Support for Farmers' Cooperatives

Country Report
Hungary

Gábor G. Szabó

European Commission

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Preface and acknowledgements

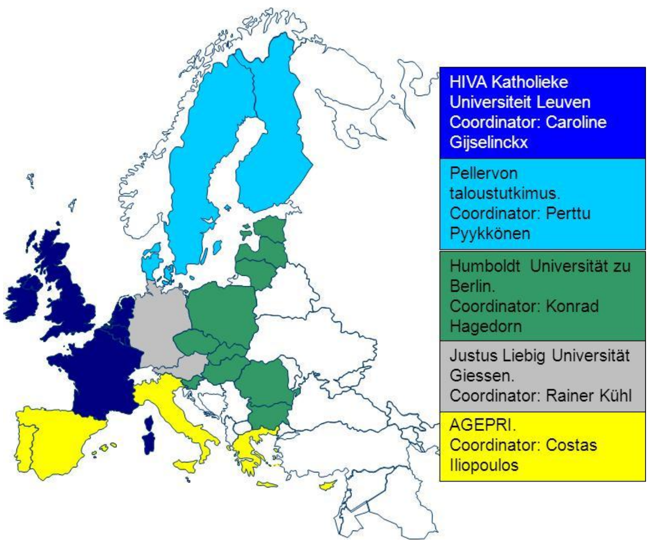
In order to foster the competitiveness of the food supply chain, the European Commission is committed to promote and facilitate the restructuring and consolidation of the agricultural sector by encouraging the creation of voluntary agricultural producer organisations. To support the policy making process DG Agriculture and Rural Development has launched a large study, "Support for Farmers' Cooperatives (SFC)", that will provide insights on successful cooperatives and producer organisations as well as on effective support measures for these organisations. These insights can be used by farmers themselves, in setting up and strengthening their collective organisation, and by the European Commission in its effort to encourage the creation of agricultural producer organisations in the EU.

Within the framework of the SFC project this country report on the evolution of agricultural cooperatives in Hungary has been written. Data collection for this report has been done in the summer of 2011.

In addition to this report, the project has delivered 26 other country reports, 8 sector reports, 33 case studies, 6 EU synthesis reports, a report on cluster analysis, a study on the development of agricultural cooperatives in other OECD countries, and a final report.

The author is very grateful to István Barta, Márton Bitsánszky, Zoltán Mikó, András Sótonyi (all from Hungarian Ministry of Rural Development) and to those managing directors, presidents of boards and chief accountants of cooperatives/POs who were visited and interviewed. Without their help present report could not have been submitted. The collaboration with, as well as comments and encouragement by project coordinators/leaders especially by Renate Judis, Jos Bijman and Krijn Poppe were very indispensable and friendly. The author thanks for all the anonym comments made by experts on the earlier version of the report. The help of Károly Mike, Endre Naszvadi (experts on practical issues of co-operation), Pál Hódi, József Rácz and Roland Huszta (all from Mórakert Cooperative), as well as Anikó Juhász and Tibor Varga (AKI, Budapest), Miklós Vásáry (SZIE, Gödöllő), Zoltán Szabó (Hangya Cooperative Association), Diána Sidlovits (HNT -National Council of Wine Communities), Attila Jasper and Zoltán Fodor (both FruitVeb), Erzsébet Bakos (Tej Terméktanács), Gábor Szabó (Prof. Emeritus, University of Debrecen), Boda Miklósné - Noémi Szabó (Követel Bt., Pécs) and especially Szabó Gáborné - Margit Guttyán (retired assistant professor of University of Pécs) was also very valuable.

The Country Report Hungary is one of the country reports that have been coordinated by Konrad Hagedorn and Renate Judis, Humboldt Universität zu Berlin. The following figure shows the five regional coordinators of the "Support for Farmers' Cooperatives" project.



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1 Introduction

1.1 Objective of the study

The imbalances in bargaining power between the contracting parties in the food supply chain have drawn much attention, also from policy makers. The European Commission is committed to facilitate the restructuring of the sector by encouraging the creation of voluntary agricultural producer organisations. DG Agriculture and Rural Development has launched a large study, “Support for Farmers' Cooperatives (SFC)”, that will provide the background knowledge that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income. In the framework of this study, this report provides the relevant knowledge from Hungary.

In this context, the specific objectives of the project, and this country report, are the following:
First, to provide a comprehensive description of the current level of development of cooperatives and other forms of producer organisations in Hungary. The description presented in this report will pay special attention to the following drivers and constraints for the development of cooperatives:

- Economic and fiscal incentives or disincentives and other public support measures at regional and national;
- Legal aspects, including those related to competition law and tax law;
- Historical, cultural and sociologically relevant aspects;
- The relationship between cooperatives/POs and the actors of the food chain;
- Internal governance of the cooperatives/POs.

Second, identify laws and regulations that enable or constrain cooperative development and third, to identify specific support measures and initiatives which have proved to be effective and efficient for promoting cooperatives and other forms of producer organisations in the agricultural sector in Hungary.

1.2 Analytical framework

There are at least three main factors that determine the success of cooperatives in current food chains. These factors relate to (a) position in the food supply chain, (b) internal governance, and (c) the institutional environment. The position of the cooperative in the food supply chain refers to the competitiveness of the cooperative vis-à-vis its customers, such as processors, wholesalers and retailers. The internal governance refers to its decision-making processes, the role of the different governing bodies, and the allocation of control rights to the management (and the agency problems that goes with delegation of decision rights). The institutional environment refers to the social, cultural, political and legal context in which the cooperative is operating, and which may have a supporting or constraining effect on the performance of the cooperative. Those three factors constitute the three building blocks of the analytical framework applied in this study (Figure 1).

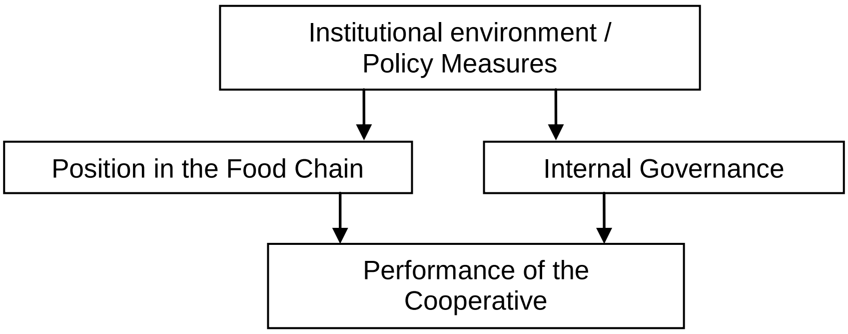

Figure 1 The core concepts of the study and their interrelatedness

1.3 Definition of the cooperative

In this study on cooperatives and policy measures we have used the following definition of cooperatives and Producer Organisations (POs)/Producer Groups (PGs). A cooperative/PO is an enterprise characterized by user-ownership, user-control and user-benefit:

- It is user-owned because the users of the services of the cooperative/PO also own the cooperative organisation; ownership means that the users are the main providers of the equity capital in the organisation;

- It is user-controlled because the users of the services of the cooperative/PO are also the ones that decide on the strategies and policies of the organisation;

- It is for user-benefit, because all the benefits of the cooperative are distributed to its users on the basis of their use; thus, individual benefit is in proportion to individual use.

This definition of cooperatives and POs (from now on shortened in the text as cooperatives) includes cooperatives of cooperatives and associations of producer organisation (often called federated or secondary cooperatives).

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1.5 Method of data collection

Multiple sources of information have been used, such as databases, interviews, corporate documents, academic and trade journal articles. The databases used are Amadeus, FADN, Eurostat and a database from DG Agri on the producer organisations in the fruit and vegetable sector. Also data provided by Copa-Cogeca has been used. In addition, information on individual cooperatives has been collected by studying annual reports, other corporate publications and websites. Interviews have been conducted with representatives of national associations of cooperatives, managers (CEOs), presidents, board members and chief accountants of individual cooperatives and producer organisations, and academic or professional experts on cooperatives.

Most often the official source: **Hungarian Central Statistical Office (hereafter CSO)** (http://portal.ksh.hu/portal/page?_pageid=38,119919&_dad=portal&_schema=PORTAL) provides general data regarding cooperatives.

Some data can be accessed through **Research Institute of Agricultural Economics (AKI)** (https://www.aki.gov.hu/index.php) who is in charge to supply FADN data as well[1].

Three is another possible source but need to get more time and possibly money invested to use it to full potential, is: **National Tax and Customs Administration (NAV) of Hungary (**http://en.apeh.hu/) (From their data AKI submitted a dataset which contains some data for cooperatives, see Table 4 and 5.)

It is necessary to state that **it is very hard to access to relevant and structured data on cooperatives in Hungary**. More about this in Subsection 3.1 and Section 7.

Information and advices by the **Main Department of Agricultural Market of Ministry of Rural Development** were very useful in a number of ways, especially regarding the list co-ops in Section 5.

The average HUF/EUR rate published by December 31 each year by the Hungarian National Bank was used to exchange HUF financial data into EUROs.

1.6 Period under study

This report covers the period from 2000 to 2010 and presents the most up-to-date information. This refers to both the factual data that has been collected and the literature that has been reviewed. Since Hungary joined the EU in 2004, the study will focus on the post-accession period. However, since some very relevant changes in legislation and support measures had taken place even before and around 2000 the study will briefly summarize them as well.

[1] See the description and further information on FADN (in English): https://www.aki.gov.hu/index.php ("Introduction to Hungarian FADN").
Hungarian FADN Data collection system includes the following organisations:

- **European Commission's Agriculture Directorate-General**, manages the activities in the framework of the uniform FADN, prepares general reports on the Union as a whole and uses data for other purposes (e.g. modelling);
- **Ministry of Agriculture and Rural Development** (Hungarian Abbreviation: FVM), takes up general supervision and financing;
- **Research Institute of Agricultural Economics (AKI)**, is responsible for continuous operation, central data processing, publishing and dissemination of information, development of the system and maintaining contacts with the European Union;
- **Specially selected Accountancy Offices** maintain direct contacts with farms and (in the majority of individual farms) do the book-keeping and compile the annual reports. At present 7 Accountancy Offices, selected in an open competition, belong to the system. These offices are also responsible for exploring and recruiting data supplying farms on the basis of the selection plan elaborated by AKI.
- **Farms** are the objects of observation. Selection is made according to four criteria (legal form, farm size, production type and geographic position). **The survey only includes farms above 2 European Size Units. (https://www.aki.gov.hu/index.php)**

2 Facts and figures on agriculture

2.1 Share of agriculture in the economy

A study of farmers' cooperatives can best start at the farmers' side, in agriculture. As can be seen in Figure 2 the share of agriculture is continuously declining from 8 % of GDP in 1995 to 4 % in 2007. Only 2004, the year of EU accession is an exemption, however the rise is 1% of the GDP and it is most probably due to the supports of the pre-accession period.

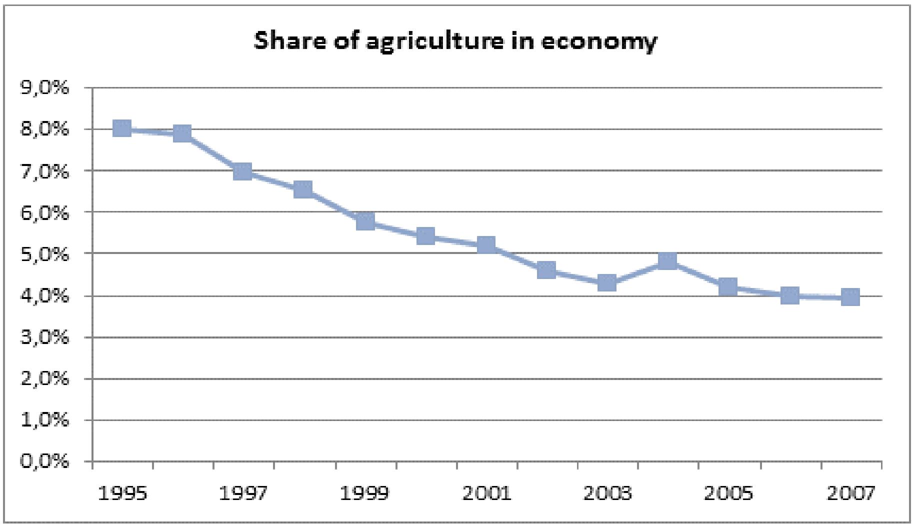


Figure 2 Share of agriculture in GDP. Source: Eurostat Nat. Accounts

Below some more basic data to be able to understand the significance of agriculture and food industry in Hungarian economy (see Table 1). As it can be seen, the share of agriculture is even more declining, only 2.5% in 2009. Naturally speaking, the importance of cooperatives thus the government's ("usual") willingness to support is in accordance.

Table 1 General data on agriculture and food industry in Hungary

Year	**Share of agriculture**			**Share of food industry**			**Agricultural products, manufacture of food products, beverages and tobacco products share**	
	in employment %	**in GDP**	**in investments**	**in employment %**	**in GDP**	**in investments**	**In consumption**	**in export**
		Current prices %			**Current prices, %**			
2002	6.2	3.5	6.3	4.2	3.1	3.1	27.5	6.8
2003	5.5	3.7	6.1	3.9	2.7	3.6	26.6	6.5
2004	5.3	4.1	4.3	3.6	2.4	3.7	26.1	6.0
2005	5.0	3.6	4.5	3.6	2.2	3.6	25.1	5.8
2006	4.9	3.5	4.2	3.6	2.1	3.1	25.8	5.5
2007	4.7	3.4	3.7	3.4	2.0	3.2	26.8	6.3
2008	4.5	3.7	4.7	3.3	1.9	2.5	26.5	6.7
2009[a]	4.6	2.5	5.6	3.5	2.1	2.5	26.0	7.3

a) Calculated data. Source: Abridged and translated version of Kapronczai (2010: p. 22, Table 15)

2.2 Agricultural output per sector

Within agriculture several sectors exist. Figure 3 provides information on the main sectors in Hungary. Please, notice that olive and tabled olive is not important in Hungary therefore it is not included in the report. That means that only 7 sectors (and 2-5 important cooperatives in each of them) will be examined in Section 3.

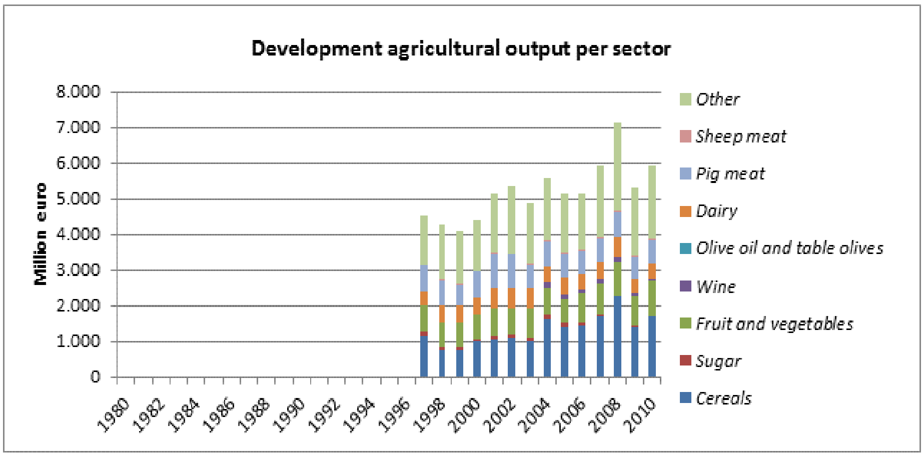
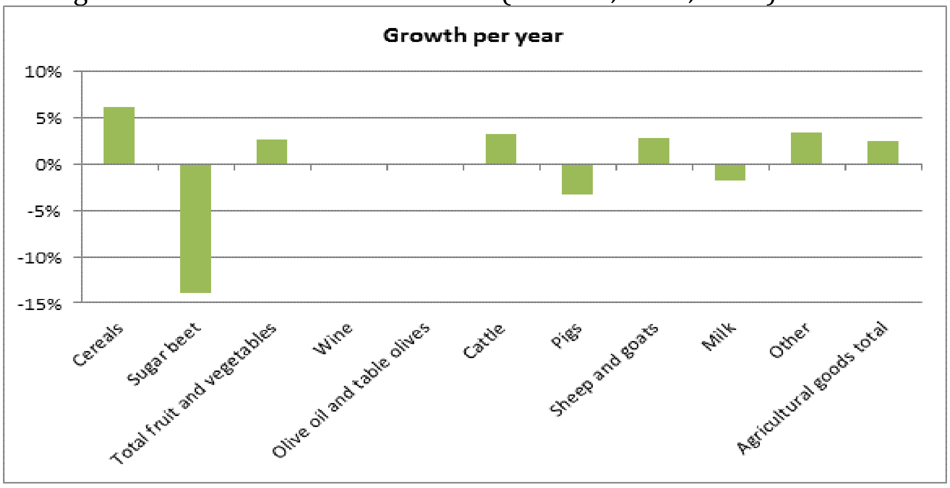


Figure 3 Development of the different sectors in agriculture, value of production at producer prices, in millions of Euro. Source: Agriculture Economic Accounts, Eurostat

In Figure 4 we show the development in output for the period 2001 -2009, calculated on a 3 year average around 2001 and around 2009 (so 2008, 2009, 2010).



Graph 3 Trend in output per sector "2001" - "2009". Source: Economic Accounts of Agriculture, Eurostat.

One can see that only output of cereals, fruit and vegetables and sheep sectors have grown during the period of 2001-2009. There are probably many explanations but the CAP and its means (CMO, different support scheme for different sectors etc.) probably influence sector development apart from the changes and crisis in world economy.

2.3 Development in the number of farms

The number of farms in Hungary is given in Table 2 and Figure 5. One can see that the number of farms is declining especially in the pig meat, beef, milk and sugar sectors, but also in cereals and sheep meat. The number of farms is increasing in the fruit and vegetables and wine sector which are labour intensive ones thus giving work and earn of living more and more people in the countryside. However, one must has to take into consideration that economic and financial crisis probably changed the development in the number of farms as well. Again, there is no olive oil and table olive production in Hungary as can be seen in Table 2.

Table 2 The number of farms in Hungary

Sectors	Number of farms		% Change per year
	2000	2007	
Cereals	81 690	69 470	-2.29
Sugar	66 410	26 370	-12.36
Pig meat	199 420	140 060	-4.92
Sheep meat	17 050	16 400	-0.55
Total fruits and vegetables	42 440	48 140	1.82
horticulture	9 300	8 150	
fruit and citrus fruit	33 140	39 990	
Olive oil and table olives	0	0	
Wine	36 760	42 780	2.19
Dairy	10 390	5 910	-7.74
Beef	1 360	410	-15.74

Source: Eurostat, Farm Structure Survey.

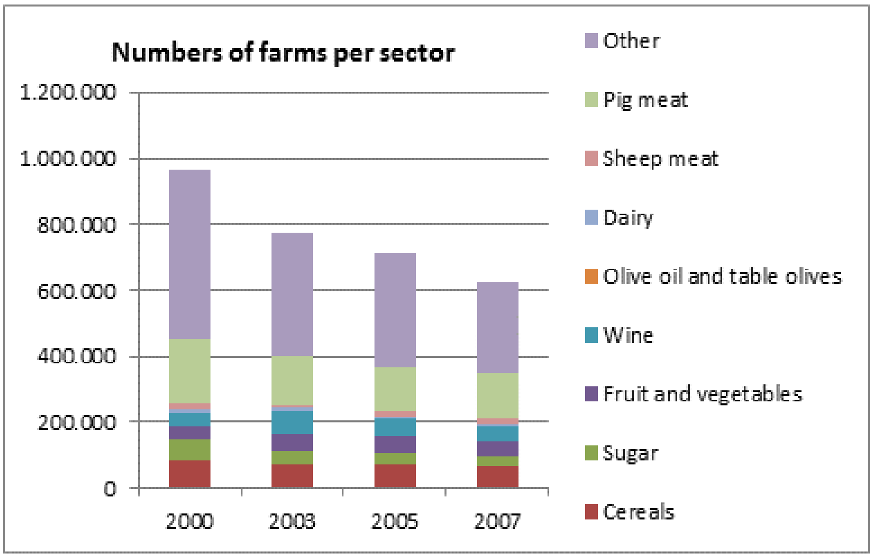


Figure 5 Number of farms 2000 - 2007 with data per specialist type of farming
Source: Eurostat, Farm Structure Survey.

2.4 Size of farms

The New Hungary Rural Development Programme summarizes the situation in 2005, just one year after the EU accession: "The most apparent change of the past fifteen years is, as a result of privatization and compensation, that private ownership of agricultural land reached a prevalent (83%) share by 2005 while land ownership (and land use) by the state and various cooperatives significantly decreased. Following the privatization of land the average plot size owned has become 2.3 hectares, which except for plantations or intensive horticultures, hardly provides a secure livelihood for a family.

After the economic-social changes in Hungary, there are both large- and small-sized farms in agriculture, however, the number and share of middle-sized farms is less than desirable. Among land-owner farms economic organizations (enterprises having more shareholders) typically have large amount of land, while their average size decreased between 2000-2005, while one-person farms are usually have small, fragmented and geographically independent pieces of land.

The average area of economic organizations was 486 hectares in 2005, which is a 35% decrease compared to 2000. The average size of farmland used by the individual farms increased more than sevenfold in Hungary between 1991 and 2005 (from 0.5 hectare to 3.4 hectares).

The average size of farmland of all farms in the country is 8.6 hectares. It is easy to see that the vast majority of individual farms serve as a supplementary income source, further concentration of land use is required for economically viable production. Bipolar farm structure is a characteristics feature of land structure. The vast majority of individual farms (93.4 %) are below 10 hectares, and they account for the quarter of the land used. As for the category of farmland with the size below 10 hectares, the majority of the farms are smaller than one hectare (70%). The distribution of economic organizations by size (with regards to the number of farms) is more balanced, however, the proportions of land use are extreme. In this sector 45% of farms above 100 hectares used 96.6% of the land belonging into this category in 2005.

Large farms between 100-300 hectares and farms above 300 hectares together use 72.2% of all areas, while they constitute only one percent of all farms." (NHRDP 2011, p.15)

Farms come in different sizes from small part-time farms to large exploitations. Figure 6 cleraly shows the distribution of farms per size class, measured in European Size Units (ESU).

