
The Natural, Social and Economic Conditions and Opportunities for Development of Balmazujvaros, Especially in the Case of the Co-operative Kvaliko

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SUMMARY

Balmazujvaros as a settlement near Hortobagy has to cope with both advantages and disadvantages. Its natural and social conditions are mainly given, the agricultural characteristic is dominant, and the number of the employed is the highest in the agricultural firms and processing industry. Developing the third sector, including hosting, tourism, eco-tourism, thermal-tourism, may be an opportunity for the city. The subsidy for rural development relating to the SAPARD-programme may contribute to this, as the city is the member of the Association of Hajdu Towns.

The agriculture plays an important part in Balmazujvaros in which production and marketing of vegetables and fruits excel. Several farmers realised this opportunity and founded the Marketing Co-operative of Vegetable Producers in Eastern Hungary, that is the Kvaliko. This PO works in a Corporation form and is constantly developing, spreading and expanding its choice making use of the local natural, social and economic conditions and applications for realising its investments. This PO may set an example for the other entrepreneurs and farmers of Balmazujvaros to co-operate and it may be considered as an already realised opportunity.

1. SHORT HISTORY OF BALMAZUJVAROS

Balmazujvaros is situated 24 km far from Debrecen, at the border of two special landscapes: the Hortobagy and Hajdusag. It has a population of more than 18,000 and an area of 205 km².

According to archaeological research the town and its surroundings have been populated since the prehistoric age. Its formation, although there are several opinions, goes back to the 13th Century. The settlement had been a country-town for 300 years, till 1756. The 33rd Act of 1876 and the 1st Statute of 1877 brought a big change for the town, namely Balmazujvaros which had belonged to the County of Szabolcs was attached to the County of Hajdu and became the centre of the township. The following villages belonged to the township Balmazujvaros: Egyek, Csege, Samson, Teglas, Lower- and Upper-Jozsa, Vamospercs, Mikepercs and Balmazujvaros itself. With the ceasing of the counties and with the formation of Hajdu-Bihar County by combining the counties of Hajdu and Bihar in 1950, Balmazujvaros was attached to the Township Debrecen. With the ceasing of the townships it became a village with the rights of a town in 1984 and the centre of the following settlements: Tiszacsege, Egyek, Hortobagy, Ujszentmargita (Süli-Zakar and Baranyi, 1996). In the end it rised to a town in 1989.

2. BALMAZUJVAROS AS THE CENTRE OF THE TERRITORY?

Subregional movements started in Hungary in 1992-93, that is operational subregional associations emerged on the base of volunteering. The Association of Hajdu Towns was formed in January 1992 by Hajduboszormeny, Hajduszoboszlo, Hajduhadhaz, Hajdudorog, Hajdunanas, Polgar and Vamospercs. Balmazujvaros joined in the Association a bit later together with Teglas and Ujtikos. The aims of the Association are to gain advantage from the common power; to concentrate all the performers in rural development such as farmers, civil organisations, entrepreneurs; to save traditions, the cultural heritage, the social value; and to develop tourism.

The 21st Act of 1996 on the Regional Development has changed the operational subregional movement (Pálné, 1997). It forced formations due to the requirement of the regional politics and their sizes were adjusted to the statistical subregions set by the Central Statistics Office. There were 7 statistical subregion emerged in County Hajdu-Bihar. Balmazujvaros together with Egyek, Tiszacsege and Hortobagy got into the statistical subregion of Balmazujvaros. In this way Balmazujvaros can be viewed as the centre of the district, but it does not mean a really attraction for the settlements around it because of the great distances (there is 31 km from Tiszacsege, 21 km from Hortobagy, and 43 km from Egyek) and due to the inadequate economic, commercial and infrastructure connections arising from this.

In this way it is clear that it was the Association of Hajdu Towns with whom stronger connection remained. There were requirements arisen to realise projects together and efficiently. The SAPARD (Special Accession Programme for Agriculture and Rural Development) programme gave base for realisation of these requirements, which is an intention by the European Union to help the joining states. Within this program a National Programme for rural development had to be made building on programmes of subregions. Four members from the Association formed the subregion of Hajdu Towns: Hajduszoboszlo, Hajduboszormeny, Balmazujvaros, Hortobagy and Nagyhegyes between them. They represent the subregion relating to SAPARD (9).

3. NATURAL, ECONOMIC AND SOCIAL CONDITIONS OF BALMAZUJVAROS

3.1. Natural Conditions

Balmazujvaros is a typical country-town regarding its geographical situation, so the agricultural feature is very dominant. The closeness of Hortobagy and Hajdusag reflects even in the soil conditions: there is chernozem soil in the eastern part and alkali soil in the western part of the settlement.

