

THE DEVELOPMENT OF FOREST PROPERTY RIGHTS FROM EARLY 20TH CENTURY TO MODERN TIMES

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Abstract. Forest is an important natural resource to the Latvian economy. It is useful to examine the historical context to estimate objectively the events that created the structure of forest property rights today. While 50.3% of all Latvian forests are state-owned and the remaining 49.7% are under different ownership, historically this structure has changed with the political situation and the authorities. The changes in forest property rights were examined from the beginning of the 20th century up to modern times, identifying three distinct periods.

The main conclusions were that, looking from the standpoint of economic performance, the period between the beginning of the 20th century and 1940 was characterized by an ill-conceived transformation of forests into farmland. In 1989, the notion that rural households are an economically independent form of farming became established. The year 2000 marked the final large transformation, as the state functions in forestry were delegated to the Joint Stock Company "Latvijas valsts meži", which now contributes significantly to the state and local budgets.

Key words: forest ownership, agrarian reforms, economical issues.

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Introduction

Forest is a priceless treasure of the natural world. According to the data of the Central Statistical Bureau of Latvia, the total forested area is 3.5 million hectares, covering 56.9% of the territory of Latvia. This puts us among the most forested countries in Europe. In 2011, the export value of forestry output was 1.18 billion lats, the value of final goods 1.34 billion lats, and its share of gross domestic product accounted for 5% (Klauss K., 2011). These facts show that forests are an important natural resource for the Latvian economy.

50.3% of all Latvian forests are state-owned, and the remaining 49.7% are under different ownership. Historically, this structure has changed with the political situation and the powers. It is important to understand the historical developments. The eminent Austrian economist Schumpeter has said that historical knowledge in particular makes it possible to include an understanding of the state and the societal institutions that make up economic life in analysis. To shorten the length of material, the authors chose the beginning of the 20th century as the starting point of analysis of forest property rights, dividing this time into three periods.

Man has been dependent on the forest for food, material, recreation, and income from antiquity to the modern day. In order to estimate objectively the events that produced the structure of forest property rights today, it is useful to examine the historical context. Property rights are a key factor for achieving maximal economic outcome from forest resources in a sustainable way. In addition, this research is topical, because it is important to explore forest ownership development as the basis for future researches. Based on the topicality of the theme, the **aim** of the study was defined as exploring the structure of forest property rights from the beginning

of the 20th century to modern days. To accomplish it, the following **objectives** were proposed:

- 1) to explore the development of forest property rights from early 20th century to 1940;
- 2) to explore the development of forest property rights from 1940 to 1990;
- 3) to explore the development of forest property rights from 1990 to the modern days.

Monographic descriptive method, analysis and synthesis methods are used in the research to explore the development of forest property rights from early 20th century to the modern days as well as theory aspects and problem elements. Empirical research method is used to develop general statements from separate facts or to determine regularities. Logical construction and interpretation methods are used for developing conclusions. Legislative acts of the Republic of Latvia, scientific publications, other relevant literature, and internet resources were used in the study.

Research results and discussion

The structure of forest property rights and changes in its distribution will be explored in three periods, describing the most important events during each of these periods. The periods are chosen based on the theoretical studies (Boruks A., 2003, Boruks A., 2001, Strods H., 1999., Kronitis J., 1965). The changes of political and socio-economic regimes are the result of the period distribution.

1. Characterisation of forest land property rights before 1940

For many centuries, the territory of Latvia has been under the rule of various foreign powers. Only in the

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19th century Latvian peasants did gain the right to purchase property. Redemption of noble properties claimed with serfage begun in the second half of the 19th century. It was not uncommon to purchase farms in Kurzeme and Vidzeme together with all their easements. Private estates had an especially high amount of easements. When the purchase of farms by serfage started, nobles often cut down and sold off the largest of the peasant forests (Strods H., 1999).

