



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Sustainability of Emerging Agricultural Co-operatives in the New Member States of the EU: Hungarian Experience

GÁBOR G. SZABÓ¹ – ZSOLT BARANYAI² – ISTVÁN BARTA³

¹⁾ Senior Research Fellow

Institute of Economics, Hungarian Academy of Sciences
H-1112 Budapest, Budaörsi út 45., Hungary

E-mail: szabo.gabor@krtk.mta.hu

²⁾ Assistant Professor

Faculty of Economics and Social Sciences, Szent István University
H-2103 Gödöllő, Páter K. u. 1., Hungary

E-mail: baranyai.zsolt@gtk.szie.hu

³⁾ Expert of Producers' Groups

Ministry for Rural Development
Department of Agricultural Markets
Division of Producers' Organisations
H-1055 Budapest, Kossuth tér 11., Hungary

E-mail: istvan.barta@vm.gov.hu



**Paper prepared for presentation for the 142nd EAAE Seminar
Growing Success? Agriculture and rural development in an enlarged EU**

May 29-30, 2014

Corvinus University of Budapest
Budapest, Hungary

*Copyright 2014 by [Gábor G. Szabó – Zsolt Baranyai – István Barta]. All rights reserved.
Readers may make verbatim copies of this document for non-commercial purposes by any means,
provided that this copyright notice appears on all such copies.*

Abstract

Agricultural co-operation is underdeveloped in most of the 27 EU member countries, especially in transition countries like the NMS. Main objectives of the research paper are to provide a brief overall picture of emerging POs in some of the NMSs according to a recent European comparative study (SFC) and to give an overview and critical assessment on the development of the new types of agricultural co-operatives in Hungary. EU and/or government administrative (appropriate legislation, distributing information on coops for farmers and consumers etc.) and financial (e.g. solving the problem of the black market – with decreasing the very high level of VAT, offering preferential short term credits etc.) supports seem to be vital in the case of emerging Hungarian co-operatives. Willingness to cooperate and trust should be improved and major psychological obstacles have to be removed in order to facilitate cooperation among the farmers.

Keywords: agricultural co-operation, producer organisation/group, marketing co-operative, EU-accession, trust

Introduction

According to a recent (2011-2012) European Research Project¹ **agricultural co-operation is underdeveloped in most of the 27 member countries** (Bijman et al., 2012). The latter statement is especially true in case of the Eastern and Central Europe hence in Hungary as well (see reports regarding Hungary: Szabó, 2012a,b; Ton and Szabó, 2012). Despite the many economic non-economic advantages² of co-operatives and other producer owned organisations³ (hereafter POs) in co-ordination of agricultural producers, hence the apparent importance of the topic, there is still limited theoretical and empirical research on the emerging agricultural co-operatives in the New Member States (NMSs).

Therefore **main objectives of the research paper** are to provide a brief overall picture of emerging POs in some NMSs according to the above recent European comparative study (SFC) and to give an overview and critical assessment on the development of the new types of

¹ See European Research Project: “Support for Farmers’ Cooperatives (SFC)” (2011-2012), general (Bijman et al., 2012) and individual reports can be downloaded: http://ec.europa.eu/agriculture/external-studies/support-farmers-coop_en.htm.

² Co-operative advantages in theory and in European agriculture are heavily emphasised in the literature (e.g. Cook, 1995; van Bekkum and van Dijk, 1997; Ollila and Nilsson, 1997; Stiglitz, 2009, Szabó, 2002, 2011a; Bijman et al., 2012 etc.),

³ In this paper we use „...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)” (Szabó 2012a: p. 8).

agricultural (marketing, supply and service) co-operatives (and POs/PGs) in a transition country - Hungary.

The **main research questions of the study** are to examine the most important reasons and explanations for failure or success of new, emerging co-operatives and to analyse the macro- and micro-economic conditions for successful collective action (e.g. marketing) done by producer-owned organisations in NMS like Hungary. As both success and failure of such cooperatives can be observed, the question arises as to what can make a producer owned organisation sustainable?

The two **most important background researches** behind the paper are the above mentioned SFC (see the general report by Bijman et al., 2012) and an on-going Hungarian (OTKA K105730) project. Regarding methods we use meta-analysis of the different reports of SFC, literature review and secondary data collection as well. We also conducted 33 semi-structured deep interviews in the Hungarian cereal, sugar beet, pig, dairy, fruit and vegetable, wine and sheep sectors and submitted case study analysis in our empirical research.

The **structure of the paper** is organised as follows: after introduction, in the second section overall aims, specific objectives and the theoretical framework of the ‘SFC Research Project will be presented. A brief overall picture of the development of emerging POs in some of the NMSs is shown in section three. Analysis of background, roles and development of emerging agricultural co-operatives in Hungary are analysed in section four. Section five presents economic and social prerequisites and constrains of collaboration in the Hungarian agri-food economy and finally we draw conclusions with implications and recommendation for policy actions and further researches.

Overall aim, specific objectives and the theoretical framework of the ‘Support for Farmers’ Cooperatives’ Research Project

‘Support for Farmers’ Cooperatives’ European Research Project (SFC) had been commissioned and funded by European Commission, DG Agri recently (2011-2012) and had the following **overall aim** according to Poppe (2012: slide 2):

‘European Commission searches policies that will help farmers organise themselves in cooperatives as a tool to consolidate their market orientation and so generate a solid market income’.

The **project background and motivation** can be summarised as follows:

- ‘Statistics and EU research on cooperatives is scarce...
- It is also not clear how issues like the position of the cooperative in the food chain, the internal governance of cooperatives and the institutional environment influence the performance of cooperatives.
- For evidence-based government policies this is a pre-requisite and an overview of successful policy measures in member states ... would be beneficial too’ (Poppe, 2012: slide 3).

From the **three specific objectives** of the study⁴ (Poppe, 2012 slide 4) in present study we deal with the first one, namely trying to provide a description of the current level of development of agricultural co-operation in NMSs with a special regard to Hungary.

⁴ The specific objectives of the SFC study are:

- 1. provide a comprehensive description of the current level of development of cooperatives in the EU.
- 2. identify laws and regulations that enable or constrain cooperative development.

According to the above European Research Project (SFC) there are at least **three main factors that determine the success of cooperatives** in current food chains (Bijman et al., 2012: 16-17). 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-a-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. 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 (Bijman et al., 2012: 16-17). We use the above framework in our analysis.