The climate is moderately warm and dry and lack of water happens often. The National Park of Hortobagy with 6000 hectares, the Reservation of Great-szik of Balmazujvaros with 243 hectares and the Darassapuszta with 2350 hectares are situated in the vicinity of the town.

The thermal water of 61 centigrade degree of the thermal bath in the castle of Semsey located in the centre of the town was pronounced medicinal water. The River Hortobagy, Eastern-Canal and Kadarcs-Karacsonyfok-Canal touch the periphery (Süli-Zakar and Baranyi, 1996).

3.2. Social Conditions

Balmazujvaros had a population of 18,688 in 2000, which have been constantly increasing since 1990. Two per cent of the population lives in the periphery. The population has a desirable age structure: the portion of youth is considerable. 30 per cent of the population have elementary, 20 per cent secondary and 2 per cent higher qualification.

Number of workers employed in agriculture constantly decreased as the rate of the unemployed in agriculture was 20 per cent in 1992, it was below 10 per cent at the beginning of the 90'ies. On the other hand number of workers employed in industry and third sector gradually increased: today they are 40 per cent and 50 per cent separately. Rate of workers locally employed is just 40 per cent.

Rate of the unemployed in relation to the active population is near 13 per cent, which shows a notable decrease in comparison with the unemployment rate of 23 per cent in 1993 (Ecsedi, 1999).

Piped water has been established almost entirely. Sewerage system has not been expanded in the previous years, so it should be a significant task for the town. The establishment of gas supply is about 80 per cent. The electrical supply is safe its capacity is able to meet the town's requirement. There is a supply market relating to telephones and the capacity of local telephone centre has been expanded. 30 per cent of the citizens joined the services of cable television.

The 65 per cent of roads are covered but it is needed to develop further. The local government gained 9 million HUF and 8 million HUF from the Council for Regional Development in 1999 and in 2000 to build and expand roads. The railway line from Debrecen and Fuzesabony touches the town in this way it means a real connection with Debrecen and Hortobagy and after Fuzesabony it can join the

other lines. Balmazujvaros has connections with the surrounding settlements such as Debrecen, Hajduszoboszló, Nagyhegyes, Tiszacsege, Hajduboszormeny and Eger, too, relating to the long-distance bus transportation. The local bus transportation is operated by the local government but it seems to come to its end this year.

The humane infrastructure with respect to both education and sanitation showed a significant improvement in the last 5 years.

3.3. Economic Conditions

3.3.1. Agriculture

There had been two production co-operatives in Balmazujvaros till the change of regime that is the Lenin production co-operative and Voros Csillag production co-operative. After changing of regime these co-operatives were split up. One co-operative (Kossuth Co-operative) and four limited companies (Balmaz-Agro, Hexa-Agro, Zea '93 and Balmazfood Ltd.) emerged from the Voros Csillag production co-operative. Kossuth Co-operative is dealing with fodder production and sheep production on pasture of 3,500 hectares.

The following enterprises emerged from the Lenin production co-operative: Agro-Balmaz co-operative association, Milk-producing co-operative, Motec Ltd. and Agro-Team Ltd. The Agro-Balmaz co-operative association dealt with plant production on 1,700 hectares and pasture management on 600 hectares. After becoming insolvent it combined with the Beke agricultural co-operation of Hajduboszormeny. Besides there were several other agricultural Ltd-s and even more single proprietorship starting their activities after separation. There are two new-type co-operatives namely the Kvaliko and the Wheat-producing co-operative. Kvaliko started its activity as a vegetable producing and marketing co-operative, which is a common investment of the Hungarian and the Dutch government. Today it is working as a co-operative corporation.

The structure of land use and land quality can be seen in *Table 1*.

Table 1: The structure of land use and land quality

Land use	hectare	AK/hectare
Arable land	8842	18
Garden	10	26
Orchard	53	30
Vine-lands	10	24
Pasture	7814	8
Agricultural land	16729	-
Forestry	583	6
Reeds	383	5
Fish-ponds	132	-
Cultivable land	17827	-
Land out of cultivation	2716	-
Total	20543	-

Source: Office in County Hajdu-Bihar of Ministry of Agriculture and Rural Development (2000)

3.3.2. Industry

Privatisation, losing and changing the markets, switching over the market economy all had negative effects even on the industry. Due to the privatisation there were industrial firms ceasing such as DEKO Corporation, the local factory of Hungarian Roller-bearing Works. After decentralisation this local factory worked further as a steel-producing factory (ACEX), and after privatisation it became a limited company (Király, 1998). Today there are 3 bigger and 3 to 4 smaller metal enterprises present. These enterprises are very adaptive, and produce products of high quality, which meets the requirement of Western Europe. For example they produce elements for bridge-building to Sweden. There are two significant herb-processing factories in Balmazújvaros: Herbaria Ltd. and Pusztadrog Ltd. Both of them export products to Western Europe and Japan. Disadvantage of the structure of industry is that there are only few enterprises employing more than 120 workers. The milk factory switched over limited company as Balmaz-Milk then after buying up it ceased.

