

ACTUAL PROBLEMS OF AGRICULTURAL LAND MARKET IN LATVIA

Vladislavs Vesperis
Latvia University of Agriculture

Abstract

Agricultural land is one of the most valuable natural resources which can be found in Latvia, since agricultural land has long time served as an important resource of economic activity and food production. Efficient use of this valuable resource depends not only on technologies and knowledge at disposal of farmers but also on regulations concerning the real estate market and taxation of the real estate. Recent changes of the real estate market regulation as concerns agricultural land are analyzed in this paper to identify a possible influence on the use of agricultural land.

Key words: agricultural land, real estate market, property tax.

Introduction

Agricultural land is one of the most valuable natural resources which can be found in Latvia. It is a long time ago since agricultural land has served as an important resource of economic activity and food production. Land in agricultural holding is a productive factor of a special kind since, unlike other things used in agricultural production process, it does not undergo the process of moving and increasing. It should be taken into account that many factors influence a situation on agricultural land market, of which only part are directly connected with economic situation in agriculture and agricultural policy. Changes occurring within the framework of the national economy and on a global scale are of crucial importance strongly influencing the changes occurring in the agricultural structure (Sikorska, 2010). It should be also taken into account that an impact of the size of cultivated land on the scale of agricultural raw material production is decreasing. Therefore economic success does not require involving in an agricultural activity carried out in a considerable area of land (Majerova, 2007).

As the world population and global demand for food is permanently growing, availability of agricultural land for food production becomes more important. The world population has increased from 2.5 billion people in 1950 up to 6.9 billion in 2010 (United Nations, Department of Economic and Social affairs, 2012). Another important global trend that should be noted regarding the use of agricultural land is an increasing conflict among food production, on the one hand, and production of renewable energy, on the other. An increasing level and volatility of prices of energy produced from fossil resources as well as the necessity to slow down the speed of the climate change require that a larger share energy is produced from renewable resources as well as less GHG emissions are emitted. The climate change has a great impact on agriculture as the vegetation period changes, the climate becomes either more dry or wet, various types of animal species migrate that result in changes of local biodiversity. These trends and challenges have encouraged many countries to set such goals as to protect available agricultural land and to ensure that it is used in an efficient and sustainable manner.

As regards Latvia, some additional aspects have caused a very intensive public debate and even legislative proposals. One of such problems is abandoned agricultural land which is not used for economic activity therefore it can be assumed that a significant economic potential is not used as well as opportunities to decrease unemployment rates which are substantially higher for rural and more remote areas. The necessity to use agricultural land more efficiently is also stressed in the National Development Plan, particularly in the chapter "Sustainable management of natural and cultural capital" (Saeima, 2012) where two important goals are set: 1) to increase the share of agricultural land used for organic farming; 2) to increase the share of used agricultural land. 87.9 % of agricultural land was used for economic activity according to the National Development Plan but the rest was not used and can be counted as the abandoned land. The main reasons behind the problem of abandoned agricultural land are partly efficient land reform implemented in the nineties or re-nationalization and the rural depopulation. The main concern of the land reform was to return the ownership rights of land and real estate to people who were owners before the loss of independence of Latvia in 1940 or descendants of the owners therefore the momentum of historical justice was a cornerstone of the land

reform, as it is stated in the law “On land reform in the rural areas of the Republic of Latvia”. Only later it was recognized that such an approach created the sort of land owners who were not farmers themselves or they were living abroad and therefore their capacity to manage agricultural land was limited. Many of those who restored the land ownership rights lacked sufficient resources and necessary equipment to start efficient and modern agricultural business. It is recognized in the land policy guidelines that inefficient use of land and land degradation are among the core problems of land policy therefore knowledge of landowners about sustainable use and protection of land resources should be improved (Ministry of Regional..., 2008).