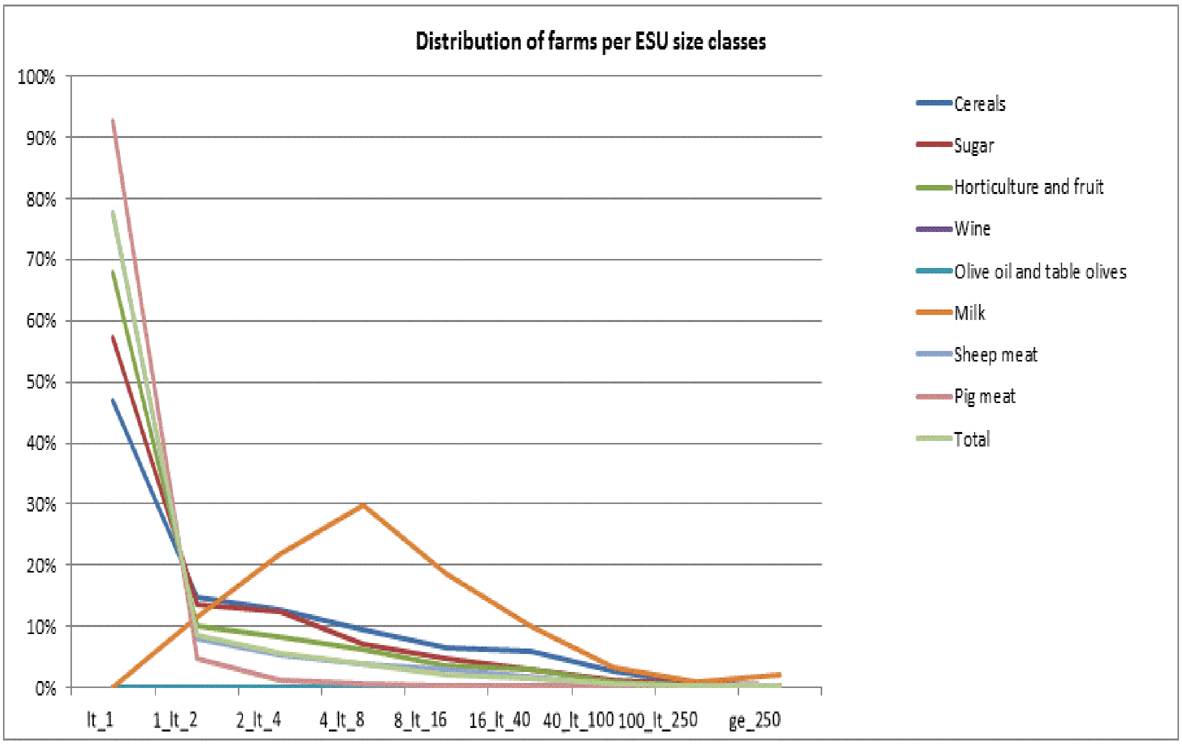


Figure 6 Number of farms per size class, measured in ESU, per specialist type of farming. Source: Eurostat, Farm Structure Survey.

All in all, it is very important to note that *farm structure in Hungary is dual*, in some sectors, like in the fruit and vegetable, is atomised. There are very big companies, especially in the cereal sector and there also very small farms. *That kind of heterogeneity might cause a problem in decision-making in cooperatives*, however since the level co-operation is very low, it is not the uppermost question. It is also true that in some cases bigger farmers are not willing to co-operate with small ones, but generally speaking it mostly depends on the charisma of the founders/leaders of the cooperative to be able to handle this phenomenon.

2.5 Age of farmers: distriibution of farms to age classes

The age of farmers differs in the Member States of EU 27. According to the data in Figure 7 Hungary has got a relatively good position regarding the age of farmers. However, heterogenity of members affects decision making in cooperatives (due to the horizon problem) in a number of cases. The New Hungary Rural Development Plan (see Axis I, Section 5.3.1.1.2. as a measure of "Setting up Youg farmers") offers support for Young farmers. Membership in a PO is an advantage in getting the above support, so they might apply to become a member before they start to produce anything. It is a very controversial situation, since in the report of the programme POs have to explain why some members have not delivered anything to the co-op. So, to solve this problem but to be able to help Young farmers some boards of cooperatives give only a statement of intention of accepting them as members if they will produce the product/raw material marketed by the co-op.

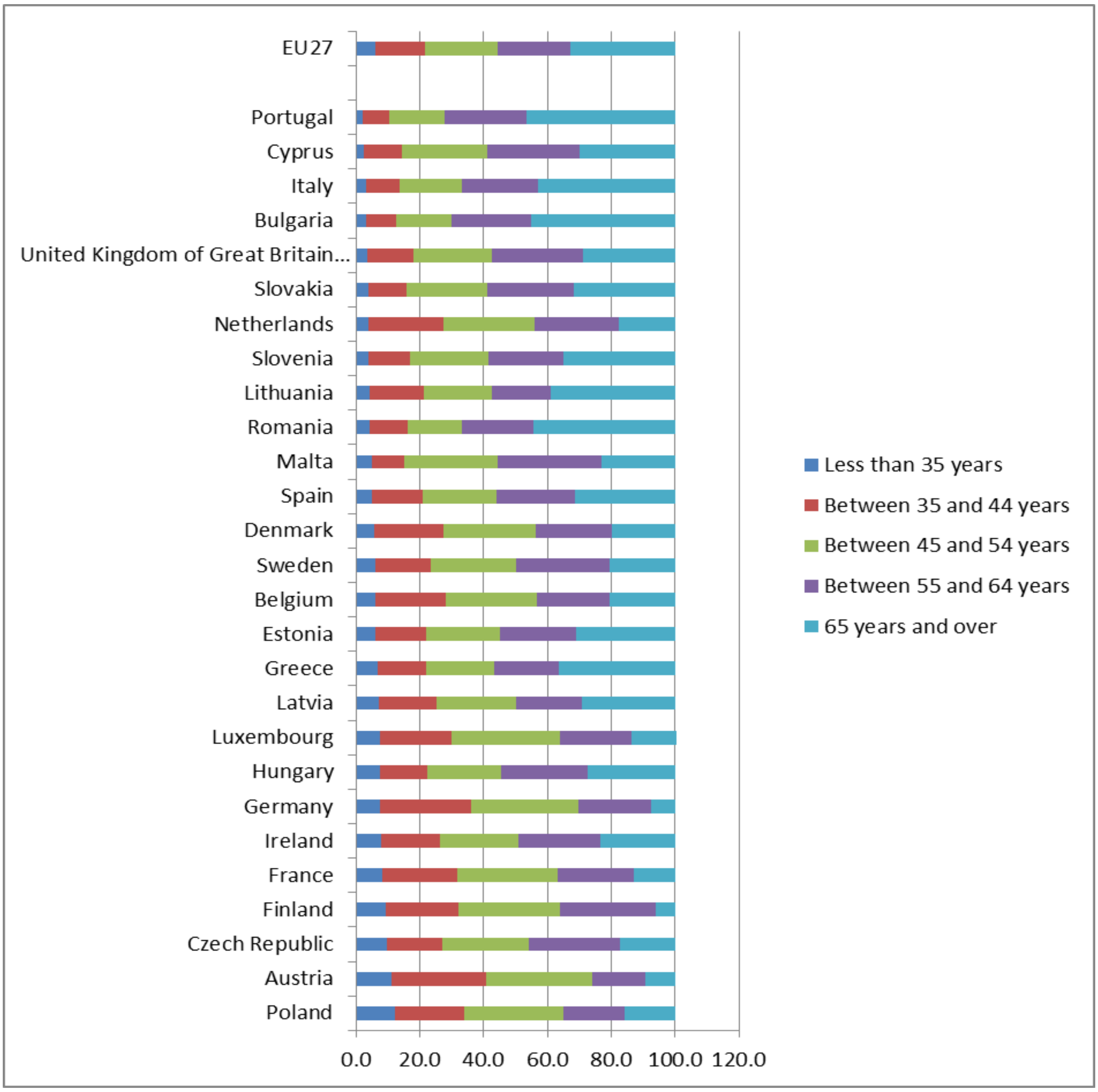


Figure 7 Percentage of farmers per age class, per Member State and EU27, 2007 (ranked with countries with the lowest percentage of young farmers on top). Source: Eurostat, Farm Structure Survey.

2.6 Specialisation of farm production

Cooperatives might not only have member-farmers with different farm sizes or different age. Farms also have a different composition of their production and therefore their input. This is even true for specialist farms, where e.g. some so called specialst dairy farmers also have beef or sheep or sell hay. In addition to that a lot of mixed (non-specialized) farms exist. The heterogeneity of farming in terms of specialisation can be estimated by calculating the share that specialized farms have in the total production. This is what Figure 8 (split in 8A for plant production and 8B for animal production) shows. Generally speaking farmers active in plant production are much more specialised than their colleagues in animal production. Wine and cereals are the sectors with the most specialised farms, whereas even the pig sector which is the most specialised one in animal husbandry only in 2005 and 2007 exceeded hardly the 50% (see Figure 8A and 8B).

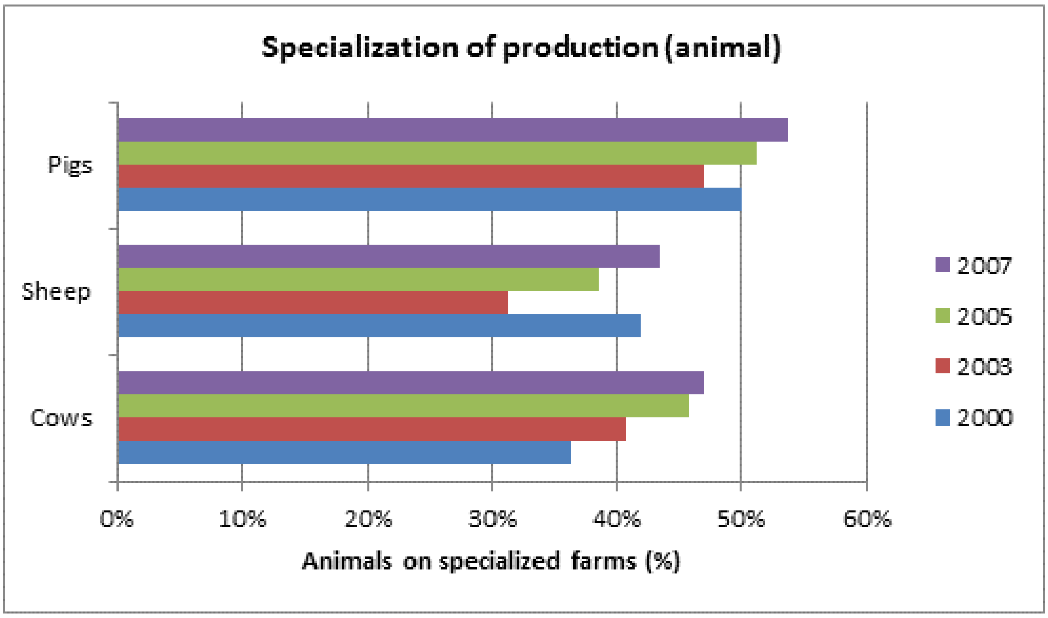


Figure 8 A & B Heterogenity in farm production: the share of specialist farm types in total production. Source: Economic Accounts of Agriculture, Eurostat.

2.7 Economic indicators of farms

The description of agriculture is concluded with some economic indicators (Table 3, see below). These indicators focus on the net value added and income from farming for farmers, as well as the level of their investment. Some of this investment is in equity of the cooperatives and other producer organisation and groups, but far the most will be in farm assets in Hungary.

Table 3 Economic indicators for farms

Economic indicators average per farm (2006-2008)

	Cereals	Sugar	Fruit and vegetables	Dairy	Wine	Pig meat	Sheep meat
Economic size - ESU	22,80	23,30	16,63	53,63	7,13	35,10	13,97
Total labour input - AWU	1,41	1,85	1,92	3,73	2,46	2,58	1,65
Total Utilised Agricultural Area (ha)	82,7	55,5	12,1	87,0	7,2	9,4	89,0
Total output €	62 376	57 707	38 275	150 323	46 927	170 488	37 214
Farm Net Value Added €	28 200	26 705	14 056	53 858	14 659	32 513	15 532
Farm Net Income €	16 572	14 276	7 022	24 798	5 836	15 311	10 009
Total assets €	158 058	136 195	98 994	288 386	122 886	183 158	160 818
Net worth €	119 002	100 511	66 943	204 009	87 682	103 801	119 896
Gross Investment €	9 511	7 380	5 654	15 294	2 542	6 250	2 755
Net Investment €	345	-180	-1 211	4 121	-2 964	-1 834	-3 032
Total subsidies - excl. on investm. €	17 123	13 462	3 419	28 671	2 836	9 387	18 459
Farms represented	26 143	7 417	10 500	2 903	6 527	4 130	1 787

note: less than 3 years available

Source: DG Agri, FADN.

2.8 Significant general and operational problems in Hungarian agriculture from 1992-2010

Fundamental problems in Hungary concerning the still *emerging new agricultural cooperative system* are the following:

- the *lack* of economic, political and moral (corresponding to social values) *security and sound concepts*;
- *economic uncertainty* given starting from the so-termed Compensation Law (1991) and procedure and continuing with the different 'cooperatives laws'
- *low profitability* in agricultural production;
- *collapses* in the domestic and *Eastern European markets*;
- *the inheritance* of the existing agricultural and *cooperative system*;
- *very low level of producers' ownership in the privatisation process, etc.*
- *financial and economic crisis etc.*

It is difficult to establish a system which is distinctly different, due to insufficient incentives and the lack of security outlined above. There are of course *further problems (with respect to co-operation)*:

- firstly, the *lack of capital and a convenient credit system for agricultural producers*;
- for potential farmers it is *unusual* to run their own farm *at their own risk*;
- most people are *not qualified to be real farmers*; having until now been specialised in only one or two tasks which they performed on the former cooperative farms;
- there remain unclarified questions concerning *land use and the land market*;
- the 'always' changing Hungarian legislation (see section 3.3 in more details) concerning cooperatives in the least decade is *not practical and is very hard to interpret for the layman*;
- finally, the *institutional and infrastructural framework are* insufficient to stimulate and assist people to become farmers.

Due to the *privatisation process* in the nineties the agricultural producers' share varies from branch to branch, but generally speaking it is a very minor one in the case of agri-food industry. Due to the special tenders and procedures involved in the course of privatisation, producers hold only a limited part of the processing companies and almost nothing in the case of retail and wholesale chains. Since, in the course of the privatisation process, cash payment and the additional capital supplied were priorities, it was no advantage to the farmers that in the case of two similar applications the one submitted by producers would have been successful.

At the end of the privatisation process the multinationals and/or IOF firms now have a sound dominant market position, as well as property rights in agribusiness, while cooperative shares account for a very low proportion.

The so-termed *compensation procedures* had more ethical and political justification than the ones with rational economic consideration. However, in theory these would provide a good opportunity for farmers to obtain a share in processing companies. The lack of capital and information has led to agricultural producers not being able to use this possibility and having to remain at the production level. However, some smaller processing cooperatives run by the members have been emerging for a few years. Another point of importance is that in most cases the transformed multi-purpose cooperatives (formerly engaged in agricultural production) have low capacity for the production of raw materials.

3 Evolution, position and performance of cooperatives

3.1 Types of cooperatives

3.1.1 Different types of cooperatives in Hungary

There are about 5000 cooperatives in Hungary. The share of cooperatives in agriculture is relatively high although their number is decreasing (see later). Cooperatives which are connected to agriculture or to rural areas are active in *retail* (e.g. AFÉSZ-Coop Group), *agricultural* (e.g. POs, PGs and transformed "production type" cooperatives etc.) and *credit* sector (savings co-ops). Apart from them, there are cooperatives in the (processing) *industry* mainly among the small and medium enterprises, as well as so-termed *school, social, and housing cooperatives* are exist but they are not part of present study. One can even find s*ervice, as well as information technology* (IT) co-ops in Hungary.

In the retail sector, consumer cooperatives exist, however the member-cooperative relations are rather weak. In fact Coop Group (which ownership is in 100% Hungarian) works very similarly to other (mutinational) retail chains with some notable exceptions for example the share of Hungarian products (90% share of 95,000 Hungarian products, 3000 Hungarian suppliers) are higher than in other multinational chains and they are "closer" to the costumers, not just physically but they adjust themselves to the need of even a small settlement and most of all they have a very friendly atmosphare. The Co-op network is present in almost every point in Hungary, they have around 3000 shops in 1650 settlements.

The importance of the savings cooperative in credit sector in Hungary[2]

Altough not very much in help financing directly the agricultural sector, savings cooperatives play a significant part in rural life where they are mostly active. We are going to summarise the main data on them by quoting a paper by Moizs and Szabó (2011). "Savings cooperatives shared 1.734 billion HUF from the 33.708 billion HUF balance sheet total in year 2010 and possessed 10.5% (1,450 billion HUF) of all bank deposits. The amount of loans (731 billion HUF) given by cooperatives was 3.5% of the bank sector. The 8.5 billion HUF result before taxing meant the 14.5% of the whole credit bank sector, but the differences in bank taxes, make the picture biased. This proportion was 3.9% in 2009. Savings cooperatives run about 1,800 branches (40% of the total number of branches bank), in every 3rd settlement only they offer services, employ more than 8,400 people, which means the 21% of the whole banking sector. They possessed over a 120 billion HUF large capital in average (4.3% of the sector) their average, annual capital equivalence indicator was 14.7 %. By the end of the 1980s, the amount of the members of cooperative credit institutions has reached 2 billion, however this amount of members has decreased to about 150,000 people until today. About 10% of the population of Hungary is client of one of the savings cooperative." (Moizs –Szabó, 2011: pp. 19-20)

Social cooperatives

According to the Nation Council of Co-operativs there are about 300 social co-ops in Hungary. The definition and regulation of the social cooperative can be found in the genral Law on Cooperatives (X/2006). Their activity might be connected with agriculture; however the results are rather poor so far regarding their growth:
„The Hungarian by-law (141/2006. VI. 29.) on social cooperatives: these employment generating coops are an important policy tool in the direction of activating wide strata of undereducated people in deprived areas. Social coops cannot have investor members, only contributing

[2] On 31 December 2010, Source: Pénzügyi Szervezetek Állami Felügyelete
http://www.pszaf.hu/bal_menu/jelentesek_statisztikak/statisztikak/bankszektor

members in person. As opposed to mainstream coops, they are acknowledged as having community-interest status entitling them to tax-deductible donations. There are many social coops in the country, but they could not in a single case reach a sustainable business model. Thus, the current legislation and practice can be deemed as worthy for starting them as competence incubators, but unsatisfactory to pushing them over the threshold of an institutional status." (Kelen, 2009: p.622)

3.1.2 Different types of agricultural cooperatives in Hungary

After trying to obtain data on cooperatives and facing all the problems with statistics (see subsection 1.4), the author decided to use the official data for cooperatives provided by CSO[3] (see Table 4A below). Please, note that producer organisations and groups are not registered under agricultural category of TEÁOR'08 (National system of classification of activities) even if they choose the legal form cooperative, so their data can not be found in the next table. We will touch on that problem later.

Table 4A Development of the number of cooperatives, agricultural cooperatives and share-holding companies in Hungary in the period of 2004– 2009

Code	Legal form	2004	2005	2006	2007	2008	2009
114	Share-holding company	4 357	4 371	4 373	4 493	4 828	5 020
12	Cooperative	6 532	6 230	5 860	5 488	5 245	4 365
124	Agricultural cooperative	1 852	1 714	1 549	1 372	1 149	1 116

Source: Own construction and translation based on CSO (2010). Note: Original tables were divided into 3 parts and present table is only the 3/3 and the original contains much more categories.

Table 4B below also contains information on the number of agricultural cooperatives in Hungary. The numbers are not the same as above (Table 4A) although both sources are CSO, more about that problem later.

Table 4B The number of registered entrepreneurships according to TEÁOR'08 (National system of classification of activities) and to the number of employees/members in Hungary at the end of the year

Definition	2008	2009	Year 2009 in % of Year 2008
„Joint companies" and Cooperative	13 443	13 352	99.3
From which: Ltd.	6 945	7 279	104.8
Joint-stock company	322	315	97.8
Partnership	3 735	3 458	92.6
Cooperative	1 099	1 004	91.4
Private farmers (sole entrepreneurships)	372 656	393 578	105.6
Total number of entrepreneurships	386 099	406 930	105.4
From: more than 500 heads	8	6	75.0
250–499 heads	23	24	104.3
50–249 heads	388	352	90.7
20–49 heads	625	641	102.6
10–19 heads	858	790	92.1
1–9 heads	360 432	354 213	98.3
0 head and unknown	23 765	50 904	214.2

Source: Translated and abridged version of Table 2 in **Vidékfejlesztési Minisztérium** (2010: p. 15) which is based on data from **CSO**

[3] CSO (2010). Downloadable in Hungarian: http://portal.ksh.hu/pls/ksh/docs/hun/xstadat/xstadat_eves/tabl3_02_01ic.html.

The most important information from Table 4A&B that the number of cooperatives continuously decreases in the examination period and the number agricultural cooperatives is especially does so. From the year of EU accession (2004) till 2009 the number agricultural cooperatives has been decreased by 700. We will touch on that problem later.

Next we **overview the cooperatives in Hungary according to different classifications** can be found in Annex 1.

- *1) Main functions*

Regarding economic of cooperatives functions joint **production** (production co-ops see later), **collecting** and **marketing of members' products** (POs and PGs), **purchasing inputs** (supply partnerships, some POs and PGs) and (primary) **processing** (processing co-ops, PGS and POs) are the most important ones. There are co-ops which combine two or three as was the case in most production-type co-ops before 1992 and also some POs and PGs also purchase input for their members.
Regarding the **position and function in the food chain** most of the co-ops are active in *joint production*, *wholesaling*, *collecting member' products*, *marketing and supplying* but only a few in processing and retailing. Marketing branded products is extremely rare such as secondary processing in case of cooperatives/POs/PGs.
We are going to analyse the three types of co-ops regarding the main activity in the next point.

- *2) Diversity of function and products*

Since 1990 (the changing the Hungarian social and economic system) *most of the agricultural cooperative have got only economic functions*, like in helping farmers in increasing income of their farming but a few has still social aims as well, especially the transformed "production" type ones. Sometimes producer organisations like POs and PGs are also active in social life, but although they are non-profit organisations their focus is on member economic benefit. Usually co-op have not direct political aims or activities in Hungary.

There are **three main types of agricultural co-ops** in Hungary:

A) **"Production type" co-ops** (in Hungarian "TSZ"))which are most of the time multipurpose co-ops as well and transformed many times due to the ever changing cooperative laws. With the exemption of some minor tax advantages (see more details in 3.Policy measure and legal aspests file) they do not get any support at present (2011)
B) **Supply and Marketing Cooperatives** (in Hungarian "BÉSZ") organised on territorial bases (e.g. integrating more activities and marketing channels) which has not got any support at present (2011).
C) **Marketing or"new", western type cooperatives**, **like POs** (in Hungarian "TÉSZ") **and PGs** (in Hungarian "termelői csoport"), which are often single purposed ones focused on one marketing channel and got support from EU and/or national budget. These are mostly marketing and/or supply co-ops which does not carry out production, but they supplement the farmers' production activity.

