

# THE COMPETITIVENESS OF AGRICULTURE AND THE ROLE OF COOPERATIVES IN HUNGARY

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## Abstract

In Eastern Europe, one of the most significant results of the economic and political transition was the change in the ownership structure of agricultural land. In Hungary, land restitution and compensation brought significant changes in ownership structure. As a result of the changes, an extremely fragmented land ownership and production structure emerged which caused relatively high market entry barriers. Cooperation plays a crucial role in a product's access to the market since cooperatives ensure the necessary physical and financial infrastructure (e.g. credits, storage capacity, cold storage, grading and packing facilities, quality checks and processing) as well as processing. This study analyses the success and failure of agricultural cooperatives in Hungary after the economic and political transition in the 1990s.

Key words: agricultural cooperatives, Hungary, land privatisation, transition, vertical integration

## *1. Introduction*

Land privatisation of the early 1990's was the object of highly controversial discussions. There was a great difference of opinions among the political parties and in society as well. During the transition from planned economy to market economy, in Central and Eastern European countries the privatisation of state owned land began. There was a heated political debate in all the countries on how to execute the privatisation of land. There were two opposing views on the most important issue, i.e. who should be the new land owners: the previous owners or any citizens as long as the land is cultivated properly (Csáki, 1998) (Brem, 2002). In most of Central and Eastern European countries a general method of privatisation was the restitution of land to previous owners or to their heirs, however Hungary made very different decisions. The main aim of this study is to review the process of land privatisation and the political debates that surrounded the process.

As a result of forced collectivisation, the socialist reorganization of agriculture had been carried out by 1961: the expropriation of small family farms began, and state-owned large-scale farming became the dominant form of farming. After the regime change in 1989, Central and Eastern European countries required compensation for damage suffered during the communist regime. There were spirited discussions among political parties and also among wider sections of society on the potential implementation of land privatisation - restitution, privatisation, full or partial compensation, etc. (Brooks & Nash, 2002). With regard to land reforms, private ownership of land was considered necessary.

In the transition period, Hungarian agriculture changed radically. Its ownership structure, farm structure and even its production structure was transformed. As a result of these changes, production decreased by one third and employment in agriculture decreased drastically (Takács, 2008). Land fragmentation and the need to support family farms have drawn attention to the importance of cooperation. Károly Ihrig, key author of the literature on cooperatives, believes that the economic advantages of cooperatives stem from the fact that they offer a higher level of organisation to small and weak actors, while through disintermediation they also save some extra costs to their members. Cooperatives are able to evaluate needs of both supply and demand, as well as to organise and adapt the production process to their specific needs. Their social significance stems from fostering the economic success of their members and, through this, promoting their social and material progress by concentrating dispersed energies (Ihrig, 1937).

Cooperatives have a key role in improving the situation of small-scale producers. More vertical integration could contribute to providing rural employment and to increasing living standards in rural areas in Hungary. The second part of this study gives an overview of the experience, successes and failures of the cooperative movement and it outlines the key issues in cooperation in agriculture.

## *2. Land privatisation after the regime change*

There were different views on land privatisation and the changes in land ownership structure. Everybody agreed that land formerly expropriated from their owners during the collectivisation process in the socialist regime should be privatised, however, on the methods of land privatisation there were different views. According to the programme of the central right conservative party, the Hungarian Democratic Forum (MDF), changes in land ownership had to be a primary consideration:

- the restoration of private land ownership was not to harm people who live there;
- supply under no circumstances could be interrupted, even momentarily to ensure a peaceful transformation;
- a compensation for the damage suffered gave moral satisfaction, whereas financial support depended on the country's opportunities;
- ownership changes in agriculture had to be part of the general reform process.
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According to the party, the restitution of the original parcels couldn't take place for practical and technical reasons, e.g. because agricultural land had been used for different purposes.

