

**A STRATEGY TO BRING HUNGARIAN LAND  
OWNERSHIP LEGISLATION INTO CONFORMITY  
WITH EUROPEAN COMMUNITY LAW**

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## SCENARIO

Hungary applied for European Union (EU) membership in March 1994. Its accession negotiations started in November 1998 during the EU's first enlargement round. Its target date for accession is January 1, 2002.

So far, Hungary has finished nine of the 31 screenings required of accession candidates. The screenings are designed to ensure that candidates' laws and regulations conform to the 31 chapters of the EU's *acquis communautaire*, which details the laws and rules adopted on the basis of the EU's founding treaties—mainly the treaties of Rome, Maastricht, and Amsterdam.

In the context of the screening on the *Free Movement of Capital* (which began on September 30, 1999), Hungary requested a ten-year transition period for conforming to EU policy on arable land acquisition—the country's longest derogation request so far. Hungary has argued that foreign acquisition of arable land should be prohibited because the price of Hungarian land is extremely low compared to European land prices—a circumstance that would allow foreigners to easily buy up an undue portion of Hungarian land.

Nonetheless, if Hungary wants to gain full European Union membership with all its attendant benefits as soon as possible, it will need to limit its requests for derogations to those that are truly unavoidable for financial or infrastructure reasons. Moreover, it should be possible to craft arable land ownership requirements that are nondiscriminatory yet ensure that large portions of Hungarian farmland will not come under foreign ownership.

With the goal of speeding Hungary's EU accession, this project provides an analysis of and recommendation for how Hungary can achieve compliance with Community land acquisition law prior to the country's target date for accession. The project further argues that it is in Hungary's own interests to change its arable land ownership laws because the current laws are impeding the development of a functioning land market, and such a market is a necessary prerequisite to the establishment of mortgage based credit. Hungary's farmers are in dire need of credit that will allow them to invest in efficient, up-to-date production technologies. By liberalizing its land ownership laws, Hungary will also help reduce the size and power of the country's informal economy.

*For the purposes of this project, I fictitiously assume the role of a Consultant to the Hungarian Ministry of Foreign Affairs desk officer with responsibility for movement of capital issues at the State Secretariat for Integration.*

## STRUCTURE OF THE PROJECT

This project begins with an executive summary and a general background paper. Next, it provides a background paper on Hungary's Arable Land Act and analytical papers covering relevant policy, economic and political issues. It then gives a recommendation and a two-part strategy for achieving that recommendation. The first part of the strategy focuses on building support within Hungary for changing the Arable Land Act of 1994. The second part focuses on preparing for accession negotiations. A timeline, sample white paper, informational appendices, and a negotiation chart complete the project.

## EXECUTIVE SUMMARY

### Issue

In the context of the EU accession negotiations, Hungary has requested a ten-year transition period for changing its restrictions on farmland acquisition. Added to the other derogations Hungary has already requested, this request could delay full accession beyond the current target date of January 1, 2002. In order to ensure accession by the target date, Hungary needs to rapidly bring its land acquisition policies into conformity with EU law and withdraw this derogation request. Hungary needs to fulfill the EU's non-discrimination requirement between EU nationals and Hungarian persons, as well as between private and legal persons.

### Background

Hungary is preparing to enable the free movement of capital by the accession target date, except in three areas for which Hungary has requested temporary derogations. One of these areas is foreign ownership of farmland.

The EU has not yet responded to this request. However it seems unlikely it will be accepted. Such a derogation would undermine the EU's long-standing goal of curbing the ability of its member states to constrain the EU's four basic freedoms (movement of goods, services, persons, and capital). Acceptance seems yet less likely because Poland has asked for an 18-year transition period for changing its land acquisition laws. If the EU were to allow one country a derogation on land acquisition policy, it would be difficult to deny the other such requests.

Allowing foreign ownership of land in Hungary will not only help improve Hungary's relationship with the EU and improve Hungary's chances of acceding to the European Union by the accession target date, it will also help speed the development of Hungary's agriculture industries and improve Hungary's ability to fight organized crime and reduce the size of Hungary's informal economy.

### Arable Land Act of 1994

The Arable Land Act of 1994 provides that arable land may only be acquired by domestic private persons.<sup>1</sup> Domestic and foreign legal entities (businesses), as well as foreign private persons, are not permitted to legally acquire land in Hungary. In reality, however, foreign persons often acquire land illegally through pocket contracts while domestic companies are forced to resort to land leases.

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<sup>1</sup> The law also limits ownership to 300 hectares per person.

## **Policy Issues**

The current ownership provisions of the Hungarian Land Act violate European Community law, which requires non-discrimination, free movement of capital, and freedom of establishment. The European Court of Justice has upheld these provisions in several cases concerning property acquisition.

## **Economic Issues**

By inadvertently preventing the development of a market for land, the Land Act has, in effect, ensured that farmland cannot be used as a security for credit. As a result, farmers have been unable to acquire capital needed to purchase land and to invest in efficient, modern agricultural production systems. Because of these obstacles, as well as the country's decreasing population size, the number of farmers in Hungary is expected to drop 38 percent by 2010. Changes in the ownership provisions of the Land Act will help fuel the development of a vibrant, self-sustaining agriculture sector in Hungary.

## **Political Issues**

Land ownership issues are highly political. While Hungary maintains a strong political commitment to join the European Union, it is popular domestically to advocate Hungarian ownership of land.

## **Recommendation & Strategy**

In order to comply with Community law, Hungary should amend the Land Act to allow land ownership by all persons and legal entities, regardless of nationality. At the same time, to achieve domestic political goals and stop land speculation, Hungary should establish ownership requirements that favor active farmers and farming businesses. By maintaining a maximum plot acquisition size of 300 hectares, Hungary can ensure that land ownership does not become concentrated in the hands of just a few wealthy business groups.

To be able to achieve such legislative changes, the Ministry of Foreign Affairs will need to build a coalition within the government (which will require gaining the support of Hungary's most powerful political parties). Additionally, the government should establish cooperative relationships with relevant interest groups and research institutions. The Official Communication Strategy of the Hungarian Government will provide the primary means of building support from private citizens, including the country's 1.5 million landowners.

Hungary will also need to convince the EU that our proposed modifications to the Land Act will bring our land acquisition policies into compliance with Community law, and

that the proposed modifications are a far better option than the current derogation request. Hungary's goal should be to have our proposal accepted as a permanent solution.

## BACKGROUND

### Foreign Direct Investment in Hungary

In the past several years, Hungary has made great progress toward freeing capital movements and ensuring the right of establishment.

- In 1995, the government established a privatization policy that encouraged the sale of state-owned enterprises to foreign-based strategic investors. The policy led to the country's greatest influx of FDI to date.
- In 1998, Hungary began allowing foreign investment and made its currency (the *forint*) convertible. Since then, the government has played an active role in attracting investment; both the central government and local governments have offered special concessions and financial incentives.
- In February 1999, in accordance with our undertaking in the Europe Agreement, Hungary began allowing foreign nationals to take up and pursue economic activities as self-employed persons under conditions no less favorable than Hungarians.

Foreign capital invested in Hungary now exceeds USD 20 bn,<sup>2</sup> or 40 percent of all FDI invested in the CEEC region.<sup>3</sup> Companies with foreign stakeholders currently produce about 32 percent of Hungary's GDP and employ 25 percent of private-sector workers.<sup>4</sup>

FDI was first attracted to Hungary by the country's cheap and highly skilled labor force. Now, however, foreign companies in Hungary are gradually moving away from labor-intensive production. Foreign-owned firms are exporting more and more high-tech and high value-added products. Rather than competing on price, firms are gradually focusing more on quality and innovation. Hungary's expected EU membership has also helped attract investors, although there is some concern that accession will cause labor costs to rise.

### Hungary's Derogation Request for Land Acquisition Policy

In September 1999, the EU began examining Hungary's laws on the free movement of capital. Hungary indicated that, although further liberalization of short-term and outward capital movements is still needed, it expects to fulfil the requirements regarding the free movement of capital by the time of accession with three exceptions. One of these is a 10-

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<sup>2</sup> *EU Requests More Information on Land Ownership Question*, [www.gm.hu/econews/e10/eco189.html](http://www.gm.hu/econews/e10/eco189.html).

<sup>3</sup> On a per capita basis, Hungary's FDI rate is the highest of the CEECs.

<sup>4</sup> *OECD: Hungary Stands out in the Region*, [www.itd.hu/InvestmentRecords/p3.html](http://www.itd.hu/InvestmentRecords/p3.html).

year derogation concerning foreign ownership of farmland.<sup>5</sup> Currently, only domestic private persons are allowed to acquire arable land. Foreign private persons, as well as domestic and foreign legal entities, are prohibited from doing so.

Hungary has argued that, because land prices are between five and 40 times more in the EU than in Hungary, the country needs a transition period to ensure that a few speculators, foreign or domestic, do not buy up an undue portion of the country's farmland. Although Hungary is on its way to becoming a market economy based on private property, its land market has not yet had enough time to evolve. The acquisition restrictions are needed, Hungary has argued, to ensure that Hungarian farmers have a reasonable opportunity to buy land.

Hungary has further argued that the prohibition on foreign acquisition is reasonable during the transition period and does not conflict with the Europe Agreement. In Hungary's view, it should be sufficient to permit foreigners the right to usufructuary lease. Hungary's stated long-term goal is to ensure unrestricted access to land ownership.

### **The Accession Implications of Hungary's Derogation Request on Land Acquisition**

Although farmland ownership is not specifically regulated by the EU, prohibiting acquisition based on nationality goes against the principle of non-discrimination and conflicts with Community law on the free movement of capital and the right of establishment.<sup>6</sup> The EU has long tried to restrict Members' ability to limit capital movements. Accepting applicant country derogations in this area would undermine these efforts. Consequently, Hungary's chances of gaining approval for this derogation seem slim at best.

Derogation requests for laws that violate fundamental EU principles may also hurt Hungary's image in Europe. In an interview given in early 1999 (before the receipt of our position paper requesting the derogation on farmland ownership), Mr. Nikolaus van der Pas, head of the European Commission's Task Force for Accession Negotiations, stated that Hungary had been more successful than any other EU applicant in fulfilling EU requirements for membership. Similarly, Eurobarometer, a Brussels-based, EU-funded pollster, found that of the CEEC applicants for EU membership, EU public opinion is most favorable toward Hungary.<sup>7</sup> We cannot afford to lose this trust.

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<sup>5</sup> The other two derogation requests concerned foreign acquisitions of real estate and the insurance industry's ability to make foreign investments.

<sup>6</sup> Some EU countries do, however, maintain land acquisition restrictions. In Denmark, for example, farmers are required to have lived permanently (at least six months per year) for eight years on a farm, and they must have an agricultural background.

<sup>7</sup> *Hungary is the Most Welcome New Member (Hungary Took the Lead, p.2)*, [www.gm.hu/hunec/v27n2/infocus.html](http://www.gm.hu/hunec/v27n2/infocus.html).

## **The Domestic Implications of Hungary's Derogation Request on Land Acquisition**

In addition to creating an obstacle to EU accession, Hungary's current restrictions on land ownership are 1) impeding the development of an efficient agriculture industry in Hungary and 2) undermining our efforts to fight organized crime and diminish the strength of the country's informal economy. Currently:

- Urban dwellers and retirees are unable to sell their land at a realistic price—which means that there is little incentive to sell land and therefore little hope of consolidating plots that became fragmented as a result of privatization.
- Certain domestic legal entities (especially transformed cooperatives) have no opportunity to purchase land. Accordingly, they continue to lease land and have no incentive to make long-term investments in the plots they farm.
- Land prices that had started to rise in the past two years have become stagnant again and can be expected to remain stagnant until the Land Act is changed. In turn, this is delaying the development of a credit system based on mortgage guarantees.
- Foreigners are buying farmland illegally through pocket contracts.
- Speculation prevails because the Land Act does not require proof of intent to cultivate the land.

## **Hungary's Informal Economy**

Hungary's informal economy has flourished within communities that have been marginalized as a result of the political changes of 1989. Small and medium sized farms often fall into this category; they participate in a great variety of untaxed activities. The volume of the hidden economy has been estimated at 23-24 percent of GDP.<sup>8</sup>

## **Recent Attempts to Fight Illegal Land Ownership Practices**

Although 60 percent of Hungary's cultivated land is leased land, no registration requirement existed until, in April 2000, the Central Statistics Office established a property registry and began implementing a land-use reporting requirement.<sup>9</sup> The new registration system is now nearly finished.

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<sup>8</sup> Source: *The Significance of the Informal Economy Viewed from the Human Resources Angle*, UNDP National Human Development Report, Hungary, 1996. [www.ksh.hu/undp](http://www.ksh.hu/undp).

<sup>9</sup> For more information on the Computerization of Land Offices Programme, see Appendix J.

## ARABLE LAND ACT OF 1994<sup>10</sup>

The Arable Land Act of 1994 covers all arable land in Hungary,<sup>11</sup> including protected natural land unless a nature preservation law provides otherwise. The Act covers ownership rights, land use, formation of property plots, and land protection.

The following sections of the Act apply to ownership and acquisition:

- *Chapter II, Section 5* of the Land Act, “*Acquisition of Ownership by Domestic Private Persons,*” provides that a domestic private person can obtain ownership of arable land that is “not more than 300 hectares or worth more than 6,000 Gold Crowns.”<sup>12</sup>
- *Chapter II, Section 6* of the Act stipulates that no “domestic legal entity” can acquire arable land except from the Hungarian state, local governments, forest-owners’ and pasture-owners’ associations, or public foundations.<sup>13</sup>
- *Chapter II, Section 7* of the Land Act, “*Acquisition of Ownership by Foreigners,*” stipulates that “no foreign private person or legal entity may acquire arable land or protected nature areas.” The prohibition does not apply in the following cases:
  - ⇒ If the land is situated on the territory of a homestead<sup>14</sup> formed as an independent property with a surface area of no more than 6,000 square meters;
  - ⇒ If a land owner held his land on July 27, 1994 (when the Act came into force), he may exchange his plot for a new plot if the area and Gold Crown (GC) value of the new plot do not exceed the area and value of the original;
  - ⇒ If, on July 27, 1994, the surface area and GC value of a plot of land, purchased from the amount of indemnification received for expropriation, exceeded 300 hectares or the value of 6,000 GC;

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<sup>10</sup> Passed by Parliament on April 6, 1994.