It is important to know that **only POs and PGs could get support if they meet the EU requirements**. That is why data on them is a little bit more accessible (from the Ministry of Agriculture) compared to the other two types which are not "on the map". Only some basic data by (for example) Hungarian Central Statistical Office (KSH) or AKI can be found regarding the first two types of cooperatives. Data available from different sources are in different structures which makes the comparision of the numbers almost impossible (see Section 1).

A) **"Production type" cooperatives in agriculture**[4]

Some of the "agricultural cooperatives" (successor organizations of privatized, former socialist „production-type" co-ops) are "multi-purpose" ones in that they have taken up other tasks than organizing production like for example machinery services, bargaining rental prices on the land market, marketing and warehousing, financial services etc.

Number of "production- type" cooperatives in Hungarian agriculture
Despite the fact that it is very hard to give an exact number cooperatives, one can conclude that the *number of (active) cooperatives, especially the number of production type cooperatives is declining*, as can be seen below:

Table 5 The number of "active or functioning" cooperatives
in area of agriculture, forestry and fishery

Legal form	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Cooperative	1225	1049	992	903	811	705	663

Source: Abridged, shortened and translated version of **Kapronczai** (2010: p. 75, Table 55)

Regarding Table 5, probably, the majority of the cooperative are "production-type" ones, however this information based on oral communication needs to be confirmed.
The main products of these types of co-ops are cereals, oil seeds and other crops and the ones can be cultivated by machines. They also hire lands from their members and also from other landowners and cultivate huge farms (1,000 - 2,000 hectars or more).

It is important to understand that in case of "production-type" co-ops - apart from the three dimensions of member-cooperative relationships (product, capital and control) - there is another one which makes the whole incentive scheme very complex. It is the *member-employee relationship* since most of the members are at the same time employees of their own company (co-op). It is one of the causes why these types of co-ops are not effective most of the times since the incentives are rather complex in these organisations. After the obliged cooperative transformation in 1992 the interest of most of the members of co-ops to stay member was the wage they earned as employees.

Table 6 (see below) contains the decreasing numbers of **members and employees**. It is interesting to know that some of the members are at the same time are employees so there are some overlapping numbers. This decreasing trend is in accordance with the decrease in number of production type cooperatives. See more on that in 2.1.1.1

4 Some historical background on the institutional environment of "Production type" cooperatives can be found at Section 3.3.

Table 6 Employment in agriculture

Year	Employment in agriculture								
	Total number of employees 1000 heads	**Employees**		**Member of cooperatives**		**Member of (joint) companies and partnerships and private farmers**		**Family helpers**	
		1000 heads	**%**	**1000 heads**	**%**	**1000 heads**	**%**	**1000 heads**	**%**
2002	240.9	142.8	59.3	16.8	7.0	71.9	29.8	9.4	3.9
2003	215.2	141.9	65.9	6.1	2.9	59.0	27.4	8.2	3.8
2004	204.9	130.7	63.8	5.6	2.7	62.3	30.4	6.3	3.1
2005	193.9	125.1	64.5	4.8	2.5	58.4	30.1	5.6	2.9
2006	190.7	122.4	64.2	3.8	2.0	56.8	29.8	7.7	4.0
2007	182.9	122.9	67.2	2.8	1.5	51.1	27.9	6.1	3.4
2008[1]	169.1	114.1	67.5	1.7	1.0	50.0	29.6	3.3	1.9
2009[1]	175.8	115.3	65.6	2.0	1.1	53.3	30.3	5.2	3.0
Change in %[2)]	73.0	80.7	-	11.9	-	74.1	-	55.3	-

1) According to TEÁOR'08 (National system of classification of activities)
2) Index is calculated for 2009, 2002=100%
Source: Abridged and translated version of **Kapronczai** (2010: p. 62, Table 43) which is in turn based on data from **Hungarian Central Statistical Office (CSO)**

B) **Supply and Marketing Cooperatives**.

Support of supply marketing cooperatives ("BÉSZ" in Hungarian) was possible from 1999- 2007 in the Hungarian national agricultural support system (see later and in the seperate file: 3. policymeasure and legal aspects). The effect was very good; almost *700 new co-ops were established* in the first year. They could organise the purchase of input effectively thus saving a lot of money for members. However, since it come clear that so many co-ops can not be financed from the (national) budget the requirements had to increase hence the number BÉSZ decreased in the next years. After a short period of derogation (2004-2006) this type of support was not possible in EU since it did not harmonise with EU regulations because these co-ops were organised on territorial base as opposed to product marketing channels preferred by EU in its CMO of CAP (e.g. POs in the fruit and vegetable sector as an example). Some of the "BÉSZ" organisations had been transformed into PGs or POs (see later). It is interesting that they were also not registered as agricultural organisations, so they are very much have disappeared from the "map" although some of them still get some supports since they gained it for a five-year period before or in 2007.

C*)* **Marketing or"new", western type cooperatives**

Marketing cooperatives (also sometimes called "producer groups": PGs and producer's organisations: POs) who gain support from EU (e.g. through CMO of CAP) and national budget (POs) are 'new types' of cooperatives and most them are **specialized in marketing one or few commodities** in the area of cereals, sugar, pig meat, sheep meat, fruit and vegetables, dairy, wine etc., so we are gonna deal with them in the next subsection, connected to analysis by co-ops by sectors.

- *3) Sector*

In the CEECs of the European Union producer groups dominate the pattern of collective action among farmers. Groups are mostly small in size 10-200 members and specialize in marketing one or few commodities.

Brief data on prudcer organisations (POs) in fruit and vegetable (F -V) sector
The rather dark picture of the declining number of cooperatives is a bit brighter if we can take into consideration the othe producer owned organisations (like PGs which are active in many sectors and POs which are active in fruit and vegetables).

Regarding the fruit and vegetable sector there are some measures for their support in Hungary in accordance with EU agricultural policy. There are some new measures to support some secondary organisations as well; however there are no empirical experiences enough to be able to make judgements on their viability. The flagship of POs Mórakert Cooperative) in fruit and vegetable sector has ceased to exist, however smaller POs could handle the crisis in a better. There many reasons to investigate on that particular case as well. It needs to be taken into consideration that some of the POs are exist in other forms than cooperative, like Ltds. Therefore data regarding the latter ones are not included in Table 4 or 6. There are some recent publications in Hungaraian literature which contains data regarding POs and their legislation [see for example in Felföldi (2005), Dudás (2009), Horváth (2010), Dorgai et al. 2010)].

Some basic data on POs can be seen below (Table 7):

Table 7 Development of Number POs and their members

Subject	Quantity	1999	2000	2001	2002	2003	2004	2005	2006	2007
Number of POs	Piece(s)	1	3	11	24	68	95	71	63	58
Number of members of POs	head	54	362	1 165	4 120	13 450	23 980	20 514	20 494	20 177

Source: Abridged and translated version of Dorgai et al. (2010: p. 52, Table 16) which is turn based on data from Hungarian Ministry of Rural Development and on the Hungarian National Strategy.

According to the different lists (see for example in Dorgai et al. 2010, pp. 106-109, FruitVeb etc.) of Ministry of Rural Develpoment (formarly Ministry of Agriculture and Rural Development) the number of Producers Group (formerly "temporary recognised producers organisation") in 2011 is 29 (it was 47 on 1 January 2008 and 24 on 14 January 2010), the number of Producers Organisations (formerly "officially recognised Producers Organisation") is 48 (it was 11 on 1 January 2008 and 48 on 14 January 2010). The number of secondary organisations ("associations" of producers' organisations) is 9 in 2011 (it was 5 on 14 January 2010). It is interesting to note that from the 48 POs 40 and from the 29 Producers Group 13 choose the cooperative form in 2011. There were 53 co-ops, 19 Ltds sand 1 share-holding company altogether (POs + fruit and vegetable PGs) in fruit and vegetable sector on January 2010.

According to experts's estimation the share of POs in F-V sector is rather low: it was proximately 17% in 2009 and less than 20% in 2010 instead of 40% which would be expected and proposed (see more data in Table 8 below). The concentration is rather weak from the point of building countervailing against the retail chains. Data on concentration of production marketed by POs can be seen below (Table 8):

Table 8 Degree of concentration of the production of POs in Hungary 2004-2008

	2004	2005	2006	2007	2008
Production of fruit and vegetables (1000 EUR)	672,203	598,330	792342	770,440	818,298
Production of fruit and vegetables of POs and PGs (1000 EUR	107,999	93,174	113,271	123,446	128,368
Degree of concentration	16.1%	15.6%	14.3%	16.0%	15.7%

Source: Main Department of Agricultural Market of Hungarian Ministry of Rural Development
Note: 1) Original data in HUF, exchange rate used is the one published by the Hungarian National (=Central) Bank on 31 December each year

Other sectors

Some details on data on Producers Groups (PGs) in other branches than F-V can be found in Tables 9 (see below) It is interesting to see that in case of producers' group data are available on the numbers of organisation (even per sector) and also regarding their membership. However, these data also need to be updated.

Table 9 Number of members of Producers' Groups and their share per sector (2006-2008)

Sector	Data regarding members of Producers' Groups					
	number	share	number	share	number	share
	Heads	%	Heads	%	Heads	%
	2006		2007		2008	
Cereals	4 969	27.9	5 079	28.3	6 212	32.2
Oil crop (oilseeds)	3 515	19.7	3 673	20.5	4 071	21.1
Sugar Beet	301	1.7	306	1.7	270	1.4
Tobacco	1 677	9.4	1 378	7.7	1 175	6.1
Soya	132	0.7	148	0.8	150	0.8
Potato	542	3.0	604	3.4	638	3.3
Grape and wine	2 653	14.9	2 448	13.6	2 325	12.1
Plant breeding in total	***13 789***	*77.4*	***13 636***	*75.9*	***14 841***	*77.0*
Dairy	414	2.3	463	2.6	558	2.9
Slaughter cattle	0	0.0	0	0.0	27	0.1
Pig meat	884	5.0	987	5.5	1 033	5.4
Sheep	836	4.7	943	5.3	969	5.0
Poultry	704	4.0	795	4.4	777	4.0
Rabbit	166	0.9	140	0.8	123	0.6
Honey	964	5.4	936	5.2	898	4.7
Fish	54	0.3	60	0.3	60	0.3
Animal husbandry in total	***4 022***	*22.6*	***4 324***	*24.1*	***4 445***	*23.0*
In the aggregate	**17 811**	100.0	**17 960**	100.0	**19 286**	100.0
Natural persons from number of members	**15 180**	**85.2**	**15 173**	**84.5**	**16 406**	**85.1**

Source: Translated from Dorgai et al. (2010: p.20, Table 3) which is based on data from Hungarian Ministry of Rural Development

- 4) *Position and function in the food chain*

Positions of the cooperatives in the food chain are not very good. Most cooperatives active in agricultural row material production, only a few active in the processing sector (see Table 10 below).

Table 10 Number and share of Producers' Groups per sector (2006-2008)

Sector	**Data regarding to the Producers' Group**					
	number	**share**	**number**	**share**	**number**	**share**
	pieces	**%**	**Pieces**	**%**	**pieces**	**%**
	2006		**2007**		**2008**	
Cereals	73	31.9	73	31.2	82	33.6
Oil crop (oil seeds)	27	11.8	27	11.5	31	12.7
Sugar Beet	9	3.9	9	3.8	8	3.3
Tobacco	3	1.3	3	1.3	2	0.8
Soya	3	1.3	3	1.3	3	1.2
Potato	5	2.2	5	2.1	5	2.0
Grape and wine	14	6.1	14	6.0	14	5.7
Plant breeding in total	***134***	*58.5*	***134***	*57.3*	***145***	*59.4*
Dairy	8	3.5	9	3.8	10	4.1
Slaughter cattle	0	0.0	0	0.0	1	0.4
Pig meat	25	10.9	25	10.7	25	10.2
Sheep	12	5.2	12	5.1	12	4.9
Poultry	35	15.3	38	16.2	37	15.2
Rabbit	5	2.2	5	2.1	5	2.0
Honey	8	3.5	9	3.8	7	2.9
Fish	2	0.9	2	0.9	2	0.8
Animal husbandry in total	***95***	*41.5*	***100***	*42.7*	***99***	*40.6*
In the aggregate	**229**	100.0	**234**	100.0	**244**	100.0

Source: Translated from Dorgai et al. (2010: p. 88, Appendix 1) which is based on data from Hungarian Ministry of Rural Development

According to the Main Department of Agricultural Market of Hungarian Ministry of Rural Development on December 31 2010 the total number of PGs was 245 (it was 253 on 30 Szeptember 2010). Most of the PGs operate in cooperative form, that number was 158 on 30 September 2010, the remaining 95 was LTD. During 2010 5 new organisations have been recognised but 10 recognitions were withdrawn mainly due to violence of rule the minimum net revenue for years. The number of members of PGs was 20,500 in 2009 and the share of natural persons was 85% (Vidékfejlesztési Minisztérium, 2011).

- *5) Type of members*

Most of the co-op are **primary cooperatives**, only a very few, especially in the fruit and vegetables sector, are **secondary co-ops**. There were 9 associations (secondary co-ops and 1 private share-holding company) of POs they aim would be to harmonise their trade but none of the associations are really effective.

Most of the co-ops/POs/PGs in Hungary have farmers (**natural persons**) as members; however in some cases there are **legal persons** (as producers) among the members. I regard those co-ops **still primary co-ops** since they do not get any local (primary) co-ops as members.

Apart from distinguishing **active** and **non-active members** according to general Co-operaive Law (X/2006) there is a possibility of two types of memberships in every co-op: "normal" and **investor-type** membership (more on that type in Chapter 5). Usually "production type" co-ops

("A" type, see above) could involve investor-member, since the EU and national support for producer organisations would require personal economic contribution to the co-op activtity (e.g. transaction with the co-ops) on behalves of members therefore POs and PGs can not really afford. That fact doesn't mean that POs and PGs have not got legal persons (like Ltds, share-holding companies etc.) among their members; some of them even can be an opinion and economic "leader" of the co-op. However, investor-membership could help to establish secondary cooperatives as well, which are not very common so far in Hungarian agriculture as you could read above.

- *6) Geographical scope*

Most of the cooperative are local, however there some regional ones and a few get nationwide membership. There are no real transnational/international cooperatives in Hungary, only a few get occasional members or suppliers from other EU countries (see Section 2.2.5).

- *7) Financial/ownership structure*

According to general Co-operaive Law (X/2006) there is a possibility to be investor member in each co-op. As we have already mentioned there is no exact data on membership issues a but probably there are not so many investor members so far. Cooperatives financed from their earnings (surplus), members' loan, and if applicable (e.g. in case of producers organisation) from some EU and national support as well members' and the cooperative' contributions to operational programs if needed. Risk-bearing capital is not common, therefore there are not many types of co-ops according to types of financial ownership.

All in all most of the co-ops in Hungary are classical or "**Traditional" one**s with a possibility to become of a kind of "Participation share cooperative" through investor members. However, the latter froms is not very common.
Regarding the classification of co-ops it also worth to mention that proximately 1/3 of POs and PGs working in legal form as Ltd. (without any daughter company) in Hungary. It is an interesting question whether it is a PLC Co-op or not? After consultation with colleagues from Holland, which has similar situation, we tend to think that they are PLC co-ops since they meet the requirements of the co-op definition of the report and also because they have certain "cooperative" limitation on voting power and other internal issues in connection with EU support requirements. However, some doubts and issues were remained.

- *8) Legal form*

To analysis of cooperatives, it is also useful to overview the number of economic organisations/companies in agriculture (Table 11, see below) and in agrifood (food processing) industry (Table 12, see below) according to legal forms. Note, that the number of co-ops in the latter one especially low.

Among the cooperatives registered in agriculture there are of course many (mostly "production" type) cooperatives, who remained co-ops after the transformation period in 1992 but in decreasing number (see below). However it must stated that a great number of former "production type" co-op had transformed them shelves into (private) share-holding companies from 1992, but they are not considered to be co-ops since they are and work as IOFs.

According to TEÁOR (National system of classification of activities) *POs and PGs are not agricultural cooperatives* since they registered as wholesale (and sometimes retail) organisations and their main activity is trade. It is interesting to know however that those organisations (according to their by-law and to EU support requirements) only deal with members and to a much less extent with some non-member farmers in buying-up products. Naturally speaking they sell to any other business organisation on the market however their share of the trade is very small.

For organisation of POs and PGs mostly cooperative (little bit than 2/3 in case of PGs) form is the *most popular* (Act X/2006 on Cooperatives), and in some cases Ltd. (little bit more than 1/3 in case of PGs) in September 2010. In case of POs in the f&v sector 2/3 are co-ops and are 1/3 Ltd.s, but in case of secondary organisations, there are 8 Ltd.s and only one private Share-holding company which does not really work (2011). Some of the organisation choose cooperative form since it is more flexible when a new member joins, it does not necessarily have to change the by-law each and every time contrary to Ltds. Taking into account (EU suported) POs and PGs as the focus of our study, we can state that cooperative as a legal form for producer owned organisations is more popular compared to Ltd. and share-holding companies, but in case POs in F&V sector Ltd are becoming popular in the last years. There is only a very few few joint - stock companies among the supported POs and PGs partly due to the system of recognition process.

Table 11 Number of economic organisations in agriculture according to legal forms

Subject	Number of organisations conducting double-entry bookkeeping						
	2003.		2004.	2005.	2006.	2007.	2008.
	double-entry bookkeeping	**double-entry and single bookkeeping**					
	organisations						
Number of Organisations by Legal forms							
LTD	4934	4934	4990	4999	4917	4942	4768
Share holding company	279	279	277	276	265	271	267
Cooperatives	**1227**	**1245**	**1161**	**1082**	**979**	**848**	**745**
Other organisations	1225	2943	2784	2768	2559	2487	1998
Total:	**7665**	**9401**	**9212**	**9125**	**8720**	**8548**	**7778**

Source: AKI (2010)

Table 12 Number of economic organisations in agrifood industry according to legal forms

Subject	Number of organisations conducting double-entry bookkeeping						
	2003.		2004.	2005.	2006.	2007.	2008.
	double-entry bookkeeping	**double-entry and single bookkeeping**					
	organisations						
Number of Organisations by Legal forms							
LTD	2660	2660	2813	2836	2867	2928	3060
Share holding company	179	179	172	165	161	150	131
Cooperatives	84	85	88	87	78	74	70
Other organisations	571	1161	1089	1087	1030	1027	992
Total:	**3494**	**4085**	**4162**	**4175**	**4136**	**4179**	**4253**

Source: AKI (2010)

One can conclude that the *number cooperatives in agriculture has been continuously declining*, however the (very limited) number co-ops in agri-food industry was slightly increased until the EU accession. However, after 2004 the number of the latter ones is declining also. It has to be mentioned again that the majority of the agricultural co-ops in Table 11 are mostly so-termed (transformed) “production type” co-ops since the so-termed “new type” or promotional/extension (western) type of co-ops (e.g. marketing, supply etc.) are registered as wholesalers since they do not produce agricultural products/raw material. Therefore all POs and PGs which will be empirically studied in Section 3 "de jure" and statistically are not agricultural cooperatives despite the fact they deals with and promote farmers. That is one of the *reasons for a suggestion of a future research to overview the (different) types and numbers of co-ops in agriculture as well as to count their members* (see Section 7).

3.1.3 National (so-termed "interest representative") cooperative associations in Hungary

There is an umbrella organisation called *National Cooperative Council* (OSZT) of all types of co-ops (including savings, housing, consumer and industrial etc. co-ops) and there a few national (so-termed "interest representative") cooperative associations connected to agriculture in Hungary.

1) MAGOSZ (National Association of Hungarian Farmers' Societies)
According to the information can be found on the website of COPA-COGECA (http://copa-cogeca.eu/Main.aspx?page=CogecaMembers&lang=en), MAGOSZ (National Association of Hungarian Farmers' Societies) is the only official Hungarian member of COGECA. According to the by-law of the organisation in English, the "…Activity of the Association:

- represents the Hungarian farmers' societies as well as the farmers grouped together into them in the national interest conciliation,
- appears for the members of the union in state organizations, courts, institutions and other third persons,
- proposes and represents the opinions, recommendations and requests of Hungarian farmers' societies as well as the farmers grouped together into them for the country political and economic decision makers,
- assists the members of the association to obtain information of EU knowledge, in the organization of professional and scientific lectures, exchange of experiences, meetings and study trips, organises national and regional meetings,
- informs continuously the members of the association about the changes of the European Union and national legislation, possibilities of agricultural and rural development support programs, EU research results and development opportunities and production, trade and financial constructions related to these activities,
- informs continuously the members and the member organizations of the association about the activities of MAGOSZ representatives in each committee's work and the results of the decisions." (MAGOSZ, 2009: p. 1).

The political power of the organisation in Hungary is strengthen by the fact that president of MAGOSZ is a vice-president of the Hungarian Parliament from 2010.

2) MOSZ (National Association of Agricultural Producers and Cooperatives)
One of most influential representative (partner) organisation in agriculture from 1967 is MOSZ (National Association of Agricultural Producers and Cooperatives). Its membership consists of mainly production type co-ops and since December 1989 any other types of business organisations in agriculture (Partnerships, Ltds, Share-holding companies etc.)

3) Hangya (Association of Hungarian Producer's Sales and Service Organisations and Cooperatives)
Its members mostly PGs and POs and the association promote mostly single purpose (chain oriented) cooperatives in different sector like cereals, vine, pig, sugar etc. It is an important interest representative body of the member co-ops. They promote the cooperative substance and also some of the cooperative heritage (hence the name of a complex economic-social Hungarian cooperative network before the World War II).

4) FRUITVEB (HFV)
The main activities of the Hungarian National Fruit and Vegetable Interprofessional (Interbranch) Organisation - FRUITVEB (HFV) It is a recognised interbranch organisation by EU and it is an interest representative organisiation in fruit and vegetable sector including processors

5) National Council of Wine Communities (HNT)
Wine Community is a non- profit organisation "… at production level that is a public body and a special association with compulsory membership of grape-growers, wine-growers and wineries." The association of Wine Communities is an "…inter-branch type organization that represents the interest of the Hungarian wine sector" (Sidlovits et al. 2010: p. 23).

6) National associations of producer groups (PGs)
It is worth to mention that there are 4 national associations of producer groups (PGs) in the following sectors:

1. Cereals
2. Wine-grapes
3. Poultry
4. Oilseeds

One of their aims is to act as a secondary organisation but their economic impact on the market is very low in 2011. However as professional associations they could formulate a common opinion on the issues regarding the branch (sector) and also organise professional programs and meetings for the members.

7) Hungarian Chamber of Agriculture
It is a general semi-govermental agricultural professional organisation with aims like promoting agriculture, advisory, extensions, organisation of professional events, interest representation etc. All types of stakeholders of agriculture are members, it is not exclusive for co-op at all.

