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Economic and Market Connections in Production and Trade of Organic Foods

with special regard to the
product chain of organic milk

Viktória Szente, Csaba Borbély, Attila Máthé, Zoltán Szakály

Kaposvár University, Faculty of Economic Sciences

Hungary, Kaposvár



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Key issues of the case

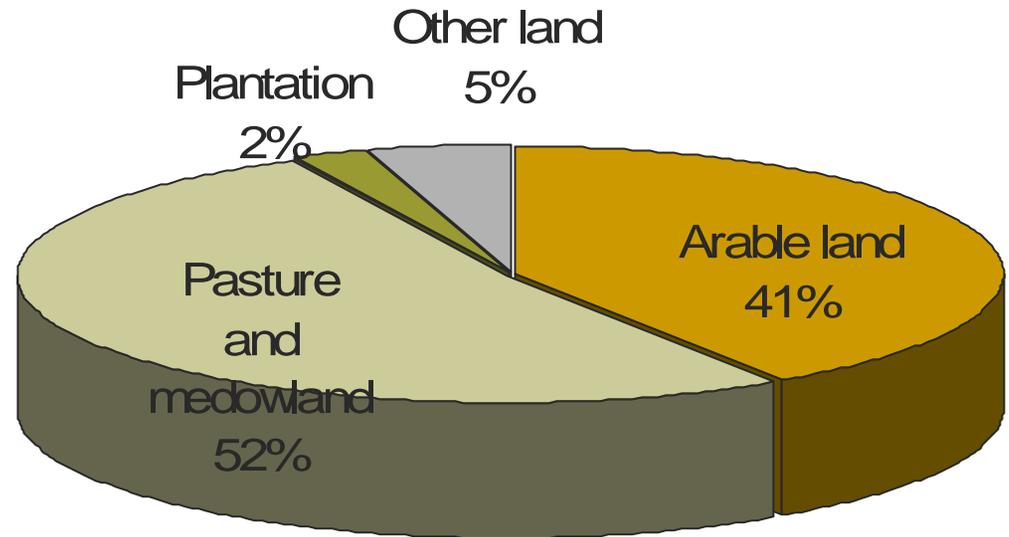
- Organic production in Hungary is export-focused, it covers mainly arable areas (crop production).
- Animal production is negligible.
- Retail sector fails to show up wide Hungarian choice of organic foods, imported products are often of inferior quality.
- Market shows both demand and supply driven features: products of no interest are offered; or even required ones are present in narrow choice and in insufficient quantities.
- Total turnover of ecological products is about 10.5-14 billion HUF in Hungary. It is less than 1% of total food turnover.
- 61% of the consumers have ever purchased organic milk (Nielsen, 2009).

Contribution of participants

- Qualitative market research: professional interviews with experts working on different levels of the product chain.
- Elaborating management (*i.e. business*) and marketing strategies.

Organic farming in Hungary

In Hungary controlled organic farming was carried out on 122 270 hectares in 2007 (FVM, 2008).



The total organic livestock production was 16 111 animal unit.

Organic dairy farming in Hungary

- The development of organic dairy farming is slow.
- In the country we can find organic cattle, as much as 12608 animal unit (Biokontroll, 2009).
- According to the results of our surveys on 12 organic farms there were 555 milk type cows in Hungary (Tóth and Szente, 2004).
- Although the number of farms is the same, but only five of them are able to produce marketable quantity.
- The number of cows is higher (about 2000).

Production phase

A black and white cow is shown in a metal cage, eating hay. The cow is the central focus, with its head and front legs visible. The cage is made of metal bars, and the background shows a wooden wall and some hay. The overall scene is a typical farm setting.

- The feeding is traditionally based on corn.
- High feeding costs result in higher milk price.
- Mean milk yield is about 5000 litres.
- The average fat content 4%, protein content 3.5%.
- Threats are feeding and animal health.
- Production method of little farms is different:
 - Feeding is based on pasture and meadows (extensive).
 - Measurements of constituent parameters and costs are missing.

Processing phase

- Only a part of produced milk is processed for organic milk (oversupply).
- No import milk is needed.
- There are only two „big” processors in Hungary covering 98% of the market.
- **Final products** are variable: fresh and UHT milk, cacao, sour cream, yoghurt, cottage-cheese.
- Special products of small farms are cheese, curd and butter.



Sales possibilities

- The organic milk products produced in Hungary are sold inland; there is no export or its share is very low.
- In the supply import organic products (mainly milk) can be find as well.
- The proportion of organic milk and milk products is lower than 1%, but in the last few years increasing tendencies can be observed.
- Smaller farms tend to purchase the products in special stores, or direct sales channels.

Case questions

- How can the production increase the market position?
- Is special product processing a right direction?
- Which elements can help to optimize the milk prices in the product chain?



Thank you for your kind attention!

