

Agribusiness and Agro-industries Development in Central and Eastern Europe
FAO-IAMA Workshop at
International Food and Agribusiness Management Association
19th Annual World Forum & Symposium
June 20-21, 2009; Budapest, Hungary

Pre- and post EU-accession restructuring of the Slovenian Food Industry

Aleš KUHAR PhD

 **KaEPP** Katedra za
agrarno ekonomiko,
politiko in pravo



Univerza v
Ljubljani
*Biotehniška
fakulteta*

PREFACE and RESEARCH APPROACH

- ◆ EU accession “big bang” is well behind...
- ◆ ...enough manoeuvre for balanced evaluation
- ◆ “Hybrid” model of analysis
- ◆ Identification of key determinants of the food industry economic environment...
- ◆ ... through four questions:
 - ❖ Is food industry facing cost-price squeeze?
 - ❖ Who is skimming the cream in the food chain?
 - ❖ Are the trends in international trade with food surprising?
 - ❖ Has the budgetary support to the sector stimulated competitiveness?

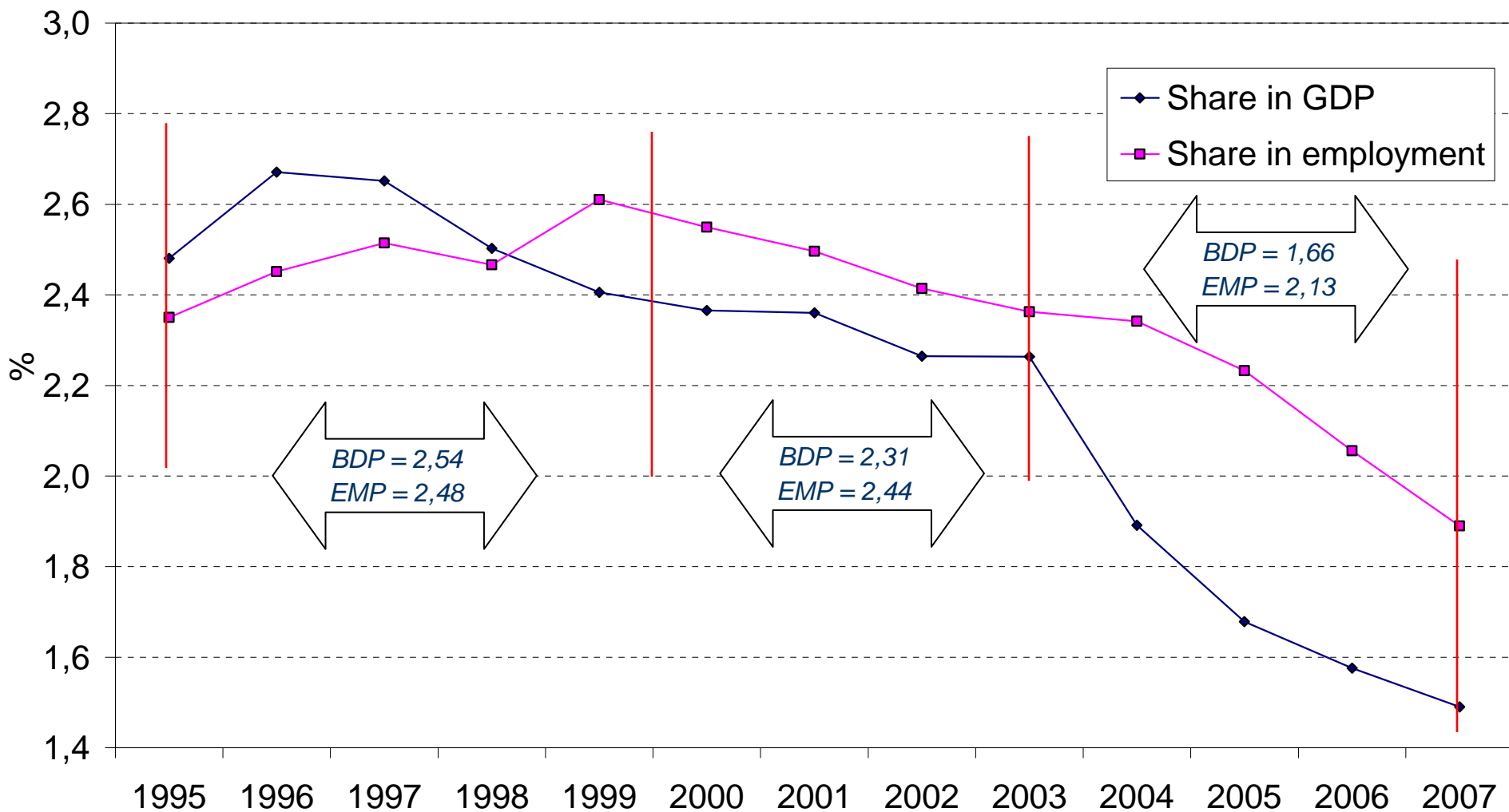


ECONOMIC PERFORMANCE



Share in the key macro-aggregates

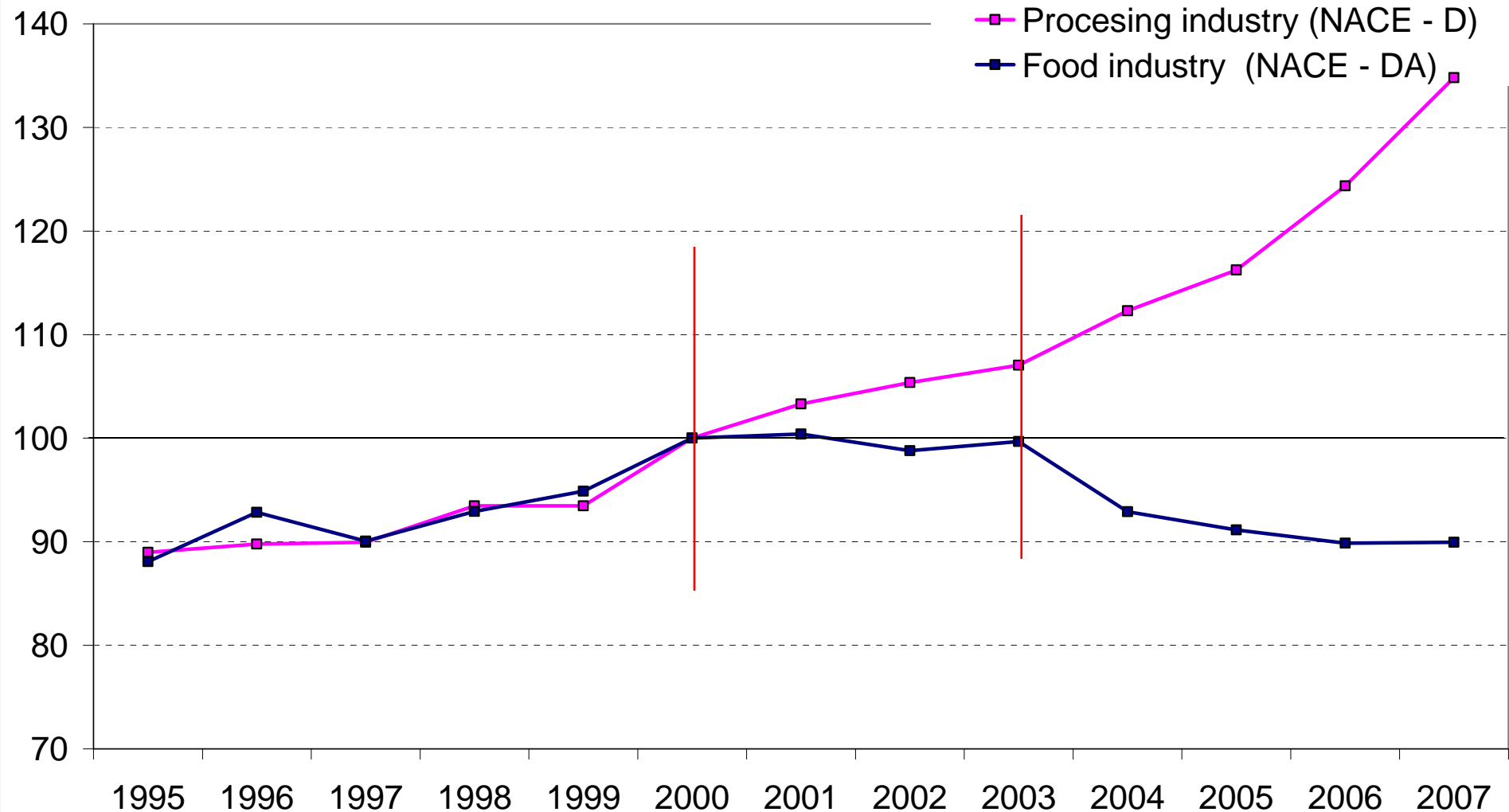
Considerable changes in the macroeconomic importance of the sector