3.3.3. Third sector

A significant part of Balmazújvaros's small trade was transacted by the AFESZ (Consumer, Sales and Purchasing Co-operative) of Balmazújvaros and its surroundings in the last decades. More and more supermarkets have been built or restored since the 80's. The number of private proprietorship in retail trade has been increasing in the town. Today there

The major firms of agriculture and processing industry showing the number of their employed workers are given in *Table 2*.

Table 2: Major firms of agriculture and processing industry in Balmazújvaros and the number of their employed workers

Agricultural and processing firms	Number of the Employed
Herbaria Corporation	84
Pusztadrog Ltd.	12
R-KO-N (purchasing and processing meat)	261
Adam and Co Ltd.	10
Kossuth Co-operative	83
Agro-Team Ltd.	24
Balmazfood Ltd.	13
Balmaz-Agro Ltd.	16
Milk-producing Co-operative	9
Hexa-Agro Ltd.	14
NAGISZ Corporation	41
Wheat Industry Corporation of Hajdusag	44
Bakery of Zsolt Fulep	20
Bakery of Hajdusag Corporation	14

are 207 retail trade shops, from which there are 60 supermarkets.

The number of people involved in hospitality has been increased even among private entrepreneurs although Balmazújvaros is bearing less significant tourism as Debrecen, Hortobagy and Hajdusoboszlo.

4. SWOT-ANALYSIS OF BALMAZUJVAROS

4.1. Natural Conditions

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Favourable climate conditions ▪ Fertilelands ▪ Significant area of reeds ▪ Relatively low rate of pollution caused by industry ▪ Bio-production based on desirable natural conditions 	<ul style="list-style-type: none"> ▪ Extreme climate conditions may occur ▪ Uncovered roads contribute to dust pollution ▪ Sewerage system insufficiently developed of 25 per cent pollutes the environment and cause disadvantaged situation relating to public health
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Establishing forests, improving pasture management ▪ Environment preserve farming ▪ They have applied for subsidy for expanding sewerage system, which could supplement the financial support of local government and population ▪ Developing eco-tourism e.g. fowling may attract number of ornithologists from England to Balmazújvaros 	<ul style="list-style-type: none"> ▪ Increase of environmental pollution is expected ▪ Lack of ecological view ▪ Because of the deleterious effect of the sewage the groundwater can be polluted

4.2. Social Conditions

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Young age structure ▪ Advanced elementary and secondary education ▪ Availability of higher education is given 	<ul style="list-style-type: none"> ▪ Unemployment rate is still high ▪ Near 70 per cent of the unemployed are unqualified

(University of Debrecen)	<ul style="list-style-type: none"> ▪ Significant rate of workers tend to commute to Debrecen and Hortobagy to make a living ▪ Debrecen attracts young and talent labours ▪ Near 10 per cent of the population is gypsy ▪ Lack of widespread knowledge of foreign languages
<ul style="list-style-type: none"> ▪ Medical attendance is on high standard ▪ Communication network is expanding ▪ Local television, local newspaper ▪ Technician infrastructure regardless drainage is almost fully developed 	
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Developing road system, pavement, cycle tracks ▪ Educating, re-training labour force ▪ Maintaining arts and crafts, folk traditions ▪ Holding cultural events 	<ul style="list-style-type: none"> ▪ Emigration of qualified labours ▪ Due to limited working facilities, number of population may happen to decrease ▪ Conditions of stratum in socially disadvantaged situation may decline further ▪ Civil organisations work with lack of capital, which may lead to an end

