

**SIMPLIFIED QUANTIFICATION OF THE CONSUMER SAVINGS FROM  
THE REMOVAL OF THE REGULAR BASE PRICE FORECAST OF RAW MILK  
OF THE HUNGARIAN MILK INTERPROFESSIONAL ORGANISATION AND PRODUCT BOARD IN 2023<sup>1</sup>**

**HUNGARIAN COMPETITION AUTHORITY**

**10.11.2025**

1. This document and its annex present the simplified quantification of the likely consumer savings resulting from the decision of the Hungarian Milk Interprofessional Organization and Product Board (Tej Szakmaközi Szervezet és Terméktanács – TSZSZT)<sup>\*</sup> to cease the preparation and publication of its base price forecast for raw milk as of April 2023.
2. The Hungarian Competition Authority (Gazdasági Versenyhivatal – GVH) proposed changing the aforementioned practice of the TSZSZT following its accelerated sector inquiry into the Hungarian market for milk and dairy products. The GVH viewed these forecasts as a joint decision by competitors, regularly providing price recommendations that could act as a “price anchor” and potentially facilitate price increases.
3. **The direct consumer benefits resulting from this change were estimated to range between HUF 6-12 billion, i.e., the consumers of milk and dairy products saved this amount due to the removal of recommended prices.**<sup>2</sup> This amount is comparable to the expected consumer benefit from some of the recent major competition enforcement cases of the GVH.
4. This quantification was made by adapting the general framework for *ex-ante* impact assessments of the GVH, which follows international best practices and relies on easy-to-use methods to arrive at approximate results that are not exaggerated. This method does not capture possible indirect and dynamic benefits. For this and similar reasons, the actual consumer (and social) benefits exceed the results presented here.
5. While applying this method to activities beyond classical competition law enforcement typically faces practical obstacles, a simplified quantification was possible in this case. Given the uncertainties, two versions of the calculation were carried out, both relying on conservative assumptions regarding the price-increasing effect of the recommended prices in question.
6. These results highlight the benefits of stronger competition and the importance of competition advocacy in pursuing consumer welfare.
7. The detailed calculation can be found in the annex.

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<sup>1</sup> This document and its annex may be freely quoted and cited, provided that the source is acknowledged. (Simplified quantification of the consumer savings from the removal of the regular base price forecast of raw milk of the Hungarian Milk Interprofessional Organisation and Product Board in 2023, Hungarian Competition Authority, 10.11.2025.)

This document is the English version of the original Hungarian (A Tej Terméktanács és Szakmaközi Szervezet rendszeres nyerstej alapárpognózisának 2023-as kivezetéséből származó jóléti haszon mértékéről, Gazdasági Versenyhivatal, 2025.11.10.). Only the Hungarian version is authentic.

<sup>\*</sup> The TSZSZT is an industry association representing multiple levels of the value chain and serves as an “interbranch organisation” under the Common Agriculture Policy of the European Union.

<sup>2</sup> 2024 value. Around EUR 15–30 million or USD 16–32 million, calculated at the (average yearly) exchange rate of the Hungarian National Bank in 2024.