Despite the fact that Latvia had joined the EU since May 2004 and had become a member of the EU single market, Latvian farmers were not able to achieve the capacity to compete equally and successfully with foreign investors for agricultural land as the production resource. According to the Latvia – EU accession treaty, restrictions for citizens of other EU Member States to buy agricultural land in Latvia were into force during the transition period until 2011. This exception was applied to other newly acceded states and such a decision was justified by possible agricultural land market distortion. The main idea was that farms of new member states were not developed enough to compete with foreign capital as they have not accumulated enough capital. Another threat was that agricultural land could be an object of illegal deals as prices were and they are also now significantly lower in comparison to agricultural land prices in those EU Member States which entered the European Union before 2004. Another very important factor is competition for land within the agricultural land market. Many farmers usually have an interest to expand their production in order to increase a farm’s productivity and profitability by means of its size. Taking into account increasing competition for agricultural land and expansion interests, prices of agricultural land have risen over the years. Several authors (Marks-Bielska, 2013; Dale, 2006) propose various methods for evaluation of land market. They point out that land market analysis might be accomplished using a comparative analysis of prices, profit and return on investment. According to data of the Central Statistical Bureau, an average price of agricultural land has grown from approximately 870 euros per hectare in 2011 up to 1,998 euros per hectare in 2013 or by 130 per cent just in two years which indicates that agricultural land market is booming. It is no surprise that local farmers were not happy with so rapidly growing prices of agricultural land therefore politicians, on principle, were obliged to respond to this increase of prices, especially taking into account that agricultural land market was to be opened on 1 May, 2014. A well-functioning land market provides clear benefits for governments, individuals, companies and investors. In addition, the real estate market, as well as land market promotes the transition to a fully market-based economy and creates a new source of capital, encouraging greater economic growth (Kardokaite – Šimanauskiene, Sudeikiene, 2013).

Therefore the law “On privatization of land in rural areas” put a number of restrictions on foreign citizens and companies to acquire land in rural areas putting most restrictions on acquisition of agricultural land in particular. In 2011 Latvia used the possibility to prolong this transition period by three years, however, in the 1st of May, 2014 this additional transition period ended. Recognizing situation that agricultural land can in near future become more as an object of speculation deals rather than being a resource of the productive economic activity, the Ministry of Agriculture prepared and submitted a proposal for amendments in the law “On privatization of land in rural areas” to the government. An annotation of this law proposal (The Cabinet of Ministers, 2013) stated that the main aims of the new legislation are to ensure that the use of agricultural land is rational, sustainable and efficient, maintaining the current share of agricultural land in the whole territory of the state as well as ensuring protection and availability of agricultural land for population.

However, it was rather clear that restrictions on acquisition of the agricultural land cannot be set depending on citizenship as such regulation would break the EU legislation which sets out several basic freedoms of which the freedom of capital mobility here is of a particular concern. It should be also noted that according to the information of the State Land Service, an impact of foreign capital on the real estate market in Latvia is substantial only in the segment of new and exclusive apartment projects in Riga and Jurmala cities, but as for other segments of the real estate market, there is no considerable influence of foreign capital and consequently there is no influence on cadastral values (State Land Service, 2013). In the first half of 2014, a more detailed review on agricultural land market concluded that around 8% of agricultural lands belong to enterprises with foreign-owned share capital. There is also a conclusion that approximately 10% of agricultural land could be potentially

involved in purchases of speculative capital and such land is envisaged for sale with profit in future. Such likely speculative capital enterprises are holding approximately 2% of agricultural land (State Land Service, 2014).

A legislative proposal which included amendments in the law “On privatization of land in rural areas” was adopted by the Parliament on July 3, 2014 and the amendments came into force on August 1, 2014. Some of the amendments were to be enforced from November 1, 2014 as there were regulations of the Cabinet of Ministers necessary as procedures of the law implementation. The **aim of the article** is to analyze consistency of the new legislation with the defined aims of the legislative proposal as well as to predict its possible outcomes and an impact on agricultural land market. The **tasks of the research** include:

- 1) to analyse the existing literature on the regulation of agricultural land markets;
- 2) to analyse the current situation as concerns the use of agricultural land and its efficiency;
- 3) to analyse the freshly adopted legislation and assess its impact.

It is important to ensure that all agricultural land as an important resource is properly used and achieves the best possible economic result. Investments in agriculture and better management could increase efficiency of the agricultural sector. In addition, social aspects of land governance should not be forgotten. Rural territories should be inhabited, vibrant and with diversified economic activities therefore it is important to balance economic efficiency with availability of agricultural land for everyone who wishes to start farming business. Changes to the legislation adopted in 2014 created a number of restrictive conditions as regards agricultural land market, therefore it is important to assess whether the newly adopted legislation will help to achieve the aims that were stated by the Ministry of Agriculture and what possible side effects may appear.

The available scientific literature, reviews of the State Land Service, policy documents, legislative acts as well statistical data were used. The methods of synthesis, descriptive analysis and deduction were applied.

Discussions and results

The newly adopted legislation includes several substantial changes for agricultural land market.