4.3. Economic conditions

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Traditions in animal keeping ▪ Significant results in plant production ▪ Increasing tendency in producing organic products ▪ Utilising alkali areas with producing herbs ▪ Gathering herbs, which means a safe job for 60 families, from which 70 per cent is gypsy ▪ Processing bigger amount of herbs as the EU does not set quota for it ▪ Reed cutters of Balmazujvaros are famous even abroad (Holland, Germany, Austria, Slovakia) ▪ Thermal water of the bath has been medicinal water since 1994 	<ul style="list-style-type: none"> ▪ Lack of capital both in agriculture and industry ▪ Little role of industry ▪ Agriculture employs decreasing number of workers ▪ Low standard of income ▪ Lack of big companies
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Expanding capacity for processing products, milk, meat ▪ Tourism may be a strategic point by developing infrastructure and improving local interests. Medicinal water, castle of Semsey and Darassapuszta may play an important role in attracting tourists. Furthermore Balmazujvaros is the only town in the middle of east of the River Tisza which has Swabian characteristics. ▪ Diversified farming: besides herbs, reed-cutting, horticulture ▪ Kvaliko Co-operative plays a significant role in the town in producing, processing and marketing vegetable and fruit 	<ul style="list-style-type: none"> ▪ Income from agriculture is decreasing ▪ Agricultural small enterprises will be less marketable in the future ▪ Opportunities for gaining new markets will be limited ▪ Rate of illegal work will increase ▪ Processing factories will not be built thus the opportunities will not be utilised ▪ Solvent demand will decrease ▪ Need in capital will continue ▪ Non-proper infrastructure will retard the improvement of tourism

5. THE KVALIKO CO-OPERATIVE

5.1. Introduction of the Co-operative

This Co-op in Balmazujvaros was formed in May in 1996, with 14 charter members and with the leading of Peter Rozsa junior as a PO of Vegetable Producers in Eastern-Hungary.

POs are formed by producers consisting of either natural or legal persons to organise production of vegetable and fruit, store and market. The majority operates in a co-operative form, although their associating form is not determined. PO does not mean a separate legal form, that is already existing organisations registered in the Registry Court should be admitted as POs.

Organisations just like these work successfully in several industries of the agriculture even in the European Union. They form the part of EU-market organisation in the field of vegetable and fruit production, thus their importance is prominent and due to this fact it is very relevant for Hungary to close up and for more and more organisations working in legal forms to be admitted as POs.

The Co-op concentrates producers being capable of exporting from 5 Counties (Hajdu-Bihar, Szabolcs-Szatmar-Bereg, Borsod-Abauj-Zemplen, Jasz-Nagykun-Szolnok and Bekes). These counties have different natural, economic and social conditions relating to horticulture. Both vegetable and fruit production have a long-term tradition in the Counties of Hajdu-Bihar (H-B), Jasz-Nagykun-

Szolnok (J-NK-Sz) and Bekes; County of Szabolcs-Szatmar-Bereg (Sz-Sz-B) has the characteristic of fruit-production (especially apple, cherry etc.), while the importance of horticulture in the County of Borsod-Abaúj-Zemplén (B-A-Z) has decreased due to the decline of other national economic branches. The size of areas in hectares for growing vegetable

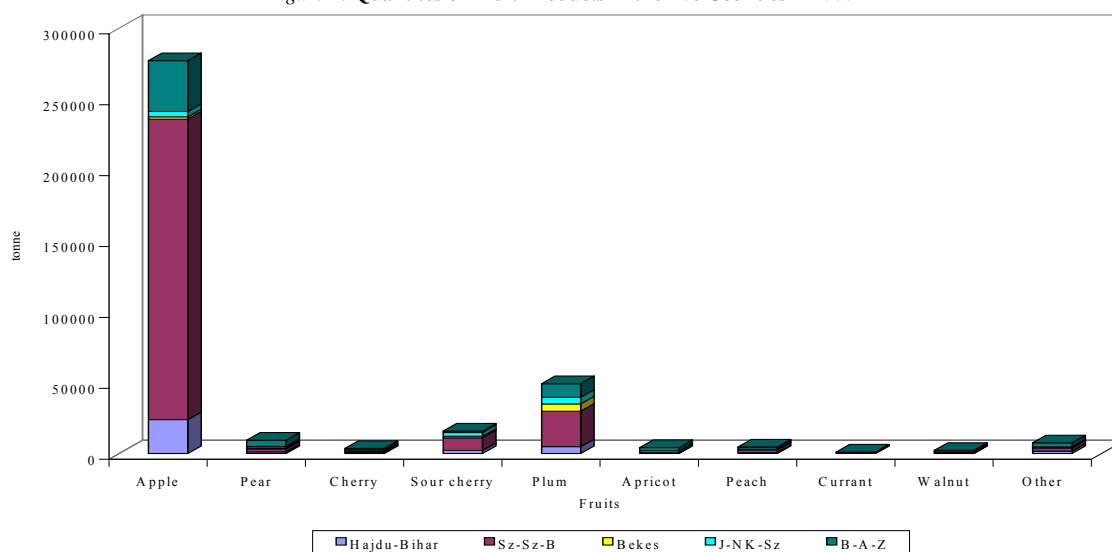
and fruit in the 5 counties can be seen in the *table 3* and in the *figure 1*. It is clear from the table and the figure that which horticulture plants are typical to which landscapes. Conditions of the County Hajdu-Bihar and Balmazújváros is favourable for this purpose, relatively many kinds of vegetable and fruit can be produced.