**ANNEX**  
**METHOD OF QUANTIFICATION**

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## 1 Introduction

1. This annex details the simplified quantification of the likely consumer savings resulting from the decision of the Hungarian Milk Interprofessional Organization and Product Board (Tej Szakmaközi Szervezet és TermékTanács – TSZSZT) to cease the preparation and publication of its base price forecast for raw milk as of April 2023.
2. This change in practice was proposed by the Hungarian Competition Authority (Gazdasági Versenyhivatal – GVH) in its report on the accelerated sector inquiry into the Hungarian markets for milk and dairy products.<sup>1</sup> The GVH’s proposal was based on the findings of the accelerated sector inquiry, which concluded that the TSZSZT’s raw milk base price forecast functioned as a regularly updated recommended price, determined by the joint decisions of competitors. This recommended price was capable of acting as a “price anchor” for individual pricing decisions, potentially leading to higher base and purchase prices for raw milk than would have occurred otherwise.
3. The base price forecast was not optimised for prediction; moreover, not only its existence and structure but also the predicted prices themselves were in part determined by joint decisions within the TSZSZT. For instance, the base price forecast included historical price changes of certain processed dairy products, which normally would not affect the price of raw milk (on the contrary, raw milk prices can influence the prices of processed products). Additionally, the forecast was influenced by what the TSZSZT’s price committee members considered a “realistic” price level. A more elaborated assessment (the relevant sections of the accelerated sector inquiry report) can be found in the Appendix.
4. The GVH did not express concerns about the mere existence or publication of a base price forecast, but rather about the version it viewed as a price recommendation. For its part, the TSZSZT announced the suspension and revision of the forecast, rather than its complete elimination. As part of this process, the TSZSZT also held technical consultations with the GVH in the summer 2023. Nevertheless, the GVH has not yet seen a new base price forecast, nor has it observed any signs suggesting a continuation of, or return to, the previous practice.<sup>2</sup>
5. While direct consumer benefits from sector inquiries may be too abstract to be quantified, the notion of consumer benefits generated by concrete (and implemented) advocacy proposals are straightforward.

## 2 Methodological framework

6. The calculation applies the framework of the simplified quantification method for *ex-ante* impact assessments. *Ex-ante* impact assessments, used by the GVH as well as other competition authorities and recommended by the Organisation for Economic Co-operation and Development (OECD),<sup>3</sup> are based on the premise that more vigorous competition generally results in lower equilibrium prices. Therefore, the undue restriction of competition would result in higher prices for

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<sup>1</sup> Report of the accelerated sector inquiry into the Hungarian market for milk and dairy products, GVH, Budapest, 13.07.2023 (AL/60/2022) (accelerated sector inquiry report).

[https://www.gvh.hu/en/resolutions/sectoral\\_inquiries\\_market\\_analyses/sectoral\\_inquiries/final-report-of-the-accelerated-sector-inquiry-into-the-hungarian-market-for-milk-and-dairy-products](https://www.gvh.hu/en/resolutions/sectoral_inquiries_market_analyses/sectoral_inquiries/final-report-of-the-accelerated-sector-inquiry-into-the-hungarian-market-for-milk-and-dairy-products)

<sup>2</sup> This is confirmed by the TSZSZT’s comments on the GVH’s draft report on its subsequent, 2025 accelerated sector inquiry (AL/463/2025) (available only in Hungarian).

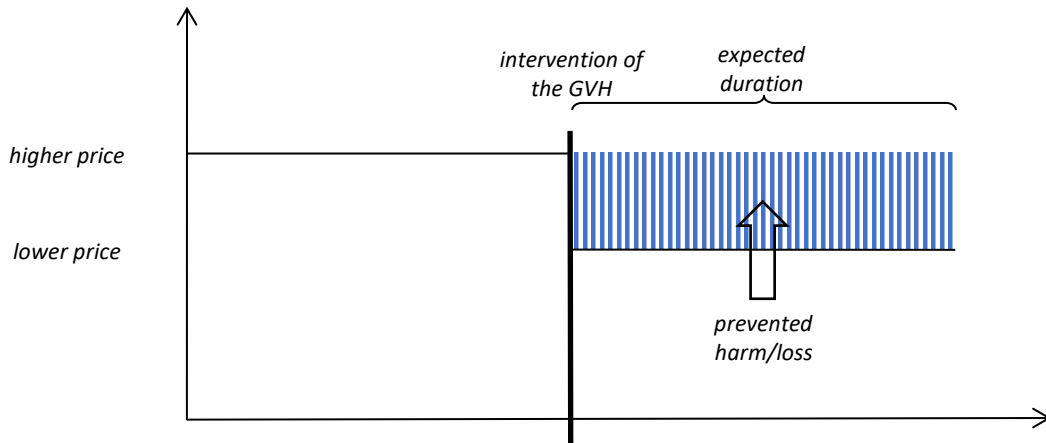
[https://www.gvh.hu/dontesek/agazati\\_vizsgalatok\\_piacelemzesek/agazati\\_vizsgalatok/vegleges-jelentes-a-tej-es-tejtermekek-magyarorszag-piacan-lefolytatott-agazati-vizsgalat-eredmenyerol](https://www.gvh.hu/dontesek/agazati_vizsgalatok_piacelemzesek/agazati_vizsgalatok/vegleges-jelentes-a-tej-es-tejtermekek-magyarorszag-piacan-lefolytatott-agazati-vizsgalat-eredmenyerol)

<sup>3</sup> Guide for helping competition authorities assess the expected impact of their activities, OECD (2014).

