SCIENTIFIC INFORMATION

Agricultural land in the new EU countries: are there any consequences to the acceptance of the CAP?

Zemědělské půdy v nových členských státech: má převzetí Společné zemědělské politiky důsledky?

Z. Lukas

The Vienna Institute for International Economic Studies, Vienna, Austria

FACTORS IMPACTING THE LAND PRICE

The eight New Member States of the EU (NMS-8) display a development deficit as compared to the 'old' EU countries. This is also expressed in the form of low per capita Gross Domestic Product (GDP) and in price levels that are far below those of the EU-15 countries. Over the past few years this situation has not undergone any fundamental changes (Table 1). The prices of agricultural land in the NMS, converted into euro, fit in perfectly with the general picture: they too, with the exception of Slovenia, are lower than those in the EU-15. The exchange rates are the reason for price levels in the EU-15 being higher than in the NMS. In addition, the Common Agricultural Policy (CAP) of the EU, with direct payments per area unit, contributes to the higher land prices in the EU-15.

In countries with a rather liberal agricultural policy and a somewhat developed land market, apart from the exchange rates, principal factors influencing land prices are: the quality of land, climatic conditions, availability of water, conditions for the use of machinery, the distance to the most important markets and the rural infrastructure. This, however, applies only to land that has been used agriculturally in the past and is supposed to be used that way also in the future. In areas where a future dedication of land to possibly other utilization purposes can be expected, other factors are important for the price development, such as the attractiveness of land for non-agricultural utilization.

Land prices as well as other agricultural input prices are of decisive importance for the costs (or at least opportunity costs) of the agricultural businesses. In the NMS-8, not only the land prices, but also other input prices are low as compared to the EU-15. This holds true for animal feed and agrochemical products, as well as for services, leases and wages. It also applies to agricultural machinery manufactured by companies that have not yet been taken over by foreign firms.

LAND TODAY

In the NMS the market of agricultural land is underdeveloped. Those parts of the population that would be interested in purchasing land for agricultural purposes are hardly in the situation to finance such purchases. When individual persons, corporations or cooperatives want to operate a farm on land not in their property, they try to lease it.

For foreigners, several restrictions still apply to the acquisition of land. In the 1990s, land became in fact a non-tradable good in the sense that the law strongly impeded sales to foreigners. However, there was a black market for those instances: foreigners got into the market with the support of domestic stooges who acted officially as buyers. In the last few years

The paper was prepared for the seminar of the RIAFE Prague "Economic condition for use of land funds in the Czech Republic after the accession to the EU". 11–15 October 2004, Špindlerův Mlýn, Czech Republic.

Table 1. GDP and price level in the NMS, international comparison at 2003

	GDP at nominal exchange (ER) (€ billion)	At purchasing power parity (PPP)		Real GDP growth (1990 = 100)	Price level compared to EU-15 (PPP/ER) %
		total (€ billion)	per capita (EU-15 = 100)		
NMS-8	487	1 054	43	123	.
Estonia	7	14	43	104	53
Latvia	9	22	38	79	42
Lithuania	16	36	42	88	45
Poland	185	396	43	135[1)]	47
Slovakia	29	63	48	117	46
Slovenia	24	33	68	130	73
Czech Republic	76	149	60	110	51
Hungary	72	136	55	119	53
Croatia	25	44	41	98	56
Macedonia		13	26	90	31
Russia	385	1 129	32	79	34
Ukraine	44	246	21	54	18
EU-15	9 284	9 284	100	130	100
Germany	2 137	1 991	99	122	107
Austria	223	217	111	131	103
Greece	153	196	74	141	78
Portugal	133	175	69	135	76
Spain	741	865	87	139	86
USA	9 608	9 964	141	145	109
Japan	3 817	3 245	105	118	154

[1)]1989 = 100

Source: wiiw, AMECO

before EU accession, some countries made access to their land markets more easy for active farmers from foreign countries.

Agricultural land in the NMS-8 is now predominantly in private hands. Despite a certain concentration process, land property has so far been split into small plots owned by many landholders. Only a fraction of the agricultural area is still state-owned. In Slovakia, Hungary and the Czech Republic, large-scale farms cultivate predominantly leased land. In parts of Poland and in Slovenia, farming done by small farmers who have operated their own land for years plays the most important role. In Poland these little farms co-exist with big market-oriented farms averaging over 500 hectares and working with modern technologies. Although these big farms cultivate just about 15 per cent of total used agricultural area, they produce half of the agricultural production for the market. In the Baltic states, private small-scale farms are now dominating as against the former large-scale enterprises (kolkhozes and sovkhozes).

