

Presentation for

DG AGRI Conference on 'The role of Interbranch Organisations (IBOs) in the food supply chain'

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**Co-operation in the food supply chain :
some empirical experiences from the
Hungarian agriculture**

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Outlines of the Presentation

- 1. Introduction: background, motivation and methods**
 - According to a recent (2011-2012) DG VI European Research Project ('Support for Farmers' Cooperatives', SFC) **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).
- 2. Main constrains of agricultural co-operation in Hungary**
- 3. Nationwide empirical research among Hungarian agricultural producers on cooperation activities (2015)**
- 4. IBOs in Hungary: legal background and two cases**
- 5. Suggestions for development of IBOS in Hungary**

Main constraints of agricultural co-operation in Hungary

General problems

•Dual farm structure:

- big companies (esp. in the cereal sector), but also
- fragmented productions structure (espec. in fruit & veg.) and atomistic structure ownership of land

•**Significant uncertainty** in Hungarian agriculture (transition economy: lack of market institutions and stable legal regulation)

•**Lack of capital and appr. credit system** for agr. producers/coops

•**Lack of transparency - high share of black and shadow economy**

Low level of Co-operation

•**Decreasing number** of traditional (production type) co-ops

•**Market shares, concentration and capitalization** of agricultural co-ops (POs/PGs) are **very low**, mainly due to

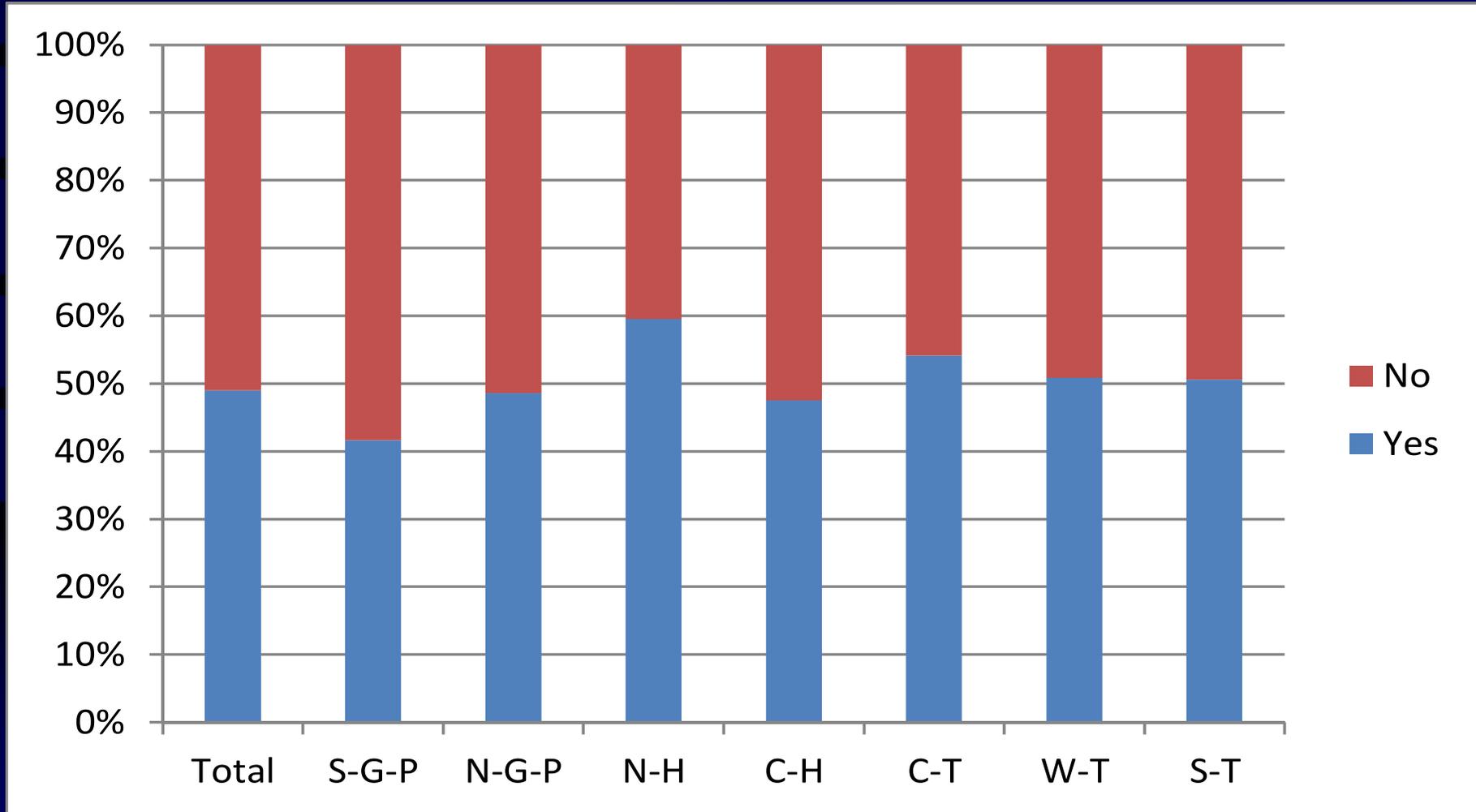
•**Low level of secondary co-operation**