A brief overall picture of the development of emerging POs in some of the NMSs

As we mentioned in Introduction **agricultural co-operation is underdeveloped in most of the 27 member countries** (Bijman et al., 2012) which statement is justified by data can be seen in Figure 1.

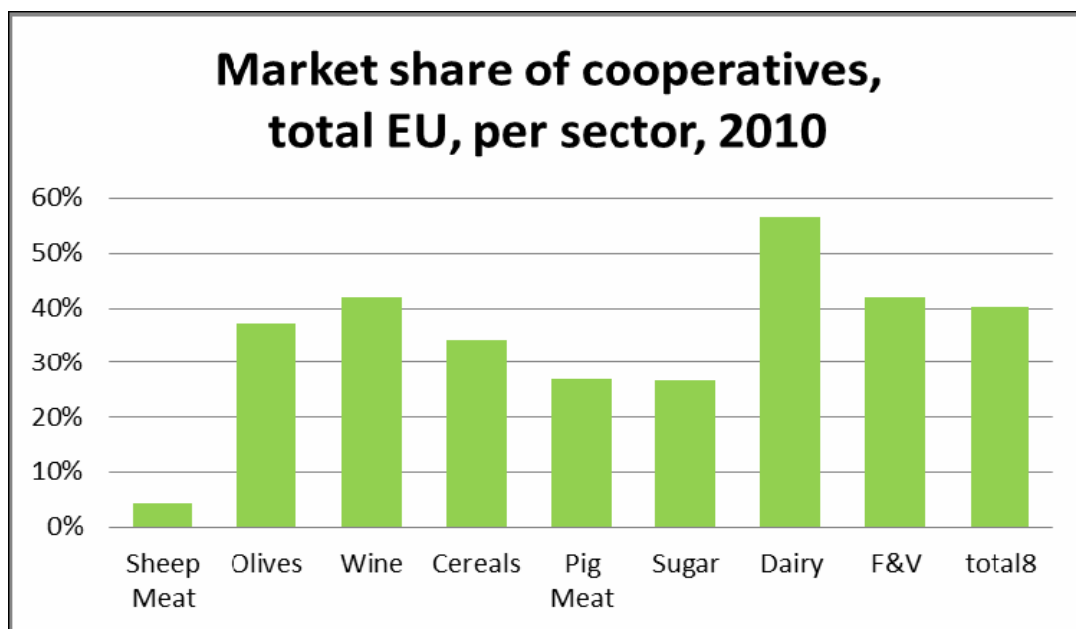


Figure 1: Market share of co-operatives per sector, for EU as a whole

Source: Bijman et al., (2012: 11)

Markets shares are very low in most of the examined sectors with the exemptions of dairy, fruit and vegetable and wine. The situation in the NMSs is even sadder as can be seen in Figure 2.

-
- 3. identify specific support measures which have proved to be effective and efficient to promote cooperatives and producer organisations.’ (Poppe, 2012: slide 4)

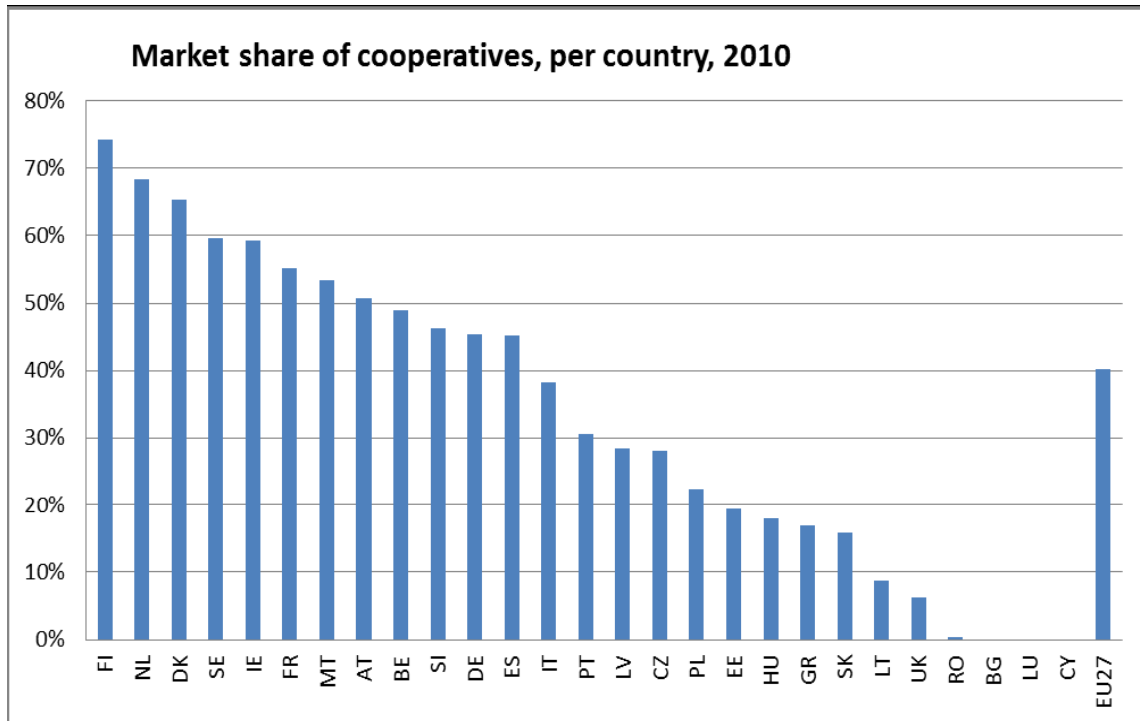


Figure 2: SFC Cooperative Index: Market share of all cooperatives, weighted for 8 sectors

Source: Bijman et al. (2012: 30)

Co-operatives have a very low market shares compared to the older member states, all of them are in the second half of the list with less than 30% market share even in the most co-operatively developed ones.

Agricultural economy in transition economics can be described by considerable uncertainties (Szabó, 2008; Mészáros and Szabó, 2014) especially because of underdeveloped market institutions. Apart from the traditional economic advantages (like increasing market power, reducing transactions costs and market risk for the producer-members etc.), co-operatives and other producer-owned organisations in NMSs 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 co-operative etc.) which are very important tasks especially in less favoured areas. In most new member states the above functions are essential for the population living in the country side.

In some other countries, like Hungary and Poland they also help to save the environment by offering traceability partly due to the long and close social relationship. Theoretically the co-ops contribute to social benefits (ethics, values etc.) as well as being socially responsible by nature however the latter statement has to be proved in cases of NMSs.