<sup>11</sup> Arable land is defined in the Land Act as a plot of land that is registered in the outskirts of a settlement as plough-land, vineyard, orchard, meadow, reeds, forest or fish pond.

<sup>12</sup> Gold Crowns are used to express the quality of arable land. The higher the Gold Crown value, the better the quality of the land.

<sup>13</sup> Agricultural cooperatives took the case to the Constitutional Court questioning whether the Land Act discriminated among natural and legal persons as well as between various legal persons. The Constitutional Court, in its decision of 35/1994 (VI.24.), ruled that the Land Act was not contrary to the constitutional right of equality before the law because the acquisition of property is not the only way for agricultural cooperatives to access land necessary for operation. (Agricultural cooperatives are allowed to lease up to 2,500 hectares of land.)

<sup>14</sup> A complex of dwellings and economic buildings built on the outskirts of a settlement for the purpose of agricultural production and with land belonging to that under an identical topographical lot number.

⇒ If, on July 27, 1994, the surface area and GC value of a plot passing into ownership through the termination of a co-ownership exceeded 300 hectares or the value of 6,000 GC.

The Act offers rights of pre-emption in certain cases. Leaseholders of a full or partial plot, as well as those cultivating land by contract, have a right of pre-emption if ownership by such person is not prohibited by law. In cases of protected nature areas, the Hungarian State has a right of pre-emption that trumps the persons listed above.

### **Legal Means for Foreigners to Buy Arable Land in Hungary**

A foreign person may legally become an owner of an infinite amount of arable land or protected natural land on Hungarian territory as a result of legal inheritance, usucaption, building,<sup>15</sup> or through auctions held for the purpose of indemnification for past expropriations of arable land.<sup>16</sup>

Foreigners can also acquire arable land legally by joining or gaining ownership of organizations that may acquire or have acquired land. Three forms of organizations make indirect ownership possible:

- Businesses such as limited liability companies and joint stock companies.
- Forest-owners' and pasture-owners' associations. Joining these types of organizations requires prior possession of land. As a result of joining, however, co-ownership of an unlimited amount of forest and grazing land is possible.
- Establishment of an ecclesiastic legal entity, which requires 100 persons. Such organizations may receive title to an infinite amount of land by testamentary disposition, deed gifts, and contracts for maintenance.

### **Means of Circumventing Regulations on Land Acquisition**

Foreigners have used various strategies to circumvent Hungary's land acquisition laws. They have acquired land by:

- Gaining Hungarian citizenship.
- Discontinuing the arable land registration of a plot they wish to purchase.

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<sup>15</sup> Under the title of building, the purchase of a plot of significant size is not feasible due to restrictions placed on buildings on outskirts area lands. The size of the land accompanying a building can not exceed that of a homestead-type property. Based on the Land Act, foreigners are allowed to acquire ownership of a homestead.

<sup>16</sup> To participate in such an auction, a foreigner needs to possess the original coupon for indemnification.

- Acquiring authorization to change the status of the plot they wish to purchase (land that is deemed to be part of the “inner area” is not considered to be farmland).
- Signing pocket contracts—signed sales contracts that are not recorded in the land register so that, although the official record shows that a Hungarian citizen owns the land, in practice, a foreign person owns the property. (Pocket contracts are the most common method foreigners use to acquire arable land.)
- Signing leasing contracts, under which foreigners and Hungarian citizens have the same rights. Since lessees have a right of pre-emption, land can become the property of foreign lessees. However, as of May 28, 1999, rights of pre-emption or purchase cannot be established for persons prohibited from land ownership—not even contingent upon changes in the prohibition.

## POLICY ISSUES

### EU Policy on Land Ownership Restrictions

One of the European Commission's longstanding goals has been to curb the ability of its member states to introduce or maintain legislation that restricts the functioning of the Single Market by constraining the four basic freedoms: free movement of goods, services, persons, and capital. This goal is reflected in Court decisions, the Consolidated Version of the Treaty Establishing the European Community, and an EU white paper concerning the integration of the Central and Eastern European countries into the European Union.

#### European Court of Justice Decisions

Although Community law does not regulate land ownership directly, the European Court of Justice has made it clear that restrictions that infringe on EU citizens' right to acquire land are incompatible with Community law and, in particular, with the *freedom of establishment* and the *free movement of capital*. Two Court decisions have taken this view:

- ECJ 05/30/1989, 1461 (Case 305/87)
- ECJ Judgment of 06/01/99 (Case C-302/97)

According to paragraph 22 of the judgment in Case C-302/97:<sup>17</sup>

“It is common ground that national legislation on the acquisition of land must comply with the provisions on the Treaty on freedom of establishment for nationals of Member States and the free movement of capital. The Court has already held that, as is apparent from Article 54(3)(e)<sup>18</sup> of the Treaty, the right to acquire, use or dispose of immovable property on the territory of another Member State is the corollary of freedom of establishment (Case 305/87 Commission v Greece [1989] ECR 1461, paragraph 22). As for capital movements, they include investments in real estate on the territory of a Member State by non-residents, as is clear from the nomenclature of capital movements set out in Annex I to Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty (OJ 1988 L 178, p.5).”

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<sup>17</sup> Klaus Konle vs. Austria. In the province of Tirol, local authorities requested proof from those who wanted to buy local property that they would not use the property as a secondary residence. The rule applied with equal effect to Austrians and foreigners, but closer examination showed that foreigners were more frequently rejected.

<sup>18</sup> Article 44(2)(e) of the Consolidated Version of the Treaty Establishing the European Community.

## The Consolidated Version of the Treaty Establishing the European Community

The Treaty sets out provisions concerning nondiscrimination, the right of establishment, and the free movement of capital. In addition, several general principles of the Treaty are relevant:

- General Principles of the Treaty
  - “. . . the activities of the Community shall include, as provided in this Treaty . . . an internal market characterized by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital” [Article 3(1)(c)]
  - “Within the scope of application of this Treaty, and without prejudice to any special provisions contained therein, any discrimination on grounds of nationality shall be prohibited.” [Article 12]
  - “The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty.” [Article 14(2)]
  - “When drawing up its proposals with a view to achieving the objectives set out in Article 14, the Commission shall take into account the extent of the effort that certain economies showing differences in development will have to sustain during the period of establishment of the internal market and it may propose appropriate provisions. If these provisions take the form of derogations, they must be of a temporary nature and must cause the least possible disturbance to the functioning of the common market.” [Article 15]
  
- Right of Establishment (Part Three, TITLE III, Chapter 2 of the Treaty) <sup>19</sup>
  - “. . . restrictions on the freedom of establishment of nationals of a Member State in the territory of another Member State shall be prohibited.” [Article 43]
  - “Freedom of establishment shall include the right to take up and pursue activities as self-employed persons and to set up and manage undertakings . . . *under the conditions laid down for its own nationals by the law of the country where such establishment is effected.*” [Article 43]
  - “The Council and the Commission shall carry out the duties devolving upon them under the preceding provision, in particular . . . by enabling a national of one Member State to acquire and use land and buildings situated in the territory of another Member State . . .” [Article 44(2)(e)]
  - “Companies or firms formed in accordance with the law of a Member State and having their registered office, central administration or principal place of business

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<sup>19</sup>“A Guide to the Case Law of the European Court of Justice on Articles 52 et seq. EC Treaty: Freedom of Establishment” (1 January 1999). The document provides a 109-page guide to the case law of the European Court of Justice. DG Internal Market / Services and Establishment / Establishment. europa.eu.int

within the Community shall . . . be treated in the same way as natural persons who are nationals of Member States.” [Article 48]

- Free Movement of Capital Part Three, TITLE III, Chapter 4 of the Treaty)
  - “Within the framework of the provisions set out in this Chapter, all restrictions on the movement of capital between Member States and between Member States and third countries shall be prohibited.” [Article 56]

#### White Paper (Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union)

In the section “Legislation Ensuring the Freedom of Capital Movements,” a comment is made that the free movement of capital is not only economically important, but also a condition for the free movement of financial services and persons.

### **The Europe Agreement (EU-Hungary Bilateral Commitments)**

The Europe Agreement contains the following provisions regarding the freedom of establishment and the free movement of capital:

#### Freedom of Establishment (Title IV, Chapter II)

- “Hungary shall, during the transitional period referred to in Article 6,<sup>20</sup> facilitate the setting up of operations on its territory by Community companies and nationals . . . . To that end, it shall:
  - (i) gradually, and at the latest by the end of the first stage referred to in Article 6, grant for the establishment of Community companies and nationals a treatment no less favourable than that accorded to its own nationals and companies, save for the sectors referred to in Annexes . . . and XIIb,<sup>21</sup> where such treatment shall be granted at the latest by the end of the transitional period referred to in Article 6.” [Article 44(1)]
- “Hungary shall, during the transitional periods referred to in paragraph 1, not adopt any new regulations or measures which introduce discrimination as regards the establishment and operations of Community companies and nationals in its territory in comparison to its own companies and nationals.” [Article 44(2)]

<sup>20</sup> TITLE II “General Principles,” Article 6(1). “The Association includes a transition period of a maximum duration of 10 years divided into two successive stages, each in principle lasting five years. The first stage shall begin when this Agreement enters into force.” (The full agreement took effect on February 1, 1994, after ratification by the EC member countries and the Hungarian Parliament.)

<sup>21</sup> “ANNEX XII(b) Concerning Article 44

-- acquisition, use and rent of State-owned assets under privatization process;  
-- dealing and agency activities in real property and natural resources.”

- “Notwithstanding the provisions of this Article, Community companies established in the territory of Hungary shall have, from entry into force of this Agreement, the right to acquire, use, rent and sell real property, and as regards natural resources, agricultural land and forestry, the right to lease, where these are directly necessary for the conduct of the economic activities for which they are established. This right does not include establishment for the purpose of dealing and agency in the area of real estate and natural resources. Hungary shall grant these rights to branches and agencies of Community companies and Community nationals established as self-employed persons in Hungary . . .” [Article 44(8)]
- “Subject to the provisions of Article 44 each Party may regulate the establishment and operation of companies and nationals on its territory, in so far as these regulations do not discriminate against companies and nationals of the other Party in comparison to its own companies and nationals.” [Article 45(1)]

#### Free Movement of Capital (Title V, Chapter)

- “During the first stage referred to in Article 6 the Contracting Parties shall take measures permitting the creation of the necessary conditions for the further gradual application of Community rules on the free movement of capital.”
- “During the second stage referred to in Article 6 the Association Council shall examine ways of enabling Community rules on the movement of capital to be applied in full.” [Article 61(1)(2)]

#### **Hungary’s Accession Commitments**

In its plan for EU accession,<sup>22</sup> Hungary makes clear that, although its goal is to, by the time of accession, fully liberalize its regulations that govern the movement of capital and the right of establishment, it will need to continue the harmonization process even after accession because it will need time to implement new policies. Hungary has also argued that, based on Article 222 of the Treaty of Rome, it may not even need a derogation for its land acquisition policies because Article 222 provides that the Treaty “shall in no way prejudice the rules in Member States governing the system of property ownership.”

Nonetheless, Hungary needs to ensure that the EU sees that it is making progress toward coming into compliance with Community law, and because the Hungarian Parliament passed the Arable Land Act on April 6, 1994, two months after the Europe Agreement

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<sup>22</sup> Hungarian National Programme for the Adoption of the Acquis (NPAA), Volume I, Section A “Criteria for Membership,” Chapter III, 1.1.3 “Free Movement of Capital.” The NPAA is Hungary’s accession policy instrument. It was adopted on June 29, 1999, and it covers the period 1999-2001, at the end of which the Hungarian Government foresees complete preparedness for EU membership.

took effect, our compliance with Article 44(2) of the Agreement (as well as our general liberalization commitments) may be questioned. To be in compliance with the Europe Agreement, Hungary should not have adopted any new regulations that discriminate between Hungarian and EU citizens and legal entities. The Hungarian Land Act also violates Community law because it clearly discriminates on the basis of nationality and, arguably, because it discriminates between private and legal persons (Article 48).

## ECONOMIC ISSUES

Land ownership policies are suddenly receiving greater attention in Hungary because they are an issue within the context of our EU accession bid. These policies, however, need to be reformed not just to ensure our EU membership but, perhaps more importantly, because they are inhibiting the development of a vibrant agricultural sector in our country. By amending the Arable Land Act of 1994, Hungary will speed the development of a market for land, which will, in turn, increase the availability of mortgage based credit that can be used for long-term investments in the sector. The amendments will also facilitate the consolidation of land plots, without allowing over consolidation.

### The Importance of Agriculture in Hungary

The proportion of land under cultivation in Hungary is relatively high compared to that in other European countries. Hungary boasts highly favorable growing conditions and a well educated agricultural workforce. It also seeks to preserve its farming communities as a means of preserving tradition. Agricultural production, forestry, the food processing industry, and related services have traditionally been of major importance to the Hungarian economy. Agricultural activities ensure the domestic food supply, provide employment, contribute to Hungary's foreign exchange earnings, and play a leading role in rural development.

Over six million hectares of land—two-thirds of the country's total area—is used for agricultural production.<sup>23</sup> In 1998, agriculture accounted for 7.1 percent of the active workforce, 5.5 percent of GDP,<sup>24</sup> 12 percent of total exports, and 4.6 percent of all imports.<sup>25</sup>

Hungary is a net agricultural exporter. With the inclusion of processed foodstuffs, agricultural products make up almost a quarter of the country's exports. Hungary's most

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<sup>23</sup> Out of which 76 percent is arable land, 19 percent is pasture, and five percent is garden, orchard or vineyard.

<sup>24</sup> Taking into account the wholesale and retail trade of agrarian products, the production of agricultural input materials and the services connected to agriculture (agribusiness) the total proportion of agriculture-related GDP may exceed 20 percent.

