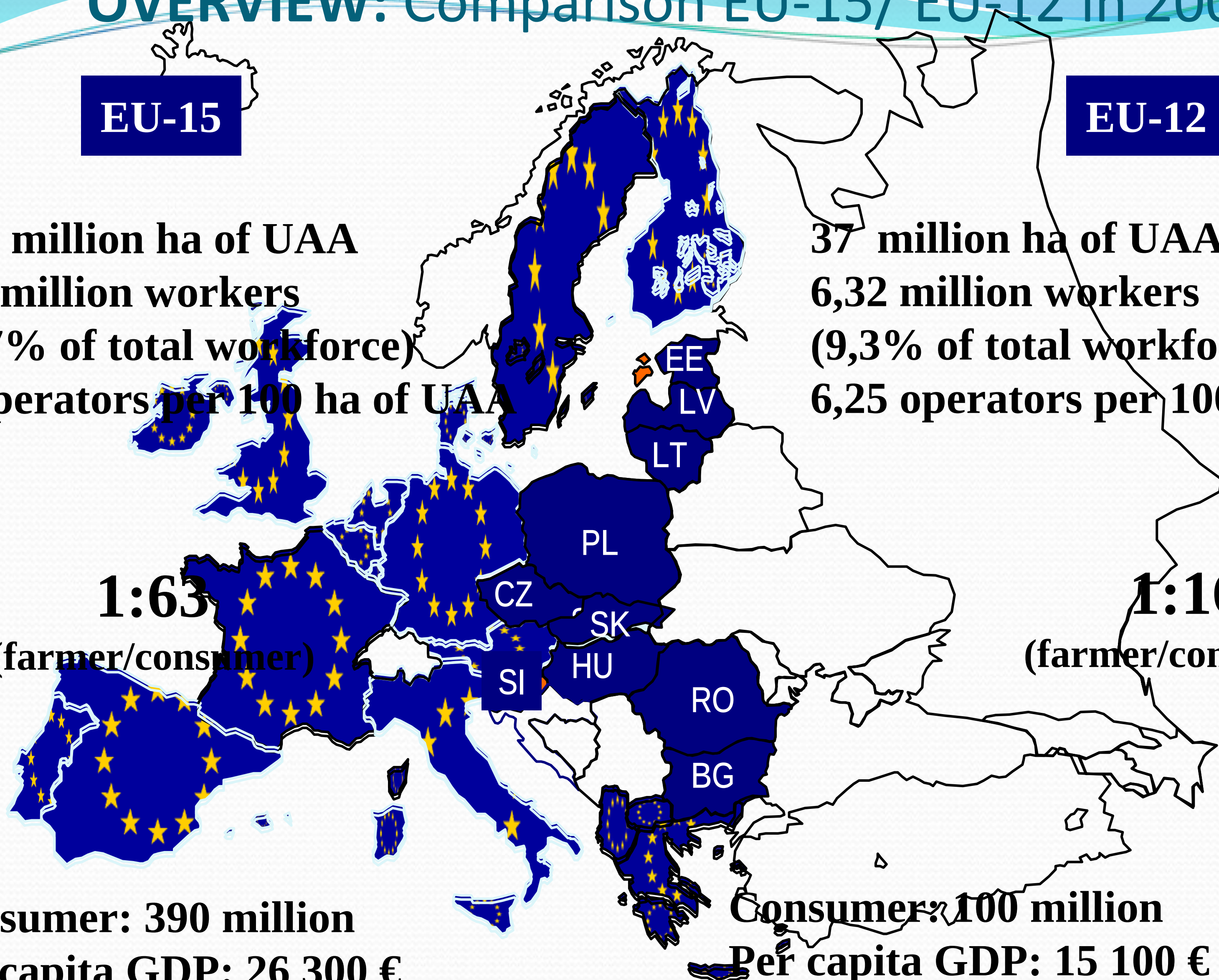
Average share of agriculture in GDP (%)



Source: Own composition based on World Bank (2009)

OVERVIEW: Comparison EU-15/ EU-12 in 2007

EU-15	**EU-12**
145 million ha of UAA	**37 million ha of UAA**
6,2 million workers	**6,32 million workers**
(3,7% of total workforce)	**(9,3% of total workforce)**
5 operators per 100 ha of UAA	**6,25 operators per 100 ha of UAA**
1:63	**1:16**
(farmer/consumer)	**(farmer/consumer)**
Consumer: 390 million	**Consumer: 100 million**
Per capita GDP: 26 300 €	**Per capita GDP: 15 100 €**
Household income spent on food: 15%	**Household income spent on food: 24%**



NMS in the world %

Arable land (2005)	2.64
Cereals production (2007)	2.91
Meat production (2007)	2.52
Milk production (2007)	4.31
Agricultural world export (2007)	4.00
Agriciultural world import (2007)	4.22

Source: Own composition based on FAO (2009)

Challenges to meet

- Utilize the opportunities of EU membership.
- Cope with increased competitive pressure on domestic markets.
- Improve the competitiveness of agrofood sector.
- Safeguard regional interests in CAP and WTO reforms.
- Food safety and quality enhancement.
- Facilitate further post transition reforms.
- Mitigate the negative impact of global economic crisis.
- Provide adequate responses to increased regional differences and social tensions.

Primary agriculture

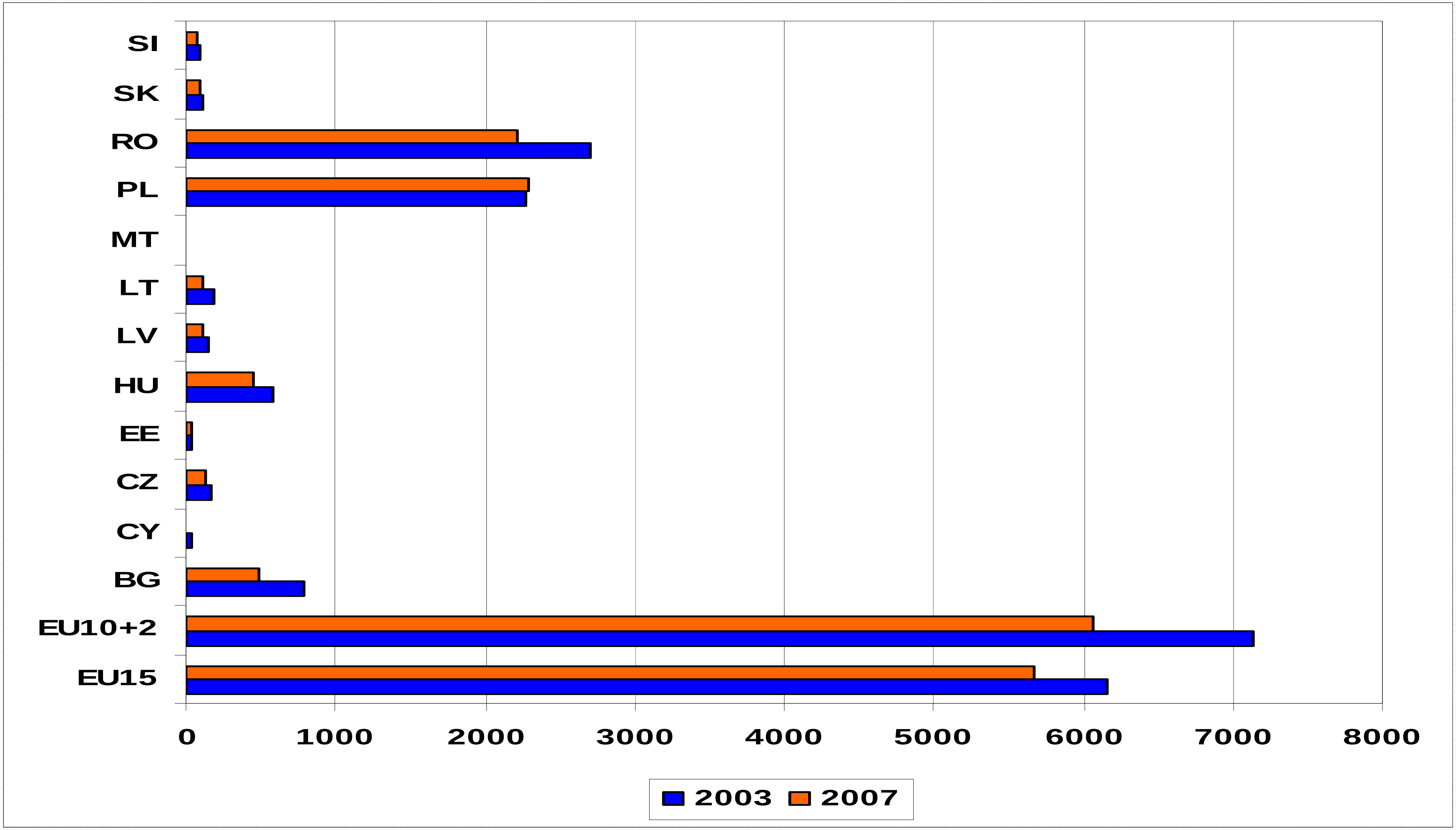
- Declining role of agriculture
- Modest increase of outputs and competitiveness
  - Fluctuating land productivity with remaining gaps
  - Increased labour productivity
- Mixed structure of farms
  - Dominance of small farms in half the countries
  - Dual farming structures in the rest
  - Movement toward more extensive structures
- Significant impacts of CAP
  - Increasing farm incomes
  - Diversity in implementation

ROLE OF AGRICULTURE Share of agriculture in GDP in CEE (%)

Country	**2000**	**2005**	**2006**	**2007**
Bulgaria	14	9	8	8
Czech Republic	4	3	3	3
Estonia	5	4	3	3
Hungary	5	4	4	4
Latvia	5	4	4	4
Lithuania	8	6	5	5
Poland	5	5	4	4
Romania	13	10	11	8
Slovakia	4	4	4	3
Slovenia	3	3	2	2

Source: Own composition based on World Bank (2009)

LABOUR FORCE: Agricultural labour in 1000 annual work units (absolute numbers)



Source: Own composition based on EUROSTAT (2009)

