MARKETING OPPORTUNITIES OF THE HUNGARIAN ORGANIC PRODUCER
A HAZAI ÖKOLÓGIAI GAZDÁLKODÓK ÉRTÉKESÍTÉSI LEHETŐSÉGEI

Kinga Nagy – Pércsi PhD[1], Amelita Kata Gódor[2]

associate professor[1], PhD student[2]
[1,2]Szent István University, Faculty of Economics and Social Sciences, Institute of Regional Economics and Rural Development
E-mail: [1]nagyne.percsi.kinga@gtk.szie.hu, [2]godor.amelita@gtk.szie.hu

Abstract

The improvement of the organic farming is a basic aim of the national agricultural policy for years. The new CAP 2014-2020 also strengthen the central role of organic agriculture in the fight against climate change, the protection of the environment and the preservation of biodiversity. The organic farms are usually small scale enterprises so their development also relating to the improvement of the Short Food Supply Chains which is supported in the frame of the Rural Development Programme. According to the abovementioned the aim of this article to reveal the limiting factors in the marketing of the Hungarian organic farming. To achieve this aim we made a survey on the biggest Hungarian organic market, on the Biokultúra Organic Market and processed the information stemming from the producers' list published on the homepage of the Hungarian Federation of Associations for Organic Farming (Biokultúra Szövetség). The results of our survey showed that the limiting factors of the domestic sale are the market barriers for new entrants providing of stable quantities and the high production costs. In addition, the interviewed farmers emphasized that the foreigners trust better in their producers and the local market organization is stronger as well than in Hungary.

Összefoglalás

Az ökológiai gazdálkodás fejlesztése a nemzeti agrárpolitika alapvető céljai közé tartozik már évek óta. Az új KAP 2014-2020 tovább erősíti az ökológiai gazdálkodás központi szerepét a klímaváltozás elleni küzdelemben és a környezet és a biodiverzitás megőrzése érdekében. Az ökológiai gazdálkodók általában kis méretű vállalkozások, fejlesztésük a Rövid Élelmiszer Ellátási Láncokéhoz is kapcsolódik, amely a Vidékfejlesztési Programok keretében támogatott. Mindezek alapján jelen cikkünk célja a hazai ökológiai gazdálkodás értékesítési lehetőségeit korlátozó tényezők feltárása. Ennek eléréséhez kérdőíves vizsgálatot készítettünk a legnagyobb hazai ökopiacon, a Biokúltúra Ökopiacon és feldolgoztuk és rendszereztük a Biokultúra Szövetség honlapján közzétett termelői lista adatait. Az általunk készített felmérés eredményei alapján a hazai értékesítést leginkább korlátozó tényezők, hogy az új belépők piacra lépése nehéz, nehéz továbbá állandó termékmennyiséggel megjelenni, valamint a termelési költségek is magasak. A meginterjúvolt gazdálkodók ezen kívül hangsúlyozták, hogy a külföldi piacokon nagyobb a bizalom a termelők irányába és a helyi piacszervezés jóval erősebb.

Keywords: pasture, fruit and vegetable, animal keeping, local market, Short Food Supply Chains
JEL classification: Q19, R10, R12
LCC: S1

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Introduction

The improvement of the organic farming is a basic aim of the national agricultural policy for years. The new CAP 2014-2020 also strengthen the central role of organic agriculture in the fight against climate change, the protection of the environment and the preservation of biodiversity. In Pillar 1, direct payments, those who are already farming organically will automatically qualify for a greening payment since they are already undertaking agricultural practices that address climate change and environmental objectives. Pillar 2, rural development, has a strong focus on organic agriculture, ranging from agri-environment payments to new measures especially for organic farming, as distinct from agri-climate-environment measures.

The organic farms are usually small scale enterprises so their development also relating to the improvement of the Short Food Supply Chains which is supported in the frame of the Rural Development Programme. Beside this the organic farms are operate in many times in the frame of Community Farming and use a wide range of direct selling forms.

