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**Examination factors affecting the general situation
and foreign trade of the fruit-vegetable sector.**

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1. INTRODUCTION

As the capabilities of Hungary are very favorable for the agricultural production, the agricultural sector traditionally plays an important role in the national economy. The 70% of the territory of the country can be used in the agriculture – although with different intensity - , 18% is covered with forests. All possibilities for agricultural production are not used up yet, although the environmental impact is far lower than in other European countries. Partly because even unfavourable locations are kept in plow land production, which unsuitable for such activity. Inspecting the efficiency our position is not that favorable among the member states of the European Union. The economical-social changes of the last two decades and the re-positioning of the different sectors according to the international trends, the role and importance of the Hungarian agricultural sector has changed, reduced. In the fruit-vegetable sector it is not possible to produce on a routine way or to form the prices like this. The price in this sector is affected by a lot of factors, without proper information we can easily make fatal mistakes in forming our sales prices. One of the key factors of competitiveness in the fruit-vegetable sector is the quality.. As the Germans say: „Preis spielt keine rolle, nur Qualität”, the price doesn't play any role only the quality. For Hungary the development of the agricultural foreign trade of the world can be considered as an external factor, as the Hungary is generating less than 1% of the agricultural export of the world. Besides the benefits of the Globalization, it can although cause disadvantages for an open economy, which can be reduced by taking part in economical integrations.

1.1 Actuality and importance of the topic

The key of success for the domestic producers is to produce better quality products and to use more reliable technology. According to professionals it is vital to explain to the consumers that the domestic product is produced in controlled environment by the local producers most likely in facilities with biological protection. The growth of the local production can be a great possibility for the sector, as the consumption of vegetables is the double in the countries of the Mediterranean region. I will pay special attention of the production and trade of elderberry as Hungary has 15-18% market share in the world trade. There is no other Hungarian agricultural product – as far as I know -which has such a great market share in the world production. The demand for this product is constantly growing, which can be directly

connected to the special Hungarian anomalies (VAT cheatings, ignorance of contracts etc.).

Hungary has an open economy, the relatively small domestic market is not enough to sell all the produced products, that's why exportation is vital, the sector is exporting around the 50% of it's production year by year.

The outdated infrastructure, the under development of the logistic system, the uncertainties in the economy, the lack of information causes difficulties. Information is one of the key resources in the modern economy, obtaining information is one of the most important factor in creating an effective economy. In the west European countries even competitive companies are in contact with each other offering each other vital information that gives all of them better position in case of a negotiation. In Hungary co-operation between competitive firms are kept low, and the shared information is mostly unusable. We must face with the lowest production quantities for years, which can be traced back to problems in competitiveness, quality, product safety and marketing reasons, in the same time we must pay attention to growing competition on the domestic market. The importation of cheap, but low quality products could be reduced by making the position of the local suppliers stronger, by implementing a domestic quality control system operated by the authorities, and by the abolition of selling the product under the purchase price (there is a legal regulation against it, and a couple of cases has been published too), in other words by protecting the market and by creation a fair competitive situation. The needed rules and regulations have been created, now it would be time to enforce them.

In order to keep up the net exporter position of the Hungarian agricultural sector it is essential to increase the competitiveness, to reduce the costs, to increase the efficiency, to produce high added value products, to produce better quality, to do better marketing, and to improve the infrastructure of sales. Theoretically in times like these, when the dynamics of the external and domestic markets are so different, and the external markets are more promising, it would be natural to increase the export related intentions. Most likely this is the point where the small domestic companies are failing due to the lack of language skills, innovative products and services, readiness to risk.

The member states of the EU are trying to improve their foreign trade balance by increasing their agricultural export or by reducing the importation of agricultural products. Almost the 75% of all agricultural export of the European Union is directed to another member country, and only one quarter is directed to the world market. Seeing through the complicated agricultural system of the EU requires special knowledge. The Hungarian society of agricultural producers still have to learn this language.

The agricultural producers are willing to export their products at once if they get a couple forints higher price there comparing to the price offered by the domestic industry. This way they are realizing undoubtedly higher turnover on the short term, but on long term they will have to face with serious difficulties, because this attitude can lead to the further down building of the domestic processing plants, and if the situation on the export market changes – which can easily happen if we take a short look on the competitiveness – the domestic producers can find themselves in a fatal situation.

It might have been a good idea from the side of the government to abolish the „intermediate” VAT in the fruit-vegetable sector, which step could lead to the abolition of VAT cheatings in this sector in the value of 45-48 billion HUF.

Mr. Sándor Fazekas, Minister for Agriculture has declared once, that the aim of the government is to help the Hungarian Agriculture to reach the production level of the year of 1990 again (we are one million tons behind this target).

Despite of several good examples and successful plants it is still true that the majority of the producers are lacking essential technological, management and marketing knowledge. They keen on to their outdated methods, not really willing to change, to learn.

1.2 Aims

The main goal of my dissertation is to provide the participants of the sector with such a useful collection of professional knowledge, what I have collected as personal experiences of my working in the fruit-vegetable foreign trade field during 32 years. I have although defined suggestions, implementation us up to the participants of the sector.

In my dissertation I have tried to draw a wide scale picture about the fruit-vegetables sector after our joining to the European Union. In several cases I felt important to make comparative evaluation of the sector since the time of the Change of System till today.

The export- import trade has a strong effect on the horticulture production and the market of fresh vegetables and fruits, that's why it is one of my most important aims to highlight the production and foreign trade of some distinguished vegetable and fruit. The choice of the products have different reasons, but basically I choose them as a subject of the dissertation because the consumption and exportation of them can be increased and there is no need to import them as sustaining the local consumption and increasing the exportation can be done without importation. I hope that by the help of my suggestions the role of the black market can be abolished (or at least lowered) in the fruit-vegetable sector, which is causing a loss of 45-48 billion forints in the Hungarian Budget. My aim is to demonstrate how would it be possible to

make the sector „whiter”, because despite of the fact that new rules and regulations are accepted to abolish the black and grey economy still some backdoors are „accidentally” or „intentionally” available to play in the shadow. I am preparing to demonstrate how is it possible to lock these backdoors, implementation of the suggestions, building them in into the law system is beyond my competences.

In this dynamically changing sector it is very important to know the synergy effects of the different production and sales features. It is not enough to produce something good, it has to be sold to the customers, which sales activity has a lot of special features. In order to ensure that the buyer takes the fresh fruit or vegetable , or the product produced from this raw material from the shelf of the department stores, not only production skills, but special marketing work, knowledge about the market, foreign trade related foreign language skills and strong negotiation experiences are needed.

It is although very important to consider the exchange rates of the different currencies, as this feature, as it has a basic impact on the competitiveness and the profit making possibilities of the sector. The 85-90% of our fruit and vegetable exportation is directed to the domestic market of the European Union, that’s why I will investigate the effects of the changes of the HUF/EUR exchange rate. In order to prove my personal experience I will investigate what is the reason of the stronger HUF against the EUR during the summer (may-September) months comparing to the other months of the year.

2. SUBJECT AND METHOD

In order to reach the targeted goals I have used the following methods and subjects in my dissertation.

Personal experiences

My 30 years of experience on the field of fresh fruit-vegetable foreign trade played a major role when I was preparing to write this dissertation, this experience is the base line of the dissertation and my suggestions. According to my information such a deep survey of the fruit-vegetable sector hasn’t been written before.

I started to deal with the foreign trade of fruits and vegetables in the year of 1983, when the foreign trade was restricted only for those, who had license. Looking back to that period till 1989 – when the foreign trade activity has been liberalized, and it become free for everyone to make foreign trade deals

– perhaps it has been the best period of my carrier, when we got more help and positive attitude from the side of the foreign partners than nowadays. Since the foreign trade become free for everyone to do, the previous „professionalism” was diminishing (as there was no need for special education and professional skills required), everyone was offering all kind of things, what they could carry out, was another story. In the beginning of the new century the trade of fruits and vegetables has taken a great turn, the wholesale market lost it’s importance, as during the expansion of the chains of department stores have formed their own purchasing channels and logistic centers.

This led to the specialization of the entrepreneurs to different sub-sectors such as frozen items, and canned products, naturally they have invested in specialized equipment. Our firm has taken the path of producing and selling grinded products and pulps, which required technical development and innovation. The decision seems to be right, it is proven by the fact that we could become the leading exporters on certain products (elderberries) and we plan to keep up this position. None is happy to get new competition, that’s why we try to secure our position by producing better quality, because we are sure that quality product always finds it’s market. In the same time as processing facility and wholesaler we although have to face the fact, that our cost level has seriously increased due to the relevant EU regulations.

