INSTITUTE OF AGRICULTURAL AND FOOD ECONOMICS
NATIONAL RESEARCH INSTITUTE

# The agricultural land market

## situation and outlook

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THE ECONOMIC AND SOCIAL CONDITIONS OF THE DEVELOPMENT OF THE POLISH FOOD ECONOMY FOLLOWING POLAND`S ACCESSION TO THE EUROPEAN UNION

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# Contents

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## Summary

The year 2006 was the subsequent year of strong influence of the supply-demand imbalance on the agricultural land market - there were more potential buyers of land than its sellers. As before, this situation was mainly due to changes in the agricultural policy which resulted from the acession of Poland to the European Union. In the pre-accession period, the perspective of introduction of the Common Agricultural Policy regulations, in particular the declaration of introduction of direct payments, contributed to stagnation on the agricultural land market. The potential land sellers preferred to wait for the upcoming changes as they expected the growth of land prices.

In 2005 the total number of transactions in agricultural land turnover increased by 0,3% only, whereas the number of deals on the private land market increased by 5,4% and the sales of land belonging to the Agricultural Property Agency decreased compared with 2004. The factor which strongly hampered the sale of land belonging to the Agricultural Property Agency was the expiration of the plans of spatial land development as it made it more difficult to properly assess the value of land properties.

The most significant change observed on the agricultural land market in 2006 was the increase in the number of sale-purchase transactions.

According to the data of the Ministry of Justice, in 2006 the number of notary deeds concerning the agricultural real estate sales was 84,1 thousand in total, i.e. 7,7 thousand more as compared to the previous year (it increased by 10%). The increase was the highest in the number of deals on the private land market (by 11,1%).

As regards the total number of private agricultural holdings (approximately 1782 thousand), the scope of neighbour-to-neighbour trade was still too small to accelerate the transformation of the agrarian structure.

The increase in the number of agricultural property sales settled by legal persons (the State Treasury or local authorities) was not as large as in private trading and amounted to less than 5%. As regards this land market segment, 14,9 thousand notary deeds were recorded (as compared to 14,2 thousand in 2005). The tendency of further decrease of the number of legal persons participating in the land trade deepened. Beginning with 2004 also the number of transactions concluded by the Agricultural Property Agency has been in decline. In this case however, contrary to neighbour-to-neighbour trade, land for sale forms usually large single wholes. When selling this land, it is necessary to comply with very strict procedures of land sale (public tenders). Also still decreasing amount of attractively located land for sale plays an important role, as most of it has already been sold.

In 2006 on average 39 land sale-purchase contracts were concluded per 1000 farms. Relatively the largest number of such contracts was observed in Zachodniopomorskie voivodship where notary offices recorded 86 notarial deeds concerning agricultural land per 1000 farms, i.e. more than twice as many as the national average.

The voivodships with particularly large number of agricultural land transactions were also: Pomorskie, Warmińsko-mazurskie and Kujawsko-Pomorskie. The highest level of agricultural land turnover between farmers in these voivodships is connected with the activities of the Agricultural Property Agency (APA) and it alleviates the demand-supply imbalance on the local land market as a consequence. The situation in this segment of land market also influences the demand-supply balance in the private sector.

In the above mentioned voivodships, particularly in Kujawsko-Pomorskie voivodship, many large-sized and economically strong individual agricultural holdings are located. Their owners are still interested in further enlargement of farms and can afford to pay relatively high prices for purchasing additional land. However, in Warmińsko-Mazurskie voivodship the land is still relatively cheap as compared to other regions of Poland.

As regards the number of transactions on the agricultural land market, in comparison with the previous years, in Podkarpackie, Śląskie and Łódzkie voivodships the situation is just the opposite. The number of sale-purchase contracts was exceptionally low there. In Podkarpackie voivodship only 20 such contracts were concluded per 1000 farms, in the other two regions the number amounted to 22 and 29 contracts respectively. These rural areas are characterized by high fragmentation of farms, high level of paid employment and large share of holdings without any agricultural production. In these parts of Poland the ownership rights in land are usually transferred within the non-marketable land turnover (gifts, inheritance, distribution of the estate to descendants). The underlying cause of the conservatism of farming communities is the traditional attitude to the ownership of land.

In 2006, as compared to 2005, no significant changes as regards spatial variations in the number of deals on the agricultural land market were observed from the voivodship perspective. As usual, the highest land turnover was observed in northern regions whereas the lowest - in southern regions.

As in the previous years, in 2006 the prices of agricultural land kept growing. In 2006 the market value of land increased on average by 12,7%, and in 2005 the average land prices increased by 24,3%. The agricultural land prices were on the increase in all regions of Poland.

As before, the agricultural land characterized by the soils of low quality had the highest price dynamics. In the period under analysis their market value increased by 18%. The lower level of price growth was observed for the land of medium quality soils (increase by 13%) and for soils of the highest quality (increase by 10%). It shows that non-agricultural motivation is still the driving factor when purchasing agricultural land. The demand for land is still shaped by the expected financial profits on property ownership rights (rent, possibility to obtain payments for afforestation).

The increase in prices of agricultural land was also clearly visible as regards the land belonging to the Agricultural Property Stock of the State Treasury (APS). In 2006 the Agricultural Property Agency obtained 7374 PLN per hectare on average which means the highest growth in land prices in the last several years (by 31,5% as compared to 2005). In 2006 the highest average sale prices of agricultural properties belonging to APS were recorded in Kujawsko-Pomorskie, Wielkopolskie and Dolnośląskie voivodships whereas the lowest prices – in Podlaskie, Podkarpackie and Lubuskie voivodships. Similarly as in the previous years, the prices of the small area plots (not exceeding 1 ha) as well as large-sized agricultural properties (more than 300 ha) were at the highest level.

During the last few years people became more interested in leases. According to the IAFE-NRI research, between the years 2000 and 2005, the share of private farms conducting some part of crop production on leased land increased from 12% to 17%. Also the area of leased land increased. In 2000 the average area of agricultural land under lease was 4,5 ha, in 2005 it was 8 ha.

Also the activities of APA had their impact on growing popularity of lease. Because very large land areas still belong to APS, the lease contracts concluded by APA dominated this segment of the agricultural land market. At the end of 2006 the land of 1,9 million ha from APS was in lease. Similarly as in the case of neighbour-to-neighbour lease, the leases of land from APS were mainly motivated by the intention to enlarge the area of crop production. Such activities were supported by the so called "exclusion clauses" which allowed to separate small plots from large-sized agricultural properties (above 300 ha) in order to enlarge the area of family farms located in the neighbourhood.

In 2006 the Agricultural Property Agency leased more than 75,5 thousand ha of typically agricultural land i.e. at the similar level as in 2005. Most of the agricultural land was leased in Zachodniopomorskie, Lubuskie and Dolnośląskie voivodships. The leases of large-sized agricultural properties (from 10 to 100 ha) were predominant. As regards this size class, more than 34,5 thousand ha of land was leased whereas in the size class of 100-300 ha it was about 13 thousand ha and in the size class of more than 300 ha ÷ 16,3 thousand ha.

At the end of 2006 APA concluded above 134 thousand lease agreements in total. Most of them concerned small-sized properties up to 1 ha (57,8 thousand). Also many lease contracts concerned the properties smaller than 2 ha (25,8 thousand) and up to 5 ha (21,7 thousand). Generally, APA was dealing with above 105 thousand lease contracts concerning the properties of the area up to 5 ha.

The lease, as a form of property distribution from APS was always characterized by high rotation. During 15 years of operation of APA approximately 171 thousand lease contracts expired or were terminated. In 2006 the leased area that returned to the Agency was smaller than in 2005 – approx. 132 thousand ha including 48 thousand ha under lease contracts which terminated on time, 54 thousand ha under lease contracts which were terminated mainly due to financial problems of the leaseholders and the rest of them were terminated because the land was intended for other purposes (approximately 30 thousand ha).

The leasehold rent paid to APA is usually determined as a result of tender procedure and expressed in natural measure (dt of wheat, where 1dt = 100 kg). Similarly as the sale prices, the leasehold rents have been on the increase recently (from 1,8 dt/ha in 2001 to 4 dt/ha in 2006). The average leasehold rent for agricultural land under lease contract amounted to 2,5 dt of wheat per hectare. In 2006 the highest average leasehold rents APA obtained in Dolnośląskie, Wielkopolskie and Łódzkie voivodships while the lowest were paid in Mazowieckie, Lubelskie and Opolskie voivodships. As regards the lease contracts concluded in 2006, the average annual leasehold rent amounted to 4 dt of wheat (in 2005 it amounted to 3,8 dt and in 2004 – and 3,5 dt of wheat). Thus the leasehold rents slightly increased (by 5%).

In 2006, contrary to the agricultural land turnover on the land market, where the signs of recovery were observed, the tendency to transfer land ownership rights within the so called non-marketable land turnover (between relatives) weakened. First of all the scale of family distributions decreased. Until 2004 the number of such inheritance agreements had significantly increased (between 2003 and 2004 by as many as 22%) – they had concerned relatively small areas, which resulted in further fragmentation of farms and confirmed the increasing tendency towards execution of customary appurtenant inheritance without the preservation of the existing production potential represented by the agricultural holding under division. Beginning with 2005, when the agricultural land prices started to grow and land sale became an attractive method of transferring ownership rights in land, the number of family distributions decreased by as many as 12%. This tendency, however significantly weaker, was maintained in 2006, when the number of notary deeds in question decreased by another 3% as compared to their number in 2005. The observed changes should be mainly associated with the accession of Poland to the European Union, in particular with the improvement of the economic situation in agriculture and the implementation of direct payments and other support progammes. It caused that the decisions on taking over agricultural properties were influenced to a much larger extent as compared to the previous years, by factors related to agricultural use of the land.

The year 2006 did not bring any changes as to the principles of purchasing real estate by foreigners. The Act of 24th of March, 1920 was still in force. It included the requirement (with some exceptions) to obtain by a foreigner a permit from the relevant public authority to purchase real estate property. The year 2006 was also the second year of being this Act in force after its amendments made in 2004 as the result of Poland's accession to the European Union. The amendments guaranteed to the citizens and entrepreneurs from the European Economic Area member states (all European Union member states and Norway, Iceland as well as Liechtenstein) more liberal policy on sale of agricultural property in Poland.

In 2006, as compared to the previous year, the share of permits concerning agricultural land in the total number of permits allowing to purchase real estate property decreased from 63% to 52% and the share of agricultural land in the total area of land for which the permits were given decreased from 98% to 93%. In 2004 130 ha of agricultural land was purchased, in 2005 – 352 ha and in 2006 – 523 ha. In 2006 the foreigners purchased the ownership or perpetual usufruct rights to 106 agricultural real estate properties of the total area of 34 ha (in 2005 – 119 real estate properties of the area of 33 ha) without the obligation to apply for any purchase permit.

In 2006 foreigners obtained 18 permits, issued by the Minister of the Interior and Administration, for purchasing stocks or shares in partnerships being the owner of real property of the area of 74 ha in total. Of these five cases concerned agricultural properties of the total area of 15,64 ha. In 2006 still relatively small area of agricultural land was purchased by foreigners.

In the period 1990-2006 foreigners obtained the permits allowing them to purchase real estate properties of the total area of 43,9 thousand ha, whereas the permits for acquisition or taking over stocks and shares in commercial partnerships being the owner or perpetual holder of agricultural real property given them in 1996-2006 concerned the total area of 55,9 thousand ha.

To sum up, the permits for purchasing agricultural real property or acquisition of stocks and shares connected with land covered 0,3% of the total area of Poland.

## I. The macroeconomic conditions[1]

The year 2007 is the second consecutive year of strong development of the Polish economy. Growth tendencies have been observed for all sectors of the economy. However, the economic growth becomes less and less sustainable, with increasing inflation rate, strong pressure on wages, increasing trade and payment deficit as well as high national debt. In 2006 the gross domestic product growth rate was 6.2% and in the period from January to September 2007 6.7%.

The main factor of the economic growth is the internal demand, both investment and consumption. The sharp rise in gross fixed capital formation reflects the willingness of the entrepreneurs to further invest. Even in 2006 these expenditures increased by 15.6%, and within the period from January to September 2007 by as much as 21.7%, i.e. as rapidly as never before. The high dynamics of the investment process is going to continue in a long term perspective, which is indicated inter alia by:

[1] This introductory chapter to all issues of the market analyses is written and updated by Tadeusz Chrościcki.

- positive opinion of the economic entities on the internal and external demand for goods and services in the near future;
- decreasing possibilities of satisfying the still growing demand by the use of the existing productive resources;
- good economic and financial position of companies. Within the period from January to September, 2007 the gross and net profit turnover ratios reached respectively 6.4% and 5.2%;
- easily accessible and relatively not expensive bank loan. At the end of October, 2007 the annual growth rate of indebtedness in enterprise sector was 24.4%;
- inflow of the foreign capital. In 2006 a record interest of the foreign capital in investments in Poland was noted. The value of foreign direct investments reached USD 16.2 billion and the similar result can be expected also in 2007;
- implementation of the EU funds.

The consumer demand in the sector of households grows rapidly. In 2006 it was by 4.9% higher than in the previous year and in the 9-month period of 2007 it was higher by 5.7%. The pace of growth is mainly determined by the improvement of the situation on the labour market, reflecting the increase in employment and still growing wages. In 2006 the employment rate in the corporate sector increased by 3.0% and during the period from January to October of the current year by another 4.7%. The average real wages were respectively by 5.1% and 6.7% higher.

The foreign improvement in the income situation is also observed in individual households conducting their own activities, particularly in agricultural holdings. Similarly as in 2006, the price relations are favourable for farmers. Due to higher dynamics of prices of agricultural products sold by farmers than the prices of goods and services purchased by them, the "price scissors" index amounted to 102.9 in 2006 and 102.6 in the first half of 2007. In addition, the EU support funds play an important role. In 2006-2007 the total annual support payments for agriculture (together with the national financing in accordance with the co-financing principle) will exceed PLN 15 billion.

Also the transfers worth billions of zloty received as a result of the economic emigration as well as the increasing use of bank credits and loans play an important role in shaping the consumption demand. In consequence, at the end of October 2007 the indebtedness of households amounted to almost PLN 250 billion, which was by 39% higher than in the previous year.

The acceleration in the growth of the consumer demand is reflected in the retail sales which increased by 14.4% within the period from January to October 2007 as compared to the corresponding period of the previous year (including the increase in the sale of cars and automotive equipment by 37%, furniture, TV and radio equipment and household appliances by 23% and food and beverages by 9.3%).

The positive expectations as regards the future situation of the households (among others less fear of unemployment and the anticipated further increase in real wages) have an effect on the high level of consumer optimism and the maintenance of the accelerated growth of consumption and internal trade turnover in the next months.

The trade turnover grows rapidly, however not as fast as in preceding years and the increase in the exports is lower than the increase in imports. Within the period from January to September 2007 the export calculated in EUR (in material terms) was by 13.4% higher than a year before while in the years 2004-2006 the annual growth was 22.5%. In the corresponding periods imports increased by 16.1% and 16.8%, respectively.

In 2007 a very high growth (by more than 26%) in the exports to the Central and Eastern European countries was observed. It was due to a fast pace of development of their economies as well as the possibilities for further improvement in the economic situation. The growth of exports to the European Union countries (accounting for almost 79% of the total of the Polish export) was lower than the average.

The fast pace of the economic growth and the increasing wages and salaries – not always reflecting the level of labour productivity – contribute to the growing inflationary pressure. In October 2007 the prices of consumption goods and services increased by 3% as compared to the same month of the previous year. They were higher as compared to the mid inflation target band as defined by the Monetary Policy Council (2.5%). The coming months may bring even stronger inflationary impulse because of the situation on the world fuel market, the high increase in the domestic demand, rapidly growing unit costs of production as well as higher prices of food. The anti-inflationary effect will have: strong competition on the domestic market (including imported goods) and strong Polish Zloty.

In October 2007 the prices of the most fruit and vegetable as well as poultry and milk products were higher than in the previous year while the procurement prices of cattle and pigs were smaller.

The increasing work demand accompanied by the growing number of new work places and the large scale of economic emigration have an effect on the decrease of the unemployment rate which was 11.3% at the end of October 2007 as compared to 14.9% in the previous year. Poland became the European leader in improvement of the situation on the labour market.

The high pace of the economic growth has a stimulative effect on the national revenue. As a consequence, similarly as in 2006, the official state budget deficit will be lower as compared to the planned budget and will not exceed the so-called "budgetary anchor", i.e. PLN 30 billion. However, taking into account the loan needs necessary for covering the public expenditure, on the reform of the pension system in particular, the real state budget deficit will amount to approximately PLN 40 billion. As a consequence, the national debt will grow and it will reach approximately PLN 540 billion at the end of 2007, increasing by ca. PLN 40 billion during the 12-month period.

# II. The current conditions for the agricultural land trading in Poland

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## 2.1. The legal conditions

In 2006 there were no new legal actions taken to regulate the agricultural land market. The Act on Formation of Agricultural System adopted in April 2003 (it came into force on 16 July 2003) still remained the basic legal act setting up principles for the agricultural land trading. From the very beginning the Act was quite controversial as it gave rise to a number of legal and interpretation problems. It introduced a state control over the private trading and upper area limits for the individual agricultural holdings. The adopted principles were designed to increase the possibilities for farmers to purchase land in order to expand their agricultural holdings and at the same time to counteract the over-concentration of land. The Agricultural Real Estate Agency (AREA) (previously called the Agricultural Property Agency of the State Treasury – APAST) was responsible for the execution of the Act, ipso facto the scope of its rights was extended to the right to intervene on the private market.

Although the Act has been in force for four years, the Agency has rarely used its right to pre-emption or redemption due to little attractiveness of land offered on the private market. Moreover, it was taken into account that in general the land was purchased by persons conducting the agricultural activity which indicated that the traded land would not change its intended use, which remained in accordance with the Act.

As a consequence and irrespectively of the provisions of the Act, the agricultural land market in Poland can be divided into two segments, i.e. the private trading between natural persons and the legal trading which mainly includes the activity of the Agency in terms of management of land owned by the State Treasury. Depending on the form of concluded agreements (sales agreement, giving for usufruct for a pre-defined period of time, etc.), the type of the contracting party (legal person, natural person, farm owner), the Agency is obligated to implement the relevant procedures and transactions concluded by it must be conducted in a strictly formal manner.

## 2.2. The economic conditions

In 2006 the principal factor shaping the situation on the agricultural land market was still the increased demand for purchasing of land. The increased interest in purchasing of agricultural real estate resulted both from the intention of some group of farmers to further increase the production potential of their agricultural holdings and from noticeable advantages of having the status of the owner of the land property. The latter resulted not only from the interdependency between the direct subsidies and the total area of land, but also from possible use of the structural funds as resources to invest in agricultural holdings. The increase in demand for land was also related to the increase in profitability of agricultural production observed particularly after the accession of Poland to the European Union as well as the expansion of marketing outlets for agricultural products. Moreover, the observed rise in agricultural land prices fostered the investment purchases.

In addition, the macroeconomic conditions had an effect on the situation on the agricultural land market, including particularly decreasing unemployment rate and still growing economic emigration. Amazingly, the growing possibilities to work outside the agriculture had little influence on sale of land as the period was still too short to take definite decisions on choosing a place of living and professional orientation. One should expect that in the nearest future the migration from agriculture will have an effect on the increase in agricultural land trading, particularly as regards leases.

Taking into account that the agricultural land prices in Poland, though rising constantly, are still lower as compared to the other European Union countries, it is expected that this trend would continue in the next years. Lack of land for sale and financial barriers resulting from increasing prices of land may become an obstacle for the concentration process of land. On the other hand, the high market value of land should foster the gradual increase in the number of persons wishing to sell it as the payment received may allow them to settle in a new place (purchase of an apartment) or to invest in any other type of economic activity. Therefore the macroeconomic conditions and in particular the situation in the labour market, as well as certainty of non-agricultural employment and also the increase in wages and salaries will have a decisive impact on processes within the agricultural land market and, as a consequence, on the transformation trends within the agricultural structures.

## 2.3. The social conditions

Due to the fact that the majority of agricultural land property in Poland is owned by the individual agricultural holdings (88% of the total agricultural land), the amplitude of agricultural land market processes, in particular the demand and supply relations, mainly depend on attitudes and economic activity of family members. The role of the head of a family is traditionally associated with taking decisions on the future developments and on the main functions of the property – therefore future plans depend on demographical characteristics of particular individuals, particularly on professional ambitions of younger members of the family. For many years it is very common that the younger members of families take over the agricultural holdings, irrespectively of whether they are going or not to commence the agricultural activity. It contributes to the rejuvenation of the group of agricultural holding managers (at present only every tenth agricultural holding is managed by a person of the post-working age), however it also intensifies the economic polarization of agricultural holdings into so-called social and production entities. Taking into account that almost a half of the agricultural holding owners have the non-agricultural education and the their property fulfils mainly or solely non-agricultural functions (treated as a place of living which provides food for own use or which acts as a property collateral), then indeed it can be admitted that this situation hampers the pro-effective transformations of the agricultural structures, particularly as regards the processes of agricultural concentration. In spite of the fact that social agricultural holdings are characterized by relatively small area, it may be estimated that jointly they cover approximately 1771 thousand ha of agricultural land. If this group is increased by at least some part of agricultural holdings managed by older persons, then indeed approximately 2 million ha of agricultural land could potentially be covered by trading on the supply side.

It is expected that social conditions, which limit the market trading of agricultural land, will weaken gradually. This will be mainly linked to the attitudes of young people – due to better education and increasing possibilities of taking up jobs both on Polish and international labour market they will decide more and more frequently to definitely abandon the agricultural activities.

## III. The principles for management of agricultural land owned by the State Treasury

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As regards the state agriculture, the property transformation process started in 1992 as the Agricultural Real Estate Agency[2] was set up on the basis of the Act on Management of Agricultural Real Estate of the State Treasury as of 19 October 1991. This institution is a self-financing state legal person, which was entrusted by the State Treasury with the duty to execute the property rights and other material rights as regards the state agricultural property constituted mainly on the basis of the liquidated State-Owned Agricultural Enterprises (Państwowe Przedsiębiorstwo Gospodarki Rolnej, PGR), the National Land Fund (Państwowy Fundusz Ziemi, PFZ) and under other legal titles.

The main task of the AREA is to restructure and privatize real estate in a permanent (e.g. through their sale or through contribution-in-kind) or non-permanent (e.g. through leasing) manner and to repurchase real estate on the private market with the purpose to increase the area of family agricultural holdings. Tasks currently carried out in Poland by the Agricultural Real Estate Agency are performed in France by the Societes d'Amenagement Foncier et d'Etablissement Rural (SAFER), in Italy by the Enti di Sviluppo Agrario (ESA),

[2] By the time of coming into force of **the Act on Formation of Agricultural System** acting as the Agricultural Property Agency of the State Treasury (APAST) (Agencja Własności Rolnej Skarbu Państwa). The Act of 19 October 1991 **on Management of Agricultural Real Estate of the State Treasury** entrusted the APAST with the task to carry out the agricultural property transformation. Despite formal entry into force of the Act on 1 January 1992, the process of creation of this institution factually began only in February 1992 when its President was nominated. The large-scale privatization process could start only in the second half of 1992 after the on-site structures of the Agency were organized.

in Spain by the Agricultural Reform and Agricultural Development Institute (IRYDA), in Germany by the Evaluation and Land Management Companies (BVVG), in Holland by the State Service Dienst Domeinen (currently DLG), in Denmark by the Department of Agriculture and Fishery Structures (SLF) and in Belgium by two associations for land management (VL and OWDR).