Table 3: Situation of vegetable production in the 5 counties

Species	Quantity of products (tonnes)				
	Hajdu-Bihar	J-NK-Sz	Bekes	Sz-Sz-B	B-A-Z
Paprika	6305	3859	7988	12810	2500
Pritamin-paprika	4832	407	962	9829	128
Tomato	43298	9234	7980	87010	8160
Cucumber	2067	764	3002	25195	3700
Melon	5400	16232	12333	2600	3026
Green peas	6228	2256	9171	1618	565
Cabbage	4224	3820	1550	16017	5800
Onion	3689	31192	14783	2425	4828
Root-crops	6229	2582	7429	12977	2060
Others	10295	3887	142715	1898	1119
Sweet corn	70610	20930	24696	7353	1350

Source: County Offices of Agriculture of the Ministry of Agriculture and Rural Development and KSH Year Book, 1999

Figure 1: Quantities of Fruit Products in the five Counties in 1999



The Kvaliko Corporation is dealing with producing, marketing and integrating several kinds of vegetable, such as water melon, water melon without seeds, several varieties of paprika, lettuce, cauliflower, sweet corn and egg fruit on a significant area, on more than 2 thousands hectares.

Currently the Co-op has 53 members, which is expected to increase to 70 members due to the fact that the admission procedure was simplified. Previously it was not easy to become a member, as the supplier candidate had to perform high standard production for 2 years, moreover it had to be supported by two previously joined members. Today the membership is handled more flexible, as the Kvaliko Co-op changed to Corporation last year. Buying shares are needed to gain membership. The nominal value of one share is 100,000 HUF. The

Corporation employs 35 members directly and several hundreds of employees on the farms of the producers indirectly.

5.2. Kvaliko, as a PO

The Co-op is EU-standard all round serving as an example for the farmers both in Hungary and in the surrounding countries, too. According to experts there are 3 requirements for POs to operate successfully. They are the followings:

- Farmers should realise that common marketing may be an economic advantage for them. This happened in this case as farmers from 5 counties have co-operated with each other to realise their common aim.

- These farmers should appoint the management coincidentally. The corporation form creates the legal conditions of realising this aim even more. Both the appointed management and the employees are highly qualified professionals, their qualification contributes to the continuous development of the PO.
- Wide sphere is ensured for the appointed leaders and farmers observe their decisions.

The aim of the Co-op just like POs to assist their activities, to ensure proper conditions for efficient marketing regarding the interests of members.

5.2.1. Potential functions of PO:

- ◆ Picking, packing: It is favourable if the farmers have picking-packing equipment on their own. Another possibility is the loose transportation and central procession of the product. In this way the extra profit from the added value goes to the given farmers or the POs.
 - ◆ Storing: There is a possibility to freeze products (tomato, raspberry, paprika) temporarily, or to freeze fruit such as apple and pear for long-term with a common freeze store to make the best of the market situations.
 - ◆ Marketing: There are different ways to fulfil this task in the European Union. For example in the Netherlands there is auction marketing, where the products such as flowers, vegetable and fruit are bought up in an auction salesroom in the centre of the organisation by wholesalers and retailers. Direct marketing to wholesalers and supermarket-chains is coming to the front even in the member states, which is based on previously bound contracts. A major part of the goods is bought up by the processing industry. (It should be mentioned that the PO itself can perform processing.)
 - ◆ Other activities: Besides the above mentioned the POs may fulfil other activities:
 - Common input purchasing (due to the bigger quantity there can be significant discounts when purchasing seeds, chemicals and fertilisers).
 - Common machinery purchasing (farmers on their own are not capable of buying machinery with greater capacity and value, moreover the common operation is more economical).
 - Growing plants (is the most expensive process in horticulture thus it can improve the efficiency in this way).
 - Hiring extension worker (to utilise the common facilities such as in plant protection).
- (8)

The Kvaliko PO fulfil a major part of the potential tasks of POs, such as wholesale of agricultural products, data retrieval on machinery and other equipment, as well as data processing, market research, extension work and other services, too.