Data collecting, processing, evaluation

During the overview of the professional literature of competitiveness I have used the methods of data collection, fact-finding research, evaluation and rating, this way I could dig deeper in the topic not only from the side of personal experiences but from the professional literature too. The range of professional literature dealing with the foreign trade of fruits and vegetables is very limited. According to my experiences the statistical figures are inaccurate, and difficult to obtain, which makes a proper evaluation difficult. Apart from the personal experiences I have made interviews with prominent representatives of the sector, with the leaders and owners of important processing plants in several countries, who either confirmed my ideas, or made me change my mind in order to find compromise, but have not rejected them. I have chosen the method of collecting the opinions of professionals, because my conclusions are although based on their estimations. The advantage of this method lies in the fact that these professionals are adding their experiences, knowledge and professionalism to their answer. As these professionals are representing real firms, organizations or governments, we should not forget their opinions might be distorted by their locality towards their employers or by their lobbying efforts.

I felt important to evaluate the facts of several years, in multiple cases dating back till the change of political system, because it could ensure to evaluate trends and tendencies, and to forecast expected directions. Based on the data it can be seen, that in the year of 1990 the production level of the fruit-vegetable sector was the same as are the hopes of FruitVeB for the year of 2020.

After collecting the information and data I have made the sorting and processing by the help of the Microsoft Excel and MiniTab program. It has been followed by the evaluation and analysis of the data, where I was aiming to be able to draw logical conclusions, to be able to explain investigated phenomenon, to filter out tendencies, to define trends.

SWOT – analysis

The SWOT analysis contains the evaluation of strengths, weaknesses, opportunities and strengths of the fruit-vegetable sector and the TĚSZ organizations.

The results of the SWOT analysis is collected in a chart divided to four sections.

In the upper line the strengths can be found (internal features which are working on a positive way, and which still can be improved). Strengths are such internal features which is making competitiveness stronger, and have primary role in the Sector. The weaknesses (internal features: which are not working well, but can be improved, here the Sector has a competitive disadvantage) can be found.

In the lines below external features can be founds such as: features we cannot control, but we can build on them to utilize our strengths.

Dangers (external features: barriers or negative facts, we cannot control and has the possibility to reduce our chances of success, representing danger)

By creating the SWOT analysis in my dissertation I can focus attention to the strong and weak features of the fruit-vegetable sector, which can hopefully lead to the successful development of the sector. The SWOT analysis of the TĚSZ organizations have the same reasons.

My evaluations are made to confirm the following hypothesizes:

H₁, At the time of our joining to the European Union we have expected that due to the continuous increase of subventions the fruit-vegetable sector is going to reach the production level of the time of the Change of System or – according to even more optimistic forecasts - it will reach an even higher output level. The struggle against the black economy couldn't meet the expectations – despite of the our best intentions -, it's ratio wasn't reduced.

The EKÁER system doesn't proved to be a wonder weapon – despite of the high hopes - against VAT cheating.

H₂., It is not enough to produce in good quality by using the right methods, the product must be marketed on the proper way too. There is no cooperation, the TÉSZ organizations can sell only a minor part of the production. They cannot play a major part on the field of the foreign trade too, as a matter of fact their sales ratio is even lower than in domestic trade. This is reducing the possibility of concentrated appearance on the export markets, the reason of this situation is connected to the attitudes connected to the TÉSZ organizations.

H₃., Both the producers and the traders had the expectation that the fruit-vegetable sector is going to be the winner of our joining to the EU, but the experiences show, that the sector proved to be one of the losers of the process. The economic policy could reach only partial success, which was not enough for a real development.

H₄., The lack of foreign trade knowledge and negotiation techniques, the weak marketing activity can hinder entering new markets or defending the existing positions on the foreign markets. The change of the exchange rate of the EUR – strong HUF in the summer months from May till September – is causing considerable losses in the fruit-vegetable export.

In order to carry out the examination of the hypothesizes, we must examine several questions. We must investigate what has caused the unexpected decrease of competitiveness in the years following our joining to the European Union? What can be the explanation of the fact, that the joining didn't offered major incensement of the agricultural markets? Why, and how could the older members live better and faster with the possibilities of our joining to the EU? In which relations, in case of which product groups did we suffer loss of positions, loss of markets and increase of import and why? What shall we do and what can we do to reverse the trend? What perspective do we have?

3. RESULTS

I am going to summarize the results of my examination on the following way:

3.1 Competitiveness in the agricultural industry

In order to increase our competitiveness it is necessary to carry out investments that can increase the efficiency and can help to get into new markets, it is although important to have effective organizations for the producers and strong cooperation. In order to carry it out, we must make the producers interested in the success. In order to be able to defend our most important markets, we must know them, and we must see clearly what product does it worth to deliver into which country. It is said that it is important to change the image of a firm in every 3-5 years. For the buyers the quality become the most valuable factor and the price bargaining can come only if the quality is acceptable.

I think we must deal with an activity what we are professionals in, and we like to do. If our activity has a value that justifies our intentions to defend our interests. It would be possible to limit the importation of cheap but low quality products by the help of the increasing the competitiveness of the local suppliers, implementing a standardized quality control system operated by the authorities, and the abolition of selling the product under purchase price. In other words with market protection and by the controlled, fair competition. The needed rules and regulations has been accepted, now it would be time to enforce them, or to block the arrival of such transports by enforcing them. It doesn't make sense to write laws if we do not enforce them, or we do not enforce them with all participants of the market. In case of the enforcing of the law for Agricultural basic rules we would be able to take serious steps towards abolishing sales under purchasing price. Unfortunately the major multinational companies (but not only them) can easily bypass these regulations by carrying out a triangle deal. In case of the multinational companies the situations is simplified by the fact that they have subsidiaries in multiple countries, so it is much easier for them to follow up and settle the result of these deals and to carry out the needed compensations. Hungary can stay in the competition only if we live with our possibilities, and if we modify the production and export structure towards processed, higher added value products of the fruit and vegetable industry.

One of the key factors of competitiveness in the fruit-vegetable sector and the food industry is the quality. Only a low ratio of companies working in this sector can meet all standards of the EU for food safety, hygiene, environment

protection and quality, which is hampering the efficient work of the market. The poor conditions of the infrastructure, the underdeveloped nature of the logistic system, the uncertainties in the economy and the lack of information is serious trouble too. Information is a primary resource in the modern economy, the ability of obtaining information is one of the most important factor in the development of an effectively working economy.

The fact that only 130.000 arches are regularly irrigated by the producers is a serious disadvantage too. There are requests for license to irrigate another 200.000 acres, but 330.000 acres are still out of range for irrigation systems. 5763 producers have applied for irrigation rights, but only 2060 were given which is 36% of the requests. The size of the lands to be irrigated is 72 286 acres which is the 31% of the requested.

3.2 The importance and role of the fruit-vegetable sector in the national economy.

The internal problems of the Hungarian agriculture are dating back to several decades. The success period of the sector has ended in the beginning, middle of the 80's. Since the beginning of the 90's we can state that Hungary is far from utilizing all possibilities of the agricultural industry, although we have to mention that the natural conditions are favorable for agricultural production, which is confirmed by the fact that the two third of the territory of the country is cultivated. The greatest employer of the agricultural production is the fruit-vegetable sector with it's need for high human labor and employment abilities it can play an important role in the development of the countryside. One seventh of the workplaces are connected directly or indirectly to the Agricultural industry in our national economy.

The difficulties of the Hungarian agriculture has begun not in 2008 at the time of the global crisis, but at the time of the change of the political system. In the following 20 years – comparing to the previous 20 years – the production went through a serious decline, the gross production index of corps changed to 87,9%, in case of livestock it changed to 70,2%, for the total sector it changed to 80,8%, the purchasing index changed to 54,2%.

The professional skills of the producers of our Agriculture is rather low, Hungary is ranking 19 in the 27 EU member states. It is interesting that 8,5% of the workers of the agricultural sector has middle or high education, this value is 45,6% in Germany, and 25,2 in the Czech Republic.

The production of the fruit-vegetable sector although decreased comparing to the time of the change of the political system from 3,5-3,8 million tons to 2,5 million tons. One of the main reasons of this decline is that despite of the

changes in ownership there are still no really competitive production organizations on the market. Due to the low cash resources and capital situation the technical and technological development of the sector didn't happen, the sales channels are getting narrower, which is leading to the loosening of markets. Today the most serious problem of the Hungarian fruit-vegetable sector is the low produced quantity, even if the sector could keep its net exporter state. The new consumption habits of fresh vegetables requires new, specially targeted development programs. From the point of view of the processing it is very unfavorable that the quantity of contracted production is low and because there are daily or weekly prices in the fruit-vegetable sector in many cases the processing industry can get only limited raw material.