First of all, transactions of agricultural land are subject to the special eligibility procedure at the local municipality if a property proposed for sale consists of agricultural land only or the dominating share of property is agricultural land. However, there are also a number of exceptions as regards the special eligibility procedure and most important of exceptions is one which states that a natural person can buy agricultural land if the total area of agricultural land owned by the respective natural person does not exceed ten hectares; as regards legal persons, this threshold is fixed at five hectares. Other exceptions are cases of the hereditary right, insolvency, land consolidation, land owned by public bodies, transactions between spouses and relatives.

Secondly, if the special eligibility procedure is necessary according to the legislation, natural and legal persons should comply with a number of law requirements such as official registration of economic activity and no tax debt. In addition, the law also requires that at least one of the following requirements are fulfilled:

- 1) income from farming in previous years is at least one third of total economic activity;
- 2) a person has received area payments or direct payments according to the EU regulations;
- 3) a person has relevant tertiary, vocational or training education.

In fact, the above mentioned legislative requirements mean very substantial and unprecedented intervention of the state into land market. Until the adoption of the latest legislative changes, agricultural land market functioned rather freely and every Latvian citizen was eligible to buy agricultural land of any size. Now the scope of persons who are eligible to own more than 10 hectares of agricultural land is substantially narrowed because of the above mentioned requirements included in the law. It is also required by the law that municipal commissions are to be set up to evaluate fulfilment of the new requirements of the law which puts additional administrative burden on municipalities without clearly stated allocation of additional resources for municipalities. It should be noted that transfer of land ownership rights on agricultural land now will take much longer time and will require much more resources in comparison to the procedure before. Another issue is that the new regulation includes rights for a leaseholder to step into a purchase agreement if agricultural land is not offered for sale to a leaseholder. If a leaseholder does not use this right, the State Land Fund are also

entitled to use this right in case of certain conditions. It means that even if a person wishing to buy agricultural land might fail to do so since the leaseholder or the State Land Fund can buy this land instead of him/her. The scale and necessity of the state intervention can be assessed from several aspects. Firstly, it is important how many land properties will be subject to the special eligibility procedure and how large administrative burden is put on landowners. Secondly, if the goal of legislation was to ensure that all agricultural land is used for agricultural activity and to increase efficiency of its use, it is important to analyse the changes in the share of abandoned land and to assess whether productivity of farming businesses is increasing. According to the regulation No.748 of the Cabinet of Ministers regarding land transfer decision making process, all rural municipalities will have to establish municipal land commissions which will be obliged to assess cases of agricultural land selling agreements. Therefore it is reasonable to ask whether this new administrative burden will help to achieve the stated goals and whether the burden will be worth it. According to the data of Agricultural Census done by the Central Statistical Bureau, the area of agricultural land per farm has increased to 24.9 hectares in 2013. According to the same data the number of farms with the total area of land less than 10 hectares were 32,981 or 40.3 per cent of all farms. The number of farms with an area of agricultural land less than 10 hectares were 49,786 or 61.0 per cent of all farms. It means that 39.0 per cent of all farms fall under requirements of the current regulation and the special eligibility procedure should be fulfilled if the selling agreement is to be made. However, it may be said that this threshold is even lower because if a present landowner having, for example, six hectares seeks to buy additional agricultural land of just five hectares, then the special eligibility procedure should be performed according to the law as the total amount of agricultural land owned by the respective landowner would exceed 10 hectares of agricultural land as a result of such land purchase. Figure 1 shows that an area of used agriculture land as well as an average size of agricultural land per farm have increased.