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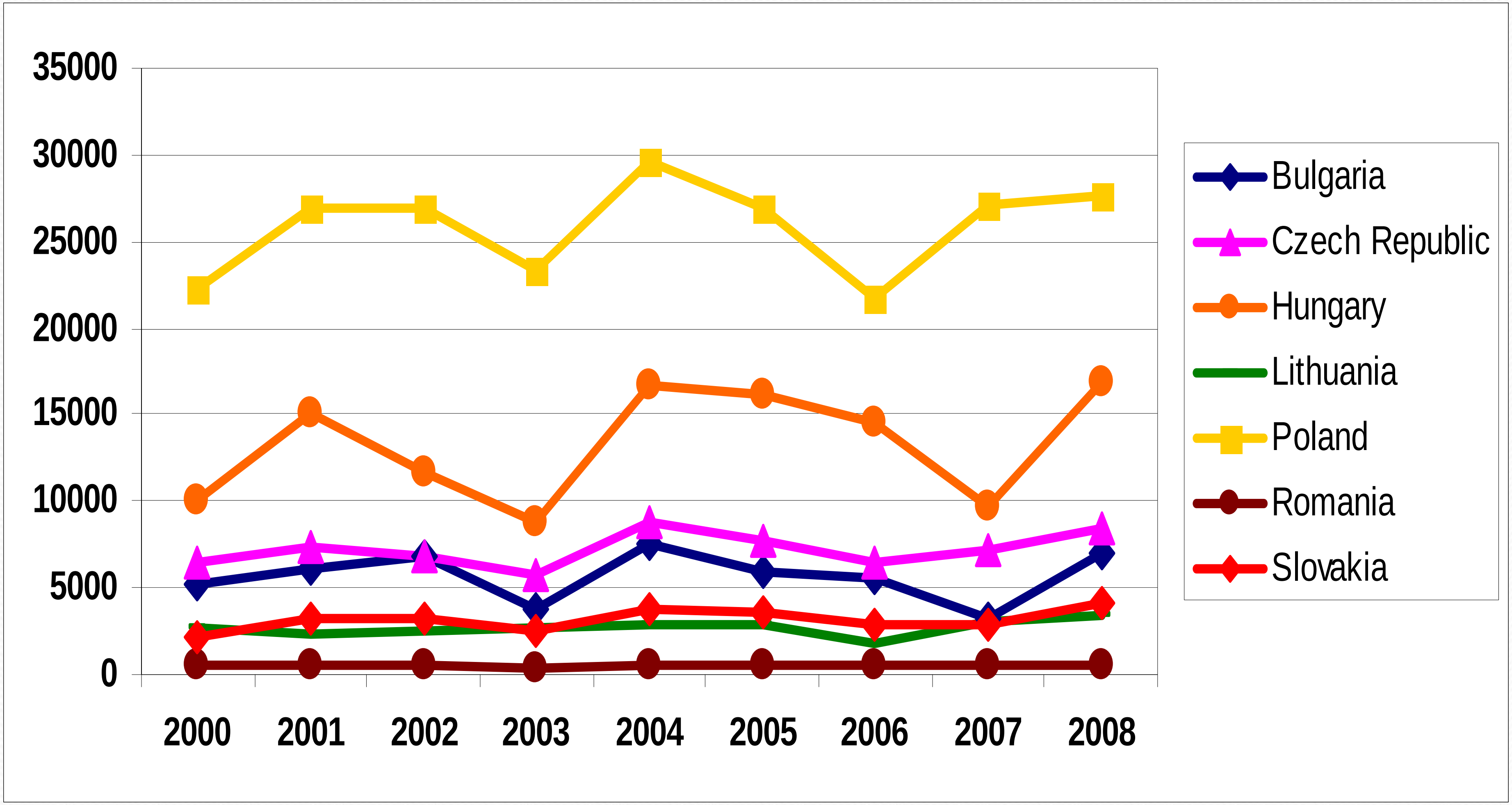
Index of agricultural output in real value (2000=100)

Country	2003	2004	2005	2006	2007	2008
Bulgaria	84.55	87.29	83.18	79.22	71.72	87.87
Czech Republic	83.21	98.44	86.96	86.00	98.11	93.57
Estonia	96.31	108.15	115.91	108.66	124.35	109.07
Hungary	89.45	100.31	90.81	91.26	91.32	100.05
Latvia	99.65	108.27	118.56	109.68	130.60	125.74
Lithuania	120.98	138.99	149.88	154.11	171.01	150.21
Poland	97.91	117.82	107.84	110.26	128.22	126.21
Romania	119.66	135.21	99.93	96.74	82.40	102.60
Slovakia	89.61	100.94	96.98	95.16	95.46	96.53
Slovenia	97.66	106.04	89.19	86.48	90.83	98.10

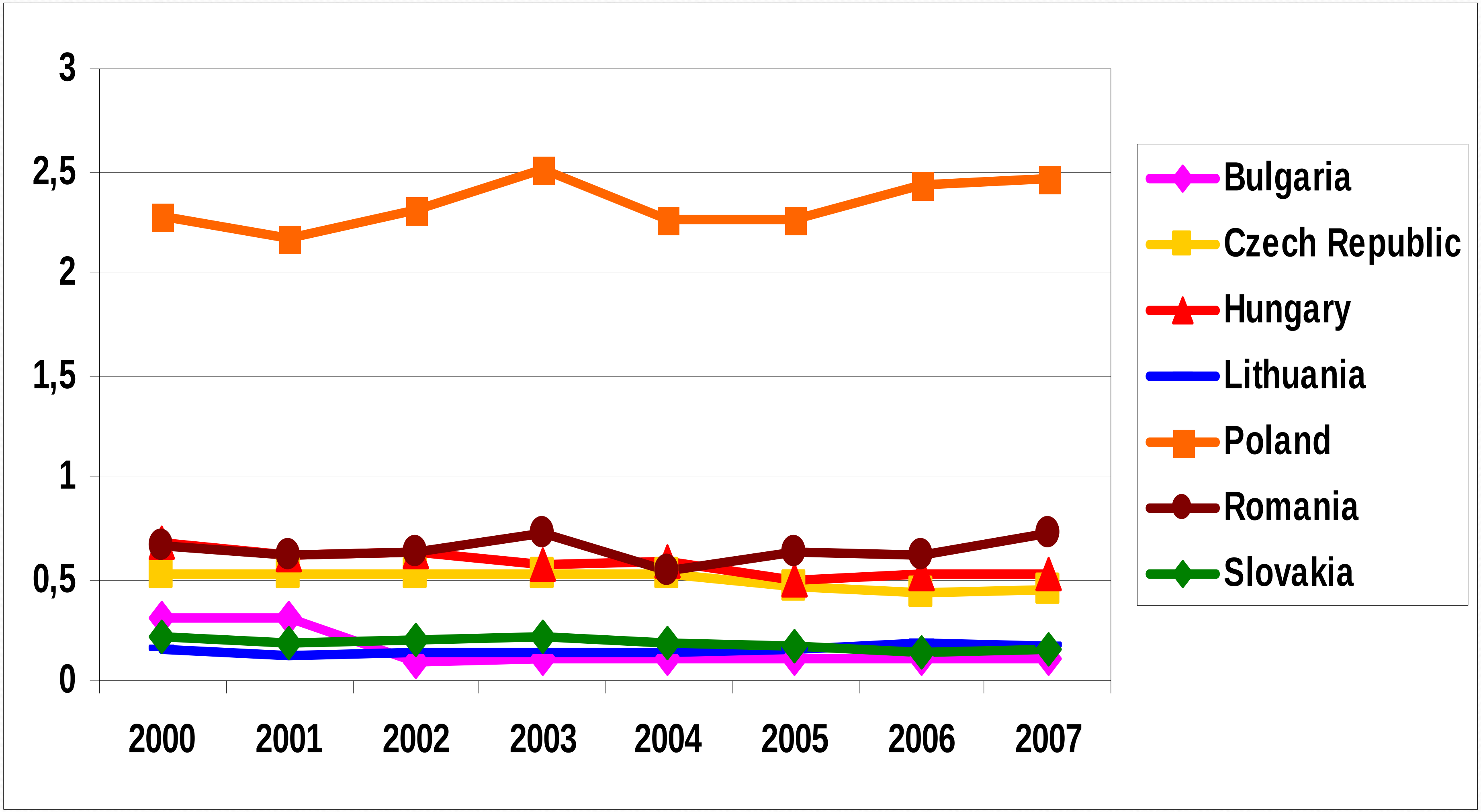
Source: Own composition based on EUROSTAT (2009)

CEREAL PRODUCTION Top 7 producers' production of cereals in EU10+2 (tonnes)



