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EXAMINATION OF ADAPTING THE CONTRACTUAL SYSTEM IN THE HUNGARIAN WINE SECTOR

OCENA WDROŻENIA SYSTEMU KONTRAKTACJI W WĘGIERSKIM SEKTORZE WINA

Key words: cooperation, contractual system, cluster, buying-in price

Słowa kluczowe: współpraca, system kontraktacji, klaster, ceny skupu

JEL codes: D23, P13

Abstract. On a world scale, a huge concentration could be observed in viticulture and wine production during the last few decades. According to Kym Anderson [2003] the development of global wine market may be put at the 1990s. In the traditional European wine producing countries collaborations and integrations, as conditions for the safe operation of the sector, had been formed some decades before. Cooperation is necessary, because in many cases, only it can solve or mitigate the issues from global challenges. In our times assertion of interests and minimizing costs are becoming increasingly important, in which different forms of cooperation can provide great help. This study is intended to show what kind of collaborations can be noticed in the wine production of Hungary, and which form of cooperation could be the best one to manage the current professional issues. It examines how to adapt the basic principles of integrations that have achieved success abroad. The topicality of this matter is strengthened by the fact that Zsolt Feldman [2016] ranks the elaboration of inter-trade agreements, which can be the first step of cooperation by all means, amongst the most important tasks of the sector based on the FM-HNT partnership.

Introduction

In Hungary, a downward trend has prevailed in respect of both vineyards and vintage since the 1990s, which cannot be compensated even by the growth in average yield yet [KSH 2015]. The country has very good natural conditions in the field of vine growing, this is why it is necessary to find the root causes of the decline in the sector. According to the OIVW [2015], grubbing-up premiums have played a major role in the reduction of the European vineyard areas. It must have had an impact also on Hungary. However, when compared to other the EU countries here we speak about much higher losses in terms of its proportions, which suggests that there are other reasons in the background. While Dániel Györe [2014] draws attention to the fact that on a world scale the concentrations have got under way as regards wineries, in the Hungarian wine sector there are only weak collaborations, and in the retail trade one of the most concentrated markets in Europe has formed. It has made wine producers and vine growers vulnerable. Rearrangement of world market and change in consumer habits has just made the situation even more difficult. In addition, bad grape variety structure, problems emerging in economies of scale, lack of a critical mass in asserting interest and increasing average age in vine growing, all these have contributed to the decline. Reduction of vineyards is the strongest reason, which has an adverse effect also on other economic operators in the supply chain. Thus, further on, I try to find solution to eliminate this cause.

Privatization and economic changes have led to the disintegration of the grape-wine chain, and conflicts of interests have emerged between growers and processors as well as between processors and traders. This is confirmed also by the following thought:

"Typically, vine growing and wine making get separated in the region; only about 20% of the growers is integrated, and 80% of the vintage is bought up" [Duna Borrégió 2012, p. 11]. Our age requires the growers to develop and adapt to market conditions. For vine, it comes out most of all, when it begins producing. It means at least 5-year lag and requires a huge capital investment. My previous researches [Kispál 2010] show that vine growers realized losses unfortunately often at the end of the first decade of the 21st century, which was the consequences of the economic crisis, the asymmetric information flow and the income shift within the product chain.

"The western and especially new world wine producers can leave their Hungarian competitors behind easily for lack of collaboration by the latter ones" [Bene, Csernák 2012, p. 1268]. This collaboration would enhance the competitiveness of Hungarian vine growers and wine producers as well as increase their market share, raise their income and reduce their vulnerability.

My previous researches held out the promise that in our country cluster is the best form of cooperation in the grape-wine chain since cooperative (being present in the sector all over Europe) involves a negative association due to the former planned economy.

Material and methods

After a short presentation of the situation, this paper describes cluster and contractual system above all from the perspective of growers. During the research some in-depth interviews were to my help, which I conducted with wine grower Sándor Kispál in Csongrád in 2010 and 2014, Erika Papp in Eger in 2013 and Ferenc Stinner in Tiszaalpár in 2016.

One objective is that vine growers shall have security in their profitability that can be planned. While the other one is that coordination shall become stronger, which after all increases the competitiveness in the sector. It is worth giving an insight in the successful factors of the already working integrations to enable cooperation based on actual and mutual dependence to come into being easier also in Hungary. After all, only it can make the whole sector prosper; as well as, the grape buying-in price implied can provide secure living to the economic operators in the product chain and preserve the current vineyard size.