Apart from the above roles, there are some countries, like Hungary, Poland, Lithuania and Latvia where new types or emerging marketing co-ops and other POs are active in some sectors, like for example in dairy, cereals and fruit and vegetables and to some extent in pig sector (Poland). However, **the most important problem is that those organisations are small and their secondary level organisation and internationalisation level is very limited.** Most of the co-ops in the MNss belong to the emerging type of co-operatives as can be seen in Figure 3.

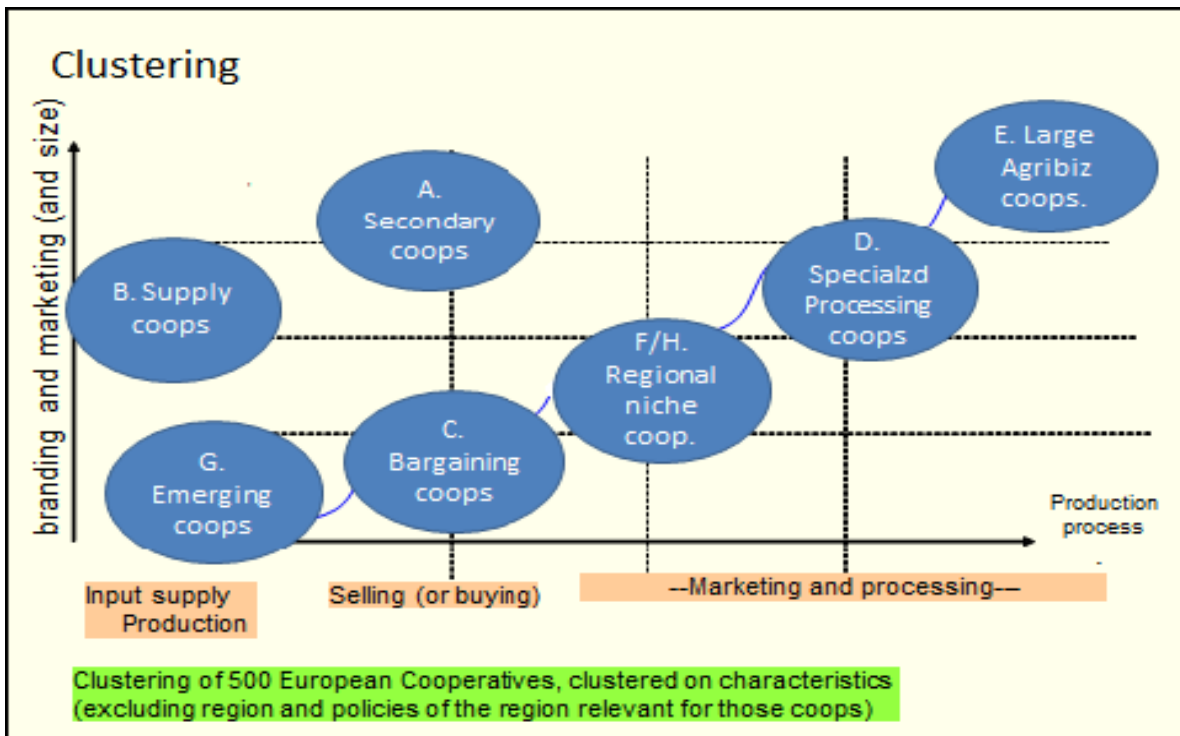


Figure 3: Results of a cluster analysis on the individual data on the 500 co-operatives gathered

Source: Bijman et al. (2012: 27)

Regarding trust and willingness to co-operate issues in NMSs, there is ‘.... a clear correlation between the level of general trust (operationalized as “trust in people”), and cooperative performance’ (see Figure 4 below, authors). ‘All New Member States (and Portugal) are in the bottom left corner with low trust and a relatively small role reserved for cooperatives. Most of the countries with a high market share for cooperatives are high-trust countries’ (Bijman et al., 2012: 88).

