PROBLEMS OF COOPERATION IN THE HUNGARIAN AGRICULTURE

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Abstract. The most researchers and economists who deal with this topic believe that the lack of the structure of agricultural sector is the cause of the market problems of domestic agriculture and they call the attention to the maintenance of cooperation. The cooperation, as an organisational form, has a big importance especially in the vegetable and fruit sector, and milk production sector. In addition, it has a tradition in the West-European countries. The cause of this is large transaction costs, which evolve from the specialisation of investments, limited alternative usage, structure of raw material production, and character of the products. In connection with the above mentioned the authors performed an empirical questionnaire examination among the producers and sales organisations of domestic vegetable and fruit sector. Nowadays, 80% of co-operatives of this sector choose an operation form among all the cooperative forms and the explanation of this is not based only on the legislation intent and the regulatory environment but – referring to the above mentioned – on the specialties of this sector. This cooperative operates like the West-European cooperative model, so they do not bear the brunt of the cooperative alteration and they can represent the domestic “new type co-operative” well.

Key words: cooperation, mutual trust, development, quality assurance, bargaining position.

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Introduction
The fruit and vegetables sector plays an important role in the Hungarian national economy and agriculture. The ecological circumstances and producing traditions of this country provide an adequate opportunity for quality in vegetable and fruit production. The fruit and vegetables sector provides the source of living or additional income for thousands of families, and plays an important role in the utilisation of the ecological capability, land production, and local occupation of the rural population (Erdeszine, 2007).

It causes a serious problem for the Hungarian fruit and vegetables producers that they cannot produce products in adequate quantity and quality due to the atomistic production and the wide range of grown species (Popp et al., 2009). The POs with adequate membership can supply the market an effective volume of the products, which provides them better position at bargaining and through this; it means a higher income for the producers.

It can be stated that on such area where no PO functions, the marketing is much disorganised. In general, 65% of the Hungarian producers try to sell their products on their own, while 15-16% of them sell the products through a PO. Beside this, 16% prefers the marketing contract, while 4% - the production contract (Popp et al., 2009).

The POs make the procedure of selecting, assorting, grading, storing, marketing, and processing of the produced products. According to Magda (2010), beyond these functions the procurement of immaterial, intellectual, material, and service circumstances needed by the horticultural production would be also very important. These circumstances include common consulting services, postgraduate courses, professional trainings, and coordination of services of biological plant protection, growing transplants or its coordination. In total, 5-20% price allowance can be achieved by the wholesale procurement.

Based on the data collected by Dorgai (2010) in 2007, 67.5% of the sales relate with fresh-marketed products. Approximately 50% of these fresh-marketed products were sold through retail chains, 42% were sold to wholesale dealers and through wholesale markets by the POs. Only 3% were marketed through retailers. The producers themselves are very vulnerable without a marketing background, which is the main reason for being a member of a POs. As the POs dispose big product volumes, they can be a proper partner to contract with the hyper- and supermarket chains. The POs can achieve a better position at bargaining, though, this is not true in practice since the retail chains take advantage of their superiority in bargain potential and they do not pay according to schedule, buy the fruits and vegetables at a depressed price.

The aim of this article is to highlight those problems, which are the main barriers in the way of development of the cooperation and to determine the relating challenges in the Hungarian fruit and vegetable sector based on the domestic professional literature and empirical studies.