The experience of these countries, particularly that of France and Germany, which partially was used as a model for setting up the Agricultural Real Estate Agency and for changing its scope of activity in 2003, confirms the purposefulness and effectiveness of the introduction of institutionalized and direct agricultural land market regulation managed by a fiduciary on behalf of the State. The main purpose of such activities is to support the favourable structural changes. However, the current role of the Agency goes beyond the agricultural and structural policy. The property owned by the APS is used for paying back the liabilities of the State Treasury towards the "Zabużanie" (*people living over the Bug river*) and towards churches and religious unions; it also transfers funds to the state budget. This institution is also planned to participate in the reprivatization as well as in other important actions to be carried out by the State, e.g. support for development of housing by the use of land owned by the State Treasury.

At present, the activities of the AREA are mainly concentrated on the secondary restructuring of the large-area real estate under the leasing agreements, on the owner supervision over the leases and on the continuation of sale of land owned by the APS.

Work on changing principles which regulate the functioning of the Agency commenced in 2006. This work is coordinated by the Ministry of Agriculture and Rural Development, which took over the duty to supervise the AREA from the Ministry of the State Treasury. The aim of introducing the *"Act amending the Act on Formation of Agricultural System and on amending certain other acts"* is to improve the agricultural land trading system, to tighten the system of regulations on acquiring land by individual farmers and to improve the control of the AREA over agricultural land trading. The main proposals for the changes are:

- restriction of the Agency's right of pre-emption and its right to purchase agricultural real estate (redemption) on the private market as regards agricultural estate of the area of not less than 1 ha. and to cover agricultural holdings with pre-emption and redemption right,
- new definition of the family agricultural holding model, taking into account the current Polish agricultural structure, through limitation of its

maximum area to not more than 100 ha (now 300 ha) and setting up more detailed criteria to recognize natural person as an individual farmer, i.e. new definition of the agricultural qualifications that a natural person should have and more detailed definition of the notion "managing an agricultural holding in person" ("osobiste prowadzenie gospodarstwa rolnego"),

- limitation of the area which can be purchased from the Agency by a single entity (from 500 ha to 300 ha) and limitation of the possibility of payment by instalments for real estate purchased from the Agency, including preserving the state agricultural policy preferences towards family agricultural holdings which, in accordance with the Constitution of the Republic of Poland, are the fundamental element of the Polish agricultural system,
- changes of principles on which the restricted tenders are organized, including principles of admission to persons who intend to set up a family agricultural holding and who have relevant qualifications (until now the Act only admits to expand such agricultural holdings),
- changes of principles related to implementation by the AREA of the "repurchase right" anti-speculative instrument towards the real estate purchased from the Agency through exemption of non-agricultural land from repurchase for the purposes of providing guarantees for investors-purchasers of land from the AREA.

The aim of the planned legal changes is to convince that they are intended to support the development of family agricultural holdings mainly through improvement of their agrarian structure.

The Agricultural Property Stock (APS) of the State Treasury is composed of the real estate taken over by the Agency from the former PGRs or PFZs or acquired on the basis of the Act on Formation of Agricultural System. Basic forms of distribution of property owned by the APS are sale and lease. The ASP owned by the Agency is also used in other forms, including free conveyance of land to the entitled entities, conveyance of land for permanent administration, contribution-in-kind of property to a company. The principles of administration of the APS are defined in the Act on Management of Agricultural Real Estate of the State Treasury, in the bylaws, in the Civil Code as well as in regulations and guidelines issued by the President of the Agency.

The public tender is the basic procedure under which the land owned by the APS is sold or leased. The Agency usually organizes open auctions (oral bidding), which allow to obtain the highest price or leasehold rent. Additionally, public auctions of written offers are announced for the purpose of choosing the best offer in terms of meeting criteria specified in the public offer announcement (e.g. the number of the work places planned or the scope and value of the planned investments). The Agency also organizes restricted tenders for sales and lease – it sets preferential criteria which are favourable for a specific group of bidders, e.g. individual farmers who intend to expand their family agricultural holdings to the area not exceeding 300 ha UR (Użytki Rolne, agricultural land).

Certain number of real estate is sold without tender, i.e. in the framework of the so-called "priority in purchase" procedure. Priority is given to:

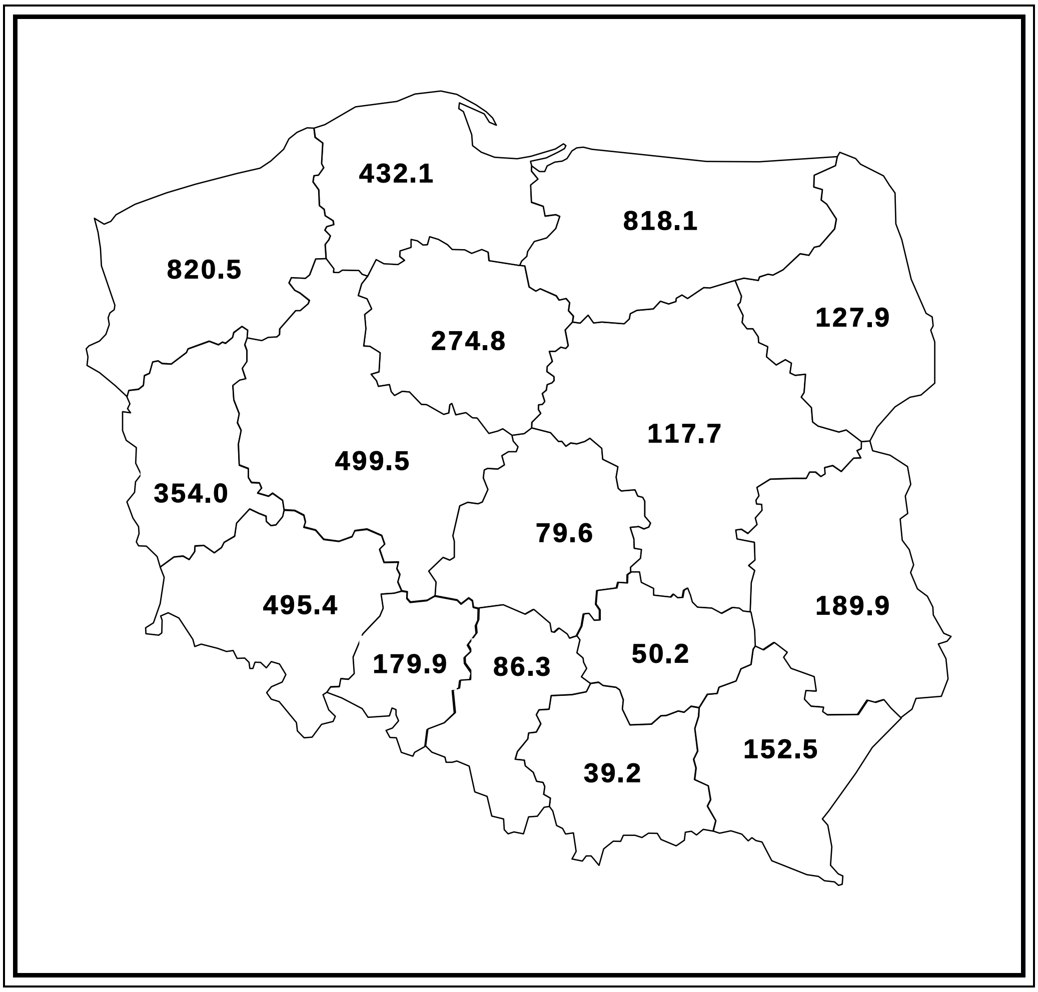
- former owner of the disposed property or his/her inheritors, if property was taken over by the State Treasury before 1 January 1992,
- agricultural production cooperatives being actual holder of the disposed property with the usufruct into this property which was voided on 31 December 1993,
- leaseholders of the disposed property, if the period of actual tenancy has taken at least three years.

The non-tender procedure in case of the lease is used, inter alia, for prolonging agreements with current leaseholders and for leasing real estate for the benefit of the sole shareholder company of the State Treasury set up by the Agency.

The leaseholders are the largest group of purchasers of real estate from the Agency under the non-tender procedure. Moreover, the real estate of the APS can be sold omitting the tender procedure, inter alia, for the benefit of entities that on the day of taking over a property by the Agency to the APS hold that property under an agreement or an administrative decision (this authorization terminates after one year from the day of taking over the property from the Agency) and real estate perpetual usufructuaries. The price of land being sold for the benefit of the perpetual usufructuaries consists of the amount equal to the value of the perpetual usufruct right specified pursuant to the provisions on the real estate management.

In 2006, in justified cases the sales of real estate from the APS could be carried out in the form of preferential sale (it is planned to maintain this form of sale by the end of 2009) including paying by instalments, on the condition that the first payment prior to concluding the agreement can not be less than 20% of the total price and the remaining amount should be paid within 15 years from the sale date. The use of the sale by instalments procedure can be justified by sale without the tendering procedure as well as by specific economic and social conditions, particularly when purchasing real estate for the purpose of setting up or expanding the agricultural holding or creating workplaces. Within the whole territory of Poland the option to purchase the non-built up agricultural real estate by instalments from the Agency is limited to 100 reference hectares while the area of built-up real estate with buildings can not exceed 100, 300 or 500 reference hectares depending on specific voivodship.

Map 1. The land taken over to the APS by 31.12.2006 (thousand ha)




*Source: the AREA data.*

The Agency took over 4.7 million ha of land, including 3.7 million ha held by former PGRs and 0.6 million ha held by PFZs as well as fixed and current assets of the total value of ca. PLN 8633 million and approximately 334 thousand dwellings. Together with the assets the Agency took over the indebtedness exceeding PLN 2 billion and 193 thousand persons employed in these organizations. By the end of 2006, 44% of the 4.7 million ha taken over by the APS were permanently disposed of by the AREA, i.e. more than 2 million ha in total including 1.7 million ha through sale. The APS of the AREA still holds approximately 2.6 million ha of area (56%), the majority of which (1.9 million ha) is in lease. Approximately 386 thousand ha of land is still to be disposed of (as of 31.12.2006).

The transformations carried out by the Agency as well as launching the state land market also led to changes in the share of private and state sector within the structure of agricultural land in Poland. Prior to the system transformation (in 1988), the private sector held 72% of agricultural area in Poland (more than 13.4 million ha), and in 2005[3] it was as much as nearly 96% (more than 15 million ha).

The largest volume of land was taken over by the Agency within the areas characterized by the large share of state sector in the agriculture, i.e. in Warmińsko-Mazurskie, Zachodniopomorskie, Wielkopolskie, Dolnośląskie and Pomorskie voivodships (Map 1). In 2006 approximately 2.6 thousand ha was taken over in total, while the majority, i.e. ca. 1.7 thousand ha was purchased pursuant to the provisions of the Act on Formation of Agricultural System of the private market.

# IV. The agricultural land buy/sell transactions

## 4.1. The trading in agricultural land between farmers

*Alina Sikorska* *Institute of Agricultural and Food Economics National Research Institute*

As compared to the previous year, in 2006 the number of land buy/sell transactions on the agricultural land market increased. A similar tendency was also observed between 2004 and 2005, however at that time its amplitude was quite insignificant as the total number of land buy/sell transactions increased only by 0.3%, while the number of private agreements grew by 5.4%. In the following period this tendency intensified significantly.

In 2006, according to the data of the Ministry of Finance, the total number of notarial deeds concerning the agricultural real estate buy/sell transactions amounted to 84.1 thousand, i.e. 7.7 thousand more as compared to the previous year. It was 10% more as compared to 2005. The number of land buy/sell

[3] Charakterystyka gospodarstw rolnych w 2005 r. Informacje i opracowania statystyczne GUS (Characteristics of Agricultural Holdings in 2005, CSO Statistical Information and Elaborations), Warsaw 2006.

transactions increased the most in private trading, i.e. by 11.1%. It accounted for 6.9 thousand notarial deeds more as compared to the previous year.

The accession of Poland to the European Union suppressed several year stagnation in agricultural land trading on the private segment, however the scale of this phenomenon was still too small to accelerate changes in agriculture.

The growth in the number of agricultural real estate sales transactions concluded by the legal persons (the State Treasury or local authorities) was not as high as in private trading and accounted for less than 5%. According to the Ministry of Justice, in total 14.9 thousand notarial deeds were concluded in this segment of land market (14.2 thousand notarial deeds in 2005). In 2006, as compared to the previous period, the tendency to decrease the share of legal persons in land market trading further deepened. Since 2004 the number of transactions concluded by the Agricultural Real Estate Agency has decreased. In that case however, contrary to the intra-neighbour trading, a significant part of land for sale is coherent and large areas. When selling them, specially established land purchase procedures must be observed (public tenders). Also the fact of decreasing volume of market attractive land offered for sale plays an important role as the majority of the attractive land has already been sold. Moreover, in the last years a significant obstacle in selling land from the APS of the State Treasury was the delay in drawing up local spatial development plans, which made it difficult to properly assess the value of land and slowed down its sales. As registers of notary offices show, in 2006, similarly as in 2005, four out of five agricultural land buy/sell transactions were concluded between natural persons and only one was concluded between legal persons.

As a consequence of changes in the number of agricultural land market transactions, historically shaped relations as regards the share of particular entities in land trading further deepened within the period from 2005 to 2006 (diagram 1).

Irrespectively of the fact that the number of transactions within the private trading increased, the number of concluded buy/sell transactions remained relatively insignificant, i.e. 39 as per 1000 agricultural holdings (5 contracts more than in the previous period). The number of transactions in agricultural land trading was highly diversified regionally. They varied according to supply factors, differentiated agricultural structure, economic strength of agricultural holdings and diversified motivation for land purchase.

Relatively the most intense market agricultural land trading was observed in the Northern areas of Poland. The number of agricultural land buy/sell transactions as per 1000 agricultural holdings within the Zachodniopomorskie voivodship was more than twice larger than the national average and included 86 transactions. Also relatively the highest increase in the agricultural real estate trading on private market was observed in this region – in 2006 the number of land buy/sell transactions was as much as by 64% higher as compared to 2005.

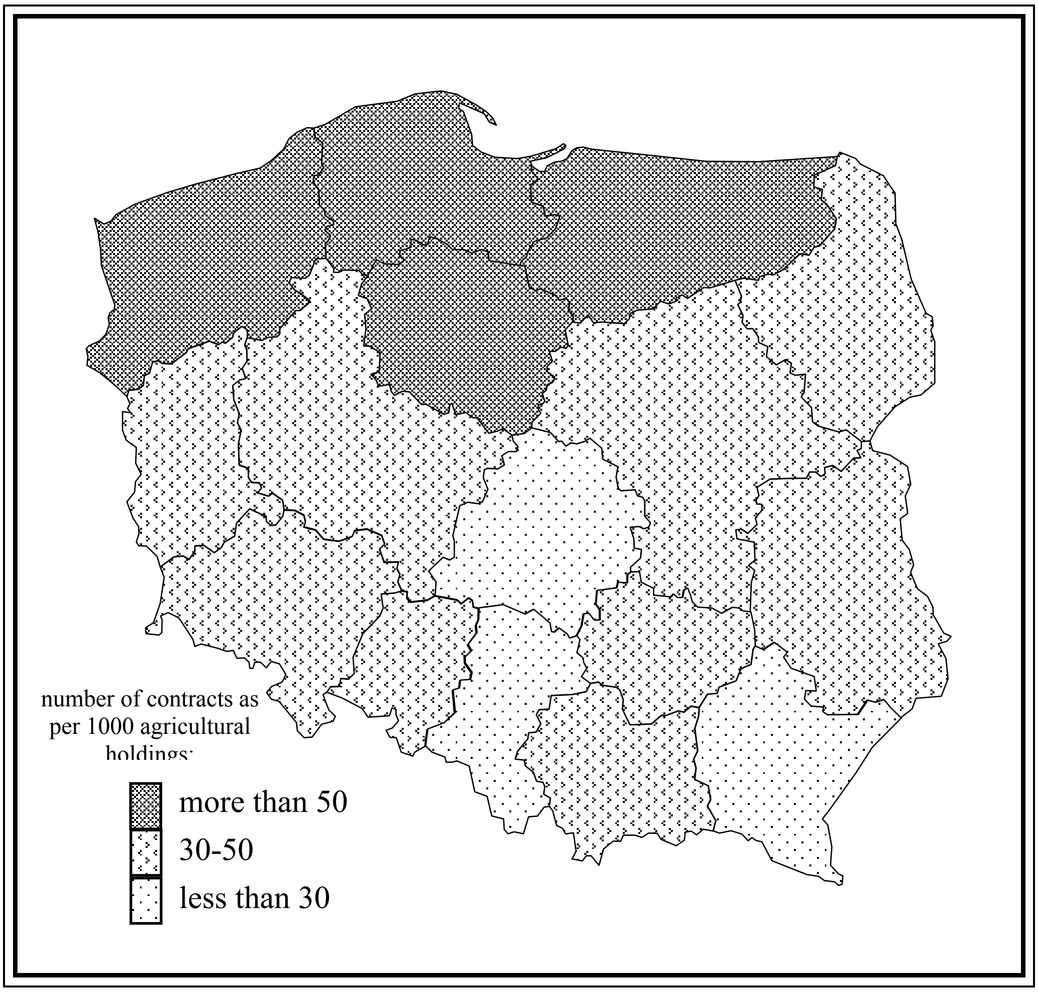
In 2006, for the first time the group of voivodships characterized by relatively the highest intra-neighbour agricultural land trading included the Warmińsko-Mazurskie voivodship, where the number of land buy/sell transactions in private trading increased from 46 transactions in 2005 to 56 transactions in 2006.

Diagram 1. The share of particular entities in agricultural land market trading by the number of transactions


*Source: calculations based on data from the Statistics Department of the Ministry of Justice.*

Some signs of revival in transactions involving agricultural real property were observed for regions which are traditionally characterized by the highest stagnation on the land market. In 2006 the number of land transactions within these areas was on average one third higher as compared to 2005. These regions include Southern and Central Poland, where the agricultural structure of peasant farms is the most dispersed and the majority of the agricultural families live on the non-agricultural sources of income and the real estate is maintained mainly for the non-production purposes. The transfer of land in these regions consisted mainly of handing it over to children who started to become self-dependent, which quite often contributed to further deepening of the agricultural dispersion. As such practices become more and more popular, the supply of land for sale was particularly low. In the Małopolskie voivodship 39 of such transactions were reported as per 1000 agricultural holdings (29 in 2005) and in the Świętokrzyskie voivodship 32 (previously 23).

Map 2. The buy/sell transactions between farmers in 2006




*Source: drawn up based on data from the Statistics Department of the Ministry of Justice.*

The least active region as regards trading in agricultural land was still the Podkarpackie voivodship – in 2006 only 21 buy/sell transactions were concluded as per 1000 agricultural holdings (previously 19). Therefore it was the region which differentiated itself by the least intensification of land concentration in the individual farming. Furthermore, activation of such processes in this region is hampered by marginal share of land owned by the APS of the State Treasury (it has a stimulating effect on revival of private trading in agricultural real estate).

## 4.2. The trading in agricultural land with the participation of the APS of the State Treasury

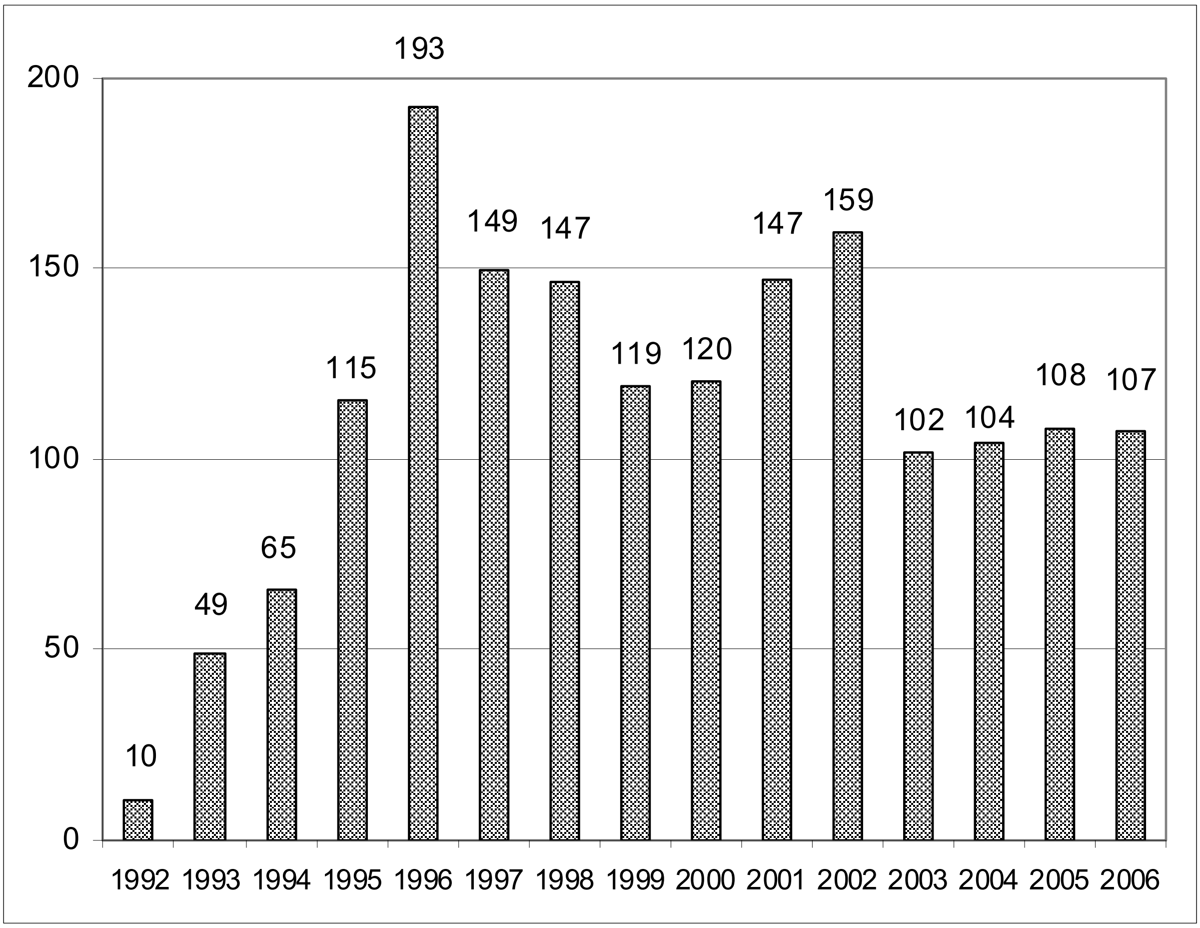
*Tomasz Ciodyk, Tomasz Zagórski* *Agricultural Real Estate Agency*

Beginning from 1992 and by the end of 2006 the Agricultural Real Estate Agency sold approximately 1694 thousand ha, i.e. 36% of land taken over to the APS. Excluding the period 1992-1994, the agricultural area sold in particular years usually exceeded 100 thousand ha per year. The low sale level in the first years of operation of the Agency (1992-1994) was first of all due to the fact that potential buyers had no sufficient financial resources and that the real estate taken over was not formally and legally prepared for the immediate privatization in such form (necessary to establish or update the land and mortgage registers, geodesic division, renewals of borders of particular plots). The property taken over to the APS underwent the so-called restructuring under which, based on the analysis of local needs and conditions, the subject and orientations of disposal of particular parts of agricultural holdings taken over were determined. It is also worth to note that at the beginning of the nineties a large group of farmers preferred the lease to the purchase as the form of expanding the cultivation area as it required less financial involvement. This situation occurred despite the fact that the Agency offered possibilities of preferential purchase of land from the APS of the State Treasury, including payment by instalments.