Referring to Káposzta, Ritter, Kassai (2015), the economic development based on local resources knows to play a decisive role in the economic growth of a given area if it is produced product to generate additional income for further development.

According to the abovementioned the development of the market of the organic products is very important to analyse and closely relates to the improvement and support of the direct selling forms of small scale enterprises. It should be added that according to Fertő and Forgács (2009) one of the most important factors for being an organic producer is the market for organic products beside the healthy environment, existence of organic AEM (agri-environmental measures) and existing contract.

Organic growers serve as the backbones of most local food initiatives, often playing a multifaceted role as provider, advocate, manager, and communication facilitator (Balázs 2012).This also underpin the significance of analysing the market opportunities of these farmers.

Methodology

In the course of the processing of the professional literature we introduced the concept and the potential reasons for the choice of this form of farming. We used for the introduction of the organic farming the database of the Central Statistical Office. We methodized and grouped the information which can be found in the producers' list published on the homepage of the Hungarian Federation of Associations for Organic Farming at first. The list contained 191 farms altogether in October. On the basis of the data we determined the type of the producers' activity. We compared the gained results with the data of the professional literature. After this we presented the results of our survey, which was made among the farmers which sell their product on the organic market of Biokultúra Alliance in Budapest and controlled by the Hungaria Öko Garancia Ltd. We made a semi structured interview with 10 farmers in September 2017. On the homepage of the Biokultúra Alliance the list of the seller of the Biokultúra Organic Market can be found but this list contains also those who are only merchandizers. According to this list there are 97 sellers on the market, but many of them only merchandizer and some of them only sell handicraft products (only folk weave for example). We used a questionnaire with 51 questions, most of which connected to the characteristics of direct selling and the organic market. The farmers had also the opportunity to tell their opinion about the future prospects of the sector and they could introduce their development plans, intentions.

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Results and discussion

The Hungarian organic production

In Hungary focusing on organic produce started in early eighties of the last century by founding a Club of Organic Producers in 1983. The successor of the Club, the Hungarian Federation of Organic Producers (Biokultura Egyesület) (HFOP) was founded in 1987. HFOP has 13 members of legal entity covering organic production across the country (Fertő-Forgács, 2009).

Meanwhile HFOP has established Biokultura Hungary Ltd and the latter was authorized to register new applicants, controlling them at least once in every year and, releasing certificate if the producer met the requirements (Fertő-Forgács, 2009).

Legal basis for organic productions is provided by Council directive of 2092/91/EGK and two more national directives as140/1999 released by the government and one, 74/2004 of Ministry of Agriculture and Rural Development (MoARD). HFOP keeps record of all organic producers in this country and provides producers with information related to production, quality, market and, technology issues. Producers can put data and information on the website of HFOP after having the permission of Biokultura Hungaria Ltd. (Fertő-Forgács, 2009).

The main social actors working to promote organic farming and the consumption of domestically produced organic products include (Solti 2012 in Balázs et al, 2015):

- Biokultura Alliance: national organic agriculture advocacy and promotion organization;
- Biokontroll Kft and Ökogarancia Kft: certified organic inspection and certification bodies;
- TVE, Association of Conscious Consumers: smart consumption advocacy group based in Budapest;
- Hungarian Research Institute of Organic Agriculture (ÖMKi): Research institute and responsible for organizing on farm learning, exchange, and professional development programs;
- KÖSZ: Carpathian basin based organic farmers' association;
- MÖSZ: Association of Hungarian Organic Farmers;

Organic production has had an upswing in the late 80s and 90s of the last century and early this decade in Hungary, however, the dynamic was slowed down during last years.

While foreign demand for raw organic commodities initially sparked the spread of organic production, a corresponding increase in domestic consumption has never accompanied this trend, consequentially handcuffing Hungarian organic producers to high risk, low reward export-driven production, only feasible for large producers specializing in raw commodity production (Balázs et al, 2015).