<sup>25</sup> By comparison, just over half of the total territory of the European Union countries is used for agricultural production, and the average percentage of Europeans employed in the EU's agriculture sector is 5.6 percent (the two extremes are Great Britain with 2.2 percent and Greece with 21.8 percent).<sup>25</sup> Agricultural production accounts for 2.1 percent of the EU's total GDP, 9.1 percent of EU exports, and 11.8 percent of EU imports. Agricultural is the most heavily subsidized sector in the Union. *The Hungarian Agriculture and Food Industry in Figures*, 1999, Ministry of Agriculture and Regional Development.

important trading partner for agricultural products is the European Union. In 1998, exports to the EU 15 accounted for 44 percent of total agricultural exports. Imports from the EU 15 totaled 41 percent of all agricultural imports.<sup>26</sup>

The main Hungarian agricultural export products are meat, cereals and leguminous plants, fresh and processed vegetables and fruit, and alcoholic beverages. The primary import product is fodder. Currently, 70 percent of agricultural production is sold domestically. Ninety percent of the domestic agricultural market is supplied by food of Hungarian origin.

### **Challenges for Agricultural Production in Hungary**

Despite the importance of agriculture to Hungary's overall economy, the sector faces a number of significant challenges, many of which are directly attributable to problems with the Arable Land Act.

Hungary's land market is underdeveloped. Although only two percent of Hungarian land is state owned today, the country still does not have a functioning land market. This is due partly to the fact that land received through compensation or as a share from collective farms could not be sold for three years after receipt, and partly to the fact that the Land Act constrains land transactions. The Act prohibits not only non-resident foreign citizens, but also legal persons, like cooperatives and private companies, from owning agricultural land.

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<sup>26</sup> Ibid.

Hungary's arable land is not configured in useable land plots. The current size and shape of many new land parcels are not viable for agricultural purposes. In fact, one owner's land is often not all in the same place. Under current law, there are three basic ways to transfer land property ownership: voluntary exchange of land, general arrangement of land properties, and purchase of land. (All three are covered in the Land Act and, to date, have not brought satisfactory results.) The land use registration system that is now being established will help facilitate land consolidation.

Hungarian farmers lack credit. Hungarian farmers need a reliable source of credit in order to be able to consolidate plots into workable farms and to purchase new farm equipment. Toward this end, a Land and Mortgage Bank and a Rural Credit Guarantee Fund<sup>27</sup> have been helping small and medium-sized enterprises obtain credit in Hungary since 1998. The Hungarian government has also offered credit guarantees for land consolidation, as well as support for farmers who cultivate less than 300 hectares. Nonetheless, too much of Hungary's arable land is divided into small-sized plots that are generally not suitable for efficient production, let alone mortgage-based credit.

Hungary's agricultural production is declining. Hungarian agricultural production is dropping faster than that of any neighboring former socialist country. Between 1989 and 1994, production dropped by one-third. Although a slow recovery began in 1994, significant problems persist:

- Fixed assets are obsolete and new investments are not adequate.
- The production and marketing chain is not integrated.
- The organization of the industry does not allow farmers and processors to follow demand. (Instead production is forced to evolve based on the availability of scarce resources.)
- Because compensatory factors are unavailable, production fluctuations are large (depending on the weather), and production fluctuations mean that exports are not reliable.

Hungary's farmland is not being protected. Hungary's restrictive land ownership provisions and ten-year leasing terms have encouraged farmers to think in terms of short-run gains, not long-term land stewardship.

Hungary's agricultural population is declining. Hungary's population size peaked in 1980 and has been decreasing since. Accordingly, the population is aging and the working population as a percentage of the total population is dropping.<sup>28</sup> Hungary's agricultural population, however, is shrinking even faster than the overall population. As shown in

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<sup>27</sup> The Rural Credit Guarantee program is partially funded by EU PHARE (Poland, Hungary: Assistance for the Restructuring of the Economies).

<sup>28</sup> The working population shrank nine percent between 1990 and 1996. Central Statistical Office (KSH), *Mikrocenzus, 1996*.

the table below, the United Nations' Food and Agriculture Organization estimates that, between 1998 and 2010, Hungary's agricultural workforce is expected to decrease by roughly 38 percent. With EU accession, a slight increase in outbound migration may further accelerate this trend. On the other hand, the amount of labor required in agriculture is expected to attenuate as agricultural production becomes more efficient.

## Hungary's Declining Rural Population

	(projection)				
(in thousand)	1990	1998	2000	2010	2050
Total population	10,365	10,116	10,036	9,627	7,488
Rural population	3,933	3,442		2,764	1,882 <sup>29</sup> <b>(2030)</b>
Agricultural population <sup>30</sup>	1,763	1,305		816	156
Total economically active population in agriculture (the labor force)	721	551		343	52

## Evaluation of the Achievements of the Land Act After Six Years

Objective	Achieved completely	Achieved partially	Achieved to a minor extent	No progress
Private ownership of agricultural land	✓			
Trade of arable land			✓	
Arable land as security of credit		✓		
Competitive agricultural production		✓ (cooperatives)	✓ (small and medium sized farms)	
Creating reasonable sized plots			✓	
Undisturbed agricultural production			✓	
Protection of the quality of arable land				✓

<sup>29</sup> No estimate is available for years after 2030.

<sup>30</sup> All persons who depend for their livelihood on agriculture, hunting, fishing or forestry. All persons actively engaged in agriculture, as well as their non-working dependants.

## POLITICAL ISSUES

Hungary has repeatedly postponed action to harmonize its land acquisition laws with EU law, largely because of public fears about foreign land ownership and competing domestic political interests. In the context of its EU accession bid, however, Hungary needs to trim its list of derogation requests as much as possible (it still has over 40 requests on the table), and land acquisition policy is one area in which it is entirely feasible for Hungary to come into compliance with EU law in the near term. Whereas other EU laws, such as those on environmental standards, will require major investments that are simply not immediately possible, it is domestic politics that have blocked revision of Hungary's land acquisition policies. If Hungary can find a way to reconcile competing domestic political interests on land ownership policy, it will greatly improve its chances of gaining full EU membership by its accession target date.

### Background

A great deal of confusion prevails in Hungarian politics regarding the issue of land ownership. Consequently, political positions on the issue have not yet fully solidified. The two general points of agreement are:

- Hungarians should own Hungarian land, and
- Land should be owned by farmers with agricultural experience who will live on or near their plots.

Hungarians' emotional attachment to their "sweet motherland" will need to be taken into account in any policy discussions concerning land ownership rights. The country is proud of its advantageous natural endowments—the long hours of sunshine and fertile soil that ensure good yields of most field crops.

### Political Party Positions on Land Acquisition Policy<sup>31</sup>

In fall 1997, the previous government coalition (Socialist–Free Democrat) introduced a bill that would allow domestic legal entities (including cooperatives and corporations) to acquire up to 300 hectares of land in Hungary. There was no mention of foreign ownership in the bill because a law that differentiated between foreign and domestic corporate entities would violate Hungary's OECD commitments. It was clear that the bill would have to allow partial foreign ownership of land.

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<sup>31</sup> For additional information on the Hungarian parliamentary and electoral systems, as well as on party participation in the Hungarian parliament, see Appendix D.

In response, the four opposition parties (including the three that currently make up the government coalition), complemented by three agricultural interest groups (representing private farmers), initiated a referendum that asked the Hungarian people whether foreigners, either private persons or corporate entities, should be allowed either directly or indirectly to acquire land in Hungary.

The coalition government argued that the government did not want to promote foreign ownership of Hungarian land and that the percentage of land that would have landed indirectly in “foreign hands” would have been insignificant. The government noted that the bill included a safeguard clause to ensure that, should a corporation discontinue operation, no foreigners would get its land titles.

The opposition’s referendum was eventually declared unconstitutional but, in the meantime, certain agricultural interest groups representing small farmers (led by MAGOSZ) started a wave of strikes, which caused the coalition government’s bill to remain pending until the new government came into power following the May 1998 elections.

The new government has expressed its strong support for family farms and has argued that the Land Act of 1994 created an adequate legal framework to support such farming operations.

#### The FIDESZ-MPP / FKGP / MDF<sup>32</sup> Coalition Government

The three parties that have been in the government coalition since the political changes of 1989 have no major differences regarding land ownership. All three have opposed foreign ownership of Hungarian land. They have also opposed agricultural production cooperatives and supported newly established business cooperatives.

Political figures and groups within the coalition government that will affect the future of land policy debate in Hungary include the following:

- *Dr. József Torgyán.* Torgyán is the party leader of the Smallholders’ Party, as well as the Minister of Agriculture and Rural Development. Dr. Torgyán is famous for being very vocal and having strong opinions. He has strongly opposed anything that reminds him of the former regime including the Hungarian Socialist Party as a whole, and the “old-style” cooperatives. In keeping with the Smallholder Party’s traditional interest (that of protecting peasants of moderate wealth), Torgyán’s primary interest is to look out for small- and medium-size farms. On the land ownership issue, this has translated into an interest in maintaining current regulations, which, in his view,

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<sup>32</sup> FIDESZ-MPP: Alliance of Young Democrats (conservative liberal); FKgP: Independent Party of Smallholders, Agrarian Workers and Citizens (agrarian conservative); MDF: Hungarian Democratic Forum (conservative/Christian-democratic).

ensures that farmers will continue to be able to acquire property at low prices and also receive increasing government support. FIDESZ has assisted in this effort.

- *FIDESZ*. This is the most powerful party in the coalition. Because it wants to be able to claim accession as a success in the next election campaign (May 2002), it is concerned mainly with achieving accession by the target date (January 1, 2002) and under the most favorable terms.

### Opposition Parties

Three opposition parties will also need to be considered in forming a consensus on land ownership policy in Hungary:

- *The Socialist Party*. The most influential opposition party, the Socialist Party, does not support the ten-year derogation request for land policy (although initially, during its mandate in the past parliamentary cycle, it proposed the same policy). Socialist Party representatives have argued that agricultural income needs to grow to ensure that farmers will be able to acquire adequate land. Foreign pocket contracts, they argue, will not be discouraged by any form of administrative prohibition from buying land. Socialists also fear that cooperatives are being negatively affected by the strong government preference granted to small farms.
- *The Alliance of Free Democrats*. This party is concerned that a great deal of land is not owned by those who cultivate it. Similar to the Socialist Party, it feels that the only way to do away with pocket contracts and other speculative activities is to eliminate the market incentives for such contracts. Free Democrats maintain that a 10-year transition period for land acquisition policy will only fuel the informal economy and postpone any real movement toward rectifying the system. The Free Democrats have called for actions based on economic rather than political considerations.
- *The Justice and Life Party*. This party strongly opposes foreign ownership of land. However because it has limited support, it is not a strong voice on the land ownership issue. (The party plays an important role only in some—generally the more isolated—regions of Hungary.)

### **Other Stakeholder Views**

#### Government Agencies

- *The Ministry of Foreign Affairs* would like Hungary to accede to the EU without delay or obstruction.

- *The Ministry of Justice* has been working hard to bring the Hungarian legal system into compliance with Community law.
- *The Prime Minister* wants Hungary to accede to the EU before the expiry of the mandate of the government.
- *The Ministry of Economics* is concerned with increasing domestic agricultural production, as well as gaining access to the EU Internal Market as soon as possible.
- *The Ministry of Finance* has done a great deal to facilitate the free movement of capital. It will oppose obstacles to capital movements even on the borderline of its activity.
- *The Ministry of Agriculture and Rural Development* is vocal on land ownership issues and opposes foreign and corporate ownership of farmland.

### Interest Groups

Two interest groups are important on this issue:

- *MAGOSZ*. This organization initiated the 1997 strike to protest foreign ownership of land. It now represents not just individual farmers but also newly founded business cooperatives. It is a strong supporter of the current government policy. *MAGOSZ* enjoys the support of the coalition government, and it has nearly 800 member organizations and 40,000 members.
- *MOSZ*. This alliance represents the interests of agricultural cooperatives and producers. It has been in existence since 1967 and traditionally is an important and vocal group. Today it represents 1,450 agricultural co-operatives and 100 corporations (including stock holding companies, limited liability companies, etc.). *MOSZ* operates throughout the country through regional alliances; it functions legally as an “alliance of alliances.” The President of *MOSZ*, Mr. Tamás Nagy,<sup>33</sup> garners a great deal of media attention.

### Processing Industry

Current law has forced an artificial separation between food processing plants and farm producers.<sup>34</sup> However, because food processors need a reliable supply of agricultural

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<sup>33</sup> Mr. Nagy headed the delegation that met with Minister of Agriculture Torgyán on September 15, 1999. The meeting resulted in an agreement that increased credit guarantee availability for producers who are deeply in debt and left without any further bank credit availability. Compared to the original agreement, the amount offered as credit guarantee has been reduced and half of the fund available will only be offered to producers with land of not more than 300 hectares. Accordingly, the agreement excluded co-operatives.

<sup>34</sup> The Danish example of treating farmland and buildings on them as one entity seems desirable for Hungary. In Denmark, farms with buildings have one price. In 1997, the privatization of Bábolna Rt. (a poultry-processing plant) could not take place because of the 21,000 hectares of land belonging to it. (The restructuring of the plant in preparation for privatization is still underway and no final decision has been made on the conditions of its sale.)

products, many have begun leasing farmland and producing their own agricultural inputs in order to ensure that they can maintain full production at their plants. A large portion of the processing industry is foreign owned.

### Hungarian Landowners

Many of the individuals who received land as compensation would like to sell their land (if they have not already done so). These individuals are either not active in the agricultural sector or are retirement age, so arable land is not valuable to them. Yet because land sales prices are low, and because many potential buyers are either foreigners or Hungarian speculators, there is little incentive to sell.

A functioning land market in which prices reflect the value of land would encourage these people to sell their land. It would also provide an infusion of capital into the agricultural sector because once land becomes valuable, it will become viable as collateral for loans needed to buy modern equipment. Currently, many farmers who actively cultivate their land are being forced to sell in order to raise needed capital. They then continue to farm their own land via lease agreements.

### Hungarian Consumers

As the price of land increases, Hungarian consumers will, in the long run, experience an increase in food prices. Such price increases, however, are inevitable if Hungary is to join the European Union.

### European Land Owners in Hungary

EU nationals who want to buy land in Hungary generally find a way to do so through pocket contracts. It is estimated that five to eight percent of Hungarian farmland is already in foreign hands. However this reality is not likely to change the EU's concern about Hungary's land ownership policy, and Hungary's derogation request on land policy, along with its 40 some other derogation requests, has been viewed as contrary to the country's declared goal of fast accession.