In 1996 a record in real estate sale from the APS (193 thousand ha) was noted. The reason for such a sharp rise was the fact that by the end of that year buyers of the agricultural real estate owned by the APS could apply for 5 years exemption on agricultural tax on purchased land, irrespectively of its area. Beginning from 1 January 1997 such exemption was limited to 100 ha.

A sharp fall in the volume of sale of land owned by the APS in 2003 was mainly caused by the implementation of settlement rules towards the so-called ”roszczenia zabużańskie” (*claims of persons living over the Bug river*). In December 2002 the Constitutional Tribunal declared as unconstitutional the statutory exclusion of the option to appropriate the value of property left in the East towards a purchase price of real estate owned by the APS. Thus, new grounds for allowing the "Zabużanie" to satisfy their claims on the property of the APS were created. However, there were no legal provisions governing both the rules and procedures of purchasing real estate by these persons. Therefore by the time of resolving the relevant act by the Polish Parliament it was necessary to limit the sale of real estate owned by the APS. The act became effective only by the end of January 2004. Currently persons having "zabużańskie" entitlements (entitlements of "Zabużanie") may participate in the real estate sale tenders organized by the Agency. They have the right to claim compensation in the form of appropriation of up to 20% of the total value of real estate left outside the current Polish borders towards the sale price of the real estate owned by the State Treasury. However, the "Zabużanie" do not show large interest in acquiring the agricultural land and the majority of them is interested in payments from the Compensation Fund.

Diagram 2. The sales of land owned by the APS in the period 1992-2006 (thousand ha)

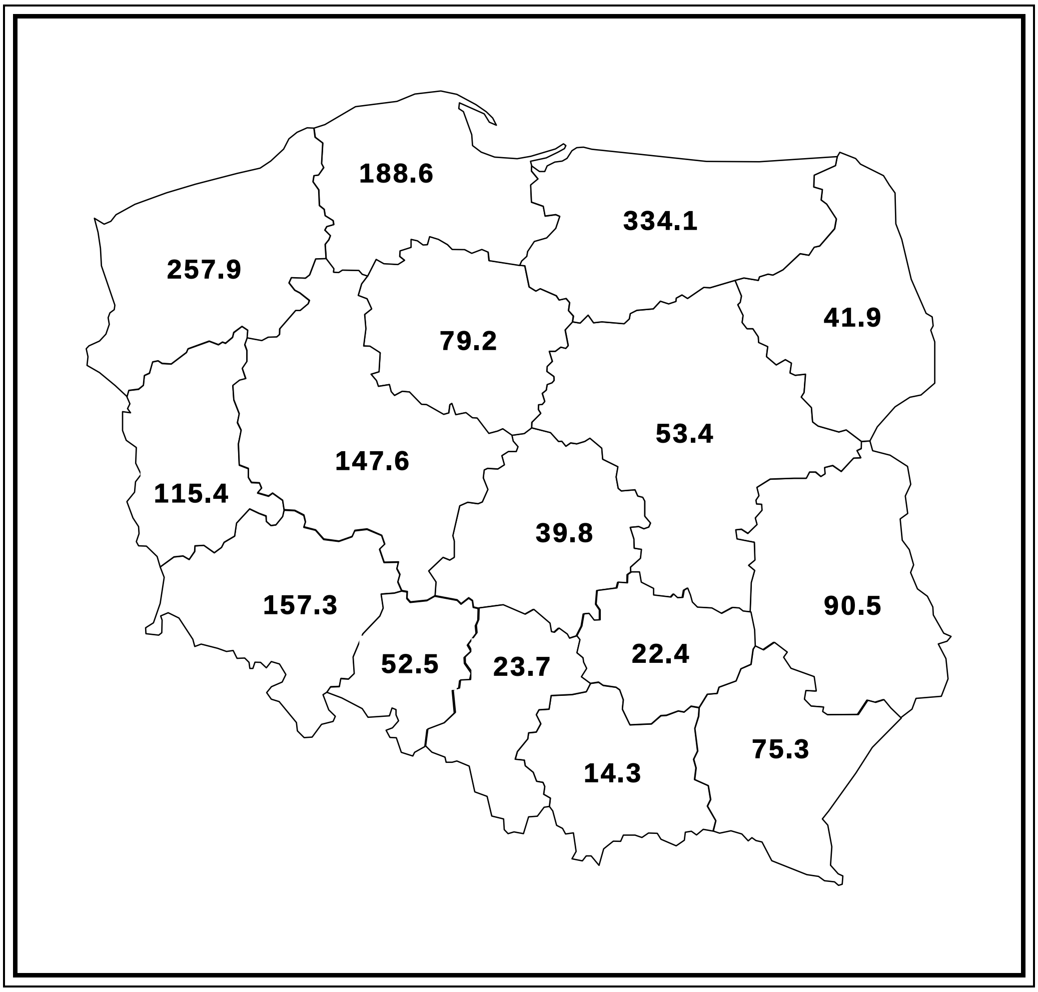



*Source: the annual reports of the APAST and AREA.*

Since the accession of Poland to the European Union, increase in the demand and prices of agricultural land has been observed. In 2006 the Agency sold 107.4 thousand ha, thus slightly less than in 2005 (108.3 thousand ha). The majority of land was sold under the tender procedure (approximately 67.6 thousand ha) and 39.8 thousand ha under the priority purchase procedure mainly for the benefit of the leaseholders. As compared to the previous year, a significant increase in the area of land sold by the Agency under the tender procedure was observed.

The factors which hamper the sale include expiration by the end of 2003 of spatial development plans in many gminas. Lack of progress in this field and thus uncertainty about the future function of real estate and correlated risk of reselling the real estate for the price not reflecting its factual value made it impossible to sell the real estate owned by the APS in many cases (most often they continue to be used under lease agreements). Legislation work currently in progress aims at facilitating the planning process, and the Agency actively participates in selection of land owned by the APS to be used for the non-agricultural purposes.

Map 3. The land sold by the APS as of 31.12.2006 (in thousand ha)




*Source: the AREA data.*

Since 1997 the AREA has been prohibited to sell real estate which is covered by the reprivatization reservations issued by the Prime Minister of Poland in connection with the necessity to secure real estate for reprivatization purposes. In spite of political changes this prohibition remains in force.

Table 1. The area of the agricultural land owned by the APS sold in 2006

| Voivodship | Total | Including within (in ha) | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300.00 and more |
| Dolnośląskie | 11 262 | 115 | 1 623 | 7 859 | 1 665 | - |
| Kujawsko-pomorskie | 4 752 | 53 | 537 | 2 173 | 1 284 | 705 |
| Lubelskie | 5 072 | 189 | 1 027 | 2 996 | 860 | - |
| Lubuskie | 8 773 | 96 | 1 267 | 5 383 | 1 105 | 922 |
| Łódzkie | 1 669 | 131 | 840 | 698 | - | - |
| Małopolskie | 503 | 61 | 249 | 193 | - | - |
| Mazowieckie | 2 527 | 136 | 1 036 | 940 | 100 | 315 |
| Opolskie | 4 009 | 92 | 559 | 2 445 | 913 | - |
| Podkarpackie | 3 626 | 318 | 1 602 | 1 574 | 132 | - |
| Podlaskie | 2 776 | 95 | 965 | 1 716 | - | - |
| Pomorskie | 9 301 | 70 | 1 013 | 6 468 | 1 265 | 485 |
| Śląskie | 1 524 | 61 | 398 | 1 065 | - | - |
| Świętokrzyskie | 1 818 | 155 | 843 | 687 | 133 | - |
| Warmińsko-mazurskie | 22 990 | 175 | 3 646 | 15 451 | 2 591 | 1 127 |
| Wielkopolskie | 4 588 | 67 | 734 | 2 813 | 300 | 674 |
| Zachodniopomorskie | 20 256 | 144 | 1 663 | 15 068 | 2 113 | 1 268 |
| **TOTAL** | **105 446** | **1 958** | **18 002** | **67 529** | **12 461** | **5 496** |

*Source: the AREA data.*

According to the conservative estimation this issue concerns at least 500 thousand ha. In several regions of Poland the sale of land owned by the APS is practically blocked by claims. In the Wielkopolskie voivodship claims cover approximately 187 thousand ha, in the Kujawsko-Pomorskie voivodship approximately 100 thousand ha, in the Mazowieckie voivodship approximately 43 thousand ha and in the Pomorskie and Warmińsko-Mazurskie voivodships approximately 20 thousand ha each. Also the anti-concentration instrument introduced by the Act on Formation of Agricultural System had a significant influence on sale dynamics in 2006 (limitation to 500 ha of agricultural land that can by sold by the Agency to a single purchaser).

Table 2. The number of buy/sell agreements of agricultural land owned by the APS in 2006

| Voivodships | Total | Including within (in ha) | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300.00 and more |
| Dolnośląskie | 978 | 229 | 432 | 309 | 8 | - |
| Kujawsko-pomorskie | 403 | 171 | 144 | 80 | 6 | 2 |
| Lubelskie | 858 | 401 | 363 | 90 | 4 | - |
| Lubuskie | 790 | 244 | 344 | 194 | 6 | 2 |
| Łódzkie | 601 | 276 | 292 | 33 | - | - |
| Małopolskie | 223 | 129 | 85 | 9 | - | - |
| Mazowieckie | 626 | 259 | 324 | 41 | 1 | 1 |
| Opolskie | 465 | 194 | 179 | 88 | 4 | - |
| Podkarpackie | 1 478 | 782 | 622 | 73 | 1 | - |
| Podlaskie | 566 | 205 | 299 | 62 | - | - |
| Pomorskie | 663 | 160 | 267 | 228 | 7 | 1 |
| Śląskie | 289 | 133 | 117 | 39 | - | - |
| Świętokrzyskie | 677 | 338 | 315 | 23 | 1 | - |
| Warmińsko-mazurskie | 1 854 | 415 | 857 | 565 | 14 | 3 |
| Wielkopolskie | 425 | 135 | 192 | 94 | 2 | 2 |
| Zachodniopomorskie | 1 296 | 360 | 457 | 462 | 14 | 3 |
| **TOTAL** | **12 192** | **4 431** | **5 289** | **2 390** | **68** | **14** |

*Source: the AREA data.*

In order to carry out the objectives of the Act on Formation of Agricultural System, the Agency increased the number of restricted tenders for individual farmers who intend to expand their family farms (in 2006 more than 3.5 thousand tenders were organized and jointly approximately 50 thousand ha was offered for sale or lease). These tenders include mainly small area real estate. Preparation of such land for sale is more labour and time consuming as compared to larger area real estate and the tender procedures are longer as compared to open tenders.

Table 3. The area of the agricultural land owned by the APS sold in 2006 by entities

| Specification by area in ha | By 31.12.2006 | | | Including 2006 | | |
|---|---|---|---|---|---|---|
| | total | including | | total | including | |
| | | natural persons | legal persons | | natural persons | legal persons |
| by 1.00 | 37 474 | 37 064 | 410 | 1 958 | 1 920 | 38 |
| 1.01 - 1.99 | 42 722 | 42 114 | 608 | 2 854 | 2 784 | 70 |
| 2.00 - 4.99 | 91 282 | 89 325 | 1 957 | 6 517 | 6 382 | 135 |
| 5.00 - 9.99 | 112 328 | 108 578 | 3 750 | 8 631 | 8 334 | 297 |
| 10.00 - 19.99 | 167 005 | 159 048 | 7 957 | 13 829 | 13 298 | 531 |
| 20.00 - 49.99 | 389 372 | 353 230 | 36 142 | 43 711 | 40 086 | 3 625 |
| 50.00 - 99.99 | 112 443 | 99 678 | 12 765 | 9 989 | 8 932 | 1 057 |
| 100.00 - 499.99 | 438 942 | 315 268 | 123 674 | 17 472 | 10 875 | 6 597 |
| 100.00 - 299.99* | - | - | - | 12 461 | 9 128 | 3 333 |
| 300.00 - 499.99* | - | - | - | 5 011 | 1 746 | 3 265 |
| 500.00 - 999.99 | 174 201 | 84 334 | 89 867 | 485 | - | 485 |
| 1000.00 and more | 60 639 | 16 622 | 44 017 | - | - | - |
| **TOTAL** | **1 626 408** | **1 305 261** | **321 147** | **105 446** | **92 610** | **12 836** |
| including by 99.99 | 952 626 | 889 037 | 63 589 | 87 489 | 81 736 | 5 753 |
| 100.00 and more | 673 782 | 416 224 | 257 558 | 17 957 | 10 874 | 7 083 |

* Change of methodology of presentation, earlier it was the interval 100 – 499.99 ha, additional intervals were introduced in 2004 in connection with amendments to legal provisions in the Act on Formation of Agricultural System where definition of family agricultural holding as 300 ha was given.

*Source: the AREA data.*

In 2006 the largest volume of agricultural land was sold by the AREA in the Warmińsko-Mazurskie, Zachodniopomorskie and Dolnośląskie voivodships while the smallest volume in the Małopolskie, Śląskie and Świętokrzyskie voivodships. The total area (105.6 thousand ha of typically agricultural land) included mainly areas of 10-100 ha (67.5 thousand ha) which accounted for 63.9% of the total land sold. The second largest group in terms of the area of land sold included real estate of 1 – 10 ha (18 thousand ha) which accounted for 17% of the total of land sold. As regards the group of 300 ha and more, approximately 12.4 thousand ha of land was sold and 300 ha and more – 5.4 thousand ha.

Table 4. The number of sale agreements of agricultural land owned by the APS in 2006 by entities

| Specification by area in ha | By 31.12.2006 | | | Including 2006 | | |
|---|---|---|---|---|---|---|
| | total | including | | total | including | |
| | | natural persons | legal persons | | | natural persons |
| by 1.00 | 88 102 | 87 226 | 876 | 4 431 | 4 342 | 89 |
| 1.01 - 1.99 | 29 897 | 29 480 | 417 | 2 011 | 1 963 | 48 |
| 2.00 - 4.99 | 28 709 | 28 102 | 607 | 2 070 | 2 027 | 43 |
| 5.00 - 9.99 | 15 846 | 15 324 | 522 | 1 208 | 1 167 | 41 |
| 10.00 - 19.99 | 11 855 | 11 312 | 543 | 974 | 938 | 36 |
| 20.00 - 49.99 | 11 879 | 10 876 | 1 003 | 1 279 | 1 186 | 93 |
| 50.00 - 99.99 | 1 603 | 1 423 | 180 | 137 | 124 | 13 |
| 100.00 - 499.99 | 1 813 | 1 369 | 444 | 81 | 57 | 24 |
| 100.00 - 299.99* | - | - | - | 68 | 52 | 16 |
| 300.00 - 499.99* | - | - | - | 13 | 5 | 8 |
| 500.00 - 999.99 | 269 | 133 | 136 | 1 | - | 1 |
| 1000.00 and more | 37 | 12 | 25 | - | - | - |
| **TOTAL** | **190 010** | **185 257** | **4 753** | **12 192** | **11 804** | **388** |
| including by 99.99 | 187 891 | 183 743 | 4 148 | 12 110 | 11 747 | 363 |
| 100.00 and more | 2 119 | 1 514 | 605 | 82 | 57 | 25 |

*Source: the AREA data.*

* Change of methodology of presentation, earlier it was the interval 100 – 499.99 ha, additional intervals were introduced in 2004 in connection with amendments to legal provisions in the Act on Formation of Agricultural System where definition of family agricultural holding as 300 ha was given.

In 2006 approximately 12.2 thousand sale transactions were concluded by the Agency – most of them concerned the areas of 1 – 10 ha (ca. 5.3 thousand) and small area real estate up to 1 ha (4.4 thousand of transactions). The AREA signed approximately 2.4 thousand transactions which concerned the area from

10 to 100 ha. The sale volume of larger area real estate, i.e. more than 100 ha, decreases (82 in 2006 and 110 in 2005) each year.

The group of purchasers of the real estate owned by the APS includes both natural and legal persons. In 2006, similarly as in the preceding years, natural persons prevailed in terms of the volume of the purchased land – they purchased 92.6 thousand ha, while legal persons only about 13 thousand ha. Jointly, since the beginning of the Agency operation, the natural persons have purchased 1,305.3 thousand ha (80%) and the legal persons more than 321 thousand ha (20%).

The majority of 190 thousand sale agreements include those concluded by the natural persons. Jointly in the period from 1992 to the end of 2006 the AREA concluded 185.2 thousand sale agreements (i.e. 97.5%) with the natural persons and almost 5 thousand sale agreements (i.e. 2.5%) with the legal persons. In 2006 agreements with natural persons accounted for more than 11.8 thousand out of the total of 12 thousand of sale agreements.

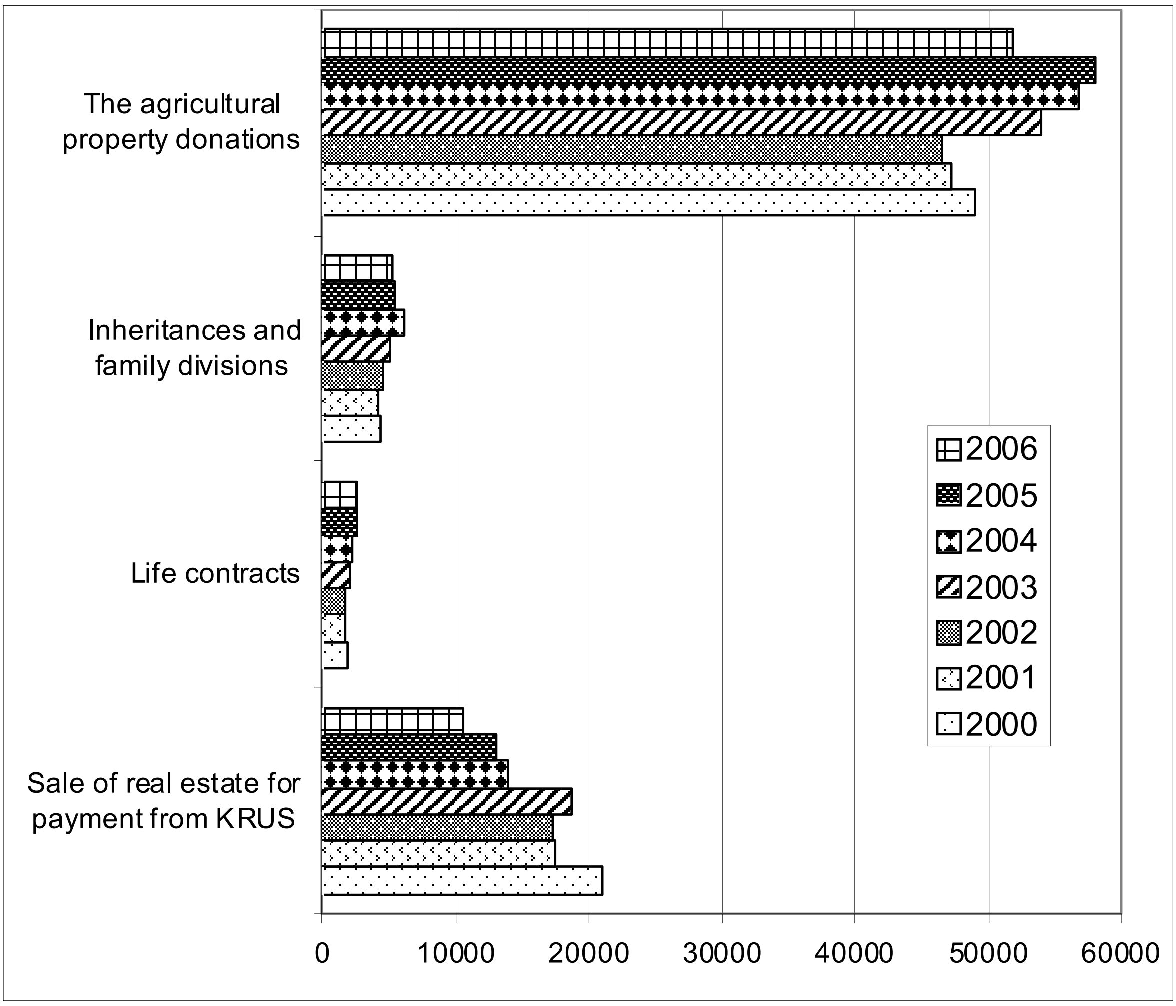
In 2006 the average area of agricultural real estate sold under a single agreement was 8.6 ha. It was a decrease of approximately 6.5% as compared to the previous period. In 2003 this ratio was 7.5 ha, in 2004 – 7.2 ha and in 2005 – 9.2 ha.

## 4.3. The non-market (family) land trading

*Alina Sikorska* *Institute of Agricultural and Food Economics National Research Institute*

About 90% of the agricultural holdings in Poland are taken over by subsequent family generations by virtue of the inheritance law. The analysis of data provided by the notarial offices on non-market agricultural land trading indicates that also this segment experienced new trends in development of agricultural and food sector. The improvement of the economic situation in agriculture that has been observed after the accession of Poland to the European Union as well as the implementation of the direct subsidies caused that the decisions on taking over lands were, to larger extent than in previous years, influenced by factors connected with agricultural use of land. This is the main reason for the fall in the number of handovers under the family divisions that has been observed since 2005. By 2004 the number of such inheritance agreements rose significantly (between 2003 and 2004 by 22%). The majority of them concerned relatively small areas, which contributed to further increase of the agricultural dispersion. It also illustrates the increase in the enforcement of customary inheritance rights without taking into account the need to maintain the existing production potential (i.e. the farm being distributed by virtue of inheritance). In 2005, when the growth in prices of the agricultural land and thus its sales became an attractive alternative to taking over the proprietorship, the number of family divisions decreased by as much as 12%. This trend continued, however to much smaller extent, until 2006 when the number of notarial deeds concluded under this title decreased by another 3% as compared to 2005.

Diagram. 3. The non-market agricultural land trading – notarial deeds concluded within the period 2000-2006




*Source: drawn up based on data from the Statistics Department of the Ministry of Justice.*

The increasing influence of the situation on the agricultural land market on restricting various forms of non-agricultural (family) trading is also reflected in the fall of life-long agreements. High prices of land ensuring proper economic security in case of the sale of the  production property led to the decrease by 4%

of the number of life-long agreements in 2006 as compared to 2005. Concurrently, the lawful voluntary transfer of agricultural land in exchange for the retirement benefits paid by KRUS decreased by more than 20%.

In 2006, similarly as in preceding years, the most frequent form of non-market land trading included notarial deeds of donation. They accounted for approximately 74% of the total of non-market agricultural land takeovers (73% in 2005).

The increasing formalism of the intra-family changes of the land use is the main reason for the increase in the number of notarial deeds of donation observed even since 2003. In previous periods such procedures were not too much respected and thus the property relations in a number of individual agricultural holdings became outdated. The integration with the European Union, particularly requirements of CAP support programmes enforced ordering these issues. However, it must be noted that several hundred thousand of agricultural holdings still do not possess relevant documentation. In particular it refers to the small non-production units the owners of which abandoned to seek for direct subsidies.