The extension of the restitution programme to private owners and their heirs who moved to cities or were not tied to agriculture anymore would be too expensive for the country and would draw money out of agriculture (Csendes, 1990). The centre right Christian Democratic People's Party (KDNP) emphasised that in the process of compensating farmers, consideration should be given to the country's economic capability. The post-communist party, the Hungarian Socialist Party (MSZP) stressed that with the revision of the Soviet kolkhoz system (large-scale co-operative farms that emerged after Stalin's collectivization campaign) a specific, so-called Hungarian Model emerged in which large-scale and small-scale farming, basic and auxiliary activities, agriculture and settlements integrated. The party pointed out that in Hungary in the second half of the 1940s, land ownership structure was extremely fragmented (Beke, et al., 2014), which would be impracticable to restore. The Liberal Free Democrats (SZDSZ) emphasised that the distribution of land to many who are not engaged in agricultural activities would have drawn capital out of agriculture (Tanka, 1990). In its programme, the Independent Smallholders Party (FKGP) set itself the objective of redistributing property in its original form to the former owners (Győriványi,

1995). It was evident from the first moment that none of the concepts were fully and generally acceptable, each of them could be contrary to someone's interest. The party of the Hungarian Democratic Forum won the first free parliamentary elections in the spring of 1990 and it formed a centre-right government coalition with the Independent Smallholders Party and with the Christian Democratic People's Party.

With regard to land policy there were differences of opinion within the coalition. The main problem was that while the party of Independent Smallholders sought restitution, the coalition partners were only committed to redistribute the previously collectivised agricultural land (Lovász, 1999). The party of the Hungarian Democratic Forum in its programme for the elections criticized the Independent Smallholders plan for restitution since the party intended to provide land for village people with enterprising spirit and wanted to exclude those who had moved from the country to towns. Prime Minister József Antall, with regard to the legislation for land reform was of the opinion that because of the conflicting interests it was impossible to form a national consensus. Even after 4 decades there is no way to restore the system of private ownership in accordance with uniform principles (Pogány, 1997). The Smallholders' Party appointed the minister of agriculture in the coalition government. The Hungarian Democratic Forum did not express opposition to the proposed land policy law of the Smallholders, but they tried to gain time and to confront the Smallholders' arguments. The other parties that were in opposition in Parliament focussed attention to the drawbacks of the Smallholders programme.

In the villages the radical reformer Agrarian Alliance - later a pool of former elites of the cooperatives - started protests (Juhász, 1991). Parallel with the criticisms and attacks of the opposition many agricultural associations - after a lot of publicity - started a campaign against the Smallholders. "*Food shortages are expected!*" "*The Smallholders are destroying the well-functioning cooperatives!*" - the opposition insisted. The Ministry of Agriculture disagreed, and the Minister of Agriculture. Ferenc József Nagy emphasised in his statement that the aim of the new land law is to remedy the victims of forced collectivisation (Csete & Barcza, 1990).

Finally, the three coalition parties on 22 July 1990 drafted a joint declaration, and by 13 August 1990, the draft land law reflected the common stance of the three coalition partners. They intended to return land to the original owners up to 100 hectares free of charge. After a long dispute the new land reform proposal was made, but immediately came under a full attack. Meanwhile, on 18 September 1990, the Hungarian Parliament adopted the so-called Pre-

Privatisation Act (LXXIV of 1990) under which state owned retail shops and restaurants were being sold by auction without involving the original owners (the so-called petty/small privatisation). This programme aimed at benefiting private owners in Hungary, and only Hungarian citizens could participate in the sales by tender. The in kind recovery of most of the confiscated property (i.e. the restoration of the original ownership) proved to be difficult and after or parallel with the privatisation of shops, restaurants and service units it was evidently going to be impossible to draft a law on reprivatisation of the same units (Mihályi, 1999).

Some members of the Smallholders Party (e.g. Sándor Oláh és Géza Zsíros) spoke out against the pre-privatisation programme and were later accused of being against the coalition. József Torgyán, chairman of the Independent Smallholders' Party put pressure on the group of representatives in order that they vote for the pre-privatisation act, since it would be a test of loyalty to the coalition. Anyone voting against it would have to oppose the coalition. Finally, with a few abstentions. Four representatives (Sándor Oláh, Géza Zsíros, Lajos Szabó and Miklós Ómolnár) voted against the proposed amendments of the law that made the land ownership programme of the Smallholders impossible.