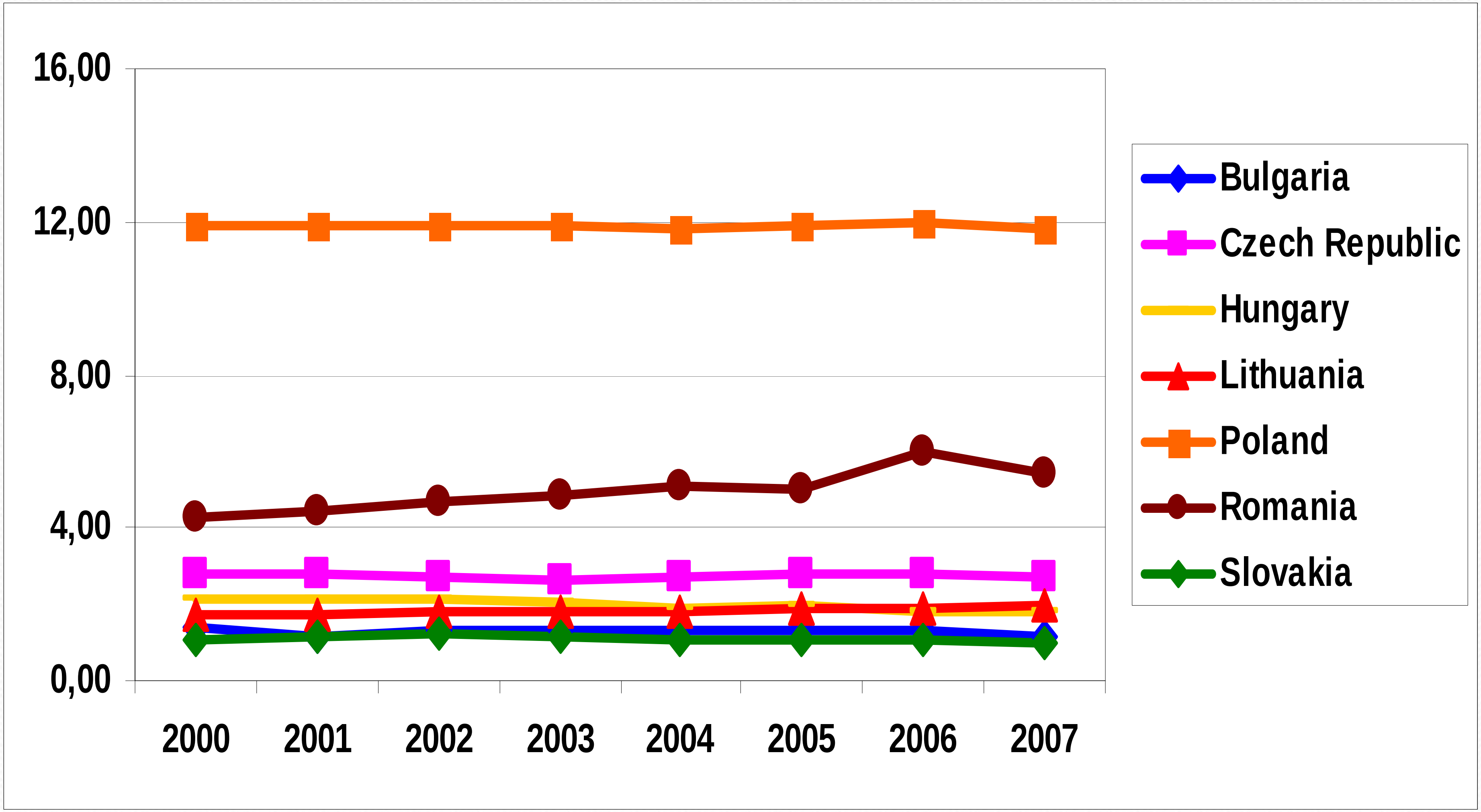
Source: Own composition based on EUROSTAT (2009)

MEAT PRODUCTION Top 7 producers' production of meat (cattle, goat, pig) in EU10+2 (tonnes)



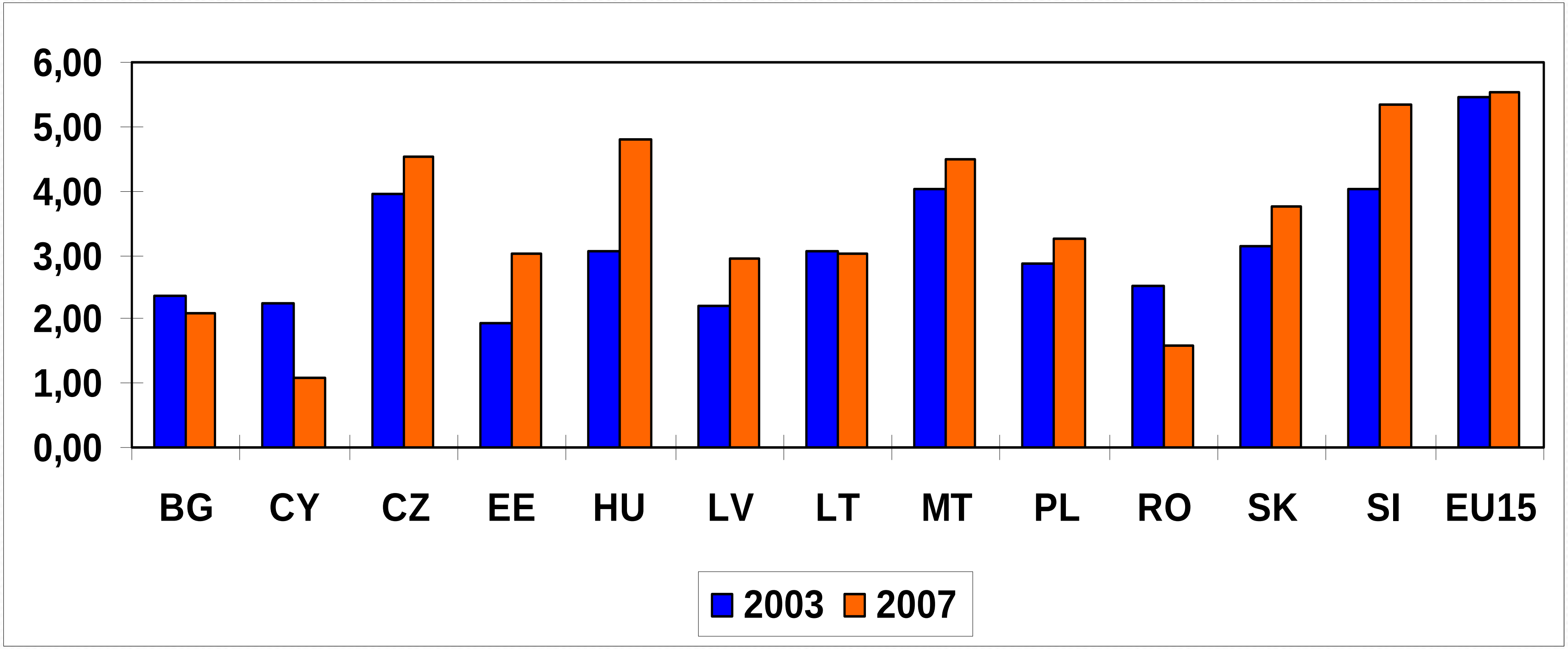
Source: Own composition based on EUROSTAT (2009)

MILK PRODUCTION Top 7 producers' production of fresh cow milk in EU10+2 (tonnes)



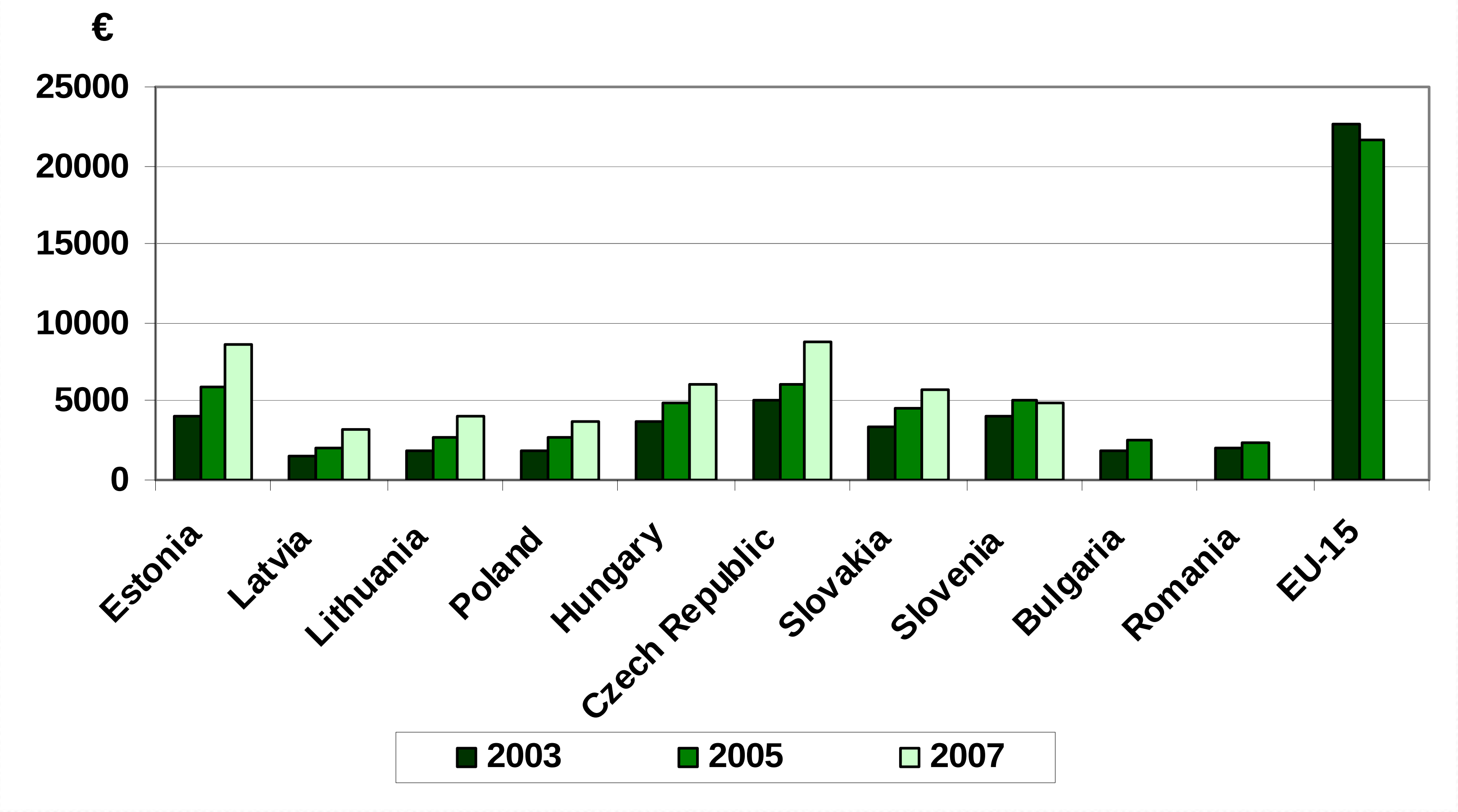
Source: Own composition based on EUROSTAT (2009)

PRODUCTIVITY Yields of cereals in NMS (tonnes/ha)