Until World War I, only about 10% of all the land, i.e. around 650 thousand hectares, was owned by the state. The majority of this state owned land – more than half of it (around 400 thousand hectares) was covered with forests. Around 1300 private estates owned 48% of all the land, 39.5% was owned by the peasants (Vasilevskis A., 2007).

Since forests could be totally owned by the “crown” or the nobles, but not the peasants, peasant farms suffered from lack of access to forests for centuries. Theft was observed to be one of the ways to acquire the necessary construction materials and firewood. The relationship between the estates, the “crown” and the peasants in regards to forest ownership become aggravated during the peasant unrest, and especially during the 1905 revolution. The peasants made estate privileges on using forests and gave themselves rights to use the forests, too (Strods H., 1999).

Neither economic development, nor legislation managed to assure the use of forests to benefit the people. Thus, after the revolution in Russia, the revolutionary legislation in Latvia tried to settle the forest issues for the benefit of the people. After the establishment of the State of Latvia on 18 November 1918 and victory in the War of Liberation (1918-1920) against the Bermontians and the Bolsheviks, an independent policy and legislation on forestry emerged (Strods H., 1999).

In 1918, the Forest Rules of the Russian Empire adopted in 1905 were still in force. The Forest Rules divided all the forests into state, public, and privately owned. All of the said categories could still fall under the influence of others thanks to the ancient easements. The easements were cancelled before 1930s. An exception was the forests of His Imperial Highness' Cabinet, which fell under special rules. State owned forests were a “crown” property. State forests were further divided into “crown” and special forests. (Strods H., 1999).

On 20 January 1918, Iskolts decided to nationalize the forests of the Vidzeme province, putting them at the service of the Latvian workers, soldiers, and members of the Landless Board. With the failure of the Bretlytovska peace talks and resumption of the German attacks in February of 1918, all of the territory of Latvia fell under occupation. All of Iskolts' activity, including in the field of forestry, ceased. The nationalization of forests remained at the level of intentions (Vasilevskis A., 2007).

On 19 February 1919, the Latvian Interim Government established the Department of Forests (Strods H., 1999). The Section of Private Forests ran parallel to the Department of Forests under the auspices of the Ministry of Agriculture from August 1918 (Salins Z., 1999). On 8 October 1920, a circular by the Department of Forests titled For Private Estate Foresters heralded that the forests of private estates would be nationalized starting with 1 October (Strods H., 1999).

The takeover of private forests can be divided into two stages: first – ownerless forests, second – forests taken over by the state in accordance with the Agrarian Reform after 1 October 1920. The Agrarian Reform of 1920 (1920 – 1937) was a radical land ownership, land property size, and land usage rearrangement with legislation. It was based on the Agrarian Reform Law adopted by the Constitutional Assembly on 16 September 1920. The first part of the Agrarian Reform Law adopted by the Constitutional Assembly on 16 September 1920 established the State Land Fund. It incorporated all the state land (former “crown” estates and forests) as well as the majority of the previously private estates and clergy estates (Strods H., 1999).

Takeover of ownerless forests was necessary to protect them from rough looting. If the takeover of state forests did not cause any particular problems, privately owned forests did present various problems. The revolution and the wars had dispersed estate owners across all of Europe. Fearing expropriation, they tried to protect their property rights using proxies. Private forests were in a chaotic state – lacking administration, management plans, and descriptions, the forests also contained abandoned wood products claimed by various entities. Takeover of ownerless forests started even under the conditions of war – from 1919 to 1920. The estate owners and their proxies did not always claim their property rights in time, leading to premature takeover of their property (Vasilevskis A., 2007).

The second part of the Agrarian Reform Law, which was adopted by a joint meeting of the Constitutional Assembly on 21 December 1920, set the rules for using the State Land Fund. Agricultural land, excluding part of forest meadows, was included in the distribution fund and handed over to state land inspectors. Forest lands were handed over to the Department of Forests (Strods H., 1999).