<https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/evaluation-of-competition-interventions/Guide-competition-impact-assessmentENG.pdf>

consumers, which would cause them a loss. Conversely, if the GVH's intervention eliminates such a restriction, the aforementioned harm would no longer be present. Thus, the value of the gain achieved as a result of the GVH's action is equal to the value of the harm that would have occurred had the GVH not intervened, as illustrated by Chart 1.

Chart 1: Prevented consumer harm in competition enforcement



7. To perform the calculation, only three parameters need to be determined: the size of the price difference caused by the restriction, its duration and the affected turnover.

*Direct benefit =*

*= Prevented harm =*

*= Relevant turnover × Price difference × Expected duration*

8. When it comes to competition enforcement, the relevant turnover is usually known or can be relatively easily determined from data collected in the course of enforcement and for the price difference (e.g., cartel surcharge) and expected duration, default assumptions ultimately based on empirical research are used when case-specific data are not available. In general, the quantification concerns all relevant cases closed over a certain period so that any individual inaccuracies may offset each other. In smaller economies the period in question may span several years to moderate fluctuations).<sup>4</sup>

9. In this case, the restriction of competition was eliminated through voluntary compliance with the GVH's proposal, based on its accelerated sector inquiry, rather than through competition law enforcement. However, in an enforcement context, setting recommended prices through a joint decision of competitors would generally constitute an undue restriction of competition, according to case law.<sup>5 6</sup>

<sup>4</sup> More on the general framework, e.g., *Ex-ante* assessment of welfare gains achieved by the GVH (*ex-ante* impact assessment) – Cases involving anticompetitive practices and mergers, 2017-2022, Hungarian Competition Authority, 12.04.2023.

[https://www.gvh.hu/en/gvh/analyses/ex\\_ante\\_impact\\_assessment](https://www.gvh.hu/en/gvh/analyses/ex_ante_impact_assessment)

<sup>5</sup> See e.g., *Kommentár a tisztességtelen piaci magatartás és a versenykorlátozás tilalmáról szóló 1996. évi LVII. törvényhez* [Commentary on Act LVII of 1996 on the Prohibition of Unfair Market Practices and Restriction of Competition], p. 180.(2.2.4.3.) (Budapest, 2014; dr. Juhász Miklós, Ruszthiné dr. Juhász Dorina, dr. Tóth András (Eds.)) (available only in Hungarian).

<sup>6</sup> For the purposes of this quantification, it is irrelevant that Hungary has a special exemption regime for restrictive agri-food product agreements, as the welfare effect of the conduct and its elimination remains the same, even if legal standards are altered.

10. In this respect, it is irrelevant whether many market players adhered to the recommended prices. The mere possibility that the recommended prices were not followed in the past does not eliminate the potential threat to competition in the future. Even if the recommended prices are not strictly followed, they may still influence the level and evolution of market prices (e.g., by serving as a “price anchor”), potentially leading to higher prices than would otherwise occur.

11. This was particularly relevant in the present case, where the co-ordination occurred not solely among sellers, but within an organisation covering all levels of the value chain (i.e., the TSZSZT), including the purchasers of raw milk. While purchasers normally have no incentive to buy raw milk at higher prices, the recommended prices could be weaponised by producers to obtain higher prices.