In Hungary the presence of the black market in the fruit-vegetable sector is enormous, and it makes the whole sector uncontrollable and vulnerable. It is a basic problem that the producer is not interested in developing the production and to produce on a transparent way due to financial, employment and taxation reasons. Another unfavorable economical factor is the high VAT, which is although makes the life of the sector harder, due to all reasons the ratio of the black economy is around 40%.

The greatest reduction of the production quantity has happened on the field of fruit plantations. Comparing to the previous 1,7 million tons, nowadays only 800.000 tons are being harvested, where the major part of the production is only industrial quality. The aim is to increase this production quantity back to 1,2 million tons, and to increase the quality of the produced fruits too. In order to achieve this goal – considering the rate of extinguishing of old plantations – 26.000 acres of new plantations should be planted. Considering the increasing anomalies in the weather it is although important to invest in irrigation, ice and frost protection and mechanization of the production where it is possible.

To stop further decline and to reach the designed goals it is important to increase and modernization of domestic storing capacities, and to increase domestic sales in the same time with the increase the export related marketing activities. It is a fact that if we are willing to domesticate a new product, we have to secure the domestic demand first, than using and enlarging the now existing production capacities and increasing high quality production we can step towards building up export markets. This requires tendentious, consistent marketing efforts which is hard to say, but not the strength of the Hungarian fruit-vegetable sector.

There is always trouble with the forecasted quantity of production, either lower or higher than the real value. I always doubt production forecasts of January or February, as they come far too early, they have no real base, and the corps will spend so many nights out there till harvest. In case of low

quantity forecasts the expectations of the producers considering prices are rising into the sky, than later, when it becomes clear that the real production figures are not really so low it takes them too much time to adjust their expectations to the reality. By the time they realize the situation the trend is going to change, and they are trying to get rid of the product by offering lower prices than the others. Due to the expected high production figures (based on the lower and lower prices) the foreign buyers are setting their target purchase prices lower than the rational level. The bad beginning of the harvest season can be made worse because the quality of the first (too early) harvested product is rather low. It is easy to draw the conclusion that throwing irrational numbers to the air doesn't make any good for the sector.

Based on my experiences the anomalies in connection with the collection of wild elderberries is increasing. Being a collected product, at least the oral allowance of the owner of the land would be needed to pick the fruit. But how shall the picker know who is the owner of the land, whom should he ask? Without the knowledge and allowance of the owner the picking of the wild elderberry is considered as theft! In the same time when the picker is willing to sell the product to a wholesaler he should prove that he harvested the product on his own land if he is willing to sell as a primary producer. A solution should be found in case of such collected products, as the 90-95% of the pickers of this product belongs to the gipsy minority (the figure is decreasing in the last couple of years), and for them in the summer season it is the primary income source. Considering the short 3-4 weeks season the value of this collected product is estimated to be 1 – 1,5 billion forints.

The ecological production dates back to 25 years in Hungary, and the organized and controlled ecological production dates back more than a decade. The main feature of the BIO production is the human scale production, and the ecological attitude can be found in the whole supply chain from the farm till the table. There is a customer demand in Hungary whom this eco friendly approach is important, whom the self-conscious consumption, the safe production of food, the quality and reliability becomes highly important if their pocket allows the purchase of such a product. Not only the buyers have to take sacrifices, but the producer too, who must accept lower yield in this way of production. There is no change in the production level off the Hungarian bio products in the last twelve years, considering the size of land used in bio-production or the number of bio-producers we are there where we were in the year of 2002, which is a unique „performance” in the European Union. The local bio-production has started as a success story in the 80's, but now it is clear to see that Hungary is not in the leading group on this field in the region. If we take a look at the land size based statistics we can see that the size of the land used in bio-production hasn't changed in ten years. In Europe the increase was 50% during the same time period. We are

good in the production of bio-products but not good in the market management of these products. It would be essential to change not only the subvention system, but although the way of thinking of the producers, which would be the task of education centers. The nature of the bio-production can be an advantage in farms where high labor demanded products can be produced to meet a special market demand. To tell the truth there is no VAT difference between conventional and bio products which would be able to balance the higher production costs due to the lower yield. Not even the bio-producers can live only from the „different attitude”.

3.3 SWOT analysis of the fruit-vegetable sector and the TЭСZ organizations.

Production can be done on a routine basis, but selling the produced product is a bigger achievement. Those producers who are producing in small volume have no chance to get into a larger purchaser such as a chain of stores on this overloaded market. This kind of horticultural producers have to deal with the uncertain sales of their products on the free market on a case by case basis. Here comes the common question, shall I already sell what I haven't produced yet, or shall I look for a market after production? This question comes back to this sector year by year. Let's say, if potato has a good market price in a year, next year the supply will increase as the intention for production increases, so the market price will fall. We still make the common mistake, that we do not pay attention to the effect of weather conditions, environmental features on the produced quantity.

We have to try to change the weaknesses to strengths as soon as possible. There would be a great need for a seriously increased marketing budget (100 million forints a year at the moment) and activity, the implementation of a marketing budget per kilogram.

In the horticultural production of the developed countries, the packaging and processing plays a larger and larger role. (This is one of the fields where the our lag from the international trends is the greatest). In the production systems of the developed countries the irrigation is controlled by computers, the method is water saving, the selection of the products is done by special machinery, while in Hungary the irrigation seems to be a diminishing activity, protection of the plants is done only case-by-case basis, forming the harvest into a marketable product – if it happens at all – is done by the help of half century old methods.

We can witness a strong differentiation among horticultural producers in the fruit-vegetable sector. There are great size and income differences among the

producers. Step by step a range of producers have evolved with fairly strong capital situation, higher education, with greater awareness who are following an increase oriented strategy. The increase of the competitiveness of the ordinary producers is hampered by the lack of capital and cooperation. The inadequate development of quality is causing a serious trouble nowadays too. To give a specific example although there is always adequate supply for Hungarian apple on the market, but due to the lack of proper packing, standardization and proper type the quality sensitive buyers often prefers other products such as imported apple or tropical fruits. The problem of the too fractured production or the lack of product concentration can be solved by the help of well defined production territories.

By the help of the well defined production territories the organization level of the producers and the supply of products could be increased. The different sizes of farms, the different attitudes of the producers, the wrong habits, and the low organization level of sales are making the implementation difficult. Unfortunately competitive companies doesn't talk to each other, they consider each other enemies not potential partners who might have the same goals, but possibly working with different methods or strategies. They use all tools to discredit each other no matter if it is true or not. They cannot accept the truth of the saying „say good or do not say a word about the competition”. Most companies will realize – mostly after the initial failures – how important it is to learn the habits, negotiation stile, business communication specifications and last but not least the language of the country where they are willing to trade. In multiple cases they have to realize, that they can lose important deals if they do not pay attention to the cultural differences, the different sensitivity of other cultures, or we violate the social or business habits.

The low attractiveness of the TЭСZ organizations is resulted from the attitude of the producers. The interest of a small producer is different than the „independent” leadership of the management of the TЭСZ organization. The right bargaining position can be achieved only by the help of adequate supply of goods on the domestic market and on the export markets too. By offering 15 trucks of grinded elderberry a day will not win me any deals. I have to show and prove that I can really fulfill a contract for such a demand. This is the only way how I can become a serious player on the market. Sometimes the TЭСZ organizations get into serious trouble because the producers are rather selling their products to neppers even „without papers” for the difference of 1-2 forints per kilogram, and live with some complaint towards the TЭСZ. If the production is higher than expected and perhaps the sales of the product is more difficult they run to the TЭСZ to sell their products as it is the primary role of its existence. It has to be mentioned that the correct contract circumstances are missing in Hungary. The TЭСZ organizations

should have employed professional employees with relevant business knowledge and education which could ensure that the organization will really be able to sell the products. Unfortunately this rule is often forgotten.

In many cases we can see that the TЭСZ organization is led by the biggest producers. They are willing to sell their own products first, all the remaining products of the other producers will come second, and they do not care about what is the quality of their own product comparing to the product of others. This can cause serious trouble especially if the TЭСZ is selling directly to export markets because of the lack of processing or storing capacity. They are placing offers for longer terms, they even have enough product base, but due to the lack of processing capacity they are not able to deliver on time or to fulfill other aspect of the contract. By the time it becomes obvious for everyone, the half of the harvest season is over, and others will lose the possibility to sell as the grinded fresh product cannot be stored for a long time.