Extension workers help farmers in the production process right from the preparation of soil, choosing

the best variety, plant protection, fertilisers, till organisation of marketing. Co-op members and suppliers may order fertiliser, chemicals, seeds and plants with excellent quality, as well as other agricultural inputs directly from the Co-op. Choosing the best irrigation system or asking for credit in banks are also supported by the PO.

5.2.2. Production and marketing

Production occur in an extra intensive form in this way the PO within the integration reaches significantly high yields (*Table 4*) in almost every genus and variety acknowledged even in the whole country.

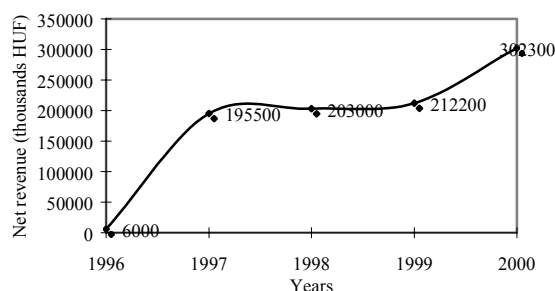
Table 4: Production Data of Kvaliko Corporation

Genus/Species	Yields (t/ha)
Sweet corn	50,000*
Pritaminpaprika	35-40
Californian paprika	38-40
Water melon	35-36
Cauliflower	30-32
Broccoli	12-15
Pumpkin	40-42
Lettuce	38-40
Grano onion	48-50

*corn cob per hectare

The good quality production is one of the reasons that the Co-op develops continuously, which is reflected even in the net revenue (*Figure 2*).

Figure 2: Net income of Kvaliko per year in the period 1996 to 2000



When founding a PO in the European Union one has to fulfil the requirements of the minimum number and the production value. The EU determines these requirements differently in its member states. Because our conditions are similar to those of Portuguese, Hungary should take the requirements for Portuguese into account. That is 0,5 million EURO (about 125 million HUF) turnover per 15 members and 1 million EURO (about 250 million HUF) turnover per 5 members. The Kvaliko fell behind this expected performance in its short first year but it significantly exceeded it in the next year. Hopefully this tendency will remain not just till joining the EU but further. (We are not able to

forecast to which country group Hungary will belong, so it is a factor of insecurity.)

The above mentioned plant genera make up the 90 per cent of the total sales, although the members and suppliers may produce 10 to 20 other plants, too, such as zucchini, kinds of lettuces, aubergine, and other root crops, who may share 10 per cent of the income from marketing. The structure of total turnover can be seen in the *figure 3 and 4*.

Figure 3: Structure of total turnover of Kvaliko in percent relating to genus in 1999

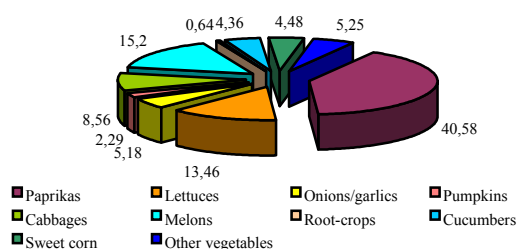
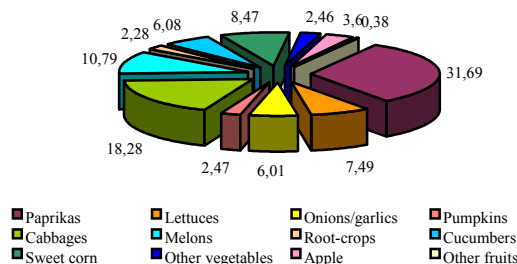


Figure 4: Structure of total turnover of Kvaliko in percent relating to genus in 2000



Marketing of the main genera and varieties happens primarily abroad. The export goes to Finland, Estonia, Austria, Great Britain, Slovenia, Germany, Czech Republic and Slovakia. The PO has connection with two export firms the Garten Ltd., and Albert Piltz Ltd. The PO stopped the direct export last year.

75 to 80 per cent of the inland turnover intends to supermarkets, and other supermarket chains (Hungarian Hypermarket Ltd., CORA chains, Szeged, Miskolc, Budapest, SPAR Hungary Ltd., Interfruct Ltd., Auchan, Tesco Debrecen). One part of the remaining 20 per cent trends to the processing industry, the other part are marketed in wholesale markets, especially in Budapest and Debrecen (*Table 5*). Kvaliko has been dealing with integrating organic products since 2000. They plan to widen this activity this year, and to produce bio-fruit such as strawberry and raspberry.

Marketing fresh vegetable takes up the 70 to 75 per cent of the sales, and marketing different inputs (fertilisers, chemicals, seeds, foil, and other horticultural tools) take up the remaining 25 to 30 per cent.