The Prime Minister apparently accepted the draft land law but eliminated the necessity of making a decision. Instead of submitting the draft law to the Parliament he requested a norm control at the Hungarian Constitutional Court (Hung. Const. Ct.) and petitioned for an advisory opinion on the constitutionality of the privatisation process. The Hung. Const. Ct. could review the constitutionality of the provisions and whether the charges of the opposition were valid. The first request of the Head of State was whether the restitution of land was constitutional and whether the re-privatisation process could have been selective according to the type of the property (Székely & Newberry, 1993). Could the level of compensation for assets other than land, (e.g. urban land, factories, shops, restaurants or real estate) exceed that of expropriated land? Another question of József Antall was whether it would have violated the Constitution to take the property of co-operatives without immediate full compensation (Hung. Const. Ct., 1990). On 4<sup>th</sup> October 1990, according to the ruling of the Hung. Const. Ct. discrimination was considered unconstitutional. The decision was based on the Re-privatisation Act which excluded the possibility of reprivatisation of retail shops and catering units (Petri, et al., 1998).

According to the Hung. Const. Ct. preferential treatment of land as opposed to other forms of property went against the law of the constitution. There was discrimination against persons if the property of a person was reprivatized while the property of others was not. Discrimination depending on the type of

property was considered to be unconstitutional, i.e. if the legislation decided to partially privatise factories, plants, banks and real estate, then the same should apply to the owners of landed property – however, in the absence of constitutional reasons the constitution prohibits discrimination. No such reasons were found in the case of landowners. The only realistic reason for making a distinction between landed and other types of property was the fact that land is the only asset which does not lose its value when used, is a scarce resource and during use it can be damaged (Tanka. 1990).

Since the ruling of the Hung. Const. Ct., it was obvious that a new conception was needed. In the autumn of 1990, in a Hungarian small town of Kiskunmajsa, a broad consultation of experts and politicians was held. The representatives of the cabinet and opposition representatives attended the consultation on 17-18<sup>th</sup> of November 1990. The main aim of the meeting was to carry out the original programme of MDF on compensation and to present the draft law to the Parliament as soon as possible. The agricultural spokesmen of the parliamentary parties agreed to give compensation coupons/bonds (i.e. compensation certificates that are vouchers for the purchase of state assets) to the former landowners (Pogány, 1997). As provided for in this agreement, the proposed law was prepared by the 1<sup>st</sup> of December 1990. and the National Assembly carried out its debate on the compensation law. According to the proposed law, about four million hectares of land were involved in the compensation programme.

The “First Law on Compensation” (Act XXV/1991) that took effect in 1991 provided rules on partial compensation in the ownership of private persons for the damages unlawfully caused by the State (FAOLEX, 2016). This law introduced compensation bonds so that former land owners (but not owners of animals or equipment) could purchase arable land. The law allowed for partial and digressive compensation of private property, and not necessarily involved restitution of the original property. The maximum eligible compensation payed by compensation bonds to the entitled persons or owners amounted to 5 million Forints (HUF). Only those Hungarian citizens were entitled to be compensated whose permanent residence on 1<sup>st</sup> June 1991 was in the settlement where the land of the cooperative lay or at the time of the enactment of the compensation law of 1991 (Juhász, 1994).

In the draft law there was a hotly debated clause on land auctions. There was a lot of criticism with regard to the bids at the land auctions. It was claimed that the aim of the bidding at land auctions was to increase land prices. Higher land prices would have allowed agricultural co-operatives to keep more land in co-operative ownership so that they could assign more land for the restitution auctions.

It appeared that the MDF did not have a decided opinion on the transformation of agriculture but did not support the Independent Smallholders in their efforts. Ferenc József Nagy, the chairman of the Independent Smallholders stated that his party could only accept the compensation law if it did not contain the principle of digression. In the spring of 1991, the debate raged among the political parties and trench warfare was being waged and a governmental crisis was anticipated.

The political group of the Independent Smallholders voted against the institution of auctioning, however, they did not give support to the rejection of the proposed law. The National Assembly, on 11 July 1991 adopted Act No. XXV of 1991 (the Compensation Law) published in the Hungarian Official Gazette 1991/77.

While the compensation law was adopted by the coalition parties, bidding for land received only 51-52% of Parliament's support. With regard to the bidding, the number of 'no' voters increased by 10-12 people – not necessarily in the ruling party – which resulted in an increase in the number of 'yes' votes.

According to the compensation law, the former owners were not eligible for restitution of the original property, but they received compensation bonds based on the value of their original land. Applying fixed rate, the value of land was calculated. The more valuable the asset, the smaller the percentage of the value that the owner could receive. As can be seen in Table 1, for a claim of more than 500.000 HUF the compensation was reduced to 10%, while a claim up to 200.000HUF was met in full (100%).