The price of land in the individual NMS is varying to a great extent, mostly depending on income level and purchasing power. There is a huge span between high and low prices on the land markets of these countries. The closer the land is located to the capital city, and the higher the average income in that capital, the higher is the price of agricultural land.

Statistics face the problem that the land price results from two different transaction types: in the first case, the prices refer to land that has so far been used agriculturally and will presumably continue to be used that way also in the future, without real prospects of a later change to non-agricultural uti-

Table 2. Agriculture: selected indicators of some NMS

	Year	Poland	Slovakia	Slovenia	Czech Republic	Hungary
Used agricultural area (UAA) million hectare	2002	18.413	2.442	0.486	4.280	5.867
% of total territory	2002	58.9	49.8	24.0	54.3	63.1
Hectares per capita	2002	0.477	0.454	0.244	0.416	0.577
Employment in agriculture in % of total employment	2002	19.3	6.2	9.2	4.8	6.2
Price of UAA in Euro per 1 hectare	1997–1999	1 064	1 000*	11 000	1 334	1 507
	2002	1 100*	1 155	11 000*	1 074**	1 500

*Estimate; **2003: over 5 hectares

lization. In the second case, the transactions refer to agricultural land that is bought for the purpose of non-agricultural utilization, in particular for building projects. In this latter case, small areas – up to 5 or 10 hectares – are sold at comparatively high prices. In areas close to cities and other zones attractive for non-agricultural business, the latter type of land transaction is the rule – in fact, there are no more transactions concerning agricultural land as such. We therefore consider only those land transactions that involve over 5 or 10 hectares as decisive for the price of agricultural land.

In Slovenia, the country with the highest income and agricultural subsidies, prices of agricultural land are accordingly the highest: at more than EUR 11 000 per hectare, they are close to the EU-15 average (Table 2). Among the remaining NMS, Hungary shows the highest prices thanks to the high quality of land for agricultural purposes (the best in the NMS region). When located close to the EU-15 border, agricultural land in Poland, Slovakia, the Czech Republic and Hungary has been in great demand by foreign farmers, in particular those from Germany and Austria, regardless of the lower quality of soil. This fact increases the land price. As a rule, it concerns purchases of agricultural land without the expectation of later changes in the land use categories. Although foreigners intending to lease agricultural land meet with less obstacles, they cultivate only a small part of the total used agricultural area in the NMS.

EU ACCESSION AND THE CAP REFORM

The national agricultural policy in the NMS has been mainly determined by the EU's Common Agricultural Policy (CAP), although there have been a few transitional regimes such as for animal welfare, veterinary standards and land transactions. In Copenhagen (December 2002) several accession countries agreed, with respect to the liberalization of the land market, on a transition period of seven years after accession to the EU. Following tough negotiations with the EU, Poland managed to agree a transition period of twelve years. Slovenia has opened its land market immediately after its EU accession.

In 2003 EU Commissioner Fischler presented relatively radical proposals concerning the reform of the CAP. These were accepted in a reduced form in Luxembourg. The agreed reform package determines simultaneously the financial framework for agricultural expenditures up to 2013. The basic reform goals are sustainability of agriculture and its stronger market orientation. The Commission aims to reach these goals mainly through a partial decoupling of direct payments from production results as well as through a reduction of the market price support. Both issues are targeted at a decrease of market prices and finally at reducing the agricultural surpluses. The lower market price support should open the door for higher expenditures for direct support (payments). These two instruments for the support of agriculture are incorporated in the so-called 'first pillar' of the CAP. Such budgetary restructuring is essential because of the strong increase in the number of farmers after the EU enlargement. Apart from the restructuring within the first pillar, part of the money saved (by lower market price support) is to be invested into rural development, the so-called 'second pillar' of the CAP. This far-reaching programme is to operate with the unchanged total CAP budget as it is based rather on restructuring.