12. Thus, the parameters in the formula were identified in the same way as in law enforcement procedures:

- i. relevant turnover: the turnover from raw milk purchased in Hungary, excluding exports;<sup>7</sup>
- ii. expected further duration: two years following the removal of the recommended prices;<sup>8</sup>
- iii. price difference: the difference between the actual (observed) purchase price of raw milk in Hungary and the (hypothetical) price that would have developed in the presence of the recommended prices, in the absence of case-specific data 10% (or a proportion of it, given the possibility of a more moderate effect).<sup>9</sup>

### 3 Calculation

#### 3.1 Relevant turnover

13. The relevant turnover is the turnover of raw milk purchased in Hungary and remaining within the country, i.e., the portion of domestically produced raw milk placed on the market that is not exported. While only the base price was technically subject to forecasting (i.e., the recommended prices), the base price translates into purchase prices. The base price is the purchase price for raw milk of a predetermined quality.<sup>10</sup> For raw milk of different quality premiums and deductions apply, based on a kind of price formula. Volume discounts are calculated in a similar way. Any changes in the base price for a purchaser affect all its purchase prices, even though their evolution may differ depending on changes in the quality of the raw milk purchased or the composition of its quantity.

14. Different purchasers may have different base prices (and, in the absence of applying the recommended prices, their base prices certainly differed). If, as a result of recommended prices, higher base prices develop in the market than would have otherwise, there will be a corresponding difference in the purchase prices derived from those base prices.<sup>11</sup> Consequently, the potential impact of the base price forecast as a recommended price affected the entire raw milk purchase in Hungary.

15. Raw milk imported from abroad for the domestic market is excluded, as the TSZSZT’s recommended prices did not affect purchases abroad, and, according to the general method, only the

<sup>7</sup> General methodology, chapter 3.1.1.

<sup>8</sup> General methodology, chapter 3.1.2.

<sup>9</sup> General methodology, chapter 3.1.2.

<sup>10</sup> „The base price applies to raw milk classified as extra quality with a fat content of 3,6 m/m % and a protein content of 3.25 m/m %.” (TSZSZT Presidium Decision No. 21/2012. (03.01.)).

<sup>11</sup> This is not affected by whether the recommendation covers quality premiums and deductions or volume discounts. Due to their structure, these elements are not suitable for neutralising changes in base prices and can therefore be considered fixed when comparing observed and hypothetical situations. In this case, the recommended price did not cover quality premiums, deductions or volume discounts. “The base price does not apply to surcharges and discounts related to the quality and the quantity of the purchased raw milk, agreed and determined by the Parties.” (TSZSZT Presidium Decision No. 21/2012. (03.01)).

turnover of the parties to the agreement is relevant. Although the impact of the recommended prices may have had a broader scope than that, this aspect is excluded from our simplified and conservative calculation.<sup>12</sup> Domestic raw milk is only included in the relevant turnover if it was purchased and remained on the domestic market. We lacked data on non-purchased raw milk, but it is reasonable to assume that it remained unaffected by the purchase prices. Although the purchase price of raw milk for export may have influenced the prices paid by Hungarian consumers for finished products (milk and various dairy products), this aspect is also excluded from our simplified and conservative calculation.

16. The GVH did not have specific data on the relevant turnover, but it was possible to estimate it using publicly available information. During the period in question, the Institute of Agricultural Economics (Agrárközgazdasági Intézet – AKI) published monthly reports titled “Agrárpiaci jelentések, Tej és tejtermékek” (“Agriculture markets reports, Milk and dairy products” available only in Hungarian),<sup>13</sup> which included the average purchase prices and corresponding quantities of raw milk in Hungary, based on its own extensive data collection carried out in accordance with a ministerial decree.<sup>14</sup> In addition, the “balance of milk” summary table from the Hungarian Central Statistical Office (Központi Statisztikai Hivatal – KSH) indicated that, in recent years, approximately half of domestic production was exported in the form of raw milk or processed dairy products (with a similar volume imported).<sup>15</sup>

17. To estimate the relevant turnover for a given month, we multiplied the monthly average purchase price (unit price) published by AKI by the volume of raw milk purchased during that month, then divided the result by two. We then aggregated these results for the period under consideration to arrive at the estimated total relevant turnover.

### 3.2 Duration

18. The GVH did not have specific data on how long the TSZSZT price forecast would have continued in the absence of the GVH's proposal and would have affected market prices. Therefore, in line with the general methodology, we used the conservative default period of two years as the expected duration for agreements restricting competition. This can be considered a very conservative estimate, as the organisation and operation of the TSZSZT, along with the incentives for its members, could be seen as stable, and the price forecast had been in place for more than a decade. A longer period would have resulted in a proportionally higher result, depending on the evolution of turnover.