Among the different sectors of the Hungarian agriculture industry the fruit-vegetable sector produces the greatest export income, as it is selling over the 50% of the production abroad. By the help of the development of the sector Hungary is willing to keep it up in the future too, furthermore because of the unique geopolitical location Hungary could become a new fruit-vegetable logistic center of the European Union. In order to achieve this goal there would be a need for favorable taxative situation and the revision or cancellation of the system of primary producers. Several governments have tried to revise the system of primary producers, but possibly because of political reasons finally they have left it unchanged. They have modified it, tried to reduce the possibility of tax related cheatings with little success. Till it is not necessary for the primary producer to give receipt, invoice or other document (although the law requires it, but the control is low, and even if the inspectors find this violation of rules, they oversee it) the base of tax cannot be controlled not to mention the income after taxation. All in all the taxation system is hampering the development of the TЭСZ organizations, because the primary producers are not interested in selling through this organization. Since the January of 2015 there is a new system to follow and control the real movement of products on public roads called EKÁER system which was launched to ensure that the payment of taxes will be done, and to block the sales of products which were not registered at the Tax Authority. Considering that the sales has to be the subject of taxation, it is not necessary to ask for EKÁER number for shipments which are subject of compensation surcharge, this means practically primary producers. At the time of the inspection of the good under way the name of the primary producer is indicated on the delivery note – if there is a delivery note at all- but after the acceptance of the product

the invoice will be issued under the name of a company, where not compensation surcharge but VAT will be invoiced.

I fully agree with the implementation of the EKÁER system, and I support the goals, which makes the position of the white economy stronger, makes the transportation of goods more transparent, could reduce VAT cheatings, and could help to reduce the illegal trade of food products which are threatening the health of the people, but hopefully not designed to increase the possibilities of the state to punish the firms. According to the opinion of several experts the new system didn't bring overwhelming results, the cheatings are going on, only the chance to get caught increases slightly from zero.

The huge quantity of data (11 million reports in the year of 2015) can be useful only if there is capacity for processing it. According to the experts the EKÁER might reach its goal on a longer scale – if the aim is to investigate cheatings on a shorter notice. Since the launching of the EKÁER system the „dealer” organizations could find a way to bypass it. They report several locations for their fake companies, because the transportation of products between own locations is not a subject to reporting, and no safety deposit should be paid for new companies. We can surely state, that this VAT will not flow into the budget of the state.

Among the numerous problems of the fruit-vegetable sector, one of the greatest is, that around the 30% of the turnover of the trade of domestic products is handled through the wholesale markets, where the 40% of the turnover goes to the black economy. This unfavorable situation means not only a great loss for the government, but makes impossible the tracing of the origin and the quality of the products.

The producers with lack of capital are more vulnerable to the black economy, because the payment in cash at once is a far too great temptation for them comparing to the payment terms offered by the TЭСZ organizations. From the point of view of the TЭСZ organizations the presence of the black economy is a much greater financial and moral risk than for other players of the market, as these organizations are losing competitiveness just because they are following the rules. It doesn't make the TЭСZ organization more attractive despite of the fact that the membership has additional benefits too. As to my survey the members are expecting positive discrimination and stronger legal steps in order to ensure that those who are following the rules should not loose competitiveness against cheaters.

I agree with the interprofessional organizations. I although think that the present level of VAT is too high in case of the fruit-vegetable products. It doesn't hamper the competitive situation of the domestic producers as the VAT level of the imported products is although 27% (if they declare it...), just like for domestic products. The exportation of the agricultural products

are free from the payment of VAT, technically it means 0%, it has to be declared in the country of destination by the local percentage according to the EU directives. In case of exportation to a third county the VAT although has to be declared in the country of destination. Unfortunately in case of importation (from another member country of the EU) there is a much greater possibility to cheat with the VAT, as in case of importation the importer declares and asks back the VAT in the same period, and in case of the sales they can „forget” to declare and pay it. This is a great loss for the government. The lower level of the VAT could reduce the potential benefits of cheatings, considering the expected punishment it might be unworthy to cheat with the VAT.

Despite of the high hopes and positive expectations of the last 25 years the sector is in a critical state because of the missing technical and technological developments. As a result there is not such a quality and quantity of marketable goods on the Hungarian market what could be expected considering the possibilities of the county, and what the market demands. This way the quality of the fruits and vegetables on the market will be heterogeneous, which will unintentionally divert the demand to the low quality.

Due to the low rate of irrigative production, up to date production machinery and techniques we must face with the volatility of the production quantity and quality. Hungary would have a favorable situation in connection with irrigation as we have high resources of surface and underground water reserves, but we far behind our possibilities of irrigation. The present conditions are features the fact that year by year more water is leaving the county than arriving and in the same time the agriculture is suffering from drought. If Hungary could live with the possibility of using underground water resources for irrigation the agricultural production would be much more stable and intensive. For small farms less than 10 acre the efficient irrigation of fruits and vegetables would be able to ensure by the help of wells.

In case of horticultural plantation the needed workforce is missing especially in case of seasoned works. While a 200-300 acre farm can be operated by 2-3 people in case of plow fields, the same size of horticultural plantation requires the labor of at least 10 people. Nowadays 75% of the farms producing products to the market are working in the field of the lowest workforce requiring plow field production which is highly profitable due to the land size based subventions of the EU.

3.4 The development possibilities of the fruit-vegetable sector

The horticultural production is the most intensive (generating high added value on small territory) part of the Hungarian agricultural sector, using the most employees. This sector has the best growth potentials in the fruit-vegetable sector. The total average production of the sector is 2,5 million tons, which provides a 700-750 billion forint part of the Hungarian national economy, and gives employment for 340-380 thousand families. The third most important sector of the sector, which often comes up to first position considering export performance. Because of the high rate of manual work and the high added value it has a serious profit potential. 50% of the production goes to export, 50% meets the demand of the domestic market.

Taking a look at the last 15 years of the Hungarian fruit-vegetable sector, the picture is disturbing. Considering the fruit-vegetable production per person, Hungary can be found in the middle of the EU ranking, but the trend of the rate of processed goods, and foreign trade is getting lower since we joined the European Union. The first thing to do is to stop and reverse this trend. The strategic plans of the industry contains the possibilities to achieve this goal.

After the change of the political system the agricultural sector has lost 1 million tons of production volume from the previous 3,5 million tons, so the production volume is around 2,3-2,5 million tons nowadays. One of the main reasons of this decrease is that despite of the changes in the ownership, really competitive ownership structures couldn't evolve. Due to the lack of cash and capital the outdated technical, technological factors were not improved, the sales channels become more narrow, which resulted a loss of market. Today the major problem of the Hungarian fruit-vegetable sector is the lack of marketable products despite of the fact, that the sector could keep its net exporter position. In order to reach the previous production volume a 1 million tons increment would be needed, which requests new, modern postharvest technologies and mechanization. Modern cooling, and processing technologies, use of up-to-date logistic solutions are necessary to get into the market on the field of fresh products. The capacities available would not be able to deal with the increased production that's why new capacities should be created. To be able to evaluate the situation clearly we have to mention, that a lot of cooling houses are empty, not used to help the efforts of the sector. It is a danger that even if the sector would be able to reach the increased production volume, that might lead to the forming of unsellable fruit and vegetable mountains. Prior increasing the production volume we have to build up real markets.

By increasing the domestic consumption of fruits and vegetables, by increasing the market the role of the sector would be increased, which would lead to the increase of employment too. I think that this sector would be able

to provide the highest and fastest rate of increase in employment. In order to increase employment more favorable taxation rules and (mainly in case of season jobs) more simple registration tasks should be implemented. The present rules and regulations don't help creating workplaces not even in case of season jobs. Despite of the good intentions from the side of the government, the present system is not really good in this sector, where the employer has to be registered before, than after one-two days of work the employer "forgets" to come, this way the company has paid the dues in vain and can start looking for suitable labourforce again. The experiences show, that some companies cannot find disciplined and well trained labourforce locally, because it already moved to the cities, or employed in another sector. It would be useful to suspend public works during the season of agricultural seasonal jobs for those who are willing to work in the sector during season. It might offer enough labourforce for the sector. Nowadays it is possible to find enough laborers only for the weekends in season, because of the public works. In many cases workers of the public works are not "willing" to work in the normal economy, as there the payment is connected to the performance and it is very rare to get paid without real performance. According to the experiences the workers have four times greater chance to get employed in public works than get employed in a real job and be registered with minimum wage. As the difference in net wage is not that great, it seems to be easier and safer to work in the public works program, and they do not even try to get employed elsewhere.