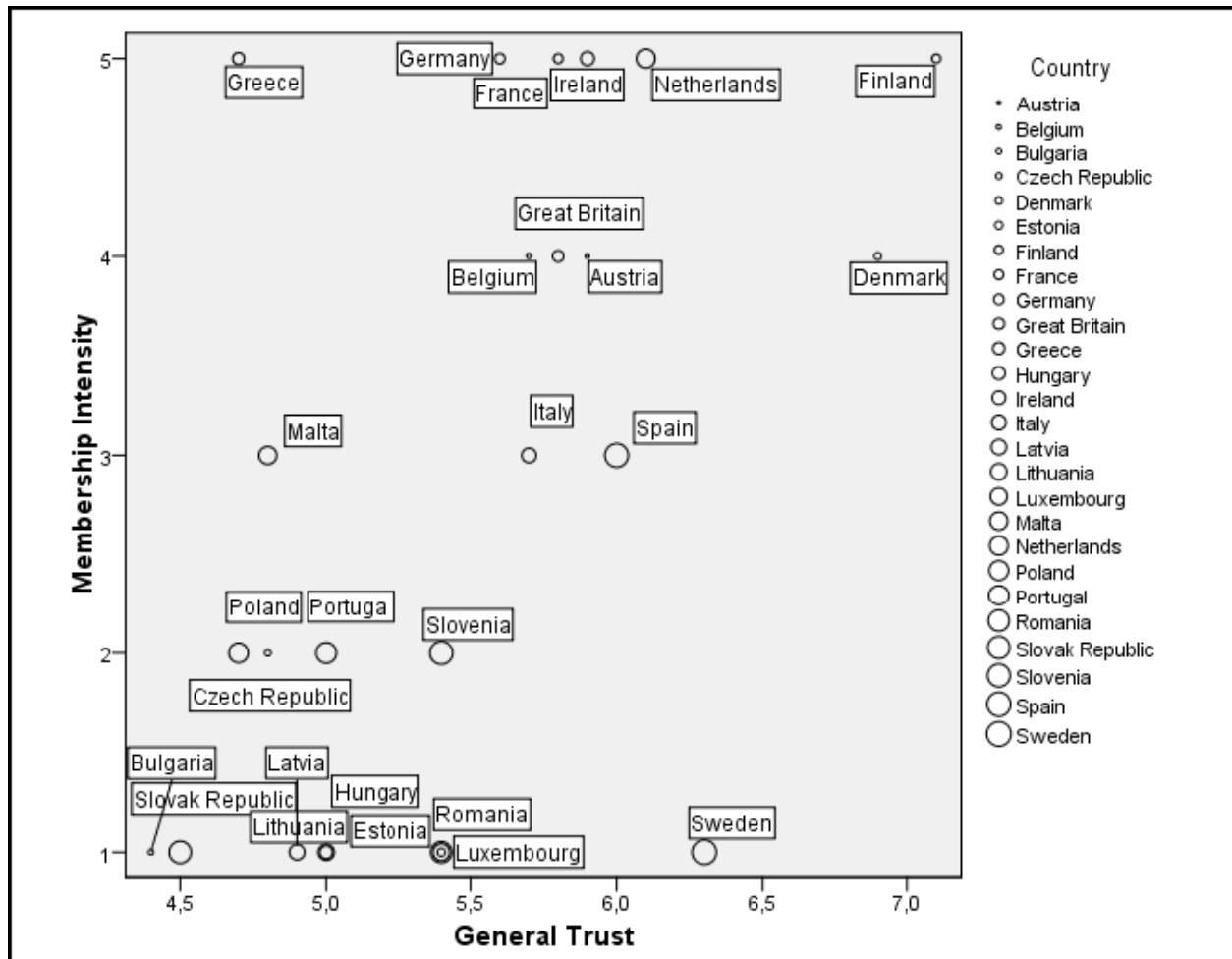


Figure 4: The relationship between trust and coop. Performance
Source: Bijman et al. (2012: 89)

Main conclusions of SFC project which can be drawn from the perspectives are the followings. There is more than one way of co-operative development in EU according to different history, different political history, different types of co-operatives, different identities. In case of NMS: social and cultural background, history and political context are extremely important. In most of NMS (like for example in Hungary) supports are indispensable while in other countries (e.g. Lithuania) the co-operation process strictly is a bottom-up one. While it is true that 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 seem to be vital in the case of emerging producer groups, like co-operatives, to be able to set up. Trust and willingness to co-operate are key issues in all NMs. In the next sections we analyse Hungary as a transition country and NMS from the agricultural co-operative development point of view.

Analysis of background, roles and development of emerging agricultural co-operatives in Hungary

Unfortunately, although the economic (like long-term market, decreasing transaction costs, increasing countervailing power, higher price, reduced technological and market risk, lower level of hold-up problems etc.) and non-economic (higher trust and willingness to cooperate and increase in social capital, informal network, more diversified institutional environment etc.) advantages, producer owned organisations are rare and underdeveloped in Hungary, their markets shares, concentration and the level of secondary organisations are very low (Szabó and Bárdos, 2006; Szabó, 2011a,b; Szabó, 2012a,b).

Legal and economic background of producer owned organisations in Hungary

It is very important to note also 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. There were and are other significant general and operational problems in Hungarian agriculture after the change of the economic and social system in 1991 such as:

- 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’,
- *unclarified questions remained regarding land use and the land market*,
- *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.* (Szabó, 2012a)

There are other fundamental problems in Hungary concerning the *emerging new agricultural cooperative system*:

- the share of the production-type co-operatives continuously decreased,
- limited concentration of the emerging marketing co-operatives especially because low level of secondary co-operation
- heterogeneity of members,
- lack of transparency of the economy (black and grey markets) make negative impact on formal co-operation,
- low level of capital endowment in case of co-operatives and it is hard to get access to capital for them,
- lack of willingness to cooperate etc.

Of course the recent financial and economic caused a lot of problems, especially due to the general lack of capital and insolvency of some trading partner as in the case of the flagship co-op Mórakert which had been a good positive example in a number of publications earlier (Bakucs et al., 2007, 2008a, b; Dudás, 2009; Felföldi, 2005; Szabó and Fertő; 2004a,b; Szabó and Kiss, 2003) but it is under bankruptcy in the last years. It is very interesting that smaller co-ops (like Csabai Raktárszövetkezet) have less financial problems (e.g. demand for revolving capital) due their smaller marketed volumes.

Regarding legal regulation there were support measures in Hungary from 1999 following the EU support measure system (Fáró et al., 2003). The main message was to return to the co-

operative practice of the first two decades in Hungary which was very similar development of western practice. There were 700 purchasing, marketing and service (“BÉSZ”) co-operatives established and supported during this early period. There were some other support measures financed by the state which provided credits for (about 120) co-ops for their long-term investments. Until 2007 the Ministry of Agriculture supported setting-up and operation of co-operatives every year however with higher and higher level of requirements due to the increasing limitation of resources. In the last years of the derogation period only a few coops could access to supports. However, those co-ops had multiplied their membership and turnover compared their first years and most of them are still active today in a form of producer organisations or groups. After the EU accession Hungary took over the EU support measures for producer organisations and groups (see more details: Szabó, 2012a, b).

Types and numbers of co-operatives and other producer owned organisations in Hungary

At present there are **three main types of agricultural co-operatives** in the Hungarian agri-food industry:

- A) **“Production type” co-ops** (in Hungarian “TSZ”) which are most of the time multipurpose co-ops as well and transformed (some of them into joint stock companies) many times in the last 23 years among other reasons due to the ever changing co-operative laws. They are multifunction type of co-operatives sometimes with social aims as well and their number is decreasing.
- B) **Supply and Marketing Co-operatives** (in Hungarian “BÉSZ”) are organised on territorial bases (e.g. integrating more activities and marketing channels). Due to financial support from the state between 1999-2006 many „BÉSZ” come to exist, but after a short period of derogation since the EU-accession (2004) they could not get any support from 2007 which made very hard to monitor them. Most of the successful ones changed their forms into producer organisation or producer groups.
- C) **Marketing or “new”, western type co-operatives**, sometimes in the forms of **POs** (in Hungarian “TÉSZ”) and **PGs** (in Hungarian “TCS”), 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.

We focus our attention to the C) type of co-ops since the majority of emerging organisations in Hungarian agriculture belong to that that category.

The development of the number of POs and PGs in Hungary between 1999 and 2013

One can see the development of number of producer organisations between 1999 and 2013 in Figure 5. Between 2002 and 2004 a steep increase, in the period of 2004-2006 stagnation, from 2006 partly stagnation, partly decreasing trend can be observed. From the year 2012 definitive decrease is the trend.