Also after the completion of the transition period in the year 2013, the CAP rules should be effective

without essential changes, it settles lower direct payments per hectare or per farmer in the NMS, in euro terms, compared to the EU-15. Direct payments are based on the reference areas and reference yields, as agreed in Copenhagen: to be exact, they are based on a reference period (the last two or three years prior to EU accession) when both cultivated areas and yields were smaller than in the EU-15.

LAND PRICE CONVERGENCE

It is expected that after a number of years of EU membership, the difference between the general price level of the NMS and that of the EU-15 will diminish or perhaps disappear completely. This convergence process will be driven by higher inflation rates in the NMS, by nominal appreciation of the currencies, or by a combination of both factors.

It is not very likely that this process will take place quickly and that the price differences will disappear in the foreseeable future. As is well known, the difference between the price levels of the northern EU countries and those of Greece, Spain and Portugal have not disappeared until today. The land price in the NMS will climb more quickly, in relation to the EU-15, than the general price level – at least after the liberalization of the land market; and at least for regions bordering the EU-15 countries and for regions where the land quality, the climate and the size of farms are favourable for farming. Regardless of these factors, the development of the general price level will play a more important role for the increase in the nationwide average land price in the NMS than the introduction of the CAP, although the hectare-based Single Area Payment Scheme (SAPS) may influence the price rise.

ECONOMIC SIGNIFICANCE OF LAND PROPERTY IN THE FUTURE

The effect of the increase in land prices on agriculture will not be uniform. For landowners involved in farming, higher land prices will mean an increase in the value of their property, but not an increase in their production costs. For some of them, the higher land price may represent an opportunity to abandon farming and to sell their land to neighbouring farmers who wish to enlarge their farms, or sell it to non-agricultural investors, expecting or actively operating in changes of land use categories.

Another picture emerges for large agricultural companies that operate on leased land. The owners of that land are as a rule a multitude of persons holding small plots but living in the cities, being employed in the non-agricultural sector. For the management of large companies, land is an input for which they must pay regularly. At present the rent prices are low, but this will change along with rising land prices. Higher land prices will lead to higher rent prices and the farmers in large companies will be confronted with higher charges, resulting in higher production costs. To sum up, whereas the landowners will profit from the opening of the land market to foreigners, farmers cultivating leased land will suffer.

EFFECTS OF HIGHER LAND PRICES

If the CAP reform is finally implemented in the currently envisaged form, the result may be that in favoured regions, both in the EU-15 and in the NMS, efficient large-scale farms will emerge that benefit from economies of scale. The farmers in these regions will be supported by the partially maintained links between direct payments and production (partial decoupling). This fact will stimulate production in order to raise farmers' revenues. In those areas where large-scale companies are already operating, a concentration processes may take place, resulting in a declining number of farms. Also in countries that would completely decouple direct payments from production quantities, farmers could try to increase their income: they may concentrate on the production of goods whose production volume is not controlled by the EU.

In less favoured regions, the expected price decline of agricultural products will gradually encourage part of the owners to lease or to sell their land. Some farmers will seek their main income outside of the agricultural sector and will use farming just as an additional income in the form of semi-subsistence farming or will merely operate subsistence agriculture. Others may try to find market niches or to produce and directly sell high value-added goods. Small farmers in the NMS operating in the less-favoured areas dispose of some comparative advantages such as better environmental standards. In fact they may provide ideal preconditions for producing labour-intensive high-quality organic foods. The main issue is consumers' confidence, provided by transparent rules and strict inspections of organic foods. Thus, regulations directed at origin of products and at trade marks must be coupled with consumers' easy access to the organic foods markets.

The future development of the land market will face many dilemmas and uncertainties. For instance,

despite the comparative advantages of economies of scale, large-scale farming contradicts the philosophy of sustainable agriculture. It appears that in the future the size of farms, especially in Europe, will increasingly be linked to the issue of ecologically sustainable agriculture. Also the hardly predictable exchange rate development will play an important role. A further appreciation of the euro against the US dollar may increase the cost of guarding against the risk of EU farm-gate prices dropping. The future policy pursued by the European Central Bank may have a greater impact on European agriculture and thus on the land market than the CAP reform and the effect of a liberal future WTO agreement.

Contact address:

Dipl.-Ing. Zdeněk Lukas, Wiener Institut für Internationale Wirtschaftsvergleiche, Oppolzergasse 6, A-1010 Vienna, Austria
e-mail: lukas@wiiw.ac.at