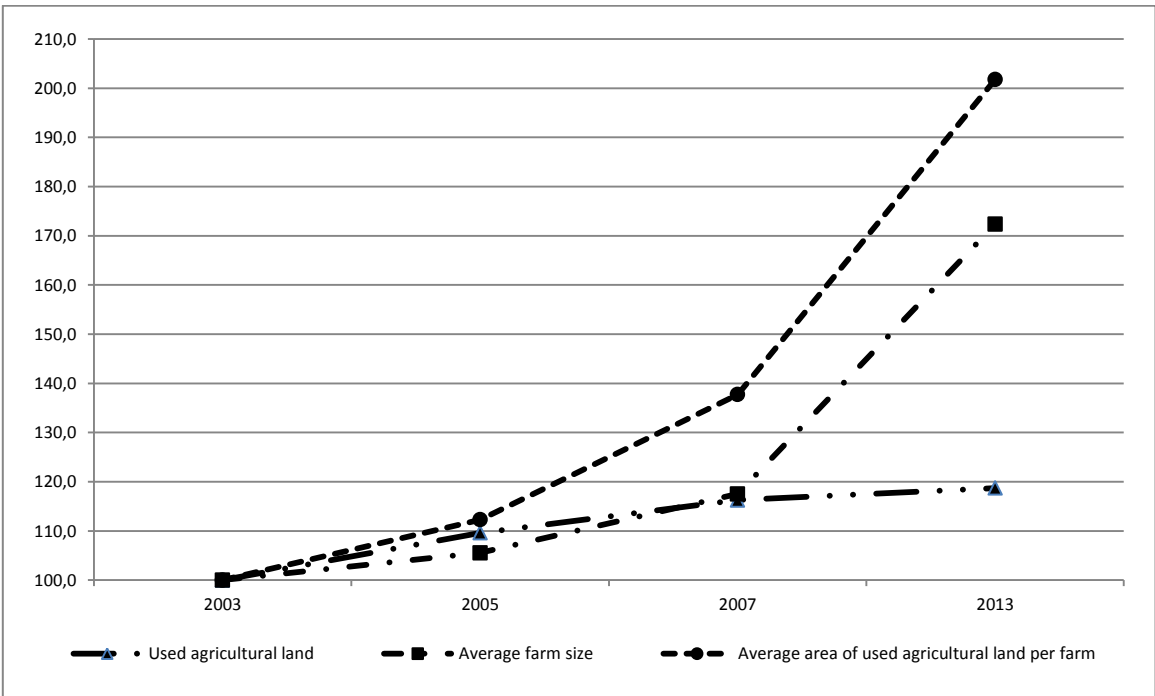


Fig. 1. Changes in use of agricultural land and the size of farms.

From this perspective the necessity of the approved regulation is hardly justified as positive trends are already visible, i.e. farming has become more efficient due to the less fragmented agricultural land and its increasing use for agricultural production. In addition, the new regulation sets out requirements for relevant tertiary, vocational or training education in order to prevent that agricultural land gets into the hands of speculators or people that have no knowledge of farming. However, according to the data of Agricultural Census, it should be noted that the share of farmers having relevant tertiary or vocational education has risen from 21.4 per cent in 2005 to 28.4 per cent in 2013. The data prove the trend that

agricultural land is increasingly used by educated people who have relevant knowledge for agricultural business. Another factor of efficiency is the share of farms that sell their production.

Figure 2 shows that an average area of agricultural land per farm in 2013 has increased twice compared to 2003. The similar observation can be made about efficiency gains as the share of farms selling more than 50 per cent of their products has almost doubled from 13.4 per cent in 2003 to 25.3 per cent in 2013. From such a perspective it may seem a positive trend, however, the situation can hardly be welcomed if the share of farms selling at least some part of their products to market has not increased substantially during the last ten years and the number of such farms are less than a half of all farms. Additional administrative burden for land market and narrowing the scope of people eligible to buy agricultural land might make this situation even worse.