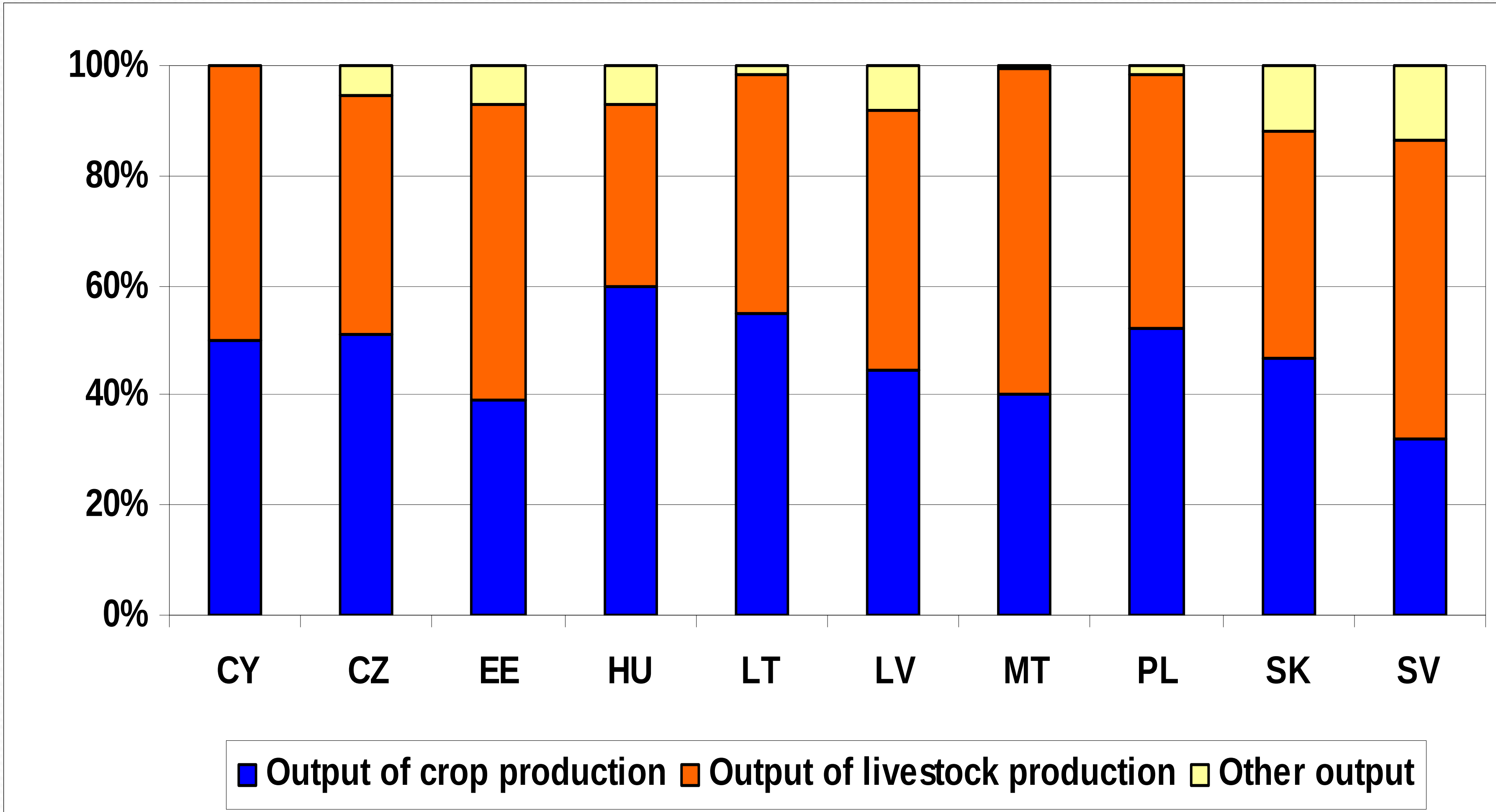
Source: Own composition based on FAO (2009)

Agricultural gross value added at basic price
per total annual work unit, 2003-07



Source: Dieter Kirschke (2009), Presentation in Berlin, MACE Conference, January 2009

INTENSIFICATION Rate of crop, livestock and other output in total output, 2006 (%)



Source: Own composition based on FADN (2009)

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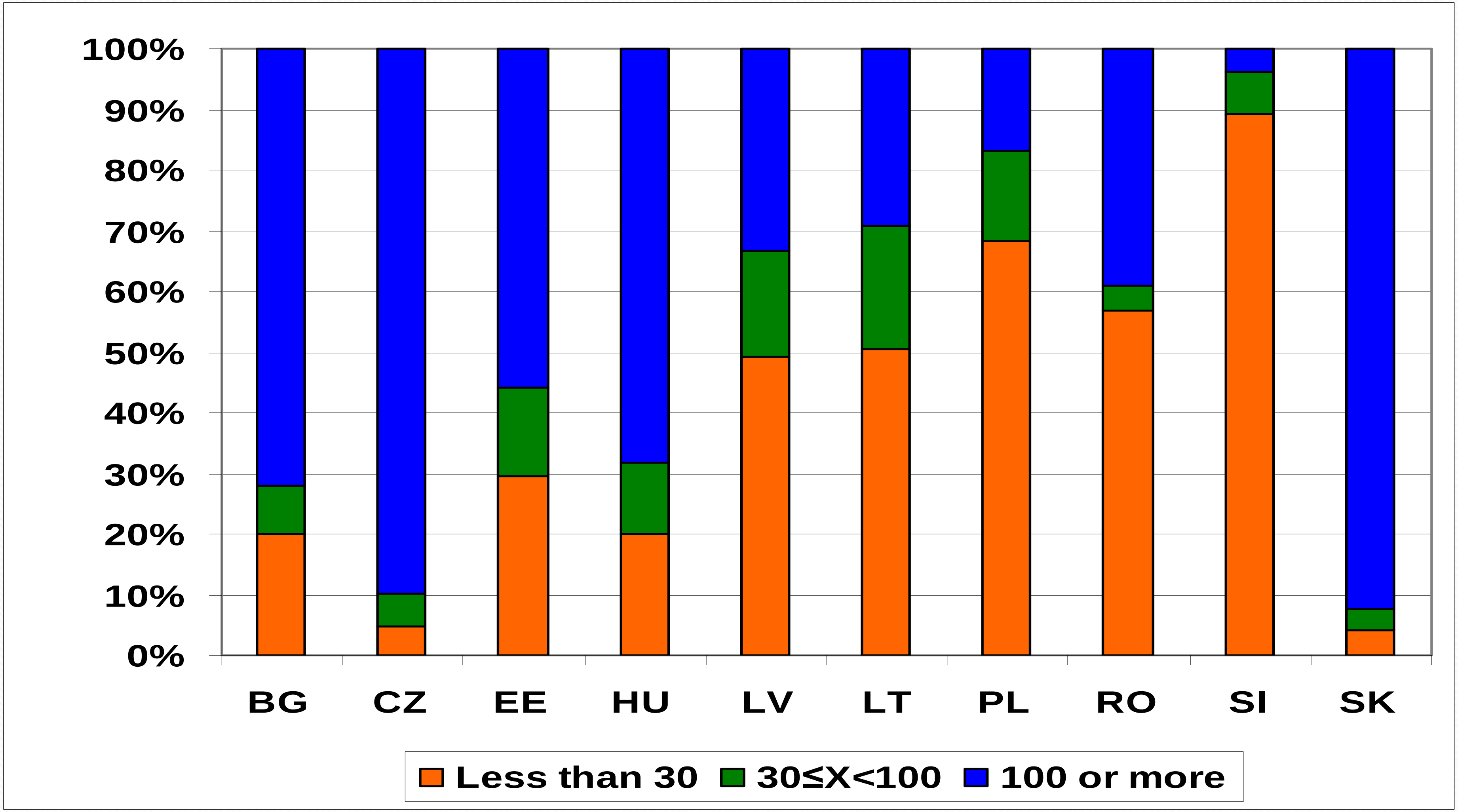
FARM STRUCTURE based on land use in NMS

Country	Share in land area %			
	2003		2007	
	≤ 100 ha	> 100 ha	≤ 100 ha	> 100 ha
Bulgaria	30.82	69.18	27.90	72.10
Czech Republic	9.05	90.95	10.31	89.69
Estonia	58.01	41.99	43.99	56.01
Hungary	37.22	62.78	31.67	68.33
Latvia	81.09	18.91	70.75	29.25
Lithuania	76.17	23.83	66.69	33.31
Poland	81.11	18.89	83.02	16.98
Romania	52.56	47.44	61.10	38.90
Slovakia	5.31	94.69	7.51	92.49
Slovenia	96.66	3.34	96.13	3.87

Source: Own composition based on EUROSTAT (2009)

FARM SIZES UAA by sizes (ha) in 2007



Source: Own composition based on Eurostat (2009)

