

**D4.5 National Synthesis Report on  
Case Study in Hungary:  
Arany Sárfehér**



**Institute of Political Sciences, Hungarian  
Academy of Sciences**

**Bernadett Csurgó – Eszter Kelemen – Imre Kovách – Boldizsár  
Megyesi**

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# Encouraging Collective Farmers Marketing Initiatives (COFAMI)

## Background and objectives

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Collective action by farmers has played an important role in the history of European agriculture and rural development. During the 20<sup>th</sup> century the joint actions of farmers in many EU countries gave rise to the foundation of agricultural marketing co-operatives, resulting in better market access, increased farm incomes and regional employment. More recently farmer collectives have made an important contribution to the spread of sustainable production methods.

Formatiert: Nummerierung und Aufzählungszeichen

Now European agriculture is facing a range of new challenges. Farmers have gradually lost control over supply chains, due to the growing power of retailers, and are also confronted with a general decline and reorientation of policy support. At the same time, there is a need to respond to changing consumer demands for food safety, quality and an attractive countryside. Again, collective action may help in finding appropriate answers for these new challenges.

Against this background the COFAMI project studies the potential role of collective farmers' marketing initiatives (COFAMIs) in finding adequate responses to changing market and policy conditions. More specifically it aims to identify the social, economic, cultural and political factors that limit or enable the development of such initiatives. The project also seeks to identify viable strategies and support measures to enhance the performance of collective farmers' marketing initiatives.

## Steps in the research

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At the start of the research a **conceptual framework** for the study of COFAMIs will be developed. A review of relevant scientific literature and a 'quick-scan' of 8 previous EU research projects which included COFAMI cases will provide the basis for this.

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For each study country a **status-quo analysis** of collective marketing initiatives and relevant contextual factors will be made. This involves an overview of existing COFAMIs, their aims, organisational forms and strategies, relations with other supply chain partners, and relevant market and policy environments.

A series of 18 in-depth **case studies** of different types of COFAMIs will be conducted. These will provide more detailed insights into the influence of different factors that limit and enable the development, performance and continuity of COFAMIs. The performance of initiatives in terms of social, economic and environmental impacts will also be assessed.

In the **synthesis** the results of these different research activities will be integrated into general conclusions about the relative importance of various limiting and enabling factors for different types of COFAMIs. Support strategies for COFAMIs and measures to improve their performance and dissemination will also be formulated.

## Project results and consultation

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Participatory methods and stakeholder consultation will play a key role in all stages of the project, to ensure that research outcomes are grounded in field experiences and policy debates. A National Stakeholder Forum will be established in each participating country. In addition a European-level expert group of scientific and field experts will be formed to broaden geographical coverage beyond the 10 countries represented in the project.

The research will provide farmer groups, support organisations and government agencies with insights into different collective marketing strategies, their success and failure factors, and suggestions of measures that support COFAMIs. Additionally, the project will contribute to scientific and policy debates on the role of farmers' initiatives and new supply chain arrangements in promoting sustainable rural development and the supply of safe and quality food.

All project results will be made available through the project website [www.cofami.org](http://www.cofami.org)

## Project partners

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- Rural Sociology Group, Wageningen University, The Netherlands, [henk.renting@wur.nl](mailto:henk.renting@wur.nl) (co-ordinator)
- Research Institute for Organic Agriculture (FiBL), Switzerland, [juern.sanders@fibl.ch](mailto:juern.sanders@fibl.ch)
- QAP Decision, France, [gerald.assouline@upmf-grenoble.fr](mailto:gerald.assouline@upmf-grenoble.fr)
- Institute for Rural Development Studies (IfLS), Germany, [knickel@em.uni-frankfurt.de](mailto:knickel@em.uni-frankfurt.de)
- Centre for Mountain Agriculture, Innsbruck University, Austria, [markus.schermer@uibk.ac.at](mailto:markus.schermer@uibk.ac.at)
- Baltic Studies Centre, Latvia, [tt@lza.lv](mailto:tt@lza.lv)
- Research Centre on Animal Production (CRPA Spa), Italy, [k.de.roest@crpa.it](mailto:k.de.roest@crpa.it)
- Danish Institute of Agricultural Sciences, Denmark, [egon.noe@agrsci.dk](mailto:egon.noe@agrsci.dk)
- Institute for Political Sciences, Hungarian Academy of Sciences, Hungary [ikovach@mtapti.hu](mailto:ikovach@mtapti.hu)
- Faculty of Economics and Management, Czech University of Agriculture in Prague, Czech Republic, [lostak@pef.czu.cz](mailto:lostak@pef.czu.cz)

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## Methodology and material used

We started our case study research by exploring the existing documents about Arany Sárfehér Grape and Wine Producers' Cooperation (ASF Coop). We analyzed the website of the Cooperation and the news about it published in gazettes and internet sites. We searched for the official documents about the changing ownership of the local champagne factory and also the measurements of the government related to the COFAMI (the press release about acknowledging the Arany Sárfehér grape variety as protected origin type and about the guarantee provided by the government to the COFAMI in order to buy-up the champagne manufacture). We also analyzed the local periodical looking for news about the leaders (members) and the Cooperative itself, and about general local news as well that can be interlinked with the development of the COFAMI (e.g. local elections, official visits, festivals). During the desk research we attempted to explore the local economic, social, institutional and environmental context of the COFAMI and also the historical roots of champagne production located in the central town, Izsák. Furthermore, we identified the most important questions to be explored by the field research, such as 1) the role of key persons (the chairman and the local mayor) in the development process, 2) the historical context of and the motivations behind the establishment of the COFAMI, 3) the relationship among the members and between external stakeholders and the Cooperative, 4) and the development of the used resources and the caused impacts of the COFAMI.

After the desk research we identified the first round of potential interviewees by the help of the chief executive officer who attended to the first National Stakeholder Forum organized in June, 2006. We described him the groups of stakeholders we would like to speak to (the chairman, the management of the Cooperative and the champagne factory, member farmers, non member farmers, buyers, consumers of the wine and champagne, local political stakeholders) and then he provided us names and phone numbers for almost each stakeholder groups. Later we complemented the list of interviewees using the snow-ball technique. We conducted the first round of interviews on the 22-23<sup>rd</sup> of February. We interviewed three member farmers (from which one is a member of the board of trustees), two representatives of the local wine communities<sup>1</sup> (from which one was a key person in the establishment) and the head of the production at the local champagne factory. The second round of the interviews was conducted on the 14-15<sup>th</sup> of March – this round contained interviews with the chairman and the chief executive officer of the Cooperative, two family enterprises producing wine<sup>2</sup>, a non-member grape processor entrepreneur couple (the woman is the PR manager of the local wine order), the local notary, two other member farmers and one non-member farmer. Then a third round of interviews was conducted on the 31<sup>st</sup> of March when we interviewed one non-member farmer and a guard of the National Park.<sup>3</sup> Most of the interviews were made by two researchers. The duration of the interviews run from 60 to 180 minutes with an average length of 90 minutes. We could record eleven interviews, but dense notes were made during the remaining five interviews as well. All interviews were made in a semi-structured way: we had a few initial questions but the interviewee could direct the conversation towards those issues which he or she is interested in the most.

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<sup>1</sup> The countrywide network of wine communities was established in Hungary between 1994-96 in order to control and represent vine growers and producers. Wine communities function as public bodies, documentation and administrative support are the most important tasks of their representatives. For more information visit: <http://www.hnt.hu/aboutus/index.php?&lang=en>

<sup>2</sup> As grape growers they are member of the Cooperative, and although they produce wine as well they compete in a different market segment than the COFAMI, thus they are not competitors with the ASF Coop.

<sup>3</sup> The complete list of interviewees can be found in the annex.

Interviews were supplemented by transect walks and photographing as well during the field visits. We visited one farm, one vine processor and the champagne factory where proprietors showed us everything from the machinery to the end products while describing their activity. We also visited the central area of the National Park near Izsák and discussed the most important nature protection issues with the local guard of the National Park.

After collecting these materials we started analyzing them. Interviews were taped and then we made a content analysis on the transcriptions. We used photographs and notes to complement and sometimes confront the results of the content analysis.

## **General description of the Arany Sárfehér Grape and Wine Producers' Cooperation**

### ***Some general data on the COFAMI (size, membership)***

Arany Sárfehér Grape and Wine Producers' Cooperative (a state acknowledged producers' group) was established in 2003 by 154 farmers in order to join forces and help farmers to produce and market their products. The Cooperative has 546 members today with a cultivated area of 1211 hectares. Members are mainly small-scale farmers but some family enterprises joined as well – the heterogeneity of the membership is well indicated by the farm size which varies between 0,3 and 130 hectares with an average of 1 hectare. Members are mostly part-time farmers who produce only the grape but do not process it, although some bigger farmers have own cellars to make wine from the produced grape. The membership shows a continuous growth from the establishment (last year 122 farmers joined the cooperative), though there is a small fluctuation because some of the elder farmers cut out their plantation to get the EU subsidy. Most of the farmers are from Izsák (more than 50% of the vine-growers in Izsák joined the cooperative), but there are members from the neighbouring villages as well.

Last year member farmers produced 5,600 tons of grape, from which 2,000 tons was processed in the cellars used by the Cooperative (partly in the old cellar hired by the COFAMI and in the champagne factory bought-up by the COFAMI). The net average price of the vine reached 57 HUF/kg (0.23 €/kg) in contradiction to the 30 and 43 HUF/kg in 2004 and 2005. Thanks to this the net revenue of the COFAMI exceeded 333 million HUF (1.4 million €).

### ***The historical roots of the COFAMI***

The local traditions of viticulture around Izsák, the central settlement of the COFAMI, can be traced back to the late 19<sup>th</sup> century when vine-pest perished the majority of the Hungarian vineyards except those located on sandy soil because vine-pest is not able to spread on the sand. Thanks to the vine-pest and the general claim for stopping shifting sand, viticulture started flourishing in the region from 1875 resulting in a remarkable increase of the price of vineyards. Farmers initially sold only the vine and they produced wine just for the family from the remaining part of the production. Later they started to process the vine and sold it in small barrels made of wood using the post for delivering the products. The special type of Arany Sárfehér (ASF) vine was selected in these early times by the brother of a famous Hungarian painter, Tivadar Csontváry Kosztká. Thanks to the steady high yields of this variety and its relatively good resistance on the one hand, and the growing market demand for

the grape and the basic wine for champagne (mainly from abroad) on the other, the area where ASF were grown expanded quickly.