## RECOMMENDATION

EU accession will mean that Hungary cannot allow any form of discrimination between Hungarian and EU nationals. It seems unlikely that the EU will agree to even a temporary derogation for our discriminatory land ownership policies. Moreover, such a derogation would only perpetuate the problems associated with our current policies on arable land ownership.

Hungary needs to change its Arable Land Act in order to 1) bring Hungary into conformity with EU law, 2) ensure that the vast majority of Hungarian land remains in Hungarian hands, and 3) speed the development of an agricultural business sector that can compete with other EU food producers and processors.

The ownership provisions of the Arable Land Act of 1994 should be amended as follows:

- Land may only be purchased by private persons who, for at least three years prior to the acquisition, have had permanent or temporary residence and/or farmland in the settlement located nearest to the land to be acquired or within the 30-kilometer district in which the land is located. Prospective owners shall be educated in agricultural production and shall be dependent on farm incomes.
- Business entities may only acquire land if they are able to show (to the local government) that farmland use is essential for their business activity. In addition, such entities shall have at least one person among their owners or within their management that fulfills the qualification requirements prescribed for individual owners.
- The following parties in the following order will be given the right of preemption for arable land acquisitions:
  1. Lessee
  2. Owners of neighboring plots
  3. Private person registered as producer
  4. Legal entities
- The upper limit on land acquisitions is 300 hectares. If the land to be acquired exceeds 300 hectares, authorization shall be required from the local government. The local government shall consider the opinion of the county Agricultural Chamber in decisions on such authorization requests.

The recommended amendments will accomplish the following:

- Speed the process of full EU accession by eliminating as many transition requests as possible. By modifying the Land Act to eliminate discrimination between Hungarians and nationals of EU member states, we will no longer need to maintain our derogation request on foreign land ownership. At the same time, we will come into compliance with our current bilateral commitments in the Europe Agreement.
- Support the interests of Hungary's 1.5 million landowners. By modifying the Land Act, Hungary can encourage the development of a market for agricultural land, which will, in turn, increase sales prices of arable land and spur the development of mortgage based credit.
- Ensure that foreigners do not acquire undue amounts of Hungarian farmland. The modifications ensure that the number of foreigners who will be able to obtain land will be limited. Although foreigners will undoubtedly establish residencies in order to make themselves eligible to purchase land, the three-year residency requirement ensures that Hungarians who wish to purchase land will have time to do so before foreigners buy up an undue portion of land. The one caveat to this is that foreigners who have already purchased land via pocket contracts, may be able to satisfy the proposal's requirements immediately. Overall, however, foreign pocket contractors and Hungarian speculators will have less opportunity to take advantage of land owners than they now have, and a small influx of foreign farmers may actually help offset Hungary's declining agricultural population.
- Protect family farms. The proposal maintains the priority of private farmers over corporate entities, which fits with the current government policy of favoring family farming. And since the proposal makes agricultural education a requirement for acquisition, most speculators will be blocked from purchases. Further, by allowing domestic legal entities to acquire land, the proposal advances the potential for land consolidation, but the upper limit on acquisition acreage will ensure that consolidation doesn't happen so fast as to squeeze out family farms.
- Represent the interests of Hungarian farming organizations. Cooperatives will gain opportunities to purchase the land they farm (in most cases, land they owned during the Communist era). Currently, many cooperatives lease the land they farm, and they face the possibility of losing their leases after each ten-year term. Farming organizations, as owners, will be better motivated to make long-term investments.
- Improve the efficiency and quality of agricultural production. Land consolidation and a functioning land market will help farmers increase production, which will be needed to respond to growing domestic demand (due to the growth of income levels) and to fuel the growth of Hungary's food processing industry. In the long-term, qualified foreign farmers are likely to make up for the decreasing number of Hungarian farmers.



## STRATEGY

In order to be able to make the proposed changes to the Arable Land Act and gain agreement from the EU that the changes meet EU policy requirements, we should pursue a two-track strategy:

- A *domestic strategy* aimed at building consensus and a common position within Hungary.
- A *negotiation strategy* for presenting the changes to the EU.

### Presumption

The success of the strategy proposed below presumes progress in other fields, including:

- Progress in the fight against the black economy, organized crime and corruption;
- Improvement of the social security system;
- Increases in rural credit availability; and
- Efficient utilization of Sapard<sup>35</sup> support.

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<sup>35</sup> Special Accession Programme for Agriculture and Rural Development. See Appendix I for more information.

## **DOMESTIC STRATEGY**

The proposed strategy ties in with the general Hungarian EU accession strategy. Since preparation for EU accession has been proceeding for many years, the players active in the process already know one another. Accordingly, personal contacts will be crucial to the success of the strategy.

The domestic strategy has three interrelated parts: coalition building, legislative, and public relations. These parts should move together simultaneously so that progress in one area can support progress in the others.

### Goal

Full compliance with Community law by January 1, 2002. This would mean that accession would take place before the next political election of May 2002, and that the present government would be able to take credit for the accession.

### Means

To achieve domestic consensus on the elimination of the derogation request on land ownership, we will need to build support among all stakeholders and convince legislators to initiate action on the proposed amendment. We should also target public opinion, in order to ensure that all stakeholders will pay attention to our message.

### Players

1. Groups that are in favor of revising the Land Act's ownership provisions
  - Ministries: Foreign Affairs, Justice, Economics, Finance
  - Political parties: Socialist Party (MSZP), Free Democrats (SZDSZ)
  - Interest group: MOSZ (representing agricultural production cooperatives)
  - Processing industry<sup>36</sup>
  - Hungarian landowners
  
2. Groups that oppose revisions of the Land Act's ownership provisions
  - Ministry of Agriculture
  - Political parties: Smallholders' Party (FKGP), Hungarian Justice and Life Party (MIEP)
  - Interest group: MAGOSZ (representing farmers and business cooperatives)
  
3. Groups that oppose Land Act revisions but are more concerned with gaining full EU accession

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<sup>36</sup> We will not rely greatly on processing industry support because a significant percentage of processors are foreign owned.

- Prime Minister
- Political parties: Young Democrats (FIDESZ), Hungarian Democratic Forum (MDF).

## I. Domestic Coalition Building Strategy

Since the coalition government holds the majority of votes, we will target it first. However, we should begin by building support for the proposed Land Act amendments within the government in order to gain leverage along party lines. The immediate goal should be to get legislators to introduce the amendment in Parliament.

### Background: Institutional Structure

The forum responsible for coordinating the Hungarian government's accession efforts is the *Inter-Ministerial Committee for European Integration (IMC)*, which is led by the head of the Ministry of Foreign Affairs' State Secretariat for Integration. The Committee is charged with decision-making related to the implementation of the Europe Agreement and with preparing Hungary for entry negotiations. The 27 inter-ministerial working groups that work within the IMC are responsible for drawing up negotiation positions. Representatives of unions, business associations and the academic community assist the work of the groups.

The *State Secretariat for Integration* is headed by a State Secretary and two deputies. It oversees the IMC and carries out tasks defined by the government and the European Integration Cabinet.

The *European Integration Cabinet* is headed by the Prime Minister. Its members include the ministers of the interior, justice, industry, trade and tourism, finance, agriculture, and foreign affairs. Its functions include discussing integration issues that require government decisions; drafting recommendations concerning integration issues and the establishment of new government institutions; and monitoring the preparation and implementation of lower-level decisions.

The *Strategic Task Force for Integration* carries out strategic research on European integration and is a part of the European Integration Cabinet to which it regularly reports.

The *European Integration Council (EIC)* was formed in July 1, 1999, to promote a public dialogue concerning accession. Members of the EIC include domestic interest groups, as well as their counterparts in the EU. The Minister of Foreign Affairs is a permanent participant, but other ministers also participate depending on the agenda. The EIC meets at least four times a year.

## **Intra-Governmental Strategy**

The goal of this strategy is to coordinate with and get support from government agencies to pave the way toward implementation of our recommendation. The ultimate goal of our intra-governmental strategy is to reach the Prime Minister and other ministers within the Integration Cabinet.

Step 1—Coordinate views within the State Secretariat for Integration. Participants in our discussions will include the Secretary of State, Dr. Péter Gottfried,<sup>37</sup> and the two Deputy Secretaries, Dr. Egon Dienes-Oehm<sup>38</sup> and Dr. László Molnár. Heads of working groups that work within the IMC on behalf of our Ministry should also be included (those such as Dr. Iván Udvardi, who is responsible for external affairs and security, and Mr. Tamás Földeák, who is responsible for cooperation on home affairs and justice). Minister of Foreign Affairs Dr. János Martonyi should be briefed on our discussions.

Step 2—Introduce our concerns to the IMC. At the next IMC meeting, Secretary of State Gottfried should introduce our concern over Hungary's large number of derogation requests. He should also request that working groups that prepare plans of alignment to provide alternatives to planned derogations. Heads of working groups from our Ministry that we involved in Step 1 should help us build support for this suggestion. Both formal and informal efforts will be necessary at this stage.

Step 3—Push the Strategic Task Force for Integration to release analyses on how much delayed accession could cost the country. Starting simultaneously with Step 1, we will need to target the Strategic Task Force for Integration. We need to push it to 1) explain how partial membership would hurt our interests and 2) focus on the effects of foreseeable derogation requests. Such information will enable the MFA to focus on eliminating the most damaging derogation requests. By the time we reach the European Integration Cabinet, proposals should be in the hands of the respective ministers on how specific transition period requests could be eliminated.

Throughout the whole process, members of the permanent delegates to the accession negotiations need to be kept apprised of our efforts.

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<sup>37</sup> Dr. Gottfried, Dr. Dienes-Oehm, and Dr. Molnár are permanent members of the Hungarian negotiating delegation.

<sup>38</sup> Dr. Dienes-Oehm is also co-head of the working group on institutions.

## Strategy for Organizing Interest Groups and Land Owners

With the goal of opening a dialogue and ultimately establishing a common platform among agricultural interest groups, we should initiate a series of roundtable discussions with these groups. A press conference should be held at the close of the initial round of discussions, at which time a joint statement should be made.

Throughout the discussions, interest groups should be encouraged to educate their membership by holding similar discussions in local fora. Government representatives should attend these local meetings to the extent possible, and local media should be invited.

### Talking Points: Points that need to be emphasized to demonstrate the benefits of amending the Land Act:

For MAGOSZ:

- The amendments will create a market for land, which, in turn, will increase the value of land and the availability of mortgage credit.
- The amendments give preference to farmers when there is competition for land acquisition.
- The amendments' settlement and education requirements will help stop land speculation.

For MOSZ:

- The amendments will create opportunities to buy land.
- The amendments' requirement for proof of necessity will give cooperatives an advantage over many other businesses.
- The amendments will increase opportunities for farmers to purchase, rather than continue leasing, land.
- The amendments will help spur development of Hungary's agricultural sector.
- The amendments will facilitate Hungary's accession to the European Community, and accession will have a positive impact on the country's economy, including our agricultural sector.

## Research Community

The academic community should be asked to generate analyses of the projected positive benefits of our recommendation (both for agricultural and other interests). It should also be encouraged to initiate research on the medium- and long-term effects of our declining agricultural population on agricultural production.

Research results should be published in journals, such as *Gazdálkodás* (Farming), *Gazdaság és Gazdálkodás* (Economy and Farming), *Gazdaság és Jog* (Economy and

Law), *Gazdaság és Statisztika* (Economy and Statistics), *Gazdaság és Társadalom* (Economy and Society), *Gazdaság, Vállalkozás, Vezetés* (Economy, Entrepreneurship, Management), etc. The Strategic Task Force for Integration also publishes a series on issues relating to EU accession. Although only a limited number of people read these journals, those who do read it are precisely those who can use and spread the information effectively.

## II. Domestic Legislative Strategy

The goal of the legislative strategy is to establish a common platform among legislators and ask for their support for withdrawing the derogation request on land acquisition. FIDESZ legislators should be our primary targets because:

- FIDESZ is the most powerful political party in the Hungarian Parliament.
- FIDESZ has expressed its strong support for family farms.
- EU accession by the target date is in FIDESZ's interest.
- If FIDESZ decides to support the amendment, the other two political parties on the government coalition will most likely join. (Except for MIEP, which represents just four percent of votes, the opposition is already likely to be in favor of changing the Land Act.)

### Strategy

FIDESZ representatives that are on the Budget and Finance, Economics, and Agricultural Committees or Subcommittees<sup>39</sup> should be given special attention.<sup>40</sup> As a first step, they should be approached informally via personal contacts. Later, once private discussions have prepared the ground, these representatives should also be invited to the Ministry of Foreign Affairs for a more formal briefing and discussion.

This strategy will need to be put into action as soon as possible because Parliament will elect the State President in June.

### Talking Points

When talking with FIDESZ legislators, we need to emphasize the elements of the recommendation that support FIDESZ/government policy and the constituencies of the representatives. We also need to stress why each element of our proposal is important because, ideally, FIDESZ should introduce the amendment, and therefore it will have an opportunity to modify our amendment.

<sup>39</sup> The role of the subcommittee is to assess the social and economic effects of laws that fall under the responsibility of the committee.

<sup>40</sup> For a list of names, see Appendix E.

- The proposal offers the opportunity to decrease Hungary's number of derogation requests and therefore an opportunity to help ensure our full EU membership by the accession target date.
- The proposal ensures that only a limited number of foreigners will be able to gain land ownership.
- The proposal ensures that speculators will not be able to bid up the price of land.
- The proposal gives priority to farmers who wish to acquire land.
- The proposal controls farmland acquisition by businesses.
- The proposal guards against undue concentrations of land ownership.
- The proposal will help establish a basis for competitive agricultural production.

### III. Domestic Public Relations Strategy

The main objective of the public relations strategy is to make certain that the Hungarian people maintain their perspective on the accession process. Legislators and the entire population have worked hard to achieve compliance with Community law. We need to remember that such compliance is not *mandated* by the EU. Rather, Hungary has decided to join the EU because it will be beneficial for Hungary.

Due to the sensitivity of the issue, no massive campaign specific to land ownership will be launched. Instead, land acquisition should be addressed indirectly through the Official Communications Strategy. However, the following actions should be taken to further raise awareness of the benefits of EU accession:

Provide the media with information. EU accession is already high on the media agenda. We will need to ensure that media outlets have accurate and abundant information on the accession process. Good ways to achieve this is through press releases and press conferences.