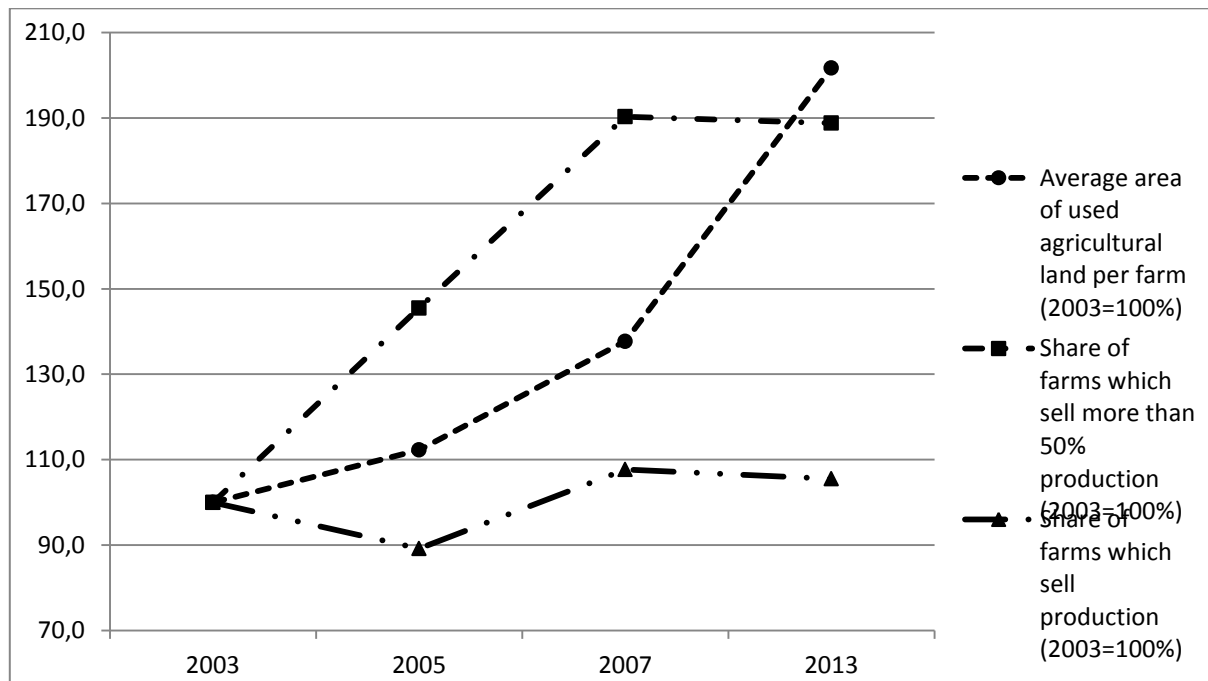


Fig. 2. Share of farms selling their production.

Another substantial state intervention is the requirement that maximum amount of agricultural land which one person is allowed to own in Latvia is 2,000 hectares. However, this does not include that agricultural land which at the moment of law adoption is leased by a person or land for which this person receives area payments. Local municipalities while taking into account their long-term development view, strategic priorities and spatial development perspective are entitled to set out respective restriction on maximum of agricultural land area within their territory while not exceeding national level threshold of 2,000 hectares per person. Such a regulation was intended to ensure wider availability of agricultural land to potential new landowners, however, this regulation has several serious disadvantages. It is possible to buy agricultural land and register it for family members and, by doing so, increase the area of agricultural land belonging to the farm for several times. Secondly, it is almost impossible to control indirect change of land ownership if shares of companies are subject for sale and those companies own agricultural land, as parties of such selling agreement are not requested by the law to submit this agreement to the municipal land commission which is responsible for evaluation and approval or disapproval of land purchase agreements as this agreement does include shares of the company but not an agricultural land as a deal subject. Finally, such necessity to check that this requirement is respected puts one more additional administrative burden to the municipal land commission. It can also be discussed whether the amount of 2,000 hectares is a relevant threshold to ensure wider availability of agricultural land and whether such a limit restricts a large share of farmers from further development. Table No.1 provides information on changes in the number of farms depending on the size of their used agricultural land. It is possible to conclude from the table No.1 that the number of farms has decreased substantially after 2005 and the lion's share of it is to be attributed to smaller farms with an average agricultural area up to 10 hectares which have halved during the last

ten years. There are only 480 farms which own more than 500 hectares of agricultural land and probably even much less of farms larger than 2,000 hectares. An average area of agricultural land per farm is 24.9 hectares therefore the decision to put the threshold on land ownership per person which is approximately 80 times higher than average can be hardly justified.

Table 1

Number of farms grouped by size of used agricultural land

Size/Year	Number of farms			
	2003	2005	2007	2013
līdz 0.9	19,919	17,640	10,607	10,301
1.0–2.4	21,093	20,924	16,309	10,180
2.5–4.9	27,087	25,760	21,313	13,290
5.0–9.9	29,624	30,401	26,837	16,105
10.0–19.9	20,070	22,226	20,633	15,791
20.0–29.9	5,580	6,533	6,402	5,323
30.0–39.9	2,416	2,687	2,802	2,504
40.0–49.9	1,298	1,529	1,549	1,634
50.0–99.9	2,246	2,515	2,870	2,695
100.0–199.9	890	1,128	1,60	1,454
200.0–499.9	446	541	662	961
≥500.0	179	230	288	480
Total	130,848	132,114	111,532	80,718

It would be necessary to start a discussion on real estate taxation policy with an aim to reduce opportunities for speculative deals with agricultural land and to ensure that agricultural land is properly used. The current taxation legislation envisages a possibility to to apply additional tax rate for abandoned agricultural land (Saeima, 1997) but there is still an open issue how often such a possibility is used by municipalities. Another option would be to increase income tax from capital gains which could be used for imposing a tax on income from selling of agricultural land and thus decreasing an interest to speculate with agricultural land. However, none of these options were discussed as an alternative option despite the fact that they would possibly achieve the stated aims more efficiently avoiding much of administrative burden. Latvia Sustainable Development Strategy until 2030 sets out the goal of keeping balance between rural and urban population so that rural population is at least 30 per cent of the total population (Latvijas ilgtspējīgas attīstības..., 2010). Such a high threshold of possible land ownership will not prevent but rather facilitate further concentration of agricultural land in largest farms while people from smaller ones will abandon them and move to cities. It might increase unemployment in rural areas and then consequently cause further depopulation of the countryside, the number of abandoned residences and degraded areas.