•**Very low level of trust and willingness to co-operate**

Introduction of the empirical research (on-line survey and deep interviews) among Hungarian agricultural producers (2015)

- **Complex** (economic and legal) **theoretical and empirical research** (not just economic issues but trust and other soft factors)
- **Data collection (survey) on producers' level** (total number of respondents: 7728, but after data clearing because of missing values: n=6573)
- **Nationwide** (7 regions in Hungary)
- Regarding **all agricultural sectors**
- **Framework: OTKA Research Project Nr. 105730, Collaboration with Hungarian Chamber of Agriculture**
- **Anonym and voluntary online survey** among producers (n= 6573) and **deep face-to-face interviews** (32 so far:-)
- **Period of data collection: Summer 2015**

Do You participate in any forms of co-operation?



Reasons for failure to participate in co-operation

The five top reasons in the order of designated (labelling) frequency

Top reasons	Total	S-G-P	N-G-P	N-H	C-H	C-T	W-T	S-T
I don't like to depend on or committed to anybody	1	1	1	3	3	1	1	3
I don't know my possibilities, I have not got enough information on the different forms of co-operations	2	3	3	1	1	2	2	2
I don't need it, I can do it on my own	3	2	5	4	4	4	3	1
There is no co-operation nearby to which I could join	4	5	2	2	2	2	4	4
I have had bad experiences	5	4	4	5	5	5	5	5

Activities in informal co-operation (Top 6)

Forms of informal co-operation (Top 6)	Total	S-G- P	N-G- P	N-H	C-H	C-T	W-T	S-T
	Relative frequency - in proportion of the number co-operative farms (%)							
(1) Lending to each others technical resources and equipments (e.g. machinery)	21.7	16.7	20.2	22.0	24.5	24.2	20.6	29.1
(2) Physical or machinery works based on reciprocity	19.5	16.4	17.1	18.2	25.0	20.0	16.7	28.9
(3) Joint selling	16.8	15.5	19.2	12.5	15.2	15.1	12.5	24.9
(4) Machinery payroll services	16.1	15.2	17.6	10.6	14.7	15.1	12.8	24.0
(5) Joint procurement of inputs	15.5	14.5	18.2	10.1	12.0	15.8	11.8	22.0
(6) Storage	15.1	15.5	16.4	10.9	15.2	15.1	10.4	20.4

Activities in formal co-operation (Top 5)

Forms of formal co-operation (Top 5)	Total	S-G-P	N-G-P	N-H	C-H	C-T	W-T	S-T
	Relative frequency - in proportion of the number co-operative farms (%)							
(1) Producer-owned organisational form (POs, co-ops, machinery rings etc.)	41.0	48.2	47.2	34.8	36.4	34.3	35.5	37.9
(2) Producer-owned company (joint stock comp., Ltd . etc.)	13.0	18.8	12.2	10.3	11.4	11.4	8.1	14.3
(3) Product council	12.8	12.0	11.1	10.6	12.5	11.4	17.4	15.7
(4) Professional organisation (providing services like consultancy)	11.5	7.5	11.6	14.7	10.9	12.7	16.5	9.4
(5) Wine community	10.0	9.5	0.7	23.9	9.2	14.0	7.7	13.9
.....								
Interbranch organisation	8.7	7.0	9.0	8.4	6.5	10.4	9.7	9.9
Non-producer owned company – IOFs (joint stock comp., Ltd . etc.)	6.2	8.9	7.1	6.3	2.7	4.9	5.6	4.0

Main conclusions of the nationwide empirical research

- Prox. **49% of the respondents** (3321 farmers) **do participate** in any forms of co-operation (51%: do not participate)
- **National average** of participating in any forms of co-operation activity is about **2.5 (connections)** in the sample
- **Biggest obstacle is in the attitude of the farmers:**
 - they do not like to depend on anybody else and/or
 - they do not like to commit themselves
- **Huge lack of information:**
 - regarding different forms of co-operation
 - farmers do not know their possibilities
- Most of the producers **who do co-operate at all choose formal co-operation more likely and by far the most popular forms are producer owned organisations** (like fruit and vegetable Producer Organisations) among them.
- A lot of producers take up **opportunities offered by informal co-operation** (for example **lending to each others technical resources and equipments** (e.g. machines), joint selling etc.)