Improve the Official Communication Strategy. Official communications need to reach more people than they currently do.<sup>41</sup> Specifically, the Strategy should be updated to:

- *Increase the use of the broadcast media.* In addition to Hungarian National Radio, popular commercial radio stations like Radio Bridge (Budapest-centered) and Danubius Radio (countrywide coverage) should be used to disseminate information. Ads should run on Hungarian National Television, as well as commercial nationwide television stations like RTL Klub, TV2, or regional broadcasts. Commercial radio and television stations reach every layer of society and are, therefore, an effective avenue for reaching the public.

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<sup>41</sup> For details, see Appendix F.

- *Explore alternative means of advertising.* For example, billboards near smaller towns and the Budapest Metro should be used.
- *Continue MFA participation in fairs and expositions.* The same applies to “Europe Days.”
- *Continue to build awareness through the Internet.* As our coalition building increases, interest groups will post news and our negotiated common goals. So will newspapers and magazines.

Ask popular politicians to go on TV and radio to discuss the benefits of rapid EU accession and the need to reform land acquisition policies. The best person to enlist is Mr. Árpád Göncz,<sup>42</sup> our State President until August. He will most likely remain an important voice within the country even after he leaves office. He should be enlisted now, before he leaves office.

Publish a thematic brochure titled “The Hungarian Population within the EU.” The brochure should discuss Hungary’s declining population, with special emphasis on the decline of the agricultural population, and should propose various options to address this problem. The brochure can be distributed through the European Information Centers<sup>43</sup> throughout the country as well as at fairs that the Ministry of Foreign Affairs attends.

Use national and local papers to emphasize the benefits of EU membership and land acquisition policy reform. In regions where agricultural production is particularly important and where resistance to changes in land ownership policies is strongest, newspaper supplements would provide an ideal means of addressing the public directly.<sup>44</sup> Supplements could contain information similar to that contained in the thematic brochure. They could also include interviews with representatives of countries that have already applied and acceded to the EU. The interviews could explore fears regarding foreign land ownership and the extent to which these fears have or have not been realized. Nationwide papers we should focus on include:

- *Népszabadság:* the most popular (center-left) paper; one million people read it daily
- *Magyar Hírlap:* liberal / business daily
- *Magyar Nemzet:* popular daily
- *Mai Nap, Blikk* and *Kurir:* the three most popular tabloids
- *HVG:* a reliable economic weekly
- *168 óra:* a popular political weekly

<sup>42</sup> Based on results of surveys done by Szonda-Ipsos: February 2000, Népszabadság Online.

<sup>43</sup> MFA-funded centers are located in Békéscsaba, Debrecen, Eger, Kaposvár, Kecskemét, Keszthely, Nyíregyháza, Salgótarján, Szeged, Szolnok, and Zalaegerszeg. Other info centers are located in Balatonboglár, Veszprém, Kecskemét, Kaposvár, BORDÁNY, Györvár, Mórahalom, and Szepetnek.

<sup>44</sup> The Sample White Paper included at the end of this paper could be included in the supplements.

Encourage interest groups to raise EU membership and land acquisition issues with their memberships. Such groups could also organize and fund various events in the countryside.

## STRATEGY FOR ACCESSION NEGOTIATIONS

Hungary applied for European Union (EU) membership in March 1994. Its accession negotiations started in November 1998, during the EU's first enlargement round. Hungary is preparing to accede on January 1, 2002. So far, Hungary has finished nine of the 31 screenings required of accession candidates. The screenings are designed to ensure that candidates' laws and regulations conform to the 31 chapters of the EU's *acquis communautaire*, which details the laws and rules adopted on the basis of the EU's founding treaties—mainly the treaties of Rome, Maastricht, and Amsterdam.

The European Union began screening discussions with Hungary concerning the free movement of capital on September 30, 1999. Since then the Commission and Hungary have been exploring alternatives to derogations. (The content of the accession negotiations and the progress being made between sessions are confidential and not available for public review.) Talks on problematic issues will remain open until all 31 chapter screenings have gone as far as they can. At that stage, problems that remain unresolved will be negotiated as a package.

### Timing

Hungary plans to have all 31 chapter discussions opened and 15 screenings completed by the end of the Portuguese Presidency of the European Commission. Before the end of next year, Hungary would like to see all problematic issues cleared.

### EU and Hungarian Negotiators

European Union	Hungary
15 Foreign Ministers of the EU Member States <i>Jaime José Matos da Gama</i> , Chair, Minister of Foreign Affairs, Portugal <i>Hubert Védrine</i> , Chair (from July 1, 2000), Minister of Foreign Affairs, France	<i>János Martonyi</i> , Minister of Foreign Affairs
<i>Nikolaus van der Pas</i> , EU Chief Negotiator <sup>45</sup>	<i>Endre Juhász</i> , Chief Negotiator for Hungary
<i>Günter Verheugen</i> , Commissioner for Enlargement <i>Giorgio Bonacci</i> , Director of Hungary Team	Permanent members on the Hungarian negotiating team, including <i>Péter Gottfried</i> , <i>Egon Dienes-Oehm</i> , <i>László Molnár</i> , <i>Ágnes Vargha</i> , Foreign Affairs <i>Mihály Ficsor</i> , Justice

<sup>45</sup> Head of the European Commission's Task Force for Accession Negotiations.

## **Preferred Outcome**

Convince European negotiators that the proposed modifications to the Land Act will bring Hungary into compliance with Community law.

## **Best Alternative to a Negotiated Agreement (BATNA)**

If the EU does not find the proposed Land Act amendment acceptable, we will have to maintain our current request for a ten-year derogation or gain acceptance of our new amendment as a temporary solution. We may also be able to engage the EU in a discussion of how alterations to our proposal could make it a permanently acceptable solution.

## **Tactics**

We will have to explain why the proposed ownership provisions of the Land Act are still relatively restrictive. The EU needs to understand that this is the result of the many domestic factors that need to be taken into consideration. We can expect resistance to the amendment concerning the order in which the right of preemption is established (because it discriminates between private persons and companies). The following talking points should be used.

## **Talking Points**

- The main goal of our proposal is to bring our land ownership legislation into compliance with Community law. The amended Land Act will allow no discrimination between Hungarians and EU nationals.
- Article 222 of the Treaty of Rome states that the Treaty “shall in no way prejudice the rules in Member States governing the system of property ownership.” In other words, the Treaty gives each EU member the authority to establish its own laws concerning property ownership.
- The amendment provides that lessees, owners of neighboring plots, private persons registered as producers, and legal entities will be given the right of preemption for land acquisition in that order. Because persons in the first three categories (except foreign persons) are already eligible to buy land under current regulation, companies (legal entities) will gain new land acquisition rights immediately.

- Hungary plans to adopt the European agricultural model, which, as described in AGENDA 2000, is based on family farming. The preemption provisions of our proposal are necessary to ensure that family farmers will not be forced off their land.
- Giving preference to family farmers does not violate the Hungarian Constitution. When the Land Act entered into force, agricultural cooperatives turned to the Constitutional Court to test whether the Act discriminated among natural and legal persons as well as between various legal persons. The Court ruled that 1) the Land Act is not contrary to the constitutional right of equality before the law because the acquisition of property is not the only way for agricultural cooperatives to gain access to land necessary for operation,<sup>46</sup> and 2) the government has the right to design its own economic policy.<sup>47</sup>
- To acquire arable land in Denmark, farmers are required to have lived permanently (at least six months per year) for eight years on a farm, and they must have an agricultural background. The general rule is that only individuals are allowed to acquire agricultural holdings. Companies are allowed such holdings only under very strict conditions. German legislation also encourages land ownership by qualified<sup>48</sup> farmers by giving farmers priority over non-farmers when there is competition for land acquisition.
- Denmark, Germany and Spain have all included special safeguard clauses in land ownership legislation to avoid undue land aggregation. Moreover, Denmark, Germany, Ireland, Italy, Portugal, and Spain have all enacted legislation to prevent the subdivision of land.<sup>49</sup>
- In accordance with the short and medium-term goals contained in the Accession Partnership 1999, our proposal will aid the fight against organized crime and corruption, and will strengthen law enforcement. The amendment will help reduce speculative purchases and legalize pocket contracts.
- The proposal will help resolve several problems that now delay the development of a competitive agricultural sector. It will encourage land consolidation and increase the availability of credit for farmers. It will also ensure that businesses that need farmland for their operation will be able to acquire it.

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<sup>46</sup> Agricultural cooperatives are allowed to lease up to 2,500 hectares of land.

<sup>47</sup> Constitutional Court Decision 35/1994 (VI.24).

<sup>48</sup> Those with agricultural education and experience.

<sup>49</sup> Main source: "Adjustment in OECD Agriculture," *OECD*, 1998.

## **TIMELINE**

### **2000**

#### **MAY**

Hungary-EU Chief Negotiators Round (entire month).

May 4—Coordinate within the State Secretariat for Integration at the Ministry of Foreign Affairs.

State Secretary discusses the issue of Hungary's high number of derogation requests at the next Inter-Ministerial Committee for European Integration meeting.

Start legislative strategy.

Push the Strategic Task Force for Integration to prepare analyses.

Towards the end of May, Ministers in the European Integration Cabinet receive strategy proposals on how certain transition period requests could be eliminated.

#### **JUNE**

Roundtable discussions begin within the European Integration Council.

June 14—Hungary-EU Ministers' roundtable.

June 19-20—Meeting of the European Council.

Revise communications strategy and structure it according to the progress made on the other elements of our strategy.

(Election of State President in the Parliament.)

All 31 chapters open and 15 screenings completed.

#### **JULY**

July 1—French presidency begins.

**JULY-DEC.** Problematic issues negotiated as a package (continues into 2001).

### **2001**

#### **DEC.**

Draft accession treaty approved by the Council and the European Parliament, referendum held in Hungary, ratification process in member states nearly completed.

#### **JAN. 1**

Accession.

## **SAMPLE WHITE PAPER<sup>50</sup>**

### **Hungary's EU Accession Bid: The Need to Revise our Policy on Foreign Land Ownership**

Since our political reorganization in 1989, Hungary has been following a new path—the path of Euro-Atlantic integration. Over a year ago, our country became a member of the North Atlantic Treaty Organization. By January 1, 2002, we hope to become a full member of the European Union.

Such membership, however, will require that Hungarian law conforms with European Community law. While we can request transition periods to give ourselves time to implement changes in our laws, the European Union will not agree to permanent derogations from Community law. Indeed, the Community has strict policies on transition periods, requiring that they be limited in number, short in duration, and accompanied by a plan of alignment. Further, a large number of transition period requests may endanger Hungary's accession by the target date.

In order to ensure our speedy entry into the European Community, preferably by the target date, we must reserve our derogation requests for those areas in which we lack the means to immediately come into conformity with Community law. In all other areas, we should change our laws and policies as swiftly as possible.

Our derogation request on land ownership policy is one request that Hungary could withdraw immediately. By making some basic changes to the Arable Land Act of 1994, we could quickly bring this legislation into conformity with Community law—and this wouldn't even mean we would have to open our doors to foreign land speculators. With carefully crafted provisions, the Land Act can ensure that those who are truly devoted to family farming in Hungary—those who have already demonstrated their commitment to living on and operating Hungarian farms—will have the best chance of acquiring Hungarian farmland.

#### **EU Accession Requirements**

Community law requires member countries to ensure nondiscrimination, the free movement of capital, and the freedom of establishment. Current Hungarian law, however, bars foreigners and domestic businesses from acquiring arable land, and rather than immediately changing our law, we have requested a ten-year transition period for doing so.

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<sup>50</sup> To be published in regional (county) papers and other informational publications. For more on the media strategy, see Strategy/Domestic Public Relations Strategy.

The request has met strong opposition from the EU—partly because it is our longest derogation request, partly because it came on the heels of a Polish request for an 18-year derogation on land acquisition policy, and partly because the EU has long been struggling to ensure that its current members do not maintain restrictive land acquisition policies. The EU’s concern in this area is reflected by the large number of relevant cases currently before the European Court of Justice.

### **The Domestic Effects of Hungary’s Current Land Ownership Laws**

Hungary is blessed with particularly fertile land and an educated agricultural workforce that feels a strong emotional attachment to the land. Yet Hungary’s agriculture sector faces some major challenges. Many farmers lack capital and credit to purchase viable land parcels and up-to-date farm equipment, and most landowners who received their land via compensation packages are not interested in agricultural production but are nonetheless unwilling to sell their land because land prices are so low. If landowners choose to lease their land, it often is exploited since the usual ten-year leasing terms do not encourage long-term investment. Many who do decide to sell end up making a deal with a domestic speculator or a foreigner via an illegal pocket contract.

All these conditions delay our farmers’ ability to prepare for the competition they will face as soon as we enter the European Union—just a few months from now. Moreover, the current land acquisition laws that perpetuate many of these conditions are not even accomplishing what they are intended to do. Foreigners already own some five to eight percent of all Hungarian farmland, and because many landowners are not farmers, they are not concerned with the long-term health of their land.

### **Recommendation**

In order to support the development of a competitive agricultural sector, Hungary needs to act now to update the farmland ownership provisions of the Arable Land Act of 1994:

- We should only allow arable land acquisition by those who have had—for at least three years prior to the acquisition—permanent or temporary residence on a farm in the nearest settlement, or in the 30-kilometer district in which the land is located. Prospective owners should be required to be educated in agricultural production.
- We should allow businesses to acquire land if they can show that farmland use is essential for their business activity and that they have at least one managerial level employee who has a background in agricultural production.

- We should establish a right of preemption and give preemption preference in the following order: lessee, owner of neighboring plot, private producer, business.
- To ensure that land does not become overly consolidated in the hands of a few individuals or businesses, we should limit land acquisitions to 300 hectares, unless the relevant local government provides authorization for a larger sale.

By making these changes to the Land Act, Hungary can help ensure that it will gain full EU membership by the target accession date while, at the same time, facilitating the development of a competitive agricultural industry. The proposed changes will encourage land transfers, which, in turn, will push up land prices and spur the development of a market for mortgage-based credit—credit that farmers need to be able to purchase and consolidate land parcels, and to invest in up-to-date farming equipment. Because the proposed changes require that land purchasers have an agricultural education or background, they also leave foreign and Hungarian speculators less opportunity to acquire land.