Materials and methods
This article is based on the results of two surveys and the critical proceeding of the relevant professional literature. The first survey was carried out in 2009 and the second - in the spring of 2012. The authors divided the questionnaires into four main parts. Questions on the general characteristics of the POs were asked in the first
Changes in the production value of the producer’s organisations and the fruit and vegetables sector (2004-2010)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production value of the fruit and vegetables sector (million HUF)</td>
<td>259 613</td>
<td>151 012</td>
<td>182 558</td>
<td>178 733</td>
<td>216 676</td>
<td>201 578</td>
<td>195 934</td>
<td></td>
</tr>
<tr>
<td>Total number of Producers Organisations and Producers Groups</td>
<td>69</td>
<td>101</td>
<td>77</td>
<td>64</td>
<td>48*</td>
<td>48*</td>
<td>48*</td>
<td>45*</td>
</tr>
<tr>
<td>Production value of the POs and PGs (million HUF)</td>
<td>22100</td>
<td>26 188</td>
<td>23 548</td>
<td>28 717</td>
<td>29 477</td>
<td>39 107</td>
<td>36 842</td>
<td>38 243</td>
</tr>
<tr>
<td>- production value of the certified POs (million HUF)</td>
<td>10 489</td>
<td>9 048</td>
<td>10 518</td>
<td>11 338</td>
<td>16 386</td>
<td>32 510*</td>
<td>31 487</td>
<td></td>
</tr>
<tr>
<td>- production value of the PGs and the temporarily certified POs (million HUF)</td>
<td>15 699</td>
<td>14 500</td>
<td>18 199</td>
<td>18 139</td>
<td>22 721</td>
<td>4 332</td>
<td>6 756</td>
<td></td>
</tr>
<tr>
<td>Proportion of the POs and PGs of the total production value of fruit and vegetables sector (%)</td>
<td>13.0</td>
<td>10.09</td>
<td>15.59</td>
<td>15.73</td>
<td>16.49</td>
<td>18.05</td>
<td>18.28</td>
<td>19.52</td>
</tr>
<tr>
<td>Land covered by POs (ha)</td>
<td>25139</td>
<td>25 640</td>
<td>26 122</td>
<td>29 550</td>
<td>34 982</td>
<td>35 000</td>
<td>37 089</td>
<td>no data</td>
</tr>
<tr>
<td>Total membership (head)</td>
<td>13450</td>
<td>23 980</td>
<td>20 514</td>
<td>20 494</td>
<td>20 177</td>
<td>20 000</td>
<td>20 605</td>
<td>no data</td>
</tr>
</tbody>
</table>

* Only the number of POs
** The value of marketed production of the POs increased at such a high rate and in parallel the number of PGs declined so much because in Quarter 4 of 2008 the majority of the former PGs received the certification and PO status

Source: National Strategy completed with the data provided by the Department of Agricultural Market of the Ministry of Rural Development

Changes in the number of Hungarian POs and their most important characteristics

The number of the Producers’ Organisations exceeds 100 in 2004, while only 65 operated in 2009 of which 48 were certified (Table 1).

Regarding the spatial distribution of the POs, it can be seen that two-thirds of them are located in the regions of the South Great Plains and North Great Plains, where 67% of the total vegetable growing area is situated on the South Great Plains and in addition 89% of the forcing lands coordinated by POs can be found in Csongrad county (Figure 1).

Main results of the empirical research

In the following paragraphs, the authors focused only on the most important, maybe the most interesting results of their surveys and the two above-mentioned empirical pieces of research.

Despite the fact that one part of the surveyed organisations are not operating in a form of cooperative, it is important to emphasise that this is the general form of operation. At the date of the first survey, 79% and at the date of the second survey, 75% of the responding organisations chose the form of cooperative as the form for operation. There are strict regulations in connection with the democratic participation of members in the governance of the organisation if the PO initially chooses the form of corporation (nobody can have more than 30% of the votes). As a consequence of this rule, the
organisations choosing the cooperative form are very similar to those which operate as corporation.

At the time of the first survey 83% of the operating POs worked as a cooperative and 17% of the POs chose the form of limited liability company. At the time of the latest survey, similarly to the previous survey 83% of the organisations worked as a cooperative and 12% chose a form of the limited liability company, while 5% chose a form of the private incorporated company.

The establishment of the mutual trust means a serious problem between a member and the organisation. At 80% of the responding organisations, the supplying of data caused problems in the relation between the organisation and the members. This is problematic in both ways because neither the members give true information about their production and marketing nor does the organisation feed back enough information needed by the farmers to produce and plan. The situation has not changed in 2012, because the supplying of data caused the biggest problem in the relation between the organisation and the members also in that year. No problem emerged in the establishment of the mutual trust between 2006 and 2009. There was a positive change in the area of quality assurance because in the case of the first survey this field had no importance at all. Only one organisation out of 14 had investments in this field, while more than two-thirds of the organisations invested in quality improvement in the latter years. After their establishment, the organisations used their resources to buy wrapping and refrigerating instruments and tools; thus, there is no lag in this area as compared with the more developed EU countries.