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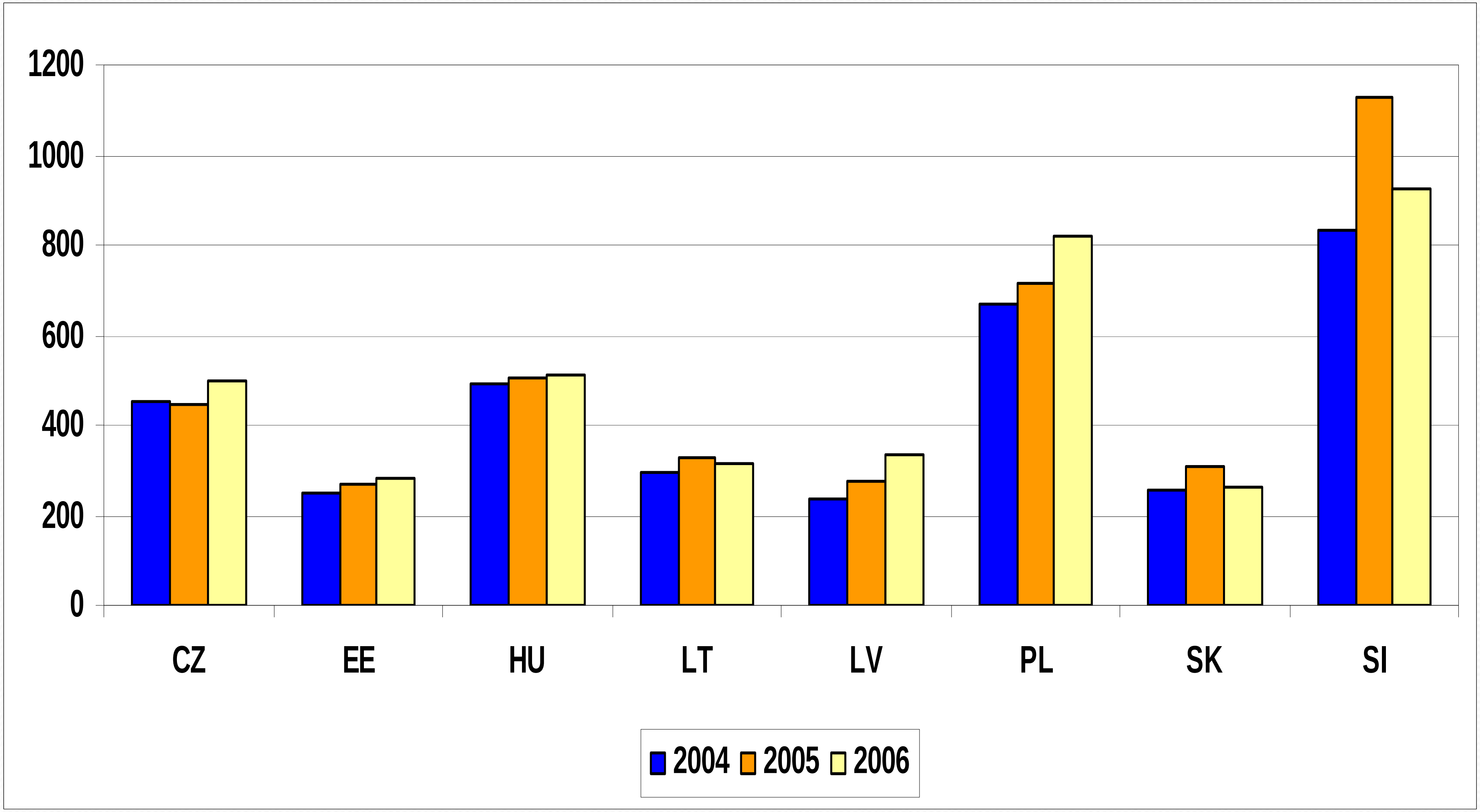
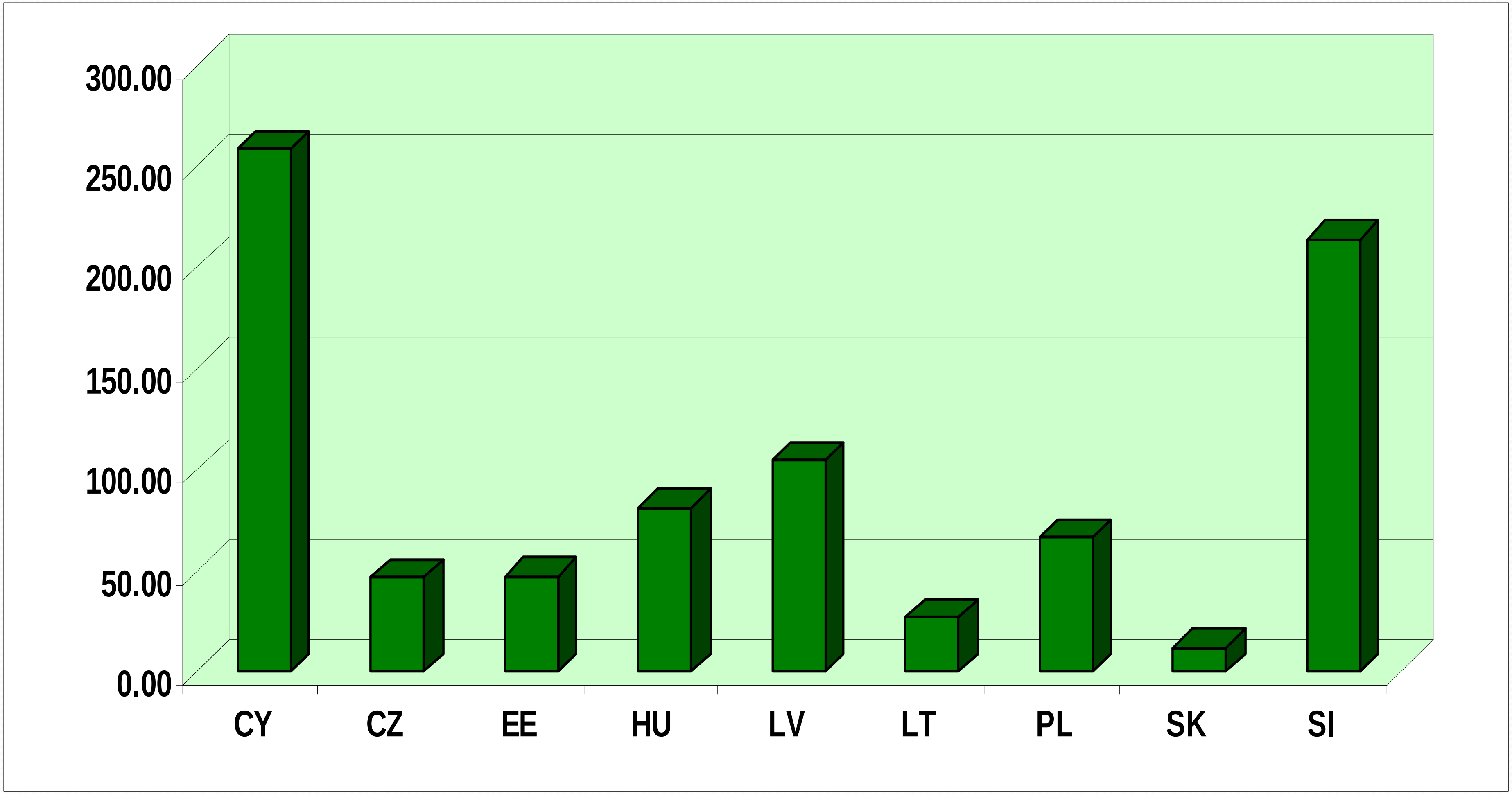
Gross farm income per hectare
(euro/ha)



Source: Own composition based on FADN (2009)

SUBSIDIES: National expenditures for agriculture per 1 hectare of agricultural land in 2006 (1000 euro)

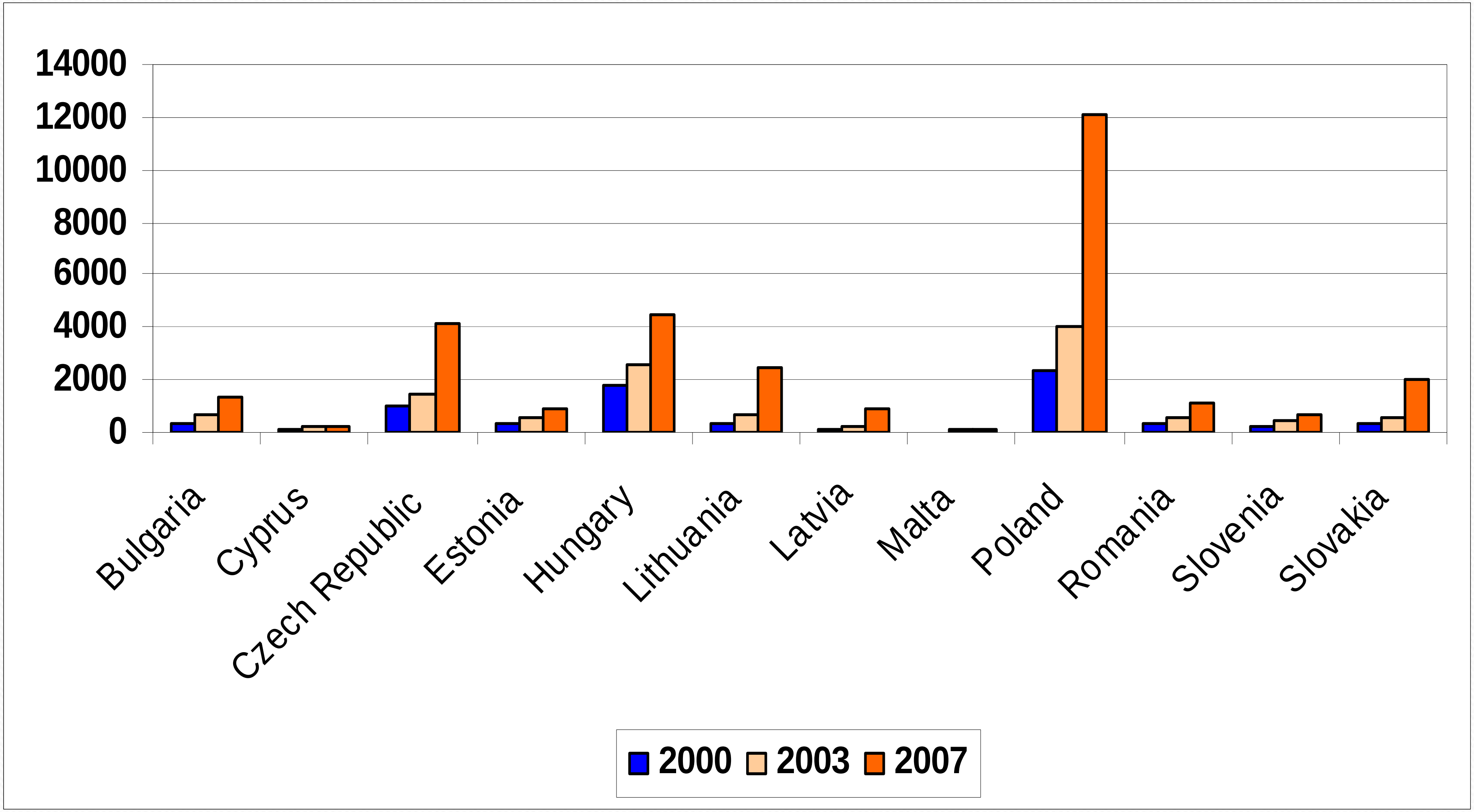


Source: Own composition based on EUROSTAT (2009)