**Table 1. The amount of compensation based on the amount of damage**

0-200 000 HUF	100%
200.001 – 300.000 HUF portions between 200 000 HUF and 200 000 HUF	50%
portions between 300.001 – 500.000 HUF portions between 250 000 HUF and 300 000 HUF	30%
above 500.001 HUF between 310.000 HUF and 500.000	10%

Source: (Neil, 1995)

One “Golden Crown” (GC) - a conventional unit of value of the quality of arable land - was converted into Forints. For the purpose of compensation one GC equals 1000 HUF for arable land and 4000 HUF for forests, and the amount of compensation was calculated accordingly. The average value of one

hectare of arable land was 22-24. Those who suffered political persecution or whose real estate was nationalized during the Communist regime were also entitled to Compensation bonds but the amount of compensation was insignificant. Victims (and heirs) whose house and yard or whose business was confiscated/nationalized in the communist regime received 500 HUF/m<sup>2</sup> in compensation. Compensation bonds received for confiscated land could be used to purchase land at state auctions or to purchase local council flats, state assets or even shares in privatised companies. There were payments of 3,77 billion HUF for the purchase of arable land and the total payments amounted to 81.02 billion HUF. The compensation authority concluded about 27.000 auctions, which affected 2.131.773 hectares of land worth 39.284.667 GC (Czepek, n.d.).

In post-transition Hungary the government did not want to confront the former and new owners, so part of the jointly owned land was allocated to the landless co-operative members and employees. The co-operative members received land valued at 30 GC, whereas employees of co-operative farms and state farms received land valued at 20GC (Euroconsult. Centre for World Studies, 1995) and (Kovács, 2010).

The compensation law bore no resemblance to the Smallholders' original restitution programme. As a result of the extreme escalation of the disputes within the party the Smallholders party split on 15 November 1991. The larger part of the party (33 members) with fraction leader Gyula Pásztor continued supporting the coalition, whereas the smaller part (12 members) left with the leadership of József Torgyán (Cseszka & Schlett, 2009). Finally, Hungary had seen a lengthy land compensation process that was completed based on compensation laws. The privatisation of land and other co-operative assets was a separate process, therefore before December 1992 co-operative assets and privately-owned land together couldn't be purchased (Tanka. 1997). The delays in giving possession of assets made the position of the owners very difficult.

Although - to remedy the situation - the new owners were initially advised to enter into co-operations instead of purchasing all the machinery, most of them sought to establish their own machine parks for several reasons. On the one hand, in agriculture available field days (seasonal peak time) are limited which may cause potential conflicts for scheduling equipment usage. On the other hand, co-operation and community property have been seen in a negative light and with great suspicion due to historical memory, cultural burdens and the experience of the socialist type of cooperatives.



**Table 2. Number and size of agricultural holdings in Hungary in 2000 (%)**

Area according to size categories (ha)	Private holdings		Agricultural enterprises		Total	
	Number (%)	Area (%)	Number (%)	Area (%)	Number (%)	Area (%)
0-1	70.4	7.7	31	0	70.1	3.1
1-10	24.2	27.7	9.2	0.1	24.1	11.2
10-100	5.1	47.7	27.1	2.3	5.3	20.6
100-	0.2	16.9	32.6	97.6	0.5	65.1
Total	100	100	100	100	100	100

Source: (KSH, Hungarian Central Statistical Office, 2000)

### 3. Challenges for Hungarian agriculture

Hungary's agriculture was influenced by several negative impacts such as the significant reduction in farm subsidies, market losses due to the collapse of the former COMECON or the opening of "the blades of the scissors in agriculture," i.e. the worsening of the agricultural terms of trade. Food industry - the complex system of agricultural production and trade disintegrated. Agricultural production became dependent on multinational food processing companies and retail chains. This made it difficult for Hungarian people to make a living in agriculture.