3.2 Market share of farmers' cooperatives in the food chain

Table 13 contains some data on market shares of POs in fruit and vegetable as well as of PGs in other sectors. Some more data available on the share of other sectors regarding members and numbers of PGs in Tables 7-10 (see section 2.2.1.2).

Table 13 Market Share of Cooperatives in Hungary

	"2006"		"2008"		**Comments**
Sector	**Number of members**	**Market Share (%)**	**Number of members**	**Market Share (%)**	Market shares: in terms of total quantity sold by PGs in tonnes/ total quantity sold in Hungary in tonnes unless otherwise stated
Cereals	4,969	11.0	6,212	12.2	
Sugar	301	26.1	270	30.1	
Pig meat	884	19.5	1033	24.9	
Sheep meat	836	18.9	969	19.5	
Fruit and vegetables	20,494 (2004: 23,980)	14.3 (2004: 16.1)	20,177 (2007)	17-19 (2010)	Market shares: in terms of production of POs in HUF/ production of Hungary in HUF Data for 2010 is only estimation, number of members available only for 2007.
Olive oil and table olives	N/A.	N/A.	N/A.	N/A.	N/A=Non applicable since there are no Olive oil and table olives co-ops in Hungary
Dairy	414	27.5	558	30.8 Prox. 30% in 2010	
Wine	2,653	6.1	2,325	8.9	
Etc.					

Sources: Main Department of Agricultural Market of Hungarian Ministry of Rural Development, Dorgai et al. (2010: p. 92, Appendix 5) based Central Statistical Office and Ministry of Rural Development, FruitVeb
Notes: 1) The table contains only the market shares of POs (Fruit and vegetables) and PGs (other sectors), data other types of co-ops are not included; 2) Instead of 2004 and 2010 data is available for 2006 and for 2008 unless othwerwise sated

It is clear that despite the EU and national support there is no real development in degree of concentration in the frui and vegetable sector. However, there is a slow growth in the number of members and also in market shares of PGs in other sectors.

3.3 List of top 50 largest farmers' cooperatives

Because of the lack of data, "production-type" co-ops are not included in any of the following list and therefore they are not included in the further empirical research. *Only the ones which get any support from EU or Hungary are monitores therefore listed*. It was not possible to get a unified list but two separated lists of agricultural co-ops by Minsitry of Agriculture were made (see Table 14A & B below). One of the lists consists of POs from any other sectors (Table 14A) and the other list contains the five biggest POs from fruit and vegetables (Table 14B). Because data protection legislation it was not possible to get data on the names of POs/PGs and their turnover at the same time as well, so it was not possiblet to join the two lists. Read more on problem regarding statistics in Section 3 and 7).

Table 14A The 50 largest producer groups (PGs) in the food chain of Hungary in 2010 according to total net revenue in their balance sheet

Name of the Cooperative	Sector involved in
1. Alföldi Tej Értékesítő és Beszerző Kft.	Dairy
2. Alföldi Sertés Értékesítő és Beszerző Szövetkezet	Pig meat
3. Big Pulykafarmok Termelő, Beszerző és Értékesítő Szövetkezet	Poultry
4. GOF HUNGARY KFT.	Cereals
5. KA-TÉSZ Szövetkezet	Pig meat
6. Pannon Brojler Baromfi Termeltető és Értékesítő Szövetkezet	Poultry
7. Kelet-Magyarországi Baromfi Termelő és Értékesítő Szövetkezet	Poultry
8. BROILER Termelői Csoport Kft.	Poultry
9. Délbaromfi Délalföldi Baromfitermelők Szövetkezete	Poultry
10. TEJÉRT Tejértékesitő és Beszerző KFT	Dairy
11. Fehérvár-Tej KFT	Dairy
12. Motej 2003 Tejbeszerző és Tejértékesítő Szövetkezet	Dairy
13. KASZ-NA Beszerzési és Értékesítési Szövetkezet	Poultry
14. BST Pulyka Termelő, Beszerző és Értékesítő Szövetkezet	Poultry
15. MÁTRAGABONA Mátravidéki Gabonatermelők Szövetkezete	Cereals
16. Nyírségi Dohány Termelői Csoport Kft	Tobacco
17. Söptéri Mezőgazdasági Szövetkezet	Pig meat
18. Hódmezővásárhelyi Olajos Növények Tcs. Kft.	Oil crops (oilseeds)
19. Aranyrepce Mezőgazdasági - Termelői csoport - Kft.	Oil crops (oilseeds)
20. Magyar-Tej Értékesítő és Beszerző Kft.	Dairy
21. Pannon Sertés Értékesítő és Beszerző Kft	Pig meat
22. Kapos Környéki Gabona Szövetkezet	Cereals
23. Vasi Broiler Szövetkezet	Poultry
24. Dél-Tiszai Vágósertést Termelő, Beszerző és Értékesítő Kft.	Pig meat
25. Fino-Tej -TCS- Értékesítő Szövetkezet	Dairy
26. Bajai Olajos Növények Kft.	Oil crops (oilseeds)
27. Bozsok Környéki Gazdák Baromfi Teny. És Ért. Szöv.	Poultry
28. Gabona - 27 Kft.	Cereals
29. MÁTRAMAG Mátravidéki Olajosmag Termelők Szövetkezete	Oil crops (oilseeds)
30. Békés Megyei Sertésbeszerző és Értékesítő Szövetkezet	Pig meat
31. Dél-magyarországi Sertés Beszerző és Értékesítő Szövetkezet	Pig meat
32. Dunamelléki Tejértékesítő, Beszerző és Szolgáltató Szövetkezet	Dairy
33. OROS-UNION Kft	Pig meat
34. Füzesabonyi Olajos Növények Kft.	Oil crops (oilseeds)
35. Komáromi Híd Gabonatermelők Szövetkezete	Cereals
36. Dabasi Olajos Növények Kft.	Oil crops (oilseeds)
37. Ekrics Csirke BÉSZ	Poultry
38. Győrszemerei Olajos Növények Kft.	Oil crops (oilseeds)
39. Fejér Pig Sertésértékesítő Szövetkezet	Pig meat
40. Kerek-Eggs Kft.	Eggs
41. Csibért Szövetkezet	Poultry
42. AGRÁRUNIÓ MEZŐGAZDASÁGI TERMELŐI SZÖVETKEZET	Cereals
43. Bakony-Tej 2004. Kft.	Dairy
44. ZIKA Nyúltenyésztő és Forgalmazó Szövetkezet	Rabbit
45. Nyugati Régiós Baromfi Bész	Poultry
46. KELET-PIG Vágósertést Beszerző és Értékesítő Szövetkezet	Pig meat
47. Sajókörnyéki Szövetkezet	Poultry
48. Kapos Cukorrépa Termelők Szövetkezete	Sugar beet
49. Jász-Kun TÉSZ Sertés Termelő, Értékesítő Szövetkezet	Pig meat
50. Tüskei Összefogás Beszerző és Értékesítő Szövetkezet	Cereals

Source: Main Department of Agricultural Markets of Ministry of Rural Development. Note: 1) The 50 largest producer groups (PGs) in the food chain of Hungary according to total net revenue of co-ops in their balance sheet. The biggestPG is the first. 2) Co-ops with bold letters are studied in this project.

Table 14B The 5 largest POs in the fruit and vegetable sector in Hungary in 2010

Name of Cooperative	Sector involved in
1. Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete	Fruit and vegetables
2. FLORATOM-KER Termelő Értékesítő Szövetkezet	Fruit and vegetables
3. RÓNA KER-TÉSZ Értékesítő, Zöldség és Gyümölcstermelést Szervező Szolgáltató Kft.	Fruit and vegetables
4. Észak-Alföldi Zöldség-Gyümölcs Termelői Értékesítő Szövetkezet	Fruit and vegetables
5. Józsai TÉSZ Mezőgazdasági, Zöldség és Gyümölcstermelő Értékesítő Szövetkezet	Fruit and vegetables

Source: Main Department of Agricultural Markets of Ministry of Rural Development. Note: 1) The list is based on net turnover of members' products sold by the POs in 2010. The largest is the first. 2) Co-ops with bold letters are studied in this project.

3.4 List of top 5 largests farmers' cooperatives per sector

Table 15 Most important cooperatives in the sectors studied in this project

Sector		Name of Cooperative(POs, PGs)	No. of the coop in the question-naire
Cereals	1	MÁTRAGABONA Mátravidéki Gabonatermelők Szövetkezete	1
	2	Komáromi Híd Gabonatermelők Szövetkezete	2
	3	"Szabolcs-Grain" Gabonatermelő és Kersekedelmi Kft.	3
	4	Tevel és Környéke Gabona Termelői Csoport Termeltető és Értékesítő Szövetkezet	4
	5	Csabai Raktárszövetkezet	5
Sugar	1	Kapos Cukorrépa Termelők Szövetkezete	6
	2	Brigetio Cukorrépatermelő Szövetkezet	7
Pig meat	1	Alföldi Sertés Értékesítő és Beszerző Szövetkezet	8
	2	KA-TÉSZ Szövetkezet	9
	3	Söptéri Mezőgazdasági Szövetkezet	10
	4	Zala-Sertés Értékesítő és Beszerző Szövetkezet	11
Sheep meat	1	Juhtenyésző Kft.	12
	2	Juhexport Kft.	13
	3	Merino Értékesítő Szövetkezet	14
	4	Aranyszőrű Juh – Termelői Csoport Tenyésztő és Értékesítő Szövetkezet	15
	5	Dél-Alföldi Juhászati Beszerző és Értékesítő Kft.	16
Fruit and vegetables	1	Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete	17
	2	Észak-Alföldi Zöldség-Gyümölcs Termelői Értékesítő Szövetkezet	18
	3	GYÜMÖLCSÉRT Termelői Értékesítő Kft.	19
	4	BOTÉSZ Bodzatermelők Értékesítő	20

		Szövetkezete	
	5	ZÖLD-TERMÉK Termelő Értékesítő Szövetkezet	21
Dairy	1	Alföldi Tej Értékesítő és Beszerző Kft.	22
	2	Fehérvár-Tej Tejértékesítő és Beszerző Kft.	23
	3	TEJÉRT Tejértékesitő és Beszerző Kft.	24
	4	Magyar-Tej Értékesítő és Beszerző Kft.	25
	5	Fino-Tej –Tejtermelői Csoport Értékesítő Szövetkezet	26
	6	Gazda-tej Értékesítő Szövetkezet	27
Wine	1	SECRETUM Agrár, Termékbeszerző-értékesítő és Szolgáltató Szövetkezet	28
	2	Balatonboglári Pinceszövetkezet	29
		Arany Sárfehér Szőlő és Bortermelők Szövetkezete	30
		Debrővin 2004 Szövetkezet	31
Olive oil and table olives	0	Not exist in Hungary	n.a

Note: As stated before the above cooperatives (POs/PGs) are not necessarily the biggest.

3.5 Transnational cooperatives

Many cooperatives are active internationally. In most cases the foreign activities of cooperatives are limited to marketing, trade and sales. Usually they do not buy agricultural products from farmers, or supply inputs to them. However, there is a growting group of cooperatives that do business with farmers in other EU Member States. These cooperatives are called international cooperatives. They can be marketing cooperatives that buy from farmers in different countries, or they could be supply cooperatives that sell inputs to farmers in different countries. One particular group of international cooperatives is the so-called transnational cooperatives. These cooperatives do not just contract with farmers to buy their products or to sell them inputs, they actually have a membership relationship with those supplying or purchasing farmers. In sum, a transnational cooperative has members in more than one country.

Table 16 below presents the only foreign transnational cooperative active in Hungary. This is cooperatives from the Netherland (other EU Member States) that has come to Hungary to directly trade with farmers, either as members or as contractual customers.

Table 16 The foreign transnational cooperatives and international cooperatives that are trading with farmers in Hungary

Name of the Cooperative	Mother country	Sector(s) involved in:
Transnationals		
Zuivelcoöperatie Friesland Campina U.A. through Royal Friesland Campina N.V. (in Hungary: FrieslandCampina Hungária Zrt.)	NL	Dairy
Internationals		

Thanks to its strong brands, *FrieslandCampina Hungária Zrt.*is the dairy leader in Hungary. Brands such as Pöttyös, Milli, Completa and Optiwell are widely known to its ten million inhabitants. The operating company called FrieslandCampina Hungary Zrt. has its own production locations throughout the country as well as head offices in Budapest (See: http://www.frieslandcampina.com/english/about-us/worldwide-locations/europe/hungary.aspx.). The predecessor in title of the firm was established in Hungary in June 1994 by the name Friesland Hungária Kft. (in Hungarian: Ltd.), which had been transformed into a joint stock company (Rt. in Hungarian) in 2002. The company (itself a share-holding company) as an IOF-subsidiary company of the transnational cooperative

(Zuivelcoöperatie Friesland Campina U.A., NL) buy raw milk from Hungarian producers but the producers are not a member of the cooperative, so Hungarian producers do not hold any shares or influence in the company.

Table 17 The transnational cooperatives and international cooperatives from Hungary that are trading with farmers in other countries

Name of the Cooperative	Host countries	Sector(s) involved in:
Transnationals		
BOTÉSZ Bodzatermelők Értékesítő Szövetkezete	Hungary	Fruit and vegetables
Internationals		
Mórakert Szövetkezet	Hungary	Fruit and vegetables
GYÜMÖLCSÉRT Termelői Értékesítő Kft.	Hungary	Fruit and vegetables

Table 17 above presents the transnational and international cooperatives that have their seat in Hungary. It is very interesting to see that – at least up to the author's knowledge - *only cooperatives/POs in fruit and vegetable sector are international oriented* although to a very small extent. It is interesting to note that one of them works in legal form of Ltd. (in Hungarian: "Kft."), the other two are co-ops.

According to the author's knowledge only *Mórakert Cooperative* had a daughter company in Romania called (Morakert SRL) but most likely it only sold Hungarian products, so it might be not eligible for the title. Since Mórakert Co-op – once the biggest co-op and fisrt officially recognised PO in Hungary - is under liquidation and it is very hard to get relevant data on their recent (export) activity it is not sure what kind of trade it carries out today. From the Supplement to their official Balance Sheet it is clear that the co-op had the daughter company in 2009 (http://www.e-beszamolo.kim.gov.hu/kereses-Default.aspx). More on rise and fall of Mórakert Co-op can be found in the next Subsection (2.2.6).

BOTÉSZ Bodzatermelők Értékesítő Szövetkezete has a member from Slovakia and it is among the very first POs in Hungary working as a cooperative, so it can be an interesting example for further research.

GYÜMÖLCSÉRT Termelői Értékesítő Kft. purchase fruit from Spain and Italy and also buy services from Italy, Switzerland, Austria and France.

3.6 Other interesting cooperative experiences[5]

The first and biggest PO in Hungarian fruit and vegetable sector failed: Mórakert Cooperative

Mórakert Purchasing and Service Cooperative (established in 1995) was the first officially recognised PO in Hungary and was certified in 2002. The cooperative extended its membership and circle of suppliers during the period 1995-2007 and tried to involve more segments of the fruit and vegetable chain. The increase in both membership and the turnover of the cooperative demonstrate that the co-op was operating efficiently during that period. They supplied all the major retail chains and exported a significant share of their turnover as well.

However, the non-member trade was a question of importance in the case of a PO, since the *majority of the trade has to be done with members according to EU regulations* in order to get support. The share of members' products supplied was 60 percent which was changed to 40

[5] The subsection is based mainly on Szabó, 2008b, 2009 and 2010.

percent in the year 2005. In order to be able to fulfil the requirements of POs in the EU the co-op developed a new organizational model resulting in a kind of holding form. Members and other suppliers sold their products to the cooperative. The co-op owned a Ltd. (*Mórakert TÉSZ KFt.*) which was the one who was in contact with clients (mostly retail chains). The business partners (consumers) were the same, and the administration is almost the same as the Mórakert Co-op, since they use an integrated resource planning system. The owner of the Ltd. was the Mórakert co-op (92%) and the authority of Mórahalom (8%), so this is still a producer-owned organization. This system ensured that the co-op can get support from the European Union budget, since it fulfilled all the criteria regarding POs in the fruit and vegetable sector. Thus, free-rider problems seemed to be solved for the time being. In 2009 there were changes in the system with DATÉSZ ZRt. to take over some commercial tasks from Mórakert TÉSZ Ltd.

The total net revenue of Mórakert co-op reached HUF 8 billion in 2007, a very significant result for the sector. However, 2008 and 2009 were not as successful as the previous ones, for example the turnover of the co-op in the first half of 2009 was about 40% of the similar period in 2008. They expected a turnover of about HUF 4 billion in 2009, which is only half of the result in 2007. The major problems were connected to liquidity: members do not trade their products to the cooperative, instead they try to sell them on spot (generally on the grey and black markets since the national fiscal and control system or at least its implementation allows it), getting cash immediately. While that way of short-term thinking and thus bypassing the cooperative route destroys the marketing channels of the co-op; on the other hand the behaviour of members can be understood: they have to finance their family life and also their own farming. The Co-op had 776 owner-members in July 2009.

The success story (in terms of increasing turnover and membership from 1995-2007) of the above mentioned Mórakert Cooperative (Szabó, 2009) was due to the friendly and supportive approach of the local authority, the various sources of capital derived from funds for development, and above all, the trust and loyalty within the cooperative. However, as the cooperative got bigger and because of the liquidity problems arising from the economic and financial crisis from 2008, loyalty and trust have become a very sensitive issue, since there were huge delays in payments to members for the their products (HUF 2 billion) due to a number of micro- and macro-level problems. The president and the new managing director had to personally talk with all of the members one by one in order to ensure that they voted for the necessary changes before the assembly of delegates in March 2009 (Szabó, 2009). As the president of the Mórakert Co-op said: "The retrieval of trust (of the members, author) is a matter of money" (Hódi, 2009). The main important weapons in the hands of the cooperative manager and president to gain back the trust of the members are secure markets and prompt payments for the products of the farmers.

As mentioned above, Mórakert Co-op had been facing some liquidity problems from the second half of 2008. The most important problems ("effects") were two-fold; both could be traced back to current liabilities which ran up to about the amount to 3 billions HUF in July 2009:

1) Huge delays in payments to members and other suppliers for their products (2 billions HUF),
2) Loans mainly for development (1 billion HUF).

Summarising the causes which led to the very hard situation today we can divide them into 2 *main groups*. *Macroeconomic and external issues* were and are the following:

1. Financial and economic crisis resulting in less domestic demand for fruit and vegetables.
2. Higher share of import of fruit and vegetables in the Hungarian market.
3. Producers' organisations and cooperatives are not competitive because of the black and grey trade in spot markets.
4. Banks willingness declines regarding financing current assets (revolving funds).
5. Late pay-off of the supports (EU funds).
6. Delayed payments (60-70 days after delivery) from the retail chains.

7. High financial burden due to “non-price character financial parameters” (e.g.: listing and the so-called “shelf” fee, various donations and bonuses etc.) set up by the majority of retail chains[6].

Main important microeconomic and internal problems of the Mórakert Co-op were the followings:

1. There were no reserve funds due to the non-profit character of the cooperative.
2. Too rapid development and growth.
3. Structural problems of the Mórakert Group
4. Efficiency problems regarding delivery, the right quality and quantity to the market (retail chains).

Financial solutions of the above liquidity problem in July 2009 came from four sources: a loan from the local authority (municipality), members' contributions in different ways, state intervention through DATÉSZ Zrt. (private joint stock company) and remodelling (restructuring) the cooperative into a “for-profit” organisation (to get reserves and savings for financing their development) including a cost saving plan and changes in the management. However, in a next stage of cooperative development the cooperative was faced with a number of additional liquidity problems, decreasing turnover and issues usually emerging in the case of traditional (countervailing power) cooperative model which changed marketing, financial and possibly the organisational strategies of the cooperative. The cooperative is very close to cease to exist as a co-op, in July 2011 it is not sure what kind integration form will be established on the basis of the huge real estate (processing line, cold storage depots etc.) which was partly financed from EU budget (Szabó, 2008b, 2009, 2010). The case would be an interesting example of a once successful marketing cooperative which has failed.

Trust issues in ZÖLD-TERMÉK Cooperative

Dudás (2009), analysing the cooperative's role in coordinating fruit and vegetable producers, deals with trust issues as well. Dudás summarises his empirical results regarding the impact of trust on cooperative members' group cohesion, performance and satisfaction (emphasis in original) as follows: “Producers' low willingness to cooperate is possibly due to lack of trust. In a questionnaire survey I justified that at ZÖLD-TERMÉK Cooperative trust has a decisive impact in the development of group cohesion. More precisely, affective trust has a greater impact on group cohesion than cognitive trust. I found that group cohesion has a positive impact on members' performance and satisfaction. Furthermore, it is again affective trust that has a greater impact on members' performance and satisfaction, not cognitive trust. The greater effect of affective trust implies that the emotional foundations of an association and cooperation are stronger than tangible economic results. A PO management may improve the cohesion within the cooperative by increasing its own trustworthiness and strengthening personal contacts (both among members and between members and management). This way, its members would be satisfied and stay cooperative members” Dudás (2009: 21).

Two cooperatives compared

Forgács (2006a) examined two Hungarian agricultural cooperatives as case studies based on interviews. “Field work was carried out in a traditional cooperative, BÉKE, and in a newly-established Purchasing and Marketing Cooperative, HAJDÚ GAZDÁK (PMCHG)” (Forgács, 2006a: 23). The most important findings of the study regarding trust and opportunism are the following: “Members in both co-ops regarded trust and reciprocity as important elements of social capital. However, their approach to the issue reflects different standpoints. Trust towards formal institutions differed in the two co-ops. Members of PMCHG had low levels of trust in current government officials and EU institutions. In contrast, BÉKE members had more trust in national government and their trust in EU institutions was also above average. However, where

[6] The latter problem is still valid for many co-ops and POs.

trust levels in state institutions were low, to reduce transaction costs people looked for informal institutions to solve their problems" (Forgács, 2006a: 32).

It is also very interesting that the study applies a macro-level approach in connection to a micro-level one. It is remarkable how farmers trust in their own organisation in order to solve their (marketing) problems (such as lowering transaction costs) instead of relying on governmental and/or EU institutions. Forgács (2006a) also states: "In the two cooperatives the role of leadership differed somewhat. In the BÉKE" Co-op, the management's goal was to avoid breaking up the cooperative community, while at PMCHG the key players' central responsibility was to persuade individual farmers to begin and solidify cooperation in order to build up a new cooperative community. In both co-ops the trust placed in management indicated that leadership plays an important role in cooperatives" (Forgács, 2006a: 35).