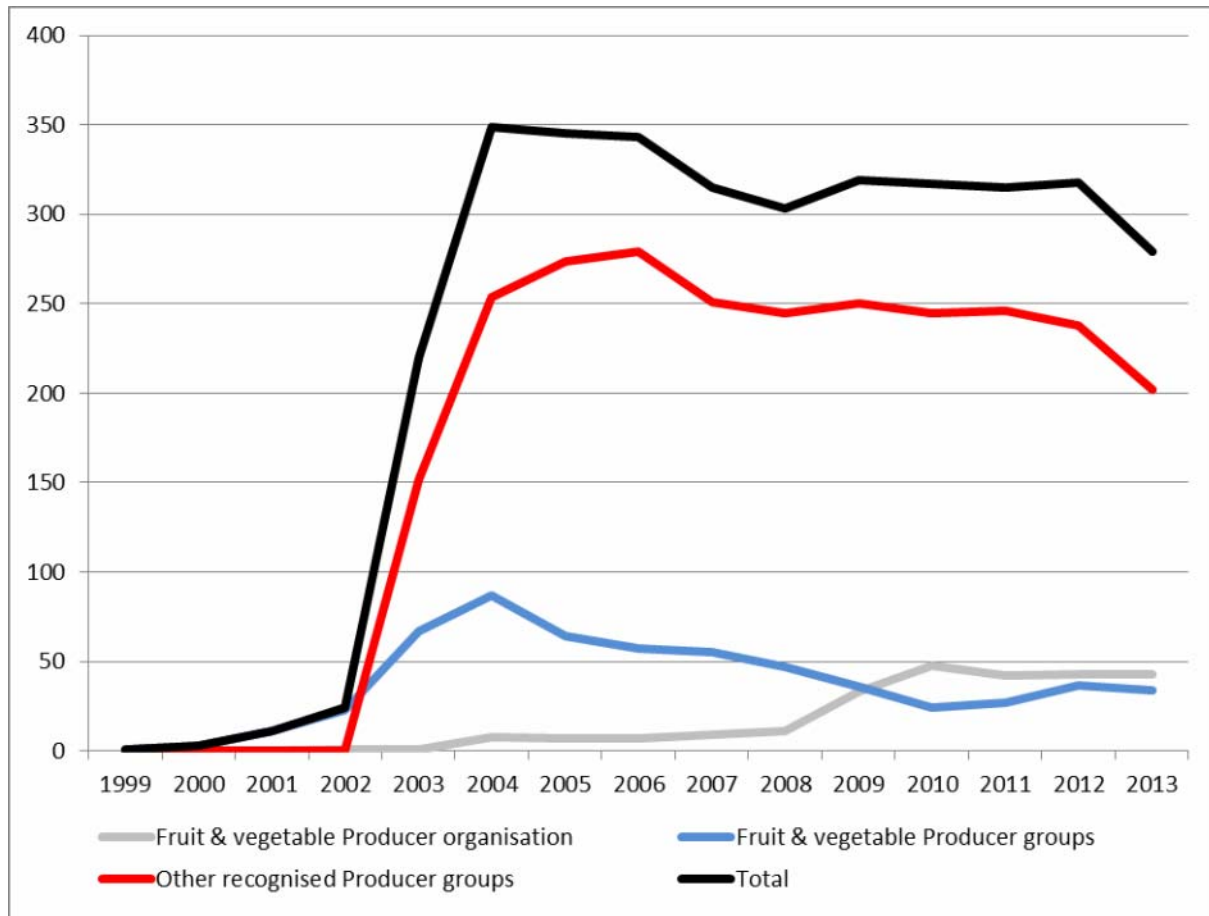


Figure 5: The development of the number of POs and PGs in Hungary between 1999 and 2013

Source: Ministry for Rural Development and Dudás- Juhász (2013).

Table 1 shows data on Producer Groups' members and shares per sector between 2006 and 2012 which period is rather significant. The first year is the summit of evolution of the system of producer groups and the end of the period are the years before the powerful “clearance period” at the end of the first decade.⁵

It can be seen at first glance that after a starting peak the number of members in plant (crop) production decreased. General reasons behind this decrease are (a) concentration in agriculture and ageing of producers, (b) negative marketing and economic processes in sugar beet and tobacco sectors and (c) selection process among the members, “quality” changes in membership. Meanwhile producer groups in the cereal sector have realised significant growth in membership due to co-operation of necessity caused by huge number of producers and market imbalances. Although it is still not a problem to sell on the cereals market with a lot of active stakeholders but the safety feature of co-operative trading and other supplementing services (see them later in present paper) were appreciated.

⁵ When analysing the data in Table 1 one should keep in mind that those are provided by the producer groups so they are not supervised therefore the level of reliability is only medium.

Table 1: Data on Producer Groups' members and shares per sector (2006-2012)

Sector	Data on Producer groups' members													
	No.	rate	No.	rate	No.	rate	No.	rate	No.	rate	No.	rate	No.	rate
	capita	%	capita	%	capita	%	capita	%	capita	%	capita	%	capita	%
	2006		2007		2008		2009		2010		2011		2012	
Cereals	4 969	27,9	5 079	28,3	6 212	32,2	7 531	46,59	7417	47,29	6878	47,11	6100	50,64
Oil seeds	3 515	19,7	3 673	20,5	4 071	21,1	4 764	29,47	4794	30,57	4694	32,15	3527	29,28
Sugarbeet	301	1,7	306	1,7	270	1,4	259	1,60	124	0,79	71	0,49	102	0,85
Tobacco	1 677	9,4	1 378	7,7	1 175	6,1	1 251	7,74	1114	7,10	912	6,25	887	7,36
Soyabean	132	0,7	148	0,8	150	0,8	178	1,10	43	0,27	44	0,30	45	0,37
Potato	542	3	604	3,4	638	3,3	172	1,06	121	0,77	96	0,66	96	0,80
Grape&Wine	2 653	14,9	2 448	13,6	2 325	12,1	2 008	12,42	2071	13,20	1904	13,04	1288	10,69
Horticulture	13 789	77,4	13 636	75,9	14 841	77	16 163	78,92	15 684	77,77	14 599	78,82	12 045	72,29
Dairy	414	2,3	463	2,6	558	2,9	438	10,14	421	9,39	404	10,30	381	8,25
Cattle	0	0	0	0	27	0,1	69	1,60	74	1,65	80	2,04	114	2,47
Pig	884	5	987	5,5	1 033	5,4	889	20,59	815	18,18	724	18,45	875	18,96
Sheep	836	4,7	943	5,3	969	5	1 003	23,23	1057	23,58	928	23,65	1270	27,51
Poultry	704	4	795	4,4	777	4	713	16,51	765	17,07	757	19,29	779	16,88
Rabbit	166	0,9	140	0,8	123	0,6	94	2,18	93	2,07	55	1,40	57	1,23
Honey	964	5,4	936	5,2	898	4,7	1 048	24,27	1193	26,62	913	23,27	1076	23,31
Aquaculture	54	0,3	60	0,3	60	0,3	64	1,48	64	1,43	63	1,61	64	1,39
Animal husbandry	4 022	22,6	4 324	24,1	4 445	23	4 318	21,08	4 482	22,23	3 924	21,18	4 616	27,71
Total	17 811	100	17 960	100	19 286	100	20 481	100	20 166	100	18 523	100	16 661	100
Natural person members	15 180	85,2	15 173	84,5	16 406	85,1	17 439	85,15	16 798	83,30	15 632	84,39	14 581	87,52