# V. The prices of agricultural land

## 5.1. The prices in intra-neighbour agricultural land trading

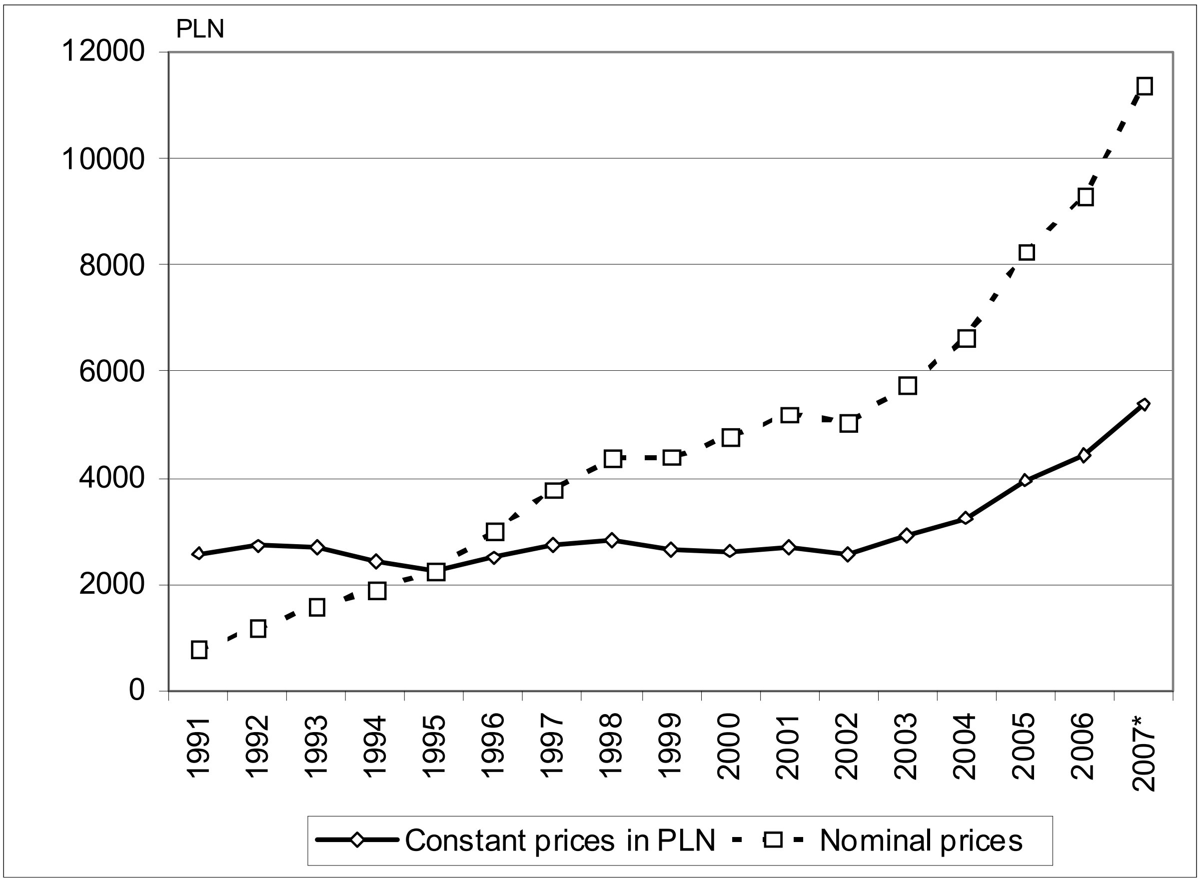
*Alina Sikorska* *Institute of Agricultural and Food Economics National Research Institute*

In 2006 the average price of the agricultural land increased to PLN 9290 per 1 ha of arable land and was PLN 1046 higher as compared to the year 2005 (increase by 12.7%). The price growth observed already in the previous year continued, however in 2006 it was not as strong as a year earlier when prices increased on average by as much as 24.3%.

It must be emphasized however that, as for such a short period of time and a considerably higher point of reference, the agricultural real estate price growth continued to be very sharp. The agricultural land prices increased in all regions of Poland.

Similarly as in precedent years, relatively the highest price growth was observed for the agricultural areas of low quality level. In the reference period their market value increased by 18%. The prices of mid and highest quality land increased not so much, by 13% and 10%, respectively. Almost twice higher growth of low class land price as compared to the highest quality land price shows that non-agricultural motivations in purchasing land are still popular and demand in this regard is still shaped by expected financial profits (annuity, possibility to obtain subsidies for afforestation).

Diagram 4. The prices of arable land in intra-neighbour trading (in PLN per ha)




* Data as of and quarter of 2007

*Source: Calculations based on the CSO data.*

In 2006, similarly as in 2005, the spatial differences in agricultural land prices (map 4) and their dynamics were still high. At the national level the highest average land prices were reported in the Wielkopolskie and Kujawsko-Pomorskie voivodships. Within these regions the average price of land in 2006 was almost a half higher as compared to the average in Poland. In the above voivodships, characterized by the high concentration of economically the strongest agricultural holdings, the demand for land resulted in much faster land prices growth as compared to the average in Poland. In the Wielkopolskie voivodship the average agricultural land prices in the private trading between 2005 and 2006 increased by more than 20% and in Kujawsko-Pomorskie voivodship by 18%. Remarkably, as compared to other regions, the market estimate of land in the above voivodships was more frequently correlated with its quality which further confirms that land purchases were mainly motivated by the wish to expand the production scale.

Table 5. The nominal and real prices of arable land

| Specification | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nominal prices in PLN per 1 ha | 2250 | 3003 | 3783 | 4379 | 4390 | 4786 | 5197 | 5042 | 5753 | 6634 | 8244 | 9290 |
| Inflation ratio in %[1] | 27.8 | 19.9 | 14.9 | 11.8 | 7.3 | 10.1 | 5.5 | 1.9 | 0.8 | 3.5 | 2.1 | 1.0 |
| Constant prices in PLN per 1 ha (1995 r. =100) | 2250 | 2504 | 2744 | 2841 | 2654 | 2628 | 2709 | 2578 | 2918 | 3251 | 3957 | 4414 |
| Prices calculated in dt of wheat per 1 ha[2] | 63.6 | 52.5 | 74.4 | 93.5 | 102.1 | 85.3 | 103.1 | 115.6 | 126.5 | 137.8 | 224.7 | 207.6 |
| Prices calculated in dt of rye per 1 ha[3] | 99.8 | 83.6 | 101.9 | 136.5 | 147.7 | 115.3 | 141.3 | 151.9 | 164.1 | 182.6 | 298.3 | 241.2 |
| Prices calculated in kg of pigs for slaughter per 1 ha[4] | 827 | 998 | 998 | 1269 | 1459 | 1329.4 | 1200.2 | 1412.3 | 1412.3 | 1614.1 | 2158.1 | 2609.6 |
| Prices calculated in USD per 1 ha[5] | 928 | 1114 | 1153 | 1253 | 1052 | 1100 | 1271 | 1239 | 1483 | 1818 | 2552 | 2997 |
| Prices calculated in EUR per 1 ha[6] | 717 | 810 | 1021 | 1116 | 1040 | 1194 | 1420 | 1310 | 1310 | 1464 | 2051 | 2388 |

[1] Annual average ratio of changes in prices of commodities and consumption goods in total as compared to the previous year – the CSO data.
[2] Average purchase price of 1 dt of wheat in 2006 amounted to PLN 44.76
[3] Average purchase price of 1 dt of rye in 2006 amounted to PLN 38.52
[4] Average purchase price of 1 kg of pigs for slaughter in 2006 amounted to PLN 3.56
[5] Average price of USD 1 in 2006 amounted to PLN 3.10
[6] Average price of EURO in 2006 amounted to PLN 3.89

*Source: Calculations on the basis of data from the Biuletyn Statystyczny GUS (Statistical Bulletin of the Central Statistical Office), No. 10/2007.*

A slightly different situation was observed for those regions in Poland where the land was relatively less expensive and the favourable agricultural structure strengthened the results provided by the use of direct subsidies. For example, within the period 2005-2006 in the Zachodniopomorskie voivodship the market value of the lowest quality land increased by 26%. However, irrespectively of these differences, general attention was drawn to the quality of purchased land and despite more rapid price growth of low quality land in the majority of voivodships, it remained approximately 30-40% less expensive than good quality land.

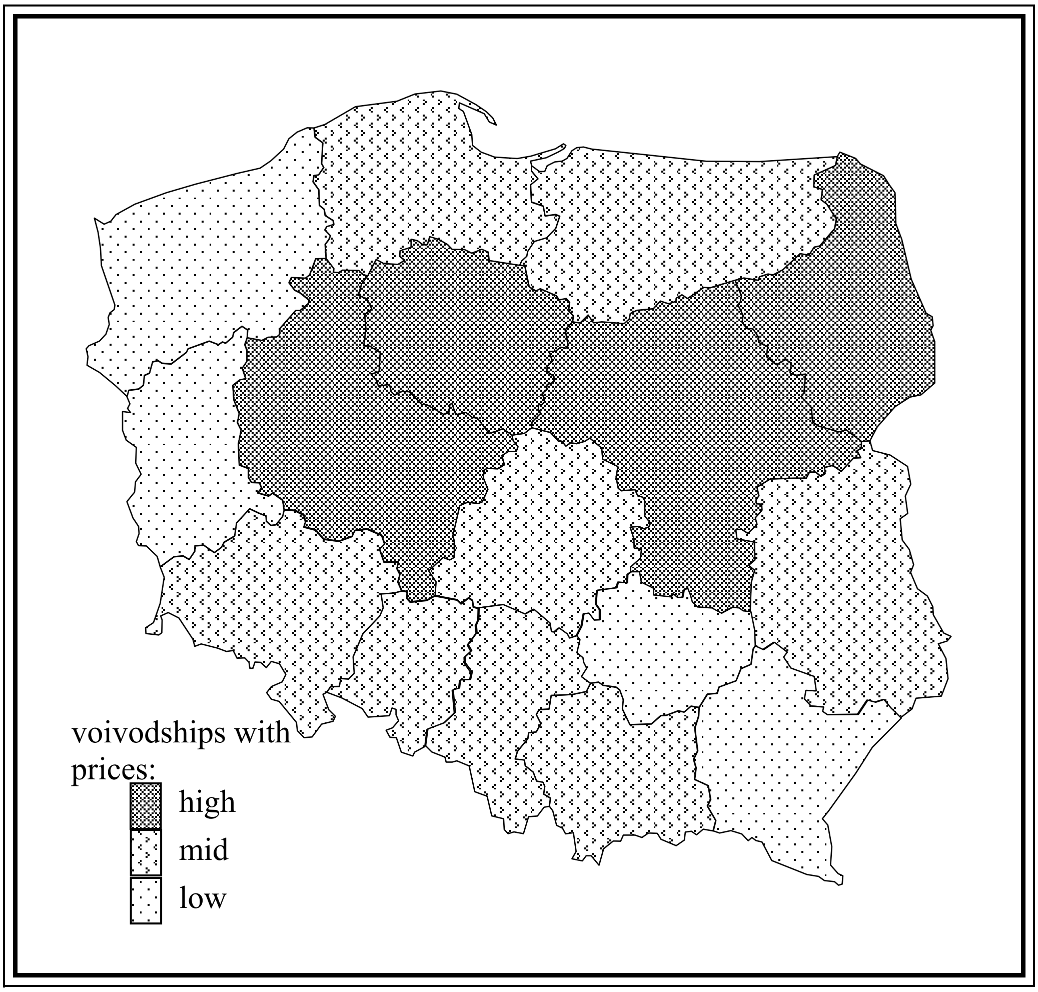
Table 6. The average prices of agricultural land in private trading (in PLN per ha)

| Voivodships | In total | | Including 2006 by land quality | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | good | medium | low |
| **POLAND** | **8 244** | **9 290** | **12 126** | **9 712** | **6 917** |
| Dolnośląskie | 6 941 | 7 975 | 10 473 | 8 111 | 5 207 |
| Kujawsko-pomorskie | 12 209 | 14 360 | 17 854 | 14 692 | 10 779 |
| Lubelskie | 6 361 | 7 153 | 9 670 | 7 207 | 5 164 |
| Lubuskie | 4 364 | 4 771 | 5 938 | 5 163 | 3 535 |
| Łódzkie | 8 982 | 9 776 | 12 908 | 10 759 | 7 194 |
| Małopolskie | 8 644 | 9 270 | 11 283 | 9 261 | 6 912 |
| Mazowieckie | 9 557 | 10 551 | 14 624 | 11 379 | 7 649 |
| Opolskie | 7 100 | 7 779 | 9 929 | 8 198 | 5 568 |
| Podkarpackie | 4 318 | 4 581 | 5 571 | 4 508 | 3 560 |
| Podlaskie | 9 410 | 10 948 | 15 041 | 12 053 | 8 631 |
| Pomorskie | 9 137 | 9 618 | 13 028 | 9 836 | 7 681 |
| Śląskie | 8 224 | 9 031 | 12 341 | 9 213 | 6 825 |
| Świętokrzyskie | 6 062 | 6 305 | 8 718 | 6 323 | 4 201 |
| Warmińsko-mazurskie | 5 737 | 6 870 | 8 963 | 7 194 | 5 839 |
| Wielkopolskie | 13 107 | 15 785 | 22 092 | 16 926 | 10 629 |
| Zachodniopomorskie | 5 057 | 6 310 | 8 035 | 6 612 | 4 919 |

*Source: calculations based on the CSO data.*

The analysis of data on land prices on the private market and changes in this regard between 2005 and 2006 show that local conditions and economic development followed by the location pension are invariably the key factors which determine the value of the agricultural land.

Map 4. The average prices of agricultural land in PLN per ha in the neighbour trading in 2006

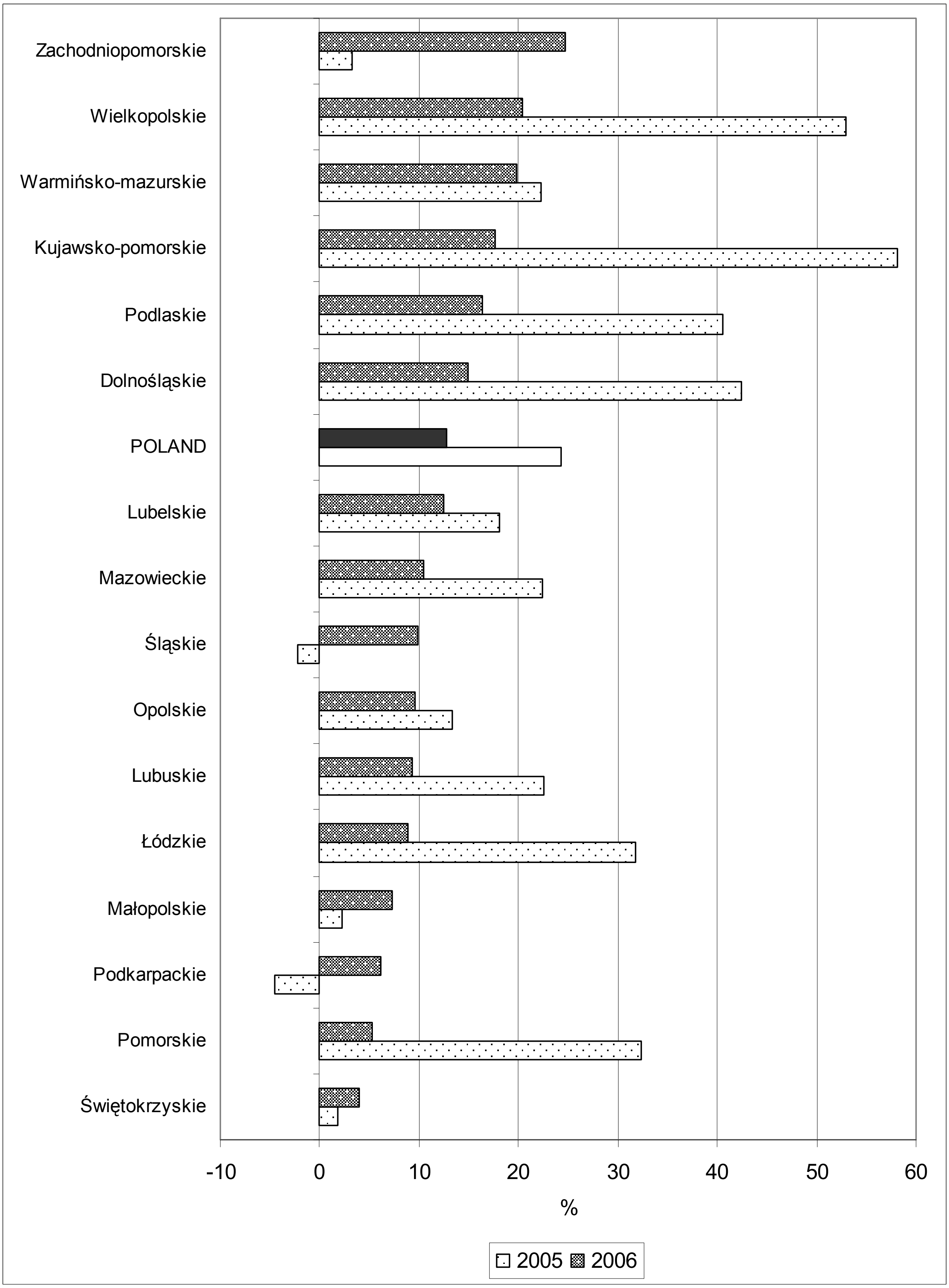



*Source: calculations based on the CSO data.*

As compared to the previous period, in 2006 the role of agriculture in creation of the land market increased. The improvement of the economic situation in agriculture, direct subsidies and production subsidies strengthened the economic position of prosperous agricultural holdings. This was reflected in the increased interest of users in expansion of the cultivation area. Consequently, prices in regions characterized by high concentration of such agricultural holdings (mainly the Wielkopolskie and Kujawsko-Pomorskie voivodships) increased more rapidly and were higher as compared to the average in Poland.

Concurrently, the spread between prices of land in various regions of Poland further deepened. In the Podkarpackie and Lubuskie voivodships the average market value of the agricultural land was almost twice lower as compared to the average in Poland.

Diagram 5. The nominal prices of agricultural land in 2005 and 2006 (% in relation to previous year)

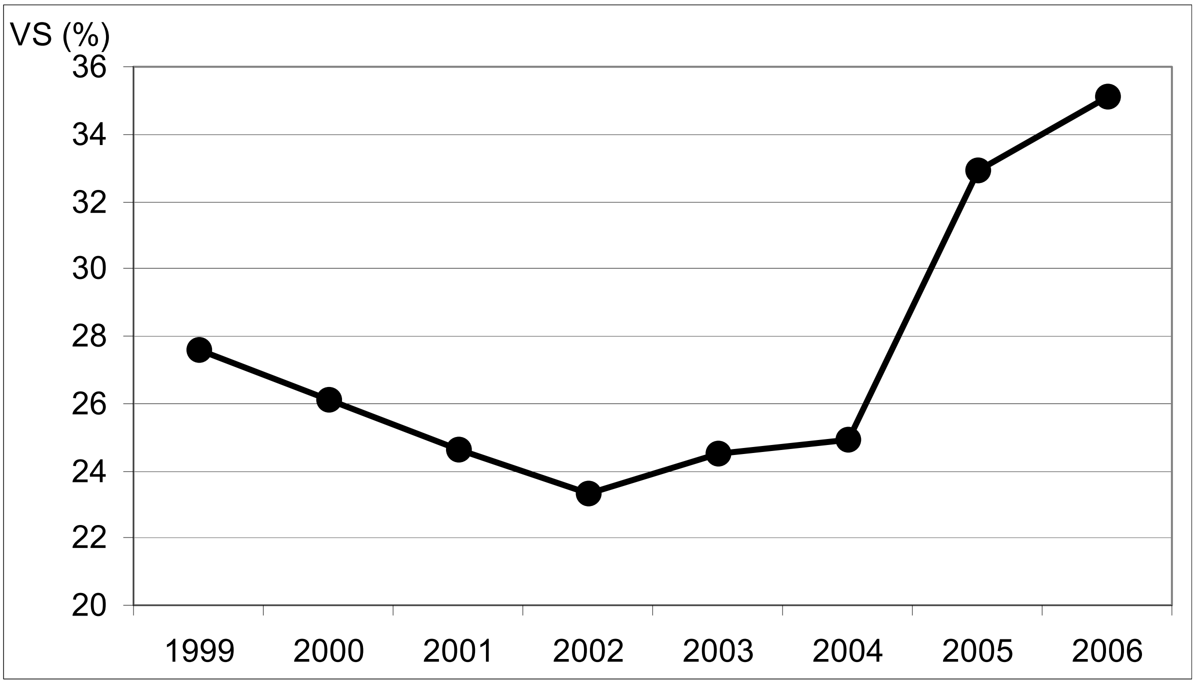



*Source: calculations based on the CSO data.*

For many years these areas have been distinguished by particularly difficult economic situation and exceptionally high unemployment rate. It should be noted that the competition factor specific for the market economy (resulting in a better starting position of stronger economic entities and at least relative degraded position of weaker entities) was also reflected on the agricultural land market. It further illustrates the increasing spatial differentiation of the land prices.

In 2006 the value of the variability ratio concerning the land market value at the regional level amounted to 35%. Thus, its value increased as compared to 2005 when it was approximately 33% (in the period 2001-2004 it was 25%).

Diagram 6. The value of the agricultural land price variability ratio at the regional level in the period 1999-2006




*Source: calculations based on the CSO data.*

Though, as generally assumed, only the variability ratio of 40% gives evidence to a large scale of disparity, it must be stressed that spatial differentiation of the agricultural land has continuously grown since 2002. In 2005 further acceleration in the scale of this phenomenon was observed and it can be expected that the ratio measuring the scale of regional disparities in agricultural land prices may, in a relatively short period of time, reach the value considered as confirming the high level of disparity.

Table 7. The relations in prices of various land quality in 2006

| Voivodships | Average proces In PLN per ha | Proces of land of quality | | |
|---|---|---|---|---|
| | | good | medium | low |
| | | in % of average price in voivodships | | |
| **POLAND** | **9 290** | **131** | **105** | **74** |
| Dolnośląskie | 7 975 | 131 | 102 | 65 |
| Kujawsko-pomorskie | 14 360 | 124 | 102 | 75 |
| Lubelskie | 7 153 | 135 | 101 | 72 |
| Lubuskie | 4 771 | 124 | 108 | 74 |
| Łódzkie | 9 776 | 132 | 110 | 74 |
| Małopolskie | 9 270 | 122 | 100 | 75 |
| Mazowieckie | 10 551 | 139 | 108 | 72 |
| Opolskie | 7 779 | 128 | 105 | 72 |
| Podkarpackie | 4 581 | 122 | 98 | 78 |
| Podlaskie | 10 948 | 137 | 110 | 79 |
| Pomorskie | 9 618 | 135 | 102 | 80 |
| Śląskie | 9 031 | 137 | 102 | 76 |
| Świętokrzyskie | 6 305 | 138 | 100 | 67 |
| Warmińsko-mazurskie | 6 870 | 130 | 105 | 85 |
| Wielkopolskie | 15 785 | 140 | 107 | 67 |
| Zachodniopomorskie | 6 310 | 127 | 105 | 78 |

*Source: calculations based on the CSO data.*

The spatial differences in the agricultural land prices were deepened by the uneven pace of their growth. The highest growth of prices of the good quality land was observed for regions characterized by relatively good agricultural structure and relatively high share of agricultural holdings having a strong economic position. For example in the Wielkopolskie and Zachodniopomorskie voivodships the size of such agricultural holdings enlarged by as much as one-fifth in the reference period. In these regions also the spread in land prices depending on the land quality was the largest. In turn, in voivodships within the area of which the land prices were relatively lower and the agricultural property was usually used for non-production purposes, not only the increase in prices of low quality land was the most visible but also the relations between the market value of land of various quality were rather flat. This situation was characteristic for the Podkarpackie and Warmińsko-Mazurskie voivodships.