Agricultural trade and prices

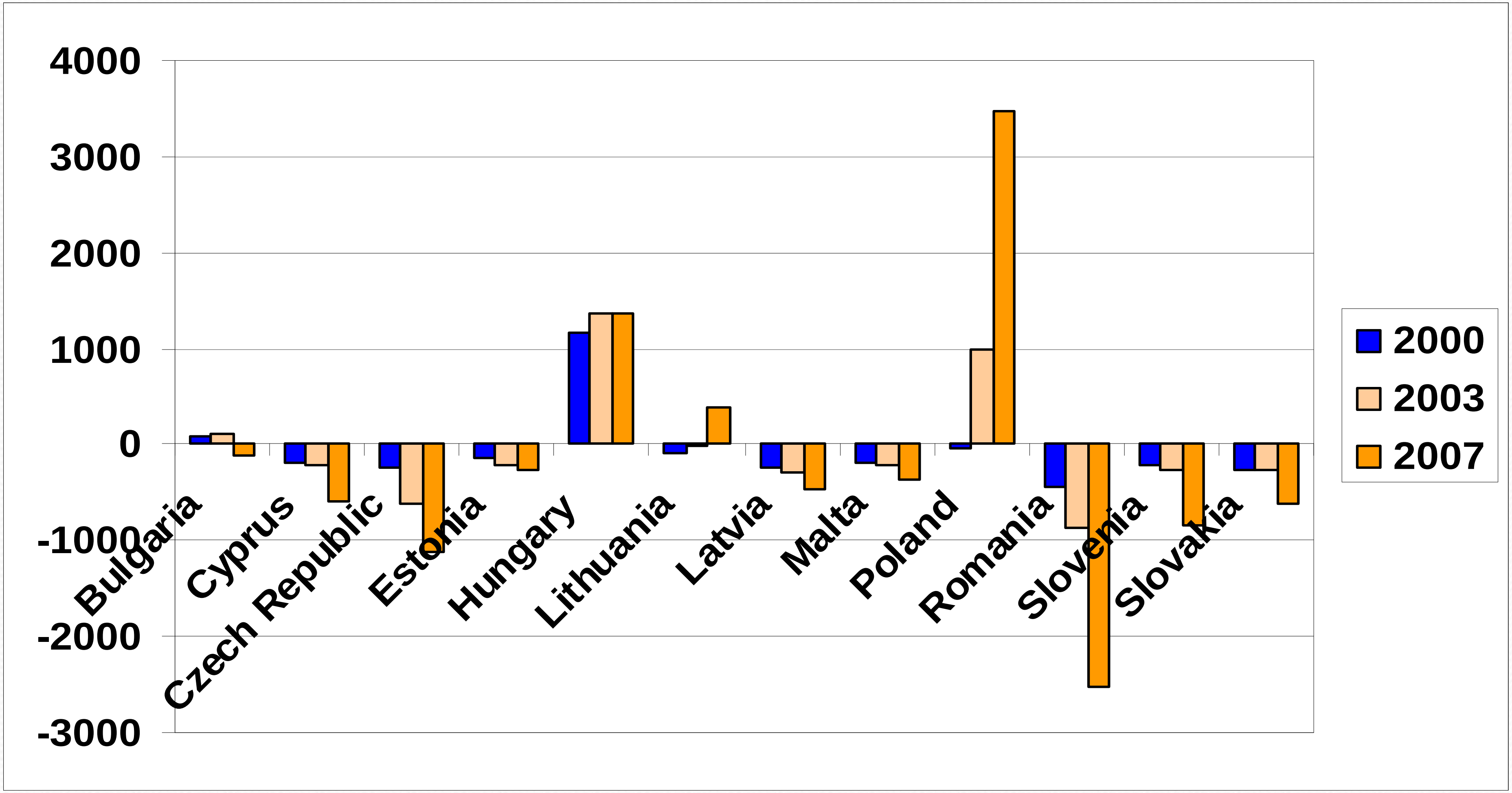
- More trade, more competition
  - Both exports and imports increased
  - Poland, Hungary and Lithuania: positive trade balance
  - The rest: increasing deficit
  - High and increasing share of row-materials in exports
  - Increased share of imported processed products on the domestic markets
- Prices-Incomes
  - Significant increase of nominal producer prices
  - Real producer prices remained below EU-15 levels
  - Price adjustment larger in countries with lower pre-accession levels

Agri-food and beverages export (million USD)



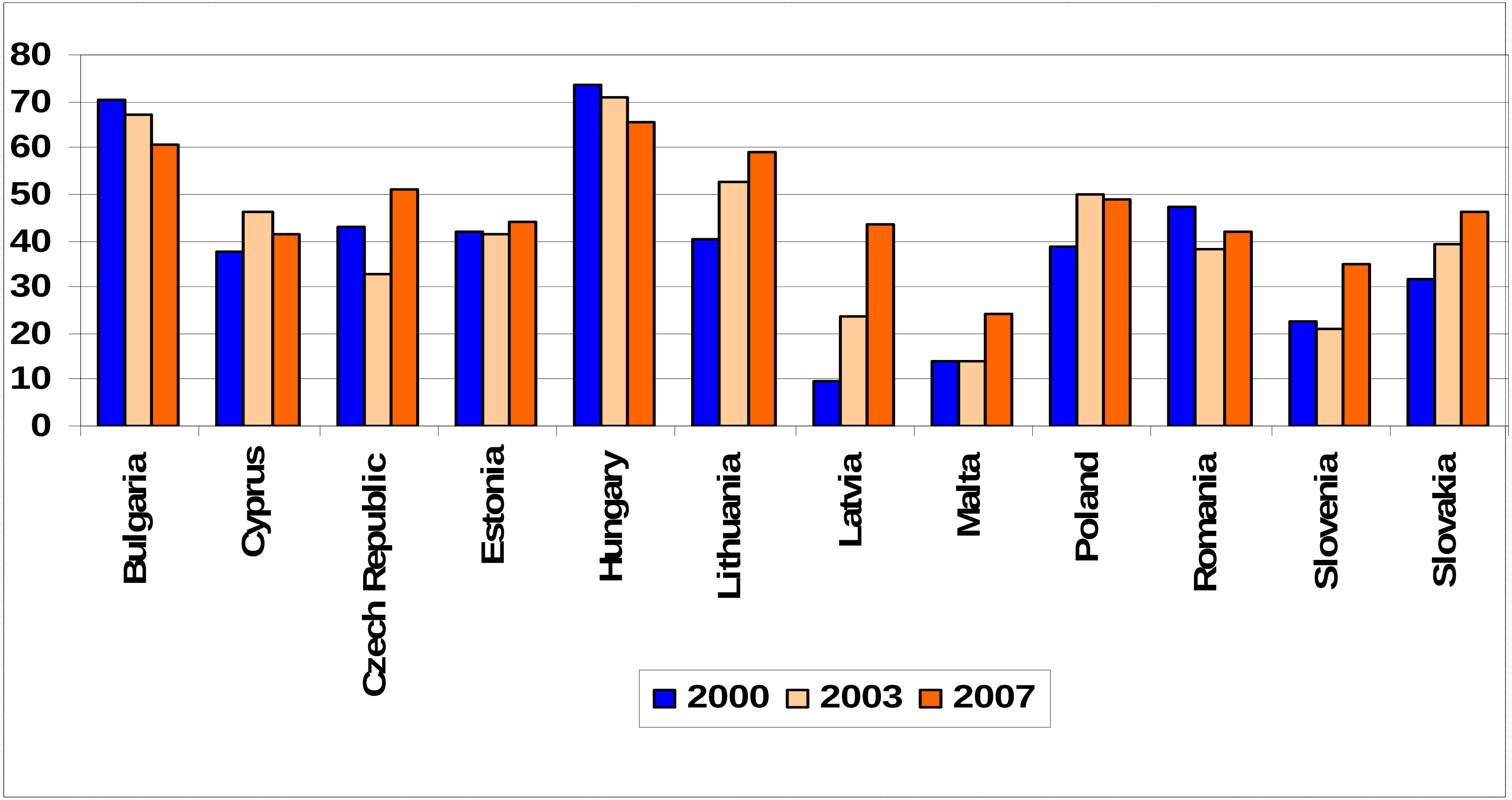
Source: Own composition based on EUROSTAT (2009)

Agri-food and beverages trade balance (million USD)



Source: Own composition based on EUROSTAT (2009)

Raw materials in total agri-food and beverages(%)



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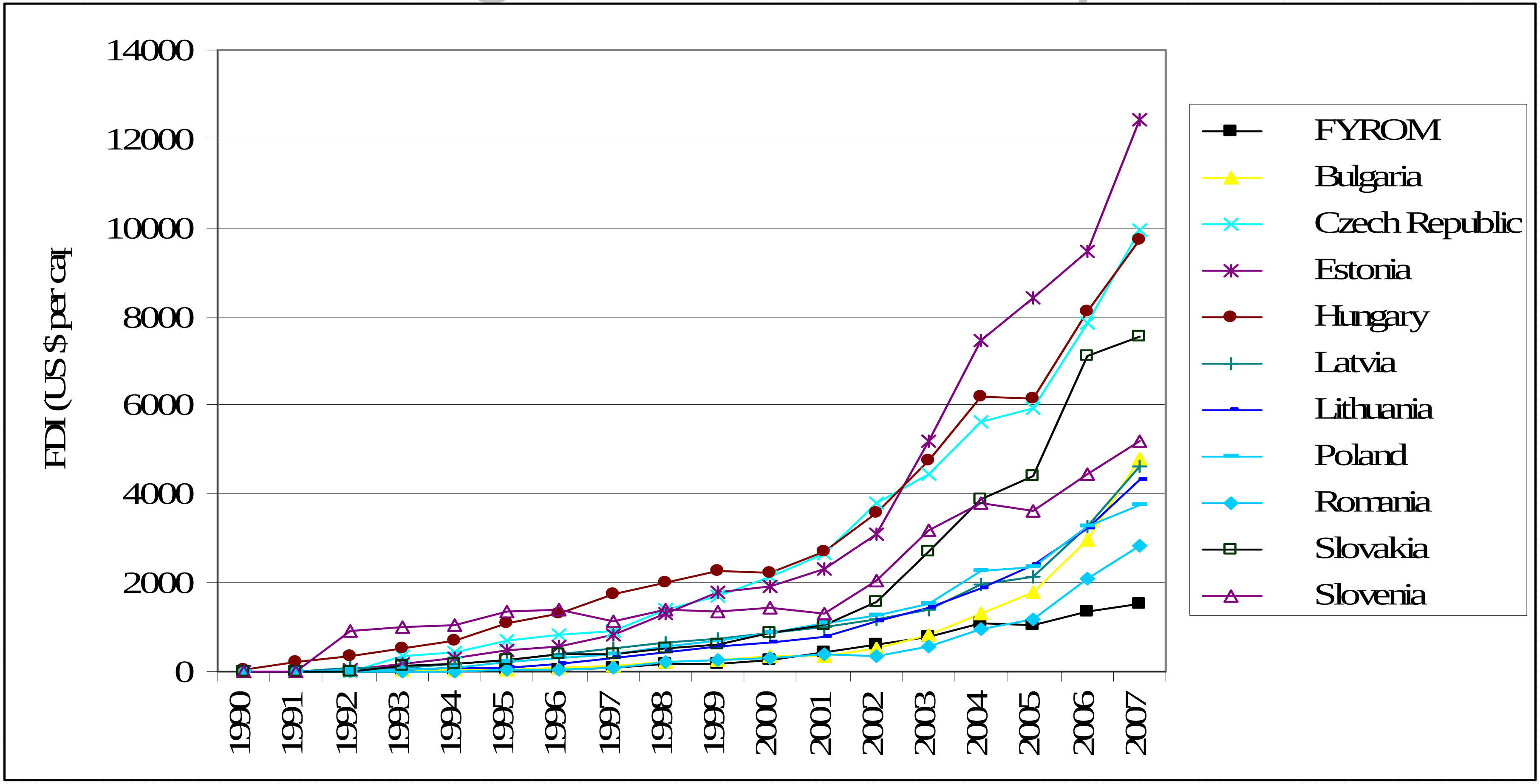
Agroprocessing