4 Description of the evolution and position of individual cooperatives.

4.1 Data gathering per cooperative

It has to be emphasised that it is very hard to get access to detailed and relevant data on agricultural cooperatives, thus personal communications and interviews were needed to get a realistic picture. There is no relevant information on Hungarian agricultural cooperatives on the internet and it is very hard to get access to annual reports of co-ops even in printed forms. Most of the co-ops studies in present report have not website. After consulting a number of experts as well as employees of the Hungarian Ministry for Rural Development, it was clear that personal meetings are needed in each and every case if one would like to get any answers, even telephone interviews are not enough

The period of time of data gathering and writing was very limited with taking into account that to access any information is very hard in Hungary. The author had to collect all the data for Excel file 2.QuestionaireHungary.xls via face-to-face communications (interviews) with leaders of individual co-ops and/or write official letters to get any information from the Ministry of Rural Development and other professional organisations, which process was very time consuming. The officiers of the Ministry and other organisations have been helpful (see Acknowledgements at the end of country report) however the information available and the limited period for data gathering influenced the quality of the individual information.

The author tried to select interesting and “working” cases as valuable examples, but they are not necessarily in the top 5 of each sector. As mentioned above, collection of data via internet and annual reports in most cases was not possible since only a few Hungarian co-ops publish anything on the internet. It was not possible to collect data focusing only on the top five co-ops since the author could only go where there was a willingness to answer the questions at least personally! People in co-ops usually are also very distrustful towards anybody trying to collect data on the organisations. Most of the cases the author could get relevant names of “approachable” producers’ organisations and groups from Ministry, since there is at least a list of them (see Acknowledgements).

There is also a problem, that there are not enough cooperatives in every sector (e.g. in sugar there are 2, the others are not reliable and there is no olive coops in Hungary since the sector is not relevant). Moreover, the author could visit only four wine coops, but he made an extra dairy co-op data collection, so altogether the author delivers 31 case studies (see Excel file 2.QuestionaireHungary.xls). Some of them are working in forms as Ltds, but it is probably not a problem regarding the target of the report (co-ops/POs./PGs). To get relevant data of cooperatives which are not registered as (supported) POs/PGs is even more impossible.

Most of the cooperatives are new, so they did not exist in 2000. Some of them started to work in reality after a few years of the establishment. Therefore I choose the first active year. If they have changed their format into PO (e.g. from Ltd) later I have used the first “cooperative” year as a basis.

Moreover, the author has not got access to individual information on the transformed production type co-ops, so they are not included of the list. Only co-ops who get any kind of support from the EU are somehow “monitored”, so the Ministry of Rural Develepment get information only on them. Other organisation only get some information on their members but sometimes even those “short lists” are not valid and complete. One of the conclusions of the country report is therefore the very low level of and differently structured information on co-ops related to agriculture in Hungary. For example, the POs are not registered as agicultural co-ops, since they are registered as a kind of wholesale organisations, so they are not included in the statistics of agricultural co-ops by The Hungarian Central Statistical Office. However, they might be agricultural co-ops if they would be active in production as well.

Finally, because of the regulation on data security in Hungary, individual information on cooperatives (e.g. turnover) could not be connected to the the exact names of co-ops, that is why only the list of the co-ops can be found in the 2.2.3 section. In case of the individual cooperative visited, the purpose and way of using their data was revelead in the oral communication so regulation on data security probably would not pose a problem.

4.2 Position in the food chain

As already stated, regarding the position and function in the food chain most of the co-ops are active in joint production, wholesaling, collecting member' products, marketing and supplying but only a few in processing and retailing. The function of *marketing branded products is extremely rare such as secondary processing* in case of cooperatives/POs/PGs.

It is interesting that in some cases there is a *big trader as a member who sells the whole amount of the marketed produce on behalf of the co-op* (.e.g. selling the products of all the other members as well). In that way the level of processing could be increased as well since in some sectors like in wine *some members could process the products of the other members* but this process raises questions on cooperative identity. However, somehow co-ops have to collect the amount of capital needed for the processing stage or use that kind of possibility.

Apart from normal and investment cooperative shares, members' loans or (maximum once a year) an additional cash-in on behalves of the members in case of losses of the co-op are the instruments (legal methods) for raising equity. In case of member' loan the total amount of them can not exceed twice the cooperative own equity and it can used only for achieving the aims of the cooperative (Law 10/2006).In case of POs and PGs EU and supplementary national supports (related to the CMO of CAP) and are also sources of financing and sometimes can contribute to rise of the equity. In the latter case members have also contributed to the financing the operational programme, but not to the equity.

In some EU supported POs and PGs members have to contribute to the cost of the operational programme in proportion with their transactions but generally speaking it is not a rule in other cooperatives working only under Law X/2006. In case of losses of the co-op members have to pay an additional amount maximum once a year, but it is only in special cases and the maximum amount is 30% of the financial contribution to the equity.

Some of the smaller co-ops are active in direct sales or in local supply chain network, but there are no exact data on that activity. Hungarian co-ops are usually on another level compared to Danish and Dutch co-ops.

Most of the c-oops trade with raw materials, so they do not use any marketing (not talking about product marketing) tools. It was very hard to determine marketing strategies since the produce of the members and therefore products of co-ops are usually not final or semi-final consumer products but raw materials (milk, cereals, sheep meat etc.). It is also very problematic to use traditional marketing tools and messages. The co-ops most probably use *bulk marketing strategy* (cost leadership) although due to special niche products produced by members and marketed by them in a very limited quantity use niche (*focus*) strategy. There is a little change in the last two decades, but at least the notion of marketing come into view.

It is very interesting also that some co-ops have choosen "Broad" product assortement even if the trade with practically one type of produce. They argued that they could produce many types of the fruit and also different versions/packages, so consumers perceive them as different products according to different needs. It is a very marketing type of thinking.

There are some additional elements of the usual (see the list in Section 3 in the 2.QuestionnaireHungary) functions like for example: *quality assurance*. It is interesting that co-ops emphasize it while they say they do not do any marketing. It might so basic and usual activity in order to get into a retail chain that is why they do not consider it as a marketing function. *Providing information* for members is a very important function and giving out *advices* on different subjects like taxation, project proposals, technological issues etc. are also popular services. *Extension/education services* are also mentioned frequently. Some co-ops give some social benefits for the members, even if they are not active anymore. However, the main focus is on economic services for members including purchasing input, transportation, marketing, collecting of products, processing and sometimes wholesailing.

4.3 Institutional environment

Appearance of different interest groups in the transformation process of the Hungarian agricultural cooperatives due to legislation on cooperatives come into force in 1992[7]

Transition Law (Law II/1992: Magyar Közlöny[8], 1992b) created many major problems for **Hungarian "production-type" agricultural cooperatives**. This Law contained the transition rules for cooperatives for the purpose of changing their structure into that of genuine 'new type' cooperatives (guided by the so called Unified Cooperative Law, Law I/1992: MagyarKözlöny, 1992a), companies or private family ventures. Due to the changes commanded by the above regulation there existed four different types of stakeholders in Hungarian agricultural cooperatives in 1993 (Varga, 1993):
a) active members (a share of the cooperative property of about 40%),
b) retired members (39%),
c) employees (1%),
d) outsiders (20%), who are also concerned with the cooperative through the business shares (certificates) which they obtained in exchange for their compensation vouchers.

The different interests caused a lot of problem during the nineties. These opposite internal interests can basically be divided into long term-short term and personal contribution-capital divisions. In addition to these two basic groups there were three main types of totally different interests (Kalmár, 1996; Módos, 1993). The first was between the active members and the so-termed retired members. The latter term was a very interesting one which does not exist in agricultural cooperative practice in the Netherlands, Denmark or most of Western Europe.

Secondly, there were different interests between the (active) members and the outsider owners (as investors). The retired members and outsider owners are interested mainly in the short-term advantages of 'their' cooperatives, and because they have special shares in the cooperative they would like to obtain dividends on these shares as quickly as possible. They are not concerned with the long-term advantages of the active members. Finally, there exist some other misunderstandings between the members/employees group and the 'new owners'.

It was a unique situation in the history of co-operation that outsiders hold a considerable proportion of the cooperative business shares, and retired members also control a large share of the cooperative property. These two groups are not interested in the basic activity of the cooperative (product/service line), but they would like to obtain the highest possible dividend on their 'investments' (business shares) as quickly as possible. Furthermore, their interest is definitely short-term, in contrast with the interest of the active members (involving continuity of the activity of the cooperative).

There were and are more different stakeholders in an average "production type" cooperative in Hungary. However, it is necessary to underline the role of the management governing the cooperative. The leaders of the co-op have got the ability to control the main transformation process, due to their key position in the business and governance matters of the cooperative.

[7] This and next subsection are based on (Szabó-Kiss 2004), Szabó et al. (2000) and Kiss (2000).
[8] MK=Magyar Közlöny, which is the official gazette of the Hungarian Republic.

They have got plenty pieces of information and very important connections to members and to organisations and authorities, which are playing outstanding role in the life of the co-op. Active members can be divided into more groups on the basis whether they are working/earning additional income in elsewhere than in the cooperative. There are some members who have got just special entrepreneurial business connections to the cooperative, they are not working in the co-op. And there are some who are employee of the cooperative and entrepreneur at the same time.

Changes in the life of agriculture cooperatives in 2000-2001 and the Law CXLI on the agricultural cooperative business shares (2000)

There were significant changes in the Hungarian agricultural cooperative life at the end of Year 2000, because of the plan of a law on the settlement (arrangement) of the so-termed 'business cooperative shares'. The government had planned to oblige the agricultural cooperatives to buy the business cooperative shares from outsider owners at their nominal (face) value. That was a real fear for the cooperative, since they had not got enough property to fulfil their obligation. It was clear for most cooperatives that the government prefers the western-type ("complementary") co-operation to the existing agricultural production type co-ops. Connected to the previous opinion, some of the cooperative leaders have thought that the government would like to strengthen the family farm model, rather than to support the collective type production of the agricultural cooperatives.

There were hard disputes between the government and the representatives on behalf of the agricultural producers and cooperatives, and some of the cooperatives had decided to transform themselves partially or fully into (limited liability or joint-stock) company. There were remaining 952 agricultural cooperatives on 1st of January 2001 from the 1049 had been existed a year earlier. From the 97 cooperatives which were to be ceased, 45 were transformed itself into IOF company, in the last two months of year 2000. According to some opinion the latter cases were mainly due to the political atmosphere.

The Law on cooperative business shares (CXLIV/2000:) come into force from 1st of January 2001. The law obliged the agricultural cooperatives to buy the business cooperative shares from outsider owners with "subjective right", at their nominal value. According to the legislation, if the co-ops had not got enough property to pay off the full price, the state would provide interest-free loan to cover the margin. According to the law mentioned above, the deadline to apply for the pay-off was 15 April 2001, however The Constitutional Court (hereafter CC) exterminated the above mentioned law (Magyar Közlöny, 2001g). The main reasons were the following ones:

- The law violated the title to property with the obligation to pay-off the nominal (face) value of the cooperative business shares, because it deprived cooperatives of their property by means of executive power.
- The law violated the autonomy of the cooperatives with the compulsory pay-off and obligatory use of the state loan upon necessity (if the cooperative would not had got enough property).
- The unilateral arrangement of the rights and duties connected to the cooperative business shares was unconstitutional, because it had harmed one party's private property.
- The laws provided unacceptable advantages for some objects of law.

Despite the decision of the CC, the procedure of collecting requests for the pay-off had been continued and 363 thousands applications had arrived until 15 April 2001. In May 2001 the government made it clear that they will continue to arrange of the cooperative business shares and extend towards to the retired members, which process has been started in 2002. In order to be able to carry out the above mentioned activity, the government entrusted the Hungarian Development Bank Ltd. ("Magyar Fejlesztési Bank") with the foundation of an Ltd. for the utilisation of the cooperative business shares. The pay off has been carried out by that Ltd. in 100% from the governments' budget. Later the process of collecting applications is being carried out in the regional offices of the Hungarian Ministry for Agriculture and Rural Development. In the 5/2002 (Magyar Közlöny, 2002b) decree the Government made it clear, that it is not an obstacle for the pay-off if in a cooperative there is a winding-up or liquidation process, or even when the co-op is close to go to the bankruptcy . The state guaranteed the loans connected to the pay-off procedures up to 2 billion HUF in a Government's decree (1025/2002: Magyar Közlöny,2002a).

After the state started to buy-up the cooperative business shares some of the co-ops have been converted into company form. Before the **Law X/2006 on Cooperatives** come into force 365,000 private persons have sold their cooperative business shares to the two Ltds which were established by the state for that purpose. "692 cooperatives in operation and 350 cooperatives under liquidation were involved in the purchase of cooperative business shares. The business shares of cooperatives, which were legally in operation and were handed over into state property accounted for 54% in the total cooperative business share." (Nagy-Husszein, 2006: 77)

Due to the above mentioned procedures the state had been getting property rights in the agricultural cooperatives in proportion of the cooperative business shares. There were and still are a number of questions regarding the sate ownership in the agricultural cooperatives due to the above mentioned legislative procedures, like: what about the possible voting right(s) of the state or the rent has to be paid after the property (assets) has been used by the cooperative etc. The solution was that the state gave back those shares to the co-ops however they have to put them into their unallocated capital (mutual fund). According to some opinions the share of unallocated euity from the own equity in case of some co-ops is too high, so it has to be individualised. There are arguments as well to get a tax redemption on the supports paid off from the mutual fund.

This process has terminated but still there many consequences for the cooperatives system. It is interesting to know however, that number of cooperatives dealing with production is declineing partly because of transformation into joint-stock company, partly because of decline in agriculture. However, it is very hard to collect relevant information on them, so present study and its empirical part especially focusod on the "new" (e.g. the ones established after 1999) cooperatives, like PGs and POs.

Law X/2006 on Cooperatives

At present (July 2011) **Law X/2006 on Cooperatives** (General C-o-operative Act) sets up and influences the internal governance of the co-op. It is a rather flexible and general law so sutaible for any kind of co-operation, altough it might change in the very future. Howver, it must state that according to the Law there are no business cooperative shares in the co-op anymore, although a new type of participation has been established: investor-membership. (More about that aspect later and in file 3.Policymeasures and legal aspects Hungary.)

4.4 Internal Governance

Based on the more detailed knowledge gained in gathering data on the individual cooperatives from the face-to-face interviews and after analysing the literature in this section I share my observations on the internal governance of cooperatives/POs in Hungary.

For producer organisations in fruit and vegetable (hereafter f&v) sector the Cooperative (see Act X/2006 on Cooperatives, MAGYAR KÖZLÖNY, 2006a), as well as the Ltd., the so-termed private Share-holding company or any other registered form stated by the Law IV/2006 on Companies (MAGYAR KÖZLÖNY, 2006b) are available as legal forms. For producer groups (hereafter PGs) in other sectors than f&v: Cooperative or Ltd. legal forms are the possibities.

Generally speaking some simpler forms of business companies are the legal business forms which are the most frequently used in agriculture like different types of partnerships and Ltd.

are the most popular, but there are a lot of producers as well who are not registered as legal business form. Some of them are natural persons. There are of course many (mostly "production" type) cooperatives, who remained co-ops after the transformation period in 1992 but in decreasing number (see country report). However it must stated that a great number of former "production type" co-op had transformed them shelves into share-holding companies from 1992.

For organisation of POs and PGs mostly cooperative (little bit less than 2/3 in case of PGs) form is the most popular (Act X/2006 on Cooperatives), and in some cases Ltd. (little bit more than 1/3 in case of PGs) in September 2010. In case of POs in the f&v sector 2/3 are co-ops and are 1/3 Ltd.s, but in case of secondary organisations, there are 8 Ltd.s and only one private Share-holding company which does not really work (2011).

Most of the studied co-ops have farmers (natural persons) as members; however in some cases there are legal persons (as producers) among the members. I regard those co-ops still primary co-ops since they do not get any local (primary) co-ops as members.

General assembly (1 member – 1 vote), *Board of Directors* and as a separate body: *Board of Supervisors*, leading officers of the cooperative (members and *president of Board of Directors* or *managing president* [CEO]) are the mandatory corporate bodies, and if number of members is higher than 500 a so-termed meeting of delegates. Auditor is necessary as well, but she or he can not be a member or principal employee (e.g. CEO) of the co-op..

Most important legal tools for members to effectively influence the decision-making process are the general assembly, but continuous direct communication to the leaders and management is available. Since most of the co-ops are rather small, communication is not a huge issue at the moment; however, the president of the co-op (who is – most of the time - the manager itself) is sometimes very busy to "deal" with individual members who need this personal type of communication. That is why some of the presidents would like to get "medium or bigger" members, since they have got less "trouble" with them.

Regarding corporate governance models co-ops with *member management* (one member or the whole Board of Directors, hereafter: BoD) are popular forms. However, the most popular governance models is when operational management is done by the (managing) president/head of the Board (who is a member) as one person, who represents BoD , but sometimes act as a professional manager. At present stage of the development the above solution is satisfactory. Moreover, most of the co-op could not get afford to hire a qualified, professional manager. However, there are examples when bigger co-ops have a non-member, professional manager. It has an advantage that the interest of a member is not in conlict with role and interest of a the manager in one person.

In most cases members' General assembly is the highest authority with one member – one vote (due to the general Law X/2006 onCooperatives). In cases of POs and PGs working in Ltd. form there is a proportional voting system but with certain limit and also the distribution of profit is in proportion with the transactions, so the member-PO/PG relationship is rather cooperative. That is why they are included in present report.

The crucial issue for the future of agricultural cooperatives is the loyalty of farmers to their co-op and the leaders of the cooperative, especially under uncertainties dominating in transition agriculture like in the Hungarian fruit and vegetable sector. The "organised trust" connected to relational connections in the co-op are crucial factors to solve the first hold-up problem, e.g. preventing post-harvest hold-ups, at least at the relatively low level of product differentiation (see Hendrikse-Veerman, 2001). It seems to be empirical evidence that trust is an essential mechanism to increase the loyalty of members to co-ops.

Using literature survey[9], Török and Hanf (2009) also examine briefly some Hungarian cooperatives examples and they conclude: "…the main expectations are to secure the market and decrease transaction costs. In addition, these cooperatives could be established, because of the significant confidence level of members. Their confidence based on their experience with other members and/or the leader, on the clear rules, and on knowledge about members' mutual interest. We can also observe that trust in the leader of the cooperatives can be integrated into the confidence and cooperativeness of the members. So we can see that due to verticalisation as well as due to the huge number of small producers, the idea of forming horizontal co operations (i.e. cooperatives) can and must be taken into the context of transition countries" (Török and Hanf, 2009: 9).

Regarding the whole society, the effect of developing and strengthening trust and social capital has primary importance; therefore in our future research, we try to pay attention to the human/soft side of the coordination and co-operation issues (see Section 7).

4.5 Performance of the cooperatives

The idea or dream that willingness to co-operate will increase and the necessity to co-operate will be higher after the accession to EU (2004) did not come true. The decrease of a total number of production type agricultural cooperatives and POs/PGs can be explained by some concentration trends; however tit is only a half of the truth. Apart from some economic reasons, like to access to credits and loans were easier in the legal form of a company (Share-holding company, Ltd. etc.), the explanation is more connected to the soft or social issues: the level of trust and willingness to cooperate is very low in Hungary (see more about that issue later, especially in Section 7).

Most of the cooperatives studied in the report are active in the the collecting/marketing of agricultural raw materials produced by the members (POs and PGs). Due to their number and market shares their countervailing power is very low. As we have seen in subsections 2.2.1.2. and 2.2.2 the degree of concentration is not really strong in the different sectors. There are only a few secondary co-ops, mostly in fruit and vegetable sector and their performance is not effective either.

Altough most of the co-ops are active on horizontal level with collecting agricultural raw material/products from members and selling tem to processors, retailers or wholesailers, some of the co-ops/Pos/PGs are good examples for the vertical integration based on the horizontal coordination of farmers as initiators. Despite recent liquidity problems, they have also proven that by co-operation there is an opportunity to significantly improve their countervailing power and to establish ownership for farmers in the upper part of the food chain if they can secure strict quality requirements, solid financing, loyalty and trust in their organisations. A higher degree of co-operation among producers is important from the point of view of better coordination of the whole chain and it can enhance (consumer) welfare as well.

However, one has to bear in mind that cooperatives and other producer-owned organisations have additional (often non-economic) advantages as well; for example they can contribute to rural development and secure jobs (by multifunctional agriculture, rural tourism, employment by the cooperative etc.) which are very important tasks especially in less favoured areas. They also help to save the environment by offering traceability partly due to the long and close social relationship. They contribute to social benefits (ethics, values etc.) as well as being socially responsible by nature.

9 The subsection is based on Szabó, 2010.

5 Sector analysis

5.1 Introduction

In this chapter we discuss the developments in the 7 sectors[10] that are central in this study. We report on trends in the markets, important changes in (agricultural) policy and we try to link this to the strategies and performance of the investor-owned firms and cooperatives in the sector. The period of observation in case of Hungary (as a new member state) is 2004 – 2010.

Other main important findings like the share and importance of co-ops in different sectors can be found in Sections 2.2.1.2 and 2.2.2. Unfortunatelly, due to the lack of statistics there is not much information on the competitive position of co-ops/POs/PGs versus IOFs in the food chain (like exact market shares, prices paid by co-ops versus IOFs, share of black market etc.). However, one can find more related information in Chapter 3 and 6.

5.2 Cereals[11]

Contrary to the unfavourable weather of the past years, 2004 was a very good year with almost a double production of cereals. 2005 and 2006 were also very good years with record production. Yield of production in the sector is very sensitive due to the rather changing weather and to the fact that Hungary practically does not use irrigation. 2007 was a very bad year in Hungary and in Eastern – Central Europe, 2008 was much better and 2009 was also good although the quantity of the production was lower than in 2008.

After the EU accession stakeholders (producers, processors, wholesalers, bankers, governmental institutions etc.) in the sector found their role very hardly in the new system of intervention. They had expected more revenues from intervention; however they would have had needed more storages and also sufficient revolving funds because of the delayed payment of the EU intervention mechanism.

One of the conclusions of the EU accession for the sector that Hungary had not been prepared with free long-term storage capacity for intervention measure. After the initial uncertainty the intervention mechanism caused 10% higher prices for producers in 2004-2006. That also means that producers gained with the accession. The quality of the corn is up to the requirements of standards.

According to the opinion of the traders and processors producers do not react fast and rationally to market news. They do not watch the market and since their accountancy is not sophisticated enough they make wrong decisions. From that aspect and according to the empirical findings of the research producer groups (PGs) could be a very information tools for the members since they could follow and overview the market trends and also could signal when there is a good possibility to sell cereals. Some of the cooperative studied do it very efficiently. Of course, they could also storage the products which lowers the price risk for the producers. In some cases some of the big members of co-ops/PGs have the storage capacity, e.g. production-type co-ops or private joint stock companies, and they do the storage for the others at a reduced price since the co-op pays the difference.

One of the problems of the sector is the sometimes very loose contract discipline between the local traders and producers, as well as between processors and their suppliers. In case of bigger traders there are almost relational contracts with the producers, so the above problem is not significant.