Implications for policy actions

- **EU and/or government support** can not solve all the problems – but it helps a lot
- **Actions needed** in order to help co-operative development:
 - **Changing morals/attitude** of farmers and **demolish mental and psychological barriers (education!!!)**
 - **Distributing information** on possible forms of co-operation **for farmers, processors and consumers**
 - Solving the **problem of the black market** – with decreasing the very high level of VAT (it is still 27% in cases of most products!), although there are some developments in control
 - Offering (preferential) **short term credits mainly for financing current assets of POs**

Brief introduction to Hungarian legislation on IBOs

- In Hungary the **Product Councils** have been established at the beginning of the 1990s **as civil organisations based on Act II 1989**. (General requirements of the Product Councils).
 - **Act CXXVIII 2012 (Interbranch Organisation Act)** repealed Act XVI. 2003 and regulates the producer organisations, producer groups, and sectoral interbranch organisations. It takes into account the **2011 CLXXV law on civil societal organisations**.
 - **Act XCVII of 2015 is based on Regulation (EU) No 1308/2013** and replaces Act CXXVIII 2012:
 - regarding the criteria for recognition, the **extension of rules and financial contributions it simply refers to Regulation (EU) No 1308/2013** without further national specification.
 - e.g. the IBO should represent a **“significant share” of the sector**:
 - **two thirds of the operators** in the respective **supply chain stages** (primary producers, and/or processors or traders)
 - **Only one interbranch organisation per sector** can be recognised.
 - currently there are **6 recognised IBOs in Hungary**
- (Source: National Legislation and Actions concerning IBOs, June 1 2016)

Case 1: FruitVeB - Hungarian Interprofessional Organization for Fruit and Vegetables

- Date of creation of the IBO: June 23, 2005
- Date of national official recognition: July 25, 2005
- Legal structure: non-governmental, non-profit voluntary organisation, parity in decision making (five committees, Producers Organisations is the most influential)
- Activities covered by the IBO:
 - professional, economic advocacy activities (Primary aim), international activities, legal defence activities (consumer protection), environmental protection activities, educational and extension service activities (dissemination), research activities; marketing; preparation of project proposals and tenders and consultancy to Ministry of Agriculture
- Membership: individual or group memberships, like members of 47 Producer Organisations (POs), 28 Producer Groups (PGs) and processors
- Representativeness of IBO members for each group of actors in the supply chain: high in production and processing, relatively low in distribution and retail
 - Production stage: 22,000 producers (65-70% of fruit and vegetable productions)
 - Processing stage: apr. market share 85-90%

Case 1: FruitVeB - Hungarian Interprofessional Organization for Fruit and Vegetables (ctd.)

- **Budget:** very low, no state aid, mainly from membership fees (3/4 from POs- 75%) and from some other sources like sponsorship at exhibitions, sector marketing for some POs etc.
- **Use Extension rules to non-members:** no
- **Benefits of interbranch organisations for the supply chain:**
 - Forecasting of production potential and recording market prices
 - Helping to coordinate better the way the products are placed on the market, in particular by means of research and market studies
 - Developing initiatives to strengthen economic competitiveness and innovation. (Advisory role to towards the national authorities).
 - Provide information and perform the necessary research to innovate, rationalize, improve and adjust production and, where applicable, processing and marketing
 - Developing methods and instruments for improving product quality
 - Developing new strategy and development plan for the sector
- **Problems and challenges:**
 - Fragmented productions structure
 - High import activities
 - High VAT (27%)
 - Lack of investments and financial resources
 - Lack of working force
 - Low level of co-operation, especially on secondary level
 - Compulsory membership in Hungarian Chamber of Agriculture which is a public body (some extent parallel with structure) makes hard to recruit new members

Case 2: Milk Interbranch Organisation and Dairy Board

- **Date of creation of the IBO: 1992**
- **Date of national official recognition: September 17, 2013**
- **Legal structure: non-governmental, non-profit, representative and voluntary organisation**
- **Activities covered by the IBO:**

