

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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Populist 'Force Majeure' Proposal Would Complicate Grain Trade

Report Categories:

Trade Policy Monitoring

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Report Highlights:

A draft bill amending the Act on Agricultural Market Regulations would change the contractual system of farm commodity purchases. Farmers welcome the proposal but grain traders and grain end users warn that the planned changes put into jeopardy the contractual system, the Commodity Exchange, and bank financing of farm inputs.

General Information:

A bill amending the Act on Agricultural Market Regulations may re-draft the contractual system of farm commodity purchases. The proposal, drafted by the Chairman of the Agricultural Committee of the Parliament, the Deputy Speaker, and other MPs was unanimously supported and forwarded by the Ag Committee.

The core of the proposal is that in case of crop damage caused by natural disaster, as verified by the Central Agricultural Office (CAO), farms may proportionally reduce delivery obligations called for in contracts. Farms would no longer need to purchase the shortfall in volume from other source or pay other penalties for non-performance. The aim of drafters is to share the risks of production between farmers and traders.

The proposal to re-regulate the use of “Force Majeure” in agricultural trade has been brought to the fore by this season’s extreme weather. According to the Association of Grain Producers, about the half of Hungarian producers can’t fulfill the contracts they made with traders. The value of broken and /or contested commodity sales contracts is estimated HUF 50 billion (USD 250 million).

While farmers welcome the proposal, grain traders and grain end users are warning that the planned changes put into jeopardy the contractual system underpinning the entire grain sector and threaten the operation of not only the Commodity Exchange but such vital services such as pre-financing of farm inputs and commodity loans made by banks. The draft legislation gives a decisive role to the CAO, a government agency handling technical inspection and qualifications in the farm-food sector. This would potentially politicize basic grain contracts in Europe’s major corn producer. Farmers may ask CAO to verify crop damages for up to thirty days after the event. Based on the CAO findings, farms may inform their buyers about proportional non-fulfillment of the contract.

In a published statement, the Assembly of the Association of Hungarian Grain Processors, Feed Millers, and Traders (AHGT), expresses sympathy for farmers suffering crop damage and stresses that the majority of buyers are cooperating with producers in a well intentioned manner within the frameworks of the current legal contracts. AHGT asks the drafters of the bill to withdraw their proposal.