[10] The olive and tabled olives sector is not relevant in Hungary.

[11] The section based on Vásáry (2011), Rieger – Szőke (2006), Popp et al. (2008).

All in all, there is a danger that Hungary will become producer of raw material since the processing industry has got many weaknesses like empty capacities, black market, lack of contract discipline and also the power of retail chains for setting up prices.

The export was in accordance with hectic change of yields of production in the last years. One of the main problems of the export is the lack of homogeneity, so competitors are in a better position. The main traditional target countries are Italy, Greece, Romania, Slovenia, Austria and a lesser extend Israel and Croatia.

5.3 Sugar[12]

One of the most important measures in the sector was the Decree of Ministry of Agriculture 80/2006. (XI.23.) on the support of structural change of the sugar industry which was in harmonization with EU aims and regulation. It details all the requirements to able to get support for giving back their delivery rights. The newest Decree on the national supplementary support of sugar beet producers is the 40/2011. (V.26.) which also mentions producer groups as one of the possibilities for the producers to require support. They have to ask for support through either POs/PGs or other integrators.

After the change of regime there is only one sugar factory (Magyar Cukor Rt. owned by the Austrian Agrana Group) in Hungary that is one of the reasons why there are only 2 really efficient producer groups. Since there is only one factory in Hungary it sets a limitation for the producers as well. However, here is a possibility to export some sugar beet to Croatia. One of PGs examined does sell 40% of the sugar beet to Croatia since the price is higher there.

There is a development of establishing another cooperative (PG), however according to present EU regulation it is more likely that producers have to wait. According to some expert opinions the new factory has to get 100,000 tones capacity and it also need to integrate 12-13,000 hectares of sugar beet production. Sugar is a “heavy” industry of plant production therefore transportation cost are high.

It was a very complex situation when all parties agreed to give up significant share of production and also to close all the factories but the one in Kaposvár in southern-part of Hungary in exchange of direct EU support. The most important consequence is that the consumer price of sugar is really high in Hungary, higher than in Austria. That was a process during which the price was at EU level, around 0.9 EUR (HUF240)/kg in September 2010 and in the beginning of 2011 it has raised to almost 1.5 EUR (HUF360-370/kg). The Ministry of Rural Development has a plan to sell 2,000 tonnes to two selected Hungarian retail chains: Real and CBA with price maximisation of HUF 275 1 (little bit more than 1 EUR). However, the success is questionable since the quantity is only 0.6 of the total consumption of 300,000 tonnes.

5.4 Fruit and vegetables[13]

Production

The share of horticultural sector from the total cultivated area in Hungary is small however its role is much more important in export as well in employment in rural areas. Despite the fact that the saldo is positive, more and more import comes to Hungary since generally speaking there is a shortage of good quality products. The main import countries are Poland, Austria, Italy, Greece, Spain, Germany from EU. However, Hungary is one of the 1/3 of EU-25 countries who is self-

[12] The subsection is manily based on Mike (2011) and Szigeti (2011).

[13] The section based on Burger (2010), Huszta (2005), Szabó – Bakucs– Fertő(2008;) Popp et al. (2008) Vásáry (2011) and FruitVeb (2009, 2010). See more details regarding POs in subsection 2.2.1.2/ 3) sector.

sufficient from fruit and vegetables. More than ¼ of vegetable and 2/3 of fruit production is processed by canned- and cold storage industry.

The production of the two subsectors is 2.1-3.1 million tonnes per year. The sector has an atomistic production structure. But this is only one of the problems. To improve competitiveness it is important to increase of the level of production, decrease costs and it would be essential to improve quality with change of species and technology of production.

Processing and Trade

"Prior to the transition (before 1990, the author) the food processing industry had a significant share in the total of the Hungarian processing industry. At present the existing 18 Hungarian processing firms account for less than 10% of the number of earlier functioning firms. More than 50% of these are in foreign ownership. The largest firms - namely Globus, Univer and Bonduelle – account for two-thirds of food processing. The industry exports 60-80% of its produce in terms of value" (Burger, 2010: p. 6).

Hungary has a limited share in EU production of vegetables. However, it has a good position in fruit production and trade. This is not without reason that among the studied co-ops 3 POs have some international relations: either a member or a supplier from other countries (see Section 2.2.5).

The main co-ordinators/channels used in Hungarian fruit and vegetable sector are the following: local market, wholesale markets, production cooperatives, marketing cooperatives, producers' organisation, processing industry, wholesalers and retailers. However, it should be noted that spot markets and different types of contracts (including in some cases contract production) are the most common forms of co-ordination. Different retail chains gain a progressively larger share of the fresh fruit and vegetable market. It is therefore very important, that farmers have to use marketing channels which could give them the strengths (countervailing power) of more concentrated organisations. However, the level of concentration of POs is very weak, less than 20% of the market which far from the 40% which is considered as good basis for negotiation with the chains.

Some products by POs usually are sold on a contractual basis according to weekly prices. It should be noted that it is extremely difficult to fulfill the exacting requirements with respect to quality, quantity and range and the other terms of trade and payment stipulated by the retail chains. However, these do provide a secure market and a degree of stability for the farming activity of the members. The question of monitoring is becoming crucial in the context above.

Retail chains can be separated into 3 main groups in Hungary. The first group is the hypermarket chains (e.g. TESCO, Auchan and CORA). They have the largest retail space (stores), with a huge assortment mostly consisting from prepackaged products. TESCO has established a central logistic center, so products have to be transport to the centre instead of delivering them to the individual stores. The second group is the supermarket chains (e.g. SPAR, MATCH) with slightly higher prices than hypermarkets. They have more shops situated in various parts of settlements, including in the centers, thus they are "closer" to the consumers. Both SPAR and MATCH chains have their central logistics organization.The third group means the discount stores like PENNY MARKET and PROFI. These shops have smaller retail space and often use discount prices, however their product variety is smaller than to previous ones.

The chains continuously measure the activity of the supplier by the help a complex indicator which fact underlines the significance of logistics processes taking place among the companies not just in the individual enterprise (Huszta, 2005). It is also a general requirement for suppliers that a whole assortment has to be delivered into each of the chains; and the continuity of each product has to be secured.

Compared to the other groups, hypermarkets are more expensive, should one also consider the supply and delivery costs. Hypermarkets use a great deal of various bonuses, (e.g. allowances regarding the turnover), but they also charge suppliers with contribution to marketing and advertisement costs, quality control costs and the cost of listing the products.

Bargaining process and contracts

The products' prices are more or less the same in the case of the different chains; however individual advantages can be gained through negotiation based on the countervailing power of the suppliers. Therefore the basis of competition is the bargaining process.

However, "… both the production and trading practices of producers are disorganized. The cooperation of producers has to be strengthened in order to synchronize and support production and trade. Inside cooperatives, the building of vertical chains – with respect to purchasing, processing, and selling - has to be promoted. Stronger and larger cooperatives would also have a better bargaining position when dealing with retail trade chains and processing industries. The government has to support cooperatives by creating better rules, reducing administrative obligations, lowering taxes and labor costs, and providing more extension services" (Burger, 2010: p.8).

When some competitors are not able to meet the quality, assortment, traceability, etc. requirements of the chains, others use the competitive advantage and may at least temporarily increase their market share.

Requirements regarding logistics are gaining more and more place in the contracts with the retail chains. Appendices of the contract contain the general trading criteria (rebates, benefits, discounts, bonuses etc.) as well as requirements concerning logistics (methods, deadlines, confirmation of placing orders etc.). The contract contains information regarding the product (quality, period of keeping the same quality, traceability etc.), transport (frequency, refrigeration etc.), methods and units of packaging and the form of communication (fax, e-mail, EDI etc.)

To achieve competitiveness, in certain cases the POs and fruit and vegetable producer groups work on the basis of production contracts, which involve the cooperative detailing the requirements for the producer to ensure that the necessary quantity is produced. Main elements of the contracts are differ in case of different products, but generally contains the name and code (which is alternate regarding members and non-members) of the producers, the quantity and value of input supplied by the co-op, the species produced, the pacing of harvesting and the quantity. Quality requirements are also very important parts of the contracts.

There are some alternative quality measurements in Hungary, so it is difficult to compare individual cases. Basically Hungary applies the standards of the European Union (EUREPGAP), however the control of using them by producers, traders and other actors in the fruit and vegetable market is acting place only in the case of export. However, the increasing influence of the retail chains also lifts the standards to a higher level, since consumers can see the origin, price and class of the product in the retail shops e.g. hyper- and supermarkets.

Suppliers have to pay emphasis on the quality and homogeneity of their products, however they try to assure a versatile assortment in order to fulfill the requirement of the retail chains. Even POs occasionally buy products on spot markets and sometimes they import especially when certain products are not available in Hungary (e.g. for seasonal reasons). However, first they sell the products of the members, than if needed they call for the produce of non-member suppliers and they are going to buy import products - to fulfill the requirements of the consumers (e.g. retail chains) - just in the last case.

Cooperatives and producer organisations

EU market regulation does not limit the production; however the new strategy is based POs and fruit and vegetable producer organisations. The aim is to achieve of 60% market share, however

Hungary is far from it because most producers stick their freedom and flexibility. They do no trust each other and the the level of willingness to co-operate is very low hence the the number of POs and their members are limited (see 2.2.1.2).

As one can read in section subsections 2.2.1.2 and 3.2 the level of co-operation and concentration rate is very low in Hungary. Burger summarizes the situation of POs as compared to individual farmers:
"Membership fees and contributions often do not cover the costs of administration, functioning an investment in spite of the EU support. POs are non-profit institutions and thus net incomes are distributed among members. This is why POs are unable to accumulate sufficient means for further development. They need credits for investment but in most cases they cannot pay these back without government support. Furthermore, POs have to pay taxes and have many administrative obligations. At the same time, individual farmers do not pay income taxes under a certain income limit. Most of the individual farmers do not declare their incomes to be over that limit and thus they can completely avoid income tax payment. If POs sell to the retail chains, they get the payment for their products only after some weeks. If individuals sell in the market, - and they often do this without invoices - they get their money at once. In addition, retail chains require fairly high contributions to their selling costs from the delivering producers. All these facts hold back cooperation." (Burger, 2010: p.7)

It has to be added that POs and individual farms do not compete with each other since the co-ops (POs) only promote (supplement) the activity of farmer-members. Their main goal is to increase of the income of the members not their own profit/surplus.

5.5 Olive oil and table olives

It is not significant in Hungary.

5.6 Wine

Production

One can find a detailed description and analysis of the Hungarian wine industry and its existing interfirm networks in Sidlovits et al. (2010), therefore hereby only quick references are made. Hungary is a traditional wine consumer country. The individual wine consumption was 32 litres in 2008 which is very close to European average (Sidlovits et al. 2010). The *number of producers* was 131,000 in 2004 and in 2010 it is only 77,000 according to the data of HNT (National Council of Wine Communities see below). According to the estimated data reported by the Hungarian Ministry for Rural Development for the DG Agri *wine production* in 2010 was 2.5 million hectolitres compared to the 3.198 million hectolitres in 2009. That was mainly the cause of the very bad weather. It is important to note that according to HNT national wine production averaged 3.251 million hectolitres between 2005 and 2009. It was only about 2% of total EU production (Sidlovits 2011).

There are huge problems in the Hungarian grape production which can be traced back to the *compensation and privatisation process* of the 1990-ies. "As a result of the Hungarian wine sector privatisation, grape-wine production and transformation have been completely separated and fragmented" causing a kind of dual structure Wine growers possess only approximately 20% of the grape-wine transformation and vinification capacity (Sidlovits et al. 2010: p. 5). There is no sure information available on national level on the price differences paid by co-ops (PGs) and non-cooperative firms to producers.

From 2000 to 2005 there a so-termed 8 HUF *excise fee* per litre on the traded wine was in force which was eliminated and replaced by *wine trade cotisation* in 2005. Actually it is 10 HUF/litre for PDO (Protected designation of origin) wines and 5 HUF/litre for GI (Geographical indication) and other (lower quality) wines) from which amount some wine marketing activities (http://www.amc.hu/bormarketing) are financed through AMC (Centre for Agrarian Marketing), as well as some control activities are run by MgSzH (Central Agricultural Office) (Sidlovits, 2011).

Problems of the sector

One of the big problems of the sector is the higher and *higher share of imported wine* without geographical indicators (mainly from Italy). According to Central Statistical office (CSO), Hungarian *wine import* was 30% more in 2010 than a year before. Prices of different types of wines were higher than in 2009, foreign trade of wine also has a positive balance.

Black market selling and buying without any receipt also a problem. For whitening the sector would be essential by cutting into half of the percentage of VAT since then actors (producers) would not be interested to sell on black market. The high % of VAT means a comparative disadvantage for PGs since they are obliged to issue invoices. It is also a problem that PGs/ POs (like any other economic organisations) pay in to the budget of the tax authority the amount of VAT after they sold the product but they only eligible to get that back after the financial transaction has been made (Oreskó, 2010).

An additional thing which affects the sector is the new *changed system of control of temporary* (like seasonal in case of wine sector) *work* in Hungary is a problem as well for the sector. It is even a more bureaucratic procedure and it does not suitable for the need of the sector, for example during harvest period.

As it was already stated, the biggest problem is that *production of grapes is significantly separated from wine making*. Integration, apart from some producer groups does not really work in the sector despite to the rather atomised structure of grape-production.

Cooperatives and producer organisations

According to the Ministry of Rural Development there were 12 officially recognised producer groups in the Hungarian wine sector in March 2011. "Cooperative cellars and producer organisations cover 1,700 producers and 5,200 ha of vineyard (HNT, 2006) that is not so considerable in size, since they represent only 6% of the totality of the Hungarian vineyards (Sidlovits et al. 2010: p. 6). There are 36 registered wine cellar cooperatives with wine-making (vinification) capacity (MgSzH 2011). Comparing the lists of Ministry of Rural Development (March 2011) and MgSzH (2011) one can find that there are 4 POs which are wine cellar cooperatives as well. However, it must be noted that not all wine cellar cooperatives are recognised as POs. So, there are exist POs with wine making possibilities, however their number is limited (4). Most of the POs are specialised in trading the grape production of their members as well as in delivering services to members like purchasing inputs (Sidlovits, 2011).

There were 319 "Wine Communities" in 2004 and there are 125 in 2010 after the reorganisation and concentration of wine communities. Wine Community is a non- profit organisation "… at production level that is a public body and a special association with compulsory membership of grape-growers, wine-growers and wineries." (Sidlovits et al. 2010: p. 23). So, Wine Communities are public bodies set up by the (Hungarian) Law CII/1994 on Wine Communities. Their membership - consisting from all actors of the chain including wholesalers - is compulsory and not voluntary as in the case of POs. Contrary to POs in Wine Communities there are no production and/or trading activities taking place in them (Sidlovits, 2011). Wine Communities are kinds of interest-representative bodies and inter-branch type organizations. The National Association of Wine Communities is an apex (umbrella) "…inter-branch type organization that represents the interest of the Hungarian wine sector" (Sidlovits et al. 2010: p. 23).

"Formation of cooperatives is relatively rare in the Hungarian wine industry, …mainly they are organized around grape transformer wineries… Fusion among each other does not exist". The *lack of capital and current assets* are also big problems for PGs/POs and also that they have no processing capacities.

There are different collaboration agreements with "private" (non-cooperative) actors e.g. for supplying special quality grapes for making special quality wine or on the input side for buying viticulture inputs, as well for plant protection and technical services etc. (Sidlovits et al. 2010: p. 29)

It is also a problem of separating POs in fruit and vegetable sector and producer organisations in other sectors, especially since grape is fruit as well, because PGs in wine sector are *not eligible for those kinds of EU* (CMO) supports (like for investments) *POs in fruit and vegetable sector get access to*.

Support for POs/PGs

One of the other problems of the present support system in the wine sector, that is not differentiated enough, there is no positive discrimination of cooperative wine cellars and PGs. Hungary has not yet announced the implementation of the support measure which (for example) foresees producer organisations among the beneficiaries of the measure promotion of wines on third country market (Article 4 of Regulation [EC] No 555/2008) although it was included in the national support programme plan. However, if the above mentioned measure will be announced all economic actors will be able to apply and no priorities will possibly be given to POs (Sidlovits, 2011). That means although Hungary has indeed included in its national support programme and has already implemented of some of the measures like restructuring and conversion of vineyards, by-products distillation, potable alcohol distillation and use of concentrated grape must for enrichment wine, but producer organisations (PGs) and its members in Hungary have no priority access to any of these support measures.

Regarding their marketing strategies, POs do not apply special ones; they mostly use bulk strategies and branding are not very common in their practice so collective branding is not an issue at the time being. The main target of their trades is Hungary, but also some Central and Eastern European countries (like Slovakia, Czech Republic, Poland, Ukraine, Russia) are important wine markets for the Hungarian wine (Sidlovits, 2011).

According to some experts' opinion: "In Hungary, a global supporting concept of co-operation is missing: cooperatives and producers' groups do not receive tax benefits, or higher level of subsidy for qualitative restructuring or technical investment etc. Without this type facility, the proliferation of cooperatives is not expected". The general support measures (like support for administrative cost for 5 years etc.) do not provide enough incentives for establishment of co-ops and PGs (Sidlovits et al. 2010: p. 31).

"Between grape-growers and wineries, in most cases distributions of surplus is determined one sided by the merchant winery, because of the week bargaining power of grape-growers, of the low differentiation of grape purchase price in spite of quality development (Sidlovits et al. 2010: p 20). The distribution power of retail chains has also increased their positions have become dominant in wine distribution since 1995. Because of their week countervailing power and the big fluctuation of prices, significant part of producers chooses the EU supported process of *cutting off grape plantation*. The final deadline of applications for cutting grape plants was August 2010. Farmers asked for 2,500 hectare to be cut off. Altogether with ongoing applications from previous years the total area offered for cutting off grape plants is more 5,500. Finally according to the regulation of the EU Commission, farmers could cut off their plants on 2,400 hectares with EU support (Stummer et al., 2011).

Types of networks in the wine industry

"The cooperative system – despite the fragmented vineyard ownership structure and grape-growing - has no significant role in the Hungarian wine industry" (Sidlovits et al. 2010: p. 34), therefore new producer organisations possibly with processing capacity would be essential for the future of the sector. However, “Instead of cooperation, the vertically integrated forms are expanding in the Hungarian wine industry (Sidlovits et al. 2010: p. 34).

According to experts’ opinion new types of co-operation including different types of networks in production, distribution, supplying services, as well as in marketing would help. There some very rare initiations of networks in the Hungarian wine industry but they exist in some wine region (Sidlovits et al. 2010: pp. 21-22). Regarding legal forms bilateral and multilateral contracts can observed in the sector, as well as for-profit and non-profit (like HNT) organisations. There will be a new wine law in Hungary from 2012 therefore big companies try to contract producers well before to able to secure the necessary amount of grapes for their wine production. “In Hungary, in general, the grape market is more important than bulk wine market for quality wine production” (Sidlovits et al. 2010: p13). As stated before, cooperatives formed by grape-growers (whose productions in turn are really fragmented) to sell bulk wine are rather rare (Sidlovits et al. 2010).

It is an interesting fact that despite the lack of trust in the Hungarian agriculture, “…long term relationships are not based on contracts, but rather on confidence, trust and familiarity. Loyalty is more important for certain wineries than long term contract. Wineries possess a mainly stable supplier circle: the majority of suppliers are permanent, with mild fluctuation among the rest of suppliers (Sidlovits et al. 2010: p 13)

5.7 Dairy

Regulation of the sector is connected to CAP and the quota system. Producers get direct support from EU. Hungarian national quota is 2,029,860 tonnes. The support level is below the EU-15 level it will reach it only in 2013 which is considered as a competitive disadvantage is Hungary. Some argue that during EU accession Hungary’s interest was not represented well. It accompanies with higher cost and taxes (e.g. VAT) compared to neighbouring countries, as well as with liquidity problems and the consequences of the privatisation process in the nineties.

The trade of all types (Hungarian) milk have decreased in the last year. The use of the national quota was around 85% in 2007 which means that quota itself does not limit the increase of the production. Producer (buying up) prices are very changeable it reached the maximum in January 2008 (94.99 HUF/kg). However, 1.5 years later the same price was only 54.63 (July 2009). Prices are higher since but they are still very low which makes the whole market very sensitive. There is a trend for concentration; big specialised plants gain place therefore prices will drop on EU level. Hungary exports only liquid milk (mainly for Italian market) and some small quantity of cheese to Arabian countries; 80% of the production is sold in domestic market, that is one of the causes why the level of import is so high (Bakos, 2011). Of course, retail chains buy from international markets, sometimes even lesser quality products than the Hungarian. The purchase also depends on the long-term market strategy of the mother company of the chain. Import dairy products are usually cheaper than Hungarian ones in the same product category.

Market environment of dairy sector can be characterised by low consumption, high share of black market, unbalanced profit/income distribution, uncertainty, high rate of import, lack of capital and low moral level. However there are many successful strategies like direct sale, concentration of ownership, niche marketing strategies, unique products, brands etc. (Fórián, 2011).

Black market plays a significant role even in some export activities and it is very bad for all the actors in the white economy still they get many types of “tax” disadvantages, like they have to pay VAT, income tax etc. That is the problems with producer groups since they have compete with actors who pay cash and who do not ask for a bill, so the producers would benefit as well (Bakos, 2011).

One of the problems is that producers and processors can not countervail the power of the retail chains (Popovics-Szabó 2009). Only some regional processing power could get away with them. In our previous empirical research on the dairy sector (Szabó-Bárdos, 2006) we found that there are only a few producer-owned organisations have been established so far in Hungary. Only one of them (Alföldi Tej Kft.) which exist in Ltd. legal form is a strong player with collecting prox. 1/3 of liquid milk produced in Hungary and with a processing plant and export activities, but the others are relatively small compared to the market. The Strategy for 2010-2020 by the Dairy Product Council comprises the need for helping producer and processing integration as well as the necessary establishment of integration of the producers hence increasing the concentration (Istvánfalvi, 2011). There will some new measures for milk support (EUR 54 millions) in the framework of New Hungary Rural Development Plan which will be supplemented by national sources (HUF 89 billions)

5.8 Sheep meat

The number of sheep was 1.2 million in 2009 which was a little bit lower than the year before. In December 2010 that number was 1.18 million. Apart from technological and genetics problems, the main reasons of the decrease are the lower profitability, decrease in supports, the minimal level of domestic consumption, the lack of Hungarian processing, the dominancy of the Italian market and the fact that farmers are getting older. Because of the decrease, the bought-up number decreased as well to 317,000 pieces which is a 3% change from the previous year. Most of the lambs are for produced for export. The export of live lambs has not changed significantly compared to 2009. However, the share of Italy has grown by 1% and it is 90%. Shares of other target countries are very small compared to the Italian, however Turkey is a new buyer on the Hungarian market since they only could buy from Hungary regarding the EU regulation. Because of limited supply of the sheep meat production of other countries the price is higher than in 2009 (Stummer et al., 2011).