Industrial production volume indices

Divergence has intensified in two “waves” after the accession

Index 2000=100

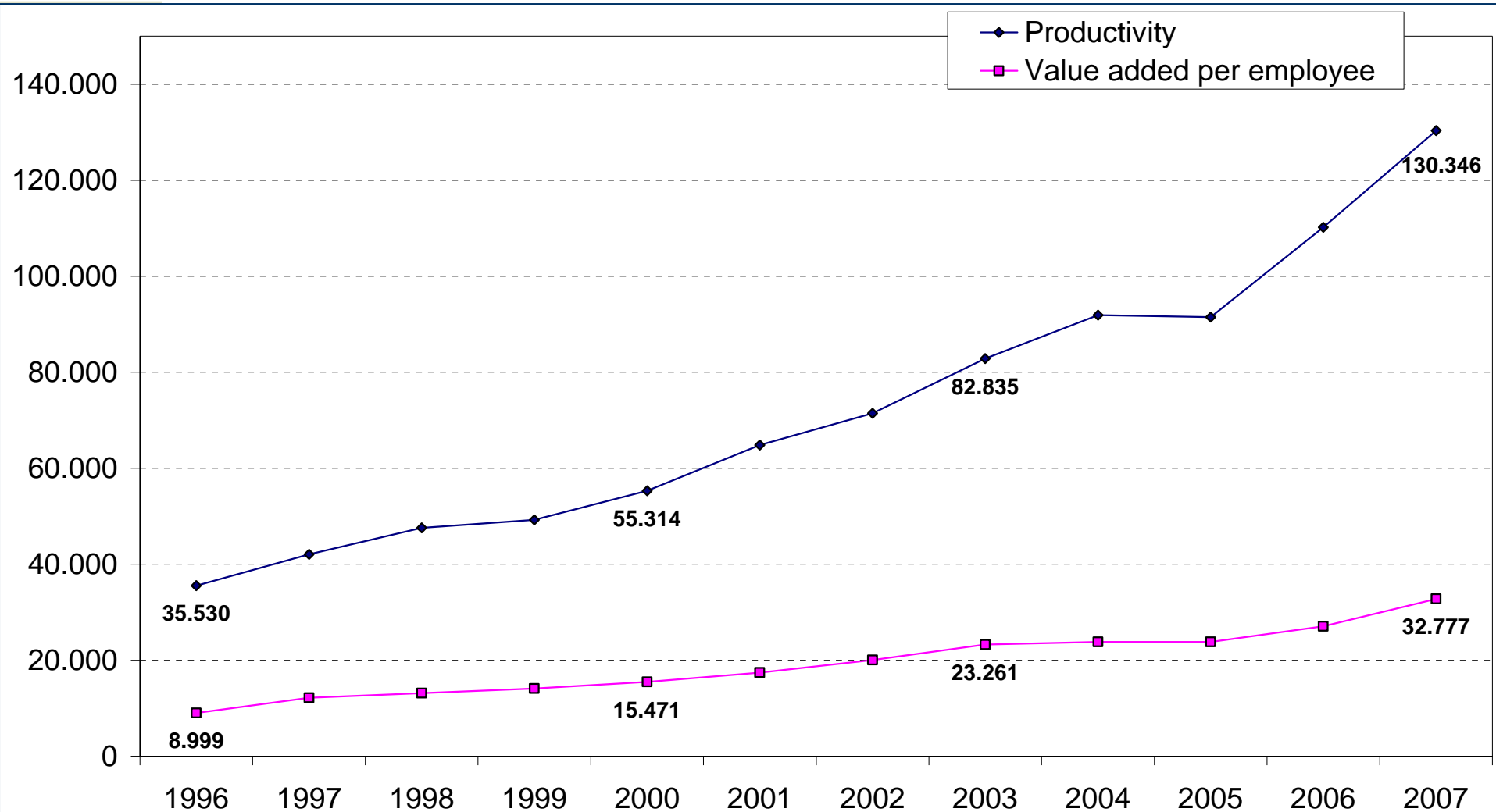


Efficiency indicators

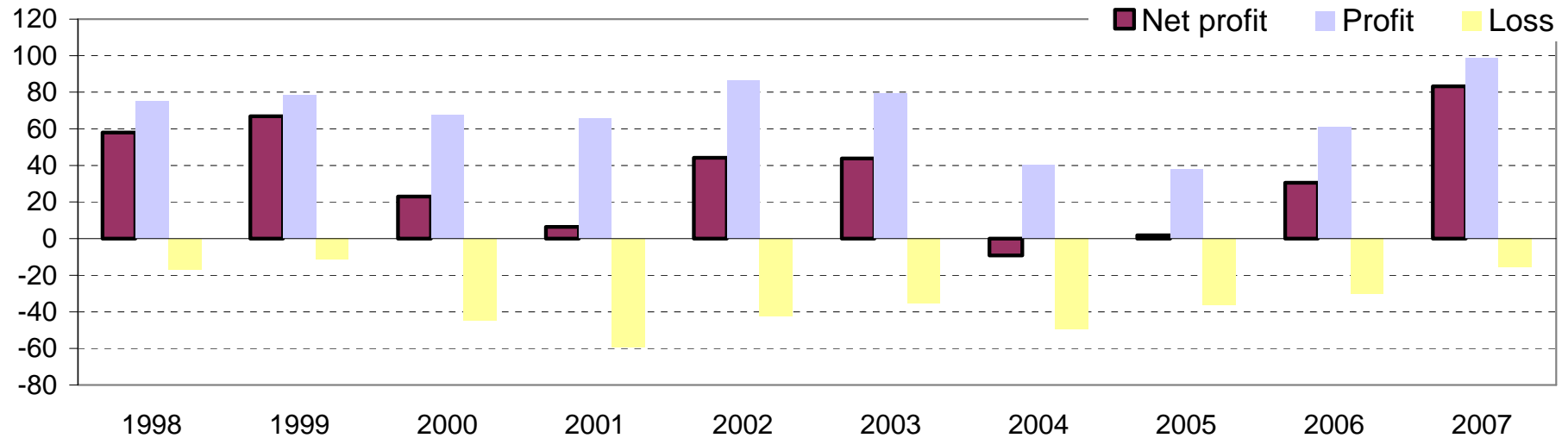
Constant improvements!

Both indicators are more than 3,5 times higher in real terms!

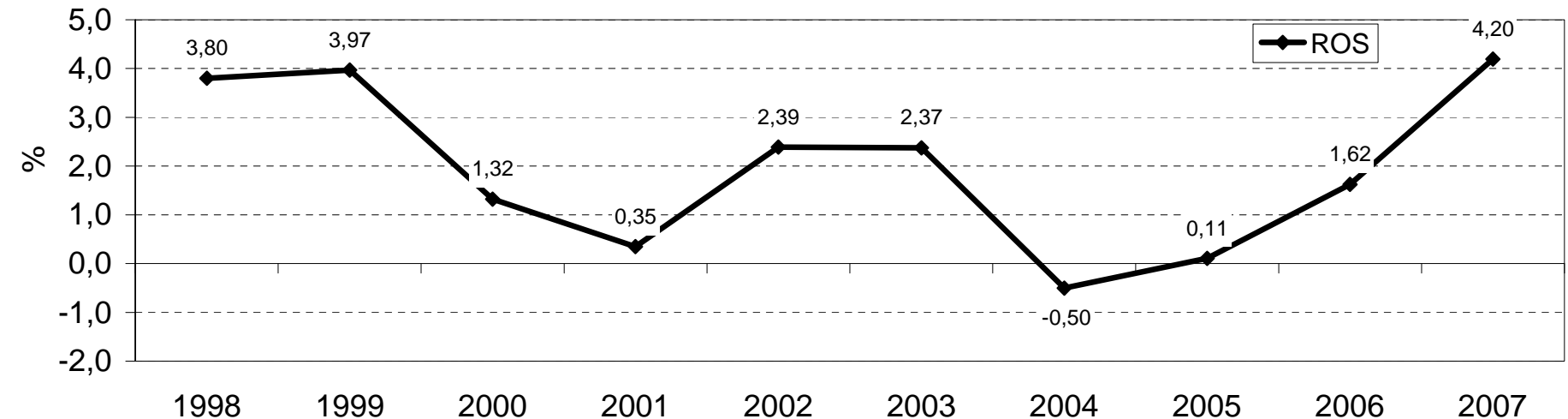
2007 prices



Profitability indicators



Radical variances in Net profit and ROS
Source of 2007 growth is ambiguous!