The dynamic increase in the land prices observed since 2005 (continuation of this trend was marked strongly also in 2007), in particular a more intense rise in prices of the least expensive land, first of all illustrates very high supply-demand imbalance. Given that, against the background of the Western EU countries, prices of land in Poland are still relatively low and, concurrently, the property still brings material economic profits, it should be expected that the market value of agricultural real estate would continue to grow. In case of good economic conditions, in particular the transfer of rural population to other, non-agricultural professions, this trend may slightly slow down due to the fact that some part of this group of persons will take decisions on liquidation of their agricultural holdings. This process is partly confirmed by, initiated in 2006 and at present rather slow, acceleration of trading in intra-neighbour sales. It can be expected that in the next years the scale of supply of land on the land real estate market will increase. It will not reverse the growing tendency of prices, it may however temporarily slow down this process.

## 5.2. The prices of land owned by the Agricultural Property Stock of the State Treasury

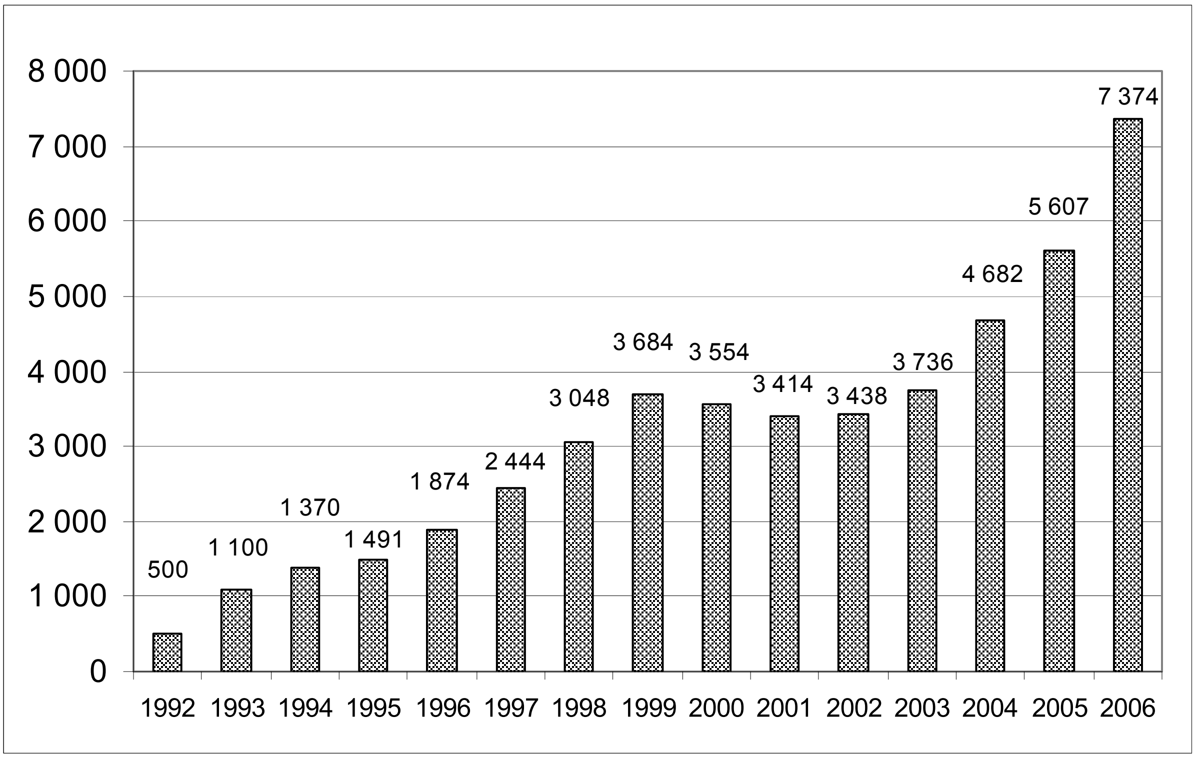
*Tomasz Ciodyk, Tomasz Zagórski* *Agricultural Real Estate Agency*

The price of the APS's real estate is established as no less than the value set out by an independent real estate appraiser on the basis of the current situation on the local market and by use of methods defined in regulations on real estate management. The agricultural real estate price can also be established based on estimate rates of one hectare and the price of 100 kg of rye determined in conformity with the regulation on the agricultural tax and the value of components of this land specified by the real estate appraiser. The calculation of the land value according to this method can be performed without the assistance of the real estate appraiser, in case of calculating:

1) the payments, in connection with taking over the land by the State Treasury under provisions on social security for farmers,
2) the price of not built-up land of the area not exceeding 1 ha,
3) the price of land which will be used as the base price for calculating payments for permanent management.

Establishing the price by way of an estimate rate can not be used to real estate which, according to the spatial development plan, is intended for purposes not connected with the agricultural or forest management. In practice, assessments based on estimate rates are very rare.

Diagram 7. The average sale prices of the APS's agricultural land in the period 1992 – 2006 in PLN per 1 ha




*Source: the annual reports of the APAST and AREA.*

The prices of the APS's land started to increase from the beginning of the privatization process (diagram 7), however they remained stable to some extent in the period 1999-2003. Also the inflation had an effect on land prices. At the beginning of the reprivatization process the growth of the prices of land owned by the APS was hampered by the high inflation rate. When the inflation stabilized at a lower level, the process of significant increase in land and other real estate prices started.

After the accession of Poland to the European Union, the average price of 1 ha of agricultural area in sale transactions concluded in 2004 (excluding real estate of a specific character) amounted to PLN 4682. It is a 25% increase as compared to the average in 2003 (PLN 3736). In 2005 the average price of 1 ha amounted to PLN 5607 (increase by 19.8 as compared to the previous year). In

2006, 1 ha of agricultural land sold by the AREA amounted to PLN 7374, which marks the highest price growth in several years (by 31.5% as compared to 2005).

Table 8. The sale prices of the APS's agricultural land in 2006
(in PLN per 1 ha)

| Voivodships | I quarter | II quarter | III quarter | IV quarter | On average in 2006 |
|---|---|---|---|---|---|
| Dolnośląskie | 8 781 | 8 130 | 9 957 | 10 578 | 9 371 |
| Kujawsko-pomorskie | 9 055 | 8 775 | 12 779 | 12 451 | 11 394 |
| Lubelskie | 5 520 | 6 159 | 6 078 | 6 803 | 6 195 |
| Lubuskie | 5 586 | 5 584 | 6 440 | 7 141 | 6 151 |
| Łódzkie | 7 533 | 8 043 | 8 375 | 9 653 | 8 562 |
| Małopolskie | 7 952 | 7 393 | 9 260 | 7 710 | 8 148 |
| Mazowieckie | 5 599 | 5 990 | 8 416 | 8 140 | 7 153 |
| Opolskie | 8 284 | 7 757 | 7 618 | 9 349 | 8 638 |
| Podkarpackie | 5 090 | 4 780 | 6 165 | 5 728 | 5 340 |
| Podlaskie | 4 509 | 4 829 | 5 818 | 5 559 | 5 192 |
| Pomorskie | 6 851 | 7 049 | 8 052 | 7 501 | 7 402 |
| Śląskie | 8 843 | 7 824 | 8 947 | 10 192 | 9 133 |
| Świętokrzyskie | 8 405 | 6 453 | 5 662 | 6 097 | 6 788 |
| Warmińsko-mazurskie | 5 278 | 6 123 | 6 605 | 7 457 | 6 544 |
| Wielkopolskie | 10 496 | 11 450 | 10 240 | 9 905 | 10 355 |
| Zachodniopomorskie | 5 704 | 6 120 | 6 381 | 7 724 | 6 642 |
| **TOTAL** | **6 519** | **6 645** | **7 556** | **8 329** | **7 374** |

*Source: the AREA data.*

Tendencies and orientations of the changes in the APS's prices within the last period (2002-2006) were similar to trends observed for the intra-neighbour market, which were also characterized by significant growth (diagram 4). The highest price growth (exceeding the Poland's average) on the public market was observed in the Kujawsko-Pomorskie, Wielkopolskie and Dolnośląskie voivodships.

The comparison between these two markets (private and public market) shows that the difference in prices obtained by the Agency and in transactions concluded without its participation still persists, however it shows a tendency to decrease. The prices on the private market are higher than prices of the real estate owned by the APS. This trend has lasted for many years. It results mainly from the fact that the sale is carried out by the Agency mainly within the Northern and Western Poland where the supply-demand imbalance on the agricultural land market is much smaller as compared to other regions of Poland. Furthermore, as regards private transactions, only arable land is taken into account and the AREA calculates the price of 1 ha of real estate jointly with green areas and wasteland.

In 2006 the highest average sale prices of the agricultural real estate were observed in the Kujawsko-Pomorskie, Wielkopolskie and Dolnośląskie voivodships, while the lowest in the Podlaskie, Podkarpackie and Lubuskie voivodships (table 8).

Table 9. The average sale prices of the agricultural area held by the APS in 2006 (in PLN per 1 ha)

| Quarter | Average price | Including by sale area | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300.00 and more |
| I | 6 519 | 10 572 | 6 549 | 6 483 | 6 648 | 4 579 |
| II | 6 645 | 10 871 | 6 861 | 6 516 | 6 459 | 5 828 |
| III | 7 556 | 12 779 | 7 264 | 7 276 | 7 994 | 8 696 |
| IV | 8 329 | 15 547 | 7 850 | 7 969 | 8 840 | 9 817 |

*Source: the AREA data.*

In 2006, similarly as in preceding years, the prices of the agricultural land held by the APS were diversified and depended on the size of the disposed real estate. Smaller-area real estate was usually more expensive. The land not exceeding 1 ha was the most expensive – in the course of the year its price increased approximately by PLN 5 thousand. As for other area groups, the growth in prices was much less significant and the growth tendency concerned mainly large-area real estate (exceeding 300 ha).

# VI. The lease of agricultural land

For many years the land usufruct under lease for a consideration has fulfilled a significant role in transformations and concentration processes in agriculture. In the former EU member states the significant role of leases is mainly justified by the high price of agricultural land and orientation towards maximization of agricultural income through rapid adaptation to fluctuations of market conditions. The demand for particular agricultural products and forecasts in this regard are an important motivation for expansion or reduction of the scale of cultivation. The pro-market attitudes shown during making decisions on agricultural activity contributes to the increased attractiveness of land usufruct in the form of lease.

The factors described above have much smaller effects on the agricultural land market in Poland. Historical conditions grounded the cogency of property right to assets and many individual agricultural holdings fulfill important non-economic functions (place of living, providing the status of being an owner, taking over the heritage, social security). Leases in Poland have a long tradition, however the scale of this phenomenon has never been so high and it rarely has gone beyond informal agreements usually concluded in a verbal manner.

Changes in attitudes towards lease and their growing attractiveness for the agricultural economic activity have gradually become more visible in recent years. It was mainly due to certain economic conditions, such as ousting economically weak entities from the market and the increase in prices of agricultural land. Ever increasing annuity on land, non-production functions of the agricultural holding and direct subsidies caused that the owners were more inclined towards leasing than selling. In addition, frequently the persons interested in expanding their cultivation area had no sufficient financial means for purchasing land and therefore were more interested in leasing.

The popularity of lease further increased following the activity of the Agricultural Real Estate Agency the objective of which was to manage the land taken over from the former PGRs. The majority of this land was transferred to the individual farmers under favourable lease agreements. The fact that the Agency manages large areas owned by the APS of the State Treasury caused that lease agreements concluded by it cover majority of this sector of the agricultural land market. According to the mid-nineties estimates, the share of publicly owned land in the total cultivation area in Poland accounted for 60-70%. However, the positive impact of this phenomenon on agricultural transformations was only restricted to the areas where the PGRs were located in the past, i.e. Western and Northern regions.

The role of the Agency in the popularization of lease was not limited only to increasing the scale of this phenomenon and to handing over large areas to individual farmers, but it also started to promote specific procedures when concluding the lease agreements. Although the standard procedures concerned only agreements concluded by the Agency and were not followed in case of concluding the intra-neighbour transactions, they showed how to proceed correctly and assigned new, more stable rank to the lease contracts. However, the private lease is still not regulated by any standards and leases between natural persons are weakly recognized (beginning from 2007 the amount of rentals have been recorded by the Central Statistical Office).

### 6.1 The intra-neighbour leases

*Alina Sikorska* *Institute of Agricultural and Food Economics National Research Institute*

The accessible data on the scale of lease in individual agriculture come from the on-site surveys conducted by the Institute of Agricultural and Food Economics (IAFE) in 2005 on the representative sample of nearly 4 thousand agricultural holdings. As these data show, approximately 17% of the individual agricultural holdings leased land. This percentage was decisively higher as compared to 2000 when the analogous situation concerned the group of approximately 12% of the agricultural holdings. The visible growth of interest in agricultural land lease had no effect on the fact observed for many years that the lease was the main form of expanding the agricultural areas. However, it was very rare that an individual farm held only leased land. In 2005, similarly as five years earlier, such entities accounted for only 1% of the total family agricultural holdings. Therefore the lease was mainly treated as a form of expanding the private cultivation area. Such observation was fully confirmed by the data on agricultural structure of farms which used leased land (tab. 10).

Subsequent surveys showed that the lease is mainly interesting for agricultural holdings, in which certain level of development was achieved and investment in land is the next step in their economic development. The significant role of lease in improvement of agricultural structure was confirmed by the fact that together with the increase in the area of agricultural holdings, also the percentage of leases grew. This regularity was observed already in 2000 and was further intensified in 2005.

In 2005 as much as 73% of the individual agricultural holdings of the area of 30 ha of UR and more used both own and leased land. Given that at that time the entire group of individual farms in Poland included only 5% of such large area farms (about 3% in 2000), it shows how important the leases are for processes of land concentration. Relatively high share of agricultural holdings, which leased land, was observed even for the group of entities of 15-30 ha of UR of land. In 2005 almost a half of agricultural holdings in this area group leased agricultural land.

Table 10. The percentage of agricultural holdings with lease (area groups in ha)

| Specification | 1-2 | 2-5 | 5-10 | 10-15 | 15-30 | 30 and more |
|---|---|---|---|---|---|---|
| **POLAND** | | | | | | |
| 2000 | 4.2 | 4.7 | 8.4 | 16.6 | 34.2 | 62.5 |
| **2005** | **5.8** | **5.8** | **12.1** | **20.9** | **41.1** | **73.1** |
| MACROREGIONS | | | | | | |
| I Middle-Western | | | | | | |
| 2000 | 7.9 | 2.6 | 5.7 | 19.3 | 33.1 | 64.5 |
| 2005 | 9.8 | 6.1 | 8.3 | 18.1 | 35.8 | 72.5 |
| II Middle-Eastern | | | | | | |
| 2000 | 6.1 | 6.4 | 8.9 | 12.8 | 37.6 | 64.0 |
| 2005 | 5.7 | 7.1 | 11.3 | 19.7 | 43.4 | 74.2 |
| III South-Eastern | | | | | | |
| 2000 | 1.5 | 3.1 | 7.2 | 44.8 | 72.7 | 100.0 |
| 2005 | 3.0 | 4.6 | 11.6 | 40.0 | 78.6 | 87.5 |
| IV South-Western | | | | | | |
| 2000 | 13.2 | 9.1 | 8.2 | 8.1 | 37.5 | 68.4 |
| 2005 | 17.4 | 6.2 | 21.4 | 11.1 | 45.6 | 80.0 |
| V Northern | | | | | | |
| 2000 | 6.3 | 6.5 | 17.5 | 12.8 | 19.4 | 52.9 |
| 2005 | 10.3 | 7.7 | 14.6 | 17.0 | 22.6 | 62.8 |

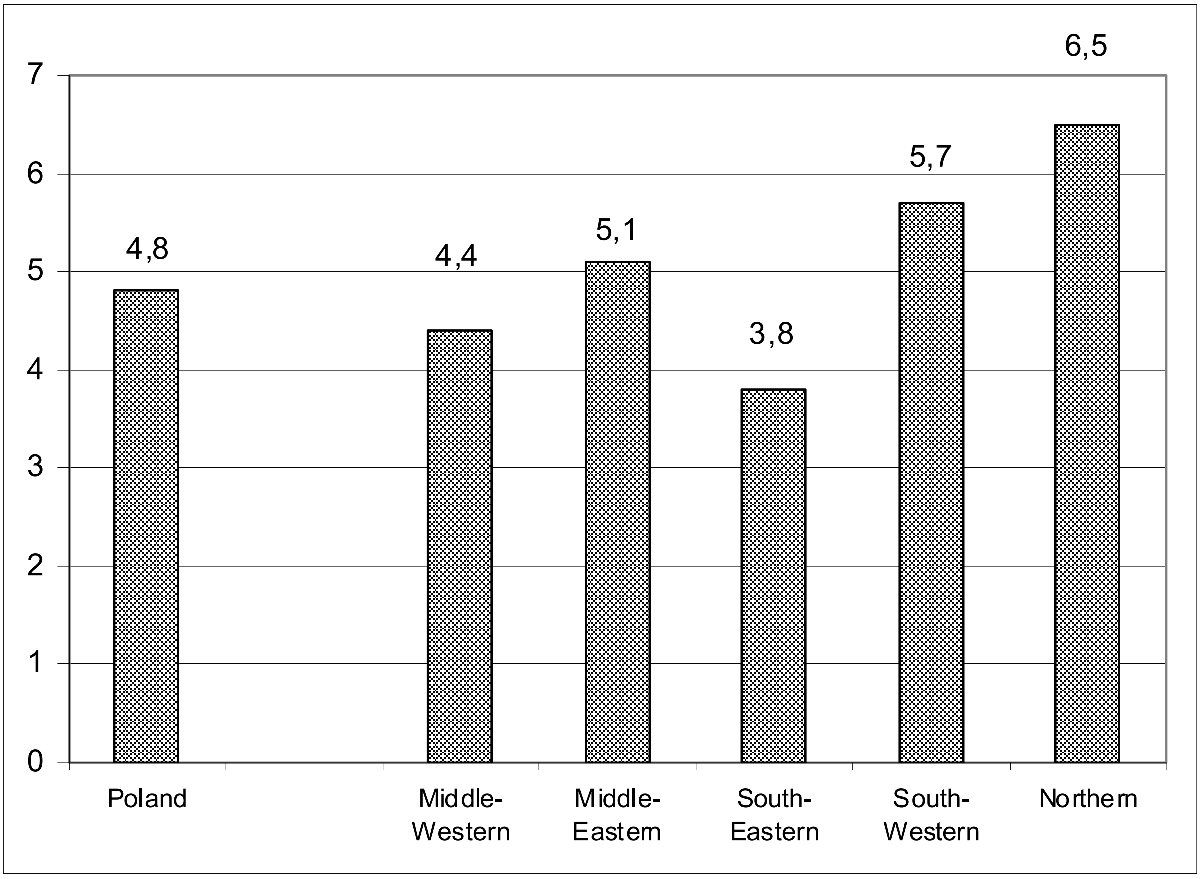
Specified macroregions include the following voivodships: ***Środkowozachodni (Middle-Western)*** – Kujawsko-Pomorskie, Wielkopolskie; ***Środkowowschodni (Middle-Eastern)*** – Łódzkie, Mazowieckie, Lubelskie, Podlaskie; ***Południowo-Wschodni (South-Eastern)*** – Świętokrzyskie, Małopolskie, Podkarpackie, Śląskie; ***Południowo-Zachodni (South-Western)*** – Opolskie, Lubuskie, Dolnośląskie; ***Północny (Northern)*** – Zachodniopomorskie, Pomorskie, Warmińsko-Mazurskie.

*Source: IAFE-NRI surveys of 2000 and 2005.*

Though the popularity of lease among agricultural holdings of various area groups was spatially diversified depending on the characteristics of the agricultural structure within the given area, in every case the increase in the size of agricultural holdings was followed by the increase in the share of leaseholders. Regional differences consisted mainly of the fact that within the areas of particularly high agricultural dispersion, high percentage of leaseholders was observed for lower area groups (as regards the South-Eastern region, already in 10-15 ha UR area group as much as 40% of farmers leased the land) as compared to other parts of Poland characterizing themselves by higher land concentration.

Also the data on the average area of agricultural land (UR) confirm the importance of leases for improvement of the agricultural structure. In 2005 in the surveyed sample, the value of this ratio amounted to 9.3 ha of UR for the entire analysed population. As regards agricultural holdings using both own and leased land, the average cultivation area was twice and a half larger and amounted to 23 ha.

Diagram 8. The average growth of the area of agricultural holding as the result of concluding lease agreements (in ha of UR)




*Source: IAFE-NRI survey, 2005. Macroregions as in table 10.*

In 2005 the average area of leases in the intra-neighbour trading amounted to about 5 ha of UR. The land was leased mainly by farmers using agricultural holdings of the area of 5 – 15 if ha UR, which were not strong enough to compete on the agricultural market.

When assessing the spatial differentiation of the size of the leased plots first of all the differences in characteristics of the agricultural structure of agricultural holdings located in particular regions as well as the local agricultural land market must be taken into account.

Informal intra-neighbour agreements are the factor that restricts popularization of this form of land use as it weakens the position of a leaseholder towards the proprietor of the real estate. Concurrently, taking into account that in the next years significant supply and demand imbalance on the agricultural land market will continue and prices of land will keep growing, it can be expected that the importance of the temporary land lease in agricultural land use will increase.

## 6.2. The lease of land from the Agricultural Property Stock of the State Treasury

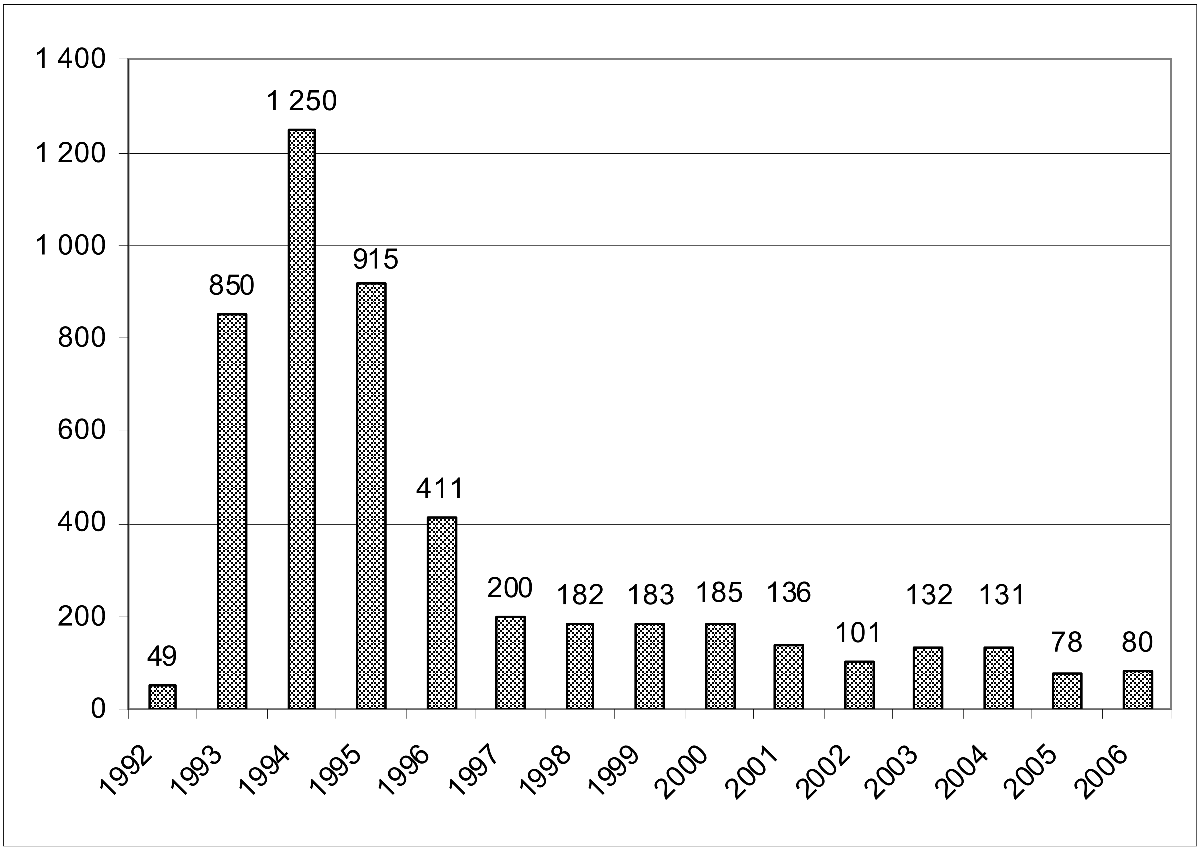
*Tomasz Ciodyk, Tomasz Zagórski* *Agricultural Real Estate Agency*

In the first years after the Agency was set up, the lease was the main form of managing land owned by the APS. In 1993-1995 approximately 3 million ha of land was leased, i.e. the majority of land which was taken over. In 2006 still approximately 1.9 million ha of area were leased under the lease agreements. As compared to the state as of the end of 2005, the total area of leased agricultural land owned by the APS decreased by about 37 thousand ha.