According to Kapronczai (2010) there were no real changes in the last 50 years in technology, basis of genetics and fed-up practice in sheep sector. When there was an increase in the number sheep but it was only external growth. However, the continuous, and from the '90-ies dramatic decrease has not accompanied with the development of the genetics bases. Black market is not as much a problem that in the other sector since almost 100% of the production goes abroad.

5.9 Pig meat[14]

The sector was in a very bad situation in the last 15 Years because of low concentration, technological inefficiencies and most of all the lack of co-operation of producers. In the last years Hungary become net importer which was due to the lack of preparation for the free market processes with the EU accession, inefficient marketing activities and the disorganisation of the sector. It is clear from the diagnosis that cooperatives/PGs could play a significant role in organisation of the pig meat chain and there are some PGs (like Alföldi Sertés Értékesítő és Beszerző Szövetkezet and KA-TÉSZ Szövetkezet) who are very active in the field aiming a very substantial concentration of the market share.

Since the CAP does not employs support in the sector and the former national sector-specific supports have disappeared there is not much room for direct intervention. During the year of accession the 1 million pigs had been disappeared from the market and there was a 1 million decrease in the number of pigs in the last years as well. (Present number is only 1/3 of the one of twenty years earlier.)

Prices are hectic and they are not connected to the price of cereals which make an uncertain situation for producers. It is important that there is a dual structure in the sector with

[14] The section based on Vásáry (2011) and Popp et al. (2008).

concentrated and also with very small production capacities being present at the same time. Among others, the decrease in the number of pigs is caused that Hungary become net importer (20% of the live pigs). Processors buy the Hungarian pig meat with one-year frame contract. Longer contracts are not very frequent. Grey and black markets are also a very sensitive part of the sector and the use of capacity of the processor plants have been far from the maximum in the last years. Concentration and specialisation can be seen at the same time in the sector. Branded products (30-40% of them made for the chains and 60-70% own brands) are important, but the long delay in payment of the retail chains and other partners cause a huge liquidity problem for producers and traders/processors as well.

Dutch and German prices determinate the Hungarian producer prices. Producer prices represent 27-30% in the consumer price. The level of producer, processor and costumer prices is much lower than the aggregate inflation of the last years. The sector belongs to the ones with “soft” regulation in the EU which means that support only available through the sector of cereals in an indirect way. Only private storage of pig meat remains as a mean of market intervention. National intervention is limited by EU.

Future development of the sector is based on higher producer prices, which acknowledges quality and also on the investment of aiming lower costs as well as an optimal size of the plants.

6 Overview of policy measures

6.1 Regulatory framework

The performance of cooperatives (including producer organisations) is influenced by the regulatory framework in a country. This framework is multi-level: EU regulations, national laws and –in some countries- even regional policies influence the way cooperatives can operate. In this chapter we look especially at the regulatory framework that influences the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector).

These competitive positions are influenced within the regulatory framework by much more than the law that establishes the rules for running a cooperative (business organisation law). Well known other examples include agricultural policy (e.g. the EU's common market organisation that deals with producer organisations in the fruit and vegetables sector), fiscal policies (at the level of the cooperative and the way returns on investments in cooperatives are taxed at farm level) and competition policies. There are different types of policy measures in the regulatory framework (McDonnell and Elmore (1987):

POLICY MEASURE TYPE	DEFINITION
Mandates	Rules governing the actions of individuals and agencies
Inducements	Transfer money to individuals in return for certain actions
Capacity Building	Spending of time and money for the purpose of investment in material, intellectual, or human resources (this includes research, speeches, extension, etc.)
System Changing	Transfer official authority (rather than money) among individuals and agencies in order to alter the system by which public goods and services are delivered

The objective of this project / report is to identify support measures that have proved to be usefull to support farmers' cooperatives. In section 5.2 the relevant policy measures and their potential impact in Hungary are identified. In section 5.3 a number of other legal issues are addressed.

6.2 Policy measures

The Table 18 below identifies the policy measures that influence the competitive position of the cooperative versus the investor-owned firm (IOF) or the competitive position of the cooperative versus other players in the food chain (e.g. the retail sector) in Hungary. We describe the main findings and comment on policy measures in details in Table 18 below.

Other important important details and expert assessment of the policy measures are covered in the file: 3. Policy Measures and Legal Aspects,Part 1:

Table 1: Description of Policy measures
Table 2: Assessment of Policy Measure Influence.

Table 18 Policy Measure Description regarding Hungary

Name of Policy Measure	Type of Policy Measure	Objective of the Policy Measure	Target of the Policy Measure	Expert comment on effects on development of the cooperative
Official name of the policy measures (In English)	**1. Mandate** e.g. 1.1. Cooperative legislation/ incorporation law e.g. 1.2 Market regulation and competition policies **2. Inducement** e.g. 2.1 Financial and other incentives **3. Capacity Building** e.g. 3.1 Technical assistance **4. System Changing** **5. Other**	1. Correction of market or regulatory failures 2. Attainment of equity or social goals	1. Specific to cooperatives 2. Specific to an agricultural sub-sector 3. Applicable to business in general	Description on how the policy measure affects development of cooperatives, by reasoning through the building blocks: - Position in the food chain - Internal Governance - Institutional environment of the cooperative
Law LVII/1996 on prohibition of unfair market behaviour and restriction of competition (Competition Law)	**1.2**	**1**	**3**	General Law on Competition it sets up the institutional environment of the co-ops.
Law CLXIV/2005 on Trade	**1.2**	**1**	**3**	General Law on Trade sets up the institutional environment of the co-op. It also helps to improve position in the food chain since it includes regulation regarding retailing (prohibition for chains to overuse their power in the procurement contracts).
Law IV/2006 on Companies (business economic organisations law).	**1.2**	**1**	**3**	General Law on the different forms and rules of the possible business organisations (except cooperatives) and influences the institutional environment of the co-op.
Law XVI/2003 on Agricultural market organisation	**1.2**	**1**	**2**	General Law on organisation of agricultural markets and regulation of certain product market channels (institutions and measures/measure) in connections with CMO of CAP. It sets up the institutional environment of the co-ops.
Decree of Ministry of Agriculture and Rural Development 52/2010. (IV.	**1.2**	**1**	**2**	The measure helps small and medium agricultural producers, as well as some small/local cooperatives to be able to establish local supply

30.) on the prerequisites of the production, processing and trade of food products by small producers				chains and directly sale on nearby settlements. It improves the position in the local food chain and influences the institutional environment of the co-op.
Law X/2006 on Cooperatives (General C-o-operative Act)	**1.1**	**1**	**1**	General Law on cooperatives which influences the internal governance of the co-op.
Law LXIX/2006): The Hungarian Law on the Statue for European Cooperative Society (SCE).	**1.1**	**1**	**1**	General Law on European Cooperative Society which influences the internal governance of the co-ops and it gives the opportunity to improve their position in (international) chains..
Decree of Ministry of Agriculture and Rural Development 67/2009. (VI. 9.) on national regulation of fruit and vegetable producer groups and producer organisations.	**1.1.**	**1**	**1 and 2**	It contains the rules and process of setting up and recognition of producer organisations (POs or in Hungarian: "TÉSZ") and producer groups in fruit and vegetable sector. Among other important features, it also deals with the questions of Association and Merger of POs, Joint rules for organisational operation (mechanism) of POs and producer groups. The measure influences the internal governance of the co-op/POs.
Decree of Ministry of Agriculture and Rural Development 19/2008. (II. 19.) on national regulation of fruit and vegetable producer groups and producer organisations.	**1.1.**	**1**	**1 and 2**	That was the first decree in Hungary which used the "new" terms: "fruit and vegetable producer group" and "producer organisation" instead of "temporary recognised" and "recognised" ("TÉSZ") POs. 2010 was the first year when the number POs was higher than the number of fruit and vegetable producer groups in Hungary. The decree also contains some changes in the process of recognition and in operation/democratic decision making process. The new National Strategy for Fruit and Vegetable Sector in Hungary can be found in

				the appendices. The measure influenced significantly the internal governance of co-ops/POs.
Decree of Ministry of Agriculture and Rural Development 120/2003. (XII.2.) FVM on national regulation regarding fruit and vegetable producer marketing organisations	**1.1.**	**1**	**1 and 2**	It raised the minimum of net revenue for HUF 250 million for recognised ("TÉSZ") and HUF 125 million for temporary recognised organisations. Despite the measure the number of POs was the highest (altogether more than 100) in 2004. There was a decrease from 2005 till 2008. The measure influenced the internal governance of the co-ops/POs and also the position of the food chain.
Decree of Ministry of Agriculture and Rural Development 25/1999 (III. 5.) on vegetable-, fruit-and – marketing organisations.	**1.1.**	**1 and 2**	**1 and 2**	Basic decree of POs in fruit and vegetable sector. Helping the accession to EU, establishing the rules of setting up and recognition of producer organisations in fruit and vegetable sector. It influenced mostly Internal governance issues, but also helped to improve position in the food chain.
Decree of Ministry of Agriculture and Rural Development 65/2009. (VI. 4.) on the modification of Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer groups.	**1.1.**	**1**	**1 and 2**	It contains the rules of setting up and recognition of producer organisations excluding fruit and vegetable sector. Especially important is the new element called "certified recognition" which measure gives the possibility to get some more support for another five years period for producer groups (PGs) who have already finished their first operational programme. It influences mostly Internal governance issues, but in an indirect way it also helps to improve position in the food chain.
Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer	**1.1.**	**1**	**1 and 2**	It contains the basic rules and requirements of "Sate Recognition" of PGs in a number of sectors excluding fruit and vegetables. The decree and its modifications are

groups.				still the cornerstones of the regulation regarding PGs after the EU accession. It influences mostly Internal governance issues, but in an indirect way it also helps to improve position in the food chain.
Decree of Ministry of Agriculture and Rural Development 85/2002. (IX. 18.) on producer groups	**1.1.**	**1**	**1 and 2**	The measure established the basic rules of recognition of PGs in a number of sectors excluding fruit and vegetables in preparation for the EU accession. It influenced mostly Internal governance issues, but in an indirect way it also helped to improve position in the food chain. It contains the term of “Temporary recognition” regarding PGs. and also the term of “Association of PGs” which organisational possibilities could improve the position of the co-ops in the food chain.
Decree of Minister of Rural Development 39/2011. (V. 18.) on de minimis supports in the framework of Agrarian Széchenyi Card Constructions.	**2.1**	**1 and 2**	**2**	This brand new **Hungarian measure** aims to improve the position of small and medium agricultural producers in general. However, according to the interviews and expert assessment as well, it will help to secure revolving fund for co-ops/POs/PGs to be able to handle the delay in payments from their costumers (e.g. retailing chains, processing industry etc.). Therefore they could (for example) use current assets credits to solve their liquidity problems and hence fore improve their position in the food chain.
Government decree 1066/2008. (XI. 3.) on New Hungary Producer Organisation Current Assets	**2.1**	**1**	**1 and 2**	Current assets credits exclusively for (Hungarian) POs. which measure improved their position in the fruit and vegetable chain with securing revolving fund for them to be able to

Credit Programme				handle the delay in payments from their costumers (e.g. retailing chains, processing industry etc.).
National support from the budget of Hungarian Ministry of Rural Development for "Certain special types of co-operation", like fruit and vegetable producer organisations (POs) Some legislation background: Decree of Ministry of Rural Development 12/2011. (II. 18.) on modification of Decree of Ministry of Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector and Decree of Ministry of Rural Development 9/2010. (VIII. 4.) on national supplementary support of fruit and vegetable producer organisations Decree of Ministry of Rural Development 9/2010. (VIII.4) on national supplementary support of fruit and vegetable producer organisations. Decree of Ministry of Agriculture and Rural	**2.1**	**1**	**1 and 2**	Support of supply marketing cooperatives ("BÉSZ" in Hungarian) **from the budget of Hungarian Ministry of Rural Development** for "Certain special types of co-operation", as well as fruit and vegetable producer organisations (POs) was possible from 1999 - 2007 (see more information elsewhere in the table). From 2007 present category of measure only includes fruit and vegetable producer organisations since it did not harmonised with EU regulations because these co-ops were organised on territorial base as opposed to product marketing channels preferred by EU. **In case of fruit and vegetables** it is a **joint support with EAGF (European Agricultural Guarantee Fund)**. (See other measures from EU budget in the next rows). In 2009 the joint support covered by Decrees of Ministry of Agriculture and Rural Development 28/2009 and 69/2009 was almost 4 million EUR. The measure greatly improves cooperatives' position especially in the fruit and vegetable food chain.

Development 69/2009. (VI.18.) on national supplementary support of fruit and vegetable producer organisations.				
Decree of Ministry of Agriculture and Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector.	**2.1**	**1 (and 2)**	**1 and 2**	Connected to CMO of CAP and supported from **EAGF (European Agricultural Guarantee Fund)** it improves producers' position in the fruit and vegetables food chain. It contains the increased (possible) rate up to 25% of a national contribution to certain investment support measures for investments taking place in 2011. The measure greatly improves cooperatives' position in the fruit and vegetable food chain.
Decree of Ministry of Agriculture and Rural Development 28/2009. (III. 20.) on support of producer groups in fruit and vegetable sector.	**2.1**	**1 (and 2)**	**1 and 2**	Connected to CMO of CAP and supported from **EAGF (European Agricultural Guarantee Fund)** it improved producers' position in the fruit and vegetables food chain. In 2009 the joint support covered by Decrees of Ministry of Agriculture and Rural Development 28/2009 and 69/2009 was almost 4 million EUR. The measure greatly improves cooperatives' position in the fruit and vegetable food chain.
Support for supply, marketing and service cooperatives in the Hungarian **national agricultural support system** from 1999-2007	**2.1**	**1**	**1 and 2**	Support of supply marketing cooperatives ("BÉSZ" in Hungarian), as well as producer organisations (POs) in fruit and vegetable sector was possible from 1999-2007 in the Hungarian **national agricultural support system**. The effect was very good, almost 700 new co-ops have been established in

				the first year. However, since it come clear that so many co-ops can not be financed from the (national) budget the requirements increased hence the number BÉSZ decreased in the next years. After a short period of derogation (2004-2006) this type of support was not possible in EU since it did not harmonise with EU regulations because these co-ops were organised on territorial base as opposed to product marketing channels preferred by EU. All in all, the measure greatly improved the co-ops' position in the food chain.
Joint (EU-Hungary) support measure: "Setting up of producer groups" of New Hungary Rural Development Programme (NHRDP, 2007-2013) Measure code 142. Legislation background: Decree of Ministry of Agriculture and Rural Development 59/2007. (VII.10.) on the establishment of detailed rules of supports for setting up and operation of producer groups.	**2.1**	**1**	**1 and 2**	It greatly improves cooperatives' position in the food chain by establishing of new groups. The total public expenditure is 72,634,336 EUR from which **EAFRD contribution** is 51,651,644 EUR which is the biggest support for PGs in Hungary It supports PGs in a number of sectors excluding fruit and vegetables.
Joint (EU-Hungary) support measure: "Support of setting up and operation of producer group" from National	**2.1**	**1**	**1 and 2**	Hungary's National Rural Development Plan contained the rural development measures financed by the **Guarantee Section of the European Agricultural Guidance and Guarantee Fund**. It

Rural Development Plan, NRDP, 2004-2007). Legislation background: Decree of Ministry of Agriculture and Rural Development 133/2004. (IX. 11.) on the establishment of detailed rules of supports for setting up and operation of producer groups.				supported PGs in a number of sectors excluding fruit and vegetables. Some of the payments have been paid only after 2007. It improved cooperatives' and producers' position in the food chain.

Measures for Producers Groups (PGs) other than fruit and vegetable sector

At present (November 2011) **support of agricultural cooperatives (as Producers Groups other than fruit and vegetable sector)** in Hungary is very much **connected** to the **New Hungary Rural Development Programme (2007-2013)**.

The background and most important elements of regulation which sets the stage are the followings:
"The 2007 financial year onwards the European Union major changes enacted in the Community of agricultural subsidies and rules regarding the conditions. As part of the 2007-2013 period for all agricultural purposes in a rural development fund, the European Agricultural Fund for Rural Development (EAFRD) will focus on. The EAFRD support for rural development from the drawdown of Member States for rural development strategy, and implementation of rural development programs had to develop. The wide-ranging social partnership created the New Hungary Rural Development Programme of the European Union's Rural Development Committee of the 2007th on September 20, unanimously adopted. Through the NHRDP action 5 billion euros, depending on the prevailing exchange rate of around 1,300 billion HUF appropriate assistance can be called off, mainly to improve the competitiveness of the agriculture sector, the natural and built environment of rural values of conservation and recovery of regional investment" (http://umvp.eu/?q=english/nhrdp).
Briefing of Axis I ("Improving the competitiveness of the agricultural and forestry") sector one can conclude that the intended measures of Axis I. focus on the utilization and development from among those three activity programmes (protection, utilization and development) stated in NFP, naturally in accordance with the intended measures of the other Axes, that especially deal with protection" (http://umvp.eu/?q=english/nhrdp/briefing-axis-1-4).
Despite the basic nature of NHRDP, one of the measures is connected to the support of establishment and operation of Producers' Groups (measure code: 142). 5.3.14.2 section of "Setting up of producer groups" of the programme is the most important support measure in Hungary in present programming period. The total public expenditure is 72,634,336 EUR from which EAFRD contribution is 51,651,644.
The Rationale of invention, the objective and scope of the measure are described in NHRDP (2011) as follow:

"*Rationale for intervention*:
After the change of the political regime in Hungary, the plant system of the Hungarian agriculture witnessed a transformation process, and as parallel the subordinated standing of the

producers, and in particular private entrepreneurs strengthened against the other stakeholders of the various product courses. The organization system of agriculture now can be characterized by the dominance of micro-enterprises that can become competitive only with proper market cooperation. In spite of the incentive supports provided for the encouragement of cooperative efforts, at the present the rate of market organization of farmers is still low, there are just a few partnerships established for the purposes of joint purchases, sales, storage activities and sometimes processing operations. Supports for organizations of producers, forest holders, and producer groups is also justified by the fact that with the country's becoming a member of the EU domestic producers are forced to compete with the producers of the old member states in the common market, with these latter ones being in general more organized as a result of a development process of several decades.

Objectives of the measure:
The objective of the measure is to facilitate the steady marketing of the products of agricultural producers by means of supporting the establishment, operation and enlargement of producer groups. The objective of the measure is to support the establishment of around 100 new producer groups in the country.

Scope and actions:
The support intends to contribute to the costs of the establishment and operations of producer groups that hold proper governmental recognition resolutions." (NHRDP, p. 211)

It is important to note that **there were ongoing commitments from the previous programming period** (**National Rural Development Plan**, NRDP, 2004-2007) of EUR 21.8 Million (NHRDP, p. 211).

Measures for Producer Organisations and fruit and vegetable Producers Groups

It is important to note that the support of the above organisations is Connected to CMO of CAP and supported from **EAGF (European Agricultural Guarantee Fund) since POs and fruit and vegetable PGs are part of the CMO**. Usually there is an additional national supplementary support for fruit and vegetable producers in Hungary. **National support** is from the budget of Hungarian Ministry of Rural Development for "Certain special types of co-operation", like fruit and vegetable producer organisations (POs).

The last regulation of the time being is the Decree of Ministry of Rural Development 12/2011. (II. 18.) on modification of Decree of Ministry of Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector and Decree of Ministry of Rural Development 9/2010. (VIII. 4.) on national supplementary support of fruit and vegetable producer organisations.

In 2009 the joint support covered by Decrees of Ministry of Agriculture and Rural Development 28/2009 and 69/2009 was almost 4 million EUR.

Decree of Ministry of Agriculture and Rural Development 24/2010. (III. 19.) on support of producer groups in fruit and vegetable sector. It involves the increased (possible) rate up to 25% of a national contribution to certain investment support measures for investments taking place in 2011.

Support for supply-marketing cooperatives

Support of supply marketing cooperatives ("BÉSZ" in Hungarian) **from the budget of Hungarian Ministry of Rural Development** for "Certain special types of co-operation" ,including fruit and vegetable producer organisations (POs), was possible from 1999 - 2007.

6.3 Other legal issues

Definitely, there were *two important laws accepted* regarding cooperatives *in 2000* (LAW CXLIV/2000 on Cooperative business shares, see in references: MAGYAR KÖZLÖNY, 2000a and LAW CXLI/2000 on New cooperatives, see in references in Country Report Hungary: MAGYAR KÖZLÖNY, 2000b) which are important from historical perpective but they have not significant effects on the co-ops studied in this report therefore I have not included them in list of policy measures.

However, there is another *Law* (Act X/2006 on Cooperatives, see in references: MAGYAR KÖZLÖNY, 2006a) which the *"main" or distinct general regulation on cooperatives which is still in force* and also one on the Statue for European Cooperative Society (SCE, 2006)[15]. There are also some national decrees (regulations) regarding the recognitions and support of POs and PGs in harmonisation with EU regulation (see more details in Table 18 Policy Measure Description regarding Hungary).

For producer organisations in fruit and vegetable (hereafter f&v) sector: **Cooperative** (see Act X/2006 on Cooperatives in MAGYAR KÖZLÖNY,2006a), as well as **Ltd.**, so-termed private Share-holding company **or any other registered form** by the Law IV/2006 on Companies are available as legal form. The latter Law deals with business economic organisations except cooperatives (see in references: MAGYAR KÖZLÖNY, 2006b). F**or producer groups** (hereafter PGs) in other sectors than f&v: **Cooperative** or **Ltd**. - that are the possibilities.

Generally speaking some simpler forms of business companies are the ones, like different types of partnerships and Ltd., which are the most popular, but there are a lot of producers as well who are not registered as legal business form. Some of them are natural persons. There are of course many (mostly "production" type) cooperatives, who **remained co-ops** after the transformation period in 1992 but in decreasing number. However it must stated that a great number of former "production type" **co-op had transformed them shelves into (private) share-holding companies** from 1992, but they are not considered to be co-ops since they are and work as IOFs.

For organisation of the (examined) supported POs and PGs mostly cooperative (little bit less than 2/3 in case of PGs) form is the most popular (see Act X/2006 on Cooperatives), and in some cases Ltd. (little bit more than 1/3 in case of PGs) in September 2010. In case of POs in the f&v sector 2/3 are co-ops and are 1/3 Ltd.s, but in case of secondary organisations, there are 8 Ltd.s and only one private share-holding company which does not really work (2011). For producer groups (hereafter PGs) in other sectors than f&v: Cooperative or Ltd. is the possible legal form.