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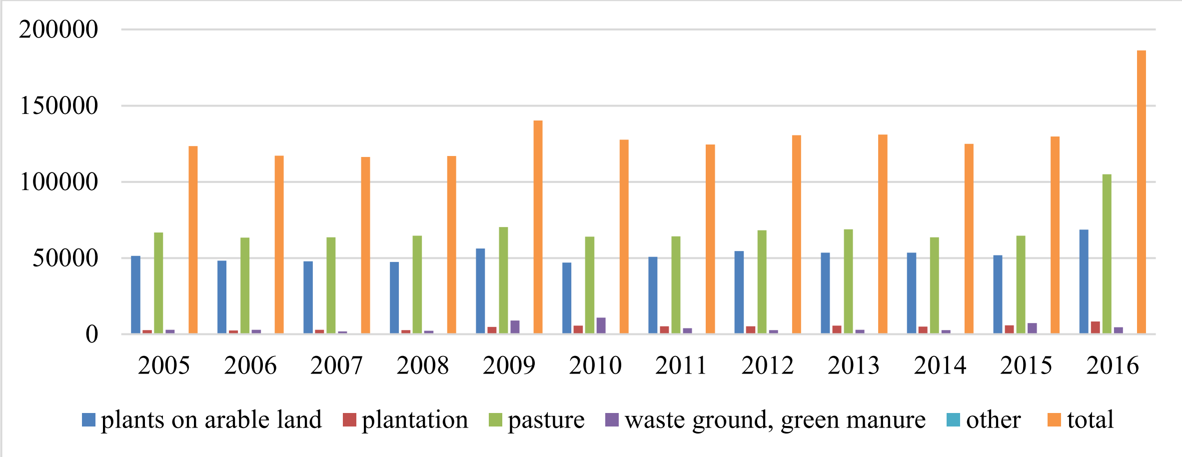

Figure 1: The use of the organic areas (ha)
Source: Own editing on the basis of CSO data, 2017

The subsidizing of the organic farming is continuous from 1997. Initially it was covered from the national budget, than from 2002 as soon as certain EU sources became available it gradually changed to a normative subsidizing scheme. Due to this fact the organic farming had some successful period (Figure 1). According to the information gained from the producers' list of the Biokultúra Alliance the rate of the pastures determines the farmers' activity in almost 50%, this is followed by the fruits and the products made by them, which was characteristic in 47 % for their profile, the cereals has a share of 19%. It is not surprising as compared to that 50% of the agricultural organic lands is lawn (Figure 1). The proportion of the seed growing farms is only 1 %, which makes the sector vulnerable.

From 2007 to 2013 the support of the organic farming was a part of the rural development programmes through the agri-environmental measures.

The organic farming was supported through three targeted programmes:

- the programme of organic plough land
- pasture management
- supporting opportunity for the organic orchards and vineyards.

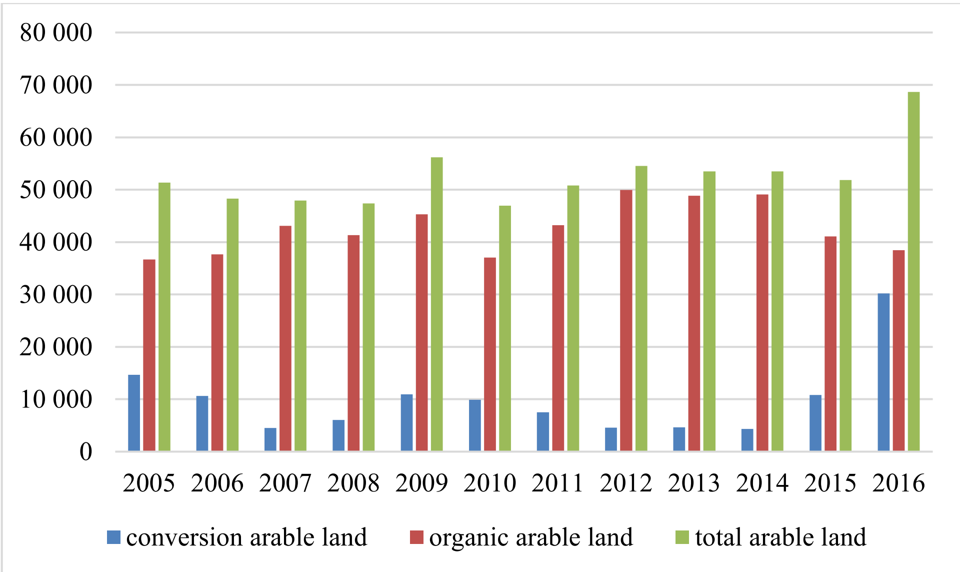

Figure 2: Changes in the organic arable lands, (ha)
Source: Own editing on the basis of CSO data, 2017