During the socialist era huge vineyards were established where intensive cultivation started often accompanied by the harsh modification of the relief (the majority of the sand dunes was made to be flat). However, thanks to the unfavourable natural conditions of agriculture and the stable structure of small-scale family farming (homesteads), specialized cooperatives were established in most of the villages instead of the original type of socialist cooperatives.<sup>4</sup> The existence of specialized cooperatives resulted in the relative freedom of farmers in making decisions about production and marketing while provided them technological support. Izsák was the only settlement in the small region where original type socialist cooperatives were established (and later merged) together with a large-scale state farm, the champagne factory, which processed the entire vine produced in the surrounding settlements. In the “golden age” (in the eighties and early nineties) the champagne factory produced 14-15 million bottles per annum and employed more than a hundred people – approximately 80% of the total champagne production was sold abroad (mainly in the Soviet Union). In the early nineties the champagne factory was privatized by Hungarian investors, who were forced to modify the strategy after 1998 when sales started to fall down because of the extremely high protective duties launched by the former Soviet countries. The management tried to strengthen the position of the factory in the domestic market by newly developed brands that became well-known within a short period of time. Nevertheless, the factory was bought up by a foreign investor (Ecker) in 2002, who sold all its famous brands to the biggest competitor, Törley (owned by Henkel&Soehne), in 2005.

The brief description of the historical context of the local agriculture and viticulture seems to be important because the establishment and the present-day functioning of the COFAMI is deeply rooted in the history of Izsák. The three most important things indicating this relationship are the following:

- At first, vine is a significant source of income still today for many families.
- Secondly, the champagne factory and the state cooperative had different impacts on the local community.
- Finally, as the brief historical description shows, viticulture is a part of the local cultural heritage, people insist upon the traditions of vine-growing and the ancient varieties as well (e.g. they name the local civil guard, the folklore association and other public bodies Arany Sárfehér).

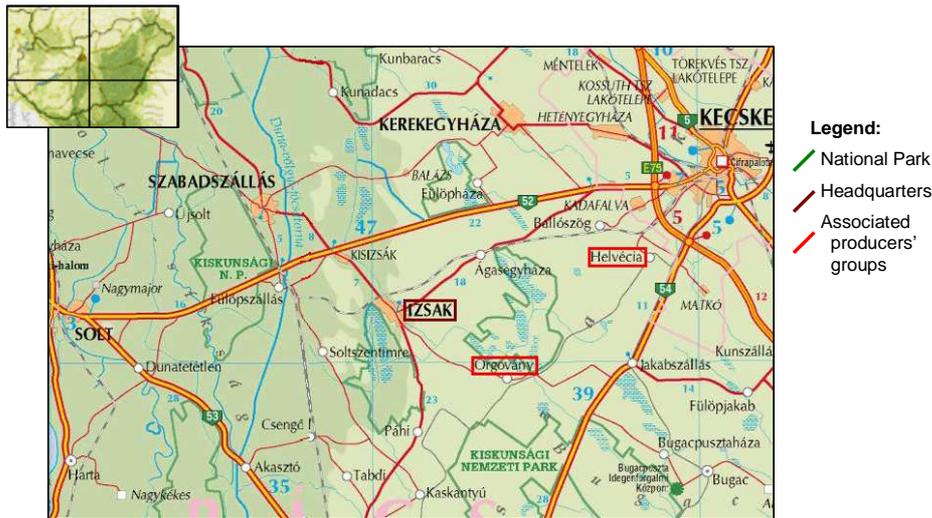
During the analysis of the COFAMI we will discuss in more details these three key relations between the past and the present of the local cooperative efforts.

### ***The geographical coverage of the COFAMI***

The Cooperative is located in Izsák, but farmers have joined from nearby settlements as well, thus the COFAMI covers geographically 19 settlements within a radius of 20 km. This region is situated in the Western part of the Hungarian Great Plain – it lies between the River Danube and Tisza, near Kecskemét. Izsák is about 100 km far from Budapest, both the motorway and the main railway lines avoid it, although Kecskemét (approximately 20 km far from Izsák) connects with the main traffic lines.

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<sup>4</sup> The most important difference between the specialized and the original type of cooperatives is the degree of collectivity: members of the specialized cooperative were permitted to keep their farmlands and farm there individually in exchange for the annual tax (usually 10-20% of their total production), while members of the original cooperatives were forced to surrender their land to the cooperative and could farm only a very small piece of land (called croft land).



1<sup>st</sup> picture: The geographical situation of Izsák, the central settlement of the COFAMI.

This region is characterized by a variegated relief: the lowlands are broken up by small basins and sand dunes (some of them are still in move). Sand and clay are the typical components of the soil: in some place the thickness of sand drift reaches 50-60 m. The climate is arid and warm; this is the sunniest part of the country. The area is poor in both fresh water and ground water: although originally swamps covered the small basins, after the drainage most of these swamps dried out and the level of the ground water dropped significantly (there are places where the decline exceeds 2 m). The surviving wetland habitats are under nature protection (see the green borders on the map) – the area is a part of the Environmentally Sensitive Areas, Natura 2000 areas and a National Park.

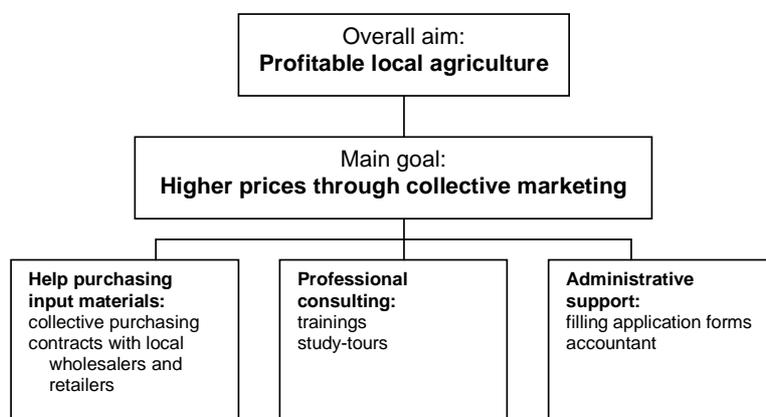
Although the natural conditions do not really favour agriculture, the relatively huge distance from developed, industrialized parts of the country forced people to live on the land. Self-sufficient family farms (homesteads) were typical before World War II. that marketed only the remaining part of their production. As we wrote previously, many of these homesteads survived the socialist collectivisation, but their profitability started to decrease remarkably after the political and economic transition. Nowadays this area is one of the most underdeveloped regions of the country with a high rate of unemployment and a continuously aging population (Izsák seems to be an exception as unemployment is negligible and the age pyramid is balanced). Villagers usually commute to Kecskemét to work in the processing industry or in the services, while tourism is still unutilized and agriculture is declining.

### ***The main objective of the initiative***

Building on the local traditions of viticulture, the overall aim of the initiative was to maintain the role of agriculture in the local employment through enhancing its profitability. To reach this overall aim the most important goal is to hold together farmers<sup>5</sup> in order to achieve higher prices for the vine produced in the region – as the chairman said: “A thought came then, that

<sup>5</sup> Before the COFAMI was established, there used to be five individual contractors in the surrounding villages who bought up and processed the vine. These contractors acted in the market as an oligopoly, they decided on the price and the terms of the contracts together, thus farmers did not have any opportunity to sell their products with better conditions, only if they joined forces and tried to influence the price by retain sales or process and market the products themselves.

we should try to unite those people who still have confidence in agriculture and horticulture, which was reinforced by the state's regulation about subsidizing producers' groups." The main goal, however, had to be complemented by others in order to motivate farmers to join the cooperative. Thus, the COFAMI aims also at supporting farmers in the input markets, providing professional consulting and administrative help. The hierarchy of the goals can be drawn as follows:



1<sup>st</sup> figure: The structure of aims

## ***Type of activities***

The range of activities of the COFAMI has expanded to more and more fields since the establishment and can be grouped as follows:

- basic services:
  - o administrative support,
  - o trainings, study tours,
  - o community programs,
- central services:
  - o mechanic harvesting,
  - o forecasting system,
  - o collective processing and marketing,
- supporting activities:
  - o networking, lobbying.

Farmers are able to have resort to some basic services provided by the COFAMI such as administrative help regarding applications, trainings, study tours and community programs (both for the membership and for the wider local community – e.g. regular meetings for farmers or wine tasting at the “Arany Sárfehér” cultural festival). Beside these basic activities, the Cooperative attempted to build up a range of central services that are essential for acting on the market collectively and reach the main goal of higher prices and better livelihood. Already in the first year the COFAMI hired harvesting machines in order to ease and harmonize the harvesting – this has had a positive impact on the costs (harvesting one hectare costs approximately twice as much by hand than by machinery) and also on the quality of the products, though not every variety is appropriate for mechanic harvesting. Moreover, the Cooperative established a forecasting system for plant protection which is connected to the national agri-environmental programme and also helped farmers to apply for the subsidies by

organizing the soil analyses collectively. Next year the COFAMI made the first steps towards the collective marketing: it signed a long term contract for hiring the old cellar of the former state cooperative and started to buy up, process and sell the vine produced by the farmers. The processing capacity of the Cooperative was increased further when they managed to buy the local champagne factory together with two neighbouring producers' groups (we describe this in more detail in the sixth chapter); thus, from the autumn of 2006 the Cooperative is able to process the vine grown by the farmers of the three associated producers' groups and produces and markets today quality wine, champagne and fruit juices under the name of HELIBOR. Finally, the Cooperative does some supporting activities as well which are connected to the representation of interest of farmers, such as lobbying for the state acknowledgement of the ASF grape and wine.

### ***The nature of products***

The most important products of the COFAMI are the vine and semi-processed products (e.g. grape juice or wine sold retail) on the one hand, and end products such as quality wine, champagne and fruit juices on the other; however, the Cooperative itself sells only vine and semi-processed products while end products are produced by HELIBOR (the champagne factory) which is owned by the COFAMI (among other proprietors). The majority of the grape produced by the members is sold to nearby buyers and processors through the COFAMI, which means that members are not obliged to sell their grape directly to the Cooperative but even if they choose other buyers they have to make out an invoice to the ASF Cooperative (this means that ASF sells nominally the grape to the buyer and not the individual farmer). The majority of the produced grape is bought up by HELIBOR but the COFAMI itself buys up some of the grape and retails it in a semi-finished stage after storing and squeezing it in its hired cellar. Beside these products the COFAMI maintain the traditional landscape and the „Arany sárfehér” traditional endogenous vine species, which can be regarded as a special product of the Cooperative.