Source: Ministry for Rural Development

The number of members increased in animal husbandry in the examined period (2006-2012) with exemption of rabbit sector! Among the reasons behind the general fact of increasing membership trend is for example the wrecking market situation of subsectors. Stability of producer organisations against bankruptcies was realised by the producers. Apart from marketing the products of members secured payment was appreciated as well. In cases of pig meat and poultry (two of the most distressed sectors) the membership of producer organisations increased despite the fact that producers gave up production en masse. It means that the stabilisation and sustaining functions of producer groups are approved.

It is interesting to see that the number of natural persons (not legal entities) did not decrease during the 7 seven years which means that - with help of the services offered by producer organisations - smaller, ageing, sometimes self-sufficient producers were not more vulnerable than bigger members working in legal forms of different companies.

Although the number of members of producer organisations decreased by 10% it is not shown in output (turnover) since mainly less active members left the groups. Members' commitment and loyalty have increased due to the membership revision process and new, more active members were recruited instead of the less active ones.

It can be seen from the data that emerging co-operatives (and in their operation very similar Ltds) which were established for marketing purposes could fulfil their main roles and could secure income for their members on ever changing and hectic agricultural markets.

Economic and social prerequisites and constrains of collaboration – co-operation among producers in the Hungarian agri-food economy with special emphasis on trust issues

Advantages of belonging to co-operatives (POs/PGs) for members in Hungary

It is one of the most important questions of our research to *examine economic and social prerequisites and constrains of collaboration – co-operation among producers in the Hungarian agri-food economy with special emphasis on trust issues*. During the research we systematically collected economic and non-economic arguments for and against co-operation, as well as social and (economic) psychological constrains.

First, in this section we summarise one of the main results of our empirical research. Needless to say that not all of advantages for members of belonging to a co-op (or POs/PGs) are true in every organisations, but those answers below were the most important ones (see in more details Szabó, 2012b: 31-32):

- 1) to obtain EU support for Production Organisations/Groups (according to some respondents the aforementioned organisations will exist until they can get access to supports),
- 2) to obtain secured and long-term access to markets,
- 3) to gain more bargaining power, occasionally higher *prices*,
- 4) members can get their payment through co-op more safely and quicker compared if they would sell their produces themselves,
- 5) the co-operative is solvent and it can (at least partly) prefinance the activities of the members
- 6) to get access to services provided by the co-op (e.g. providing inputs for production, drying and storage of cereals etc.) at business at cost principle or at least at lower prices than the market one,
- 7) to reduce market and technological risk,
- 8) to obtain easier and cheaper market information,
- 9) to get extension services/education,
- 10) to save time on supply and sales operations,
- 11) membership in POs/PGs is an advantage in some tenders (policy measures).

The above answers prove that Hungarian producer owned organisations could provide the same advantages as Western European and US co-operatives usually do. However, it is important to clarify why producers are not willing to cooperate even in cases when it would give them sure economic advantages hence contributing to the survival of their farming.

Constrains of collaboration – co-operation among producers in the Hungarian agri-food economy

Apart from some legal regulation and macro-economic issues the main problem of the co-operation is the lack of trust and the low level of social capital (Szabó, 2010, 2013; Szabó et al., 2011). *A number international (EUROLAN, 2005) and Hungarian (Dorgai et al.; 2005, Barta et al., 2010; Kapronczai et al., 2005 etc.) showed that the willingness to cooperate is very low in Hungarian agriculture*. In some cases support measures like purchasing machinery were counterproductive since crop farmers were not forced to co-operate because they could get access

to all machines they needed. However farmers invested heavily into machines therefore they got less capital to invest in more value added activities. Producers often choose less formal co-operation, like in cases of machinery arrangements (Baranyai, 2010; Takács-Baranyai, 2010, 2013; Takács et al., 2012).

One of the obstacles of practical co-operation in Hungary is that in agriculture everybody knows the “secret” and does not like to accept somebody else’s decision. Sometimes producers think they know everything, so they do not need advices or collaboration and they often lack expertise and information how to set-up and run a co-op.

Heterogeneity of (potential or would-be) members might cause a problem in decision-making in co-operatives, 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 co-operative to be able to handle this phenomenon (trust issues).

Among economic reasons the lack of capital is apparent that is why all the interviewed producers emphasised the importance of support measures. Co-ops have very limited ownership in processing industry due to lack of capital and vertical strategy thinking.

On macro level the very high level of VAT and the connected black and grey trade (which is estimated about 40% in some sectors) are very bad for co-ops and other producer organisations since they are less competitive due to the fact that they do everything white which is good for the whole economy but not for the members. Members could gain much from selling black for cash without any contracts or papers.

The other main problem regarding regulation is that administration is very sophisticated and the present upper limit of support (100,000 EUR in case of a producer group) is not preferential for concentration since producers will set-up more smaller organisation in order to get more support. That is one of the reasons why secondary co-operation is rare and not efficient.

Economic and social prerequisites of collaboration – co-operation among producers in the Hungarian agri-food economy

Is there any chances for a new co-operative – producer owned (integration) model using the experiences and examples of Western Europe and USA in Hungary? In order to be able to fully answer this question more researches are needed in the next years however some prerequisites of collaboration – co-operation can be listed.

We can summarise our empirical findings by listing the conditions for successful collective action (marketing) done by producer-owned organisations as follows (based on Szabó, 2012a: 69, 2013):

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 (total traceability),
5. consistent adherence to delivery obligations regarding both quantity and quality (standardisation of commodities),
6. appropriate logistics, branding, product differentiation,
7. ensuring balanced (liquid) financing both short- and long-term,
8. to get a qualified, skilled and trustworthy manager (either outsider or an active member but professional),
9. efficient and multi-way communication(between members and management),

10. trust between members and management, as well as between members and leadership of the co-operative.

The crucial issue for the future of agricultural co-ops is the loyalty of farmers to their co-op and the leaders of the co-operative, especially under uncertainties dominating in transition agriculture like Hungary.