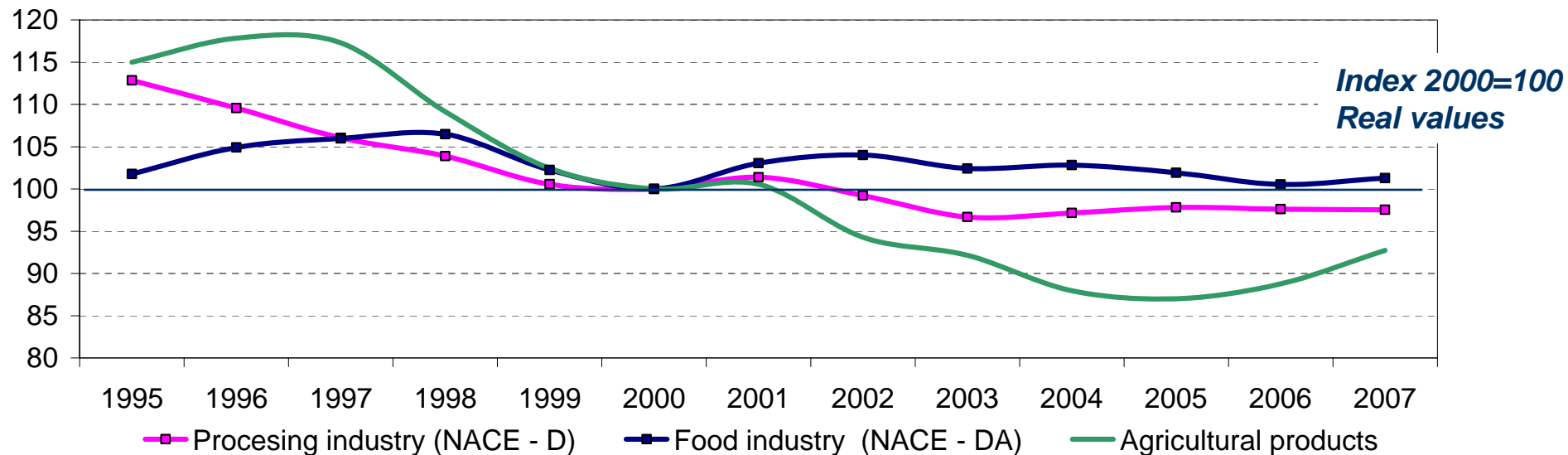
PRICE TRENDS



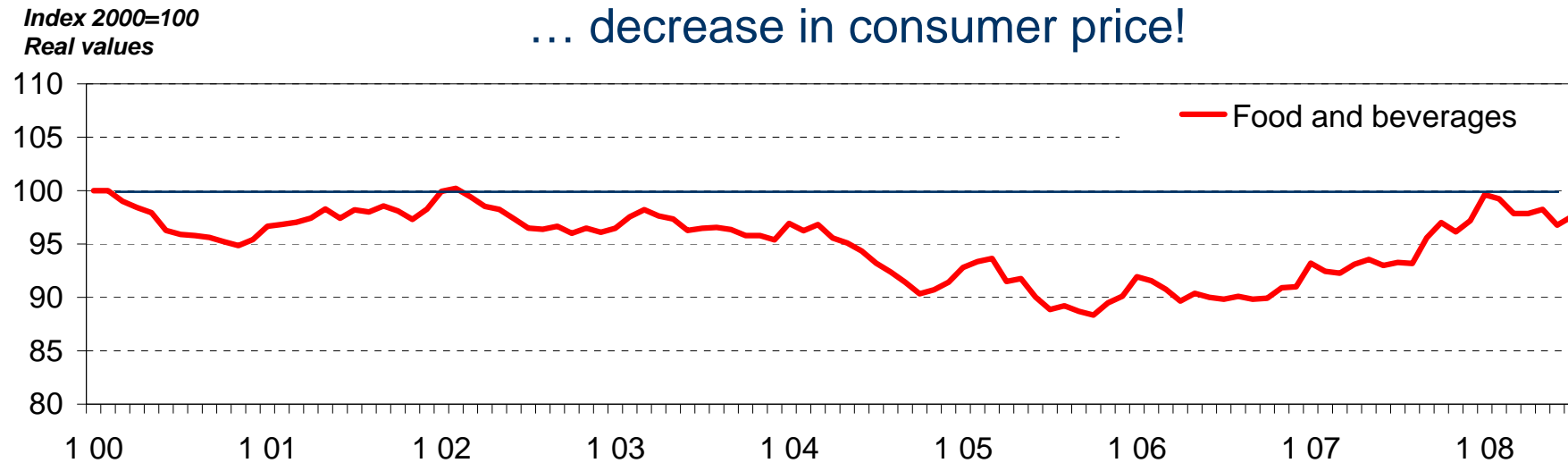
Is food industry facing cost - price squeeze?

Producer and consumer price indices

No negative producer price trends for food sector, but...



