

The Features of the New-type Co-operatives and its Legal Regulation in Hungary

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SUMMARY

In agriculture, a changing in the structure of ownership also appeared in parallel with the changing of the political system. As a result, this process led to the liquidation and reorganisation of the socialist type co-operatives. However, in many cases the co-operatives managed in the traditional way, could not keep up with the changing of the economic regulators, the reorganisation of the market relations and with the more and more oppressive agricultural gap. At the same time, individual farmers - mainly because of their poor material conditions - could not meet the market requirements either in the quantity or the quality of their products. As a consequence of all these factors, a different kind of co-operation was needed.

The Ministry of Agriculture and Regional Development passed a decree on the support of new-type co-operatives, too, in 1999. The statement of costs supported the establishment of companies dealing with product purchasing, processing, marketing and service. In the following years the support of these co-operatives was sometimes terminated, sometimes preferred.

KEY WORDS

agriculture, co-operative, Hungary

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INTRODUCTION

In Hungary, the change of the regime resulted in the revolution of the agribusiness. The previously state-owned lands were privatised; and many small scale farmers appeared on the input side of the food market. Even today, the family farms are still small, keep only a few animals; and for them, the technical, technological or financial opportunities are hardly or not at all available. These producers can not carry their points; they are too weak to bargain. The reason for that is that the individuals have not got a sufficient amount of demands on the input markets; or on the output markets, the amount of the offered products is not big enough and sometimes a unique quality is not ensured for the consumers.

A part of the problems mentioned above can be solved by integrations. It is in the interest of the producers – private farms, former co-operations or companies – to form as wide horizontal integration as possible. Though, not only the concentration of the volume is important, but the producers of raw materials should aim to own as long section of the processing chain as possible and create vertical integration. The so called selling co-operations (BÉSZ) are this type of the integrations, which can be new type co-operations in Hungary.

Such type of organisations are in its infancy in Hungary; despite of the fact that selling co-operations were formed as early as the end of the 19th century, parallelly with the development in Western Europe. The development in Hungary stopped after the 2nd World War, while a significant part of these organisations has become important in the food industry in the EU, since.

The aim of the current paper is to draw up the characteristics of the new type co-operations and their opportunities in Hungary.

THE SIGNIFICANCE AND CHARACTERISTICS OF THE PROMOTING CO-COPERATIVES

Co-operatives can be found in almost every country of the world and each of them was established for the same purpose, namely, to promote and supplement the farm activity of individual farmers by gathering them in a common group. Producing-type co-operatives are not typical of Western Europe. In general, one can meet single-purpose such as purchasing-, service-, marketing-, and processing co-operatives instead. In other words, they unite only one stage of the farming process. This way the efficiency of farm management is improved as well as the profit of the members. According to Barton's definition „ The co-operative is a kind of enterprising formation that is utilised by its owners who are the managers and who have shares of the profits in

accordance with the measure of utilisation.” (Szabó, 1996 a and Barton, 1989).

The three units of the promoting co-operatives can be observed:

- The members of the co-operatives are owners, too, so they run the risk.
- They are also managers, so they have the right to make decisions and
- they are users, so they benefit by the services provided by the co-operative.

The so-called dual character is a sharp feature of the promoting co-operatives. Towards the market, they can be characterised as profit orientated companies with their main purpose of making profit. On the other hand, towards the members, merely a latent market is developed. As far as members concerned, co-operatives do not aim at making profit; what is more, after deducting the different items (operation costs, reserves, etc.), the profit is given back to the members. The members and the co-operatives are connected through three lines:

- through product: that means the product transported to the co-operative and its price; that is the price of the product sold by the co-operative is given to the member this way.
- through profit: here, the member makes a contribution to the capital and management of the co-operative.
- through direction: it symbolises the proprietary character of the membership that is the right to have a say in the operation of the co-operative, mainly in strategic issues.

In agriculture, the foundation of co-operatives depends on several factors, such as the structure of the market. If any of the supplier, buyer or processor companies connected to the producer has a monopolistic situation on the market, the foundation of a co-operative is needed in the district as the market position of the individual farmer is weak because:

- of the small amount of stock to be purchased and to be sold;
- their products are often perishable and they can not guarantee equally high quality;
- they do not get adequate information and they are not able to survey the market;
- on the whole, they are too small on the market; they cannot influence the market and the prices, either. (NCR, 1993).

Consequently, farmers cannot compete with big companies.

The other important factor is the agricultural product itself, namely, its characteristics. Co-operatives have

major roles in the production of products that are special, perishable or less suitable for warehousing (for example, dairy-, vegetable-, and fruit co-operatives).

The third factor is the role of a certain product in the farmer's income. The bigger share he represents from his income, the more important his membership is.

Co-operatives have important integration roles, too. One of the biggest motives for creating vertical integration is the reduction of transactional costs. When investigating a transaction the following facts have to be considered:

- the specificity of the invested means,
- the uncertainty rate of production and processing,
- the frequency of exchange,
- the externalities. (Szabó, 1996 b, Ollila and Nilsson, 1995)

In the case of horizontal integration, co-operatives appear on the market as counterbalancing power. Farmers will manage to be more effective and their position will improve in case of adequate amount with the help of co-operatives if they join together

LEGAL REGULATION OF THE NEW-TYPE CO-OPERATIVES IN HUNGARY

In 1999 the co-operative movement took a turn in Hungary. „By order of the minister of agriculture and regional development 8/1999. (I. 20.) The Ministry of Agriculture and Regional Development (FVM) passed a decree on the budgetary support of the agricultural objectives of 1999”, which also decreed the subsidy of „new-type” co-operatives.