For many years the Agency leased almost 200 thousand ha per year (diagram 9). In 2006 it leased 80.5 thousand ha, including more than 75.5 thousand ha of agricultural land. It was similar to 2005 (78.6 thousand ha, including 75.2 thousand ha of typically agricultural land). In 2004 131.3 thousand ha were leased. The decrease in the scale of lease is due to decreasing the area of land to be offered in tenders and to the fact that the sale is considered as the most preferable method of disposing of real estate. Such approach was characteristic both for the Agency (among others due to the duty to pay significant amounts to the state budget related to profits from privatization), and for individual farmers and other purchasers. Also in the next years the increase in sale of the land owned by the APS is expected at the expense of decreasing area of land offered for lease.

It must be stressed that the main motivation for leasing land under agreements concluded with the AREA was to increase the cultivation area of agricultural holdings, including family agricultural holdings. Such actions are facilitated by the so-called "exclusion clauses".

Diagram 9. The area of the APS's land leased in 1992-2006 in thousand ha.



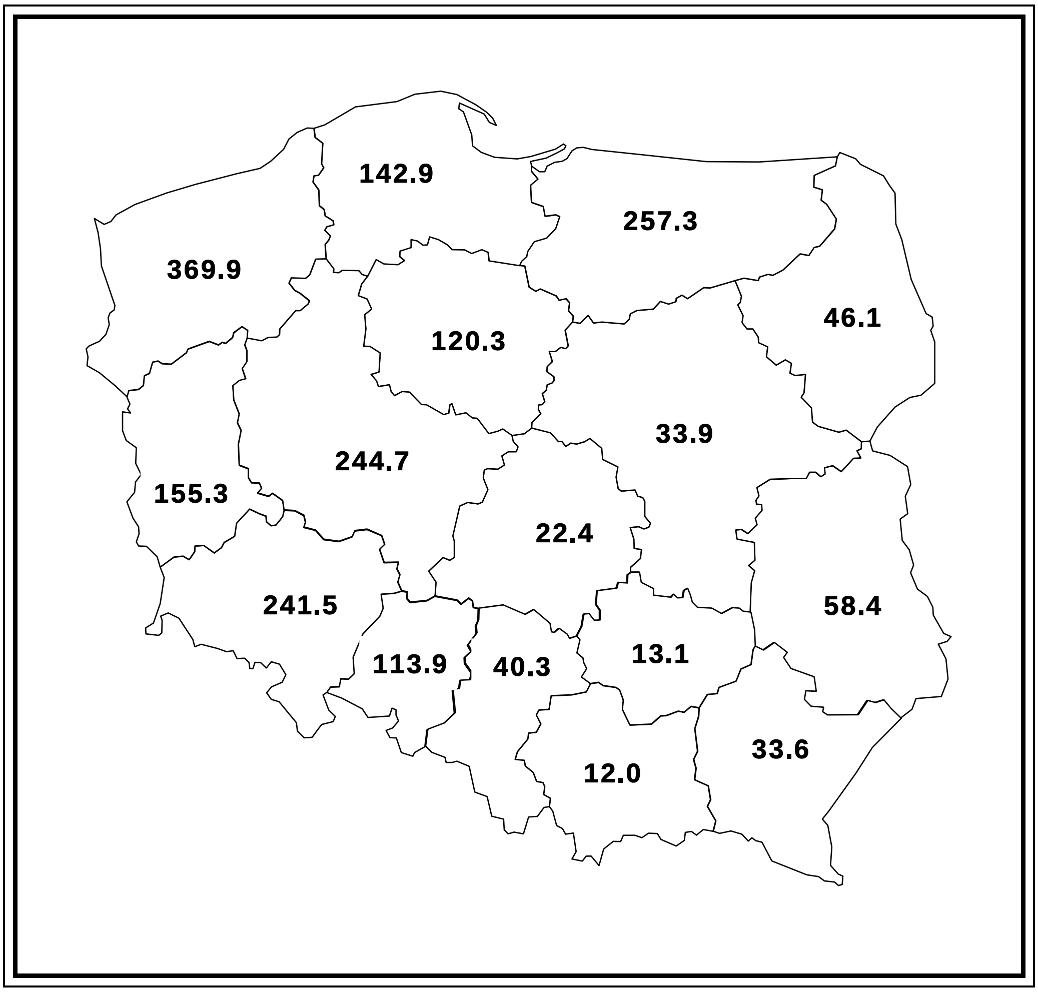

*Source: the annual reports of the APAST and AREA (excluding restored from lease).*

As regards the leases of the real estate of the area larger than 300 ha, the Agency excludes land for separate management in the course of the agreement duration, mainly for increasing the area of neighbouring family agricultural holdings. Concurrently, after taking over the land from expired or dissolved agreements, the so-called secondary restructuring is carried out. It consists of determining the pool of land which can be offered to farmers or for alternative, non-agricultural management.

In 2006 the largest area of land owned by the APS and leased under the lease agreements was located within the Zachodniopomorskie, Warmińsko-Mazurskie, Dolnośląskie and Wielkopolskie voivodships, while the smallest area of such land was within the Małopolskie, Łódzkie and Świętokrzyskie voivodships.

In 2006 the majority of agricultural land was leased in the Zachodniopomorskie, Lubuskie and Dolnośląskie voivodship. As for the area size, lease of larger area real estate between 10 and 100 ha prevailed. In this area segment jointly more than 34.5 thousand ha were leased while in the group 100-300 ha it was approximately 13 thousand ha and in the group of more than 300 ha – 16.3 thousand ha. As compared to 2005, significantly fewer lease agreements of small area real estate were concluded, i.e. plots less than 1 ha, and between 1 ha and 10 ha of area. It results from the AREA strategy, which consists in limiting the number of lease agreements concerning the smaller areas.

Map 5. The land owned by the APS in lease in total as of 31.12.2006 (in thousand ha)




*Source: the AREA data.*

In general, in 2006 the Agency concluded much fewer lease agreements (6.4 thousand) as compared to 2005 (approximately 9.5 thousand). This situation was observed for all area groups, excluding transactions which concerned real estate of more than 100 ha. In that case the number of agreements remained unchanged (104 in 2006 and 105 in 2005). It is worth noticing that despite the limitation of leases concerning small plots (less than 1 ha and from 1 to 10 ha) they still accounted for significant part of the total of lease agreements concluded (28% and 49%, respectively).

Table 11. The area of the leased agricultural land held by the APS in 2006

| Voivodships | Total | Including within (in ha) | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300,00 and more |
| Dolnośląskie | 8 734 | 48 | 764 | 5 207 | 2 041 | 674 |
| Kujawsko-pomorskie | 9 136 | 85 | 1 112 | 2 888 | 2 055 | 2 996 |
| Lubelskie | 1 273 | 133 | 822 | 318 | - | - |
| Lubuskie | 13 338 | 89 | 997 | 3 907 | 2 479 | 5 866 |
| Łódzkie | 64 | 1 | 35 | 28 | - | - |
| Małopolskie | 210 | 31 | 107 | 72 | - | - |
| Mazowieckie | 2 194 | 19 | 170 | 167 | 285 | 1 553 |
| Opolskie | 1 950 | 98 | 487 | 767 | - | 598 |
| Podkarpackie | 3 757 | 51 | 831 | 2 104 | 444 | 327 |
| Podlaskie | 1 829 | 264 | 1 080 | 485 | - | - |
| Pomorskie | 7 035 | 12 | 587 | 3 638 | 1 369 | 1 429 |
| Śląskie | 1 307 | 36 | 253 | 455 | 563 | - |
| Świętokrzyskie | 1 386 | 3 | 373 | 898 | 112 | - |
| Warmińsko-mazurskie | 7 310 | 33 | 1 215 | 3 851 | 476 | 1 735 |
| Wielkopolskie | 3 521 | 22 | 538 | 2 406 | 555 | - |
| Zachodniopomorskie | 12 472 | 46 | 1 284 | 7 390 | 2 609 | 1 143 |
| **TOTAL** | **75 516** | **971** | **10 655** | **34 581** | **12 988** | **16 321** |

*Source: the AREA data.*

From the very beginning of functioning of the Agency and as of 31.12.2006, 4.5 million ha were leased which means that each ha of the APS was leased twice in statistical terms (in 2006, 1.9 million ha was used in this form). The distribution of lease area by contractors was more flattened as in sale. During the last 15 years natural persons leased more than 2.7 million ha (60%) and legal persons approximately 1.8 million ha (40%).

Table 12. The number of the lease agreements concerning the agricultural land held by the APS concluded in 2006

| Voivodships | Total | Including within (in ha) | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300,00 and more |
| Dolnośląskie | 491 | 103 | 170 | 202 | 15 | 1 |
| Kujawsko-pomorskie | 603 | 167 | 307 | 112 | 11 | 6 |
| Lubelskie | 583 | 251 | 313 | 19 | - | - |
| Lubuskie | 702 | 241 | 295 | 145 | 17 | 4 |
| Łódzkie | 12 | 1 | 9 | 2 | - | - |
| Małopolskie | 123 | 73 | 46 | 4 | - | - |
| Mazowieckie | 98 | 37 | 55 | 3 | 1 | 2 |
| Opolskie | 389 | 189 | 162 | 37 | - | 1 |
| Podkarpackie | 425 | 88 | 261 | 73 | 2 | 1 |
| Podlaskie | 949 | 485 | 440 | 24 | - | - |
| Pomorskie | 290 | 23 | 121 | 134 | 10 | 2 |
| Śląskie | 179 | 66 | 96 | 14 | 3 | - |
| Świętokrzyskie | 150 | 8 | 113 | 28 | 1 | - |
| Warmińsko-mazurskie | 492 | 46 | 305 | 136 | 4 | 1 |
| Wielkopolskie | 242 | 29 | 116 | 94 | 3 | - |
| Zachodniopomorskie | 704 | 85 | 336 | 264 | 16 | 3 |
| **TOTAL** | **6 432** | **1 892** | **3 145** | **1 291** | **83** | **21** |

*Source: the AREA data.*

In 2006 the natural persons leased jointly 53.4 thousand ha of agricultural land while legal persons leased half of that area, i.e. approximately 22 thousand ha. The lease agreements were much more frequently concluded by the natural persons (299.3 thousand) than by legal persons (5.7 thousand) as the legal persons leased larger area real estate. In 2006 the average area of the leased real estate per one agreement increased (11.7 ha). In 2005 this ratio was 7.9 ha, in

2004 – 9.5 ha and in 2003 – 10 ha. It shows that larger area real estate has been allocated for lease in recent time.

Table 13. The area of the leased land held by the APS, by entities*.

| Specification by area in ha | By 31.12.2006 | | | Including 2006 | | |
|---|---|---|---|---|---|---|
| | total | including | | total | including | |
| | | natural persons | legal persons | | natural persons | legal persons |
| by 1.00 | 69 918 | 69 735 | 183 | 971 | 963 | 8 |
| 1.01 - 1.99 | 83 087 | 82 700 | 387 | 1 696 | 1 675 | 21 |
| 2.00 - 4.99 | 139 740 | 138 262 | 1 478 | 3 952 | 3 861 | 91 |
| 5.00 - 9.99 | 152 842 | 149 766 | 3 076 | 5 007 | 4 741 | 266 |
| 10.00 - 19.99 | 208 835 | 202 017 | 6 818 | 8 740 | 8 219 | 521 |
| 20.00 - 49.99 | 379 957 | 354 661 | 25 296 | 16 349 | 15 065 | 1 284 |
| 50.00 - 99.99 | 299 088 | 265 781 | 33 307 | 9 492 | 8 552 | 940 |
| 100.00 - 499.99 | 1 278 758 | 875 384 | 403 374 | 15 954 | 10 340 | 5 614 |
| 100.00 - 299.99 | - | - | - | 12 988 | 9 250 | 3 738 |
| 300.00 - 499.99 | - | - | - | 2 966 | 1 090 | 1 876 |
| 500.00 - 999.99 | 975 239 | 417 536 | 557 703 | 7 132 | - | 7 132 |
| 1000.00 i więcej | 939 046 | 180 090 | 758 956 | 6 223 | - | 6 223 |
| **TOTAL** | **4 526 510** | **2 735 932** | **1 790 578** | **75 516** | **53 416** | **22 100** |
| including by 99.99 | 1 333 467 | 1 262 922 | 70 545 | 46 207 | 43 076 | 3 131 |
| 100.00 and more | 3 193 043 | 1 473 010 | 1 720 033 | 29 309 | 10 340 | 18 969 |

* Cumulative from 1992, excluding built-up land or land of specific character or non-agricultural land (excluding restored from lease), in 2004 new area divisions were introduced.

*Source: the AREA data.*

As of 31.12.2006, 1.892.1 thousand ha was leased. The majority of land leased by the AREA was located in the Zachodniopomorskie, Warmińsko-Mazurskie and Wielkopolskie voivodships. For example, the group of less than 5 ha included approximately 133 thousand ha, while the group of real estate of the area of more than 500 ha covered jointly 616.8 thousand ha.

In 2006 the Agency held over 134 thousand lease agreements. The majority of these agreements concerned small area real estate of up to 1 ha of area (57.8 thousand). Similarly numerous were the groups between 2 and 5 ha, 25.8 thousand and 21.7 thousand, respectively. Jointly the AREA concluded more than 105 thousand lease agreements concerning areas of less than 5 ha.

Table 14. The number of concluded lease agreements by entities*

| Specification by area in ha | By 31.12.2006 | | | Including 2006 | | |
|---|---|---|---|---|---|---|
| | total | including | | total | including | |
| | | natural persons | legal persons | | | natural persons |
| by 1.00 | 139 722 | 139 388 | 334 | 1 892 | 1 875 | 17 |
| 1.01 - 1.99 | 59 481 | 59 253 | 228 | 1 203 | 1 187 | 16 |
| 2.00 - 4.99 | 45 291 | 44 880 | 411 | 1 253 | 1 226 | 27 |
| 5.00 - 9.99 | 21 650 | 21 223 | 427 | 689 | 660 | 29 |
| 10.00 - 19.99 | 15 091 | 14 629 | 462 | 619 | 586 | 33 |
| 20.00 - 49.99 | 12 246 | 11 478 | 768 | 535 | 495 | 40 |
| 50.00 - 99.99 | 4 329 | 3 865 | 464 | 137 | 123 | 14 |
| 100.00 - 499.99 | 5 302 | 3 873 | 1 429 | 91 | 64 | 27 |
| 100.00 - 299.99 | - | - | - | 83 | 61 | 22 |
| 300.00 - 499.99 | - | - | - | 8 | 3 | 5 |
| 500.00 - 999.99 | 1 408 | 630 | 778 | 10 | - | 10 |
| 1000.00 i więcej | 560 | 135 | 425 | 3 | - | 3 |
| **TOTAL** | **305 080** | **299 354** | **5 726** | **6 432** | **6 216** | **216** |
| including by 99.99 | 297 810 | 294 716 | 3 094 | 6 328 | 6 152 | 176 |
| 100.00 and more | 7 270 | 4 638 | 2 632 | 104 | 64 | 40 |

* Cumulative from 1992, excluding built-up land or land of specific character or non-agricultural land (excluding restored from lease), in 2004 new area divisions were introduced.

*Source: the AREA data.*

The number of lease agreements of real estate of more than 300 ha was insignificant as in the total number of agreements it accounted for only slightly more than 1%. Only 609 agreements concerned larger area real estate (of the area of more than 500 ha).

Table 15. The APS's land under lease agreements* as of 31.12.2006

| Voivodships | Powierzchnia gruntów w dzierżawie - w ha | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | total | including within | | | | | | | | | |
| | | by 1.00 | 1.01-1.99 | 2.00-4.99 | 5.00-9.99 | 10.00-19.99 | 20.00-49.99 | 50.00-99.99 | 100.00-299.99 | 300.00-499.99 | 500.00-999.99 | 1 000.00 and more |
| Dolnośląskie | 241 352 | 6 799 | 5 934 | 10 412 | 9 538 | 12 049 | 24 295 | 19 247 | 39 154 | 49 452 | 32 768 | 31 704 |
| Kujawsko-pomorskie | 119 742 | 876 | 1 137 | 3 375 | 4 529 | 5 487 | 8 330 | 5 581 | 17 331 | 25 807 | 20 150 | 27 139 |
| Lubelskie | 58 336 | 3 253 | 4 452 | 5 842 | 3 297 | 2 279 | 4 080 | 2 497 | 8 707 | 14 428 | 5 319 | 4 182 |
| Lubuskie | 154 371 | 4 008 | 5 129 | 7 080 | 6 938 | 10 444 | 22 432 | 17 976 | 27 427 | 17 365 | 20 760 | 14 812 |
| Łódzkie | 21 968 | 624 | 942 | 1 278 | 365 | 256 | 753 | 934 | 6 942 | 5 314 | 1 795 | 2 765 |
| Małopolskie | 12 167 | 649 | 292 | 401 | 290 | 244 | 533 | 931 | 1 298 | 758 | 1 571 | 5 200 |
| Mazowieckie | 31 338 | 729 | 1 132 | 1 917 | 1 150 | 1 048 | 2 258 | 2 950 | 10 660 | 5 203 | 2 866 | 1 425 |
| Opolskie | 113 505 | 839 | 1 428 | 2 156 | 2 161 | 3 226 | 3 287 | 3 057 | 8 229 | 14 016 | 30 158 | 44 948 |
| Podkarpackie | 33 603 | 1 227 | 992 | 1 342 | 1 106 | 1 970 | 4 521 | 4 611 | 9 537 | 4 153 | 3 668 | 476 |
| Podlaskie | 45 084 | 2 542 | 3 711 | 6 331 | 5 706 | 4 153 | 5 189 | 3 853 | 7 111 | 5 743 | 745 | - |
| Pomorskie | 139 813 | 908 | 1 393 | 3 422 | 4 813 | 9 159 | 15 876 | 10 705 | 24 125 | 30 401 | 20 990 | 18 021 |
| Śląskie | 40 031 | 1 790 | 1 352 | 2 677 | 1 158 | 1 818 | 2 102 | 2 833 | 9 576 | 5 410 | 4 804 | 6 511 |
| Świętokrzyskie | 12 852 | 505 | 587 | 798 | 370 | 558 | 1 795 | 1 260 | 3 799 | 1 514 | 1 666 | - |
| Warmińsko-mazurskie | 256 988 | 1 216 | 2 712 | 8 678 | 13 156 | 17 945 | 34 054 | 21 526 | 38 993 | 50 067 | 32 547 | 36 094 |
| Wielkopolskie | 245 331 | 813 | 1 251 | 3 239 | 5 732 | 11 264 | 17 949 | 13 635 | 32 036 | 39 827 | 42 065 | 77 520 |
| Zachodnio-pomorskie | 365 650 | 2 003 | 3 627 | 8 825 | 11 571 | 18 773 | 47 022 | 40 364 | 54 725 | 54 489 | 64 474 | 59 777 |
| **TOTAL** | **1 892 131** | **28 781** | **36 071** | **67 773** | **71 880** | **100 673** | **194 476** | **151 960** | **299 650** | **323 947** | **286 346** | **330 574** |

*Source: the AREA data.*

As a form of administering real estate of the State Treasury, the lease was always characterized by significant rotation. During 15 years of activity of the Agency approximately 171 thousand lease agreements expired or were dissolved. In 2006 smaller area was restored as compared to 2005 – only about 132 thousand ha, including ca. 48 thousand which expired in due date, 54 thousand ha were dissolved mainly due to financial problems of the leaseholders and approximately 30 thousand ha were liquidated as the result of incorporation of land to separate management.