Conclusions and proposals

1. Prices of agricultural land and competition for it have grown substantially prior to opening of agricultural land market for citizens of the European Union, European Economic zone. An increase of prices, possible loss of local farmers in a competition for agricultural land and fear of speculative activities created demand for stricter regulations of agricultural land market.
2. The necessity of the new regulation of agricultural land market from the perspective of efficient use of agricultural land is not justified as used agricultural land and an average farm size are increasing. Options for improvement of taxation policy as concerns agricultural land market were not analyzed and used but those might achieve better results without putting restrictions and additional administrative burden.
3. Is is impossible to assess fully an impact of the new regulation as it came into force rather recently, however, some disadvantages can be identified: more time-consuming transfer of land ownership, a larger amount of administrative burdens and municipal resources for control of agricultural land

market, while delayed consolidation of land and limited economic effect and an impact on the use of agricultural land, is present at all.

References

1. Agricultural land market in Latvia – main trends. State Land Service, 2013, 28p. Available at: http://www.vzd.gov.lv/files/liz_parskats_18032014_kopa.pdf
2. Agricultural land market in Latvia – more detailed analysis. State Land Service, 2014, 29p. Available at: http://www.vzd.gov.lv/files/liz_parskats_2_08092014.pdf
3. Amendment in the law “On land privatisation in rural areas”, (2014). Saeima. Available at: <http://likumi.lv/ta/id/267659-grozijumi-likuma-par-zemes-privatizaciju-lauku-apvidos>
4. Annotation to the Amendment in the law “On land privatisation in rural areas”, (2013). Ministry of Agriculture. Available at: <http://titania.saeima.lv/LIVS11/SaeimaLIVS11.nsf/0/DF90038E8F25363FC2257C68002461B9?OpenDocument>
5. Dale. P. (2006). Land markets and the modern economy. London/ Dale. P., Mahoney. R., McLaren. R., Royal Institution of Chartered surveyors (RICS). Available at: http://www.knowledge.co.uk/Papers/Land_market.pdf
6. Kardokaite – Šimanauskienė. V, Sudeikiene. G. (2013). Evaluation of agricultural land market development in Lithuania based on Kaunas district land survey. *Taikomoji ekonomika – Sisteminiai Tyrimai*: 2013.7/2. pp.127-142.
7. Land policy guidelines (2008). Ministry of Regional Development and Local Governments, 39p. Available at: http://www.varam.gov.lv/lat/pol/ppd/telp_plan/?doc=12700
8. Latvia sustainable development strategy until 2030 (2010). Saeima, 107 p. Available at: http://www.pkc.gov.lv/images/LV2030/LIAS_2030_en.pdf
9. Law on real estate tax. (1997). Saeima. Available at: <http://likumi.lv/doc.php?id=43913>
10. Majerova. V. (2007) Social factors influencing differences between developed and less developed regions. *Agricultural Economics - Czech*, pp. 513-517.
11. Marks-Bielska. R. (2013). Land use policy. Department of economic and regional policy. University of Warmia and Mazury in Olsztyn, Poland.
12. National Development Plan (2012). Saeima. 64p. Available at: http://www.pkc.gov.lv/images/NAP2020%20dokumenti/NDP2020_English_Final_.pdf
13. Regulation No. 748. Regulation on decision making on transfers of agricultural land. Cabinet of Ministers, (2014). Available at: <http://likumi.lv/ta/id/271228-noteikumi-par-lemumu-pienemsanu-darījumiem-ar-lauksaimniecibas-zemi>
14. Sikorska. A. (2010). The socio-economic factors affecting the development of agricultural land market in Poland. *Acta univ. agric. et silv. Mendel. Brun.* LVIII, No.6, pp. 445-452.
15. United Nations, Department of Economic and Social affairs, 2012. World population prospects. Available at: <http://esa.un.org/unpd/wpp/Excel-Data/population.htm>.

Information about author

Vladislavs Vesperis, PhD, oec, Assistant Professor, Latvia University of Agriculture. Akademijas street 19, Jelgava, Latvia, +371 26344090, vladislavs.vesperis@apollo.lv Land policy, regional development.