- Privatisation was completed in the 90s
- Significant FDI and foreigen ownership
- Dominant role of multinationals
- Integration into Europe
- Successfull modernisation with improved qualities

Foreign investments in the agri- food industry



Source: Swinnen J. (2009), Warsaw

Intensity of foreign investor's participation in CEE food industries

- **low intensity**

Reasons:

✓agricultural lobbying forces
✓scattered market structure
✓low profit
✓huge industries
✓stretchy privatisation

- **medium intensity**

Reasons:

✓small and medium industries
✓various market structures
✓relatively stable outlook

- **high intensity**

Reasons:

✓limited exposure to ag-lobbying
✓concentrated market structure
✓high profit
✓high value-added products
✓rapid privatisation
✓excellent market prospects
✓special cases i.e. sugar quotas

Source: Jansik, Cs. (2008)

The impacts of food industry FDI

Positive impacts:

- Contribution to the modernisation of CEE food industries
- Maintaining domestic employment
- Purchase of domestic raw material (first-stage)
- Integration of CEE food industries into the EU

Negative impacts:

- The adverse effects of efficiency improvements:
  - Laying off labour
  - Closing down factories
- New trend – relocalisation of production lines among CEE countries

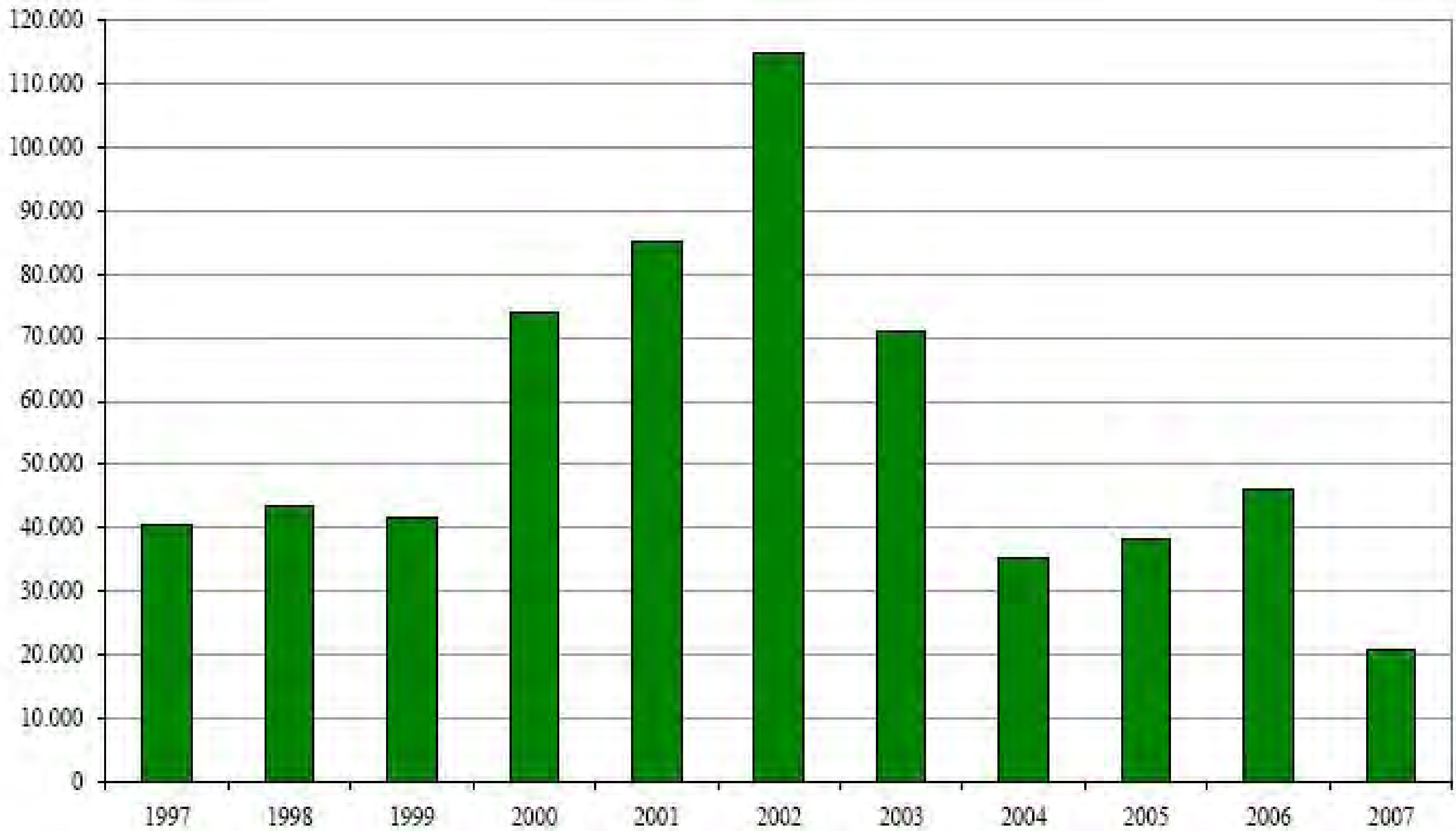
Source: Jansik, Cs. (2008)

Capital and share of foreign ownership in Hungarian agroprocessing business

Year	Capital (million euro)	Share of national owners (%)	Share of foreign owners (%)
2001	1380.51	39.20	60.80
2002	1432.59	42.60	57.40
2003	1450.00	43.20	56.80
2004	1343.58	47.60	52.40
2005	1114.38	50.70	49.30
2006	1117.21	52.90	47.10
2007	1125.06	51.60	48.40

Source: Agricultural Research Institute (2008)

Income before tax of Hungarian agroprocessing enterprises in million HUF, 1997-2007

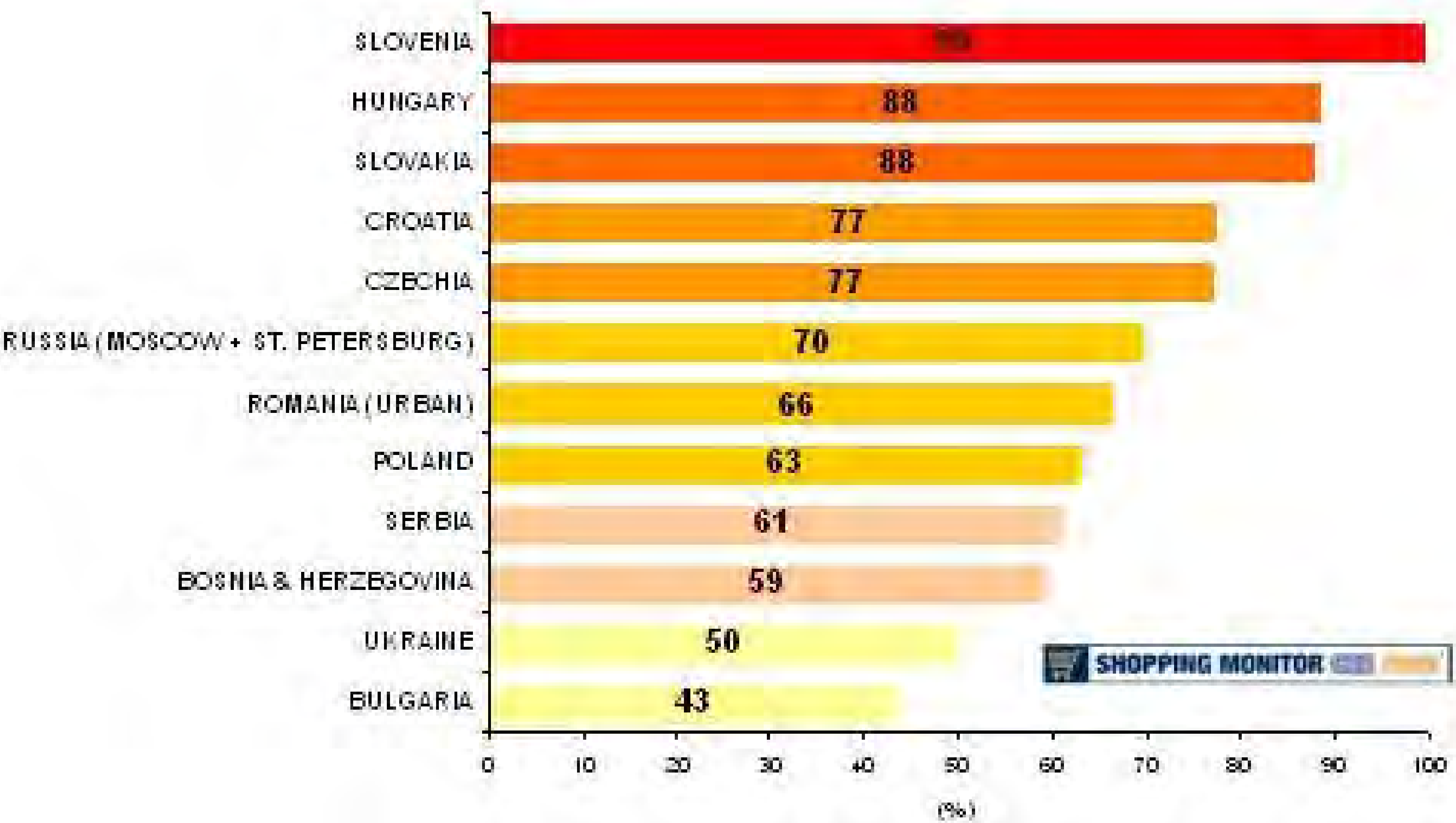


Source: Agricultural Research Institute (2008)