Table 16. The number of the APS's land under lease agreements as of 31.12.2006

| Voivodships | Number of lease agreements | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | total | including within | | | | | | | | | | |
| | | by 1.00 | 1.01-1.99 | 2.00-4.99 | 5.00-9.99 | 10.00-19.99 | 20.00-49.99 | 50.00-99.99 | 100.00-299.99 | 300.00-499.99 | 500.00-999.99 | 1 000.00 and more |
| Dolnośląskie | 25 259 | 14 522 | 3 930 | 3 267 | 1 262 | 798 | 771 | 281 | 214 | 125 | 70 | 19 |
| Kujawsko--pomorskie | 5 564 | 2 113 | 803 | 1 051 | 642 | 398 | 272 | 81 | 98 | 65 | 30 | 11 |
| Lubelskie | 12 583 | 6 503 | 3 174 | 1 982 | 500 | 167 | 132 | 34 | 45 | 36 | 7 | 3 |
| Lubuskie | 17 655 | 8 560 | 3 859 | 2 305 | 981 | 727 | 721 | 257 | 162 | 45 | 28 | 10 |
| Łódzkie | 2 429 | 1 169 | 658 | 435 | 57 | 19 | 23 | 14 | 36 | 13 | 3 | 2 |
| Małopolskie | 2 189 | 1 634 | 267 | 160 | 53 | 20 | 23 | 13 | 11 | 2 | 3 | 3 |
| Mazowieckie | 3 319 | 1 452 | 801 | 638 | 168 | 72 | 71 | 41 | 58 | 13 | 4 | 1 |
| Opolskie | 3 350 | 926 | 956 | 711 | 272 | 196 | 117 | 40 | 39 | 34 | 40 | 19 |
| Podkarpackie | 4 573 | 2 822 | 734 | 439 | 155 | 141 | 143 | 66 | 57 | 11 | 5 | 0 |
| Podlaskie | 9 602 | 3 378 | 2 773 | 2 083 | 774 | 320 | 165 | 54 | 40 | 14 | 1 | 0 |
| Pomorskie | 6 292 | 1 965 | 991 | 1 077 | 677 | 651 | 517 | 160 | 131 | 78 | 32 | 13 |
| Śląskie | 4 954 | 2 455 | 1 110 | 863 | 170 | 125 | 99 | 44 | 62 | 15 | 7 | 4 |
| Świętokrzyskie | 2 026 | 1 124 | 432 | 276 | 55 | 39 | 57 | 16 | 21 | 4 | 2 | x |
| Warmińsko--mazurskie | 12 260 | 2 694 | 1 894 | 2 676 | 1 866 | 1 291 | 1 102 | 315 | 229 | 126 | 47 | 20 |
| Wielkopolskie | 6 591 | 1 983 | 885 | 1 004 | 779 | 782 | 590 | 198 | 173 | 100 | 59 | 38 |
| Zachodnio-pomorskie | 15 525 | 4 539 | 2 567 | 2 771 | 1 653 | 1 337 | 1 493 | 577 | 324 | 136 | 91 | 37 |
| **TOTAL** | **134 171** | **57 839** | **25 834** | **21 738** | **10 064** | **7 083** | **6 296** | **2 191** | **1 700** | **817** | **429** | **180** |

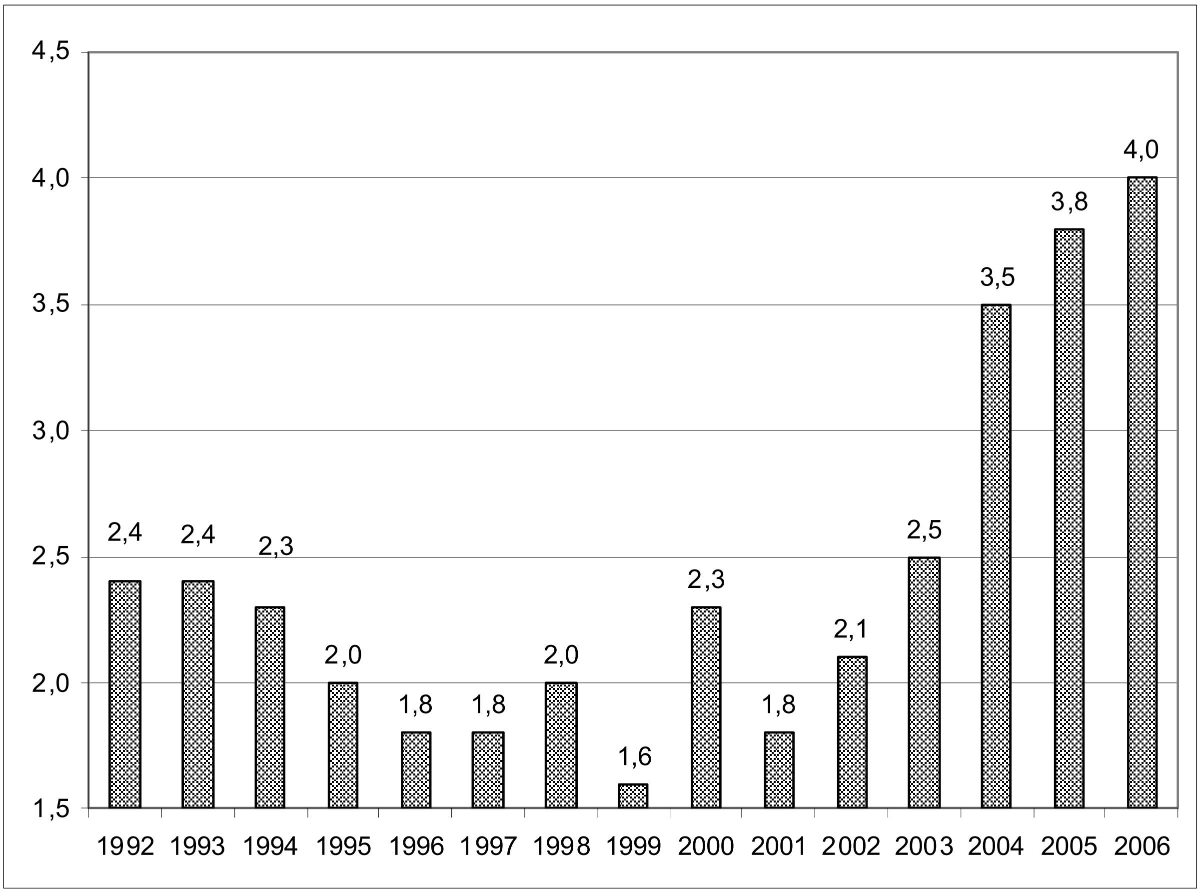
*Source: the AREA data.*

## 6.3. The rentals for land owned by the Agricultural Property Stock of the State Treasury

*Tomasz Ciodyk, Tomasz Zagórski* *Agricultural Real Estate Agency*

Rental for leased agricultural land owned by the APS is usually established based on market principles by way of tendering procedure. Rentals contained in lease agreements are usually given in natural measure, i.e. wheat decitonnes (dt). Rentals under the lease of agricultural land from the APS are paid per half of a calendar year in arrears. The amount to be paid by the leaseholder expressed in cash is calculated by the use of the average wheat price for the half-year prior to the payment term announced by CSO. Provisions also allow determining rental in cash measure, however it is relatively rare and this is up to the leaseholder to choose the form of settlement.

Diagram 10. The average rentals from 1 ha of agricultural land owned by the APS in 1992-2006 in dt of wheat




*Source: the annual reports of the APAST and AREA.*

The amount of rental obtained by the AREA is mainly influenced by individual characteristics of the agricultural real estate (e.g. quality of land, location, runners, etc.), business cycle factors, local supply and demand of agricultural land in the APS of the AREA  as well as accessible on the private market.

Table 17. The rentals for agricultural land owned by the APS leased in 2006 calculated in dt of wheat per 1 ha

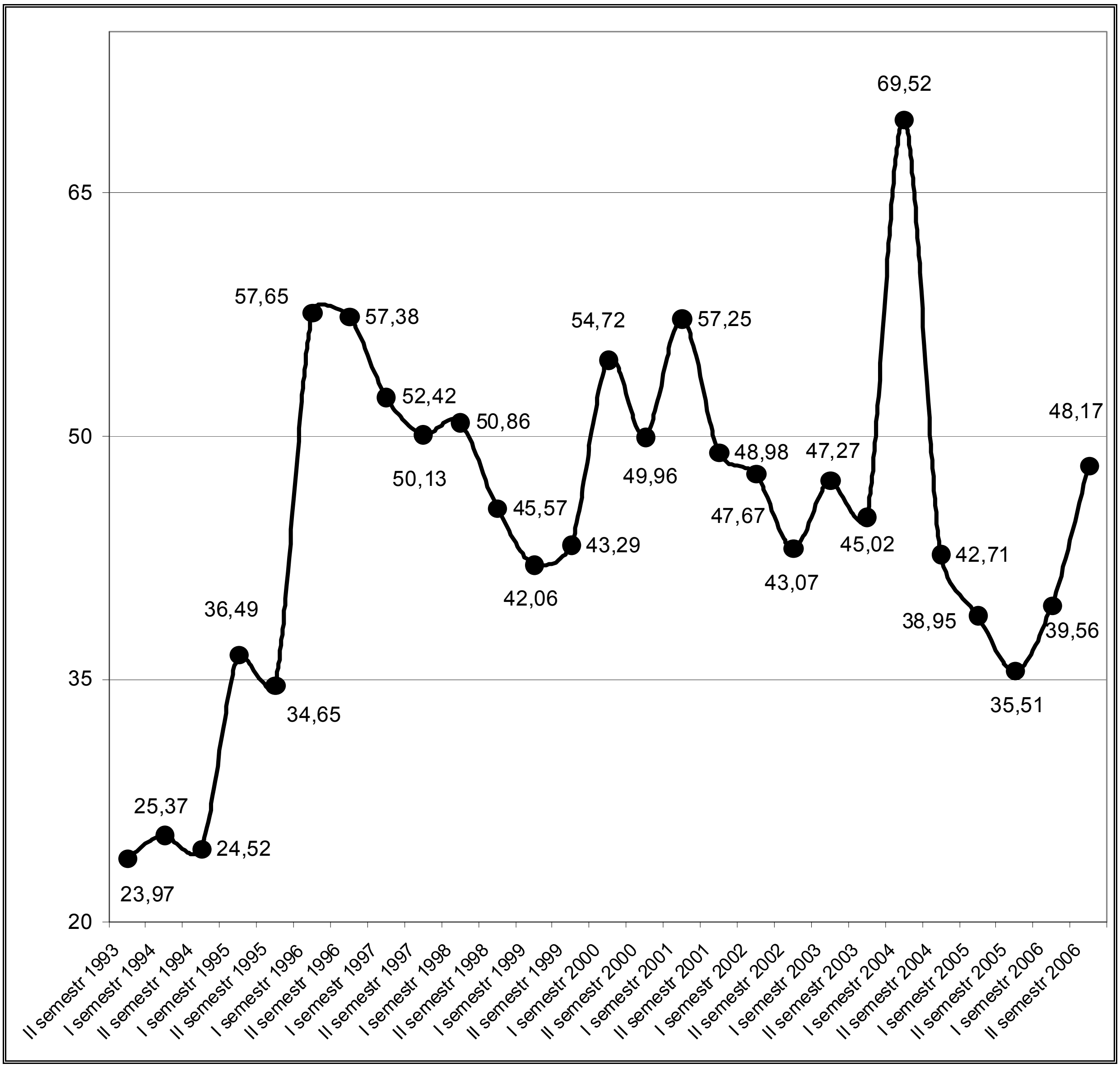
| Voivodships | I quarter | II quarter | III quarter | IV quarter | On average in 2006 |
|---|---|---|---|---|---|
| Dolnośląskie | 8.4 | 8.8 | 6.3 | 5.1 | 8.1 |
| Kujawsko-pomorskie | 3.9 | 3.5 | 3.7 | 4.9 | 3.8 |
| Lubelskie | 1.4 | 3.2 | 2.4 | 2.9 | 2.2 |
| Lubuskie | 3.1 | 1.7 | 3.5 | 4.2 | 2.7 |
| Łódzkie | x | 8.8 | 0.5 | 1.8 | 6.2 |
| Małopolskie | 2.8 | 1.3 | 5.2 | 1.6 | 2.7 |
| Mazowieckie | 3.2 | 1.3 | 1.0 | 2.7 | 1.7 |
| Opolskie | 1.9 | 2.1 | 2.8 | 3.2 | 2.5 |
| Podkarpackie | 1.9 | 3.5 | 5.8 | 5.9 | 3.1 |
| Podlaskie | 1.5 | 5.0 | 2.8 | 3.0 | 3.3 |
| Pomorskie | 5.7 | 2.1 | 1.4 | 5.5 | 2.5 |
| Śląskie | 7.3 | 5.8 | 2.8 | 2.4 | 4.5 |
| Świętokrzyskie | 3.2 | 2.5 | 3.1 | 2.7 | 3.0 |
| Warmińsko-mazurskie | 1.9 | 3.6 | 4.2 | 3.5 | 3.0 |
| Wielkopolskie | 8.1 | 6.9 | 7.7 | 9.1 | 7.9 |
| Zachodniopomorskie | 5.9 | 4.6 | 4.1 | 4.1 | 4.5 |
| **TOTAL** | **3.9** | **4.1** | **3.8** | **4.6** | **4.0** |

*Source: the AREA data.*

By 2004 the rental obtained by the Agency paid annually per 1 ha was on average of the equivalent of 2 dt of wheat. In the last period the trend toward the increase in the value of rentals could be observed (from 1.8 dt/ha in 2001 to 4 dt/ha in 2006). The average rental for agricultural land under lease agreements in progress amounted to 2.5 dt of wheat. The average level of rental obtained for agricultural land owned by the APS in particular years is presented in diagram 10.

In 2006 the highest average rental were obtained by the Agency in the Dolnośląskie, Wielkopolskie and Łódzkie voivodships while the lowest in the Mazowieckie, Lubelskie and Opolskie voivodships. As regards lease agreements concluded in 2006, the average annual rental amounted to 4 dt of wheat (3.8 dt of wheat in 2005 and 3.5 dt of wheat in 2004). Therefore a slight increase in rental (by 5%) was observed.

Diagram 11. The fluctuations of the average price of 1 dt of wheat in PLN (data of 1993-2006)




*Source: the AREA data.*

In particular quarters of 2006 the average rental per 1 ha was: I quarter – 3.9 dt, II quarter – 4.1 dt, III quarter – 3.8 dt and IV quarter – 4.6 dt. The increase in the rental paid to the Agency, the same as the increase in land sale prices, reflected increased demand for land resulting, among others, from implementation of direct subsidies and more favourable farming conditions. However, the wheat market mainly influenced the factual rental prices as fluctuations of the wheat price (as presented on the diagram) had an effect on the amount of rental paid by the leaseholders.

Table 18. The average rentals paid for agricultural land held by the APS leased in 2006 by area* calculated in dt of wheat per 1 ha

| Quarter | Average price | Including by sale area | | | | |
|---|---|---|---|---|---|---|
| | | by 1.00 | 1.01-9.99 | 10.00-99.99 | 100.00-299.99 | 300.00 and more |
| I | 3.9 | 2.2 | 3.2 | 4.8 | 4.9 | 1.9 |
| II | 4.1 | 3.5 | 3.9 | 5.3 | 4.4 | 1.3 |
| III | 3.8 | 3.9 | 4.0 | 4.2 | 5.7 | 1.8 |
| IV | 4.6 | 3.6 | 4.0 | 4.7 | 3.5 | 6.2 |

*Source: the AREA data.*

In 2006 the highest rentals were obtained from the leased real estate of the area between 10 ha and 100 ha. Furthermore, rentals from the real estate between 100 and 300 ha were also higher than the average. The lowest rentals were obtained from the areas exceeding 300 ha and smaller than 1 ha.

As of 31.12.2006 the APS held approximately 386 thousand ha of area still to be distributed, including 251 thousand ha intended for agricultural use, approximately 46 thousand ha for forestation and approximately 31 thousand for non-agricultural investment purposes. About 58 thousand ha was not suitable for any use.

In conclusion, the first stage of restructuring of agricultural real estate owned by the State Treasury making part of the APS was practically completed. The majority of the APS's land was transferred to the users (owners or leaseholders). In addition to actions aiming at managing the undistributed land, the aim of the Agency is to supervise the leaseholders and to continue the restructuring process consisting of excluding larger area real estate (more than 300 ha) for separate management purposes. This land is intended for farmers who plan to expand their family agricultural holdings and for other purposes (for example for housing or forestation). The same refers also the managing of the land restored from leases.

Following the strategy for the next years the AREA will focus on limiting the number of small area lease agreements through offering this land for sale to the leaseholders. Also the increase in the volume of land offered for sale by the

AREA should be expected as obstacles resulting from lack of local spatial development plans and regulation of reprivatization issues have been removed. Such actions of the Agricultural Real Estate Agency should have an effect on the decrease of costs of supervision of the State Treasury property and should rationalize its functioning as regards its obligation to make specific payments to the state budget.

## VII. The sale of agricultural land for the benefit of foreigners

*Tomasz Ciodyk, Tomasz Zagórski* *Agricultural Real Estate Agency*

### 7.1. The legal basis

The year 2006 did not bring any change to principles of acquiring real estate by foreigners. The Act of 24 March 1920 on purchasing real estate by foreigners remained in force. At the same time, it was another full year of remaining in force of these regulations after their amendment in 2004 due to the accession of Poland to the European Union. The implemented changes provide facilities to nationals and entrepreneurs of the EEA Member States (European Union Member States and Norway, Iceland and Liechtenstein) in acquiring real estate within the area of Poland.

In accordance with the basic principle defined in regulations on purchasing real estate by foreigners, realization of this objective requires, with several exceptions, to obtain a permit issued by the Minister of Interior and Administration. Such a permit can be issued, unless an objection is raised by the Minister of National Defense or, in the case of agricultural real estate, also by the Minister of Agriculture and Rural Development.

An analogous permit is also necessary for the foreigners to purchase shares or stocks in a commercial company holding the right of ownership or perpetual usufruct to a property within the territory of Poland if, as a consequence, the company passes under control of that foreigner and shares or stocks are purchased or taken over by a foreigner who is not its shareholder.

As a consequence of the accession of Poland to the European Union, nationals and entrepreneurs of the EEA Member States can purchase real estate in Poland under more favourable conditions as compared to foreigners from other countries. Beginning from 1 May 2004 these persons do not require to obtain permit for purchasing real estate and stocks and shares in commercial companies holding the right of ownership or of perpetual usufruct to real estate within the territory of Poland with the exception of purchasing agricultural and forest real estate, with regard to which a 12-year transitional period was introduced, counting from the day of the accession of Poland to the European Union.

The 12-year transitional period does not refer to foreigners from the EEA Member States who purchase the agricultural real estate after 3 or 7 years (depending on a particular voivodship where a given property is located) from the date of concluding the lease agreement on the so-called "certified date", if during that period they conducted agricultural activity in this property in person and lived on the territory of Poland. The requirement of 7-year lease period concerns the Dolnośląskie, Kujawsko-Pomorskie, Lubuskie, Opolskie, Pomorskie, Warmińsko-Mazurskie, Wielkopolskie and Zachodniopomorskie voivodships while 3-years period refers to the Lubelskie, Łódzkie, Małopolskie, Mazowieckie, Podkarpackie, Podlaskie, Śląskie and Świętokrzyskie voivodships.

### 7.2. The interest of foreigners in purchasing the agricultural land

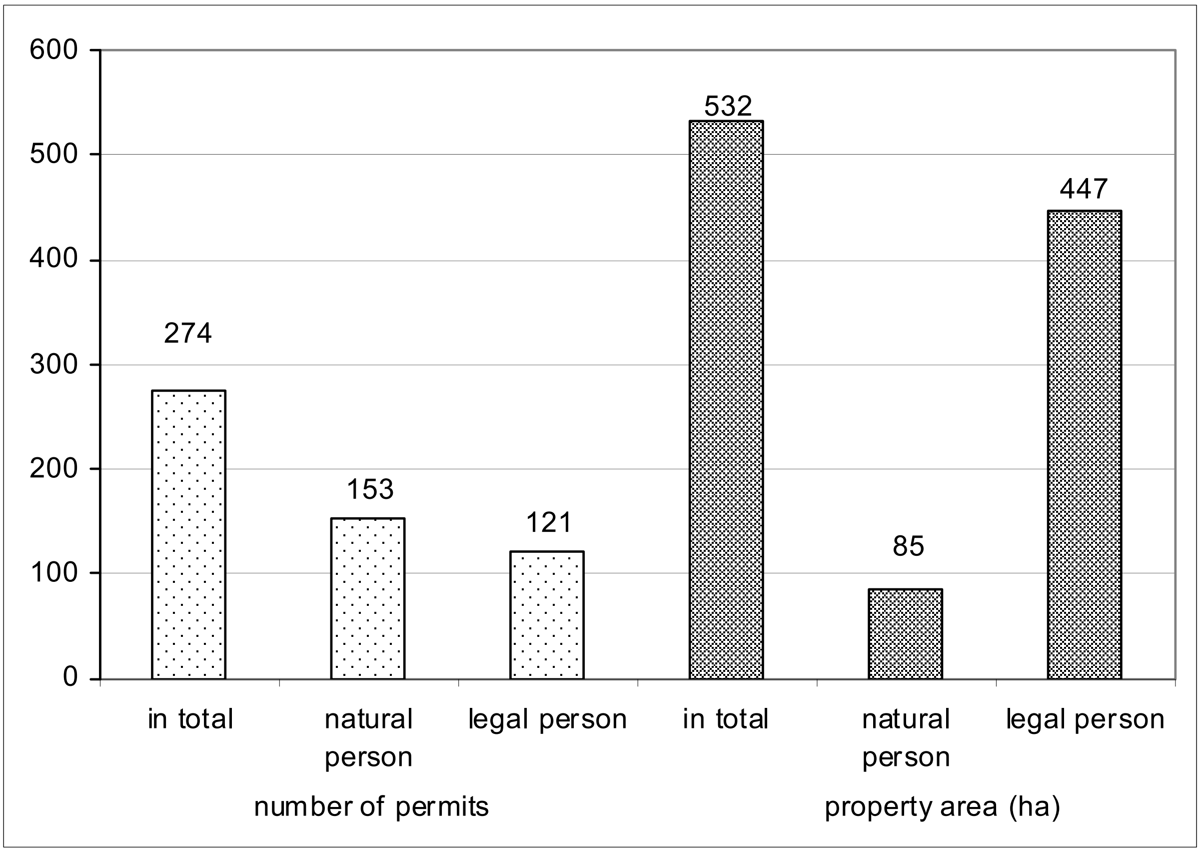
In 2006 the foreigners obtained[4] 532 permits for purchasing the land real estate of the total area of 575,148 ha. It included 274 permits related to the agricultural and forest real estate (hereinafter referred to as agricultural real estate) of the total area of 531,964 ha, including 41 exclusively forest real estate of the area of 113,301 ha.

Among 274 permits concerning the agricultural and forest real estate, 153 covering the total area of 85 ha were obtained by the natural persons and 121 covering the area of 447 ha by the legal persons. It indicates that the considerable difference in area covered by permits obtained by natural and legal persons specific for the recent years persisted. In 2005 the agricultural land purchased by legal persons covered 85% of the total area of land sold to the foreigners. In 2006 the corresponding percentage was 84%.

[4] „Sprawozdanie Ministra Sprawa Wewnętrznych i Administracji z realizacji w 2006 r. ustawy z dnia 24 marca 1920 r. o nabywaniu nieruchomości przez cudzoziemców." ("Report of the Minister of Interior and Administration on realization in 2006 of the Act of 24 March 1920 on purchasing real estate by foreigners") Warsaw, March 2006

As regards 153 permits for purchasing land real estate obtained by the natural persons, 119 of them covering total area of 66 ha concerned nationals of EEA Member States. As regards the legal persons, 111 permits covering the total area of 443 ha concerned entrepreneurs of EEA Member States.

Diagram 12. The permits granted in 2006 for purchasing agricultural and forest real estate. The area of this real estate by natural and legal persons.

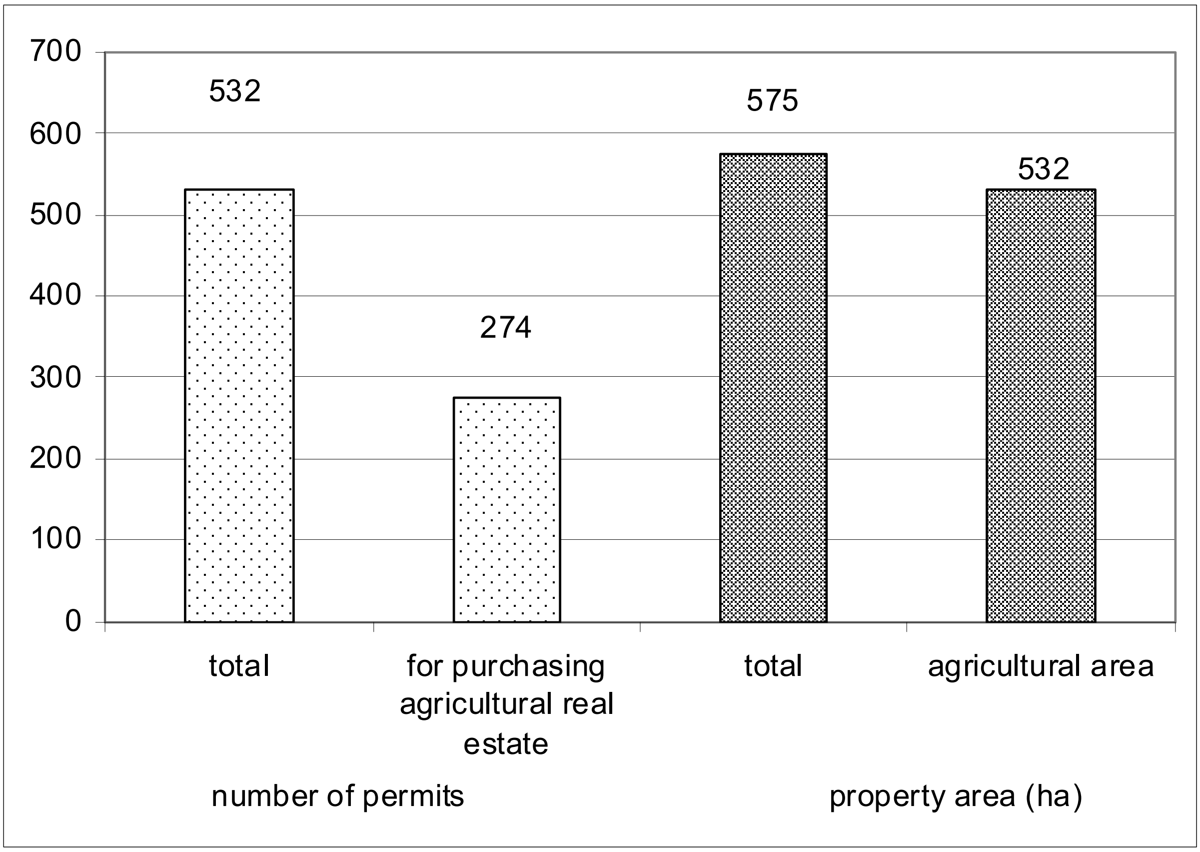



*Source: the MIaA data.*

The following voivodships differentiate themselves by the largest agricultural area for which foreigners obtained the purchase permits in 2006: Mazowieckie (129 ha – 24%), Małopolskie (74 ha – 14%), Śląskie (74 ha – 14%), Świętokrzyskie (52 ha – 10%), Łódzkie (33 ha – 6%) and Wielkopolskie (32 ha – 6%). As compared to the year 2005, the area structure of agricultural real estate covered by permits issued by the Ministry of Interior and Administration significantly changed at the regional level. In the previous year the largest areas were observed in the following voivodships: Świętokrzyskie (474 ha – 27%), Zachodniopomorskie (186 ha – 11%), Mazowieckie (182 ha – 10%), Warmińsko-Mazurskie (135 ha – 8%), Dolnośląskie (129 ha – 7%) and Pomorskie (127 ha – 7%).