Generally speaking producers should be encouraged (Katona Kovács et al., 2011) to take over the marketing approach and try to think as their consumers offering them to meet their demand for good quality products at a reasonable (competitive) price otherwise they will be continuously defencelessness regarding the vendibility of their produce.

Conclusions with implications and recommendation for policy actions and further research

There is more than one way of co-operative development in EU according to different history, different political history, different types of co-operatives, different identities. 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 Hungarian producer groups**, like co-operatives, to be able to set up. Trust and willingness to co-operate are key issues in all NMSs.

Although **most of Hungarian co-ops are active on horizontal level** with collecting agricultural raw material/products from members and selling them to processors, retailers or wholesalers, some of the co-ops/POs/PGs are **good examples for the vertical integration based on the horizontal coordination of farmers as initiators**. Despite the limited concentration of co-ops/POs (e.g. very low level of secondary co-operation) in Hungary and recent liquidity problems of some co-ops, 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. Unfortunately most co-ops are price-takers they can not countervail the power of retail chains and other commercial partners and they can not influence the content of their contracts. A higher degree of co-operation among producers is important from the point of view can influence of better coordination of the whole chain and it can enhance (consumer) welfare as well.

All in all **the following urgent actions and policy measures** needed in order to help co-operative development in Hungary in 2014:

1. Changing morals/attitude of farmers and demolish mental and psychological barriers
2. Solving the problem of the black market – with decreasing the very high level of VAT (it is 27% in 2014!)
3. Offering (preferential) short term credits for producer owned (member based) organisations - mainly for current assets
4. Distributing information on co-ops and their advantages for both farmers and consumers

The **other most important factor is the „human” of soft factor of cooperation**. Willingness to cooperate and trust should be improved and major psychological obstacles have to be removed in order to facilitate cooperation among the farmers. The crucial issue for the future of agricultural co-ops is the loyalty of farmers to their co-op and the leaders/management of the co-operative, especially under uncertainties dominating in transition agriculture like Hungary.

There are **more internal governance conditions of successful collective action** done by producer owned organisations like real economic necessity, screening of potential members, strict

and exact quality and quantity requirements for products delivered to co-op/producers' groups, consistent adherence to delivery obligations, ensuring balanced (liquid) financing both short- and long-term, efficient and multi-way communication, to get a qualified, skilled and trustworthy manager (either outsider or an active member but professional).

There are **two very important directions of future co-operative research** in Hungary apart from analysing the trends of successful agriculture co-operative models Europe and US. One is about **the statistics on co-operatives** (at membership-level) and the other one is on the **economic, sociological and psychological prerequisites and constraints in the agri-food economy** including the role of trust in co-operation (see our ongoing OTKA research: K105730).

References

Bakucs, L. Z., Fertő, I. and Szabó, G. G. (2007). Innovative Practice Hungary: Mórakert Cooperative - a successful case of linking small farmers to markets for horticultural produce in Hungary. (IP9_HungaryMorakert.pdf) Budapest: IE HAS. Published on Regoverning Markets.

Bakucs, L. Z., Fertő, I. and Szabó, G. G. (2008a). Mórakert Cooperative: a successful case of linking small farmers to markets for horticultural produce. In: Csaki, Cs., Forgacs, Cs., Milczarek Andrejewska, D., Wilkin, J. (eds.): Restructuring Market Relations in Food and Agriculture of Central and Eastern Europe: Impacts upon Small Farmers. Agroiinform Publisher Co. Ltd., pp. 207-249 p.

Bakucs, L. Z., Fertő, I. and Szabó, G. G. (2008b). The Impact of Trust on Co-operative Membership Performance and Satisfaction in the Hungarian Horticulture. In: Csáki Csaba és Forgács Csaba (szerk): Agricultural Economics and Transition: "What was expected, what we observed, the lessons learned. Studies on the Agricultural and Food Sector in Central and Eastern Europe Vol. 44. Halle: Leibniz Institute für Agrarentwicklung in Mittel and Osteurope, 382-392.

Baranyai, Zs. (2010). Az együttműködés elméleti és gyakorlati kérdései a magyar mezőgazdasági géphasználatban. Szent István Egyetem Gazdálkodás és Szervezéstudományok Doktori Iskola, Gödöllő. PhD thesis.

Barta, I., Dorgai, L. (ed.), Dudás, Gy. and Varga E. (2010). A termelői csoportok és a zöldség-gyümölcs ágazatban működő termelői szerveződések Magyarországon. Agrárgazdasági Információk. AKI. 2010/6., 35-74 p.

Bekkum, O. F. van and van Dijk, G. (eds.) (1997). Agricultural Cooperatives in the European Union. Van Gorcum, Assen.

Bijman, J., Iliopoulos, C., Poppe, K.J., Gijselinck, C., Hagedorn, K., Hanisch, M., Hendrikse, G.W.J., Köhl, R., Ollila, P., Pyykkönen, P. and van der Sangen, G. (2012). Support for Farmer's Cooperatives – Final Report, Wageningen: Wageningen UR, November 2012, 127 p.

Cook, M. L. (1995). The Future of U.S. Agricultural Cooperatives: A Neo-Institutional Approach. *American Journal of Agricultural Economics* Vol. 77: 1153-1159 p.

Csabai Raktárszövetkezet (2014). Business plan of Csabai Raktárszövetkezet for the year 2014. 19 p.

Dorgai, L. (ed.) (2005). Termelői szerveződések, termelői csoportok a mezőgazdaságban. AKII, *Agrárgazdasági Tanulmányok*, No. 4.

Dudás, Gy. (2009). A termelői értékesítő szervezetek (TÉSZ) lehetőségei a zöldség-gyümölcs termelők koordinálásában a ZÖLD-TERMÉK szövetkezet példáján keresztül. Szent István Egyetem Gazdálkodás és Szervezéstudományok Doktori Iskola, Gödöllő. PhD thesis, 1-189 p.

Dudás, Gy. and Juhász, A. (2013). A magyarországi TÉSZ-ek gazdasági szerepének vizsgálata számviteli megközelítés alapján. *Gazdálkodás* 57: (3) 282-292 p.

EUROLAN (2005). Szabó, G. (project leader), Fehér, A., Baranyi, B., Szabó, G. G., Kovács Katonáné, J., Tikász, J., Fürj, Z.: EUROLAN Project (EU 5. Framework, contract number: QLK5-CT-2002-02346): “Strengthening the Multifunctional Use of European Land: Coping with Marginalisation”, Case Study – Hungary. Debrecen: University of Debrecen, August 2005, 1-41 p. (manuscript)

Fáró, N., Slezák, Zs., Kiss, T. and Barta, I. (2003). The features of the new-type co-operatives and its legal regulation in Hungary. *Agriculturae Conspectus Scientificus*, Vol. 68., No. 4 297-300 p.