Hungarian agriculture changed radically during the transition period. As a result of the changes in ownership structure and farm structure, production decreased by one third and employment in agriculture decreased drastically as well (Takács, 2008). During the first decade of the transition two thirds of the food industry, and the entirety of some other sectors, were acquired by foreign companies. 90% of food trade is under the control of a small bunch of multinational companies. Very often foreign investment inflows entailed the closure of factories, which helped food processing companies to acquire new markets and offered the opportunity for them to gain superprofits. Companies that were acquired by international companies entered into a greater regional system of product development and specialization (vegetable oil, pasta and confectionary production) (Schlett, 2014). The rapid transformation of Hungary's commercial network starting in the 1990s also included the quick spread of foreign hyper and supermarkets (Árva, et al., 2013). Concentration and vertical integration keeps strengthening retailers' bargaining power when negotiating with agricultural suppliers. The abundance of producers with no dominant position on a given market poses the risk of some retailers gaining monopsony power. Small agricultural producers depend more and more on

collectors. Very often collectors tie producers to themselves opening up doors for the abuse of a dominant (customer) position. Cultivation contracts often offer unilateral advantages to well-capitalised collectors.

Concentration and vertical integration can strengthen the bargaining power of retailers against agricultural producers as well. If many producers are present in a market, retailers might enjoy some degree of monopsonic power (Seres, 2006). Information asymmetry between retailers and suppliers strengthen the bargaining power of retailers: retail chains have information about the market conditions, buying habits of customers, due to having direct contact with customers. Barcodes enable retailers to store data about consumer preferences, habits and behaviours and this information can be used against the competing suppliers which may have distorting effects on the retail market. Retailers have information about the economic situation of the suppliers as well. Suppliers, on the other hand, have information only about the marketing plans of their own products, therefore, due to the information asymmetry they have less bargaining power (Balto, 1999).

In the case of agricultural products price is determined not only by supply and demand but by the linking of buyers and sellers in the market as well. Agricultural producers are usually price takers rather than price setters. Their prices are determined by the demand for their products. Producers (small-scale farmers) have access to fewer alternative large buyers and therefore they have less bargaining power. Small-scale producers often do not have access to working capital, and it is not unusual that they have to buy even the seeds and propagating material from the purchasers. Contracts (often at predetermined prices) can ensure a stable income and make a direct contribution to the producer's annual household income. Long-term contracts, however, reduce the financial uncertainty and small-scale producers can gain a reliable flow of income.

As a result of concentration and integration, agricultural producers become more dependent on food processing and food retailing companies. Most agricultural auction-type, perfectly competitive markets are replaced by vertical control through the use of long-term production and marketing contracts. Small-scale producers become strongly dependent on purchasers who exercise their dominant buyer power over the producers. Contracts may also be a device to consolidate the buyers' market power that may result in the hold-up problem (e.g. excessively long delays in payment for the delivered product, the producer is forced to accept disadvantageous terms later or ex post renegotiations of terms).

In addition to the traditional role of retailers as purchasers, retailers today have a new role as they have advance information about the markets, in-depth knowledge of their customer base and they have acquired increasing market power (Consumers International Report). Branded goods are increasingly replaced by own-brand (private label) products. Compared to Western European countries, the share of own-brand products in the daily consumption of households is relatively low in Hungary, however, it is increasing significantly.

On the basis of consumer needs and preferences, retailers explore the market and select a potential supplier that is able to produce and supply the goods efficiently at low prices. Suppliers of own-brand products often team up with retailers to design, develop and market-test new own-brand products (Guba, 2001). Own brands make retailers serious competitors to branded good suppliers and shift the market power to retailers. An imbalance of bargaining power between retailers and their suppliers may foster abusive buying practices, claim suppliers (e.g. slotting fees, late payments for products already delivered, squeezing out branded goods, etc.). As the profitability of smaller suppliers is decreasing, the production of own-brands or specialisation may increase their market power. Suppliers may build their own production or manufacturing capacities and provide store brand products for themselves. If they have enough buying power, they might be able to negotiate a reduction in the retailer price. Own-brand prices are on average 20% to 30% cheaper than branded prices because of the absence of brand development, packaging, and marketing costs. Own-brand products often surpass the performance of manufacturer brands, but they are often inconsistent in quality and do not always meet the required quality standards. (Hoch, 1996). The rate of sales of own-brand products versus branded products are influenced by the allocation of shelf space and in-store promotions as well. Some forms of brand positioning - i.e. different messages can be vested with the own-brand goods ("Tesco Economical", "Tesco Value") - are important tools for image creation. Brands provide identification of their products with unique associations to the stores; therefore, retailers can make higher gross profit margins on own brands (Beke, 2014).