It is important to mention that the lack of capital and the inability to provide the needed self-financing were thought to be the most obstructive factors in connection with investments in the cases of both surveys. The Fruitveb (2009) also mentioned in its study that the biggest recent problem of the producers’ organisations was the lack of current assets, which influenced the payments for producers very adversely. The authors of the study added that the most of the POs suffer from the lack of capital the cause of which is mainly rooted in two things. On the one hand, the members struggling with the lack of financial resources cannot bear the refilling of the organisations’ funds with remarkable contributions and on the other hand, in the case of most POs, the lack of assets or the mortgaged estates mean the most significant obstacle in the case of credit provision. From the aspect of the producers, the shorter paying
and the paying security stand before everything and only after the fulfilment of these obligations there is sense to speak about the benefits and services as positive influencing factors of the membership's loyalty.

In spite of that, the specialised product scale is characteristic to one part of the organisations, they plan to introduce a wider range of products to reduce their vulnerability. Besides there are some organisations operating, which think that the possibility for growing their competitiveness lies in the specialisation and the narrowing of the range of produced products. Favourable processes started in connection with the size of the integrating organisations, specialisation, and concentration but one can still speak about relatively small POs.

In the study of the Fruitveb, the problem of trust between the POs also emerges as a barrier in the forming of the secondary organisations. The POs have a fear for their market characteristically and the choice of the financing form and degree of the common organisation/enterprise also creates a very hardly solvable conflict.

It turned out during an interview made with the leader of an organisation that in spite of the decreasing number of the members the circle of the producers became stable, which means a basis for long-term cooperation. The POs are an opportunity for those producers who are able to produce quality products but they have limited marketing opportunity. This statement was underpinned by the study of the Fruitveb, according to which the members regard the creating of the marketing stability and the establishing of the marketing connections as the most important tasks of the POs. Beside this, the takeover/acceptance of the quality products is a very important factor among the marketing conditions (Fruitveb, 2009).

The most important partners of the organisations were the processing industry in the time of the survey of 2009, and this was followed by the multinational retail chains and the wholesalers. By 2012, the situation was changed in that the retail chains became the main marketing channel (58%), and it was followed by the processing industry and wholesalers.

It is underlined in the connection between the retail chains and the POs that the low prices and the acceptance as a supplier were regarded as the hardest requirements set by the chains. Beside the above mentioned, the chains require the application of some relevant standards and the performing of auditing.

The POs find the basis of the successful operation in: the stronger integration, the quality assurance, professional advising service, organising of events, starting newsletters, improving of the production technology, common procurement of the raw materials, inputs, and common insurance. Majority of the POs would put more emphasis on the professional advising in the future.

Conclusions and recommendations

The first organisations were established by fruit and vegetables merchandisers by the integration of some of their former suppliers and their own enterprises. The advantage of this type of formation was that the merchandisers had the basic market background and connections. However, there was no producer's control and the aim of the establishing of these organisations was only to get the subsidies. So, at the time of the EU accession, when the conditions of getting subsidies became stricter, their number reduced significantly as a consequences of termination of their activity or bankruptcy procedure.

After all this, only few producers could be convinced to be the members of the organisations again; however, the improvement of the market share of the POs would be favorable also for the producers. Because the modern marketing channels come into the foreground nowadays, it is interest of the producers to cooperate to get into stronger bargaining position. Without this it is hard to make a reliable prognoses among the daily changing supply-demand and price conditions. All the phases of the supply chain are risky and this risk can be hardly avoidable by the producers on their own than by a distributor.

The POs can provide an opportunity to those producers who are able to grow quality products on their own but they have limited marketing tools. This was underpinned by that, according to the study of Fruitveb, the members regard the establishment of marketing security that is building of marketing connections as the most important task of the POs. Among the marketing conditions, the acceptance of the proper quantity of the products is a key element (Fruitveb, 2009).

It can be said from the Producers’ Organisations point that the malfunction of the proper information stream and the lack of mutual trust still cause the main problems. In addition, the cooperation between the producers and the POs is made harder by the fact that the producers going against the requirements do not give in all of their harvested products so the product funds of the POs would be smaller. Therefore, the POs buy products from outsider domestic and foreign producers to retain the market and to increase the supply and they do not indicate the origin of these products on the wrapping.

There are still not enough punitive sanctions against the producers violating the rules, however, this would be very important to reinforce the trust toward the POs. Because of the lack of a central database, the dismissed members can reenter easily to the system and the double membership just like the membership established to gain tender points are also very usual. The eliminating of these drawbacks would be very important in the future (Erudito, 2012).

Bibliography