### ***Degree of collectivity***

Member farmers can decide individually on their own production – the used technology and methods, the growing area, the quantity of products, the species to grow etc. – and they can also choose freely between buyers, however they are obliged to sell all their products under the name of the COFAMI. Despite the small number of obligatory collective activities (the yearly payments and the invoicing to ASF Cooperative), however, farmers cooperate voluntarily in different kinds of activity, such as plant protection, harvesting, etc. Processing and marketing activities organized by the COFAMI (and HELIBOR, the champagne factory owned by the Cooperative) can also be seen as non-obligatory collective activities since farmers can decide on where to sell their grape. All these seem to support the assumption that individual activities are in the first place while collective activities are only secondary, although farmers are interested economically in real cooperation (e.g. they get higher prices for the grape if they invested to HELIBOR, or they have pay fewer for the mechanic harvesting if they order the machines collectively).

### ***The benefit of collective action for members***

According to our interviewees, the most important benefit of collective action for member farmers is the increase of the price of the grape. From 2004 to 2006 the average price of the

grape has risen from 30 to 57-60 HUF/kg (albeit there was a general increase in the price of the grape in 2006 because the unfavourable weather resulted in less quantity). Farmers could benefit from the collective organisation of services in two ways: on the one hand they save money because of the price reduction provided to the ASF members, while on the other hand they are able to produce better quality products thanks to these services (such as mechanic harvesting or plant protection). Farmers can also realize benefit from the free fertilizers and administrative support provided by the COFAMI – for example 40% of the member farmers applied by the help of the Cooperative and gained support in the Hungarian Agri-Environmental Programme which means approximately a yearly subsidy of 100 thousand HUF per hectare.

### ***The innovative nature of the COFAMI***

We think that the COFAMI has numerous innovative characteristics from which the more important are:

- The key for the COFAMI's innovative nature is that it combines traditional knowledge and cultivation methods with the latest technology and business strategy (and in the same time it combines different local and extra local resources as well) in order to construct/reconstruct the image of the traditional Arany Sárfehér grapevine. This results in innovative products (ASF protected origin champagne and wine) that have both good quality and a special intrinsic value.
- Another source of the COFAMI's innovative nature is the dense regional network and the strong relationship with state offices built up by the chairman of the COFAMI together with the mayor of Izsák. However, it is also important that the Cooperative was not only able to establish successful external relationships but a strong local social base as well (it has legitimacy and acknowledgement among locals and contributes to the community life of the central settlement). This raises the question of how the COFAMI was able to mobilize and enhance different types of social capital.

## **Contextual factors and driving forces**

### ***Descriptive factors***

Among the descriptive factors in the case of Arany Sárfehér Cooperative the following ones are important:

- Natural conditions, especially landscape and biodiversity;
- The relatively high density of farms with similar production structures;
- And the relative importance of agriculture in the local economy.

### **Natural conditions**

The natural conditions, mainly the landscape and the biodiversity, are important because they are very special and characteristic for the region (there is also a National Park as we wrote in the previous chapter). There is important relationship between the ecological conditions of the area and the demands of the regionally characteristic grape species, the Arany Sárfehér. This type needs high level of water in the soil, which is provided by lakes and ponds of the region,

like Lake Kolon in Izsák. As the interviews prove not only the leaders of the initiative are conscious of this relationship, but also most of the local farmers.

*“And this variety, (we used to call it Whitemud of Izsák ...) likes sandy soil. But it likes only if its roots are in the water, or in clay soil, above the warm, and then it can produce a lot, a lot of beautiful big golden cluster... these look really marvellous” (ÁF, 5<sup>th</sup> page)*

*“So, it resulted (the drying of the Lake and the pounds around Izsák) that where used to be good production areas for the Gold Mudwhite, there they started to die out, as the water level of the soil sank down, and it could not reach. So the production area started to selected out.” (PKI 9<sup>th</sup> page)*

Also the new brands refer to this ecological relationship by using the spoonbill living in the Lake Kolon as a symbol for Gold Whitemud. The recognition of this relationship between natural ecosystems and grape cultivation is an enabling factor, because it reinforces local embeddedness and provides a unique possibility to make the product different from other wines and champagnes. It also helps to develop such a product range, grape species range which suits best the local environment.

### **Density of farms**

Discussing the high density of farms, we have to emphasize that not only the production structures are similar, but also the social situation of the farmers and the size of the farms<sup>6</sup>, under which circumstances some kind of cooperation emerge almost naturally (as it happened also in this case).

*“...then I recognized as well as others, that individually we cannot, we are unable to stay alive, they (the wholesalers) make us bankrupt, we have to cooperate...” (ÁF 1<sup>st</sup> page)*

*“The average field is 1 hectare approximately, and as the fields are small...” (it does not worth investing in machinery) (KGy 1<sup>st</sup> page)*

There are a lot of small farms (approximately 1 hectare/ farm) offering almost the same products – raw material for winemaking – for a few wholesalers. Without cooperation they compete with each other in price, individually they order low quantity of input materials and services thus their bargaining position is weak, and individually they are also unable to develop the necessary machinery for production or for processing the grape, thus their buyers offer the price. These factors suggest that cooperation is necessary and the positive experiences strengthen the initiative.

### **The local importance of agriculture**

Agriculture used to be the most important sector of the economy and although recently locals work in the service sector and commute to the neighbouring county centre, agriculture has still remained important. (“Two thirds of the inhabitants of Izsák are bounded to agriculture in some way...” (ÁF 9<sup>th</sup> page), and also the interview with the notary enforces it). There are several families with one or two economically active members where grape cultivation (and sometimes wine production) means an additional income. They belong to the group of part-time farmers, for whom grape cultivation provides an important part of the family’s income (as we wrote in the Status Quo Report). Workplaces of the third sector are also connected to agriculture. There is a wide range of different activities of the service sector that are directly connected to farming: several shops offer input products for agriculture, a lot of entrepreneurs sell machinery services (plant protection, soil cultivation, harvesting), trading (wholesale) is

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<sup>6</sup> Although we stated above that the farm size varies between 0,3-100 hectares, most of the member farmers cultivate no more than 5 hectares and only a few family farms own larger estates.

also based on agriculture as well as processing and food-industry to some degree. Grape and wine and through the viticulture agricultural activity as a whole has become part of local identity: the harvest is a country famous festival in September.

The initiative's main aim is to marketing the products of the prestigious activity (agriculture), so it is also highly appreciated by the local inhabitants, local government and also the local institutions.

## **Cultural (sociological) factors**

From the cultural (sociological) factors we discuss the following three:

- Culture and positive experience of cooperation
- Rural social cohesion
- Specific processing skills

### **Earlier experiences with cooperation**

The question of trust/mistrust in cooperation is a popular topic in Hungary. Interviewees mentioned that collectivization, as all over the country, was not popular in Izsák, neither. In the socialist time local farmers would have preferred another form of cooperation – specialized cooperative – which would had left them more freedom to decide about farming methods and marketing. As a result of this mistrust in socialist-type cooperatives, members left the collective working in Izsák immediately after the transition, and although it has survived, it is not active economically and has only a few members.

However, interviews states (*“Till the seventies there were only traditional methods, and in the time of the cooperative they started to plant new type plantations (KGy 2<sup>nd</sup> page)* and other interviews) also that the collectives and the State Farm (which established the Champagne Factory) modernized local grape cultivation: planted new grape plantations, which were suitable for using machines in different works, improved the whole system of production and reorganized marketing. The loss of these results was kept unfavourable, as the following text shows:

*“It resulted (the compensation) that they left it (the plantations, they got back).*

*The whole became weedy. Infected by several diseases and who wished to do it correctly on these divided small fields, had no possibility to farm economically.*

*So we fall back to – I don't know – the level of the early sixties.” (OI 1<sup>st</sup> page)*

To sum up, although on the one hand there are negative experiences of cooperation and collective action, on the other hand farmers experienced the advantages of it, and the present processes encouraged them to find a new appropriate form of cooperation.

This topic needs further analysis to decide whether it is enabling or limiting and in what extent.

### **Rural social cohesion**

Trust in each other within the community has never disappeared; at least we have no interview parts or texts showing it. Even if we think of the conversations after longer interviews or other gossips turning up during the fieldwork, we can assume that rural social cohesion is quite strong in the region. (Of course it is problematic to decide whether it is mistrust toward the non-locals such as the curious researchers, or real cohesion among each other.) There is also another aspect of trust to be discussed here: all the interviews state that the members have unquestionable trust toward the chairman of the COFAMI. He is kept to be the engine of the initiative and his enthusiastic work is inseparable from the achievements of

the cooperative. The members of the cooperative also trust each other as they worked together for long years in the collective or in the State Farm and as they know each other for years.

### **Specific skills**

Specific processing and farming skills are important enabling factors for the COFAMI. Local vine-producers inherited farming methods from their parents and grand-parents, as viticulture has long traditions in the region. They use elements of their traditional knowledge; they know the ecological potential of the fields and the special demand of the different grape varieties. On the other hand some of the farmers have formal education (university or college degree), and most of the members used to work for the former State farm or for the socialist cooperative, where they learned special agricultural knowledge and the modern farming technology of the eighties (the typical practices of the green revolution).

The champagne factory, owned by non-local investors is also an enabling factor. It provides special processing possibilities – for the local (and non-local) producers. As we will argue later we assume that after that HELIBOR Ltd. (the project company of the COFAMI) bought up the factory it became a physical capital of the initiative.

### ***Economic and market factors***

From the economic and market contexts we will discuss in details the following two:

- Competition on the markets and the ownership of actors
- Importance of international markets for selling products of the COFAMI

### **Competition**

The weak market performance of the COFAMI and the existence of a strong competitor is a limiting factor. More than 90% of the Hungarian champagne market is in the hand of a spin-off company (Törley) of a foreign multinational company (Henkell & Söhne). This company was allowed by the Hungarian Competition Authority to buy up all the traditional Hungarian brands, among them the brands of the Izsák Champagne Factory, as we wrote it previously. The competitor, thanks to its parent company, has better position when purchasing raw materials such as wine and bottles, and also when marketing its products on the national and international markets. The COFAMI's enterprise has to find the proper products to fill the market gap left by the multinational competitor in order to survive. In chapter six we will present the most important attempts of the Factory to improve new brands and products to respond the challenge. As the chairman, the production director of the Champagne Factory and other members of the COFAMI said, this is probably the most decisive factor, that influences the future of the initiative.