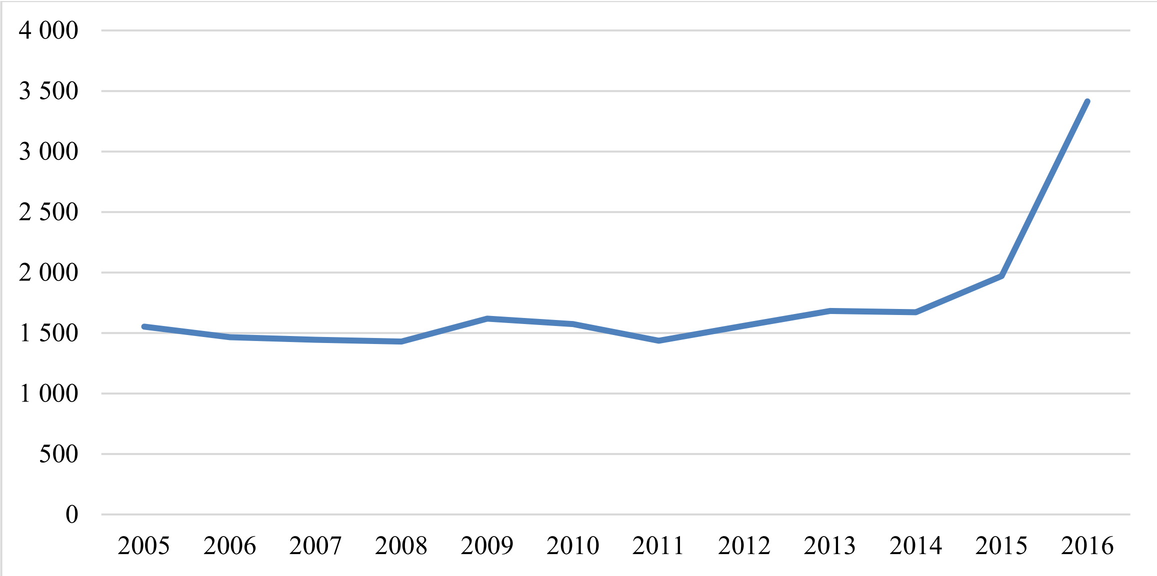

Figure 3: Number of the organic farmers

Source: Own editing on the basis of CSO data, 2017

There is an increase also in the organic and conversion land and farmers, which may be due to the changed subsidy form and the National Action Plan (Figure 2, 3). We find a different situation if we see only the trajectory of the certified organic arable lands. The high increase in the conversion area shows the positive future prospects of the farmers. We can see on Figure 2 that after the introduction of the different subsidizing forms the size of the organic area suddenly increased and then this was followed by a stagnation.

According to the New Rural Development Programme the support of the organic farming is separated from the Agri -Environmental Measure and an independent source is provided for the organic farmer which is the triple of the previous.