In order to be able to develop the sector the role of the black economy should be decreased, according to experts there are fields where the ratio of the black economy can reach 40-50%, and it doesn't even include black employment. The implementation of the reverse payment of the VAT and probably the reduction of the VAT level to 5-10% would be a good tool to reduce the black economy. In the current economical situation the reduction of the VAT percentage is unlikely, it would lead to a big hole on the income side of the budget. The implementation of the reverse payment of the VAT should be considered for all products where the relevant EU directives gives the possibility.

The reduction of the technical and technological lag of the sector is hampered not only by the lack of financial resources but by our own national regulations too. The availability of water to be used for irrigation and the geotermical energy for heating is blocked by regulations, taxes and other dues. In the January of 2012 the government made a decision that the mandatory pumping back of the used thermal waters in case of use of geotermical power is suspended till the 30th of June 2015, and in this period they are to re-think the regulations about the use of water resources in the Agricultural sector.

There is no doubt that the key to the future of the agriculture and horticultural production is how we can use the water resources available for irrigation. It makes even more difficult to understand why only the 31% of the requests for irrigation are accepted. According to the experts by forming a proper irrigation system the Hungarian agricultural sector would be able to produce enough to supply not only the domestic markets but the markets of all surrounding countries too with sellable quality of fruits and vegetables.

3.5 Possible action against VAT cheating in the fruit-vegetable industry.

According to the experiences the trading with agricultural, food related products is often connected to tax cheating. In Hungary it has a long historical tradition. During the ages, the country has been under foreign occupation often and for long, when the population had hostile feelings towards the current rule. (We do not pay tax neither for the Sultan, nor for the Kaiser!). The democratic traditions are although weak, the tax payers do not feel that they have influence about how their money is being spent and for what purposes. These habits might change with time if the democratic society is going to work on a successful way. The situation become more complicated when the world economical crisis has reached Hungary, because the position of the companies become weaker, which although encouraged their attitudes towards avoiding of tax payment. Till it is possible to earn a log of money by “saving” the VAT in a short time, they are going to cheat with all kind of products from gasoline till water.

It is a fact, that the high VAT level makes the cheating with the VAT even more tempting. According to the calculations of the Agricultural Research Institute, the difference of the 27% VAT and the 5,9% profit rate comparing to invested capital is 21,1% which is a very tempting illegal profit for cheaters. According to international examples, if the possible profit rate of ordinary business is closer to the VAT, as the possible “illegal” income is lower. In the same time the willing to pay the taxes is increasing.

According to the estimations of the experts the state budget is losing more than 100 billion forints due to the illegal activity of a certain group of cheater companies, whose primary activity is the cheating with the VAT. According to the opinion of the experts the solution to reduce this sum is to reduce the rate of the VAT, or to implement the reverse payment of the VAT. Due to the cheaters 1 from all 4 forints will surely not arrive to the budget due to the cheaters. There are two ways to reduce the amount of the VAT cheatings. The first is the drastically reduction of the VAT rate of the basic food products, if it is not possible than the implementation of the reverse payment

of the VAT is suggested. Unfortunately even the decision makers don't know the true meaning of the reverse payment of VAT. One of the most irrational parts of the EKÁER system is the involvement of the products subject to reverse payment of VAT into the system. On the field of these products the possibility to cheat with the VAT is technically zero, to be hard to understand why they are involved into the EKÁER system. There are two methods of the roundabout cheating: the export method: a company is purchasing food related products on the domestic market with the indicated intention to sell the product abroad, in one of the member countries of the EU. For such deals there is no need to pay the VAT. The product is going to leave the territory of Hungary only on paper, by the help of fake delivery notes and fake import invoices, the product is going to be sold on the domestic market on Hungary. The implementation of the EKÁER system is limiting the possibility of such cheatings, but it does not block all of them. The system would help fair traders and companies, because as the level of cheatings would drop, more income would arrive to the budget, which might lead to the decrease of taxation levels in the future. There is a new directive adopted by the EU about the rapid implementation of the reverse payment of VAT, which is valid since the 15th of august 2013. According to the directive the member states have the right to decide if they are willing to implement the reverse payment of the VAT for 9 months in case of food related products, which are not going to reach directly the end users. The implementation is connected to the approval of the European Commission, the associate has to make a decision within a month. The rapid implemented reverse payment of VAT can be used for a longer period than 9 months if all member countries approves it. This directive will be valid till the 31th of December 2018.

It is a paradox situation, that from one side we force our agricultural producers into an income oriented taxation system, which is not transparent, making the black economy stronger and encourages them to hide their incomes, which is to be investigated by special forces and to try to fight against it, while from the other side we acknowledge the income making ability and employing force of the black economy on the countryside and we do not try to change the system. Since the change of the political system none of the governments have even tried to change the outdated system of the primary producers.

It would be time to further reduce the range of those producers who are allowed to receive the compensation surcharge, and on the middle term to cancel the whole system of compensation surcharge as nowadays there is no difference in the VAT rate of the purchased and sold products (which was the reason of the system of the compensation surcharge at all), this makes the existence of the system questionable. In the same time it would be needed to

implement a system for the whole range of agricultural producers to get back the VAT.

In order to ensure the successful production of the Hungarian agricultural sector it is essential to throw out those persons from the system of primary producers, who are not performing real agricultural production, just like to live with the benefits of the system to hide incomes. The issue of the license for primary producers should be connected to ownership of land, or to rental contracts of land, excluding contracts between close relatives.

Primary producers usually do not pay taxes. Companies working on the field of agriculture (state enterprises, producer organizations, and other enterprises) do, but the primary producers usually don't. It is true that a group of producers said that they pay a high tax, as they have to issue invoices with VAT and the amount of the VAT has to be paid into the budget. But they got the VAT when they took the price of their products, this way they are only mediators, the VAT is paid by the consumer in reality, who has no possibility to ask back the VAT.

3.6 Features of the fruit-vegetable foreign trade

„The only sustainable competitive advantage is if you can learn faster than they.” (Arie de Geus)

Inspecting the Hungarian fruit-vegetable sector we can state, that the favorable logistic capabilities, the close distance to the main markets is a strength. Besides the favorable economical possibilities there is or there might be a suitable workforce too.

Unfortunately in the foreign trade of the fruit-vegetable sector we can find several weaknesses, which should be corrected and transformed into strengths as soon as possible. We cannot fulfill the requirements of trade because the production is not market oriented enough (not in quantity not is the range of products.) This can be connected to the lack of proper information, the rookie marketing activity, the badly organized production, management and sales too. The high ratio of uncompetitive small producers who are willing to solve everything by themselves can be one of the reasons of the lack of information. They do not provide information to the others or they are intentionally giving wrong information which will cause problems not only to the competition but for them too. On the field of marketing it is not enough to take part on a couple of great international exhibitions.

This is far from being enough, but the limited resources doesn't allow much more. It might have been a good idea to implement a fixed contribution per kilogram for marketing in the fruit-vegetable sector too, just like in case of other export related sectors. I know, that there would come the common cry,

“they are willing to implement a new tax, which is good only for the major players, or the organization is going to spend it on a wrong way....” and so on. This attitude gives the explanation why the willingness for cooperation is close to zero.

There is no use to the short distance to our major markets and the favorable location from the point of view of logistics if we cannot live with the advantage. The development of the processing capacities is although a possibility, but the direction of the development is crucial.

At the beginning of the season of 2015, we could realize it again that the old stocks of canned sour cherry are not sold out till the beginning of the new season. We must realize that the German market doesn't require this product in the same quantity as before. The explanation is that the consumption habits are changed towards frozen sour cherry products or towards semi processed, or processed products. The Polish and Serbian producers have been developing their processing plants in this direction for years, but we still need a couple of failures like this till we realize what is the new direction. We would be able to sell the product on the direct consumption market in a great quantity, but we should make the use of seasoned employment easier with possibly lower additional costs.

The dangers haven't changed much in the last years; we could not even turn them into possibilities. Most of all: bad organization, low power of the producer's associations on the market with low market share, in a lot of cases the EU regulations require irrational quality demands (usually this is changed if the desired quantity is not available on the market), increasing competition, new competitors entering to the market, strong fight among competition. We should not forget the unfair market behavior of the new competitors.