#### 4. Cooperatives – opportunities and challenges

It becomes now evident that a key contributor to productivity and effectiveness is the adaptation to market demands which includes a uniform, high quality production, an increased degree of processing and the access to consumers, i.e. the development and management of vertical coordination in agriculture (Németi, 2003).

The new types of cooperatives are collective forms of enterprises run by a family in which land and equipment are privately owned and the farms are owned and operated by the members and can produce enough for the family. The main aims of these cooperatives are to support individual members by providing various services and business advice, by pooling resources or by aggregating distribution, storage and purchases, while they have limited liability, i.e. they do not take over the responsibility of the producers. The most important advantages of these types of cooperatives are to empower small producers in the supply chain (Hódi, 2007).

New types of cooperatives in Hungary are:

- producer organisations (PO)
- production and sales cooperatives (TÉSZ in Hungarian)
- supply marketing cooperatives (BÉSZ in Hungarian).

Their basic principles are:

- voluntary and open membership,
- the one member – one vote principle that provides assistance for small producers and represent their interests,
- democratic member control,
- non-profit-making purposes.

The most important benefits and advantages of cooperation are:

- facilitating the drawing down of EU funds,
- reducing costs by pooling resources,
- reducing market risks,
- improving their bargaining or purchasing power,
- providing services at a price that is lower than the market price
- providing education and training,
- providing loans to members,
- increasing members' incomes that they might not otherwise be able to earn by themselves (Szabó, 2010).

In the first half of the 1990s, Hungarian producers regaining their independence did not want to hear about forming cooperatives. Besides this anti-cooperative mood, the lack of development resources also excluded this option. Cooperation always has to compete with investing into producers' own farms. However, individual farmers were finally convinced of the need for cooperation by their own experiences. The first significant attempts to form new cooperatives in Hungary were made in the middle of the 1990s. The number of new type cooperatives has reached 400 by the year 2000 having around a total of 10,000 members. Compared to the overall number of agricultural producers and in the light of cooperative practices in developed

countries (where each producer is often a member of more than one cooperative), this shows a low level of organisation. Despite the aids at their disposal, at the beginning (and very often in recent days as well) cooperatives proved to be unable to seize opportunities partly due to the lack of preparatory actions and control.

In cooperatives of a new type activities which can be efficiently organised on an individual basis (i.e. the production of raw materials) are subject to individual initiative and responsibility, while those for which this is not the case, (such as the preparation of sales activities, market research, business advice, infrastructural investments, etc.) will be managed collectively. Cooperatives are organised around specific professional activities: cereal storage, animal husbandry (pigs, bovine, goats, sheep), milk production, poultry meat, fruit and vegetable production, viticulture and wine production, pet husbandry, production of herbs, etc.). Specialised cooperatives have been forming sector-specific associations.

Their weakness to attract capital is related to the dual nature of cooperatives. As far as capital is concerned, personal attachment is uncommon as it only is interested in achieving the highest possible rate of return. In order to fulfil growing capital needs, it has become necessary to revise the principle of 'one member, one vote'.

The compulsory application of this principle could have played a part in the slow erosion of cooperatives. International experiences show that in some branches of cooperatives in many countries, it is possible to regulate voting based on different principles, such as the nature of a member's business relations with the given cooperative or capital contribution. In some cases, each member's voting power has a ceiling. In other cases, the 'one member, one vote' principle is applied when laying down the statutes and electing board members, while in business decisions, different rules may apply. Besides successful cooperatives one can also refer to many failed attempts, especially when it comes to producer cooperatives. At least as many lessons can be learned from these failures than from successful attempts.

One of the problems regarding cooperatives in Hungary is the lack of a cooperative culture. Due to depressed prices, some producers try to sell their products on the free market, thus not fulfilling their obligations and undermining cooperation in the long run. Selling these products on the market simply makes a big part of the fund of commodities disappear. Due to state aid proportionate to credit and turnover, cooperatives are interested in generating high turnover without having the fund of commodities set in the contract at their disposal. This is the reason why some goods have to be imported or

purchased on the free market. It was not uncommon that cooperatives were formed only for the purpose of being eligible for state aid. Such cooperatives could not be efficient since they were formed without considering economic and social needs.