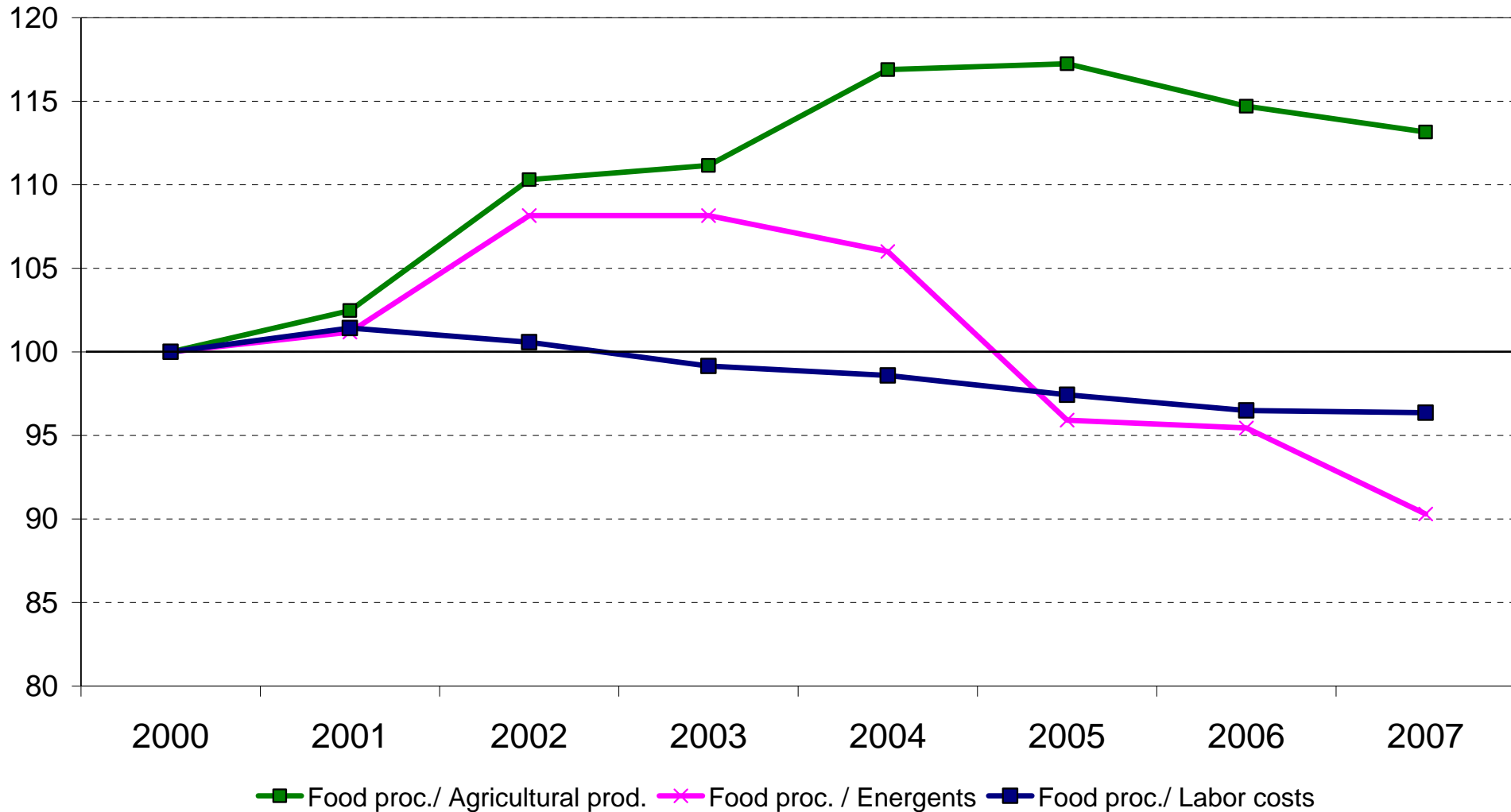
... decrease in consumer price!



Price-cost parities

Worsening of the price-cost difference, following the pre-accession growth

Index 2000=100







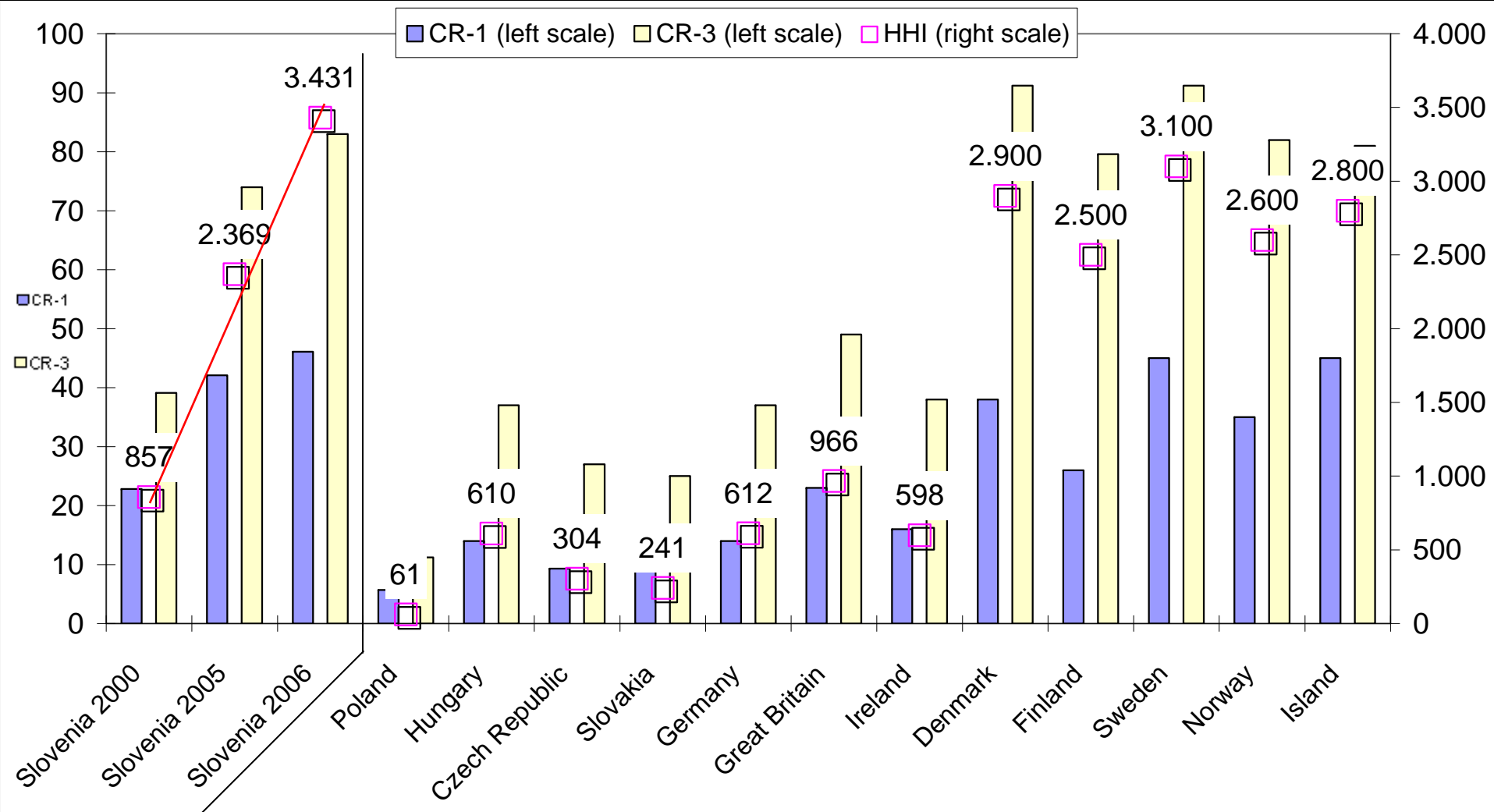
FOOD RETAIL SECTOR



Who is creaming in the Slovenian food chain?