It is very important to state that there is a *semi-infomal legal process* in the Hungarian agricultural regarding General Law on Cooperatives (X/2006). There are two possible versions. One of them is to *regulate the cooperatives in a separate law*, which means, it would be easier to change it again. The other more complex solution is that the regulation of the co-op, similarly to other (public limited) companies would be *included in a chapter of the new Civil Code*. The former solution would be a much more flexible one.

It is an interesting fact that new Constituion of Hungarian Republic (coming into force by 1 January 2012) will probably not explicitly include co-operation as one othe basic general social values. The president and secretary of Hangya (Association of Hungarian Producer's Sales and Service Organisations and Cooperatives) have sent an offical letter to President of the Hungarian Parliament trying to influence the change of (now) accepted version. The ("old") Constituion of Hungary which is valid in 2011 does contain explicitly the phrase of the freedom of co-operation.

[15] See Hungarian Law on LXIX/2006 on SCE (2006) regarding the legal implementation of COUNCIL REGULATION (EC) No 1435/2003 of 22 July 2003 on The Statute for a European Cooperative Society (SCE) and Directive 2003/72/EC].

Other important legal issues are covered in the file: 3. Policy Measures and Legal Aspects, Part 2: Questionnaire on legal aspects.

7 Assessment of developments and role of policy measures

This chapter provides a concluding assessment on the developments of cooperatives in Hungary. In chapter 2 the basic statistics on agriculture and farmers' cooperatives were provided. In chapter 3 data on individual cooperatives were reported, especially concerning their internal governance, their position in the food chain and the institutional environment in which they operate.

This led to some first impressions in section 3.5 on the performance of cooperatives in Hungary in relation to their internal goverance, institutional environment and position in the food chain.

In chapter 4 the data gathering and analysis was broadened by looking at the differences between the sectors and the influence of sectoral issues on the performance of the cooperatives. Chapter 5 looked into much more detail on the how the regulatory framework influences the competitive position of the cooperatives in the food chain and vis-à-vis the investor-owned firms.

This final chapter assesses the (performance) developments of cooperatives and how they can be explained in terms of the building blocks (institutional environment, position in the food chain including sector specifics, and internal governance).

Building blocks	***Aspects for data collection***
Institutional Environment	*Economic (dis)incentives*
	Legal/fiscal/competition aspects
	Historic/cultural, sociological backgrounds
	Public support measures (National, regional EU)
Position in the Food Chain	*Relationships between actors in the food chain*
	Sector (or product) specificities
	Strategy of the Cooperative(s)
Internal Governance	*Capital structure*
	Relationship between coop and members
	Ownership structure
	Decision making structure
	History, culture, and sociological aspects / social capital

Section 6.1 focusses on the explanation of the performance of cooperatives in terms of their internal governance, their position in the food chain (including sector specifities) and the institutional environment (including the regulatory framework). In section 6.2 an assessment is given on which policy measures in Hungary seem to benefit cooperatives and which ones have a constraining influence.

7.1 Explaining the performance of cooperatives[16]

Institutional environment

At present (November 2011) the **Law X/2006 on Cooperatives** (General C-o-operative Act) sets up and influences the internal governance of the co-op. It is a rather flexible and general law so sutaible for any kind of co-operation, altough it might change in the very future. Some expert argue that is is not Act to improve bargainig and countervailing power of small and medium agricultural producers. They argue that it is a step towards to money and capital which represented by the possibility of rather strange institution of investor-membership.

The decrease of a total number of agricultural cooperatives and POs/PGs can be explained by some concentration trends; however it is only a half of the truth. Apart from some economic

[16] For details please, refer to Section 2.2.1.2 Different types of agricultural cooperatives in Hungary.

reasons, like to access to credits and loans were easier in the legal form of a company (Share-holding company, Ltd. etc.) and concentration, the explanation is more connected to the soft or social issues: the **level of trust and willingness to cooperate is very low in Hungary** in general and in agriculture especially. **The low level of social capital plays a significant role in the decreasing number of cooperatives** as well. Also the *notion of cooperative is a word is still connected with the socialist* era and with collectivisation production cooperatives ("TSZ") for many. It is why that some "new" expressions are used instead of cooperatives, like co-operations, association, integration, producer owned organisations, "BÉSZ" etc.

Despite theoretical advantages of co-operation, there were *only just a small number of new types of cooperatives established in agriculture recently* and generally speaking the level of co-operation and willingness to co-operate is very low in Hungary (TÁRKI, 2005; EUROLAN 2005; Szabó – Bárdos, 2006; Bakucs et al., 2008a; Baranyai, 2010 etc.). The above problem is well connected to the low level social capital and trust which facts in turn contribute to the other problems of rural development (Szabó et al., 2005).

The *black or grey trade* is also a very important problem for the co-ops who do everything legally. In some sectors like in fruit and vegetable the combined share of black and grey markets is about 40%. From that point the decrease of VAT from 25% would be an important step, but there is not much chance for it because of financial crisis.

Position of the food chain

As already stated, regarding the position and function in the food chain most of the co-ops are active in joint production, wholesaling, collecting member' products, marketing and supplying but only a few in processing and retailing. The function of marketing branded products is extremely rare such as secondary processing in case of cooperatives/POs/PGs. It is interesting that in some cases there is a big trader as a member who sells the whole amount of the marketed produce on behalf of the co-op (.e.g. selling the products of all other members as well).

There is *no real change in competitive position of cooperatives* during the examination period. There have been many POs and PGs set-up from 2000 to 2010, however their performance and concentarion is still rather weak (see subsections 2.2.1.2 and 2.2.2 of present study for more details) and none of them has dominant position in the chain. On contrary retail chains still rule the chains in Hungary and only bind contracts with producers and processors which are very favourable for them (Dobos, 2007, 2009). Even bigger players in food industry can not countervail them. Agricultural co-ops need to be bigger and also to establish secondary co-ops.

Because of the dual, in some sector atomised, farm structure, co-ordination implemented by producer-owned organisations is become a crucial issue regarding competitiveness and efficiency of the whole chain in Hungary and abroad as well, especially after the EU accession. There is another so-termed "anti-global" trend in the world: small local supply chains can integrate small- and medium sized farms. In those cases the trust and personal, informal connections along the chain including the consumers and agricultural producers are even more important.

The measure of Decree of Ministry of Agriculture and Rural Development 52/2010. (IV. 30.) on the prerequisites of the production, processing and trade of food products by small producers helps small and medium agricultural producers as well as some small/local cooperatives to be able to establish local supply chains and directly sale on nearby settlements. It improves the position in the local food chain and influences the institutional environment of the co-op.

Internal governance

Apart from the general **Law on Cooperatives (X/2006)**, the Decree of Ministry of Agriculture and Rural Development **67/2009**. (VI. 9.) on national regulation of fruit and vegetable producer groups and producer organisations contains the rules and process of setting up and recognition of producer organisations (POs or in Hungarian: "TÉSZ") and producer groups in fruit and vegetable sector. Among other important features, it also deals with the questions of Association and Merger of POs, Joint rules for organisational operation (mechanism) of POs and producer groups. The measure influences the internal governance of the co-op/POs.

Decree of Ministry of Agriculture and Rural Development **65/2009**. (VI. 4.) on the modification of Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer groups contains the rules of setting up and recognition of producer organisations excluding fruit and vegetable sector. Especially important is the new element called "certified recognition" which measure gives the possibility to get some more support for another five years period for producer groups (PGs) who have already finished their first operational programme. It influences mostly Internal governance issues, but in an indirect way it also helps to improve position in the food chain.

One of the obstacles of practical co-operation is that in agriculture everybody knows the "secret" and does not like to accept somebody else's decision
We can summarise our empirical findings by *listing the conditions for successful collective action(marketing) done by producer-owned organisations* as follows:

1. real economic necessity,
2. willingness to co-operate – demolition of mental/psychological barriers,
3. screening of potential members,
4. strict and exact quality and quantity requirements for products delivered to co-op/producers' groups,
5. consistent adherence to delivery obligations,
6. ensuring balanced (liquid) financing both short- and long-term,
7. trust between members and management,
8. efficient and multi-way communication.

It is also very important to get a qualified, skilled and trustworthy manager (either outsider or an active member but professional). The crucial issue for the future of agricultural cooperatives is the loyalty of farmers to their co-op and the leaders of the cooperative, especially under uncertainties dominating in transition agriculture like in Hungary (Szabó, 2008b).

7.2 Effects of policy measures on the competitive position of cooperatives

It must be emphasized that the **problems of farmers coming from market imperfections and co-ordination in the chains cannot be solved simply by the EU and/or government support**, but they seems to be vital in the case of emerging producer groups, like cooperatives, to be able to set up. As a general rule, the 20% share of national support is not very much compared to the EU support (80%).

It is important to know that **only POs and PGs could get support if they meet the EU requirements (e.g. see CMO of CAP), but "production-type" or supply-marketing co-ops are not entitled**. Moreover the support for PGs is only from EU support. POs and fruit and vegetable PGs are eligible supplementary national support as well since their support is a joint measure connected to CMO of CAP. The other difference is that POs and fruit and vegetable PGs could get support for investments as well as for financing their operational programme while other PGs mainly eligible for support of their set-up and financing of their operational programme.

At present (November 2011) **support of agricultural cooperatives (as Producers Groups other than fruit and vegetable sector)** in Hungary is very much **connected** to the **New Hungary Rural Development Programme (2007-2013)**. There was significant increase in the number of members due to New Hungary Rural Development Programme (NHRDP) and due to the new system of so-termed “certified recognitions”. Decree of Ministry of Agriculture and Rural Development 65/2009. (VI. 4.) on the modification of Decree of Ministry of Agriculture and Rural Development 81/2004. (V. 4.) on producer groups. It contains the rules of setting up and recognition of producer organisations excluding fruit and vegetable sector. Especially important is the above mentioned **new element called “certified recognition” which measure gives the possibility to get some more support for another five years** period for producer groups (PGs) who have already finished their first operational programme. It influences mostly Internal governance issues, but in an indirect way it also helps to improve co-ops’ position in the food chain.

There are number of measures in NHRDP (Regulation of Ministry of Agriculture 57/2007) in which cases to belong a PG is extra point in the application. In some cases more than 100 new members joint a PG thanks to the positive preferences of membership in a PG in the evaluation process of certain mesures in New Hungary Rural Development Programme (**Vidékfejlesztési Minisztérium, 2011)**. Altogether the aim of the measure was to establish another 100 PGs at the end of the programming period. Since there were around 250 in the last year the aim can be achieved although potential members who do not belong to any of the PGs are less and less.

One of the conclusions of the Mid-term evaluation of NHRDP (Hungaricum Konzorcium, 2010) is that there are tendencies that *some dominant market players become even stronger with the support* as opposed to bottom-up organisations with small- and medium members e.g. in the cereals sector. There is a rule from 2004 that a mimimum of 3% of natural persons have to be member but those interest groups involve as much private producers as needed to meet with the above requirement.

The concentration of the PGs would be also elementary otherwise they can not countervail the power of retail retail chains, wholesalers and processors but only the first steps have been made so far Altogether the result which have been achieved regarding PGs are good but the time factor is crucial since the 8 years of education about co-operation is not much (Barta, 2011).

It is important to note that **there were ongoing commitments from the previous programming period** (**National Rural Development Plan**, NRDP, 2004-2007) of 21.8 Million EUR. In NHRDP (2011) there is an evaluation of NRDP measure: “Support of setting up and operation of producer group”:
“Characteristics of the measure:
The support promoting the market organization and co-operation of farmers was established in accordance with its aim, but because of the historical precedents the Hungarian farmers keep away from every form of organization and co-operation. Thus they showed a smaller interest for the measure than it was expected.

Reactions on the “Support of setting up producer groups” measure of the NHRDP:
Maintaining the professionally acceptable support system, for the greater interest the sphere of the use of the support sources was extended. As a result, we expect the increase of the number of applications.” (NHRDP, pp 107-108)

One of the change in the system of supports could be made is the *increase the upper limit of the amount support one PG could afford*. The 100,000 EUR limit does not urge co-ops getting bigger, instead *producers establish smaller co-ops to be able to gain as much support* as possible from EU which is against concentration and countervailing power. There were suggestions for extending the 2 supported 5-year periods for PGs to at least 3 and also the possibilitiy for supported investment would be useful as in the case POs working in the fruit and vegetable sector.

It is important to note that the support of the above organisations is connected to CMO of CAP and supported from **EAGF (European Agricultural Guarantee Fund) since POs and fruit and vegetable PGs are part of the CMO**. Usually there is an additional national supplementary support for fruit and vegetable producers in Hungary. **National support** is from the budget of Hungarian Ministry of Rural Development for "Certain special types of co-operation", like fruit and vegetable producer organisations (POs).

Despite the supports for investments and for development of infrastructure, as well as for financing their operative programme *most of POs lack of appropriate level of current assets and equity*. From that aspect is very important the Government decree 1066/2008. (XI. 3.) on New Hungary Producer Organisation Current Assets Credit Programme Current assets credits exclusively for (Hungarian) POs. The measure improved the cooperatives' position in the fruit and vegetable chain with securing revolving fund for them to be able to handle the delay in payments from their costumers (e.g. retailing chains, processing industry etc.).

Support of supply-marketing cooperatives ("BÉSZ" in Hungarian) **from the budget of Hungarian Ministry of Rural Development** for "Certain special types of co-operation", including fruit and vegetable producer organisations (POs), was possible **from 1999 - 2007**. The effect was very good, almost 700 new co-ops have been established in the first year. However, since it come clear that so many co-ops can not be financed from the (national) budget the requirements had to increase hence the number BÉSZ decreased in the next years. After a short period of derogation (2004-2006) this type of support was not possible in EU since it did not harmonise with EU regulations because BÉSZ were organised on territorial base as opposed to product marketing channels preferred by EU. From 2007 present category of measure only includes fruit and vegetable producer organisations.

As a conclusion, some regulations have been made to set up the stage for Hungarain agricultural producers but especially for co-ops. The impact of such measures is also very limited, and mostly efficient in direct sales to consumers in local networks chains. However, according to the interviews, some cooperative leaders/managers think that co-operation only works until there is a support. Some save a certain share of the support for the next years to be able to operate since farmers can not finance the cooperative.

According to the *Report of Hungarian Ministry of Rural Development on agriculture* in 2009, the strengthen of POs in fruit and vegetables has priority in national strategy because through them the level of technology and marketing in the sector.The role of POs equally important in developing markets for both fresh and processed products (Vidékfejlesztési Minisztérium, 2010).

One of the new *recommendations of the Hungarian Agricultural Council* on the above Report is that *co-operation and associations of producers should be strenghtened* especially in horticulture and animal husbandry in order to improve the market position and (international) competitiveness of the sector (Agrárgazdasági Tanács, 2010).

It is also very promising that in the new "*Conception of National Rural Development Strategy – 2020*" different types of voluntary supply, storage, processing and/or marketing associations and cooperatives in chains are appear; as well as the plan for local and regional cooperatives like the "Hangya" was in the the first half of the XIXth century. The documentum even states that those cooperatives should be supported at common charge as well and it emphasized the establishment of network economy based on strengthening of local economy and society with sustainable local communities (National Rural Development Strategy, 2011: pp.)
As a conclusion, we underline the importance of Western-European (Denmark, Holland etc.) experiences and the need for more producer-owned organisations, like cooperatives and producer groups/organisations in Hungary. In that respect support for set-up and also for financing their operational programmes and invenstments are inevitable for Hungarian cooperatives/POs/PGs.

8 Future research

There are **two very important directions of future cooperative research** in Hungary apart from analysing the trends of successful agriculture cooperative models Europe and US. One is about **the statistics on cooperatives** (I) the other is on the **economic, sociological and psychological prerequisites and constrains in the agri-food economy** in Hungary (II).

I) ***Basic problem of statistics regarding cooperatives in Hungary***
One of the new researches could aim to know exactly **how many (different types of) agriculture related cooperatives with how many members** are exist in Hungary. It would be essential to **compare the different classification schemes** as well. As one read above, there are different lists and statistically different approaches how to count them and it is inevitable to know the numbers to do any deeper research on co-ops. It would be really great to know their exact market share of their relevant sector.

Threre is only a very limited possibility to obtain relevant and recent data on cooperatives in general and especially regarding agriculture.

Data regarding cooperatives are available (published by CSO for example) only together by other "economic organisations" (in Hungarian "gazdasági szervezetek") which category includes investor oriented firms (like share company, Ltd etc.). It is not good from many points, one of the pitfalls is that some cooperatives are not competitors to (family) farms, but they extend the farmers' activities and help them to compete exactly against the share holding companies.

To get the right number of cooperatives per sector is also very hard, the only (estimated) concrete but not so current data available is for POs and PGs.

It is also a huge problem, that data on cooperatives from different sources not the same in most of cases. For example, data from AKI (probably based on CSO data) and Ministry of Rural development are different.

As stated earlier, some data can be accessed through **Research Institute of Agricultural Economics** (AKI)**.** However, the researchers of AKI, whom I asked, said there is no statistics regarding each sector and also they can not differentiate between production and marketing type cooperatives.

Number of cooperative members is also "top secret", there is no data available in public data sources. It might be a possibility to buy such kind of data from CSO, however the experts I approached, doubt it.

II) **Economic, sociological and psychological prerequisites and constrains in the agri-food economy** in Hungary[17]

One of the most important and unsolved questions of the Hungarian agri-food economy is to clarify **why agricultural producers (and other actors) are averse from collaboration even if they know that co-operation would pay off economically** and in some cases their farms (plants) would only be able to survive with help joint effort? Apart from the above mentioned *trust issues*, which seem to be the *most important reasons explaining the different levels and forms collaboration and co-operation*, *motivation* and *incentives of individuals* have to be taken into consideration.That is the *basic and starting problem of the research*.

[17] The following **reseach plan has been submitted to OTKA** in Hungary (Nr. 101745.). The decision on financing the project has not been made yet but I do consider the topic the foremost important research project regarding agricultural co-operation in Hungary since it focuses on the basis of all co-operation problems. It would be very interesting to examine the question in more countries, so I am open to all contribution (e-mail: szabogg@econ.core.hu) and at the same time I reserve the rights to carry out the research without the permission of the EU or LEI since the research plan was made before present project.

In accordance of the problems above, the **main (overall) aim** of a future research is to ***examine economic and social prerequisites and constrains of collaboration – co-operation in agri-food economy with special emphasis on trust and motivational issues on individual level.*** During the research we systematically collect economic and non-economic arguments for and against co-operation, as well as social and (economic) psychological constrains.

In order to answer the main question, the following research (sub)questions will be used:

1) **Despite of the advantages mentioned above, why is it more appealing to choose the legal form of economic corporation (e.g. joint stock companies, Ltd. etc.) in Hungarian agriculture?**
   Is it because a clearly defined property rights or there are other incentives/motivation?
2) **What are the different types and levels of trust existing in the literature and what are the ones can be found in the Hungarian practice?**
   To be able to understand the development of willingness to co-operate and trust in cooperatives, as well as possible ways to influence it, different authors (e.g. McAllister, 1995, Wilson, 2000; Borgen, 2001; Hansen et al., 2002 etc.) classify many types of trust (e.g. cognitive and affective types etc.) as well as different levels of trust (e.g. between two members, among multiple members in general, as well as between the members and management). In our research we would distinguish and analyse the different types/levels of trust and use *system thinking* and *(dynamic) process approach* in order to try to give answer to the question: how trust can be developed and increased among different actors of the agri-food economy?
3) **Are there any possibilities to increase the level of trust among producers?** (For example, with increasing informal connections and social capital in general?)
4) **If the answer to the previous question is yes: how exactly?**
5) **If the level of trust increases is the level of willingness to cooperate supposedly expected to increase as well?**
6) **Would producers establish more cooperatives and other producer-owned organisations if there was a development in the level of willingness to co-operate/trust?**

Answering the last question, it is important the members' heterogeneity plays more and more significant role in development of cooperatives. That is why human factors (trust, motivation, incentives etc.) and considerations regarding the concrete *aims and decisions of the producers have to be taken into consideration on individual level*. Unfortunately empirical studies on the subject are rare and the above mentioned empirical results (see Bibliography) cannot be generalised since they are only case studies. All cases have geographical and commodity limitations as well. Thus, empirical justification of cooperatives in transition countries can not be confirmed fully, therefore *further research is needed to clarify the role of trust and other „soft" factors in the success or failure of agricultural co-operation in Hungary*.

There is a necessity of novelties both in scientific approach (theoretical novelty) and also **on the level on data gathering (empirical novelty)**:

1) We have to *approach the issue in a complex manner not just from the point of economics* (see different approaches and methods planned to be used in section IV). That is also means that we will try approach the economic behaviour of human beings as economic actors in more complex way, not just describing them as "homo oeconomicus" (Granovetter, 1985, Garai, 2003; Hámori, 2003; Magyari Beck, 2000 etc.)

2) We have to *analyse the basic problem of co-ordination and try to find answers on another stage of the marketing channel than usual.*

Additionally, ***I suggest examining the following good Hungarian cooperative examples*** in the second phase of present project:

Name of the cooperative as in the questionnaire	Sector and number in the "2.questionnaire"
Komáromi Híd Gabonatermelők Szövetkezete	Cereals,2
Alföldi Sertés Értékesítő és Beszerző Szövetkezet	Pig meat, 8
Söptéri Mezőgazdasági Szövetkezet	Pig meat, 10
Dél-alföldi Kertészek Zöldség-Gyümölcs Termelő Értékesítő Szövetkezete	Fruit and vegetable, 17
Észak-Alföldi Zöldség-Gyümölcs Termelői Értékesítő Szövetkezet	Fruit and vegetable, 18
BOTÉSZ Bodzatermelők Értékesítő Szövetkezete	Fruit and vegetable, 20
Alföldi Tej Értékesítő és Beszerző Kft.	Dairy, 22
Balatonboglári Pinceszövetkezet	Wine, 29

It is interesting to see that only one of them works in legal form of Ltd. (in Hungarian: "Kft."), the others are all co-ops (in Hungarian: "Szövetkezet"). They are active in the most important sectors in Hungary, some of them are the biggest PO or PGs others have interesting marketing strategies and/or internal structure. They are all workable cooperative solutions to some co-ordinational problems of Hungarian producers. Most of all, the leadears are approachable and they are interested in our research.

If one **very successful, but failed cooperative could be the topic, Mórakert Co-op** (see above) which is a very interesting and relevant example of a development of a co-op in a transition country would be the best. I have already collected a lot information and made many interviews during the 15-year existence of the co-op. Addtionally, I still get a very good connection to some of the former leaders and managing directors, so it might be a very interesting "inverse cas study".

It could be interested to examine a converted co-op as well, but it is very hard to get any detailed information on the issue and also most those co-ops are "production-type" ones and not specialised on a product-marketing channel. Because of the requirements of EU support most organisations organised themselves as co-ops or POs/PGs to be eligible for them.

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Regulation

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Support

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Regulation

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