### **International market relations**

As the text shows the leaders of the enterprise keep national markets important for selling the COFAMIs products, but the importance of international markets are much higher, although these relations have to be rebuilt before. Now it is also a limiting factor, because they have to compete with the same rival as in the Hungarian market, but can transformed into an enabling factor if they rebuild former relationships and find new markets.

## **Policy factors**

Although we left the COFAMIs' role in policy networks to discuss as the last, it is an important enabling factor, which was mentioned also in some of the interviews:

*“Our mayor and the whole City Council are taking care of the local farmers, their faith and activity. So in the case of the producers' group especially to purchase the Cellar (the Champagne Factory) we could base on the network. The network of the mayor. So he is a great hunter. So among his hunter friends one can easily find the people who can help.” (RZ 10<sup>th</sup> page)*

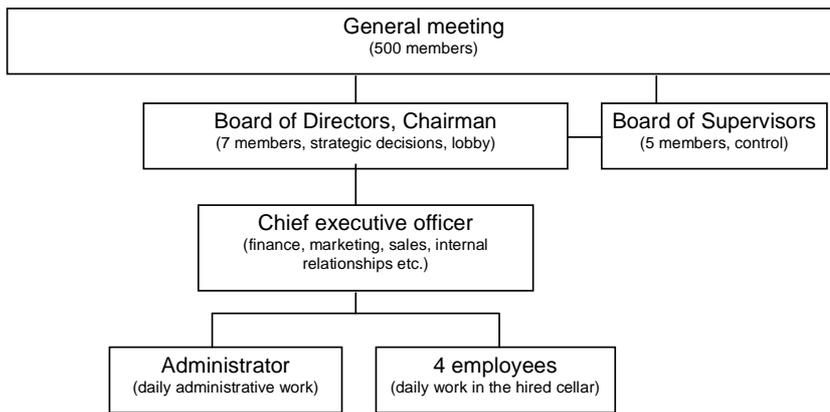
The previous interview part states that different policy and professional networks have important role in the formation of the Cofami, also to gain state acknowledgement of the Arany Sárfehér grape wine and champagne as regionally protected species and also to gain state guarantee for the bank loans necessary for purchasing the Champagne Factory and developing new brands. Although these networks are very important, we know few about the nature of these networks and relationships, as the interviewees did not talk about it.

The aim of the agricultural government to support small scale farmers to make them be able to purchase food-processing companies is an enabling factor, but the fact, that the chairman is member of several regional and national associations is a capital (a strength) of the initiative, whilst the unknown network of the mayor of the small town is again an enabling factor.

## **Organisation and network relations**

### ***Internal organisation of the COFAMI***

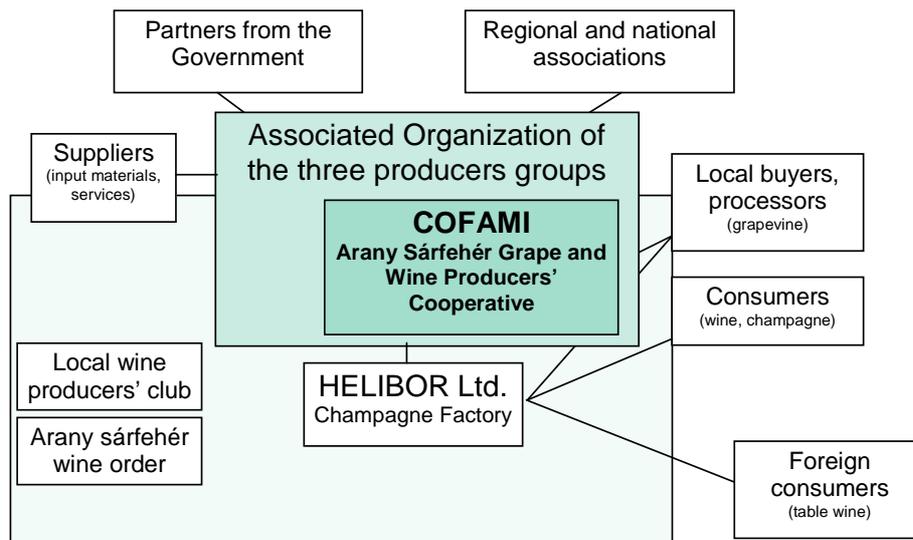
The COFAMI was established according to the Act CXLI. (2000) on new-type co-operatives, thus it is one of the acknowledged Hungarian producer groups and it is authorized to apply for EU support. The most important body of the Cooperative is the general meeting where the principle of one member/one vote is dominant. The general meeting decides on the president and the members of the board and on the most important questions concerning the whole organisation. As the Cooperative extends to more villages, it is also possible to organize partial general meetings. The Board of Directors has seven members from which one is the Chairman while the other six represent different villages/areas covered by the COFAMI (there are two members from Izsák and four from the neighbouring villages). The Board – and mainly the Chairman – decides on strategic questions and builds the external network, and is responsible to the General meeting. The five members of the Board of Supervisors control the work of the Board of Directors. All these officers are elected by the General meeting and they must be the members of the Cooperative. The Directors nominate the Chief Executive Officer who is responsible for the business operation (financing, marketing, sales etc.). The CEO is not a member of the COFAMI but an employee. Five other employees work at the Cooperative who are responsible to the CEO: an administrator and four blue-collar workers working in the hired cellar. The following figure presents the internal structure of the organisation.



2<sup>nd</sup> figure: The internal structure of the COFAMI

### External network of the COFAMI

ASF Cooperative has built a dense network both on local, regional and national level. We start to describe these relationships from the local to the national level and from the closer environment of the COFAMI to the more distant actors. The graphical representation of the external network is presented by the 3<sup>rd</sup> figure.



3<sup>rd</sup> figure: The external network of the COFAMI

ASF Cooperative takes place in the focal point of the picture. ASF Cooperative established an associated organisation with two nearby producers groups, which acts in the market uniformly. It was an important question whether the establishment of the associated

organisation was the expansion of the COFAMI or it was “only” the development of its external network. Although ASF Cooperative is the most dominant in this association, the three producers’ groups have different formal organisations (with different management, constitution and rules), thus we argue that the establishment of the association is the materialization of the small-regional cooperation of producers’ groups. The association then founded HELIBOR and bought up the champagne factory of Izsák, hence the factory (under the name of HELIBOR) became the property of the three associated producers’ groups and a financial investor. ASF Cooperative owns 40% of the shares of HELIBOR, the two other producers’ groups have 25-25% and the financial investor owns the remaining 10%. The dominance of ASF in HELIBOR is mirrored by the personal relationships as well since the Chairman of the COFAMI was elected as the chairman of HELIBOR, too. In this way the COFAMI built up a local supply chain for wine and champagne. The COFAMI is in relation with market actors (suppliers, buyers, Hungarian and foreign consumers) either directly or indirectly through the HELIBOR, and thanks to the chairman it has strong relationship with country-level and regional associations and offices (the chairman is a directorate member in the national board of producers’ groups, he is the chairman of the Danube Wine Region and the chairman of the Kunság Wine Region). The COFAMI, the other two producers’ groups and their project company (HELIBOR Ltd.) is embedded in the local community and connected to it strongly, by cultural, personal and social links.

### ***The development of internal and external relationships***

Agricultural and vine-production is important for the local community for many reasons, we described above. Local society was an important base for the establishment and development of the COFAMI, although external actors gave important impulse in this development as well (now we would only refer to the joining of the three producers group to gain state acknowledgement and support or to the establishment of the HELIBOR Ltd to purchase the champagne factory).

### **Capital assets and capacity building**

In this chapter we discuss the status and changes of financial, social and human capital in more details. We mention some extent also the status of cultural capital. We assume that although it is not possible to observe significant changes when examining the capitals separately from each other (because the actors use different capitals parallel), all forms of capital has increased during the short history of the COFAMI.

The amount of *financial capital* owned by the initiative was quite negligible at the beginning and has not changed radically. The members have to pay for the collective an annual membership fee, but it pays them dividend and provide free services, as the chairman and the Chief Executive officer said. The first time they risked their own capital was last year when the member farmers should have collect the money to purchase the Champagne Factory, but they could provide only a smaller part of the necessary capital.

Although the financial capital of the initiative did not increase significantly, the *physical capital* of the COFAMI grew by lending the cellars of the former (socialist) cooperative and then by the buying-up of the champagne factory. Now they are possessing high value tangible assets, which create the basis of future development.

From the different forms of *social capital* we would emphasize the relevance of bonding social capital, which is based on the local community and enforced by the positive experiences of cooperation. The members trust each other as well as the chairman. Linking social capital is more important in the case of the chairman of the Cofami, who creates a bridge between the local actors, initiatives and the national authorities, the government and other institutions. We keep the activity of the Mayor a contextual factor, as he does not belong to the initiative personally.

We mentioned among the contextual factors that farmers regard the initiative as an investment in the future. Agricultural work has high prestige in the community; it admits the time-consuming and tiring work with the grape, which has two important results. On the one hand they work steadily even under unfavourable conditions. On the other hand not only the local society acknowledges agricultural activity, but market actors as well: non-regional markets pay for the special quality grape and wine. These two phenomena result that farmers trust in the future. We assume that *human capital* consists of farmers' orientation toward future and endurance. More precisely, the peasant habitus is transformed to human capital which is converted to economic benefits. We have several interviews demonstrating this assumption, for example one of them (ÁF) described how his parents worked with grape in the thirties, which was exported to Austria:

*"...because it was a really hard work, first to cut it, to select it, to pick it up. Long ago they put the clusters on the furrow ... gently to the sand, and then the others came to pick the clusters and with tiny little sissors they took out the wrong berries and put the clusters into a nice basket."* (ÁF 8<sup>th</sup> page)

This shows that working was highly appreciated in the community, and also by the non-local economic environment. The following citation proves the endurance of the farmers: *"...(The peasant) has to have reserved money, have wine in the cellar and one more year of persistenc"* (AF 10<sup>th</sup> page), because grape is profitable only three years in every five years.