Entering to the foreign markets can hold a lot of dangers, requires careful planning and well planned schedule. Before entering to the foreign market we have to consider our financial situation, how would the new market affect it, if we have clarified our abilities here, we can start fighting for foreign markets. Many Hungarian companies have well trained employees, competitive product, but the clear export strategy is often missing, they have insufficient information about the given market and the legal environment. It is very important to consider the foreign market not as an escape route! If we are trying to get into foreign markets just because we have difficulties on the domestic, than we have to seriously consider, if it is the real alternative out of trouble.

The market environment is different on the east and the west markets. Several experts say that the Russian market cannot be considered as a traditional market by the European standards. It requires a totally different sales strategy comparing to the markets of West Europe. According to the experiences the Hungarian small companies often lack the needed financial and human

resources to be able to become successful on foreign markets. A company producing to the domestic market is present on a market for ten million people, while a company selling to the market of the EU is able to sell his products on a market of 400 million people. Entering to the foreign markets has a great possibility but it requires high management and capital qualities.

It is not enough to find the potential customers, we have to look for potential competitors too. A lot of Hungarian firms don't even care to learn about the competition. Almost everyone can list the weaknesses of his competition, but without knowing their strength we cannot fight against them. A lot of companies don't know what the right way to enter foreign markets is, they should be educated, although we have a couple of good examples too. It would be a great help for others if these companies would be able to give their knowledge, if only the others would care to listen. I have taken part on several meetings where the parties interested in selling their products gave advices to each other. We were listening, and went on working with the advantage that we had a clue what to do, or what should be modified in our strategy to be better than the competition. The right way of success becomes clear after the deal is made, contract is signed, but the lack of cooperation between domestic companies is a serious problem.

Before entering into foreign markets we must have proper human resources. It is not enough to employ someone who knows the language, who is responsible for translation if he or she doesn't have "sense" for the profession. Many managers are using translators for a lower wage instead of a professional of foreign trade for a higher wage. The foreign trade professional has a proper language skill, knowledge about the market, and negotiation experiences. The success of a negotiation is depending on a lot of minor things, that's why it is important to get prepared for it, and to carry it out with high attention and care. We must state that the domestic market of Hungary is too small, we need the foreign markets and the export.

To be able to prepare for a negotiation is an important part of the negotiation experience. What did I forget to plan with? A good trader knows that there is always such a factor, and we have to admit, that luck plays an important role too. So is it sure that the cheapest solution will prove to be the more expensive on a longer term. It is although a common mistake that most people buy a luxury car or a house from the result of the first successes and not thinking about how to develop the firm. As the international competition never stops, we cannot sit and watch the fireworks at the 20th of August saying "everyone" does the same.

The business can prove to be a failure even if we take all tiny aspects into consideration during the negotiation. Everyone has prejudices what might become an obstacle. We have to use different communication channels too.

Many would not believe, but the role of verbal communication is only 35%, while the non-verbal communication has 65% during a negotiation.

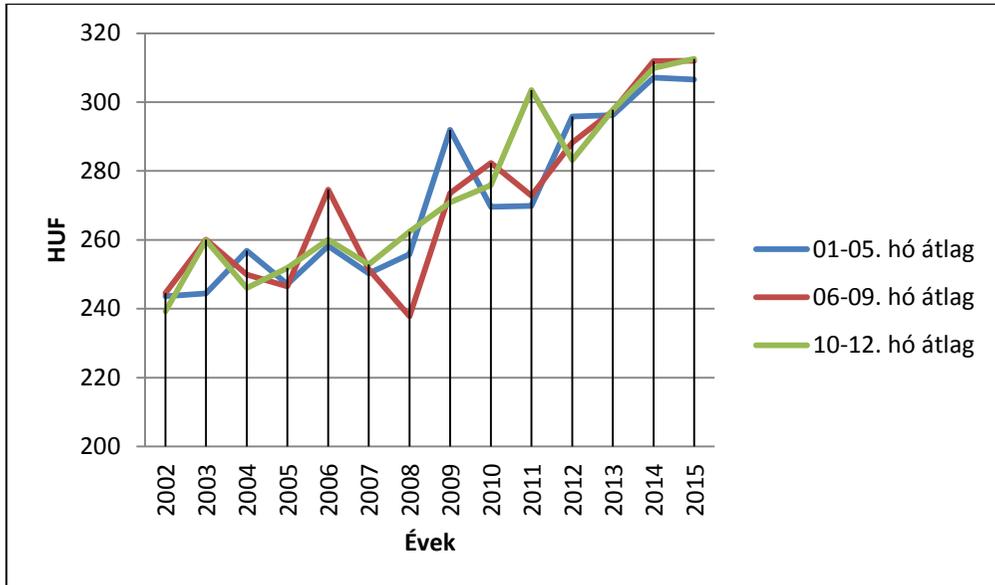
The 30-35% of the Hungarian export of fresh vegetables and fruits goes to Germany at the moment, but the ratio of the German export has been over 50% in the previous years, before our joining to the European Union. The majority of this export has been sold at the wholesale market of Munich, in the Großmarkthalle. Nowadays the export sent here is diminishing despite of the fact that since the year of 2000 Hungarian firms are allowed to rent place in the Großmarkthalle.

The exchange rate of a given country has a primary role in the foreign trade: if the currency gets weaker comparing to the currency of the market of destination, than the export becomes cheaper for the partner country and likely to grow. If the domestic currency gets stronger, importation of the product becomes more expensive and likely to reduce in volume.

The exchange rate and the exchange rate policy play an important role in the regulation of the foreign trade turnover, in the forming of the foreign trade balance, and in encouraging exportation. The exchange rate is formed by the market, the National Bank and the Government can only try to modify it, by using fiscal tools, communication or open market intervention. The relatively stable exchange rate is favorable for the companies especially the domestic firms who have often no reserves.

On the following charts we can see that in four years the exchange rate was strong on summer, but had the same strength in spring and autumn too. (1-2 HUF differences were not considered). 2011 was such a year for example, when the exchange rate was 275 HUF/ 1 EUR at lowest, but it was around 276-277 in October too, which is a minimal difference. All in all in case of six years from the fourteen inspected the exchange rate was the lowest or one of the lowest in the summer months. There is a reasonable explanation for the stronger forint in the summer months, in this season a lot of tourists are arriving to the country – the majority of the Hungarians stay most likely at Lake Balaton this time – this means a higher supply. (but is might be although true that the lower level of economical activities, the exportation, importation is playing a role too) There were times where much greater forces diverted the exchange rate, like in the June of 2003, when the EUR become 12 forints more expensive due to the switch of the middle of the corridor from one day to another, or like in the autumn of 2008, when the crisis began, or like at the start of the final re-payment of deviza loans in the September of 2011.

EUR/HUF exchange rate.



Based on MNB data

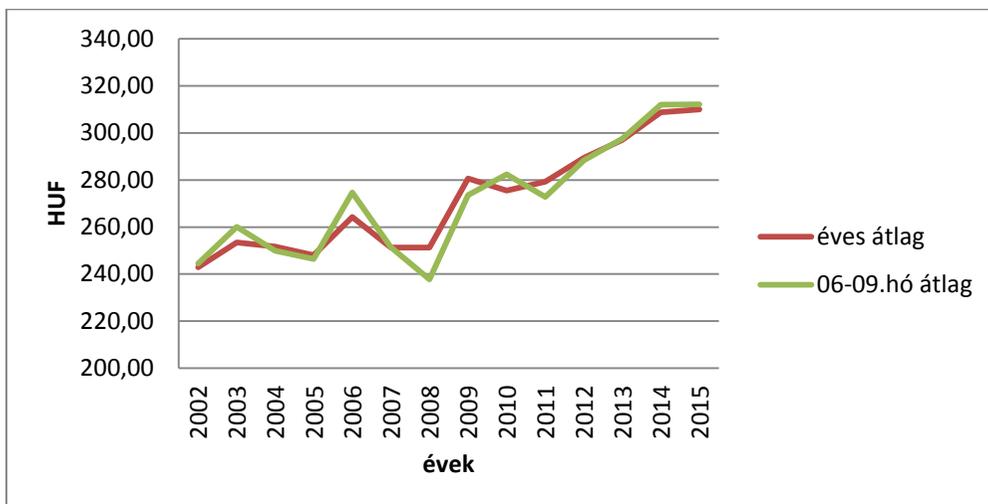
Inspecting the yearly change of the exchange rate (next chart) we can state, that the exchange rate has increased by 27,54% since 2002 till 2015, which means a 1,97% devaluation of the forint in yearly average. The greatest devaluation in the June – September period has happened in 2006, when the exchange rate was 3,9% weaker comparing to the yearly average. This phenomena has happened only four times in the inspected fourteen years (2003, 2006, 2010, 2015), which might have an explanation too.

