



Dairy Focus 02/2024

Hungarian EU Presidency

Uniting dairy excellence & ambition

From 1 July 2024 Hungary assures the Presidency of the EU Council in a pivotal time and will head our Union in unprecedented circumstances.

Hungary has almost doubled its GDP since joining the EU in 2004 and has a very good chance of becoming a champion of economic growth, with an expected growth rate of 2.4 – 3.6% in 2024.

"We have a long and difficult semester behind us, but in light of the accomplishments and the feedback, it is clear: Europe has become stronger than it was six months ago," summarized Prime Minister Viktor Orbán regarding the results of the very first Hungarian Presidency back in 2011.

The upcoming six months will be even more difficult: the Hungarian EU Presidency will have the task of managing the appointment of the next EU Commission for 2024 – 2029 and ensuring a smooth transition during these turbulent times within our Union and – even more – at the geopolitical level.



The new institutional setup of our Union and the geopolitical situation in this second half of 2024 will not prevent the Hungarian EU Presidency from focusing on the future of European agriculture. When it comes to agriculture and dairy, Hungary will chair the Council meetings that address the future direction of our agricultural sector and our rural areas throughout Europe.

One area of focus for the Hungarian EU Presidency will be exploring the possibilities of adapting EU policies to the new geopolitical environment with a strategic autonomy perspective. Hungary has scheduled five Agricultural Council meetings until the end of 2024 (15 July, 23 September, 21 October, 18 November, and 9 December) and is kicking off its Presidency with a high-level conference, "Shaping Consumers' Food Choices," on 5 July.

Even though Hungary, with its roughly 2 million tons of annual milk production, is not one of the largest milk-producing countries in the European Union – in fact, Hungary is number 15 in Europe – it has a self-sufficiency rate of around 110%.

We know we can count on the Hungarian Presidency to defend the European dairy sector, milk producers, and their dairies, as well as the single market principle and the European trade strategy.

The Future is Dairy!



Giuseppe Ambrosi

EDA President

Alexander Anton

EDA secretary general



Hungarian Minister of Agriculture, Dr. István Nagy © Permanent Representation of Hungary to the EU

Hungary joined the European Union 20 years ago. On 1 July 2024, Hungary has taken over the presidency of the Council of the European Union; for the second time in its history. Following the European elections, the Hungarian Presidency has kicked off in an exciting period characterized by institutional transition. The new European Parliament restarts its work in the summer and a new European Commission will form later. A key task of Hungary's EU presidency is to ensure institutional continuity and the conditions for responding to challenges during the transition. One of the seven priorities of the Hungarian presidency is farmer-focused EU agricultural policy, which should reward farmers efforts in providing all EU citizens with basic public goods.

Therefore Minister, István Nagy is determined to facilitate discussions in the Council on how to achieve a competitive, crisis-proof, sustainable, farmer-friendly and knowledge-based agriculture. Taking advantage of the institutional transition, the Hungarian Presidency will organize political debate in the Agriculture and Fisheries Council with the intention to give guidance to the new European Commission on the post 2027 EU Common Agricultural Policy. A reasonable balance

should be found between the strategic goals of European Green Deal and the EU Treaty based goals of the CAP such as stabilising agricultural markets, ensuring a fair standard of living for farmers, assuring the availability of supplies.

Competitive farming sector

The Hungarian Presidency will hold discussions in the Agriculture and Fisheries Council on how international trade negotiations could influence the competitiveness of European farmers, the agri-food sector, and the security of EU food systems. Building upon the results of the Strategic Dialogue on the future of EU agriculture, we will initiate discussions on how direct payment and rural development subsidies of the future Common Agriculture Policy can contribute most effectively to farmers' competitiveness. The possibilities on how to promote generational renewal in rural areas and preserving traditional European way of rural living will be discussed as these are prerequisite to maintain agricultural production and to keep rural areas vibrant.



Hungarian Minister of Agriculture, Dr. István Nagy

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Crisis-proof agriculture

A crisis-proof European agriculture and food industry is our common interest to cope with the different challenges. In the Special Committee on Agriculture (SCA), political debates will be held on the actual situation and needs of the different agricultural sectors, among others milk and dairy sector. The EU dairy production went through a big progress in the last 20 years. Besides the expansion of the Common Market, the milk quota system was abolished in 2015 making it necessary for dairy farms to adjust their production to a new market environment. As a result, yields per cow increased and the number of farms decreased but worked more efficiently and with a greater herd size. The EU grew stronger as a global player. The discussion about the agricultural sectors will help to identify what type of crisis management measures would be needed in the future CAP.