Another important element of human capital is the deep knowledge of grape cultivation and wine making, learned traditionally and in official education as well. This latter resulted in the high level of bonding social capital: the members of the initiative were also members of the former (socialist) cooperative or worked at the State Farm – so knew each-other professionally and personally.

We found that the different forms of social and human capital created the basis of the strategy, on which financial capitals could grow (the members invested in the COFAMI either by paying the membership fee or contributed to the starting capital of the HELIBOR Ltd). The successful purchase of the Champagne Factory transformed a factor (the existing processing capacity owned by a non-local proprietor) to physical capital and led also to the increase of the mentioned three forms of capital, as well as the strengthening of local identity.

Bonding social capital was necessary to found the producers group. To gain financial support and state acknowledgement as a Producers' Group (PG) state guarantee for the loan, in order to reach the necessary production volume and to increase the amount of involved farmers the ASF had to cooperate with the producers' groups of neighbouring villages – it required the use of bridging social capital. The chairman and the mayor used linking social capital – as a result of it the Cofami gained state acknowledgement of the PG, also of the grape variety and also state guarantee for the loan. It enforced also local identity. The different forms of capital evolved, increased thanks to the special way as the actors used and combined them.

## Dynamics of the COFAMI

### *The timeline of the COFAMI*

2002	The members started to organize the association already in 2002. One of the initiators was the clerk of the local wine producers' association, who started discussions with other wine growers to establish cooperation to help local wine production.
2003	<p>Member farmers established the cooperative in April.</p> <p>A German financial investor bought the local Champagne Factory, the biggest local merchandiser of the cultivated grape. The president of the Cooperation worked earlier at the factory as a manager, thus he refused to take part in the organization of the COOP because of ethical reasons. He joined the cooperative only after its establishment in April, when he was removed from the company by the new proprietor.</p> <p>The ASF Cooperation decided to merge with two neighbouring producers' group in order to obtain an annual revenue of 300 million HUF (1,2 million EUR) to gain the official state acknowledgement and financial support paid for the producers' groups. They promised to reach the 300 million individually in the next two years, which they managed. The COFAMI gained the state support (according to the decree of the Hungarian Government).</p>
2004	<p>The COFAMI hired the cellar of the former state cooperative and renovated it (the buildings and the processing capacities, barrels, tanks). There it has storing capacity and processing possibilities for special types of wine. Using these possibilities the cooperation started also marketing and collective sales. The major buyers of wine and grape juice were Germany and the Czech Republic.</p> <p>The members and the leaders of the Cooperative recognized that their market power is even not enough so when the possibility to buy the local champagne factory turned up, they decided to give bid on it. As we already wrote in previous chapters, the German investor decided to withdraw from the Hungarian market and finish processing grape, sold the well-known brands of the Champagne Factory to its biggest Hungarian and Central European competitor (Törley, Henkell &amp; Söhnlein), and planned to sell the factory and its materials. Then the leaders of the COFAMI asked informally the price and conditions in case they would purchase the factory. Although the price of the factory was quite high they started to work on a bid. They realised that the factory with its tools machines and storing capacity even without its previous markets and well-known brands may provide secure basis not only to survive but also even to grow bigger. It is the only way to secure the livelihood of the local grape and wine producers in the long term. As the chairman declared:</p> <p><i>"...everybody should use its own land, plantation, but should process together, the product, the raw-material (the grape) to create the end-product, through which the profitability of the sector and everybody involved in it may find livelihood."</i> (OI 1<sup>st</sup> page)</p>
2005	The members also realised that the ASF itself is too weak to buy the Champagne Factory alone, so they decided to continue cooperation with the other two neighbouring villages' producers' groups. The three groups established a project enterprise called Helibor Ltd. As the general meeting of the three producers' group decided to make a bid the leaders started to look for sources to finance the transaction. One part of the purchase price was given by the member farmers the rest was bank loan with the guarantee of the Hungarian Government. The COFAMI had to ask also for a current assets loan. It was an extreme effort and a real success of the

	management of the COFAMI to obtain the loans. Not only the manager of the cooperative but also the major of Izsák did a lot to find the financial sources (as several interviews show it (RZ, ÉI, KGy). He had personal contacts to the leaders of the Ministry of Agriculture and Rural Development. The current Minister of Agriculture expressed several times <sup>7</sup> that the Government have to assist and support farmers and small-scale agricultural producers to be able to possess food processing companies. This way small-scale farmers are less endangered by the sudden changes of agricultural raw products and food markets.
2006	The negotiations with the Ministry, the banks and the owners of the Champagne Factory took almost one year, so the project enterprise had the loan only in the second half of 2006, thus the three producers' groups could purchase the factory in November. The managing director of the project enterprise (and the chairman of the Cooperative, who is the same person) became also the manager of the factory and the two companies (the project enterprise and the champagne factory) absorbed. Now the joint enterprise rebuilds its market relations and develops new products and brands to replace the lost ones. This activity is based on the capacities of the Champagne Factory, on regional, territorial specialties and on the acknowledged grape species, Arany sárfehér (Gold-mud-white).
	<p>The state acknowledged Arany sárfehér as protected origin grape, wine and champagne. It is the only grape species in Hungary which gained such state. This was the result of the lobby activity of the local wine and grape research institute, the local civil associations of wine and grape producers and the producers groups. The whole movement started years ago and was led and supported by the chairman</p> <p>The new enterprise plans to increase its market share especially among the quality-products, and develops according to this aim its new brands. The company signs the new products marketed in Hungary with local and localized symbols (such as water birds, e.g. spoonbill, and the famous Hungarian painter, Csontváry Kosztká Tivadar - <a href="http://www.hung-art.hu/index-en.html">http://www.hung-art.hu/index-en.html</a>), or general Hungarian historical, national symbols, like the Carpathians, or the first Hungarian king, St Steven, and finally with the special protected origin species. These symbols are known in Hungary and may bring success in the national context. The company also develops brands for the international market. Their focus is on the Eastern countries, such as the former Soviet Union countries, Eastern European countries and Far-eastern countries. Among these brands they try to create distinguishable and more valuable products as well, like the champagne fermented in bottles that requires special production method and needs more hand-work, or the special champagne produced from organic-wine (wine made of organic grape). Of course most of the products are sold as retail wine for the Czech and German market.</p>

After the establishment the cooperative planned to store and process the grape before selling it. In these early times the main activity of the cooperative was to help production and marketing. The initiative offered weather and plant protection forecast for the members, later they borrowed a harvesting machine (since then the number of the borrowed harvesting machines increased to five), and helped member farmers to contract with providers of machine work. This latter was appreciated by the farmers and the assistance in plant-protection was emphasized mostly by the leaders of the COFAMI. Another important activity of the COFAMI is related to marketing: it offered double price for the quality grape (higher

<sup>7</sup> The Minister for Agriculture and Rural Development gave very few interviews (approximately ...), but mentioned this theme ... times.

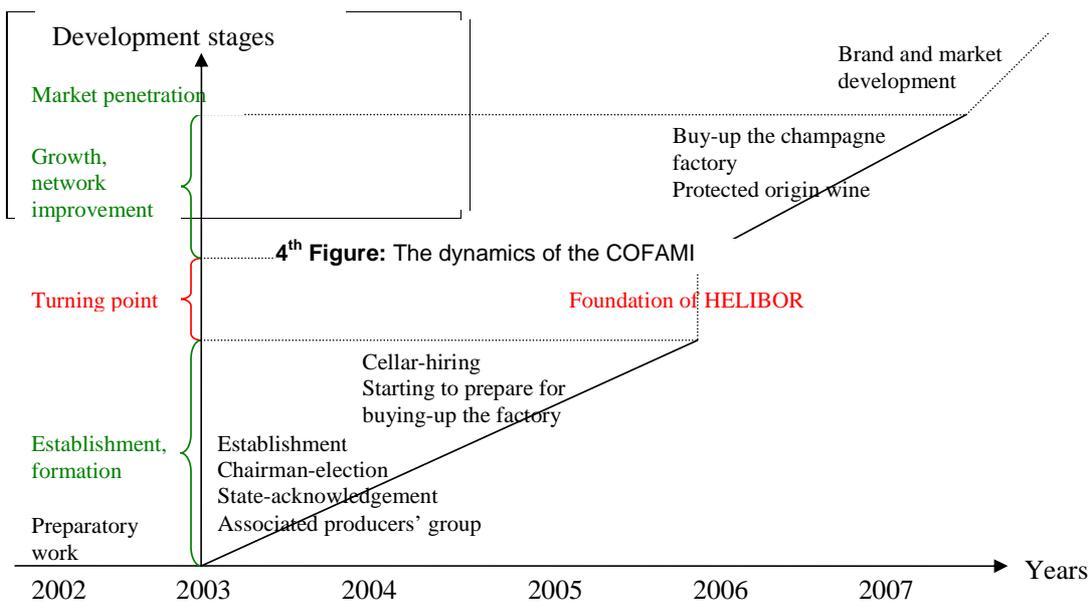
degree of sugar) than the competitors in the region. The cooperation sold the grape or the grape juice and a small quantity of wine processed in the hired cellar.

### Turning point of the COFAMI

As the discussed COFAMI is quite young, it seems to be reasonable to point out only one relevant change in the life of the COFAMI, even if this point does not mean a profound change in the strategy or in the degree of collaboration (collectivity). The two stages which we distinguish are the following: the first stage is from the establishment till the founding of the project enterprise, while we suppose that the second stage may last when the joint company, the Champagne Factory will introduce its new brands and stabilize its market.

As we already wrote the aim of the initiative did not change profoundly from the first stage to the second, although there are some important differences. The main aim of the COFAMI is to market collectively the products, the wine and the grape, and in the long term to bottle it individually and sell end-product in both phases. But to achieve this they needed to broaden the membership and strengthen cooperation at first. The aims and the strategy of the first stage (purchasing input materials, administrative support, professional consulting<sup>8</sup>) resulted it. As the number of members increased and cooperation became stabilised, the strategy to reach higher prices became more feasible. The establishment of the project enterprise (HELIBOR Ltd.) was the first step toward the buying-up of the Champagne factory, which reinforced the original aim (to reach higher prices) but at the same time raised new challenges for the initiative in the second stage, such as to develop new brands and build new markets in order to secure the livelihood of the members and the vine-producers of the region.