The target provision supported the establishment of companies dealing with product purchasing, processing, marketing and service. The idea of the government was to have these so-called target unions established from January, 1999 by individual entrepreneurs and private farmers who have difficulties with the purchasing of different means that are essential for production and with the creation of necessary infrastructure and with the selling and marketing of their products. This subsidisation fostered the operation costs in the first year and the trading capital.

The §120 of this decree defines which co-operatives belong to the circle of the subsidisation. This is the following:

„(2) All those co-operatives can be considered as co-operatives performing the warehousing and selling of agricultural products and providing services needed for agricultural production which perform the listed activities in non-profit manner

and according to the principle of open membership certified with accountancy by expressing the basic activities the members in at least a measure of 70 % - and according to the production and proprietary conditions, their foundation members were registered to three quarters, and they founded after 1 January, 1999.” (FVM 1999: p. 135)

This idea suggested the launching of a new co-operative movement. As it has been visible, the creators of the subsidising system preferred the operation of the purchasing-, processing-, and selling co-operatives. It was very important because the development of the promoting-type co-operatives, which had been operating successfully in Western Europe for decades, could have started.

In 1999, out of the co-operations that claimed for subsidies, 93 co-ops were given some one billion HUF (Table 1). An additional 145 co-operations were intended to get 2 billion HUF; though due to lack of sources, it was allocated for the year 2000; The disbursement was regulated by the FVM regulation 6./2000. (II. 26.) on the budget 2000 for agricultural payments.

The table 1. shows that the underdeveloped counties east of the river Tisza have bigger demand for the establishment of co-operatives, which results from the fragmented property structure and that is why from the defencelessness of the market. At the same time, it has to be also considered that a part of this grant was invested in the improvement of producing conditions, too by the co-operating farmers.

No information was available about the proportional divisions represented by the established co-operatives in the different sectors.

Then in 2001, this type of co-operations were supported again by the Ministry (FVM regulation 15/2001.(III. 3.)), but with more strict conditions. The extent of the support for foundation was limited to 80 per cent of the costs of foundation and to 400 thousand HUF. For financing the current assets and co-financing the operational costs, the support was limited to 20 per cent of the returns in the actual year or to 200 per cent of the share capital to maximum 15 million HUF.

According to the FVM regulation in 2002 (102/2001. (XII. 16.)), the maximum support is 5 per cent of the turnover above 100 million HUF and can not exceed 20 million HUF or 200 per cent of the share capital.

To sum up what has been said, it can be stated that „new-type” co-operatives have grounds in our country, too. Considering the special conditions of Hungary, in our opinion, the establishment of the promoting co-operatives does not have to entail the closing down and paralysing of the traditional

Table 1. The number of co-operatives given a subsidy and the amount of the payments given by counties

County	1999		2000		2001		2002	
	N	A	N	A	N	A	N	A
Baranya	2	30.342	3	45.550	na	56.611	5	37.592
Bács-Kiskun	5	42.635	20	171.208	na	64.385	6	28.545
Békés	4	51.499	5	61.118	na	69.705	9	89.516
Borsod-Abaúj-Zemplén	3	19.297	-	-	na	106.503	5	15.071
Csongrád	9	83.385	6	86.253	na	79.813	6	29.448
Fejér	3	43.586	18	253.921	na	26.402	5	29.249
Győr-Moson-Sopron	1	15.182	14	220.063	na	38.158	6	42.529
Hajdú-Bihar	32	349.484	41	571.866	na	170.111	20	145.628
Heves	6	65.886	2	20.245	na	33.686	8	40.258
Jász-Nagykun-Szolnok	8	87.566	11	128.236	na	123.703	6	37.640
Komárom	-	-	3	43.313	na	13.257	1	8.136
Nógrád	-	-	1	3.113	na	9.086	3	296
Pest	4	33.840	3	45.750	na	62.586	8	47.283
Somogy	3	30.597	1	15.000	na	50.738	8	50.417
Szabolcs-Szatmár-Bereg	1	15.250	5	76.250	na	62.299	8	46.292
Tolna	6	74.184	6	86.473	na	59.193	3	40.563
Vas	-	-	-	-	na	16.981	4	15.098
Veszprém	2	16.506	2	30.480	na	11.007	10	38.251
Zala	3	30.560	3	44.730	na	45.777	7	21.177
Sum-total:	93	1.000.030	145	1.903.569	na	1.100.000	128	762.989

N: the number of the co-operatives that were given subsidies; A: the amount of the payments for the co-operatives

Source: FVM 2000a, 2003

ones. The new-type co-operatives would only have a chance of being widespread if Hungarian producers enjoyed the advantages of the income supplementary support system applied in the European Union or private farms with competitive size succeeded the small-sized lands. According to the advantages, the establishment of new-type co-operatives is essential before the accession to the Union.

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