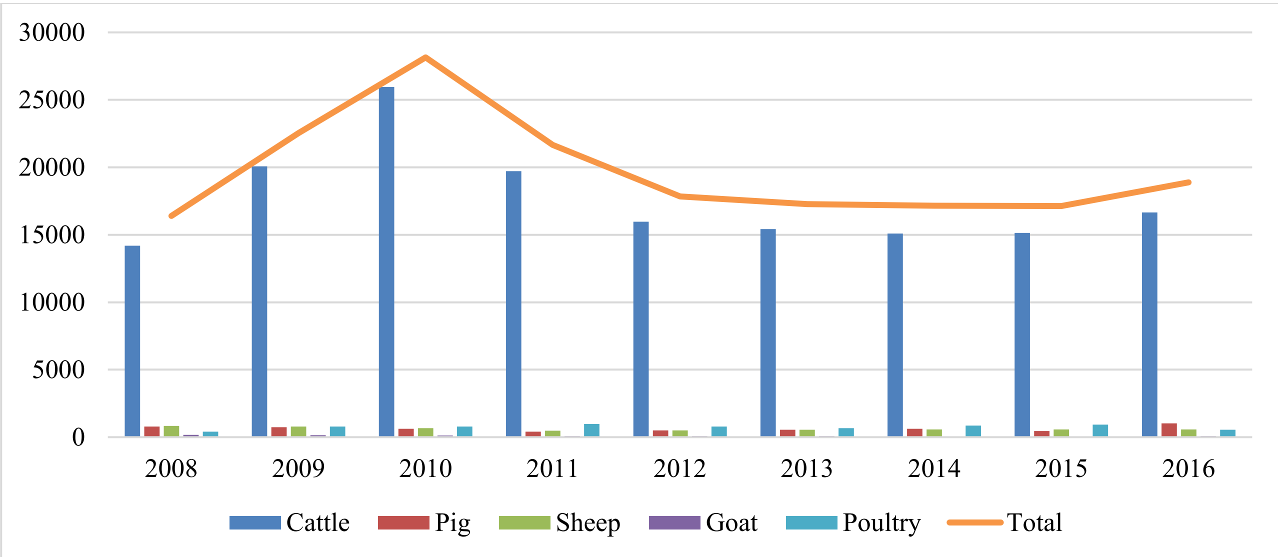

Figure 4: Changes in the organic animal population, animal unit

Source: Own editing on the basis of CSO data, 2017

Unfortunately the size of the organic animal population did not increase as much as the organic area which is very problematic because the adequate animal density indices should be approximately 1-1.5 per ha to maintain the cycle of the soil-plant-animal. A moderate increase can be seen in Figure 4 after 2015.

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However most of the farmers are involved in lawn management according to the producers' list of Biokultúra Alliance the proportion of the animal keeping and animal product producing farms can be assessed to approximately 5% on the basis of the circle of activity given by the farmers. This number is unfavourable and equal to the percentage assessed on the basis of the annual report of the Biokontroll.

According to the organic farmers and the scholars the most pressing issues within the domestic organic sector include (Drexler & Dezseny 2013, Willer et. al 2013, Solti 2012, Strenchock 2012, Roszik 2008):

- Continuing marginalization of Hungarian organically produced fresh and processed products within the EU market
- Reliance on exporting for sales, low value added export market
- Lack of capability of the domestic organic processing industry
- Saturation of foreign organic imports in the most popular domestic food retail chains, low recognition of Hungarian organics in the domestic market
- Difficulty in meeting the price, supply regularity, volume and standards to access retail space in conventional chains
- Lack of consumer understanding of the difference between organic and conventional products
- Ineffective policy interventions
- Disproportionate reliance on direct sales markets and demand in urban locations for sales
- Lack of creativity in promoting domestically produced organics

Consumer interest in organic foods in Hungary is driven by the perceived health benefits associated with consuming goods free of chemical additives and pesticide residue. On a secondary level, solidarity with local producers, and the associated environmental benefits also drive sales (Balázs et al, 2015).

Governance and Policy

In the early 2000s, the newly drafted Hungarian Agri-Environmental Program gave incentives for sustainable development in the agricultural sector. Following this, the New Rural Development Program 2007-2013 and the New Hungarian National Rural Strategy 2014-2020 have contained support of agricultural land management practices with positive ecosystem benefits.

The Hungarian government committed to improve the organic sector so beside the Rural Development Strategy the National Action Plan for the development of the organic farming was also created. This document determines the most important steps until 2020.