Taking a look at the deviation of the exchange rate in the period of may-September comparing to the yearly average we can see that apart from two years (2006, and 2010) the chart shows a result under 100. This means that the forint has been stronger in the summer period comparing to the yearly average, this led to difficulties in selling the fresh fruits and vegetables on the export markets, and the exporters had to calculate with losses due to the exchange rate.

The exchange rate is one of the major factors affecting the competitiveness, as it basically affects the price of the products of the given country on the world market. The role of the exchange rate is depending on the importance of imported inputs and the speed of adaptation to the currents. In case of high import ratio, the weaker domestic currency will not make the exportation of the products cheaper; the effect on the price increase of the imported ratio will be corrected by a higher inflation. It is clear, that a too high exchange

rate can make the products of a country un-competitive, this way it can cause serious damage to the export oriented sectors, further increasing the debt of foreign trade balance and reducing the growth of the economy.

EUR/HUF exchange rate, yearly average



Based on MNB data

We have to state, that in the value of the export of the fruit-vegetable sector there is an increase but half of this is the result of the change of the exchange rate and not the real performance of the sector. Due to the improving economical numbers of Hungary it doesn't seem to be impossible to achieve the criteria to join to the EUR zone, but the political will is clearly missing. One they the Prime Minister has forecasted decades to the forint. As an explanation the Prime Minister stated that "Hungary, just like the rest of Middle-Europe is waiting. Only those smaller countries have joined to the EUR zone, where the size of the country made it questionable if the own currency gives better security. In case of Hungary, Czech Republic, but especially Poland standing on our own feet is a competitive alternative. If the government and the National Bank carry out a good quality monetary policy, than the national currency can be a good resource in case of a country with 10 million inhabitants.

4. NEW AND UPTODATE SCIENTIFICAL RESULTS

The actuality of my dissertation is that I haven't found any work which would cover the processes in connection with the foreign trade and production of fruits and vegetables from the practical point of view in such a complex way. The features of the sector has been investigated not only in depth, but although I tried to give a wide picture about the different elements, such as the producers, producers' organizations, wholesalers, foreign traders, and connections to the change of the exchange rate. I have paid special attention to the fight against the black economy, to the EKÁER system which was meant to be a "wonder weapon" against the black economy. In the same time I have tried to demonstrate that even if the fruit-vegetable sector would be able to perform much better, we still would have to follow the trends and tendencies in order to be able to keep its market positions. In accordance with the aims indicated in the foreword I would like to summarize my new and up-to-date scientific results as follows:

- I have investigated the performance of the Hungarian fruit-vegetable sector with scientific methods on a unique way (mostly after our joining to the EU) from the production till sales. According to my opinion the personal experience and its summary can be considered as a scientific result.
- I have evaluated the place of the fruit-vegetable sector in the structure of the GDP, in the investments and in the employment. I have demonstrated production and trade anomalies in a wide range, and offered real alternatives.
- I have investigated and demonstrated the factors affecting the import and export in details. I have investigated the possibilities to reduce or abolish the black economy, the implementation of the reverse payment of VAT, and the reasons why to close the system of primary producers.
- Based on my personal foreign trade experiences I have demonstrated the specialties, possible dangers of foreign trade. I have given proposals what should be done in the future not to make the mistakes already made by others.

5. CONCLUSIONS AND PROPOSALS

During my research I have made conclusions which could help the work of the representatives of the Hungarian fruit-vegetable sector, the preparation for future challenges, to understand past events. I have given proposals for the government and inter professional associations too. Implementation, codification of these results is beyond my competences, but I do hope that I will meet them in the future during my work. There are a lot of proposals in my dissertation which are meant to make the life of the fair traders easier and could increase government incomes by their implementation. Based on the results of my research I am summarizing my proposals as follows:

- Based on the result of my investigation we can state the conclusion that the participants of the fruit-vegetable sector couldn't live with the possibilities resulting from the joining to European Union, that's why they became the loser of the joining process.
- One of the most important step to avoid black trading and illegal re-packaging would be to provide wider transparency of the fresh fruit and vegetable sector by governmental help according to the relevant EU regulations.
- I think it would be necessary to enforce the rules and regulations more strictly on all participants of the sector. It is not enough to launch special campaigns on Water melon sellers, and primary producers of strawberry. It would be necessary to investigate and list those products where the implementation of the reverse payment of VAT could have been done in short term according to the directives of the EU.
- Accepting the legal background of the budget of 2016 without changes, the growth of the VAT – excluding the data of the growth effect - from 2015 till 2019 is expected to be 350 billion HUF. During the same period the total amount of the VAT cheatings can reach 10.000 Billion HUF. The EKÁER system can reduce the loss by 3-4 %. It is important to mention that even if all VAT cheatings would be obligated at once – which is unrealistic goal – these thousands of billion forints wouldn't appear in the income side of the budget, because the majority of the deals connected to the cheatings are not real deals, without real economic background. Still the equitation should show a considerable positive result, and we hope that the government will have effective means for encashing.
- Numerous other modifications are expected from the side of the decision makers of the economical policy, starting from the VAT

system, through the whole system of taxation, till the regulation of the primary producers. The way how is it possible to make the primary producers interested in reducing the black economy has to be figured out. In order to increase the competitiveness of the sector the distribution of direct subventions (like SAPS, AKG, subventions connected to production) should be kept on professional agricultural basis

- We should have concentrated on up to date, competitive plantations instead of the mechanical distribution of the funds without professional basis. This way we would be able to help the cleaning process of the fruit-vegetable sector and wouldn't keep outdated, ill maintained and trouble making plantations alive.
- The basic problem in connection with forecasting the expected production quantity is that although there is a rule for the mandatory reporting system we have useful information only about the purchased quantity of the major processing facilities (mostly juice processing plants), while quantity forecast of consumption apple and other industrial apples is uncertain because of the diversity of the plants.
- In case of a lot of plantations the full quantity of the corps cannot be harvested due to the lack of laborers, which situation is connected to the system of Public employment, especially the negative side of the system which is afflicting Szabolcs and Borsod counties, where the greatest number of plantations can be found.
- We must realize that we need a fare more accurate production forecast, harvest and warehousing statistics system in case of all agricultural products. If we cannot forecast the expected production, supply and market changes with acceptable accuracy than we can expect only chaos, which will lead to low prices (what might be the interest of a range of the participants of the sector). The chaos can only be the interest of the black market players and not the honest producers!
- The years of 2014 2015 clearly proved, that there is no official or enforced rule that can handle such a rate of domestic or European Union overproduction in a market economy, so we should not hope the success of such official decisions.
- At the moment the Hungarian producer is not interested in the development of the production and in the transparent way of production because of taxation, employment and financial reasons. As a result of it there is a great role of the black market in the sector which makes it vulnerable and uncontrollable. In a lot of cases the producers are complaining that they are unable to apply for tenders or

subventions, because if they do not declare income, profit, how could they accomplish the supported developments. In order to dissolve the contradictions of our taxation system we can find good examples at our neighbors (Austria and Poland), where the taxation of the sector is based on the size of the plantations, which is a simple system and makes the planning of the budgeted incomes of the state easy.

- Agreeing with the chairman of the FruitVeB association, and with other officials of the chamber of commerce we can state, we have to ensure the supply of the existing fruit and vegetable markets in the period of 2014-2020 in order to be able to develop the sector. This is very important because the output volume of the sector has been reduced to 2 million tons from the 3,8-4 million tons of the previous decades. Nowadays we might reach the production level of 2,5 million tons, what could be increased with another 1 million tons.
- We cannot increase the production volume (not even if there is demand for a higher volume) if there is no enough labor force to harvest the corps, although this work doesn't require high certifications or knowledge. I think that the system of the public employment has to be changed on a way which allows those workers to go on „unpaid holiday” during the summer months, who are able and willing to take part in the harvesting of the fruit and vegetable plantations. The willingness to work on the plantations in harvesting season might be lower partly because the workers are afraid, that once they quit the public employment, they will not have a chance to get back to it, and they will have no income during the winter season. Mr. Viktor Orbán Prime minister has mentioned the importance of our „hidden human resources”, who can play an important role in the development of the production volume of the sector is we can condition them (force them) to work, but it requires that we should be able to offer them „useful” tasks. Based on my experiences the 90% of these workers are able to carry out tasks with adequate moral and intensity, and in the same time they could restrict „outsiders”.
- The exchange rate and the exchange tare policy plays a primary role in the regulation of the foreign trade connections and the foreign trade turnover, the balance of the foreign trade and in the forming of the exportation intentions. Unfortunately the exchange rate policy didn't help the fruit and vegetable exporters as first of all it focused on the inflation and the debt of the state budget.