Research results

Figure 1 confirms that vine growing became increasingly restricted by 2012 and 2013. It was obvious that the sector needs support in order to maintain at least the existing level as well as to be able to develop and flourish later on. The country's leadership considers this sector to have priority, thus between 2009 and 2013 altogether HUF 33 billion was intended for restoring and supporting the sector within the framework of the Hungarian National Envelope [Angyal 2016]. Its effect is shown in table 1. Although the total vineyard area has decreased, but the average grape yield has increased. This amount of funding by right of the above programme rises to almost HUF 45 billion between 2014 and 2018 owing to the amounts dedicated to area payments, investments, mitigation of damages and promotion, which provides further assistance to the members of the sector.

Dávid Brazsil [2017] identifies the main issues in the Hungarian grape and wine strategy, by which at the same time highlights also the key areas I listed them: (a) vine-growing and wine making are getting separated; (b) from approx. 42 thousand wine community members, only about 4,600 is the number of those dealing with vine growing and wine making, and (c) wine production is characterised by a low-level concentration. The latter thought can be found at Diána Sidlovits and Zoltan Kator [2007] from almost ten years ago.

The main objective is therefore to increase predictability and security, with which I fully agree. I think that it can be achieved by introducing the contractual system. It rests upon a predictable grape buying-in price specified by a written contract based on mutual dependence, which determines the vine grower's income more easily. A change is certainly inevitable, which I imagined in the form of cluster formerly. It embodies a special form of company groups and was a highly well financed organization by EU funds earlier.

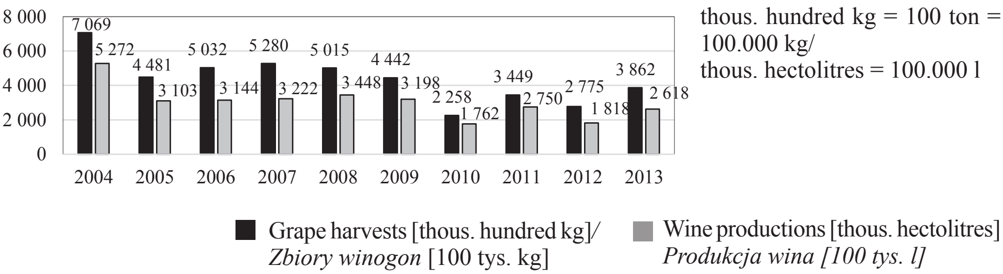

Figure 1. Grape harvests and wine productions in Hungary, 2004-2013
Rysunek 1. Zbiory winogron i produkcja wina na Węgrzech w latach 2004-2013
Source/*Źródło:* [HNT 2015, DG-AGRI]

"The primary objective of a cluster is to bring together the economic operators in a specific industry. Owing to this synergy an inter-relationship develops among those being inside, in which the information flow is more effective, and new things can spread quickly" [Bejczi, Horváth 2009, p. 57]. This quote identifies the benefits and purpose of a cluster from theoretical point of view clearly. Unfortunately, an action research carried out in practice shows anything else.

At the cluster, the "soft" factors such as confidence and creativity are coming into the limelight increasingly, thus it adapts to the current trends better than the cooperative [Szűcs, Farkasné 2008]. At the same time, today the cluster also corresponds to the cooperative in its many factors. For example, it can be considered as a professional mutual aid organization, and similarly to the cooperative features infrastructure improvement, added value production, welfare-based, cultural and social role can be also expected. The wine growing – processing – selling chain may bring about up to twenty-fold profit also in this case. It could be right enough to promote the development of further sectors.

The contractual system means also a mutual cooperation, but here a contract itself and the stipulations in it hold together the parties. It comes into existence not for the callable aid amounts, but it remedies the problem first of all at its root by setting and securing the grape buying-in price. An agreement is made between the parties regarding the prices, and it is confirmed in writing. Consequently, the buying-in price of grape becomes calculable broken down by year, which helps long-term planning and to achieve secure income both for the vine grower and the wine maker. It is a win-win position making both parties more competitive.