The most important elements of the Action Plan are the followings

- the improvement of the rules of procedure
- the increasing of the product volume and the landing area
- the improvement of the processing
- the improvement of the training, consultation and research and development system
- the improvement of the data collecting systems
- the propagation of the organic products
- the increasing of consumers' self-consciousness
- the increasing of the consumers' trust
- the improvement of the coopertation opportunities

The Action Plan have not provided functional incentive to encourage organic conversions or development in the sector to date (Balázs et al, 2015). Direct farmer support programs have the reputation of being uninventive, incredibly bureaucratic, and difficult or impossible to manage for smaller farming operations, while favouring larger farming operations who have been the benefactors of past programs.

Results of the survey

Most of the surveyed farmer sell their products only on the analysed organic market. Every farmers agreed in that it is hard to get in this market it is a closed community. All of them are involved in the direct selling more than 10 years. This segment of the farmers usually meet self-conscious consumer because they use the traditional producers' market as a main marketing channel or they are integrated in community farming, the so called box system. Only three of the surveyed 10 farmers has experiences with export markets and nobody has connection with retail chains. They do not intend to be the supplier of such chains this aim is not harmonize with their long-term development plans.

The most important profile of the surveyed farmers was the organic fruit and vegetable production. We surveyed 6 organic farmers who are mainly involved in fruits and vegetable sector, one who has a large scale of supply, from grey cattle to grain and he also deal with fruit and vegetables, so the farm has a mixed profile. One of them occupy with honey bee keeping and produce honey and other relating processed products and further two deal with milk production. The products stemming from different regions of the country.

It can be stated that the farmers view the situation of the market optimistic because they usually meet self-conscious consumers who visit this market because he know the advantages of the organic products and has an inclination to pay more for it.

The most important limiting factors were the barriers to entry, the problems with the stable quantities and the high production costs according to the organic farmers (Figure 5). The Pareto diagram widely used in quality assurance can give us an opportunity to use a new approach in our analysis. The most frequent constraints can be found at the beginning of the row.