According to the 1921 data, Latvia had 1820 thousand hectares of forests, covering 28% of its territory. State owned forests constituted about 84.1% of all the Latvian forests. The other 15.9% of the forests were privately held (14.3%) and owned by the municipalities (1.6%). Precise data about the areas were not available at the time. According to other (but still imprecise) data, after taking over the estates in 1920, the state, on the basis of the Agrarian Reform Law, held 2,007,111 hectares, an increase of 65 thousand hectares (Vasilevskis A., 2007.). The Section of Private Forests was abolished after these forests were taken over. By large, the forests were kept in the state ownership, without further distribution to farmers (Strods H., 1999).

Zigurds Salins in the book “Forest Use in Latvia” emphasized a problem that rose out of the agrarian reform, when forest lands were allocated to new farms. If the state forest fund held a little over 2 million hectares in 1922, 25% of which were former Russian state forests (“crown” forests) and 75% were former estate forests, then on 1 April 1938 the state forest fund holdings had decreased to 1,735 thousand hectares due to distribution of 370 thousand hectares of fund's land to new farms (282 thousand hectares of forest land and 88 thousand of non-forest land). This process intensified from 1923 to 1930. As a result, the state's forest ownership declined every year, going from 87% in 1923 to 78% in 1938.

From the standpoint of agricultural policy, the distribution of forest fund's land to agricultural use is justifiable and acceptable only if forestry is less economically viable than agriculture. However, since agriculture in Latvia produced less profit than forestry, this action can be seen as unwise. From 1923 to 1935, the use of forest resources produced an average annual profit of 10.5 million lats to the state treasury (Salins Z., 1999).

In the period from 1923 to 1938, the share of private forests increased from 11% to 18%, but communal and other ownership categories rose from 2% to 4% (Salins Z., 1999). At the start of World War II, Latvia had 0.9 hectares of forest per inhabitant (Forest Sector in Latvia ..., 2011).

The development of forest property rights during this period was complicated because changing political leadership meant previous reforms lost power and new ones came to replace them. Regardless of that, a tendency of increased order and sophistication in the forest property rights is noted, also introducing the notion of private property for the first time, thus laying the foundations for the market economy. The progress on land rights was determined by the 1920 Agrarian Reform Law, though subsequent events pointed to its shortcomings. From the economic standpoint, the decision to distribute forest land to the new farms was unwise, since it led to forest land being turned into agricultural land. This action was one of the reasons for the decline in the total forest area. It follows that today one also needs to compare which form of economic activity is more profitable before introducing major reforms. Another shortcoming of the agrarian reform is that the state owned 80% of the forests in 1938, while only 18% were held privately. The authors believe that a balanced approach with similar shares for government and private ownership would have furthered private entrepreneurship, encouraged competition and improved the economy. If not for the outbreak of World War II, such an outcome would have been possible.

2. Forest property rights from 1940 until 1990

Beginning with 1940 the Latvian nation was subjected to 50 years of occupation, a foreign power imposing its own rules, and the Latvian having no say in his own land. Great changes took place in the field of forest property rights as well, as private ownership was abolished. This abolishment of private ownership is characteristic of the period in forest property rights. With the incorporation of Latvia into the Soviet Union, the state became the only owner of forests.

On 22 July 1940 the People's Parliament issued the Declaration of Land Transfer to the Ownership of the People, with which the parliament declared all land and its riches, forests, lakes, and rivers to be the property of the people, i.e. the state. The area of land given to use by farmers was limited to 30 hectares. All of the land that exceeded this size was transferred to the state land fund, so the state could give land to landless peasants and small farms. The legislation was adopted in a great hurry (Locmers M., 2000).

22 July 1941 marked the start of Germany's military campaign against the USSR, and as soon as the beginning of July, all of Latvia came under German occupation. The German authorities upheld the basic rules of the 1940 land nationalization (Locmers M., 2000).