Retail

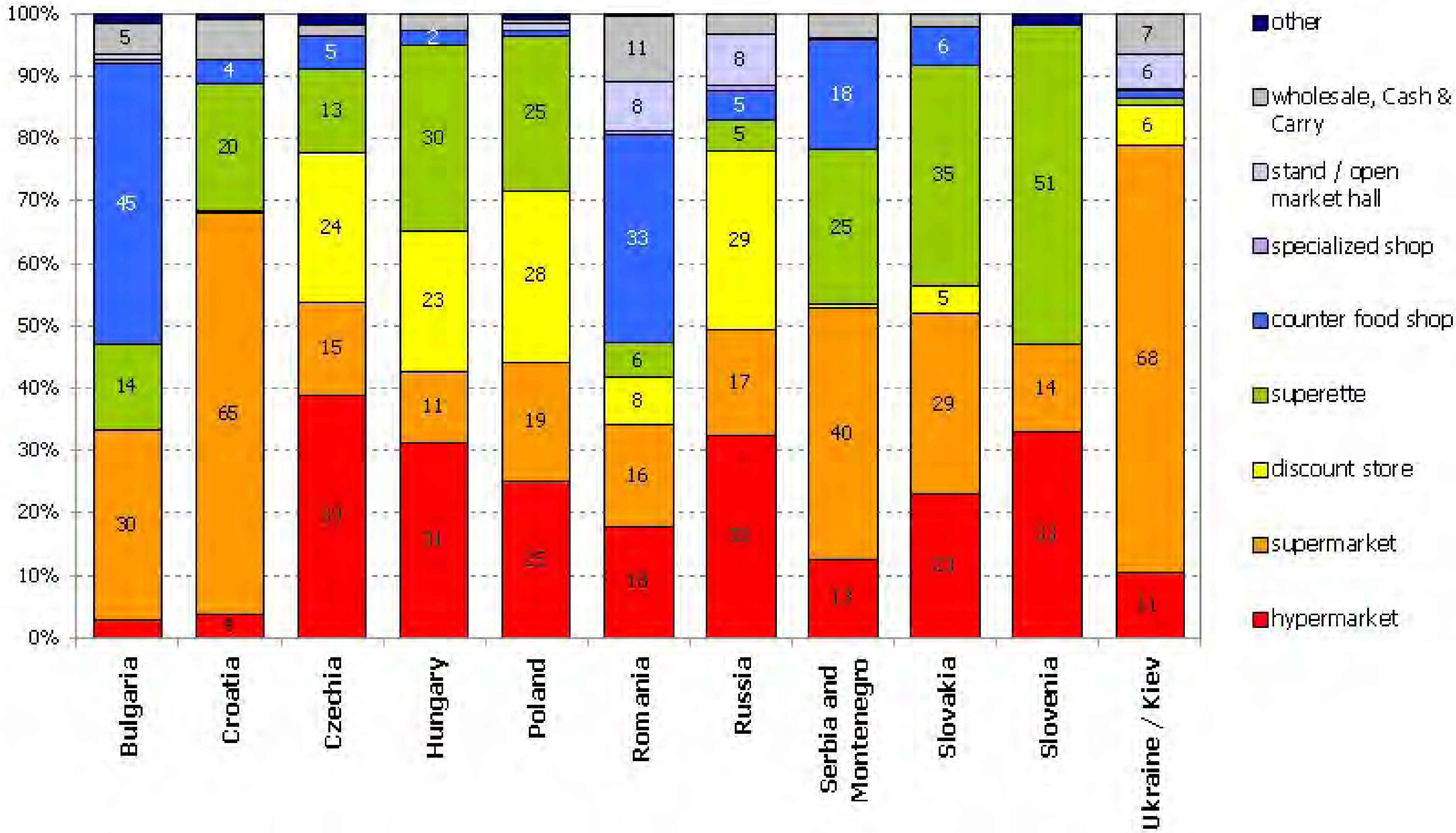
- Retail „revolution”
- Fast concentration with significant FDI
- Beneficial for consumers
- Pressure on producers
- Debate on the role of imported products and procurement practicies

Share of top 10 food chains on the main shopping place in April 2009 (%)



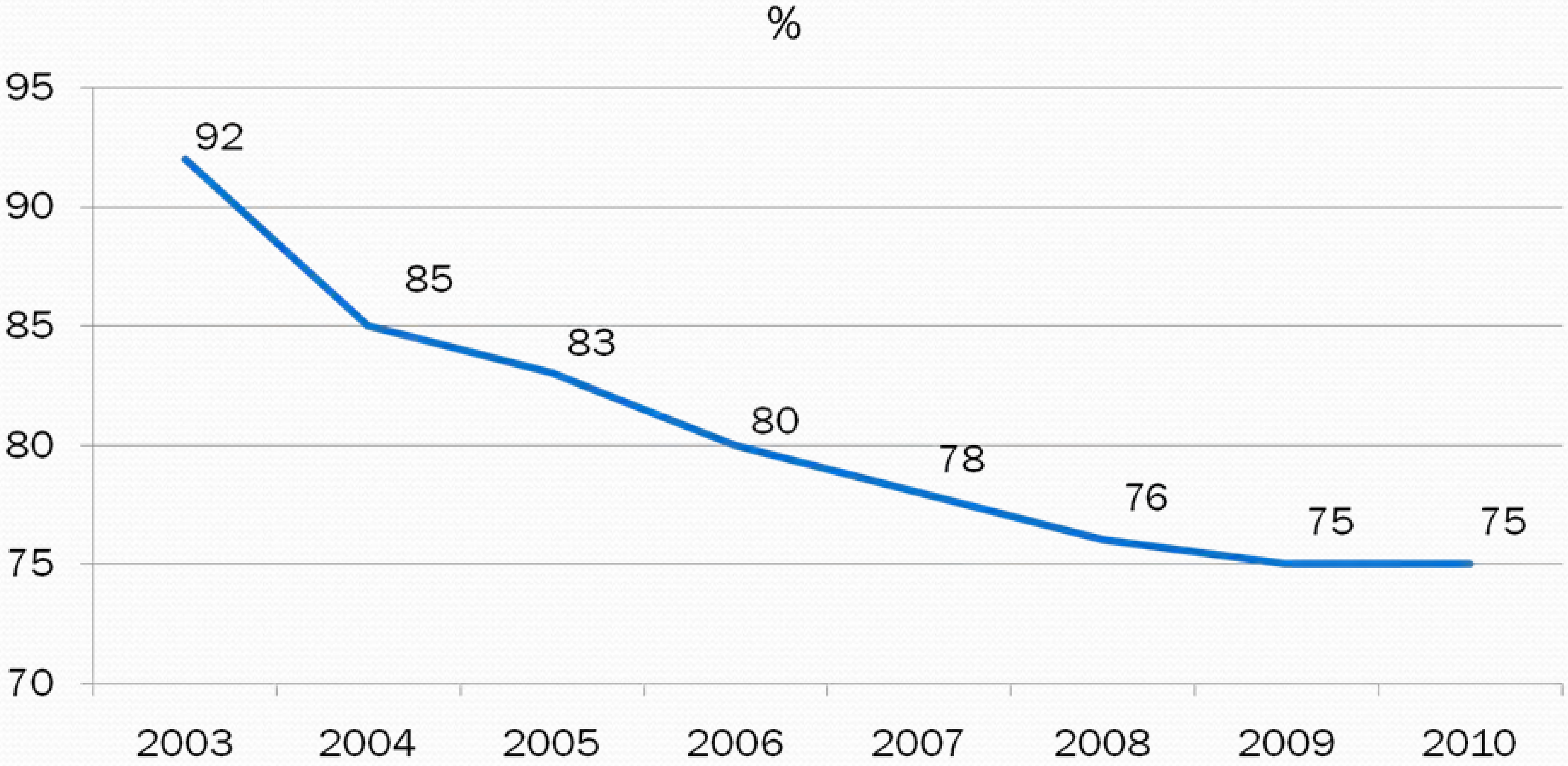
Source: GfK + INCOMA Research, 2009

The main shopping place for food in April 2009



Source: GfK + INCOMA Research, 2009

Share of domestically produced products in Hungarian retail



Source: Fórián Zoltán: A magyarországi élelmiszerpiacon zajló események háttere. Agrár Európa Kft 2007. aug.

Rank of supermarket chains by turnover in Hungary, 2008

Rank	Food chain	Number of shops	Turnover in billion HUF
1.	Tesco	148	602
2.	CBA	3 038	545
3.	Coop	5 250	500
4.	Spar	391	374,2
5.	Reál	2 310	348
6.	Metro	13	262,1
7.	Auchan	11	221,7
8.	Lidl	105	164,7
9.	Penny Market	169	161,5
10.	Cora	7	105,5

Source: GfK + INCOMA Research, 2009

Conclusions

- Significant adjustment and change: visible developments
- EU membership: great opportunity and overall positive impacts.
- Significant diversity among countries.
- Initial conditions and national policies had significant impacts.
- Importance of FDI and enlarged markets.
- Global crisis has both negative and positive consequences.

Thanks for Your Attention!

WELCOME IN CENTRAL AND EASTERN EUROPE!