Realising the opportunities in different products and marketing equipment the PO tries to appear with unique packaging in the market. As the PO wanted a

widespread utilisation of the marketing facilities and tried to follow the basic rules of POs, it wished to expand even in the field of processing. Thus a cold store with 2000 m² and several offices were built in Balmazújvaros with the help of the Dutch government and the FARMCO Dutch B.V.

Table 5: Structure of net revenue in percent relating to marketing places (1999 to 2000)

Marketing places	1999	2000
	(212,2 million HUF)	(302,3 million HUF)
CORA	19,3%	26,23%
SPAR	8,48%	7,11%
INTERFRUCT	9,66%	8,1 %
AUCHAN	-	8,6%
Processors	5,18%	9,66%
Organic	-	0,27%
others	2,12%	7,05%
Total inland	44,77%	67,32%
Albert Piltz	20,26%	20,77%
Garten	25,45%	10,85%
Direct export	8,34%	-
others	1,18%	1,06%
Total export	55,23%	32,68%
Total	100%	100%

5.2.3. Opportunities and challenges

Farmers working in horticulture and Kvaliko have to cope with the following opportunities and challenges on the changing market of vegetable and fruit:

- ◆ Consumption of vegetable and fruit is higher in developed countries than in Hungary. Consumption of vegetable is about 34 kg/capita yearly, the consumption of fruit is 39 kg/capita in a year, which is considerably smaller than the average in Western Europe. As a result a programme called “Consume vegetable and fruit for your health!” started, which aims to improve the markets of horticulture and serves the interests of healthy diet. Food consumption is 22 per cent, the fresh vegetable (together with potato) consumption is 3 per cent within the whole consumption in Hungary thus the market can be expanded. Increase in consumption in Hungary and Central-Eastern-Europe is expected with improving live standard, which may contribute to introduce new varieties as well as the shooting of organic farming.
- ◆ The market of processed goods is increasing all around the world, although the processing industry raises great demands (special variety, production technology) against the farmers.
- ◆ Demands of consumers and processing industry on quality is continuously increasing, farmers have to adapt the most up-to-date technology and widen their knowledge.
- ◆ The structure of marketing is expected to change in Hungary due to the trends in Western Europe, that is the marketing will trend towards

supermarkets. (This assumption has already been a fact in the net revenue of Kvaliko). According to forecasts Hungarian consumers will buy 20 to 30 per cent of vegetable and fruit in supermarkets.

- ◆ Our accession to the EU with mutual ceasing the customs will serve better opportunities in export and increasing competition in Hungary's markets. Farmers and processing firms have to get ready for these competitions. Thus agricultural marketing and market research will gain bigger roles. (Kvaliko has already prepared for this.)
- ◆ Farmers are required to transport products of good quality, steady and big volume according to the change of marketing structure above mentioned. Individual farmers cannot or hardly cope with these requirements even in the European Union. Farmers may get into the suppliers of supermarkets only with listing petition. Demands on quality and even on quantity are very high: products by 2 to 3 lorries are expected to supply for 8 to 10 weeks, which means enormous amount of steady products when the packaging is 0.5 kg. These cannot be fulfilled by individual farmers, thus they are in a defenceless situation and need help. The significance of POs is very important as they form organisations for producing and marketing vegetable and fruit, which concentrate farmers and serve favourable situation for their members in the market competition. Further reason of founding POs is that the EU subsidises vegetable and fruit producers through the organisation and individually. The beneficiary of the subsidy is the farmer but he or she can get to it only through the organisation. If appropriate PO network is not developed till EU accession Hungarian agricultural producers may lose up to 1.5 billion EURO subsidies!
- ◆ Vegetable and fruit production as it requires high amount of labours has the possibility to create working places (for example gypsy population in County Hajdu-Bihar has horseradish producing enterprises with the help of the local government), although it does not cease the unemployment because of its seasonal character. On the other hand it may have an important role in preventing people from emigrating where horticulture has favourable conditions (Klutsik, 2000).

Realising all these Kvaliko was formed with the help of the Ministry of Agriculture and Rural Development, Product Council of Vegetable and of course the self-government of Balmazújvaros. It develops continuously, realises investments to fulfil these requirements and utilise the offering opportunities. They searched for foreign partners for technological development, in this way the PO got a paprika assorting machinery within a Dutch project, which makes the PO capable of fulfilling the requirements of supermarkets, that is supplying

steady products of good quality, and big volume on time (Juhász, 1999). With the help of this machine paprika can be assorted and packed arbitrarily according to its weight, colour, size and length.