Felföldi, J. (ed.) (2005). Termelői Értékesítési Szövetkezetek (TÉSZ) a zöldség-gyümölcs ágazatban. Szaktudás Kiadó Ház, 2005, 1-143 p.

Kapronczai, I. (ed.), Korodiné Dobolyi, E., Kovács, H., Kürti, A., Varga, E. and Vágó, Sz. (2005). A mezőgazdasági termelők alkalmazkodóképességének jellemzői (Gazdálkodói válaszok időszerű kérdésekre). *AKI Agrárgazdasági Tanulmányok*, 2005/6., 197 p.

Katona Kovács, J., High, C. and Nemes, G. (2011). Importance of Animation Action in the Operation of Hungarian Local Action Groups. *European Countryside* 4, 227-240.

Mészáros, S. and Szabó, G. (2014). Hatékonyság és foglalkoztatás a magyar mezőgazdaságban. (Efficiency and employment in Hungarian agriculture). *Gazdálkodás* 58 (1), 58-74.

Ollila, P. and Nilsson, J. (1997). The Position of Agricultural Cooperatives in the Changing Food Industry of Europe. In Nilsson, J., van Dijk, G. eds.: *Strategies and Structures in the Agro-Food Industries*, Assen: Van Gorcum, 131-150 p.

Poppe, K.J. (2012): Cooperatives in the EU Policy Environment. Presentation given at COPA-COGECA Meeting, Budapest, October 2012.

Stiglitz, J. E. (2009). Moving beyond market fundamentalism to a more balanced economy. *Annals of Public and Cooperative Economics*, 80 (3), 345-360 p.

Szabó, G. (2008). Changes in the structure of agricultural production, farm structure and income in Hungary in the period of 2004-2006, in Csáki, Cs. and Forgács, Cs. (eds.) *Agricultural economics and transition: What was expected, what we observed, the lessons learned: Proceedings (Volume I.)*, Halle: IAMO, 73-81. (ISBN:978 3 938584 31 6)

Szabó, G. G. (2002). A szövetkezeti vertikális integráció fejlődése az élelmiszer-gazdaságban. *Közgazdasági Szemle*, 49/3. 235-250 p.

Szabó, G. G. (2010). The Importance and Role of Trust in Agricultural Marketing Co-Operatives. MTA-AKI, Budapest: *Studies in Agricultural Economics*, No. 112, 5-22 p.

Szabó, G.G. (2011a). *Szövetkezetek az élelmiszer-gazdaságban: Gondolatok az ún. előmozdító típusú szövetkezés gazdasági lényegéről és integrációs jelentőségéről*. Budapest: Agroinform Kiadó, 255p. (ISBN:978-963-502-928-0)

Szabó, G. G. (2011b). Leading producer-owned marketing organisations in transition country: Two case studies from Hungarian agribusiness In: *A resilient European food industry in a challenging world*. (Editors: Baourakis, G., Mattas, K., Zopounidis, C. and van Dijk, G.) - New York: Nova Science Publishers, 2011, 337-358.

Szabó, G. G. (2012a). Support for Farmer's Cooperatives in Hungary; Country Report Hungary. Wageningen: Wageningen UR, November 2012, 86 p.

Szabó, G. G. (2012b). Support for Farmers' Cooperatives; Case Study Report: Performance and sustainability of new emerging cooperatives in Hungary, Wageningen: Wageningen UR, November 2012, 71 p.

Szabó, G. G. (2013). Gondolatok az élelmiszer-gazdasági szövetkezés gazdasági lényegéről és integrációs jelentőségéről. *Gazdálkodás* 57:(3) 203-223 p.

Szabó, G. G., Baranyai, Zs. and Takács, I. (2011). The Importance and Role of Trust in Agricultural Co-operation – Some Empirical Experiences from Hungary. EAAE 2011 Congress: Change and Uncertainty - Challenges for Agriculture, Food and Natural Resources, August 30 to September 2, 2011, ETH Zurich: Zurich, Switzerland, pp. 1-12.

Szabó, G. G. and Bárdos, K. (2006). Contracts in agribusiness: A survey in the Hungarian dairy sector. In: Bijman, J., Omta, S.W.F., Trinekens, J.H., Wijnands, Wubben, E.F.M. (eds.): *International agri-food chains and networks. Management and organization*. Wageningen Academic Publishers, Wageningen, the Netherlands, 2006, 65-80 p.

Szabó, G. G. and Fertő, I. (2004a). Issues of vertical co-ordination by co-operatives: a Hungarian case study in the fruit and vegetable sector. In: *Marketing Theory and Practice. A Hungarian Perspective*. Ed. by: Berács, J., Lehota, J., Piskóti, I., Rekettye, G. Akadémiai Kiadó, Budapest, 2004. 362-379.

Szabó, G. G. and Fertő, I. (2004b). Transaction cost economics and agricultural co-operatives: a Hungarian case study. In Bremmers, H.J., Omta, S.W.F., Trienekens J.H. and Wubben, E.F.M.

(eds), Dynamics in Chains and Networks. Wageningen: Wageningen Academic Publishers, 245-251 p.

Szabó, G. G. and Kiss, A. (2003). A termelői értékesítő szervezeteknek (a TЭСZ-ek) gazdasági jelentősége és szabályozása az Európai Unióban és Magyarországon. *Európa Fórum*, 2003/3-4. 103-121 p.

Takács, I. and Baranyai, Zs. (2010). Role of trust in cooperation of farmers from the aspect of new institutional economics. *Annals of the Polish Association of Agricultural and Agribusiness Economists* 12 (6) 179-184.

Takács, I. and Baranyai, Zs. (2013). A géphasználati együttműködések, avagy a „virtuális üzemek” elmélete és gyakorlata a magyar mezőgazdaságban. *Gazdálkodás* 57:(3) 270-282 p.

Takács I., Takácsné György K., and Baranyai Zs. (2012). The role of trust in cooperation between farmers - the outcomes of a survey in Békés county. *Abstract - Applied Studies in Agribusiness and Commerce* 6:(5) 105-114 p.

Ton, G. and Szabó, G. G. (2012). Support for Farmer's Cooperatives. Case Study Report: Organisational mechanisms to solve collective action challenges in vegetables marketing. Wageningen: Wageningen UR, November 2012, 19 p.