Another problem is the weakness of regulations. The maximum number of cooperatives per region was not regulated, and high turnover was made one of the payment conditions of state aid (this has also encouraged 'carousel fraud'). This situation can be held responsible for the excessive number of cooperatives in Hungary compared to the size of its markets, most of which were interested in making fast profit rather than investing in long-term cooperation.

The high number of cooperatives results in strong price competition since big multinationals can deal with large quantities of goods every day, acquired below market prices. This brings cooperatives, normally interested in long-term cooperation, into a difficult situation. Depressed prices take their toll in cooperatives as a consequence of which their members are only offered sales prices below market levels.

As the market is dominated by supply, the above described situation is further aggravated by the lack of storage capacity which makes farmers even more vulnerable. Only large multinationals can guarantee large quantity acquisitions, and this is why cooperatives are obliged to tolerate slotting fees, unfavourable payment deadlines, contractual penalties, etc. Multinationals tend to depress prices by making unverifiable quality complaints, and demand contractual penalties for insufficient quality or quantities.

Following land privatisation, the production of highly labour-intensive fruit and vegetables (e.g. the production of tomato and red pepper) decreased. Table 3. shows the dramatic decline in the production and external trade of fruit and vegetables before and after the political and economic transition in Hungary. This trend can be explained by the lack of physical infrastructure (e.g. storing, sorting, grading, cooling), and the lack of financial infrastructure (loans and supports). Although these can be replaced by EU agricultural subsidies, it is obvious that without proper cooperation Hungarian agriculture is left with only one option: the production and exports of less labour intensive crops. The decline in the labour-intensive fruit and vegetable production brings serious social problems and unemployment in the traditional agricultural areas in Hungary.

Table 3. The production and external trade (1000 tons) of fruit and vegetables in 1987 and 2007 in Hungary

Production and external trade (1000 tons) of fruit and vegetables		
	1987	2007
Production	3711	2204
Export	1311	801
Import	198	680

Source: (FRUITWEB Magyar Zöldség-Gyümölcs Szakmaközi Szervezet, 2009)

## 5. Conclusion

The biggest advantage of family farms is labour, whereas the biggest advantage of large-scale farms is the better use of capital. Large-scale farms can make larger purchases while cooperatives offer small-scale farms improved access to markets (Schlett, 2015).

The cooperatives system can contribute to solving two major difficulties of the country. One of them is the low rate of employment, while the other is the limited ability of rural areas to attract workers. Farmers who normally would not survive individually can increase their competitiveness through cooperating with each other and can thus prevent further concentration of properties and the decrease in employment possibilities. A first step would be to improve acquiring and selling cooperatives. Through the expansion of their services, these improving cooperatives could offer new jobs in the long run. Creating credit unions could help cooperatives in different agricultural sectors to make improvements. This all could even entail the rebirth of the processing industry, as it would increase the added value and shorten the distribution chain, making Hungarian food products competitive on the global market. In recent years some promising initiatives have proved that, even at an early stage, cooperatives have business potentials. The beneficial effect of cooperation is self-evident, but stakeholders' interest in forming cooperatives can be further increased, as voluntary cooperation is a key to competitiveness in the global market. This would be all the more vital that, in the short run, agriculture in Hungary will be facing challenges such as the possible ceasing of agricultural support in 2020.

Cooperation can be an effective response to these challenges. However, the integration of cooperatives can only bring success if they can also efficiently deal with acquisition, storage, transport, packaging, processing, distribution and exportation as well. This also requires warehouses, processing plants, logistics centres, etc. Even if cooperatives dispose of the required means and resources, it is hard to compete with large multinationals, to improve

distribution performance and to sustain their level of competitiveness. This is why improving possibilities and finding and disseminating solutions and techniques of cooperation, which could integrate local communities into the network of cooperatives, are of utmost importance.

The future of cooperatives in Hungary will largely depend on the governments' intentions, state aids, effective cooperation between the members, credit facilities, acquiring a share in processing capacities in order to assert interest, as well as on harmonisation and cooperation with other agricultural cooperatives. Due to early difficulties that cooperatives of a new type had to face, developments requiring massive state subsidies and mistrust towards new cooperatives, it has become a widespread concern that companies, rather than cooperatives, should be favoured when it comes to agricultural production.



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