Indirectly, the proposed changes will also:

- Help prepare Hungarian farmers for the increased competition they will face upon full accession to the EU.
- Ensure that our farming sector will be able to meet increasing domestic demand for food (due to increasing income levels) and to meet the needs of our growing food processing industry.
- Strengthen our farming cooperatives by creating opportunities for them to purchase (rather than lease) land.
- Encourage long-term investment in the farming sector.

Hungary has come a long way since 1989. Legislators, the government, and the Hungarian people have worked hard to push the country toward EU accession. Let us keep the momentum to make our country “officially” a part of Europe.

## APPENDICES

- Appendix A: EU Accession Procedures
- Appendix B: Background: EU-Hungary Relations
- Appendix C: Hungarian Preparations for Accession
- Appendix D: Background: Hungary's Parliament
- Appendix E: Names of FIDESZ Parliamentary Committee Members
- Appendix F: Official Public Relations Strategy
- Appendix G: Land Privatization Results
- Appendix H: Farm Structures in Hungary
- Appendix I: Special Accession Programme for Agriculture and Rural Development (SAPARD)
- Appendix J: Land Offices Computerization Project

## APPENDIX A

### EU ACCESSION PROCEDURES

#### **Preparing for Accession Negotiations**

When a country joins the Union, it is expected to accept the EU's *acquis communautaire*, which details the laws and rules adopted on the basis of the EU's founding treaties—mainly the treaties of Rome, Maastricht, and Amsterdam.

However, the conditions under which individual applicant countries will adopt, implement and enforce the *acquis*, including the possibility of transitional arrangements, are negotiated.

The first step in preparing for these negotiations is a screening process through which the EU and applicant country identify issues that will need to be addressed in the negotiations. Commission experts give a detailed presentation on each of the 31 chapters of the *acquis* in a multilateral meeting. In bilateral sessions, the applicant is then asked how and when it will be able to comply with each chapter of the *acquis*.

The Commission prepares a report on these discussions for each chapter of the *acquis*. The report identifies problems likely to arise in the negotiations and contains Commission comments on 1) the problems that have been identified and 2) the information supplied by the applicant countries concerning their legislation and implementation capacity.

Upon reviewing these reports, member states then decide whether to open negotiations on a particular chapter of the *acquis*. The decision needs to be unanimous and must be made when applicant countries present their negotiating positions to the Council.

#### **The Negotiations**

Negotiation sessions are held at the level of ministers or deputies, i.e. permanent representatives for the member states, and ambassadors or chief negotiators for the applicants.

The Commission proposes common negotiating positions for the EU for each chapter of the *acquis*. The President of the Council makes position proposals for the chapters concerning the Common Foreign and Security Policy and co-operation in justice and home affairs. Negotiating positions must be unanimously approved by the member states.

The results of the negotiations are incorporated in a draft accession treaty. This is submitted for approval first to the Council and then to the European Parliament. After

signature, the accession treaty is submitted to the EU member states and to the applicant country for ratification (which in some countries requires a referendum). The treaty takes effect on an agreed accession date.

### **Transition Periods**

The European Union has a dual policy on transition periods for new member states. In “areas related to the functioning of the Single Market,” the Union allows only a few relatively short transition periods. In “areas that require substantial effort” or substantial financial expenditures (areas such as environment, energy, and infrastructure), longer transition periods are allowed, but a timetable for compliance with Community law needs to be defined and candidates must show that alignment is underway.

### **Pre-Accession Financial Support**

In addition to PHARE (Poland, Hungary: Assistance for the Restructuring of the Economies), with its budget of some 1.5 billion euros per year, the European Union has established two other pre-accession financial assistance programs:

- Agenda 2000 created the Instrument for Structural Policies for Pre-Accession (ISPA), which has a budget of some one billion euros per year for the period 2000-2006. This aid is directed mainly towards infrastructure standards but also can be used for developing transportation infrastructures and environmental protection projects (in conjunction with the Cohesion Fund). ISPA comes under the responsibility of the Directorate General for Regional Policy.
- The Special Accession Programme for Agriculture and Rural Development (SAPARD) aims to help candidate countries address structural adjustment problems in their agricultural sectors and rural areas. SAPARD assistance amounts to 500 million euros annually and comes under the responsibility of the Directorate General for Agriculture.

## APPENDIX B

### **Background: EU-Hungary Relations**

Diplomatic relations between Hungary and the European Communities were established in 1988. In September of the same year, a commercial and economic cooperation agreement was signed. Since then, a number of agreements have been signed that put Hungary on track for eventual EU membership.

#### **PHARE**

In 1990, the European Union launched PHARE (Poland, Hungary: Assistance for the Restructuring of the Economies) to help Poland and Hungary promote social and economic reforms in preparation for integration into the Union. Initially, the program focused on the establishment of governmental institutions that would be required for the transition to a market economy. Since 1995, PHARE's emphasis has shifted to investment and financial subsidies for infrastructure development, environmental protection, and privatization.

#### **Europe Agreement**

The Europe Agreement between Hungary and the EU, signed in Brussels on December 16, 1991, provides the legal foundations for relations between Hungary and the EU, including its member states. The Agreement covers trade-related issues, political dialogue, legal approximation, and other areas of cooperation including industry, environment, transport and customs. It aims to progressively establish a free-trade area between the EU and Hungary on the basis of asymmetric reciprocity. (Full liberalization is not envisaged for trade in agricultural produce or processed foodstuffs.)

The commercial and economic chapters of the Europe Agreement came into force on March 1, 1992. The full agreement took effect on February 1, 1994, after ratification by the EC members and the Hungarian Parliament.

On March 31, 1994, the Hungarian Government submitted to the European Council an official application for EU membership.

#### **Accession Criteria**

In June 1993 in Copenhagen, the European Council decided to launch a structured, multilateral dialogue between the European Union and the associated countries of Central and Eastern Europe. The dialogue includes an annual meeting with the heads of state and governments of the associated countries (to be held in conjunction with European

Council meetings). Foreign, interior, and justice ministers each meet twice a year; other ministers meet once a year.

At the same June 1993 meeting, the European Council also decided on the conditions for allowing countries to become European Union members. Referred to as the “Copenhagen Criteria,” these conditions assume that each candidate country:

- Has established stable institutions that guarantee democracy, the rule of law, human rights, and respect for and protection of minorities;
- Has established a functioning market economy, as well as the capacity to cope with competitive pressures and market forces within the Union;
- Is able to take on the obligations of membership, including adherence to the aims of political, economic and monetary Union; and
- Has created the conditions for its integration through the adjustment of its administrative structures, so that European Community legislation transposed into national legislation is implemented effectively through appropriate administrative and judicial structures.

## APPENDIX C

### **Hungarian Preparations for Accession**

Hungary has already made great strides toward becoming an EU member state:

#### **Economic Stabilization Program**

Thanks to the economic stabilization program of March 1995, Hungary has already established a basis for sustainable economic progress. As a result of the stabilization program, exports have risen faster than imports, the budget deficit has stayed within the envisioned limits, product competitiveness has improved, inflation has eased, and the stock of foreign direct investment has grown.

#### **Legal Approximation**

Since the Europe Agreement was signed in 1994, Hungary has made substantial efforts to harmonize its laws with Community law. Legal approximation has continued based on the recommendations laid out in the EU's 1995 White Paper, "Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union."<sup>51</sup>

#### **Communication Strategy**

In April 1995, the "Government Communication Strategy for Preparing for Hungary's Accession to the European Union" was approved. The strategy was subdivided into three stages.

- The first stage was to last until the entry negotiations; it aimed to spread impartial information about the European Union and Hungary's integration efforts.
- The next stage of the Strategy is aimed at enabling Hungarian citizens to develop informed opinions about the possibility of Hungarian accession.
- The final, mobilizing stage will encourage citizens to vote in the accession referendum.

#### **Training Civil Servants**

PHARE's Euro-General Technical Assistance Facility Programme began training Hungarian civil servants in 1995. The initial training focused on preparing civil servants

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<sup>51</sup> The White Paper is a general reference document for all candidate countries. It provides an accession orientation, which sets out the key elements of the existing body of Community law to be adopted in each sector. It also identifies the necessary conditions for a properly functioning Single Market after enlargement.

for the entry negotiations. There is, however, much work to be done to ensure that the staffs of the Hungarian ministries and other central bodies have thorough, specialized knowledge of how the European Union works. This includes the operation of Community institutions, their decision-making mechanisms, and the avenues through which member states assert their interests. The intensive study of Community languages is also essential.

### **Preparing the Institutional System**

- The *Inter-Ministerial Committee for European Integration* (IMC) led by the head of the Ministry of Foreign Affairs' State Secretariat for Integration coordinates Hungary's integration effort. The IMC is charged with the coordination of government tasks, as well as with decision-making related to the implementation of the Europe Agreement and Hungary's preparations for entry negotiations. Twenty-seven inter-ministerial working groups work within the IMC to draw up negotiating guidelines. Representatives of unions, business associations and the academic community assist the work of the groups.
- The *State Secretariat for Integration at the Ministry of Foreign Affairs*, headed by a State Secretary with two deputies, acts as an inter-ministerial coordinating body for the pre-accession process. The Secretariat carries out tasks defined by the government and the European Integration Cabinet.
- The *European Integration Cabinet* is headed by the Prime Minister. Its members include the ministers of the interior, justice, industry, trade and tourism, finance, agriculture, and foreign affairs. Its functions include drafting recommendations concerning integration issues and the establishment of new government institutions and overseeing the preparation and implementation of lower-level decisions.
- The *Strategic Task Force for Integration* carries out strategic research on European integration and is a part of the European Integration Cabinet, to which it regularly reports.

## APPENDIX D

**Background: Hungary's Parliament****Current Political Parties with Seats in the Hungarian Parliament  
(Since May 1998)**

<b>Name of Party</b>	<b>Seats</b>
Alliance of Young Democrats, conservative liberal, FIDESZ-MPP	148
Hungarian Socialist Party, socialist, MSZP	134
Independent Party of Smallholders, Agrarian Workers and Citizens, agrarian conservative, FKgP	48
Alliance of Free Democrats, liberal, SZDSZ	24
Hungarian Justice and Life Party, nationalist, MIEP	14
Hungarian Democratic Forum, conservative/Christian-democratic, MDF	17

**Previous Election Results<sup>52</sup>****Election 1990 (first free election since change of the political system)**

<b>Name of Party</b>	<b>Total Number of Mandates</b>
MDF	164
SZDSZ	92
FKgP	44
MSZP	33
FIDESZ	21
KDNP	21
Agrarian association	1
Independent	6
Common candidate	4

The government was formed by a MDF / FKgP / KDNP coalition.

<sup>52</sup> Source: *Distribution According to Parties of Mandates received in 1990 and 1994*. Ministry of Interior. [www.election.hu/v98stata/1990pmand.htm](http://www.election.hu/v98stata/1990pmand.htm) and [www.election.hu/v98stata/1994pmand.htm](http://www.election.hu/v98stata/1994pmand.htm)

**Election 1994**

<b>Name of Party</b>	<b>Total Number of Mandates</b>
MSZP	209
SZDSZ	69
MDF	38
FKgP	26
KDNP	22
FIDESZ	20
Agrarian association	1
Common candidate	1

The government was formed by a MSZP / SZDSZ coalition.

## APPENDIX E

**Names of FIDESZ Parliamentary Committee Members****1. Budgetary and Finance Committee**

Mádi, László, Vice Chairman  
Arnóth, Sándor, Member  
Babák, Mihály, Member  
Balsay, István László, Member  
Dr. Hargitai, János, Member  
Dr. Kerényi, János, Member  
Lenártek, András, Member  
Rákos, Tibor, Member  
Rogán, Antal, Member  
Dr. Rubovszky, György, Member  
Tállai, András, Member

**1.a. Sub-Committee for European Integration Affairs**

Mádi, László, Vice Chairman  
Lenártek, András, Member  
Tállai, András, Member

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**2. Economics Committee**

Dr. Latorcai, János, Chairman  
Balla, György, Member  
Domokos, László, Member  
Dr. Horváth, János, Member  
Ivanics, István, Member  
Lázár, Mózes, Member  
Márton, Attila, Member  
Nógrádi, László, Member  
Rigler, Zoltán, Member  
Várkonyi, András, Member  
Végh, László, Member

**2.a. Sub-Committee for the Implementation of Legislation and the Monitoring of its Social and Economic Impact**

Ivanics, István, Chairman  
Dr. Horváth, János, Member  
Nógrádi, László, Member  
Várkonyi, András, Member  
Végh, László, Member

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## **2.b. Sub-Committee for European Integration**

Dr. Horváth, János, Chairman

Várkonyi, András, Member

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## **3. Constitutional and Justice Committee**

Dr. Rubovszky, György, Vice Chairman

Dr. Szakács, Imre, Vice Chairman

Dr. Répássy, Róbert, Vice Chairman

Dr. Dorkota, Lajos, Member

Dr. Gyimesi, József, Member

Dr. Helmeczy, László, Member

Dr. Juharos, Róbert, Member

Dr. Koczka, Csaba, Member

Kozma, Péter, Member

Dr. Mátrai, Márta, Member

Dr. Mikes, Éva, Member

Dr. Salamon, László, Member

Dr. Szabó, Erika, Member

Dr. Répássy, Róbert, Member

Várkonyi, András, Member

Dr. Vitányi, István József, Member

## **3.a. Sub-Committee for European Integration**

Dr. Vitányi, István József, Chairman

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## **4. Agricultural Committee**

Farkas, Sándor, Chairman

Bebes, István, Vice Chairman

Czerván, György, Member

Dr. Györkös, Péter, Member

Járvás, István, Member

Dr. Pap, János, Member

Dr. Szabó, József Andor, Member

Szabó, Ferenc, Member

Tóth, András, Member

## **4.a. Sub-Committee for EU Accession and Foreign Trade**

Glattfelder, Béla, Chairman

Bebes, István, Member

Dr. Szabó, József Andor, Member

## APPENDIX F

### Official Public Relations Strategy

In April 1995, the Inter-Ministerial Committee for European Integration approved a governmental campaign to prepare the public for European Union accession. The campaign design was based on survey results that mapped Hungarian public attitudes towards and general knowledge of EU accession.