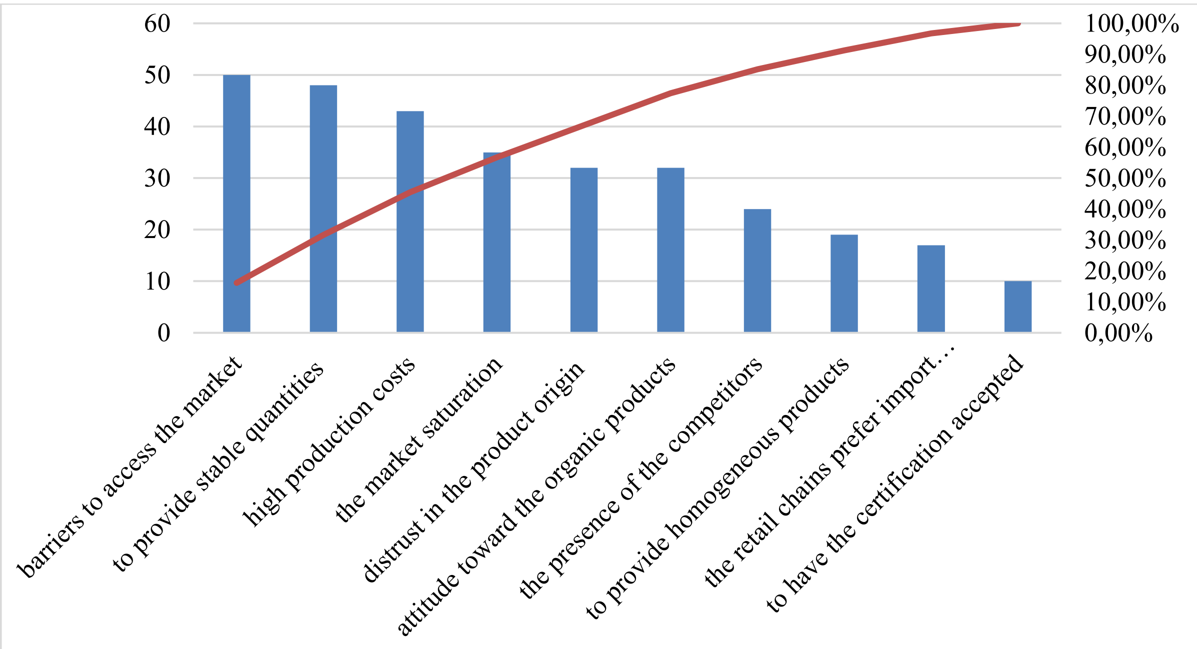

Figure 5: Constraints on the organic market

Source: Own database collection

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Another type of the diagram is underpin the same situation (Figure 6).

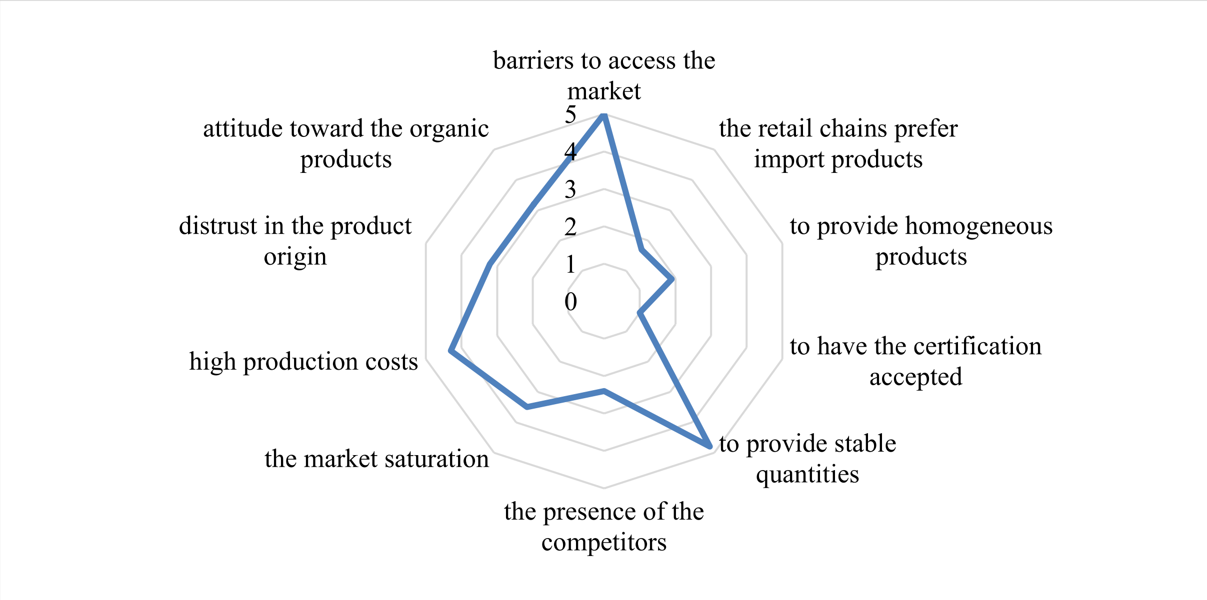

Figure 6: The most important problems on the domestic market
Source: Own database collection

Another interesting result of the survey was that the brand loyalty, the lack of the marketing, the positive attitude and the preference of the local products give more than 30% percent of the explaining factors of the marketing of the organics (Figure 7).