After the change of the occupying power on 7 September 1944, a decision was made On the Liquidation of German Occupation Effects in the Agriculture of the Latvian SSR, producing instructions about the return of land and provision of land to servants, landless peasants, and small farms. In the period between 1944 and 1947, the land reform was repeated (Locmers M., 2000). It was declared that state forests are all forests in the territory of the republic, except forests that were given to collective farms in perpetuity. It was accepted that the forests of the Latvian SSR's Ministry of Forestry and Forest Industry are referred to as state forests (Kronitis J., 1965).

The land reforms of 1940 and 1944-1947 were executed in a hasty manner, using the most basic methods, without producing technical drawings of land surveys, indicating the short-term political goals behind the reforms. This was confirmed by the collectivization of farming and liquidation of the peasantry that followed, driven by the same reform scenarios that put party dogma, government decisions, and political leader instructions above laws (Locmers M., 2000).

The goal of the Soviet authorities was not the formation of individual farms but outright collectivization – creation of large Soviet farms, kolkhozes, and sovkhozes. This was implemented soon, in 1949-1950. Since the peasants did not want voluntarily to join the large collective farms, it was done forcibly. Forced collectivization was executed very rapidly. While working in kolkhozes, Latvians gradually lost the characteristic lifestyle and work ethics (Boruks A., 2003).

In 1961, the land area of Latvian SSR kolkhoz forests stood at 5,421.1 thousand hectares, or 19% of the total forest land in the republic. The state forests had a combined area of 2.8 million hectares (Kronitis J., 1965). The Law of Latvian SSR Land Code was passed on 5 May 1970. The Land Code did formally regulate peasants' right to hold farms, while also stipulating that they should have no more than one hectare of land and up to 0.2 hectares of backyard land at their disposal. With the gradual democratization of agricultural policy during the period of national revival, the recognition that a new land reform was necessary gradually took hold (Locmers M., 2000).

According to data from 1988, the state forestry institutions managed 63.3% of the total forest land, agricultural companies – 33.2%, towns and other institutions – 3.5% (Distribution of Forest ..., 1998).

On 6 May 1989, the Supreme Council of the Latvian SSR adopted the Law of Peasant Farms in the Latvian SSR, which marked the first step towards restoration of private property. While orienting the law towards a reorganization of industrial relations in rural areas, it was emphasized that peasant farms are an independent form of agricultural production with equal rights to kolkhozes and Soviet farms. The concept of peasant property was put into law. Land given to a peasant shall not be divided and its size can only be changed via an application from the owner. Adoption of this law gave hope that a Latvian could once again be the master of his land and his tillage (Berezovskis Z., 2000).

Comparing the previous two periods in history, one can note a significant difference. If during the period between the beginning of the 20th century and 1940 the

goal of land reform was to put property rights' regulation in order, granting the right of private ownership, then after 1940 the goal of reform was liquidation of private ownership. Market economy ceased to function in this period. A centralized government ran economic development. The state was declared the only owner of forests. The hasty nature of land reform, without making technical drawings of land surveys, destroying private ownership, and building collectivized farms, was misguided. With the destruction of peasantry, people assimilated, and the characteristic lifestyle and work ethics of the countryside were lost. A breeze of fresh air came with the law of 1989 that proclaimed peasant farms to be an independent form of agricultural production. This law marked a breaking point with talks about the return to the market economy and restoration of private ownership coming just a year later.

3. Forest property rights after 1990

The need for new agrarian reform was set by the political realities after the proclamation of independence on 4 May 1990, and the shape of the economic policy, which tried to set the stage for a gradual phase-in of the market economy (Grube G., 2000).

The process was made easier because before the 4 May declaration of independence, some work, like giving land usage rights to viable farms, had already been done. To assure succession of the process, the Supreme Council formed a group that developed concepts for privatization of rural land, at first granting usage rights to the people who worked the land, while simultaneously allowing its privatization (Grube G., 2000).

