Conclusions from the Seminar

Over one hundred experts from the government and private sector of OECD Member countries, Hungary, other Central and Eastern European Countries (CEECs), Russia and the Ukraine, as well as international organisations, met in Budapest for two and a half days to discuss the restructuring of the large scale state and collective farms in Hungary, with special attention being given to the new co-operative farms. This Seminar was the fourth special activity organised on the subject of Hungarian agricultural policies within the framework of the activities of the OECD Centre for Co-operation with Economies in Transition (CCET). The meeting was opened by the Hungarian Secretary for State of Agriculture, Dr. Gyorgy Raskó, and the Director of the Directorate for Food, Agriculture and Fisheries of the OECD, Mr Gérard Viatte, who also chaired the Plenary Session panel and drew the conclusions of the Seminar.

Although the Seminar focused on the case of Hungary, the participation of other CEECs and Newly Independent States (NIS) provided for a valuable exchange of views between countries which are faced with similar problems but are at different stages in the transition process. The participation in the Seminar of representatives from governments and various institutions from the private sector helped to create an effective dialogue between the policy makers on the one hand, and the policy recipients on the other. Furthermore, a number of international organisations, representing both governments and farmers were active in the debate.

The conclusions drawn by the Chairman, in his personal capacity, at the end of the Seminar are as follows:

1. The specific issues arising from changes in farm structures and agro-food enterprises in the CEECs and NIS have to be considered within the global context of the process of transition and of structural adjustment. The evolution of these structures depends, to a major extent, on the macro-economic environment. The various forms of
structures in the agro-food system are evolving rapidly, and will continue to evolve. In OECD countries structures are also continuously evolving, however in the case of the CEECs and NIS this process is particularly intense.

2. While agricultural production co-operatives are an important part of the agro-food system, equal consideration should also be given to other types of production structures. It is important that agricultural production structures be seen within the wider framework surrounding the agro-food system, in particular in the essential area of financial institutions, where for example, savings co-operatives could play an important role. Those involved in the various parts of the agro-food system should be central in the process of structural change; indeed, in the case of agricultural co-operatives the farmers themselves should be at the centre of such adjustment.

3. In order to allow farmers to play their full role in the economy there is a need for wide dissemination of information. In particular this should be through education and training in the field of economics and marketing. In this context western co-operatives have proven a very effective instrument for improving farmers knowledge and economic strength.

4. There is an urgent need for an institutional and legal framework which is transparent and accessible. This applies not only to the agro-food system, but also, in particular, to the development of financial institutions. While in some OECD countries it has been possible to develop co-operatives without a detailed legal framework, this does not appear to be possible in the CEECs and NIS which need to develop a radically new institutional framework across their entire economies.

5. The necessity for such a legal and institutional framework is not only important for co-operatives, but more generally so as to provide the basic conditions essential for the development of all economic structures. This is particularly important in relation to ownership rights and the operation of land markets, which themselves provide the basis for the provision of public (through taxation) and private (through mortgage systems) credit and are prerequisites for the creation of leasehold arrangements.

6. The development of the legal and institutional framework should be based on the key principle of non-discrimination between alternative structures. Indeed, there is no model which can be considered ideal for the present situation, neither is there any predetermined model that is ideal for the future. All structures should be given an equal chance so that individuals can choose what they consider most appropriate. Open competition between the various structures is the only way to achieve efficiency, therefore flexibility is required to facilitate the continuing process of adjustment. It is likely that future agro-food structures in Hungary, as well as in the other CEECs and NIS, will be more diversified than generally found in OECD countries. (The present experience of the new German Länder shows this diversity).
7. As far as production co-operatives are concerned, the experience of the West shows that, except in very special circumstances (such as for religious reasons), they have never played a role in OECD countries. However, in the case of Hungary and many other CEECs and NIS, the dominant role that they played in the past, and still play today, implies that they cannot be dismissed and that they could continue to play a role in the future. However, this would require further substantial adjustments in the way in which they are organised and in which they operate.

8. Upstream and downstream co-operatives have been very successful in OECD countries (contrary to production co-operatives) even under competitive conditions. The question is whether the newly transformed Hungarian co-operatives could also expand their activities into the upstream and downstream branches? This may be facilitated by the fact that some of them have recently been reorganised into a number of economically independent units, some of which might find their "niche" in the upstream and downstream branches.

9. In the near or medium-term future, independent private farmers may also find it in their economic interests to develop efficient forms of collaboration in the up and down stream branches of the agro-food system, broadly similar to the so-called "western co-operatives". This could give them the necessary "countervailing power" against larger processing and marketing firms.

10. A fundamental aspect of the transition process is to redefine the roles of the public and private sector. The government has a decisive role to play in the transition process in particular by providing the legal and institutional framework as already mentioned. On the other hand, the various structures discussed above, that make up the agro-food system, have an important economic role to play. The social functions which were previously provided by collective farms should now become the responsibility of the different levels of government: national, regional and local.

11. The sequencing of the transformation process is a major challenge. It is advisable that the various economic sectors be transformed in parallel. It is important to recognise that the process of adjustment will take time and involve hardship, in particular in relation to the shedding of excess labour. However, postponing the adjustment process would only increase the economic and social costs to be faced in the future. Finally, it should be stressed that the agro-food sector alone cannot bear the full burden of adjustment in the rural areas and that the development of other economic activities is essential.

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