Sustainable agriculture

Sustainable agriculture and forestry play a pivotal role in combating climate change and in protecting biodiversity and nature, thus preserving the values of our created world. The Hungarian Presidency aims to continue the negotiations on the legislative proposals (new genomic techniques, plant and forest reproductive materials, forest monitoring, the protection of animals during transport and the welfare of dogs and cats). Reducing food waste can contribute to more efficient use of resources and can reduce food insecurity. The Hungarian Presidency will organize an international conference in Budapest, dealing with national programmes and good practices in relation to food waste reduction. A thematic event on soil conservation will be organized together with BIOEAST countries celebrating the Soil Day and the International Decade of Soils.

Farmer-friendly legislation

A farmer-friendly regulatory framework is essential for agricultural producers and agri-food businesses to guarantee food security and to contribute to achieving sustainability objectives. Therefore, the Hungarian Presidency will launch a debate on stocktaking the experiences of the second-year implementation of the CAP Strategic Plans and on the post 2027 delivery model. The upcoming legislative proposals on amending the Common Market Organisations (CMO) regulation and on defining rules on cross-border enforcement of unfair trading practices (UTP) will also be on the agenda of the Hungarian Presidency, with the aim of further simplifying rules and strengthening the position of farmers in the food supply chain. Furthermore, the Presidency will look into the experiences of the implementation of the animal health framework legislation.

Knowledge-based agriculture

Developing a knowledge-based and innovative agriculture is crucial for sustainable and competitive bioeconomy. Within the framework of the BIOEAST initiative, Hungary aims to establish a pan-European research and innovation partnership with a focus on Eastern Europe. The Hungarian Presidency plans to hold a conference about the initiative across four thematic areas: soil, freshwater, food systems and biomanufacturing.

Hungarian dairy sector: State and prospects



The Hungarian dairy industry is a cornerstone of the country's agriculture and food economy, with a long tradition of milk production and processing. The sector encompasses a wide range of activities, from small-scale family farms to large-scale industrial operations, and plays a crucial role in rural employment, food security, and the overall national economy.

Hungary has a significant dairy farming sector, with a total cattle population of around 403.000 head (KSH) in 2022, of which approximately 200,000 are dairy cows (Eurostat). The country's favourable agro-ecological conditions, such as fertile soils, abundant water resources, and suitable climate, provide a strong foundation for dairy farming. Domestic milk production has remained relatively stable in recent years, with an annual output of around 1.8-2 billion litres of raw milk. Approximately 70%, is processed by three large dairy companies: Sole-Mizo, Alföldi Tej and Tolnatej (Oeconomus).

In recent years, the Hungarian dairy sector has faced numerous challenges, including volatile market conditions, changing consumer preferences, increasing production costs, and evolving regulatory requirements. The COVID-19 pandemic and the war-induced energy crisis have further exacerbated these issues, disrupting supply chains, altering consumption patterns, and intensifying existing pressures on the industry.

Despite these difficulties, the Hungarian dairy sector has shown resilience and adaptability, thanks to the efforts of producers, processors, and industry organizations. The sector has been focusing on modernization,

innovation, and value addition to remain competitive in the domestic and international markets.

Trade

Hungary's dairy sector experienced a negative trade balance in the first quarter of 2024. Despite being a net exporter of milk and cream, with exports valued at 8 billion HUF, the country's overall dairy sector imports surpassed exports, amounting to 18,6 billion HUF and 16,1 billion HUF, respectively. Dairy exports decreased by 9.67% compared to the same period in the previous year, with the main export products being milk and cream and cheese and curd (6,1 billion HUF).

On the other hand, dairy imports marked a 7.94% increase compared to the first quarter of 2023. The primary imported products were cheese and curd (11,3 billion HUF), milk and cream (2 billion HUF), and kefir and yogurt (2,7 billion HUF).

Hungary's comparative advantage lies in three specific product categories (Jámbor 2023):

Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, not exceeding 1%.