### The graphical representation of the dynamics of the COFAMI



<sup>8</sup> See also Figure 1.

# Impact assessment

## ***Quantitative impact assessment***

In the Hungarian case we have found only a few quantitative data on the impacts of the COFAMI. We have already presented that in 2003 154 farmers established the initiative, which has 546 members today with a cultivated area of 1211 hectare. Another indicator of the growing acceptance of the organization is that the ASF Cooperation could found a project company together with two other producers' group to purchase the local Champagne Factory. This will surely increase the economic performance and the importance of the initiative.

Although the members and the leaders of the initiative mentioned that the price of the grape has doubled in the last year, there is no possibility to estimate the impact of collective action in this phenomenon. The weak evidence would even suggest that it is independent from the activity of the COFAMI: the price of the grape increased all over the country and not only in this region (the market share of the COFAMI is relevant only in the region), and also individual grape producers outside the region could get much better price than the year before (2005).

## ***Qualitative impact assessment***

The fact that the COFAMI is quite young makes (qualitative) impact assessment even harder, so we have few possibilities to make grounded qualitative assessment.

## **Market performance**

Almost all the interviewees emphasized that the aim of the Cofami is to reach better price for the grape, even by storing it, or processing it. The members acknowledged the results of the leadership, and assumed that the initiative was successful from this point of view. The relevant market of the Cofami is the Champagne Factory, other local food processors (wine cellars) and also foreign Wine cellars. As the small-scale farmers can appear on these markets collectively, they do not have to sell their products to wholesaler, or if it is necessary, they are able to store their products, also the grape or the wine waiting for better prices.

## **Farming methods**

There is an interesting difference among the leaders of the COFAMI, the bigger and smaller farmers in assessing the impact of the initiative on farming methods.

Whilst the leaders always emphasized that the cooperation offers different farming services and also some of the farmers cultivating grape on about five hectares or more (the average is about one hectare) mentioned it, farmers of one or two hectares did not even mention it, and when we asked it directly, they expressed that it is an unnecessary service.

## **Cultural and social impacts**

It is also difficult to assess the cultural and the social impact of the initiative. We assume that these impacts are latent. The members trust in cooperation and in the future, as the following reference states:

*“So now I hope that it will success and now I will plant 5 more hectare grape, so there are some more people like me, we trust that grape has a future.” (ÁF 10<sup>th</sup> page)*

Wine production and grape cultivation belongs to the self image of the local community. The initiative and the new brands of the Champagne Factory build on local symbols, as we presented it in chapter 6, thus the cooperation enforces local identity.

Cultural performance of the Cofami has at least one more aspect, which is based on the production of a traditional grape variety (ASF). This variety had to be cultivated using traditional methods partly. This needs a lot of handwork, and although the ASF has several good characteristics (high production quantity, equal quality) it was continuously losing its share of cultivated grape area. As it became an acknowledged protected variety, and the Champagne Factory is paying good price for the good quality ASF, the decrease of this variety may slow down or may even turn to grow.

### **Environmental impacts**

Members of the Cofami participate in agri-environmental programs and have the possibility to use plant protection forecast and advisory system, which result in decreasing environmental pollution. Unfortunately we have no quantitative data on these effects. The internal assessment of environmental impacts are similar to the assessment of the impacts on agricultural methods, the only exception is that farmers emphasized the reduction of pesticide costs (and not the reduction of environmental hazards).

### **Conclusion of the main case**

The aim of this case study report has been to provide Hungarian perspective for the study COFAMI by setting the context for the interviews. The advent of post-socialism and the European integration prognosticated new opportunities as well new uncertainties for the Hungarian countryside and farmers' common marketing strategies in it.

The *first distinctive features* of the Hungarian COFAMI has been a *historical determination* from the socialist and pre-socialist times and indeed the studied COFAMI was established some years ago, the social and economic goals, the marketing practices and strategies of COFAMI members are strongly related to processes of pseudo-modernisations, privatization, the introduction of market economy and the EU integration.

The *first factor* related to the past is the land property structure. The size of the members' land is generally very small, around 1 hectare and although they have same marketing potentials and offer raw material (grape) for winemakers and wholesalers but as being individual producers they wouldn't be competitive or if so they would be competitors on same market. The co-operation is a necessity that mirrors the result of the post-socialist management of land use and needs of common supply of machinery.

The *second factor* that is related to the past and to the recent past is the role of agriculture in the region in reference to farmers' economic strategies that are based on multi-sectorial pluriactivity in lack of alternative income. The inadequate income level constantly stimulates households to run mini- or small scale farms and thus makes a difference between the majority of Hungarian and western agricultural producers. While the Western pluri-active strategy is an out-farm, complementary income raising activity the farming in the studied region is not the basic but the extra source of income what contributes to keep the high density of COFAMI members farm size and dominance of small farms.

The *third factor* is the cultural and social heritage that permits of the COFAMI. Viticulture has been local heritage in cultural and social context. The location protected grape and wine give markers for associations, and part of the local identity, the rural tourism is planed to be based on wine tasting with other words the product of COFAMI is source for the emergence of local culture economy.

The evidence that significant groups of local community are involved in grape and wine production gives the prestige for COFAMI members and we may say that it strengthens social cohesion. There are also important issues for local social co-operation and trust based on prestige by being hard worker in viticulture that, generation by generation, inherits the ethic of work and persistent effort to well-being. The skill of viticulture and of wine making is also an inheritance that is related to social motivation of being well-thought-of member the community. The traditional knowledge of soil ecological potential and deals with different grapes are commonly used together with special agricultural knowledge and the modern farming technology learned in the seventies and eighties. The trust in the COFAMI leaders and members, the inherited knowledge and work ethic are significant enabling factors.

The *second feature* of the Hungarian COFAMI is the *role of networks*, especially the role of policy network. Comparing growth patterns of this COFAMI to other studied organisation in the international project underscores two important points. First is that different, but in all cases personal policy networks played important role in the COFAMI to get the regionally protected status for local grape wine and champagne species across to the state and to get state guarantee for the bank loans. The mayor's personal political network is what the COFAMI leaders could use however the mayor is not COFAMI member. His contribution to managing the political network was not a result of systematic lobbying, much more occasional activation of network potential. On the contrary the COFAMI leaders have been organizing professional network by sitting in committees, participating meetings, hosting professional programs.

As 4.2. section presents the studied Hungarian COFAMI, the Arany Sárfehér Grape and Wine Producers' Cooperative is well networked on local as well regional and national levels. We may say that the COFAMI is a network organisation that related to many economic institutions, individual and institutional partners. The level of networking clusters all the four characteristics of contemporary networks that are mentioned in the relevant literature: the network came into being around collective resources and shared infrastructure, the local labour market come to hold specific skill of viticulture, reducing the cost of spatial inter-firm transaction, the knowledge transfer, innovation and learning of economic actors. The network based COFAMI determines the system of the co-operation and power relations inside the organisation.

The third feature is *capital assets and the way of capacity building* that has much more social than economical character. The financial capital and farmers' financial contribution are not considerable. The COFAMI members risked an investment only at the buying-up the champagne factory but the big majority of investment was paid from state guaranteed bank loan what will be paid off from company profit and not from members' private budget. The basic financial capital has not been intensively increased. The immovable estate, the physical capital has been extended enormously when the co-operative bought up cellars and grape preparing, bottler, champagne factory but thanks mainly to networking capacity and less to economic effectiveness. The chapter 5 presents that social capital (trust, common past, common alternatives and analogous perspectives) and human capital (farmers' orientation towards future, transformed hard worker and economic investment centred ethic of peasant habit into human capital) marked out the main line of the strategy, on which the financial capitals and common profit should grow.

This fourth feature is the *dynamics* of the COFAMI that related to market performance, external network and turning point of dynamics as the first stage after the establishment (purchasing input materials, administrative support, professional consulting, commonly reached and fixed price) and the second stage, founding of the project enterprise, the joint company bought up the Champagne Factory after as the number of members increased, cooperation became stabilised and a new strategy has been emerged to reach higher prices and

profit. Thus can be understood that while in the first phase the social and human capital played key role in the COFAFMI development these determinants will be replaced in the second stage by market, economic forces. The capitalist like, powerful, investor-proprietor stake-holders will be key actors after the turn-point by giving priority of market oriented strategy what may reduce importance of social and human capital.

The stages of Hungarian COFAMI dynamics may assume that the strategic question is the harmonisation of capital assets (financial, social, human) in all stages of dynamics. In the first period the COFAMIs can have no sufficient financial and physical capital and social, human capital give base of the dynamics. In the later phases the logic of economic growth and market demands can devaluate social and human capital and the level of collectivity what would provide emerging power for the outer or inner capitalist actors. The input question EU policy related to COFAMIs is how to preserve multi-layer social and economic interests of the members and how to harmonize it to market demands.

## **Mórákert Coop, the first Satellite Case**

In the previous part of the report we argued that the case study of Arany Sárfehér Cooperative is an interesting example of how to establish a bottom-up cooperative in a post-socialist country where the word cooperative has a quite bad connotation among farmers. The most important success factors of ASF is the strong social capital of the cooperative (especially the trust among members and the linking capital of the management which is a crucial asset of its lobby activity); the product innovation which stems from the combination of an ancient, local grape variety, traditional cultivation methods and the most up-to-date processing technology; and finally the local and regional embeddedness of the cooperative. Although the case study of ASF is a success story up till now, it is a rather young organization working in an oligopol market situation under the pressure of huge bank loans. The long term success of the cooperative requires now continuous growth on the market and in terms of membership as well because ASF needs to penetrate the market with new brands and increase the turnover in order to pay back the loans, but this is possible only if membership is able to produce more to rise the quantity and decrease the average costs (and the price). Thus it seems rational to choose such kind of satellite cases that had the same problems in an earlier stage of their life-cycle or answered to similar market challenges in innovative ways.

Our first satellite case is the Mórákert Cooperative (Hungary) – a rather mature organization (at least compared to ASF) that went through a period of dynamic growth in the last years. Although Mórákert works in a completely different market where there are plenty of competitors and where farmers are mainly price-takers since they do not have enough power to bargain with retailers, it was established in a quite similar way as ASF and then was able to grow more than ten times and establish a regional brand that is well-known all over the country. We think that analysing the history of this remarkable growth of Mórákert can help us to understand how growth can secure the future of a cooperative as well as what kind of problems emerge in a period of rapid growth and how it is possible to manage them. Hence we pose two questions which we attempt to answer in the 1<sup>st</sup> satellite case analysis:

- How is it possible to achieve and manage rapid growth for a young organization based on regional branding?
- How does rapid growth affect the social capital (especially trust) of the cooperative?