In 2014, together with some vine growers, I myself tried to establish a cluster in Csongrád, which failed even after several attempts and surveys. Unfortunately, the practice and the circumstances did not support the beneficial nature of cluster so much that the vine grower –wine

Table 1. Details of Hungarian vine growing in 2011 to 2016
Tabela 1. Szczegóły dotyczące węgierskiej uprawy winorośli w latach 2011-2016

Year/ *Rok*	Vineyard area total/*Całkowity obszar winnic [ha]*	Growing area total/ *Powierzchnia uprawy ogółem [ha]*	Harvested quantity of grapes total [100 thous. kg]/*Zbiory winogron [100 tys. kg]*	Wine production [100 thous. l]/ *Produkcja wina [100 tys. l]*
2011	69,230	53,842	3,449	2,506
2012	66,466	51,659	2,775	1,765
2013	61,930	55,917	3,862	2,644
2014	63,470	57,389	3,474	2,427
2015	63,942	58,067	3,989	2,775
2016	63,607	58,703	4,012	-

Source/*Źródło:* [HNT 2016]

maker society votes confidence as such and truly cooperate in this form. The establishment of the organization was unsuccessful. In the Csongrád Wine Region wine-growing region the following practical problems came up in connection with cluster establishment:
– lack of a critical mass,
– distrust in the broader society,
– fear of cooperation due to the cooperative past,
– difficulty of agreeing about common professional goals – so many men so many beliefs,
– awareness-raising for "mutual dependence" has not developed in the view yet,
– short-term thinking is characteristic,
– the long term sustainable operation is not secured once established,
– active participation is required.

Since cluster establishment was unsuccessful, it was necessary to find another solution that can remedy the vine growers' vulnerability and facilitate their living. Then I examined the operation of foreign clusters, in which many of them contains the contractual system. Its French example is described and shown in detail also by D. Sidlovits [2014].

The contractual system basically does not require the entry into a further cooperation form. It can operate without cluster and cooperative membership. However, its disadvantage is that while cluster and cooperation can count on grant opportunities, the contractual system conceals only smaller financial potential, and in some subdivisions its operation is subject to governmental or at least professional measures. State intervention is required mainly there, where vulnerability is high anyway. In this form, parties have less responsibility since the state shall establish the measure well, and then everyone benefits. The aim is to enable vine growers to make reserves, develop and have a share in the sectoral incomes as well as to discontinue the information asymmetry among the participants of the wine production chain.

It is not necessary to invent new things. It could be enough just to adapt methods that have already proven abroad. In this respect, France has a 60-year-old tradition, but also California and New Zealand can set a good example [Kispál, Takács 2016].

The draft forms necessary for contracting are available in Section 168 of Regulation (EU) No. 1308/2013 [Sidlovits 2014], which aims to ensure fair standard of living for the producers of raw materials. EU has defined the mandatory elements, but their content is optional. Basically, a written agreement shall come into being between the grower and the processor for all transactions.

Stipulations for the price, quantity and quality of grapes as well as on delivery and force majeure are the mandatory content elements of these contracts, which ensure the vine growers' interests and provide secure living for them. Consequently, the vine growers receive a price above the cost price and a normal profit, with which they can plan later on. While the contractors obtain sure quantity and quality, which they can manage easier similarly and are more competitive in the long term.

For this measure, it is necessary to have a well-functioning conciliation body, such as chamber or wine community. Unfortunately, at present the entire product chain is split into parts within the chamber, which makes the actual representation of interests definitely more difficult as well as strengthens fragmentation and conflict of interests within the supply chain. However, the wine community underwent many changes over the past few years and helped vine growers with some trendsetting forecasts concerning the buying-in price of grape.

Regarding grape price, it is true to say that every year up to 30-40% change in price could happen (see fig. 2), we have already seen some examples of that. In practice, many times, where the grape is taken over in a few days is decisive and not that where, what is offered. Vine growers have no bargaining position [Kispál 2010].

Big wineries import wines in a way that is only partly controlled. For example, by the Hungarian authorities about 400 thousand hectolitres of wine come into the country; however, by the Italian statistical office it is the double of this number, on which the tax is paid in Italy. It is plausible that apart from this also further wine gets into the country, which may depress grape prices.