The decision of 13 June 1990 On Agrarian Reform is considered the start of Land reform in Latvia. It was a republic-wide bid for agrarian reform, within which the land reform would have to be executed (Berezovskis Z., 2000).

On 21 November 1990, the Supreme Council of the Republic of Latvia adopted the law On Land Reform in Rural Areas of the Republic of Latvia, which went down in history as the first reform law that regulated the right to acquire property after 4 May 1990. Special attention was paid to incorporating a provision in the law that required all sale and purchase agreements with the land originating from land reform to be concluded only after the land rights have been recorder in the land register. This averted a lot of misunderstandings and disputes, and assured legal justification for transfer of property rights. This circumstance prevented possible disputes from deals made with owners whose rights to the property were not legally verified and recognized (Seile A., 2000). The land reform was implemented in two stages: first from 1990 to 1996 and second in the 10-15 year period starting from 1 January 1993 (Law On Land Reform ..., 1991).

The main condition for developing the agrarian reform was to create a legal basis for acquiring and re-acquire land. Another essential condition was linking of the land's cadastral value with the real estate tax, which created real and indisputable privileges to low quality and unusable stretches of land (Seile A., 2000).

To encourage rational use of land and undo the injustices that were allowed with the confiscation of private land, the Supreme Council of the Republic of Latvia made a decision on 15 May 1991 On Rights to

Receive Compensation For Rural Land Confiscated on 22 July 1940 (Law On Land Privatization ... , 1992).

The law On Rural Land Privatization was adopted in 1992. It not only removed the flaws of the land reform law, but also created contradictions and changed its contents. The authors think that one of the most important aspects of it was a change in the goals of the reform, putting an emphasis on rights of previous owners and their heirs to regain property owned up to 21 July 1940, while discontinuing legal, social, and economic improvement or support for farming. As a result, the rights of existing users of these properties seriously suffered. A principle about equal rights of heirs to land, regardless of what it was used for was formulated, saying that everyone can regain his share without expense. Individuals' rights to property were officially restored in 1993 (Boruks A., 2001).

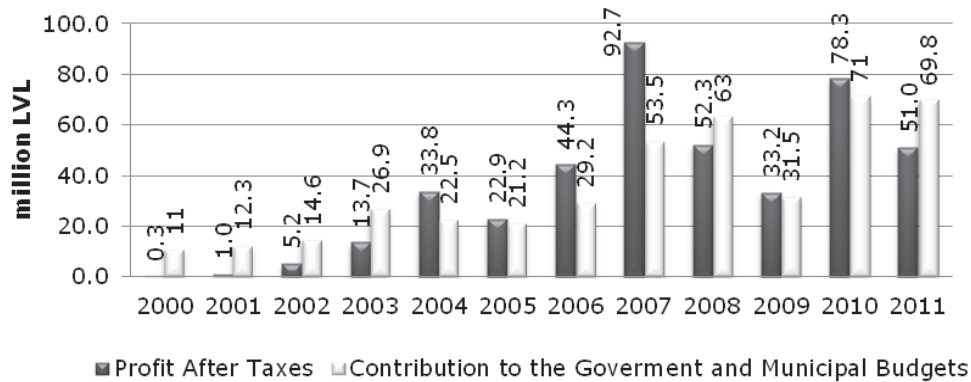
About 1.3 million hectares of forest land were subjected to privatization in 1996, for which about 120,000 to 180,000 individuals had applied for new or restituted property rights. In 1996, 15.5% of Latvian forests were in the hands of such new owners (Svarca K., 1996).

After regaining independence, the government of Latvia had to solve the same task that daunted the government of the first Latvian republic – putting the issues of property rights in order. The main difference was that with the agrarian reform law of 1920 and creation of the state land fund, the government took over state land, private estates, clergy estates, and ownerless forests, while the reforms started in early 1990s let the previous owners of the land regain property confiscated on 21 July 1940 giving people the opportunity also to acquire land by privatizing it. The final land reform was marred by several mistakes, fragmenting properties, creating unviable farms, and failing to support agriculture in general. Latvians had lost the pre-occupation work ethics, which had to be learned again. There was a broad failure to assure effective use of land.