For the 1<sup>st</sup> satellite case analysis we was able to use the results of a recent and detailed case study research focussing on Mórákert Co-op that was managed by the Institute of Economics, Hungarian Academy of Sciences. Beside the research results we used the interviews and the case study analysis of Mórákert made by graduate students of the Szent István University for

supporting farmers to establish new cooperatives. We complemented these materials with relevant information from press releases and interviews with key actors published on the Internet. However, it is worth noting that these materials were produced for research aims that differ from ours, which means an important limitation for our satellite case study since we have not had the most appropriate data for answering our research questions. We hope to solve this problem by combining the different data sources.

### ***General description of the Mórakert Cooperative***

Mórakert Purchasing, Marketing and Servicing Co-operation is often mentioned as a success story for new-type cooperation among farmers living in Mórahalom and its surrounding. This region is one of the sunniest and warmest parts of the country which favours agriculture, although the sandy soil and the low average precipitation makes this region appropriate only for irrigated fruit and vegetable production. In the socialist period state owned cooperatives were established here as well as in other parts of Hungary, but thanks to the less favourable natural environment and the special settlement structure (dominated by homesteads) specialized cooperatives replaced state owned ones from the 1960s. After the change of regime in 1990 the compensation procedure resulted in a fragmented structure of private lands that left only few possibilities to establish profitable farms producing for the market. Despite this situation nearly 75% of the population living in this area dealt with agriculture. The low profitability of agricultural land and the high proportion of local inhabitants living on agriculture forced the local authority to decide whether to provide social assistance to marginalized farmers or to establish an organization promoting farming.

The mayor established the Department of Agriculture within the local authority in 1993, then the Common Agricultural and Entrepreneurial Society was founded in 1994 in order to help small farmers to submit tenders and modernize their farms. This Society was the forerunner of the cooperative aiming at building a loose cooperation among local farmers. Since most of the locals were reluctant of the word cooperative, they decided to call this organization society which refers to trust and cooperation among farmers without recalling the bad memories of state-owned cooperatives. The society was financed by membership fees and its main aim was to organize collectively the input trade and the sales of the members by using the countervailing power of the group. In the first period all the physical work (transporting, storing etc.) were done by the farmers themselves, and the decisions were made collectively. The power of this voluntary cooperation stemmed from the enthusiasm of farmers and the trust among them, which resulted soon in the reduction of purchasing costs.

Mórakert cooperative was established in 1995 by 52 farmers as an official form of agricultural cooperation and now works in parallel with the society (although the latter has changed its name). The fundamental aim of the cooperative is to support self-managing, individual local farming in a not-for-profit way without taking the risks of production. The co-operative is in the property of local and regional farmers who are the members of the organization. The most important body is the general meeting where the principle of one member one vote is dominant. The general meeting decides on the president and the member of the board of directors and supervisors, while the chief executive is appointed by the board and does not belong to the membership. The co-operative has five departments: management and sales; financing and accounting; development; input purchasing and distribution; and production and storage. Mórakert offers input materials, cultivation and technological advices if needed, but does not determine to farmers what to produce. The organization buys up the contracted amount of products from the members and other subcontractors as well, stores it, cleans it, wraps it and then sells it on the market under the collective brand. The co-operative provides

many advantages for producers: the collective purchase of input materials contributes to saving 8-12% of the costs, while the collective sales provides the possibility to surely sell the products in large quantity though on a relatively depressed price. Hence farmers are able to compete with large-scale rivals on the market, as they can provide the market with high-quality, branded products in a significant quantity.

Mórákert has a widening range of activities. The main functions are the following: collective purchasing of input materials for fruit and vegetable production; consultation and co-ordination of production; services (e.g. manipulation, storage, wrapping etc.); providing environment-friendly techniques; and collective representation of interests. Through these activities the priorities of the co-operations are to stabilize production prices, to apply environment-friendly methods and to provide adequate technological background for preparing and selling products. Up till now the co-operative has marketed only unprocessed goods – fruits, vegetables – under the brand of Mórákert. The product range varies from different types of potatoes through tomato, green pepper, cabbage and carrot to fruits (especially peach and grapes). Since the date of its foundation Mórákert cooperation has made an imposing career. In 2004 it had 719 members and more than 2000 subcontractor, the quantity of marketed goods reached the 18,000 ton, the net income grew up to 4.5 million Ft, and the number of employees rose from 1 person to 88. The membership grew more than ten times although the initial payments required from farmers rose considerably from 25,000 to nearly 510,000 HUF (from this 180,000 HUF is the cooperative share and 330,000 HUF is a single payment contribution for investments). Mórákert became a brand that is well-known both in Hungary and the neighbouring countries: its products can be found in the shelves of big supermarkets while 30-40% of the production is sold abroad. Its activity gained acknowledgement in 2002 as Mórákert was the first cooperative that received the title of producers' organization – the EU conform organization form. The dynamic growth regarding the market share and the membership of the COFAMI was accompanied by the development of regional and national networks. In order to create a more favouring institutional environment, Mórákert became a member in regional and national organizations representing farmers' interest (like the National Potato Product Board, or the Agrarian Chamber of the county). The cooperative takes share from small-regional organizations supporting local collective sales, and it also encourages other types of co-operations among the farmers of the region. In 2004 Mórákert established a secondary cooperative in order to increase to competitiveness of the collaborating firms from the region, and two years later it changed its organizational form to a holding structure to be more flexible and able to absorb financial support from the EU.

This remarkable growth is partly the result of a detailed and professional marketing strategy. Since Mórákert works at a competitive market where retailers (mainly supermarket chains) dominate market relations and define the prices while producers are mainly price takers and compete with the same conditions, Mórákert had to develop a situation in which big supermarket chains could negotiate with the cooperative as a partner. For achieving this aim Mórákert put strong emphasis on the quality of products and the reliability of supply, for instance it launched HACCP quality management systems. The products of Mórákert are all regional branded products, the labels inform the consumers about the regional origin of the products and about the cooperative structure behind the company name. These regionally based brands are the key in the marketing strategy, although in order to provide the whole product range during the year the COFAMI imports foreign products as well when seasonal Hungarian products are over. For offering the best quality in every supermarket chain, the cooperative established an own quality-controlling group which visits regularly the different shops and control the quality of products standing on the shelves (in huge supermarket chains lower prices mean sometimes lower quality or stale products). Mórákert is a strong-minded

negotiator, and thanks to the countervailing power built up through the development process, it is able to achieve better conditions (price and security) for member farmers by negotiating directly with retailers instead of selling the products through wholesalers.

### ***Lessons learnt from the case of Mórakert***

Two important conclusions can be drawn from the case of Mórakert, both of them belonging to the question of market growth. One important lesson learnt from the satellite case study is the appropriate marketing strategy that is required for ensuring the continuous growth of the sales. One key of the success of Mórakert is that it identified its own market situation clearly and then chose the right strategy that targeted the retailers instead of wholesalers. In the negotiations with supermarket chains the cooperative uses its countervailing power which is based on the huge quantity produced by the members on the one hand, and the dense regional and national networks, on the other. However, the cooperative follows the way of products till the customers in order to provide the best quality in the whole supply chain – after figuring out the tools supermarkets often use for increasing the margin, the cooperative is able to counteract. Thanks to this strategy Mórakert was able to get in almost every huge supermarket chains that dominate the Hungarian market, and at the same time was able to obtain the trust of consumers and increase its sales continuously.

The other important conclusion that can be drawn from the case of Mórakert is how the initial role of trust has been replaced with institutional rules and norms as the organization has been growing. When the cooperative was established the main sources of the cost effectiveness stemmed from the cheaper services and input materials bought together and the low costs of controlling the members. Trust among members was the most important feature of the cooperative which held together farmers. When the cooperative started growing and more and more farmers got involved, trust started eroding and institutionalized control mechanisms were required. An example for this is the increase of the price of the cooperative share and the extra payment for joining the cooperative. This and other kind of institutional arrangements provides now the smooth functioning, although this change was accompanied by the rise of transaction costs.

### **Alto Palancia Cooperative, the second Satellite Case**

In the previous part of the research we found that the case study of Arany Sárfehér Cooperative is an interesting example of how to establish a bottom-up cooperative in a post-socialist country where the word cooperative has a quite bad connotation among farmers. The most important success factors of ASF is the strong social capital of the cooperative (especially the trust among members and the linking capital of the management which is a crucial asset of its lobby activity); the product innovation which stems from the combination of an ancient, local grape variety, traditional cultivation methods and the most up-to-date processing technology; and finally the local and regional embeddedness of the cooperative. Although the case study of ASF is a success story up till now, it is a rather young organization working in an oligopol market situation under the pressure of huge bank loans. In the first case-study we discussed the main factors of long term success of the cooperative: continuous growth on the market and of membership as well, the factors which may lead to market penetration to increase of turnover in order to pay back the loans. Thus we presented the case of the Mórakert Cooperative.

Our second satellite case is another agrarian co-operative in Spain (not far from the city of Valencia) the Alto Palancia Cooperative, this Coop is a second degree cooperative which

integrates fourteen cooperatives with about 900 members, so it is a more mature organization, than the ASF. Alto Palancia produces organic olive oils and works in a completely different market where there are plenty of competitors and where farmers are mainly price-takers since they do not have enough power to bargain with retailers, it was established in a quite similar way as ASF. We think that analysing the Alto Palancia can help us to understand how small scale farmers can maintain their activity, house-hold farming. Thus we will discuss two questions in the 2<sup>nd</sup> satellite case analysis:

- How is it possible to support house-hold farming on oligopol markets?
- What are the advantages and which way is it possible to produce special quality products?

For the 2<sup>nd</sup> satellite case analysis we used the results of a recent case study research focussing on Alto Palancia Co-op that was managed by the research team of the University of Valencia<sup>9</sup> for the CORASON research project. We complemented these materials with relevant information from press releases published on the Internet. However, it is worth noting that these materials were produced for research aims that differ from ours, which means an important limitation for our satellite case study since we have not had the most appropriate data for answering our research questions. We hope to solve this problem by combining the different data sources.

