Hungary Set To Join the EU

By Ferenc Nemes

This article is the second in a series that **AgExporter** *is running on the Central and East European countries preparing for full EU membership, and the implications of those accessions for U.S. agricultural exports. These articles are appearing in various issues through May 2004, when the accessions are scheduled to be completed.*

On May 1, 2004, Hungary will join the EU (European Union). Along with this membership will come adoption of a host of EU rules governing agricultural subsidies, common import tariffs and sanitary and phytosanitary regulations. EU membership will reduce tariffs on many U.S. agricultural exports to Hungary, but this gain may be offset by the implementation of a full range of EU phytosanitary barriers.

The EU's CAP

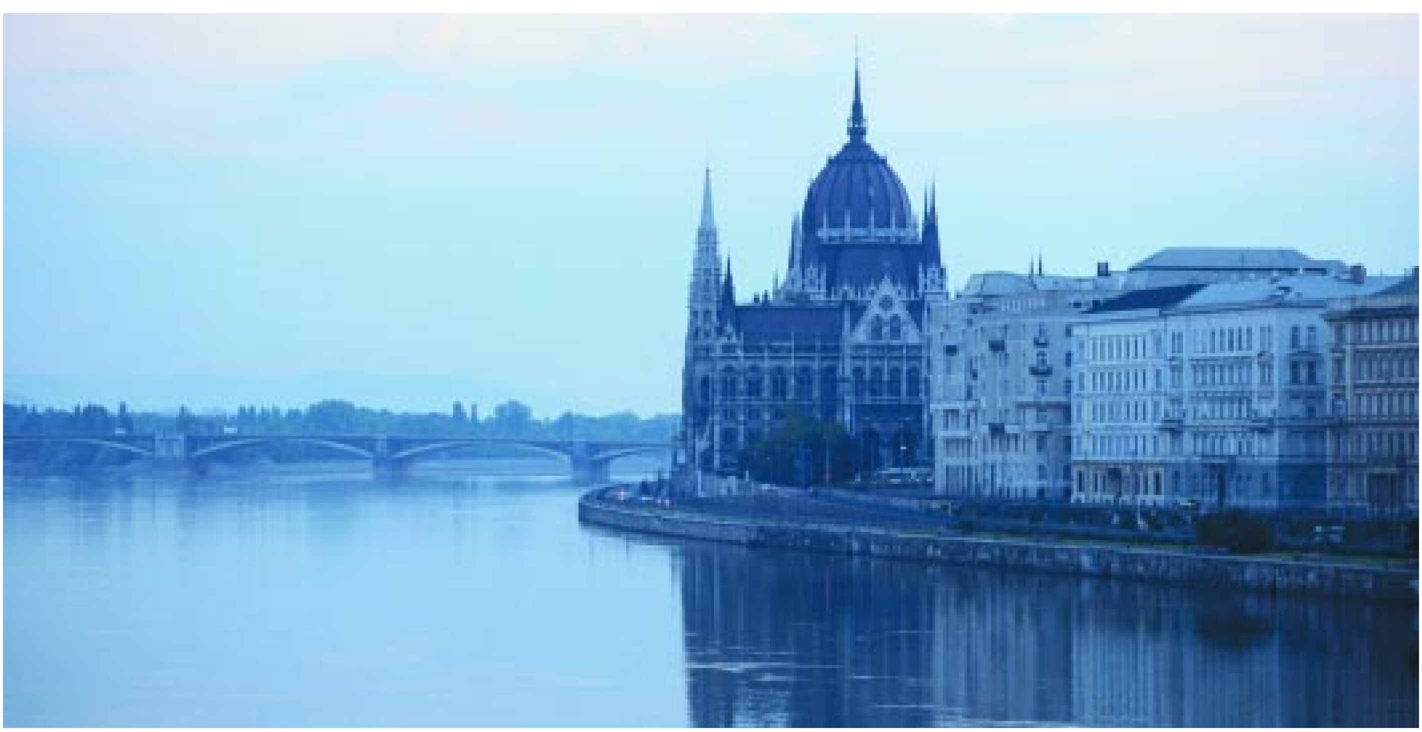
As part of the EU, Hungary will come under its CAP (Common Agricultural Policy) farm support program. Since nearly three-quarters of the direct payments under CAP go to field crops, Hungarian producers of grains, oilseeds, sugar and tobacco will benefit most. On the other hand, some horticultural products (fruits, vegetables and wines) will face a more competitive environment.