19. According to the TSZSZT, its decision to suspend the base price forecast was made before the GVH's draft report on the accelerated sector inquiry was published and known to the TSZSZT.<sup>16</sup> However, the launch of the accelerated sector inquiry and the requests for information relating to the base price forecast preceded the decision on its suspension. Therefore, the restriction of competition

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<sup>12</sup> General methodology, paragraph A.13.

<sup>13</sup> <https://www.aki.gov.hu/product-tag/tejelvasarlas/>

<sup>14</sup> Decree 127/2013 (XII. 18.) VM on the operation of the market price information system and the test operation information system (available only in Hungarian).

<sup>15</sup> KSH STADAT 19.1.1.55. Balance of milk summary table.

[https://www.ksh.hu/stadat\\_files/mez/en/mez0056.html](https://www.ksh.hu/stadat_files/mez/en/mez0056.html)

<sup>16</sup> TSZSZT comments on the draft accelerated sector inquiry report, page 3 (available only in Hungarian).

[https://www.gvh.hu/dontesek/agazati\\_vizsgalatok\\_piacelemzesek/agazati\\_vizsgalatok/vegleges-jelentes-a-tej-es-tejtermek-magyarorszag-piacan-lefolytatott-gyorsított-agazati-vizsgalatrol](https://www.gvh.hu/dontesek/agazati_vizsgalatok_piacelemzesek/agazati_vizsgalatok/vegleges-jelentes-a-tej-es-tejtermek-magyarorszag-piacan-lefolytatott-gyorsított-agazati-vizsgalatrol)

[https://www.gvh.hu/pfile/file?path=/dontesek/agazati\\_vizsgalatok\\_piacelemzesek/agazati\\_vizsgalatok/Termektanacs\\_eszrevet\\_ele\\_230713.pdf1&inline=true](https://www.gvh.hu/pfile/file?path=/dontesek/agazati_vizsgalatok_piacelemzesek/agazati_vizsgalatok/Termektanacs_eszrevet_ele_230713.pdf1&inline=true)

did not cease prior to the GVH's first known related activity, and it presumably did not cease independently of the GVH's actions.<sup>17</sup>

### 3.3 Price difference

20. The GVH did not have case-specific data on the price difference, therefore, in accordance with the general method, the baseline scenario would be to use the conservative default assumption of 10% related to agreements restricting competition.

21. However, in its comments on the draft accelerated sector inquiry report, TSZSZT argued that the recommended prices were not applied by the purchasers.<sup>18</sup> As the GVH did not conduct a competition law enforcement procedure, the extent to which the recommended prices were followed was not investigated, and we only identified in general terms the mechanisms that could push prices upward in the presence of recommended prices, even without their adoption.<sup>19</sup> It remained an open question whether the recommended prices had a significantly lower impact on base prices and, through them, on purchase prices, than assumed in the baseline scenario. Therefore, given the conservative nature of the calculation, we used half and a quarter (5% and 2.5%) of the default 10% assumption as the potential price deviation range.

22. We used the 2.5% value out of an abundance of caution, given that while the simplified quantification concerning the GVH's enforcement relates to multiple cases – where certain potential inaccuracies may offset each other and may not necessarily distort the final aggregated result – this was not the case here, as the final result was not aggregated in the same way.

### 3.4 Other aspects

23. The calculation was performed in 2025, therefore the results are expressed in 2025 values, for which the original prices were adjusted for inflation using the annual consumer price indices of the KSH.<sup>20</sup> Table 1 summarises the estimation of the relevant turnover, as described above.

*Table 1.: Estimation of the relevant turnover*

Month	Average purchase price of raw milk (HUF/kg)	Purchased volume (kg)	Relevant turnover (nominal) (HUF)	Relevant turnover (inflation adjusted) (HUF)
April 2023	188.07	105 869	9 955 391 415	12 143 415 685
May 2023	172.41	108 622	9 363 759 510	11 421 753 236
June 2023	161.96	100 281	8 120 755 380	9 905 558 119
July 2023	153.17	100 486	7 695 720 310	9 387 107 631
August 2023	151.47	97 099	7 353 792 765	8 970 030 277
September 2023	153.57	93 394	7 171 258 290	8 747 377 855
October 2023	156.73	97 542	7 643 878 830	9 323 872 283

<sup>17</sup> General methodology, paragraph A.35.

