

**COMPETITION AND REGULATION IN AGRICULTURE:
MONOPSONY BUYING AND JOINT SELLING
HUNGARY
*1-Jun-2004***

1. The regulatory background of the Hungarian agricultural sector is adjusted to the Common Agricultural Policy of the European Union. The regulatory background determines the whole life cycle of a certain product from the production of the basic product till the sale of the final product to the consumer. Under the CAP the elements of the regulation relating to certain products are the same in all the member states of the EU since 1 May 2004.

2. If the regulation would go against Article 11 of the Competition Act prohibiting the restriction of competition than it is the task of the Ministry to ensure that the advantages of the regulation overwhelms the disadvantages of it.

3. In Hungary the possibilities of market actors to determine their own business strategies is restricted. The regulatory background establishes the conditions for producing and processing in the future.

1. Buyer side concentration

4. The regulatory background of products has not yet affected the structure of competition. Monopsony in the processing industry has not yet appeared due to the small size and great number of market actors. Mergers are often motivated by the desire to increase economies of scope. Although it is unlikely that in the present structure such economies are not available anymore, in the case of raw materials and processing concentrations do not seem to be significantly influenced by economies of scope.

5. Relevant geographic markets were mainly defined as Hungary in previous cases having regard beside other factors to the actually short distances in transportation. In certain cases like the allegedly abusive behaviour of sugar factories in face of sugar beet producers even smaller than national geographic markets were to be established.

Sugar

6. In the case of the sugar sector concentration is higher than in other sectors of the agricultural products. However due to the sugar quota established for Hungary regulations determine the quantity of sugar beet to be processed. Processors are all aware of the fact that profitability is closely connected to the shares acquired in the national quota as income can be effectuated on the amounts covered by the quota. As if the quantity produced does not reach the quota authorised the European Commission may reduce it, all processors have to secure the amount of sugar beet to be produced to cover its needs even in the case of extreme weather conditions. This means that sugar beet producers shall guarantee the amount necessary for the production of sugar shared by the processor in the quota.

7. The sugar market is oligopol both at the level of purchasing of sugar beet and at the level of processing. It is expected that the use of capacities would become more effective in order to increase competitiveness and this may result in increasing concentration in the near future.

Cereals

8. There are several hundreds of undertakings dealing with trade and production. Depending on the actual amount harvested the market is characterised with demand or supply. Except the last year in the last decade the market was characterised with supply. The establishment of monopoly or monopsony in this sector is unlikely.

9. The regulation establishes an interventional buying-up price and encourages to selling on the free market. The intervention buying-up price contains no profit margin and its only aim is to remedy market disturbances.

10. The milling industry is characterised with overcapacities so the establishment of monopoly or monopsony in this sector is unlikely at this stage.

Meat

11. On the Hungarian meat market the number of producers and processors are both above 100. In the case of pig meat, on the most significant segment of the market, the market share of the greatest market actor is below 10%. It is expected that due to the new safety standards the number of competitors would reduce. No sanctions were imposed for the abuse of buyer power in cases concerning this market, and in the last few years not even the issue of such an abuse has arisen.

Milk

12. This market is severely regulated. The number of producers and processors is high and the latter level has high unused capacities. This market, like in the EU is characterised with oversupply.

13. Guiding prices established by the Government influenced both the meat and the milk market to a great extent. However such prices are not established anymore.

2. Associations of producers

14. The importance of producers associations increases since the accession of Hungary to the EU as subventions are not available for those who own only smaller areas and quotas.

15. However in the case of milk producers only one association dealing with common purchase and supply was established by quota owners. This association represents the 10% of the overall milk production. There are no experiences on the succesfulness of its functioning yet.

Sugar beet producers formed two associations last year.

16. On the market of vegetables and fruit producers there are some associations dealing with purchase, packaging and supply of products.

17. Due to the small number and the very recent establishment of these associations we can not provide information on the effectiveness.

18. The self-organisation of agricultural producers is advisable from a competition policy point of view as it establishes a vertical integration that secures a profit oriented supply activity as well which is usually the weakest point of farmers. Due to the great number of market participants it is unlikely that a monopoly would be created in the near future.

19. There were no appeals for individual exemptions for joint selling activities and we do not know whether the block exemption regulation relating to vertical restrictions of competition were used at the establishment of certain associations. The Competition Act has a general effect in all sectors but special rules on agricultural products may revoke its effect.

3. Competition advocacy

20. The GVH has the possibility to opine draft legislation of the Parliament or the Ministry concerning competition on the market of agricultural products. The GVH has signaled its concerns regarding the existing regulatory background or the new legislation to be adopted. These opinions were not always taken into account by the Ministry.

21. There are no methodologies for the calculation of damages. However at the imposition of fines the Competition Council takes into consideration the amount of damages caused if appropriate data is available.

22. The GVH may initiate proceedings on complaints and may start investigations ex officio as well. It has efficient tools to defend consumers' interest against abusive and anticompetitive practices. However if disturbances are caused by inappropriate regulations or if the allegedly unfair behaviour is to be tackled by the intervention of the sectoral regulator, the assets of the GVH prove to be inefficient. As it was mentioned before its competition advocacy activity is not always welcomed by the Ministry.