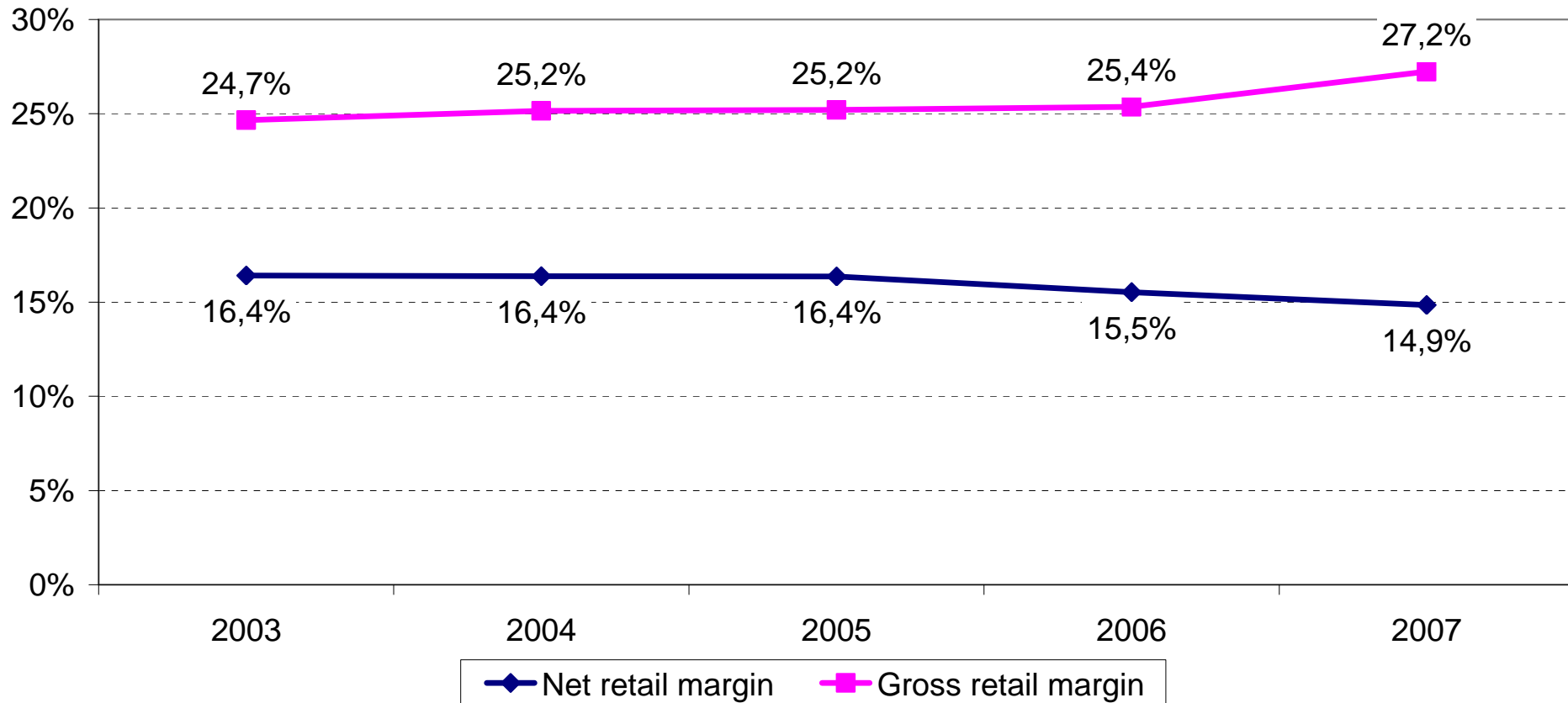
Comparison of the sectoral structure

Intensive restructuring towards extreme sectoral concentration!



Retail margins trends

Gross retail margin has increased by 10%!
Net margin has decreased - *financing of expansion* !