A significant turning point in forest property rights' protection occurred in 1999 when, based on the order of the Cabinet of Ministers of the Republic of Latvia No. 453 On the Creation of Joint Stock Company "Latvijas valsts meži", the company "Latvijas valsts meži" (LVM) was established. It is an enterprise owned entirely by the state of Latvia. LVM started its economic activity in 2000 (Meza nozare, 2002).

From the economic standpoint, the creation of LVM has provided several positive benefits. Firstly, the corporation pays to the state a duty for using its capital, and it pays taxes to the state and municipality budgets. Secondly, it has created new jobs, employing 984 people in 2011. Thirdly, forests are managed in accordance with the principles of sustainability, which include maintaining and increasing the value of state's forests in the long term.

The company turned a small profit of 0.3 million lats (Figure 1) in its first year of operations. It continued to grow year by year, reaching LVL 33.8 million. In the next year, however, LVM earnings dropped, with one of the reasons being the storm of 2005. Record profits were achieved in 2007, a year of success for the economy of Latvia as a whole. With the beginning of the recession, LVM profits slid, only reaching



Source: JSC "Latvijas valsts meži" Annual Reports from 2000 to 2011

Fig. 1. LVM net profit and contributions to state and municipality budgets from 2000 to 2011, million lats

LVL 33.2 million in 2009, a full 37% less than the year before, also marking the lowest profit since 2005. In 2010, LVM paid 57.7 million lats to the state, its highest contribution yet, giving state and municipal budgets a total of LVL 71 million. For 2011, the amount was only 1.2 million lats lower.

To summarize, because of historical events the percentage of forestland owned by the state has decreased by 34%, while the share of other forests has increased. The total area of forested land has grown by 53%. According to the Forest Fund, in 1921 Latvia had 1,780 thousand hectares of forest while, by the forest statistical inventory data for 2011, it now covers 3,354 thousand hectares of the state's territory. It means that there is 1.5 hectares of forest per inhabitant in Latvia, almost twice as much as at the time of the first Latvian republic.

Regardless of the complicated history, the many reforms, and changes in political leadership, the total area of forests in Latvia has grown from 0.9 hectares to 1.5 hectares per capita. Soviet occupation stopped the agrarian reform of 1920, which then came back in 1990 to some degree after Latvia regained its independence. Looking back in the history, it is possible to see mistakes that should not be repeated in the future. The authors believe that the structure of forest property rights in place today is the most optimal economically, with half of the forests owned by the state and almost half held by others. Such a distribution of property rights encourages competition, price stability, the growth of the industry and the state as a whole.

Conclusions

1. From the economic standpoint, the period from the start of the 20th century to 1940 is distinguished by the ill-conceived decision to allow the transformation of forest land into farmland. This step would only be acceptable, if agriculture was more profitable than forestry. From 1923 to 1935, forestry produced an annual profit of 10.5 million lats for the Latvia treasury.
2. With the 1940 Declaration of Land Transfer to the Ownership of the People, the state became the sole owner of forest land for the next 50 years.

3. The Law of Peasant Farms in the Latvian SSR passed in 1989 made history, marking the first step towards restoration of private property. Importantly, it recognized that farms are an independent form of agricultural production.
4. 2000 was the final year of significant change in the structure of forest property rights. The state's functions in forestry were taken over by the Joint Stock Company "Latvijas valsts meži". The company contributes significantly to the state and municipality budgets, paying taxes and an annual duty for exploiting state capital.
5. The structure of forest property rights has changed since the 20th century, decreasing the share of the government, while increasing the share of other owners. The total area of forests has increased by 1,574 thousand hectares or 53%.

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