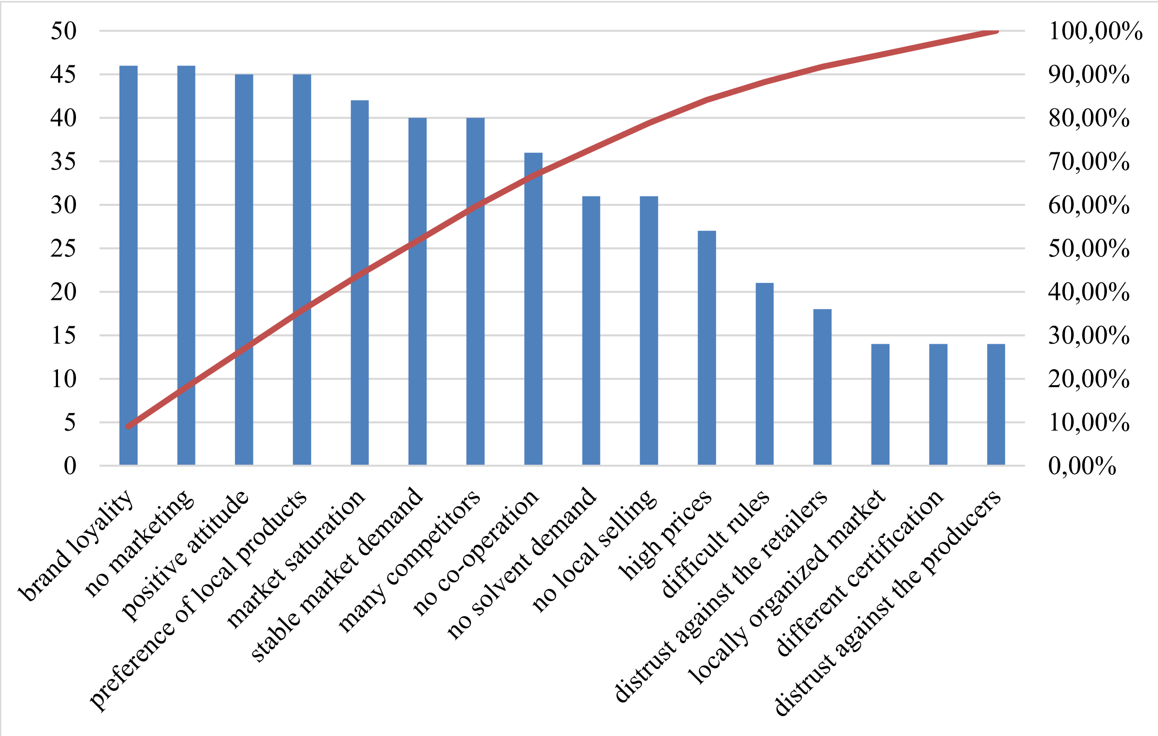

Figure 7: Factors determine on the marketing of the organics
Source: Own database collection

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Conclusions

However the state of the organic production was analysed by many studies, a systematized, standardized register of the producers is missing. This kind of a register can help to find out more about the farmers. On the basis of the currently available database and the survey it can be stated that the organic farmers have a wide range of products and there are big differences in the size of the farms. Most of the farmers are involved in lawn management and grows cereals and produces products from cereals. They were followed by the fruits, vegetables and grapes producing farmers. It is not surprising as compared to that 50% of the agricultural lands is lawn. The proportion of the organic animal keeping is still low. On the basis of the circle of activity given by the farmers the proportion of the animal keeping and animal product producing farms can be assessed to approximately 5%. This number is unfavourable and equal to the percentage assessed on the basis of the annual report of the Biokontroll. The proportion of the seed growing farms is only 1 %, which makes the sector vulnerable.

The surveyed farmers mentioned as the most limiting factors on the organic markets the barriers to entry, the problems with the stable quantities and the high production costs. Relating to the marketing of the organics the producers mentioned the lack of sales promotion and the co-operation as a constraints. The farmers feel that there is no co-operation, the local marketing is disorganized and they can produce profitably only at high market price in domestic conditions.

The measure of “the quality systems of the agricultural products and food” can mean an additional support opportunity for the sector. The aims of this subsidy form are the strengthening of the safer integration of the organic farmers to the food chain and the broadening of the knowledge of the consumers with the help of the promoting and informing activities.

The “Short Food Supply Chain” (SCSF) thematic sub-program can also assist the small scale farmers, the organic farmers to get into the market. The importance of the Producers’ Market is given by that it helps to forward the high quality local foods to the consumers. The local marketing of the food has a lower impact to the environment and the producers’ market can play a significant role in the life of the local community and contribute to its development.

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