Milk and cream, not concentrated nor containing added sugar or other sweetening matter, of a fat content, by weight, exceeding 1% but not exceeding 6%. Products consisting of natural milk constituents. The latter category represents a higher level of processing and has a wide range of applications in the pharmaceutical and meat industries. This could be a potential breakout opportunity for Hungary to focus on and strengthen its position in the global market.

The profitability of the Hungarian dairy sector has been facing challenges in recent years due to a combination of factors, including rising production costs, limited ability to pass on these costs to consumers, and fluctuating market conditions. One of the primary concerns for dairy farmers and processors is the increasing cost of inputs. Feed costs, which constitute a significant portion of the total production costs, have been particularly volatile in recent years. This volatility can be attributed to fluctuations in global grain and oilseed markets, as well as the increasing frequency of extreme weather events affecting crop yields. Moreover, energy prices have risen sharply, driven by geopolitical tensions and the transition towards renewable energy sources. Labour costs in the dairy sector have also been increasing due to the general wage growth in the economy and the shortage of skilled workers in rural areas. These rising costs have put pressure on the margins of dairy farmers and processors, as they have limited ability to pass on the increased costs to consumers. The decrease in producer prices, coupled with the increasing cost of inputs, has strained the profitability of dairy farmers and processors.

However, the export market has shown a more positive trend for the Hungarian dairy sector. The export price of raw milk reached 136.66 HUF/kg in April 2024, representing a 26% increase compared to the same month of the previous year. This growth in export prices can be attributed to the increasing demand for Hungarian dairy products in international markets and the efforts of the industry to expand its export opportunities. There has been a notable decrease in the average retail price of dairy products in Hungary. A decrease in retail prices for fat content milk, despite the rising production costs, suggests that processors and retailers have absorbed a significant portion of the cost increases to maintain competitiveness and market share.

Challenges

The Hungarian dairy sector faces several challenges that hinder its efficient operation and sustainable development. One of the key issues is the imbalance in the supply chain, characterized by conflicts of interest between producers, processors, and retailers.

This leads to an unfair distribution of value and puts pressure on prices. Another major obstacle is the shortage of skilled labour, which makes it difficult for companies to adopt modern technologies and maintain their competitiveness. The energy crisis and high inflation rates have also put a significant burden on dairy businesses, threatening their profitability. Furthermore, the evolving regulatory landscape, such as the abolition of the EU milk quota system, has intensified competition in the European dairy market. At the same time, market intervention mechanisms are perceived as insufficient to stabilize prices and protect the sector from volatility. Stricter animal welfare and environmental regulations also require significant investments from dairy companies.

Opportunities

Despite the challenges, there are also several positive developments and opportunities for the Hungarian dairy sector. Nearly two-thirds of the surveyed enterprises, both in the production and processing segments, plan to carry out investments and improvements in the next 2-3 years. In the milk production segment, the most pressing need is the improvement of forage quality. Producers also recognize the importance of investing in modern animal husbandry and milking technologies, as well as in feeding systems and animal health management. These investments can help to increase milk yields, improve milk quality, and reduce production costs, thereby enhancing the competitiveness of Hungarian dairy farms.

Managers consider the stimulation of innovation, the support for logistics infrastructure, and the promotion of digital solutions as the most promising development directions. Investments in these areas can help processors to develop new, value-added products, optimize their supply chains, and improve their operational efficiency. To finance these investments, dairy companies plan to rely on a mix of funding sources, including state and European Union grants, subsidies, own resources, and bank loans. The effective utilization of these funds requires a well-coordinated and targeted support system that takes into account the specific needs and characteristics of the dairy sector.

KOLLÁR DÁVID

Századvég

The Hungarian dairy sector in figures



9.5 mio

inhabitants



≈2.0

bn liters

milk delivered

2022



200,000

dairy cows



Main exports:

Milk and **cream**



8 bn

HUF

(≈20,2 Mio EUR)

In exports



18 bn

HUF

(≈45,5 Mio EUR)

In imports

Source: Századvég

The Hungarian Dairy Sector (2024)



EDA Annual Convention 2024



14 - 15 November - Rome Italy

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LATTIERO CASEARIA**

“The role of the European Dairy Association in ensuring that the voice of your stakeholders is heard in Europe is key. I look forward to continuing our close cooperation to ensure that dairy has a promising future in Europe.”



Ursula von der Leyen, President of the European Commission



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