The campaign started in January 1996 and has been funded from two sources: the central budget and EU PHARE. (The Hungarian government provided HUF 214.1 million in 1999; PHARE provided ECU 794,000 in 1997 and 1998.) The main aim of the campaign is to achieve the popular support necessary to pass a referendum on EU accession. (The referendum will be held after accession negotiations are completed.)

The campaign is divided into three phases. The first, informational phase lasted until the beginning of the negotiations and aimed to provide general knowledge of and arouse public interest in the EU. The second phase is designed to help people develop informed opinions on accession. The final phase, which will start at the conclusion of negotiations, aims to mobilize people to vote “yes” in the accession referendum.

The Minister of Foreign Affairs oversees the campaign. The EU Political Relations Division within the Ministry is responsible for its coordination (planning, legal and financial management, supervision, and evaluation). The Ministry supports concrete ideas and not institutions or organizations. Proposals must fulfill two distinct criteria. First, they have to target a defined population segment—the general public, rural society, youth, the teaching community, journalists, entrepreneurs, etc. Second, they must possess highly informative content regarding the EU.

#### Realization of the Campaign

- The Ministry of Foreign Affairs has published 17 thematic brochures covering topics of great importance to the EU and/or Hungary.<sup>53</sup> It has also provided funding for several other publications.
- The Ministry has established cooperative relations with the representatives of regional and countrywide press outlets and has sent EU attachments for interviews with a number of newspapers.

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<sup>53</sup> They cover areas such as the CAP; Hungarian agriculture and the EU; consumer protection within the EU; travel within the EU; the EU in brief, etc.

- The Ministry has also established cooperative relations with many representatives of the electronic media, including Hungarian National Radio, Hungarian National Television, and Duna TV.<sup>54</sup>
- The Ministry participates regularly in fairs and expositions with its own “Europe Booths.”
- During 1999, nearly 100 informational events were held all over the country. The Ministry has put emphasis on regional information distribution. “Europe-Days”<sup>55</sup> organized by non-governmental organizations have been held throughout the country. European Information Centers have also been established regionally.

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<sup>54</sup> A satellite TV channel that broadcasts in Hungarian.

<sup>55</sup> Europe Days are a result of cooperation between the Hungarian Ministry of Foreign Affairs and the Budapest Delegation of the European Commission. The main aim of these events is to make the public aware of what it will mean for Hungary to become an EU member.

## APPENDIX G

### Land Privatization Results

#### Farm Types Before Privatization

##### Large scale farms

- 121 state farms accounted for about 14 percent of all farmland and 15 percent of agricultural output.
- 1,200 co-operatives accounted for about 80 percent of farmland and 50 percent of output.

##### Individual small plots

- “Auxiliary” private farms (mostly part-time operations) accounted for 6 percent of farmland and 35 percent of output.

Household farms and state farms/co-operatives maintained highly integrated production relations.

#### Farm Types After Privatization

As a result of privatization, 5.1 million hectares of land have been allocated to former collective members or privatized through auctions, and 2.2 million land titles have been distributed.

- The main types of farms now are corporations, co-operatives, and private (individual) farms, with private farms accounting for over half (approximately 57 percent) of total agricultural output.
- As compensation for past expropriations, 2.5 million hectares of land were divided among 600,000 individuals (an average of 4.2 hectares per person). Many of these individuals do not work in agriculture.
- As a result of the first phase of collective farm reorganization, which was completed in 1995, 2.1 million hectares of former collective farm land were divided among 1.3 million people (an average of 1.6 hectares per person). Of the initial assets, 41.4 percent was given to active collective members, 38.7 percent to previous owners, and 14.4 percent to former members. Only about 15 percent of collective members left the collectives, one-third of which created smaller co-operatives or partnerships. New co-operatives are still in the process of establishing themselves.
- Half a million hectares of state-owned land were divided among 300,000 collective workers and state employees that did not formerly own land (an average of 1.7 hectares per person). The initial phase of state farm privatization was completed in

1996 when only 28 out of the initial 121 farms (just two percent of farmland) remained in majority state ownership.

### **Characteristics of Privatized Land**

As a result of privatization, there are 1.5 million landowners in Hungary who, on average, own less than five hectares apiece. Hungarian Chamber of Agriculture data indicate that 11 percent of total arable land is in plots of less than one hectare each. Fifty-two percent of total farmland is made up of plots of less than 10 hectares.<sup>56</sup> (In the European Union, farms of five hectares or less account for just six percent of farmland. Those under 10 hectares constitute just 12 percent.)

Not only are plot sizes small, but a single owner's land may be dispersed over several locations as a result of the compensation process. While 70 percent of newly privatized land remains collectively cultivated, efficient production is impossible on plots that are too small in size and where capital is lacking. As noted in a June 1998 Commission Report,<sup>57</sup> "a new category of full-time commercial private farms" has emerged in Hungary and these farms—which are approximately 10 hectares in size—are likely to face difficulties in the near future "due to their limited investment capacity and the shortcomings of the rural infrastructure."

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<sup>56</sup> *Módosítandó földtörvény*, Világgazdaság Európai Unió Melléklet, 03.24.1999., [www.vilaggazdasag.hu/melleklet/eu/19990324/modosit.htm](http://www.vilaggazdasag.hu/melleklet/eu/19990324/modosit.htm)

<sup>57</sup> Commission of the European Communities, DG VI-Agriculture Working Document "Agricultural Situation and Prospects in the Central European Countries (1998 update), Hungary, June 1998."

## APPENDIX H

### Farm Structures in Hungary

The issue of farming structures is highly politicized. There has been a tendency to view cooperatives as “leftovers” of the former regime and, therefore, highly undesirable, even though large farms still provide the majority of agricultural export production and tend to be better equipped with more environmentally friendly technologies than smaller farms. Indeed, small, usually inefficient family farms produce almost exclusively for subsistence or local markets only, and not even all medium-sized family farms are part of the legal economy. Many small and medium farms do not request and provide receipts or pay taxes, and local authorities find it hard to enforce any requirements related to, for instance, health or environmental protection. Small, part-time farms do, however, carry an important social role in Hungary.

#### Hungary’s Cooperatives

There are two kinds of cooperatives in Hungary. The cooperatives inherited from the socialist system are agricultural *production cooperatives*. A new, emerging type are the so-called *service cooperatives* that perform supply, collection, marketing, processing and other services. The newly formed service cooperatives, since they were created by market forces (or in response to incentives provided by the government), generally reflect characteristics of their Western counterparts. The existence of agricultural production cooperatives continues to be questioned, although they still account for 24 percent of Hungarian farmland.<sup>58</sup>

The primary distinctions between old socialist and Western-type cooperatives are self-governance and effective property rights.<sup>59</sup> Entrepreneurship is typical in Western-type cooperatives, both at the member and cooperative levels. Hungarian agricultural production cooperatives often lack adequate incentives for entrepreneurship since profits are divided based on shares and not on the basis of labor. In too many cases, former socialist management structures have remained in control, which has added to farmers’ distrust of cooperative activity. Many cooperatives also lack sufficient homogeneity to create common goals and efficient production systems.

New agricultural production cooperatives are no longer being created. However, there is a great deal of work to be done to ensure that existing cooperatives are converted into economically productive units. In order to homogenize membership, retired farmers and urban compensation heirs need to be offered attractive divestment incentives. The

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<sup>58</sup> *Agricultural Cooperatives in Central Europe: Structural Reform in Preparation for EU Accession*, Onno-Frank van Bekkum & Gijs Schilthuis, [www.nijenrode.nl](http://www.nijenrode.nl), p.3.

<sup>59</sup> *Ibid.* p.2.

cooperatives' role in providing employment and support for the elderly needs to be addressed. Nearly two-thirds of cooperative membership is now retirement-age.

The long-term survival of larger farms is expected. However, to ensure this survival after EU accession, the transformation that has already started will have to continue. Cooperatives will need to be allowed to reorganize freely.

It is little known that agricultural production cooperatives also exist in Western Europe. A large number of cooperatives exist in northern Italy, and there are quite a few smaller cooperatives in France. In the former East Germany, production cooperatives are, on average, 1,500 hectares apiece, and they cultivate 36 percent of all German farmland. Because these Western cooperatives enjoy EU common market benefits,<sup>60</sup> Hungary, too, should be able to ensure the existence of its agricultural production cooperatives, even after EU accession.

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<sup>60</sup> Source: *Szövetkezetek az Európai Unióban*, [www.omgk.hu](http://www.omgk.hu).

## APPENDIX I

### **Special Accession Programme for Agriculture and Rural Development (SAPARD)<sup>61</sup>**

The European Union established SAPARD in the Agenda 2000 framework to help accession candidates prepare to implement the Common Agricultural Policy and the single market. The instrument was designed to fund structural adjustment and rural development programs for a seven-year term. The Commission assesses and approves projects proposed by applicants, and the Community will fund up to 75 percent of total public expenditure for approved projects.

SAPARD funds cover, among other things:

- Investment in agricultural holdings;
- Diversification of economic activities to develop alternative sources of income;
- Farm relief services and farm management services;
- Land improvement and reparation; and
- Development of land registration systems.

Hungary has been allocated an annual amount of 38,054 million euros in SAPARD assistance until 2006. Evaluation of the Hungarian program is expected to be completed by June, and the actual support is anticipated to be paid starting in October. In the first half of the program, more than 60 percent of the funds are expected to be spent on restructuring of agricultural production. In the second half, regional development will be favored.

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<sup>61</sup> This brief summary is based on two articles. *Commission Proposes New Farm Funding Rules for Candidate Countries*, Brussels, 26 January 2000, europa.eu.int (press release); and *Októbertől Sapard-pénzek*, HVG, January 29, 2000.

## APPENDIX J

### **Land Offices Computerization Project**

In March 1992, a Land Offices Computerization Project was adopted as an EU PHARE supported priority program within Hungary's Ministry of Agriculture. The project complemented overall reform of the land tenure system by developing a system for recording and tracking land ownership. As part of the project, technical assistance, supplies, and services were provided. Hungary has 19 county land offices, 115 district land offices, one capital land office (Budapest), and one capital district land office.

Even with this support, however, Hungary did not finalize and publish a coherent national strategy for modernizing its land registration system until 1996, and this delay has seriously slowed the establishment and development of the land market.

PHARE supported the Land Offices Project because of its importance to both agricultural reform and rural development in the short term. The overall importance of such program is, however, that it helps stimulate the development of a market economy. The PHARE report notes the absence of a land market in Hungary and the fact that the country has no institutions to handle land mortgages. The text points out that a revised and harmonized system of land regulation still needs to be established. Moreover, in order to encourage inward direct foreign investment, the issue of foreign ownership will need to be considered.

The Land Offices Project has yet to have an effect on the development of land and real estate markets, however, largely because Hungary still lacks the comprehensive kind of legal, administrative, and institutional framework needed for a functioning land market. Project evaluators have noted that the project was too focused on computerizing the land registration system and did not put enough effort into consideration of legal, institutional and managerial issues. Other policy instruments and institutions that are lacking include financial institutions, valuation methodologies, and land use and development zoning.

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## Negotiation Chart

Preferred Outcomes:

**Support a non-discriminatory Land Act:** Ministries of Foreign Affairs, Justice, Economics, Finance; MSZP, SZDSZ, MOSZ, Processing industry, Hungarian landowners, EU.

**Defeat a non-discriminatory Land Act:** Ministry of Agriculture, FKGP, MIEP, MAGOSZ.

**Ensure EU accession:** Prime Minister, FIDESZ, MDF.

People	Interests	Options	BATNA	Objective Criteria
<p><b>Ministry of Foreign Affairs</b></p>	<ul style="list-style-type: none"> <li>• EU accession</li> <li>• Accede in the first round</li> <li>• Accede as a full member</li> <li>• Decrease number of derogations</li> <li>• Achieve domestic consensus to eliminate the longest derogation request (land acquisition)</li> <li>• Maintain a positive country image abroad</li> <li>• Maintain positive EU image in Hungary</li> <li>• Accede within the current parliamentary cycle</li> <li>• Make EU accept amended Land Act</li> </ul>	<p><u>Domestic</u></p> <ul style="list-style-type: none"> <li>• Ask for Prime Minister's support to speed up preparation for accession</li> <li>• Build coalition with other government agencies</li> <li>• Build consensus with legislators</li> <li>• Build consensus with political parties</li> <li>• Build consensus with interest groups</li> <li>• Fund the publication of impact studies by the academic community on the effects of delayed accession and population decrease</li> <li>• Continue to build public support for early EU accession</li> <li>• Status quo</li> </ul> <p><u>Towards EU</u></p> <ul style="list-style-type: none"> <li>• Show proof of strong momentum for early accession</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo: maintain derogation request</li> <li>• Make our proposed amendment accepted as a temporary solution.</li> </ul>	<ul style="list-style-type: none"> <li>• Hungarian Land Act</li> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• OECD commitments</li> <li>• January 1, 2002: target date for accession</li> </ul>

		<ul style="list-style-type: none"> <li>• Take a cooperative attitude</li> <li>• Continue discussions with the Commission and consider their suggestions</li> </ul>		
<b>Prime Minister</b>	<ul style="list-style-type: none"> <li>• EU accession</li> <li>• Accede within the current parliamentary cycle</li> <li>• Accelerate the legal harmonization process to maintain target date for accession</li> <li>• Get reelected</li> <li>• Maintain consensus within the government coalition</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage ministries to propose plans of alignment to decrease the number of derogations</li> <li>• Build consensus with party leaders</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Political elections May 2002</li> <li>• January 1, 2002: target date for accession</li> <li>• Popularity index</li> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• OECD commitments</li> </ul>
<b>Ministry of Justice</b>	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Accelerate the legal harmonization process to maintain target date for accession</li> <li>• Ensure constitutionality</li> <li>• Fight against illegality</li> <li>• Accede within the current parliamentary cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Support the bill</li> <li>• Ask for Prime Minister's support to speed up legal harmonization</li> <li>• Build coalition with other ministries</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Hungarian Constitution</li> <li>• Current Hungarian legal framework</li> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• OECD commitments</li> <li>• January 1, 2002: target date for accession</li> </ul>
<b>Ministry of Economics</b>	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> </ul>	<ul style="list-style-type: none"> <li>• Support the bill</li> <li>• Build coalition with other</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Impact studies on the short, medium and long term effects</li> </ul>