<sup>18</sup> TSZSZT comments on the draft accelerated sector inquiry report, pages 3-4 (available only in Hungarian).

<sup>19</sup> Compared to competition law enforcement procedures, the timeframe for conducting accelerated sector inquiries is much tighter, limiting the GVH's opportunities to gather and analyse information. Furthermore, the purpose of accelerated sector inquiries is not to prove and assess competition law infringements.

When the findings of an accelerated sector inquiry justify it, the GVH may engage in enforcement by launching a separate case. However, this did not occur in the present case, as the TSZSZT voluntarily changed its practice.

<sup>20</sup> KSH STADAT 1.1.1.1. Main price indicators.

[https://www.ksh.hu/stadat\\_files/ara/en/ara0001.html](https://www.ksh.hu/stadat_files/ara/en/ara0001.html)

Month	Average purchase price of raw milk (HUF/kg)	Purchased volume (kg)	Relevant turnover (nominal) (HUF)	Relevant turnover (inflation adjusted) (HUF)
November 2023	159.56	95 856	7 647 391 680	9 328 157 197
December 2023	161.98	101 657	8 233 200 430	10 042 716 662
January 2024	164.63	105 244	8 663 159 860	8 984 418 705
February 2024	164.30	103 073	8 467 446 950	8 781 448 108
March 2024	166.05	113 632	9 434 296 800	9 784 151 973
April 2024	166.16	111 607	9 272 309 560	9 616 157 706
May 2024	164.73	113 938	9 384 503 370	9 732 512 037
June 2024	164.01	104 095	8 536 310 475	8 852 865 322
July 2024	164.24	99 512	8 171 925 440	8 474 967 675
August 2024	166.73	101 650	8 474 052 250	8 788 298 354
September 2024	173.21	97 832	8 472 740 360	8 786 937 815
October 2024	182.86	100 793	9 215 503 990	9 557 245 596
November 2024	192.17	99 010	9 513 375 850	9 866 163 538
December 2024	200.93	106 677	10 717 304 805	11 114 738 192
January 2025	206.96	111 803	11 569 374 440	11 569 374 440
February 2025	208.55	104 182	10 863 578 050	10 863 578 050
March 2025	203.74	117 701	11 990 200 870	11 990 200 870
April 2023. – March 2025	-	-	-	236 033 047 326

Sources: AKI, KSH, GVH calculation.

24. A difference from the general approach is that we do not compare the calculated benefits with the GVH's budget, as the calculation pertains to a single action (rather than the entirety of a type GVH activity) and this action was not that of the GVH (although it was initiated by the GVH). In other words, the quantification was not done in a social investment context and therefore did not involve a social discount rate. Thus, our results on consumer benefits have a very straightforward interpretation.

#### 4 Results

25. If our assumptions discussed above are correct, approximately HUF 6-12 billion in consumer savings (at 2025 values) resulted from the change in the TSZSZT's practice, as summarised in Table 2.

*Table 2: Quantified consumer benefits over the two years period following the suspension of the base price forecast*

2,5% price difference	5 901
5% price difference	11 802

Note: April 2023 – March 2025 (inclusive), HUF million, 2025 value.

#### Remark

26. This project is part of a broader GVH programme aimed at quantifying the benefits its work brings to society. Since the project focuses on a specific competition advocacy action, merging it into the general *ex-ante* impact assessment of the GVH (which concerns classical competition enforcement) could give the misleading impression that the combined exercise covers both enforcement and advocacy in their entirety. Nevertheless, given their shared methodology, it is reasonable to consider the results of both exercises side by side. If the change in the TSZSZT's practice, proposed by the GVH, were part of the latest GVH *ex-ante* impact assessment (for the period 2019–2024), it would rank as one of the major items in terms of quantified direct consumer savings.