INTERNATIONAL TRADE

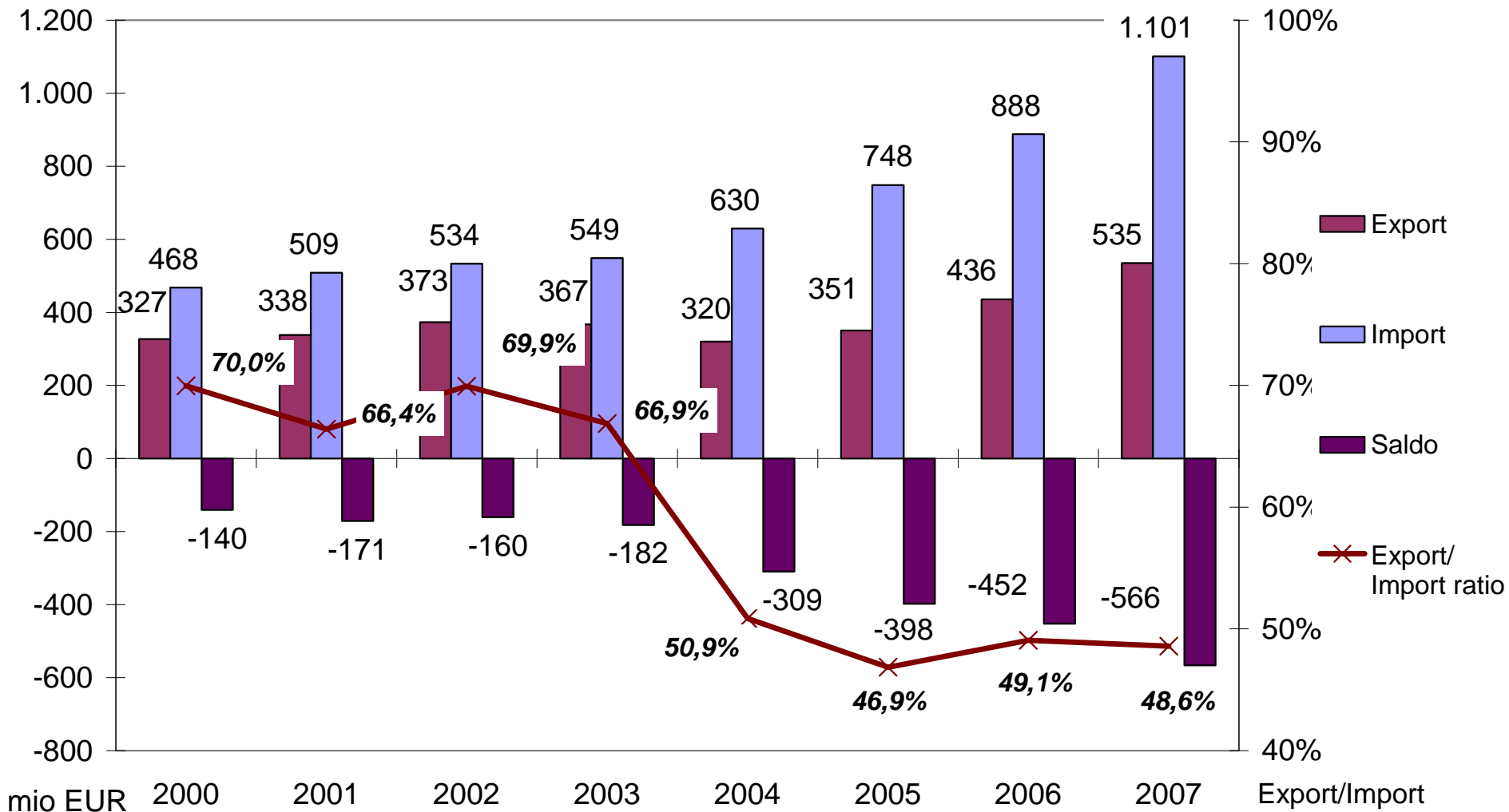


Are the trends in international trade with food surprising?

Trade balance *processed food*

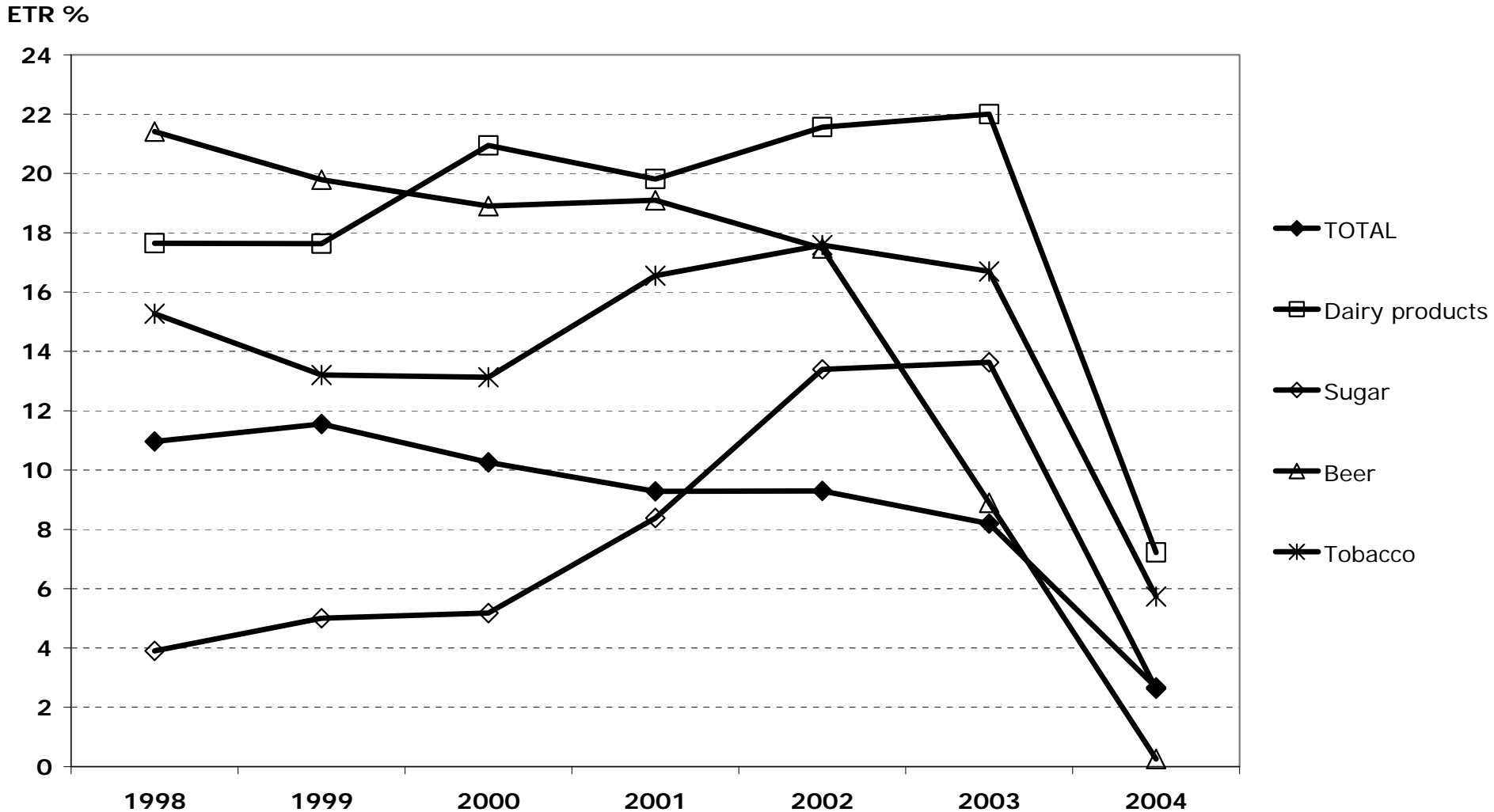
Unbalanced changes of international trade after the accession!

Imports has doubled, exports +45%



Effective tariff rate

High level of protection until the EU accession!
Ad hoc abolition - swift import growth.