They take part in the decision-preparations, form opinion on national laws and regulations; gather, analyse and present data relating to the dairy sector, both in Hungary and on EU level; prepare industry statistics, harmonize interest between the Hungarian dairy farmers and processors, stimulate the consumption of milk and milk products by common marketing activities.”
- **Membership:**
 - individual or indirect (through other member organisations)
 - there are also 3 accentuated supporters, 5 supporters and 5 associated members
- **Representativeness of IBO members for each group of actors in the supply chain:**

high in all stages

 - Production stage: 3,516 producers (1,347 are indirect members) – 72%
 - Processing stage: 43 processors (5 are indirect members) - apr.95 % of the milk intaken
 - Trade: 10 retail chains (including 7 big retail chains and 2 wholesalers) – 70%
- **Budget: relatively low, no state aid, mainly from membership fee and from the income of the Extension of rules**

Case 2: Milk Interbranch Organisation and Dairy Board (ctd.)

- **2 Extension rules to non-members:**
 - 1) **Community Marketing Fund**, the legal background is Ministerial (Ministry of Agriculture) Decree No. 2/2015. (II. 6.) on the extension of the payment to the Community Marketing Fund operate by the Milk Interbranch Organization and Dairy Board.
 - 2) a brand new one on the extension of compulsory reporting activity operate by the Milk Interbranch Organization and Dairy Board on market activities (legal background is Ministerial (Ministry of Agriculture) Decree No. 8/2017. (III. 2.)
- **Benefits of interbranch organisations for the supply chain:**
 - The general aim of the Dairy Board is to harmonize the milk and milk product market in cooperation with the participants of the dairy sector (milk producers, milk processors, traders and consumers).
 - The IBO is aiming to stimulate the democratic principles, market regulation; the transparency of the milk and milk product market and the production.
 - It is facilitating the development and sustainability of a balanced market.
- **Benefits for the members:**
 - They have good contacts with Ministry of Agriculture, Hungarian Chamber of Agriculture and Hungarian Tax Authority
 - Daily connections to retail chains
 - Intensive market monitoring
- **Problems and challenges:**
 - High import activities, fluctuating milk prices, High VAT (27%), Lack of investments and financial resources, For small producer members co-operation is very important

Suggestions for development of IBOS in Hungary based on the two cases

- Co-operation along the chain will be very important in the very future due to globalisation process
- In order to achieve more efficient working and campaigns **state or EU supports are needed for IBOS**
- If after 2020 CAP budget will be lower, the roles of IBOS will be even more important therefore they should get **stronger rights** (to organise the chain) and roles in Hungary
- There is a **huge need for better operation of professional organisations in Hungary**, e.g. the role and activity circle of Hungarian Chamber of Agriculture should be clarified and distinguished
- It is very **hard to organise collective action in the very fragmented fruit and vegetable sector on voluntary basis** - it needs national or EU support otherwise they can not work efficiently
- It might be a good incentive for potential members to **give higher level of support of members of IBOS in some cases of measures**
- Develop **a new tool to motivate and involve traders, especially wholetraders** in cooperation
- **Rethinking competition policy issues**, since deeper cooperation sometimes in conflict with competition rules – IBOS should get more exemptions from some of the rules

Main reports referred

- **Bijman, J.- Iliopoulos, C. – Poppe, K.J.- Gijselinck, C. - Hagedorn, K. – Hanisch, M. – Hendrikse, G.W.J. – Kühl, R. – Ollila, P. – Pyykkönen, P. - van der Sangen, G. (2012): Support for Farmer's Cooperatives – Final Report**, Wageningen: Wageningen UR, November 2012, 127 p. (hereafter SFC Final Report)
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- **TEJ SZAKMAKÖZI SZERVEZET ÉS TERMÉKTANÁCS - MILK INTERBRANCH ORGANISATION AND DAIRY BOARD: Hungary**. Study on agricultural interbranch organisations (IBOs) in the EU, AGRI-2015-EVAL-13, Date of last update: 01 June 2016
- **Case study report: FruitVeB - Hungarian Interprofessional Organization for Fruit and Vegetables**. Study on agricultural interbranch organisations (IBOs) in the EU, AGRI-2015-EVAL-13, Date of last update: 11 Sept 2016

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Thank You for Your attention!

**Please, ask questions or
contact us if You will have any question or
comment!**

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