## Appendix: Relevant parts of the accelerated sector inquiry report<sup>21</sup>

### Accelerated sector inquiry report pages 5–6:

#### 1. Review of the base price forecast of raw milk

**The GVH proposes to revise the methodology used by the Milk Interbranch Organisation and Dairy Board for the base price forecast for raw milk. The methodology is based on a price formula, some elements of which may further increase the price of dairy products in 2023, thus fuelling inflation. Following the GVH’s proposal, the Dairy Board started a revision of the base price forecast for raw milk in May 2023 and suspended the publication of the base price forecast calculated according to the old methodology. The GVH’s proposal protects both Hungarian consumers and Hungarian producers, as the revision may not only help reduce inflation but also strengthen the competitiveness of Hungarian dairy processors. [Emphasis in the original.]**

This finding of the is supported by a review of certain elements of the price forecast and its practical operation, as well as by market developments confirmed by the calculations and analyses carried out in the sector inquiry, which show that the producer price of raw milk in Hungary has become disconnected from production costs from the second half of 2021, has increased more steeply than production costs and has also increased significantly in an international comparison. Given that the cost of raw milk used accounts for approximately 70% of the production costs of dairy product manufacturers (i.e., processors), this price increase is also reflected in the ex-factory prices charged by processors. These higher ex-factory prices have in turn led to higher consumer prices, as the price analyses carried out in the sector inquiry generally show that consumer prices at retail level have closely followed the evolution of procurement prices.

### Accelerated sector inquiry report pages 5–6:

The base price forecast prepared by the Dairy Board

Since 2011, the Presidency of the Dairy Board has published a periodically revised forecast of the base price of raw milk for a given quota year in a Self-Regulating (Interbranch) Agreement (hereinafter referred to as the Agreement), as it considers that the publication of the forecast contributes to maintaining market balance, to more stable contractual relations and to improving market transparency. The Bureau proposes that operators who sign up to the Agreement should *“accept and include in their contracts that operators in the dairy sector will set the clearing price for the purchase of raw milk at a maximum annual average deviation of +/- 2.5% in their contracts from the base price proposed by the Bureau, depending on the market variations within the year.”*<sup>22</sup> [Italics in the original.]

Accession to the Agreement adopted by the Bureau is open and voluntary, and operators can decide independently to join by means of a written declaration. 15 operators have so far joined the Agreement, 11 of which are currently active on the dairy market.<sup>23</sup>

<sup>21</sup> Report of the accelerated sector inquiry into the Hungarian market for milk and dairy products, GVH, Budapest, 13.07.2023 (AL/60/2022) (accelerated sector inquiry report).

[https://www.gvh.hu/en/resolutions/sectoral\\_inquiries\\_market\\_analyses/sectoral\\_inquiries/final-report-of-the-accelerated-sector-inquiry-into-the-hungarian-market-for-milk-and-dairy-products](https://www.gvh.hu/en/resolutions/sectoral_inquiries_market_analyses/sectoral_inquiries/final-report-of-the-accelerated-sector-inquiry-into-the-hungarian-market-for-milk-and-dairy-products)

<sup>22</sup> <https://tejtermek.hu/mi-az-alapar> (downloaded 14 April 2023)

<sup>23</sup> <https://tejtermek.hu/csatlakozasi-lehetoseg> (downloaded 14 April 2023)

According to the Dairy Board, the fundamental aim of the Agreement is to prevent the dairy market from panic and market turmoil caused by rapid, drastic price changes, which could lead to a reduction in production, animals being sent to slaughter, farm closures and job losses.<sup>24</sup>

The basic price is adopted by the Bureau by a qualified majority (minimum 66%). The Price Committee, set up by the Bureau, shall review the reality of the annual basic price on a quarterly basis, taking account of market conditions, and shall propose any changes that are justified.

The base price forecast is the forecasted price of raw milk for one year in advance, which is expected to be the average price in the following year. The base price forecast is the projection of the change in the average (historical) raw milk price officially collected by AKI on the annual average of the base price (subsequently published on the annual base price of the previous year), taking into account the change in retail consumer prices of the main dairy products (1.5% and 2.8% fat milk, Trappist cheese) and the change in the market prices of the main fodder crops (maize, sunflower). The base price forecast is also heavily influenced by the so-called environmental indices, which are multipliers of between 0.9 and 1.1, as voted by the members of the Price Committee, and can therefore reduce or increase the base price forecast.