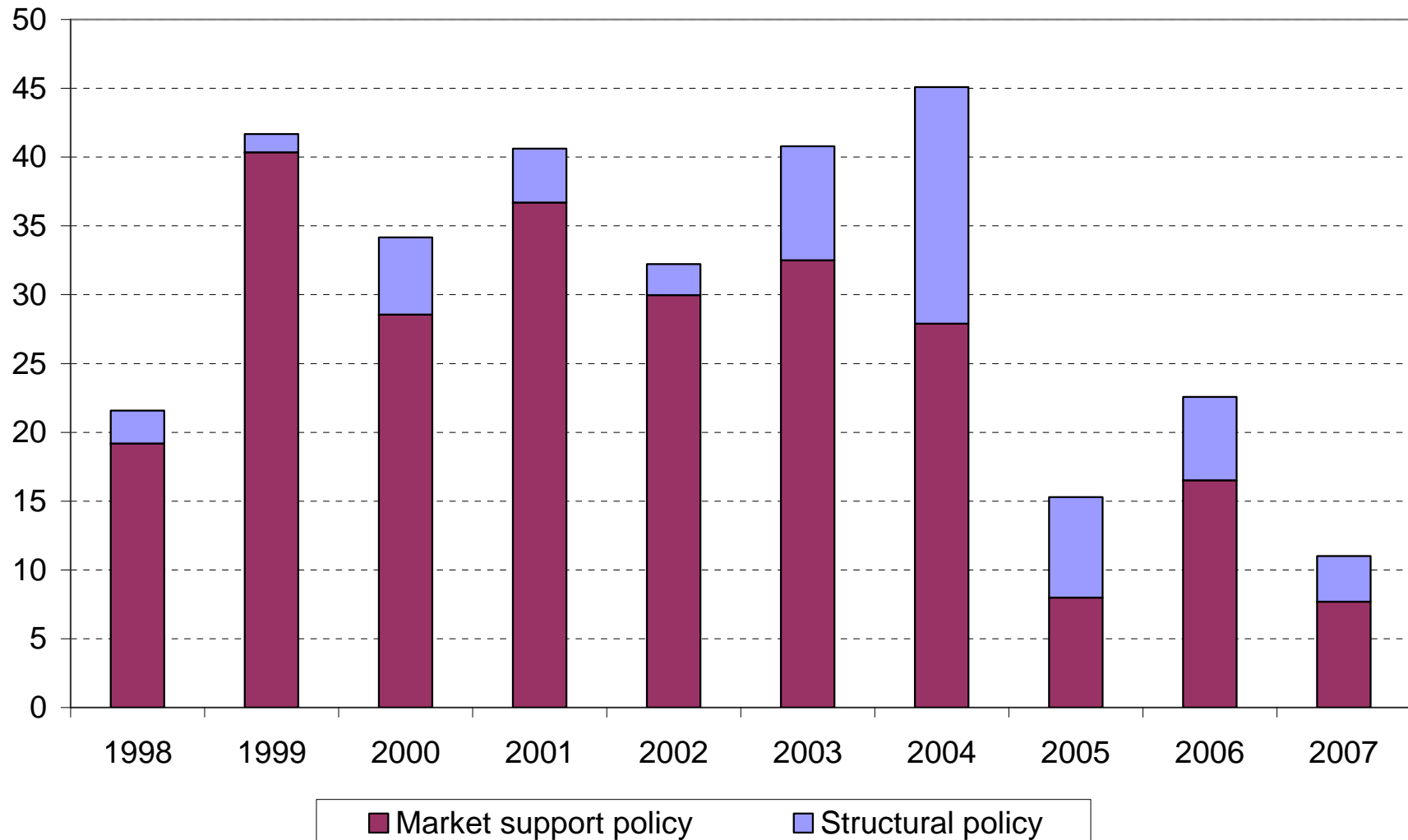
BUDGET



Has the budgetary support to the sector stimulated competitiveness?

Budgetary outflows to food industry

Radical fall in both absolute and relative terms (In 2003 FDI=18% of agricultural budget; 2007 FDI=6%!)
Extremely conservative structure =>MSP 70%





CONCLUSIONS



Answer to the four questions

◆ Cost - price squeeze?

Partly, but only in last years!

- ❖ Producer prices retained real levels!
- ❖ Consumer price of food decreased!
- ❖ => Market share loss of domestic suppliers?
- ❖ Growth of rebates and allowances to retailers not included in producer price!

◆ Food retailing?

Skimming most of the cream in the chain!

- ❖ Mostly enabled by extreme structural features (*bilateral oligopoly*)
- ❖ Suppliers are highly exposed to vertical dominance...
- ❖ ... also due to some strategic failures!
- ❖ Corrective activities in process by the competent authorities (*competition office*)

Answer to the four questions

◆ International trade?

Trends are not surprising

- ❖ Sub-optimal trade policy (*high tariffs + export subsidies*) affected competitiveness on domestic and foreign markets
- ❖ “*Ad-hoc*” liberalisation instead of gradual approach
- ❖ Example of failed government interventionism

◆ Budget?

Only very limited implications for competitiveness

- ❖ Prior to the accession mainly intended to correct (to cause) chain distortions
- ❖ Interest for capital investment support is decreasing
- ❖ Transfers are still highly conservative
- ❖ No vertical upgrading of the agro-food policies!

Final thoughts

- ◆ Slovenian food industry has retrograded in the last decade from the leading national processing sector!
 - Structural deficits (*size, ownership, low exports*)
 - Government policies (*trade p., industrial p., competition p., promotion and marketing p., R&D p., ...*)
 - Managerial deficits (*knowledge and competences...*)
- ◆ In the next 1/3 of the decade final proactive restructuring is needed
 - Intensive export orientation (*“government infrastructure”*) and strengthening domestic consumers loyalty
 - Vertical coordination with farming sector (*rebuild “given” competitive advantage - terminate chain disintegration*)
 - High-tech but applicable R&D (*“government infrastructure”*)
 - Effective competition regulation (*prevent market distortion*)

Agribusiness and Agro-industries Development in Central and Eastern Europe

FAO-IAMA Workshop at

International Food and Agribusiness Management Association

19th Annual World Forum & Symposium

June 20-21, 2009; Budapest, Hungary

Pre- and post EU-accession restructuring of the Slovenian Food Industry

dr. Aleš KUHAR