### **General description of the Alto Palencia Cooperative**

The project was selected because the key actor is an agrarian cooperative. This cooperative produces organic olive oil. It is second degree cooperative which contains numerous local agrarian cooperatives and farmers. This cooperative *Alto Palencia* was founded in 1991 with only three local cooperatives; currently, it integrates fourteen cooperatives and 900 members. The majority of members in the cooperative are part-time farmers that maintain their crops mainly because of sentimental and territorial identity reasons. This fact introduces particular features to the way the cooperative strategy takes place. For instance, it introduces more complexity to decision-making processes since initially productivity is not a key objective for most farmers and this gets into conflict with the Directive Committee's objectives that it necessarily has a more commercial view. Nonetheless, possible reticence and disagreements among actors in the cooperative are reduced when farmers see how profitability increases.

The idea of grouping responded to a quite logic process and to the need of achieving a more efficient size and of facilitating the necessary inversions. It was also the aim of regional department of Agriculture that promoted the grouping of local cooperatives into second degree ones, and it provided economic support for the required initial inversions. These inversions were necessary given the fact that: a) the oil press in the base cooperatives were old and obsolete; b) agriculture, that in this area is focused on olive trees, was irremediably going towards disappearance because productivity and added value were very low. Before the creation of the Alto Palencia cooperative there was a generalised feeling among farmers of the need to improve quality of the product, and this followed the same direction that trends promoted by the regional agriculture department. Nonetheless, olive oil produced in this area has always had a well recognised high quality that has been gradually improving and extending to productions all over the areas; before, *extra virgin* was only produced by two of the cooperatives.

The actions initiated by the new cooperative involved important innovations especially in the transformation and commercialisation processes, and also in terms of production. Basically,

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<sup>9</sup> Department of Geography, Faculty of Geography and History.

the strategy consisted on increasing the quality of the olive oil and adding value to the product. For this, it was necessary a series of changes: (i) to modernise the machinery for olives' transformation; (ii) to change some processes linked to the selection of the olives and the process of crushing the olives; (iii) to invest in the bottling and commercialisation processes because the oil was sold in bulk, without its own bottle and label.

The cooperative is located in a LEADER area where the three phases of the programme have been implemented. In fact, they obtained funds from LEADER I and II for the improvement of infrastructures and for a cooperation project with an Italian group dealing with the commercialisation of organic olive oil.

The Alto Palancia olive oil cooperative case is a good example where traditional practices linked to olives' production and oil elaboration has been gradually including innovative components and processes for achieving higher profitability and competitiveness. In this case we find a traditional component which is all the local know-how behind the production and elaboration of a very high quality olive oil, and a component of expertise and innovation introduced in the form of technical and specialised knowledge (agriculture engineering, quality control, marketing) and new technologies that contribute to improve more this quality but specially to codify and standardized some processes that before were part of farmers' tacit and experiential stocks of knowledge.

### ***Lessons learnt from the case of Alto Palancia***

Two important conclusions can be drawn from the case of Alto Palancia. One lesson learnt from the satellite case study is that traditional practices can be maintained and incorporated in innovative modern methods. Alto Palancia became successful because it could built on the ancient methods used by individual farmers, who still had the traditional local knowledge of oil tree cultivation and oil production. The leaders of the cooperative and the local action group realised these resources. Thanks to the cooperation of the different actors traditional technology and modern administrative and managerial skills (like quality control, cooperation with development agencies) resulted that the once low quality olive-oil, for mass-production became a high quality olive-oil product, which became well-known and acknowledged also by the consumers.

The other conclusion that can be drawn from the case of Alto Palancia is how the individual farmers, continuously losing their potential to influence their markets and to maintain the level of their income could stop these processes and turned it back. The knowledge sharing of local and non-local actors resulted that now farming and olive-oil production is again a real alternative for farmers, a real alternative source of income.

## Conclusions

In the Status Quo Report (WP3) we identified three main types of COFAMI organizations: the integrator companies, new-type cooperatives and small bottom-up initiatives. Most of these organizations were active in agriculture. As we argued farmers' interests and aims not always considered by integrator companies the, although in certain cases these companies have decisive role in innovation as they introduce innovative modern technologies in Hungarian agriculture. Most of the small bottom-up initiatives have no legal organizational form, their market share insignificant, their social cultural impacts is very minor even in the community or micro-region where they are active.

Thus we choose a new type agricultural cooperative as main case study. One of the satellite cases is a mature new type cooperative and the other satellite case is a second-level cooperative; it reflects on one of the most important problem of Hungarian agriculture. The second satellite case study presents how part-time farming can be maintained and thatcroft farmers can have a common marketing strategy on the national and international markets.

### Discussion of main limiting and enabling factors:

According to the ASF Case Study the main enabling factors are cultural and sociological factors, like the culture and positive experience of cooperation; the high degree of rural social cohesion and the still existing specific processing skills. Of course it would be difficult to give a general prescription, how these factors could be improved in a certain cases. As the example of the first satellite case shows initially personal relationship among the members resulted trust, but it erodes by the growing of the cooperative and it must be supplemented by institutionalized control mechanisms (for example: oblige farmers to sell the grape to the COFAMI).

Also good relationships within the community (bonding social capital), among different stakeholder groups (bridging social capital) and to the higher administrative level (linking social capital) are important enabling factor.

The main and most frequently appearing problem is about market performance. The ASF Coop has serious problem to re-establish its market relations and stay alive in the huge competition. Also the lack of financial assets is a limiting factor for the cooperative. The results of the different forums and stakeholder consultation reinforced these findings.

The huge common charges (taxes) and bureaucracy are also limiting factors.

The institutional environment of agricultural and rural development also does not favour COFAMIs. On one hand the Hungarian Rural Development Plan (now called: New Hungary Rural Development Program (NHRDP)) focuses on arable crop production. It is problematic, because crop farming is not profitable without subsidies, while it employs fewer people and the added value is lower here than in other agricultural activities (e.g. Horticulture). On the other hand the NHRDP provides most of the subsidies for big farms, whilst COFAMIs integrates several medium or small scale farms.

### Most important positive impacts of COFAMIs

Cooperatives have eminent role in reorganizing the still *unorganized Hungarian agriculture*. Agriculture has an important role in rural *employment policy*. Especially small-scale farming provide job and additional income for locals, modernized, industrialized farming does not create enough job for local people. COFAMIs provide alternative livelihood strategies for local people by making small-scale farming more favourable.

## Policy recommendations

Our most important policy recommendations are based on the above findings and on the results of the NSF and other stakeholder forums.

### *Policy recommendations on national level:*

- *Influence Hungarian consumers* through PR and marketing actions to buy more Hungarian products. It may help to establish better market circumstances for the products of the COFAMIs.  
There have already been several initiatives to obtain this aim, but they have not been really successful, e.g. Buy 599! (the code of Hungary) this initiative was accused by some people for being nationalist, others disapproved that products wrapped in Hungary but produced outside the country could also benefit from the campaign.  
The participants of the forum did not evaluate the possibility and the consequences of such initiatives, because there was a lack of time. There is a company which will be responsible for the marketing of Hungarian wines (It is funded by wine-producers<sup>10</sup>).
- Although cooperatives' have an important role in the Hungarian agriculture and *mistrust* is still a problem, the subsidies have to be maintained and the legislative environment should be developed to become friendlier.  
Farmers prefer to stay independent, even if economic conditions would suggest collective action, subsidies may help to break the barrier of mistrust. ("We did not want to establish a cooperative, but the lawyers kept on saying that it is the best way for us" – said the chairman of a cooperative) Subsidies may also help to increase state incomes, by increasing production and working places.
- *Subsidy system should focus on small scale farming also*, since these small farms could help to decrease the problem of farm inheritance and aging. Household farms provide additional income for families (thus decrease social inequalities), and contribute to maintain some of the natural values and cultural heritage.
- Additional subsidy for promising initiatives.
- Subsidizing secondary cooperatives in order to help them in developing processing facilities.

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<sup>10</sup>According to a new agreement among wine producers' organizations and the Hungarian Ministry for Agriculture and Rural Development, a certain amount of wine producers' tax payments creates the basis of wine marketing.

*Policy recommendations on the EU level:*

- As the mistrust is still a problem although cooperatives' have an important role in agriculture, the subsidies have to be maintained even after the five year period. *The cooperatives in Central-eastern Europe need time to strengthen.* The participants keep it an EU level recommendation, because now subsidies for the new type cooperatives are financed by the EU
- The COFAMIs in Hungary as well in entire Central Europe could not accumulate so much financial and social/network capitals as COFAMIs in the West or even powerful actors in the regional agriculture and therefore it should be considered *specific* (financial, lobbying, information) *support* for them otherwise the multinational and big national companies would benefit from existing subsidies.
- Hungarian farmers feel to be suffering from disadvantage because they receive less subsidies than the farmers' of the old member states.
- Both of the above mentioned recommendations show that Hungarian agriculture have some special characteristics, which should be acknowledged also in European policy level. Of course it is not the most serious problem of COFAMIs in Hungary.

## Annex 1: List of interviewees

Name	Gender	Position	Length	Date
A.F.	Male	Member Farmer, Member of the Board of Trustees	120 min	22-02-07
B.M.	Male	Member farmer, wine producer	???	14-03-07
D.Gy.	Male	Representative of the local wine community	60 min	22-02-07
E.I.	Male	Member farmer	150 min	15-03-07
H.I.	Male	Non member farmer	180 min	15-03-07
H.J.	Male	Notary	???	14-03-07
K.Gy.	Male	Representative of the local wine community	60 min	23-02-07
K.L.	Male	Member farmer, wine producer	90 min	14-03-07
L.T.	Female	Guard of the National Park	150 min	31-03-07
O.G.	Female	Entrepreneur, PR manager of the wine order	90 min	14-03-07
O.I.	Male	Chairman	120 min	14-03-07
P.K.I.	Male	Member Farmer	120 min	22-02-07
R.Z.	Male	Chief Executive Officer	90 min	14-03-07
Sz.F.	Male	Head of Production at the champagne factory	60 min	23-02-07
Sz.X.	Male	Non member farmer	90 min	31-03-07
T.S.	Female	Member farmer	120 min	15-03-07
V.J.	Male	Member Farmer	120 min	22-02-07

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