The annual base price is reviewed quarterly by the Price Committee and corrections are made based on the annual evolution of the Euro–HUF exchange rate, the official EU-27 annual average milk price change in Brussels, the periodic price change of the LTO price<sup>25</sup> and the periodic change of the Italian spot price. In addition, in this case there is also a subjective factor (economic environment index).<sup>26</sup>

As regards the data used to prepare the base price forecast, according to the data submitted to the GVH, the Dairy Board does not have its own professional data collection, but it does prepare statements, graphs and analyses from data collected by other authorities and bodies. These are published on a monthly basis on its website (e.g., market situation analysis, graphs showing market and price data) or sent to its members. All dairy processors, milk producers exporting raw cow's milk, milk wholesalers and milk traders with a net turnover from milk sales of more than HUF 25 million in Hungary are obliged to provide the data required by law.<sup>27</sup> The data must be provided on a monthly basis and retailers are required to provide data on a three-monthly basis. Data on raw materials must be sent to AKI and data on finished products to the NFCSO, which processes the data under the supervision of the Dairy Board. The aggregated data and the average data are sent to the Dairy Board by the NFCSO on a monthly basis. These data are published on the Dairy Board's website.

From a competition law point of view, the base price forecast developed by the Dairy Board is in practice a public professional price indication of the producer price of raw milk sold to domestic milk processors. However, the members who voluntarily join the agreement can only deviate from this recommendation to a minimal extent (within a margin of +/- 2.5%) and it can also serve as a price centre or anchor for other members of the Dairy Board, so its impact can be significantly greater than the number of members.

The methodology for base price forecast needs to be reviewed from a competition law perspective, especially in a high inflation environment. On the one hand, the change in retail consumer prices of certain dairy products (milk, Trappist cheese) in the previous year also influences the current year's recommendation on the price level of raw milk. In this way, the forecast methodology, as it stands, directly links past increases in consumer prices to the proposed increase in raw milk prices. This could

<sup>24</sup> <https://tejtermek.hu/mi-az-alapar> (downloaded 14 April 2023)

<sup>25</sup> <https://www.zuivelnl.org/en/milkprices/historic-overview> (downloaded 14 April 2023)

<sup>26</sup> <https://tejtermek.hu/download/603/alapar-modszertanpdf> (downloaded 14 April 2023)

<sup>27</sup> AM Decree No 4/2020 (28.II.) on the extension of the market organisation measure on the obligation to report to the Dairy Board

imply a higher future increase in raw milk prices in a market environment with particularly high inflation and steep increases in consumer prices of food products. At the same time, it should also be seen that an increase in the price of raw milk, as already recorded in the above analyses, will impact the price of products at all levels of the dairy supply chain and lead to price increases. On the other hand, a similar situation applies to the inclusion in the formula of the change in raw milk prices in the previous year. This can also lead to permanent inflation, since if the increase in raw milk prices was high in the previous year, the formula will predict an increase in the following year, which is then incorporated into market expectations. Third, subjective environmental indices can be used to artificially increase the forecast. According to the data provided by the Dairy Board, since 2019 none of the environmental indices has been below 1, so these subjective factors have been used to increase the forecasted price of raw milk. Finally, it is worth mentioning that the biggest cost element for cattle farms, the price of feed (which accounts for more than half of their total costs), is only included in the price formula with a weighting of 15%.

In the light of the above, the GVH suggests two aspects to consider when reviewing the price formula. On the one hand, the price formula will lead to a deterioration of the competitiveness of domestic dairy producers already in the medium term if it leads to higher raw milk prices than the equilibrium and encourages the retail sector to purchase cheaper imported dairy products. This is supported by the fact that in December 2022, for example, the price of raw milk was already cheaper in France than in Hungary. On the other hand, the price formula leads to a permanent price increase, i.e., higher consumer prices for dairy products, which may also fuel inflation.