6. SUMMARY

My dissertation has been written about the changes of the production and foreign trade of the Hungarian fruit-vegetable sector. My choice of the subject has been motivated by the fact that I have been dealing with the foreign trade of fruits and vegetables as leader of different foreign trade companies since 1983. According to my experiences the literature about the foreign trade of fruits and vegetables doesn't go deeply into the topic and the approach is not too practical. In my dissertation I wanted to highlight the specialties of the foreign trade of fruits and vegetables, emphasizing the practical experiences hoping that by sharing the results of my investigations and personal experiences I can help the development of the foreign trade of the sector.

In the fruit-vegetable sector it is not possible to form the prices and sell the product simply by routine. In order to be able to form the sales price we have to take a lot of factors into consideration, without proper information we can easily make fatal mistakes in pricing. Here it is not possible to calculate with a fixed profit rate, as the purchase price can easily vary from let's say 50 HUF to 200 HUF.

Hungary should be considered as a small, open economy, the small domestic market is not enough to sell the produced agricultural products. (Around the 50% of the production is subject to exportation) so the export markets are essential. It is a fact, that in order to be able to start the production of something new, first of all we have to have domestic demand, thank later it is going to become possible to build up export possibilities by enlarging the base of production and by increasing the quality. Both of them require aim oriented and thorough marketing work, which is not really the strength of the Hungarian fruit-vegetable sector.

Only a small percentage of the enterprises working on the field of fruit-vegetable foreign trade can meet the requirements of the EU regulations regarding to food-safety, hygienic, environmental protection and quality, which is hampering the efficient market processes. The outdated infrastructure, the under developed logistic system, the uncertainties in the economy, the lack of information are causing a serious trouble. Information is a primary resource in a modern economy. Obtaining the right information is one of the most important factors to form a properly working market.

In the 90', when the EU membership become a real possibility, the agricultural sector was believed to be a potential winner of the joining process, due to the natural resources, the (mainly) well organized, industrialized production, and the previous export performances. A restructuring of the fruit-vegetable sector was expected, some parts got strong

import competition, and some was suffering from the diminishing of national support, while some got new possibilities on the newly opening EU markets. In order to ensure that the Hungarian fruit-vegetables sector remains a successful net exporter, it is important to increase the competitiveness, reduce the costs, and increase the efficiency and to change the production structure towards processed, high added value products, to improve the quality, the effective marketing activities and the sales infrastructure. Theoretically in times like this, when the dynamics of the external and internal markets are different to the benefit of the first, it would be natural to push export efforts. This is the point where the majority of the domestic small firms are failing due to the lack of language skills, will to risk, and lack of proper product and service related innovation.

It would be a good idea from the side of the government to think about the change of the VAT system in the fruit-vegetable sector, this way the 45-48 billion forints worth VAT cheatings could have been blocked.

Despite of several good examples and successful production facilities it is still true, that the producers are missing proper technological, management and marketing knowledge. They keen on using their outdated methods, and not willing to learn. In order to develop a competitive and efficient agricultural production it is essential to have proper and well educated human resource, because it is much easier for a qualified worker to learn the new technological, market, marketing and management knowledge. Despite of the fact that the degree of the employees in the Hungarian agriculture has increased it still shows a low result. Most of the leaders of the enterprises lack professional education, they are trying to lead their businesses based only on experiences, and only 14% of them have professional degree.

I think that the participants of the Hungarian fruit-vegetable sector should talk more and more honestly to each other. The practice that the producer is selling the product without any kind of documents cannot be continued because it is making only the black economy stronger and reducing the incomes of the state budget. The reducing incomes will lead to the increase of taxes, to the honest producers are going to pay even more. The other problem of the sales without documents is the loss of transparency, which makes the tracing of the route of a given product impossible. The dealer taking the product from the producer (because only a "dealer" can buy without invoice, than create an invoice later), without the possibility for product follow up, and without spraying records. I truly believe that the sector can become whiter, and the trade can become more honest.

7. SCIENTIFIC PUBLICATIONS IN CONNECTION WITH THE DISSERTATION

Scientific publications in foreign language

1. Dr. Lakatos Péter – **Sájer István**: A zöldség-gyümölcs ágazat aktuális kihívásai és annak logisztikai aspektusai-Contemporary challenges of the branch of the fruit and vegetables and its logistics aspects Logisztikai évkönyv 2013. ISSN 1218-3849 10 p.
2. **István Sájer**: Possibilities for development on the field of fruit foreign trade for Romania and Hungary. X. Annual International Conference on Economics and Business 10 – 12 May 2013. SAPIENTIA Hungarian University of Transylvania.

Scientific publications in Hungarian language

1. **Sájer István**: Hogyan tegyük tönkre egy sikereket elérő és további lehetőségeket teremtő terméket, a bodzát. How to ruin a successful product - the elderberry - on the EU market (Georgikon, befogadó nyilatkozat)
2. **Sájer István**: A fordított áfa hatása a zöldség-gyümölcs ágazatra és a költségvetésre. The effect of the reverse payment of the VAT on the fruit-vegetable sector and the government budget (Gazdálkodás, befogadó nyilatkozat)
3. **Sájer István**: Milyen esélye van a bodzának a hazai és külföldi piacokon? What are the Chances of Elder-berry in the Domestic and Foreign Markets? ECONOMICA V. új évfolyam II. különszám, 2012. ISSN 1585-6216. 63-70 pp.
4. **Sájer István**: A zöldség-gyümölcs ágazat külkereskedelmének jövőképe. Foreign trade possibilities of the Fruit – Vegetable sector in the future. Szolnoki Főiskola Nemzetközi konferenciája a Magyar Tudomány ünnepén, Szolnoki Főiskola, 2014.november 17. Megjelent az Economica különszámban, 14 p

Presented on scientific conferences, published in the publications of the conferences

Foreign language

1. **István Sájér:** What are the chances of the Hungarian wild elderberry on the EU market in connection with the Hungarian legal background, University College of Szolnok, 16.11.2010 CD 5 p.
2. **István Sájér:** The effect of the reverse payment of vat on the field of vegetable-fruit industry. A Magyar és a Világ Tudomány napja. Szolnok, 2011. 11.10. CD 5 p.
3. **István Sájér:** Kuti Premier Fleischmagie und die Möglichkeiten für Lebensmittelartikelverkauf in EU. ANUGA Fachmesse. Köln, 13.-17. oktober 2007. Poster present.

Hungarian language

1. **Sájér István:** A zöldség-gyümölcs ágazat helyzete és támogatási lehetőségei napjainkban. V. Alföldi Tudományos Tájgazdálkodási Napok, Mezőtúr, 2006. Nyomtatásban megjelent 6 p.
2. **Sájér István:** Az európai országokkal folytatott agrárkereskedelmünk sajátosságai a zöldség-gyümölcs ágazatban, a csatlakozás után. V. Alföldi Tudományos Tájgazdálkodási Napok, Mezőtúr, 2006. Nyomtatásban megjelent 5 p.
3. **Sájér István:** Milyen esélye van a magyar vadbodzának az Európai Unió piacán a magyar jogszabályi háttér tükrében, Szolnoki Főiskola Tudománynap Konferencia, 2010.11.16. CD-n megjelent 6 p.
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5. **Sájér István:** A zöldség-gyümölcs ágazat külkereskedelmének jövőképe. Foreign trade possibilities of the Fruit – Vegetable sector in the future. Szolnoki Főiskola Nemzetközi konferenciája a Magyar Tudomány ünnepén, Szolnoki Főiskola, 2014.november 17. Megjelent az Economica különszámban, 14 p

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1. **Sájer István** (1992): Külföldi részvétellel létesült magyarországi vállalatok működésének vizsgálata és tapasztalatai. Külkereskedelmi Főiskola, 1992. 1-62 pp.
2. **Sájer István** (2005): Az európai országokkal folytatott agrárkereskedelmünk sajátosságai és gyakorlata, kiemelten a zöldség-gyümölcs termékcsoporthoz való vonatkozásában. Szent István Egyetem, 2005. 1-87 pp.