Production of goods of good quality is regulated not just in the EU, but in Hungary. The EU vegetable and fruit regulation is not so strict in comparison with the main industries, such as grains, milk and meat, but there are strict regulations on quality which are compulsory to observe. The EU came to a new base regulation in October 1966 on organising vegetable and fruit markets (2200/96/EC). Hungary took over the rules on POs within the accession preparation. (The regulation 25/1999. III. 5. Of the Minister of Agriculture and Rural Development on organisations dealing with producing and marketing vegetable and fruit.)

Products fallen behind the 2200/96 EC Regulation are the vegetable and fruit produced for consumption, grown mushroom, grapes and tropical fruits. This regulation does not apply to potato and sweet corn in Hungary. There are minimum demands on quality of vegetable and fruit consumed such as requirements for size, quality, packaging and marking.

When preparing the Hungarian Food Directory as a preparation for accession Hungary took over parts of regulations from the compulsory requirements on quality of the EU. Law equality has been studying since 1993 and control system is continuously developing. Stations of Animal Health and Food Control examine products exported to the EU compulsory, furthermore control of inland and import products is also needed to develop.

Kvaliko intends to fulfil these demands, as this is the preliminary of competitiveness when marketing both in Hungary and abroad. Following this trend a melon assorting machine was installed last year, which is able to grade melons according to their sizes.

Exploiting marketing facilities Kvaliko purchased several machines helping packaging (onion binding machine, foil machine). Products packed in this way are compatible when they are marketed to supermarkets in Hungary and exported to EU member states. Development of packaging system has been under way.

Besides all these positive things there are also difficulties to cope with. Kvaliko has to compete with the wholesale firms, where it can fall behind in the price race. This problem can be solved by binding contract for production. Furthermore the name "co-operative" may mean disapproval and mistrust to farmers because of historical reasons. Discourses, extension work may eliminate these misunderstanding, when the farmers should realise that only the name is similar, but the aims and tasks in these producing and marketing Co-ops and are much more different and they operate according to a different organisational structure and follow the bottom-up strategy.

5.2.4. Problems of Kvaliko

The PO has to cope with a special problem, too, if the members do not observe the rules. The major liabilities of the members are the following:

- Observing rules of production, marketing and environment protection set by the organisation.
- Marketing products through the organisation, except for the fact when the farmers can market up-to 25 per cent of their products directly to consumers only on their territory according to the base contract. There is an opportunity to market products through another PO, or farmer may market their products on their own when their PO does not deal with these products.
- Paying financial contribution according to the volume or value of the goods turned over.
- Statistical data supply to the organisation and the state.
- Membership in only one PO.

These liabilities are usually observed by the members. Marketing outside the organisation may cause problems when the prices in the market are more favourable and the farmers do not supply the organisation. The control of volume is very difficult because of gaps in information system. Solving this problem is now under way both within the organisation and the concerned Ministry. The solution is realising more precise legal orders and sanctions as it seems that the momentary self-interest is still stronger than the long-term co-operation if there is some profit-lost which otherwise will recover several times in the near future.

The most serious problem of the organisation is the lack of capital, consequently they can hardly purchase integument which is needed almost every day.

5.2.5. Subsidy systems in the EU and in Hungary

Financial sources may be completed with subsidies. The EU has a subsidy system, which has two stages:

- a) POs can get subsidy from the EU based on 5 years before admission. The EU support their founding and the administrative work, which is 5-5-4-3-2 per cent of the turn over for 5 years till 1 million EURO and 2.5-2.5-2-1.5-1.5 per cent of the part above the 1 million EURO. Furthermore subsidy for investment can also be required, which is up-to 75 per cent and non-returnable. (Its precise value is determined by the member states, usually between 50 to 60 per cent.)
- b) If the admission has already happened, the founding subsidy will change into development subsidy through the operational fund. (The operational fund is composed of the payment of the POs' members and the maximum limit of subsidy given by the EU is the 4.5 per cent of the value of products turned over by the PO.) (8)

Support of POs in Hungary belongs to the category of other production subsidies as the subsidy of new-type co-operatives (138-146 §). Within 60 days after releasing the Act one can apply for application for subsidy in the offices of agriculture. POs can get up to 30 million HUF for purchasing movable assets. Offices of agriculture make the judgement of applications. Besides this they can get small amount of subsidies for purchasing seeds, animals, services, which may cover maximum 50 per cent of certified costs. Subsidy of POs falls behind the EU's practice, as even getting subsidy does not mean a solution for POs having little capital. (7)

In our opinion it is obvious, in spite of difficulties, that the Kvaliko, as a PO of Vegetable Producers in Eastern-Hungary is a materialized strategic point in history of Balmazújváros.

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