	<ul style="list-style-type: none"> <li>• Continue growth of the economy</li> <li>• Attract investors</li> <li>• Promote trade with EU</li> <li>• Increase quality and output of agricultural production to raise competitiveness</li> <li>• Increase welfare</li> <li>• Secure employment / decrease unemployment</li> <li>• Accede within the current parliamentary cycle</li> </ul>	<ul style="list-style-type: none"> <li>• ministries</li> <li>• Provide Prime Minister with impact study on the anticipated effects of the bill</li> <li>• Status quo</li> </ul>		<ul style="list-style-type: none"> <li>• of EU accession on employment, income, investment, agricultural production</li> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• OECD commitments</li> <li>• January 1, 2002: target date for accession</li> <li>• Land prices in the EU</li> <li>• Capital endowment of EU nationals</li> </ul>
<b>Ministry of Finance</b>	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Enable the free flow of capital</li> <li>• Close the negotiating chapter with the EU on the free movement of capital</li> <li>• Attract investment</li> <li>• Accede within the current parliamentary cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Support the bill</li> <li>• Build coalition with other ministries</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Achievements in the field of liberalization of capital movements</li> <li>• OECD commitments</li> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• Land prices in the EU</li> <li>• Capital endowment of EU nationals</li> </ul>

				<ul style="list-style-type: none"> <li>January 1, 2002: target date for accession</li> </ul>
<b>Ministry of Agriculture and Rural Development</b>	<ul style="list-style-type: none"> <li>EU accession in the first round</li> <li>Fight against pocket contracts and speculation</li> <li>Favor family farms and business cooperatives</li> <li>Favor Hungarian land in Hungarian hands</li> <li>Regain the strong position of agriculture within the economy</li> <li>Increase quality and output of agricultural production to raise competitiveness</li> <li>Achieve rural development</li> </ul>	<ul style="list-style-type: none"> <li>Support the bill</li> <li>Oppose the bill</li> <li>Status quo</li> </ul>	<ul style="list-style-type: none"> <li>Status quo</li> </ul>	<ul style="list-style-type: none"> <li>Data on current output level</li> <li>Analysis on the percentage of land that could get into foreign ownership</li> <li>Analysis on the percentage of land that could get into cooperative ownership</li> <li>Community law</li> <li>Europe Agreement</li> <li>Precedent cases (Case law)</li> <li>Land ownership legislation of EU member states</li> <li>EU White Paper on Enlargement</li> <li>Negotiations during previous enlargements</li> <li>OECD commitments</li> <li>Land prices in the EU</li> <li>Capital endowment of EU nationals</li> <li>January 1, 2002: target date for accession</li> </ul>
<b>Political parties</b>				
<b>FIDESZ</b> (Center-right, strongest in government coalition: Alliance of Young Democrats)	<ul style="list-style-type: none"> <li>EU accession in the first round</li> <li>Keep target date for accession</li> <li>Represent the interests of the middle (and higher) class urban population</li> <li>Increase membership</li> <li>Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>Support the Government</li> <li>Status quo</li> </ul>	<ul style="list-style-type: none"> <li>Status quo</li> </ul>	<ul style="list-style-type: none"> <li>Political elections May 2002</li> <li>Popularity index</li> </ul>

<b>FKGP</b> (Right wing: Smallholders' Party)	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Keep target date for accession</li> <li>• Represent the interests of (small but rather) medium farmers</li> <li>• Increase membership</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Support the Government, especially the party leader, Mr. Torgyan, Minister of Agriculture and Rural Development</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Current Land Act</li> <li>• Polish derogation request</li> <li>• Regulation of land ownership acquisition in EU member states</li> <li>• Political elections May 2002</li> <li>• Popularity index</li> </ul>
<b>MDF</b> (Conservative: Hungarian Democratic Forum)	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Keep target date for accession</li> <li>• Represent the interests of the middle class</li> <li>• Increase membership</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Support the Government</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Current Land Act</li> <li>• Regulation of land ownership acquisition in EU member states</li> <li>• Political elections May 2002</li> <li>• Popularity index</li> </ul>
<b>MSZP</b> (Strongest in opposition, center-left: Hungarian Socialist Party)	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Keep target date for accession</li> <li>• Represent the interests of middle and lower class people</li> <li>• Allow agricultural cooperatives to buy land</li> <li>• Increase membership</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Build coalition with other parties in opposition</li> <li>• Build alliance with interest groups and the processing industry</li> <li>• Utilize the international contacts of Mr. Gyula Horn (former Prime Minister) and Mr. László Kovács (former Minister of Foreign Affairs) to leverage the Government from abroad</li> <li>• Support the bill</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Current situation of agricultural production cooperatives</li> <li>• Political elections May 2002</li> <li>• Popularity index</li> </ul>
<b>SZDSZ</b> (Liberal: Alliance of Free Democrats)	<ul style="list-style-type: none"> <li>• EU accession in the first round</li> <li>• Bring economic rationality into dealing with the land ownership issue</li> </ul>	<ul style="list-style-type: none"> <li>• Build coalition with other parties in opposition</li> <li>• Build alliance with interest groups and the processing industry</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Studies forecasting the percentage of land that could get into foreign ownership in the short, medium and long run</li> </ul>

	<ul style="list-style-type: none"> <li>• Allow corporate and minimal foreign ownership of land</li> <li>• Increase membership</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Support the bill</li> <li>• Publish studies on population decrease</li> </ul>		<ul style="list-style-type: none"> <li>• Political elections May 2002</li> <li>• Popularity index</li> </ul>
<b>MIEP</b> (Nationalistic: Hungarian Justice and Life Party)	<ul style="list-style-type: none"> <li>• Hungarian land should be preserved for the Hungarians</li> <li>• Avoid “selling out” our country</li> <li>• Increase membership</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Start a campaign among farmers in rural and isolated parts of the country to oppose the bill</li> <li>• Build coalition with small farmers</li> <li>• Start a media campaign</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Studies forecasting the (exaggerated) percentage of land that could get into foreign ownership in the short, medium and long run</li> <li>• Give examples on how the country has been “sold out” already</li> <li>• Political elections May 2002</li> <li>• Popularity index</li> </ul>
<b>Legislators</b> (that have proposed amendments or have expressed opinion on the issue)				
<b>FIDESZ</b> (The FIDESZ fraction has 148 -- 38 % of -- votes.)	<ul style="list-style-type: none"> <li>• Maintain government preference for family farms</li> <li>• Allow those to own land that are active in agriculture and are dependent on their farm income</li> <li>• Discourage speculation</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain current derogation request</li> <li>• Amend the Land Act by including provisions on qualification, settlement and “dependence on farm income” requirements</li> <li>• Cooperate with other party legislators</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• European farm model</li> <li>• Coalition majority of votes in the Parliament: 213 (55 percent) out of 386 seats</li> </ul>
<b>FKGP</b> (The FKGP fraction has 48 -- 13 % of -- votes.)	<ul style="list-style-type: none"> <li>• Maintain government preference for family farms</li> <li>• Discover and discourage pocket contracts</li> <li>• Keep land in Hungarian ownership</li> <li>• Include qualification, farm dependence and settlement requirement in the land ownership provisions of the</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain current derogation request</li> <li>• Amend the Land Act by including provisions on qualification, settlement and “dependence on farm income” requirements</li> <li>• Cooperate with other party legislators for political reasons</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• European farm model</li> <li>• Coalition majority of votes in the Parliament: 213 (55 percent) out of 386 seats</li> </ul>

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<b>MDF</b> (The MDF fraction has 17 - - 4 % of -- votes.)	<ul style="list-style-type: none"> <li>• Discover and discourage pocket contracts</li> <li>• Keep Hungarian ownership of land</li> <li>• Establish a European farm model</li> <li>• Majority of votes in the Parliament: 213 (55 percent) out of 386 seats</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain current derogation request</li> <li>• Cooperate with the other two parties in the coalition government</li> <li>• Support the amendment of current law by including provisions on qualification, settlement and “dependence on farm income” requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Coalition majority of votes in the Parliament: 213 (55 percent) out of 386 seats</li> <li>• Assist with votes the proposals of the other two coalition party members with votes</li> </ul>
<b>MSZP</b> (The MSZP fraction has 134 -- 35 % of -- votes.)	<ul style="list-style-type: none"> <li>• Support the functioning of agricultural production cooperatives</li> <li>• Allow those to own land that are active in agriculture and are dependent on their farm income</li> <li>• Motivate long-term investments, like inland drainage and country planning</li> <li>• Withdraw derogation request</li> </ul>	<ul style="list-style-type: none"> <li>• Support the amendment of legislators on the government coalition</li> <li>• Find the common elements between government and opposition positions and try to propose jointly a different amendment</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Wait until next elections</li> </ul>	<u>Show evidence of</u> <ul style="list-style-type: none"> <li>• Fragmentation of land</li> <li>• Financial hardship of cooperatives</li> <li>• Role of cooperatives in domestic agricultural production, and employment</li> <li>• High occurrence of speculation</li> <li>• Family farms and their tax avoidance practices, etc.</li> </ul>
<b>SZDSZ</b> (The SZDSZ fraction has 24 -- 6 % of -- votes.)	<ul style="list-style-type: none"> <li>• Do not allow significant number of foreigners to acquire Hungarian land</li> <li>• Allow land ownership for domestic legal entities</li> <li>• Include provisions on settlement</li> <li>• Withdraw derogation request</li> </ul>	<ul style="list-style-type: none"> <li>• Support the amendment of legislators on the government coalition</li> <li>• Find the common elements between government and opposition positions and try to propose jointly a different amendment</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Wait until next elections</li> </ul>	<u>Show evidence of</u> <ul style="list-style-type: none"> <li>• Fragmentation of land</li> <li>• Financial hardship of cooperatives</li> <li>• Role of cooperatives in domestic agricultural production, and employment</li> <li>• Role of other businesses in agriculture</li> <li>• The percentage of land that could become foreign</li> </ul>

				<ul style="list-style-type: none"> <li>• High occurrence of speculation</li> <li>• Family farms and their tax avoidance practices, etc.</li> </ul>
<b>Agricultural interest groups</b>				
<b>MAGOSZ</b> (Representing farmers and business cooperatives)	<ul style="list-style-type: none"> <li>• EU accession as soon as possible and as full member</li> <li>• Maintain current provisions of the Land Act</li> <li>• Increase membership</li> </ul>	<ul style="list-style-type: none"> <li>• Lobby FKGP and FIDESZ to oppose change in the ownership provisions of the Land Act</li> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Status quo</li> </ul>	<ul style="list-style-type: none"> <li>• Preference for family farms in the EU</li> <li>• Preference for business cooperatives in the EU</li> <li>• Land prices in the EU</li> <li>• Capital endowment of EU nationals</li> </ul>
<b>MOSZ</b> (Represents interests of agricultural cooperatives and corporate entities.)	<ul style="list-style-type: none"> <li>• Allow domestic entities to acquire land</li> <li>• Gain support for cooperatives</li> <li>• Increase membership</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to work with MSZP and SZDSZ</li> <li>• Build coalition with other (smaller) interest groups</li> <li>• Build coalition with processing industry</li> <li>• Continue to build coalition with domestic and international cooperatives / cooperative alliances</li> <li>• Go on strike</li> </ul>	<ul style="list-style-type: none"> <li>• Go on strike</li> <li>• Prepare for next elections</li> </ul>	<ul style="list-style-type: none"> <li>• Role of cooperatives in export production</li> <li>• Social role of cooperatives</li> <li>• Role of agricultural corporate entities in the economy</li> </ul>
<b>Processing Industry</b>	<ul style="list-style-type: none"> <li>• Eliminate separation between land and plant located on the land</li> <li>• Fight for the right to own land instead of leasing it</li> </ul>	<ul style="list-style-type: none"> <li>• Lobby legislators on both the government and the opposition side</li> <li>• Build coalition with cooperatives</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to rent the land</li> <li>• Sell the plant</li> </ul>	<ul style="list-style-type: none"> <li>• Show importance of land for business</li> <li>• Danish example (land with plant built on it has one price)</li> </ul>
<b>Hungarian landowners</b> (1.5 million)	<ul style="list-style-type: none"> <li>• EU accession</li> <li>• Increase in land prices</li> <li>• Reasonable legal purchase offers</li> <li>• Achieve land consolidation</li> </ul>	<ul style="list-style-type: none"> <li>• Join forces maybe on a regional basis</li> <li>• Raise awareness among one another</li> <li>• Jointly lobby their legislators</li> </ul>	<ul style="list-style-type: none"> <li>• Sell land at current prices (maybe to foreigners through pocket contract)</li> <li>• Keep land</li> </ul>	<ul style="list-style-type: none"> <li>• GDP per capita</li> <li>• Land prices in the EU</li> <li>• Capital endowment of EU nationals</li> </ul>

			anticipating changes in legislation due to EU accession	
<b>European Union</b>	<ul style="list-style-type: none"> <li>• Accept only candidates that are well prepared for accession</li> <li>• Prepare well the internal structure of the EU for accession</li> <li>• Maintain security</li> <li>• Maintain good political relations with each applicant country</li> <li>• Safeguard EU citizens</li> <li>• Safeguard the interests of each EU Member State</li> <li>• Maintain proper functioning of the Single Market, in particular, by safeguarding the four basic freedoms</li> <li>• Allow only temporary derogations with plans of alignment</li> </ul>	<ul style="list-style-type: none"> <li>• Accept Hungary's proposed amendment of the Land Act</li> <li>• Reject Hungary's proposed amendment of the Land Act</li> <li>• Accept Hungary's derogation request on land ownership</li> <li>• Reject Hungary's derogation request on land ownership</li> </ul>	<ul style="list-style-type: none"> <li>• Accept Hungary's derogation request on land ownership</li> <li>• Reject Hungary's derogation request on land ownership</li> <li>• Accept Hungary's new amendment proposal as compliant with Community law.</li> <li>• Accept Hungary's proposal as a temporary solution.</li> </ul>	<ul style="list-style-type: none"> <li>• Community law</li> <li>• Europe Agreement</li> <li>• Precedent cases (Case law)</li> <li>• Land ownership legislation of EU member states</li> <li>• EU White Paper on Enlargement</li> <li>• Negotiations during previous enlargements</li> <li>• OECD commitments</li> <li>• Land prices in the EU</li> <li>• Capital endowment of EU nationals</li> </ul>