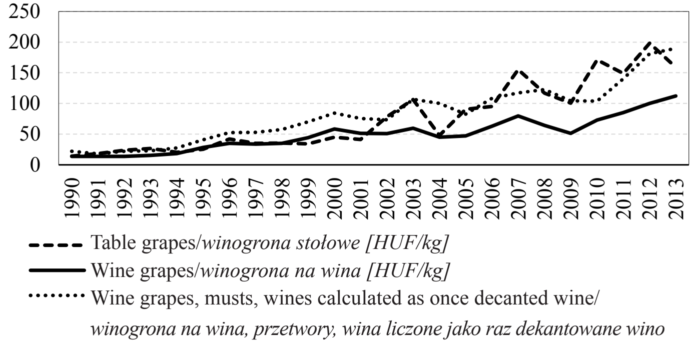

Figure 2. Changes in price for grapes and wine between 1990 and 2013
Rysunek 2. Zmiany cen winogron i wina w latach 1990-2013
Source: own study based on [KSH 1990-2013]
Źródło: opracowanie własne na podstawie [KSH 1990-2013]

Table 2. Grape prices in Hungary
Tabela 2. Ceny winogron na Węgrzech

Year/*Rok*	2009	2010	2011	2012	2013	2014	2015	2016
Grape prices/*Ceny winogron [HUF/kg]*	51	73	85	110	112	92	98	95

Source/*Źródło:* [KSH 2009-2011, 2013-2015, Stinner 2012, 2016]

For years 2012 and 2016, 2 contains not the average prices, but merely the prices of the only well functioning winery cooperative in the country, Tiszamenti Szőlőtermelők Szövetkezete, which are subject to change from day to day. The average prices represent a mean, but they vary in a large interval by wine-growing region, as evidenced by the following quote: "However, at national level, there may be significant differences in market prices. There are wine-growing regions where prices vary from HUF 120 to 160, while in other places barely HUF 65 is given for 1 kilo of grape, even though both frost and hail decimated the vintage this year" [HNT 2016]. The HNT makes its forecasts taking into account crop estimation and buying-up communication, which are intended to be a guide price to enable vine growers to get a bargaining position more easily. Their calculation is made in compliance with Section 157 (1) c) i and ii of Regulation (EU) No. 1308/2013 of the European Parliament and of the Council.

The prices in the AKI forecast almost corresponded to the actual price, so that the calculation was proved in 2014. Crop estimation and determination of wine stock for the subject year were useful, and they were integrated into the price formula well. The average price of net 100 HUF/kg calculated for 2015 (112 HUF/kg with compensatory premium) [HNT 2015] is also close to the actual average buying-up for 2015, which was 98 HUF/kg. According to the HNT, production of the previous years and volume of producers' wine stock before harvest, volume of export/import, average grape prices of main exporter countries, annual production costs and quality of grape are the factors having effect on the price of grapes. As a vine grower, I think that they are justified and acceptable also from a professional point of view.

Now there is nothing to do but make this calculation written and obligatory with the contract price, and achieve that this forecast price shall contain the vine grower's cost price and so much profit that covers the cultivation of the following year and provides secure living, when weather is less favourable. Since the change in price for these the inputs is monitored statistically, it is possible to have more and more accurate forecasts, especially if it is calculated by wine-growing region and variety.

According to an MTI announcement [2017], on its board meeting, the HNT accepted the principle of introducing inter-trade agreement for grape buying-up. Moreover, taking the advantage of Community law the NHT wants to put the stakeholders under the obligation to make an open bid and enter into a standard agreement in the future. If it is really introduced and the calculation is more accurate as the MTI writes, it will be a great help to the vine growers.

Summary and conclusions

This paper gives a comparison of cluster and contractual system both from theoretical and practical point of view. It touches on the fact that although the cluster works well abroad, in our country, unfortunately, it is not a functional form in the long term, even if the professional goals are the same. Mainly because there is no critical mass, resolution and wide range of confidence to it as well as there is a lack of long-term thinking, people are afraid of such cooperation. Consequently, another solution should be found for vine growers to provide secure living, which can be the contractual system. On the one hand, it works well abroad, and on the other hand, it is merely a question of intent. Thus, hopefully it will be introduced in our country from the vintage of this year.

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Streszczenie

Celem artykułu jest ocena różnych form współpracy na przykładzie węgierskiego sektora uprawy winogron i produkcji wina. Analizie poddano współpracę na zasadzie integracji w oparciu o ideę klastra, którą porównano z systemem kontraktacji. Stwierdzono, że klastry przynoszą wiele korzyści, jednak forma ta nie jest jeszcze dostatecznie rozwinięta, głównie z uwagi na ograniczone zaufanie uczestników i brak jasnych celów o charakterze długookresowym. Stąd bardziej dominująca jest kontraktacja.

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