Higher subsidies under the CAP for beef and dairy should also increase Hungary's production of these commodities. However, Hungarian poultry, pork and sheep producers will face stronger competition and less budgetary help.

Feed grain prices will likely increase, raising costs for pork and poultry farmers. The pork sector has been in crisis since mid-2002 because of saturated international markets, a strong national currency making its products comparatively more expensive and decreased subsidies.

Likewise, poultry slaughtering and processing capacity exceeds demand. Many mid-sized and small processors will be forced to close down after 2004 if they are not able to meet EU health and safety standards. However, an expanded EU could offer profitable niche markets for Hungarian producers of turkey, duck, geese, guinea fowl and organic poultry.

Hungarian sales to other new EU members, especially Poland, Slovakia, Slovenia and the Czech Republic, will grow significantly. Already, 95 percent of Hungary's agricultural exports to the EU enjoy duty-free status.



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The U.S. Export Impact

Preferential tariffs and quotas have impaired the competitiveness of U.S. exports to Hungary. A current agreement between Hungary and the EU hurts U.S. exports of red meats, chicks, hatching eggs, bovine semen, sweet corn seed, rice, shelled almonds, pet foods, wines and spirits.

Other U.S. products adversely affected by Hungary's preferential trade agreements include tree nuts (with Turkey and Israel), raisins (with Turkey), citrus fruits and juice concentrates (with the EU, Turkey and Israel).

On Jan. 30, 2002, the United States and Hungary agreed to a package of trade concessions in which Hungary would reduce or suspend tariffs on some key U.S. agricultural exports. This agreement will end when Hungary joins the EU. However, the number of U.S. products that could have higher tariffs upon Hungary's EU accession is limited. These products are beef, poultry, barley, rice, margarine and apple juice concentrate.

For several years, Hungary has adopted a wide range of EU phytosanitary rules that amount to trade barriers, particularly in animal products. Their trade impact is being felt: U.S. animal product exports to Hungary have declined an average of 14 percent per year over the last 10 years. In contrast, Hungary's trade with the EU in these products has grown at an average of 8 percent per year.

Beginning in January 2002, Hungary began requiring several certificates, covering most meat imports. These measures require USDA's Food Safety and Inspection Service inspectors to certify that shipments meet EU regulations. This has had a chilling affect on trade and calls for U.S. exporters to meet EU rules that are not applied to all Hungarian meat processors.

Opening Opportunities

Despite these ongoing trade issues, there are market opportunities in Hungary for U.S. exporters. Basic tariffs on live chickens will be reduced. U.S. poultry genetics are well established in Hungary and, barring additional EU phytosanitary barriers, sales should stay strong.

HUNGARY'S ACCESSION WILL INCREASE OPPORTUNITIES FOR SOME U.S. PRODUCTS.

Tariffs for frozen fish will decrease slightly. At present, this is not a large market, but consumption is starting from a low base and is expected to grow.

One of the biggest tariff cuts will be on grapefruit and dried fruits, including dried plums and raisins. For example, grapefruit juice duties will shrink from 31.4 to 12 percent. Duties on U.S. wines will go from 60 percent to between 9 and 11 percent. Tariffs on spirits will also decrease dramatically.

In some instances, EU accession will remove non-tariff trade barriers. For example, until the middle of 2002, all food products, excluding fresh items, had to be registered and approved by the Hungarian food-testing institute. This process was slow and costly. In July 2002, in anticipation of EU membership, Hungary ended this system. The result has been less paperwork and faster response times for Hungarian importers.

Hungarian tastes will likely change over time, and consumers will be more interested in Western-style foods. This trend, which is already beginning with almonds, wines and snack foods, could extend to other U.S. products as well.

Hungarian demand for U.S. cheeses and off-season fruits and vegetables is likely to increase due to price reductions. U.S. products with innovative packaging focusing on convenience will reach Hungary more quickly than in the past.

Today, a significant share of Hungary's imports of U.S. agricultural goods is transshipped through distributors in other European countries, so much of this trade does not show up in official statistics. U.S. microwave popcorn enters via a Czech distributor, California wines, through Austrian traders, and U.S. beef, from Poland.

This dispersed handling is likely to grow with Hungary's EU membership and could further reduce the logistical and structural barriers to U.S. products. For example, with EU membership, a Polish distributor's California fruit and nut mix may easily reach the shelves in Hungarian, Slovakian, Czech or Lithuanian shops. ■

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