Taking into account the country of origin of capital, most of agricultural real estate permits in 2006 were issued for natural and legal persons from Germany (80 permits for the area of 83 ha), Holland (37 permits for 218 ha), Austria (19 permits for 48 ha), and Great Britain (19 permits for 27 ha). Thus, there were no significant changes in this regard.

Diagram 13. The permits for purchasing land real estate granted in 2006.




*Source: the MIaA data.*

In 2005 nationals from Germany obtained 38% of the total of permits covering the area of 22% and persons from Holland obtained 14% of permits for purchasing 18% of the area. In 2006 purchasers from Germany obtained 29% of the total number of permits covering 16% of the area purchased by foreigners. As regards Holland, the corresponding data include 14% of permits covering 41% of the area.

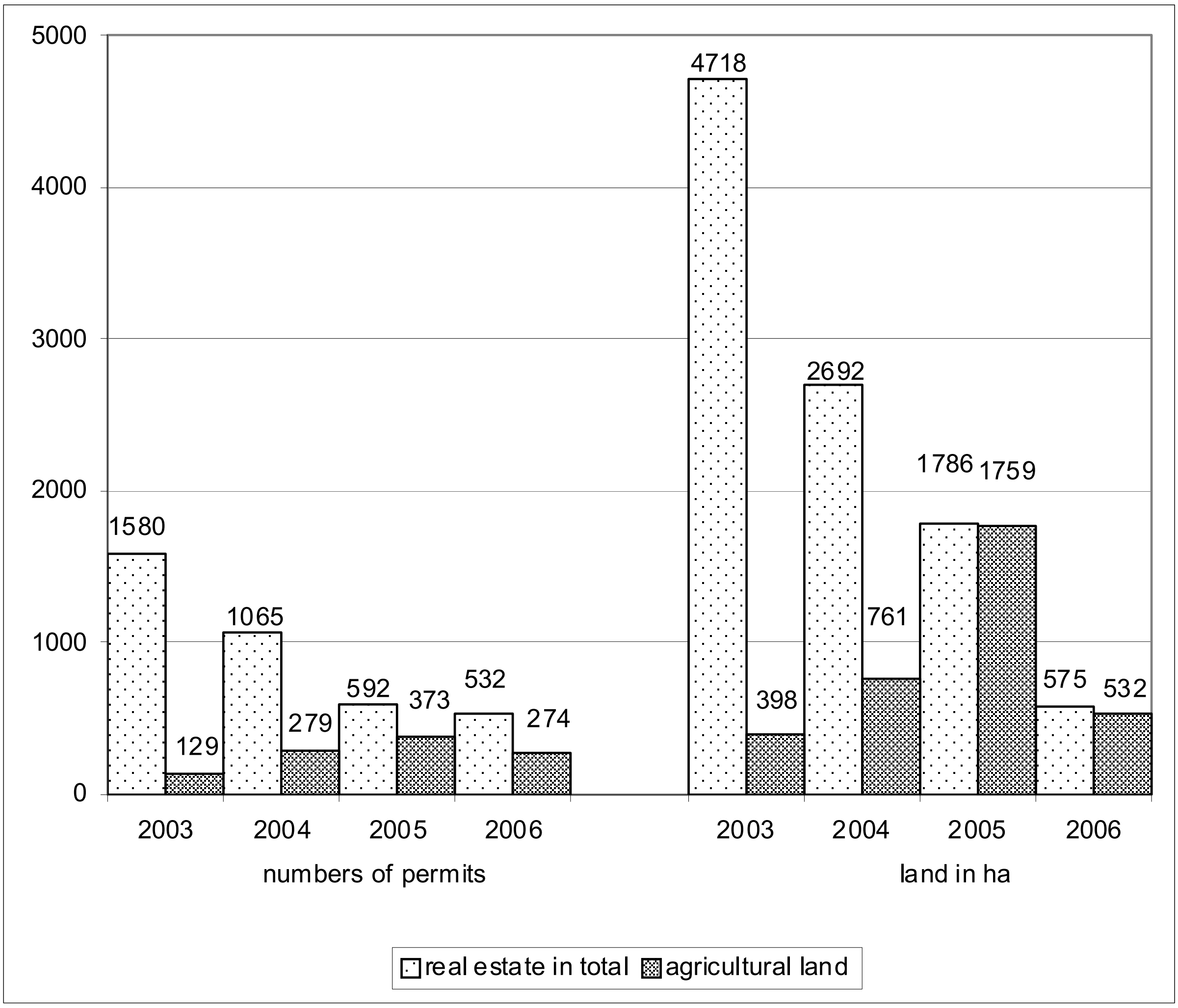
In 2006 the number of purchase permits for foreigners issued by the Ministry of Interior and Administration decreased by 26.5% as compared to 2005 (i.e. 274 against 371). As regards the area covered by the permits, the fall observed for 2006 was even sharper and concerned the area of 532 ha as compared to 1759 ha in 2005 (decrease by 70%). In 2006 one permit covered on average the area of 1.9 ha; in 2005 it was 4.7 ha.

Map 6. The agricultural land covered by sale permits issued for foreigners in 2006 (in ha)


*Source: the MIaA data.*

In 2006, as compared to the previous year, the share of cases referring to agricultural land in the total number of permits for purchasing land real estate decreased from 63% to 52% while the share of agricultural land in the total area of land real estate covered by these permits decreased from 98% to 93%.

Diagram 14. The land property purchase permits obtained by foreigners in 2003-2006




*Source: the MIaA data.*

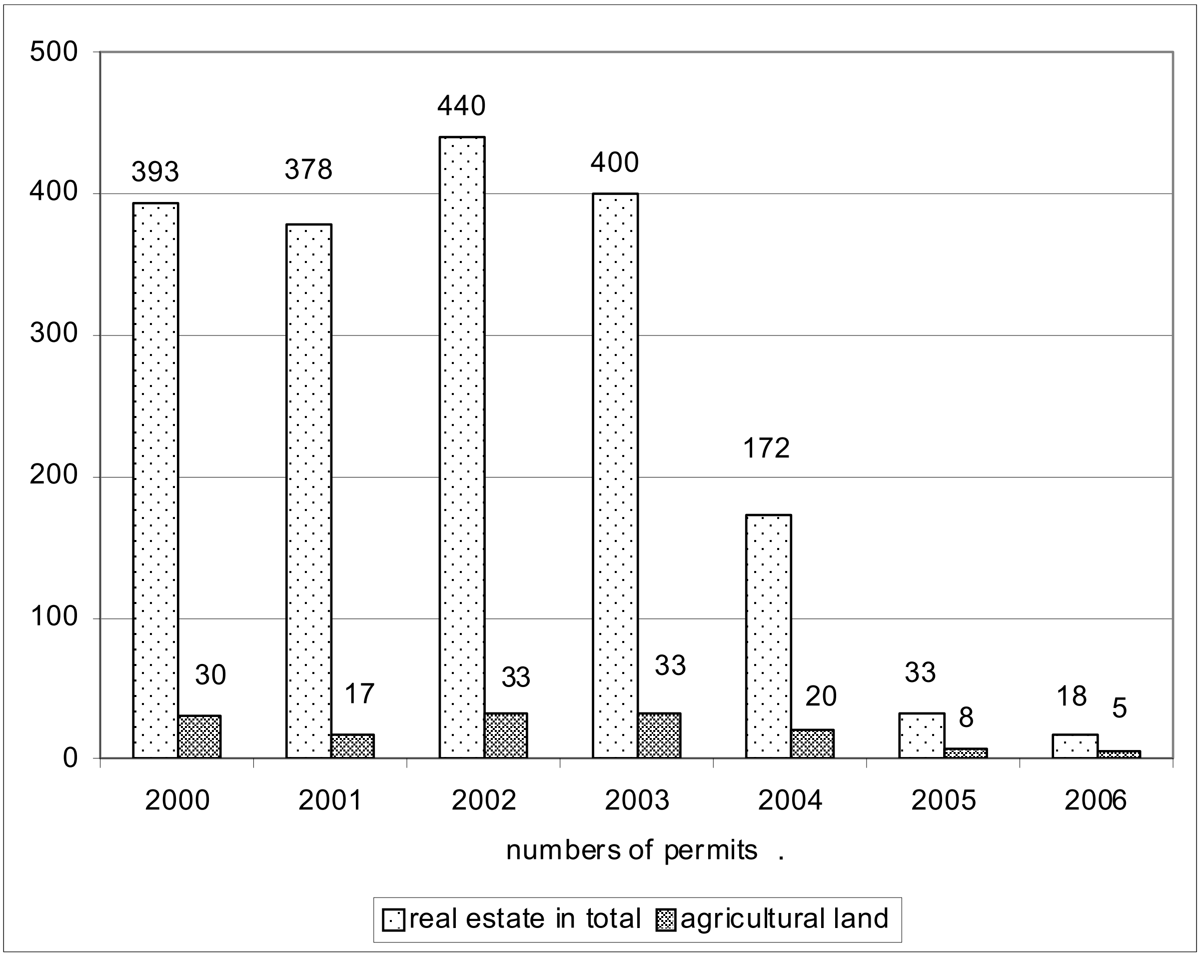
## 7.3. The stocks and shares held by foreigners in companies holding agricultural real estate

Foreigners may become the owners or perpetual usufructuaries of the agricultural land in Poland not only by way of concluding relevant agreements transferring the property rights but also by way of purchasing or taking hold of shares or stocks in commercial companies holding agricultural real estate. In 2006 foreigners obtained jointly 18 permits issued by the Minister of Interior and Administration for purchasing shares and stocks in companies holding land real estate of the total area of 74 ha. In 5 cases these included real estate of agricultural nature of the total area of 15.64 ha. This land is located within the area of the Kujawsko-Pomorskie (9.49 ha) and Śląskie (6.16 ha) voivodships.

By the country of origin, a persons who obtained permit for purchasing stocks and shares in companies holding agricultural real estate represented American (10.33 ha), Japan (3.62 ha) and Croatian (1.7 ha) capital.

The permits concerning the purchase of the agricultural land accounted for 28% of the total permits and 21% of the area that foreigners obtained in 2006 for purchasing stocks and shares in companies holding land real estate.

Diagram 15. The permits issued for the foreigners purchasing stocks and shares in companies holding land real estate (in 2000-2006)

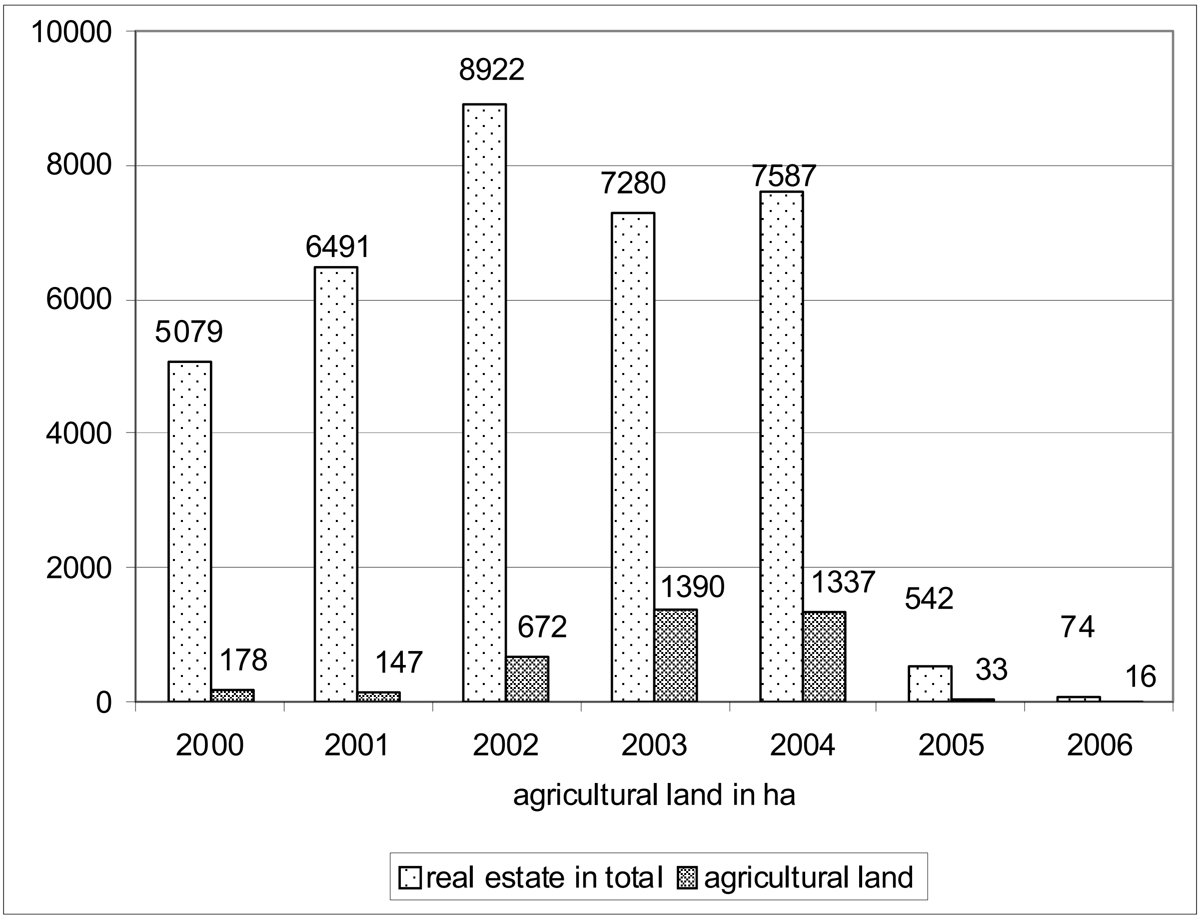



*Source: the MIaA data.*

In 2006, as compared to 2005, the total number of permits obtained by foreigners for purchasing shares and stocks in companies holding land real estate decreased from 33 to 18 and with reference to agricultural real estate – from 8 to 5. Also the area of land covered by permits obtained for purchasing shares and stocks decreased significantly. In 2006 it amounted to 74 ha, while in 2005 it was 542 ha (i.e. seven-time drop). The drop was slighter as regards the agricultural real estate: from 33 ha in 2005 to 16 ha in 2006. Small area of land purchased under the permits results from legislation in force – beginning from 2004 foreigners, including natural persons and entrepreneurs originating from the EEA, can purchase shares and stocks in companies holding agricultural real estate without obtaining permits.

In 2006 the area of land controlled by foreigners in connection with purchase or taking over shares or stocks in commercial companies holding the right of ownership or perpetual usufruct to agricultural real estate was approximately 33 times smaller as compared to the area covered by permits for purchasing agricultural land (55 times smaller in 2005). In 2006 one single permit for purchasing shares or stocks in companies holding the right of ownership or perpetual usufruct to real estate covered approximately 4 ha and to agricultural real estate approximately 3 ha. In 2005 it was 16 and 4 ha, respectively.

Diagram 16. The area of land covered by permits for foreigners purchasing stocks and shares in companies (in 2000-2006)




*Source: the MIaA data.*

## 7.4. The agricultural land purchased or taken over by foreigners in land, shares and stocks registers

In accordance with the Act on purchasing real estate by foreigners, the Minister of Interior and Administration holds a register of real estate, shares and stocks purchased or taken over by the foreigners both with and without permit (when the permit was not required).

As transactions entered to the registers in 2006 (6430) show, irrespectively of whether with or without permit, foreigners purchased 3926 pieces of land real estate of the total area of 5071 ha (545 pieces of real estate of the area of 527 ha on the basis of permits and 3381 pieces of real estate of the area of 4544 ha without the need to apply for a permit).

Most of the land real estate was purchased by foreigners in the Mazowieckie (921 ha), Łódzkie (591 ha), Dolnośląskie (577 ha) and Śląskie (530 ha) voivodships. Among natural persons, most of real estate was purchased by German (170 ha), Irish (75 ha), Swedish (66 ha) and Dutch (49 ha) nationals while among legal persons – entities with the majority of Dutch (1002 ha), German (713 ha), Austrian (290 ha), British (267 ha) and Belgian (259 ha) capital.

The group of 3926 pieces of real estate purchased by foreigners in 2006 included 386 agricultural real estate of the total area of 523 ha (10% of the area of land real estate covered by the entries). It is 1.5 increase as compared to 2005 when foreigners purchased 352 ha of agricultural real estate.

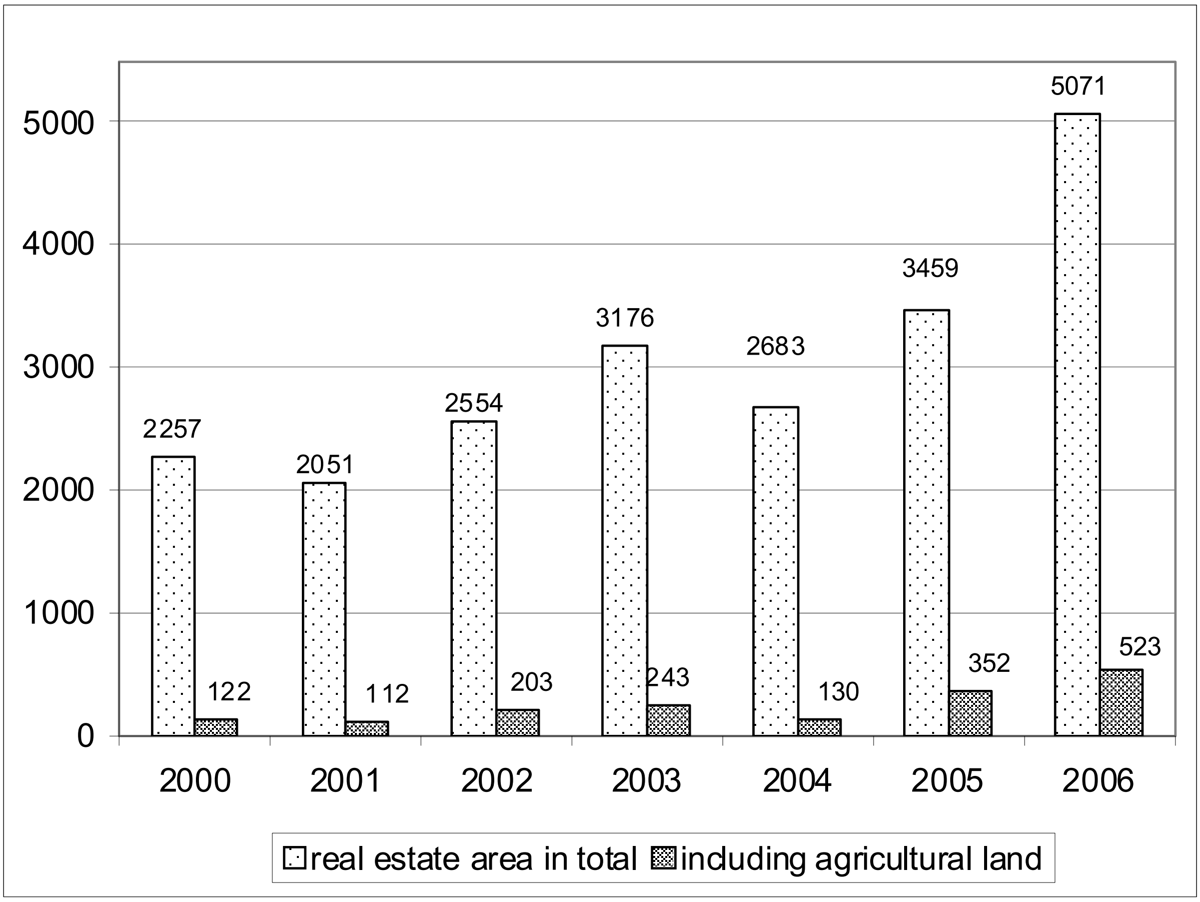
On the basis of the relevant permits, foreigners purchased the right to ownership or the right to perpetual usufruct for 283 agricultural real estate (in 2005 – 128, in 2004 – 75 and in 2003 – 107) of the total area of 489 ha. The legal persons purchased 120 pieces of real estate of the total area of 383 ha and natural persons 163 pieces of real estate of the total area of 106 ha.

In 2006, without the need to apply for permit, foreigners purchased the right to ownership or the right of perpetual usufruct of 106 pieces of agricultural real estate of the total area of 34 ha (in 2005 – 119 pieces of real estate of the area of 33 ha).

The share of agreements concerning the agricultural land concluded after obtaining a relevant permit in the total number of agreements concerning the agricultural land of all agricultural real estate entered into registers in 2006 amounted to 73% (in 2005 – 52%). As regards the agricultural real estate area purchased by foreigners, in 2006, the area which was covered by agreements concluded after obtaining a permit accounted for 93% (in 2005 this share amounted to 91%).

In 2006, 131 transactions of purchasing or taking over stocks or shares in companies holding the right of ownership or perpetual usufruct by foreigners were registered (in 2005 – 116). They covered the total area of 1662 ha (in 2005 – 1750 ha). The majority of these transactions were concluded by German, Dutch and Austrian entities, 39, 34 and 12 entries, respectively. As regards 598 ha, transactions of purchasing or taking over stocks and shares in companies referred to agricultural and forest real estate and were carried out mainly by the British (457 ha), Dutch (72 ha) and German (62 ha) capital, respectively.

Diagram 17. The area of agricultural land and land real estate area sold to foreigners




*Source: the MIaA data.*

In general in the period 1990-2006 foreigners obtained permits for purchasing real estate of the total area of 43.9 thousand ha. Throughout all the period, the majority of the agricultural land was purchased by the foreigners in 2006 (523 ha).

Permits for purchasing or taking over stocks or shares in commercial companies holding the right of ownership or right of perpetual usufruct to agricultural real estate, issued in 1996-2006 covered the area of 55.9 thousand ha.

Jointly permits for purchasing real estate and shares and stocks connected with land covered 0.3% of the total area of Poland.

In 2006, similarly as in 2005, changes in legislation on purchasing real estate by foreigners introduced together with the accession of Poland to the European Union had the effect on the agricultural land market. It was another year of the decrease in the number both of land property permits issued (2003 – 1580, 2004 – 1065, 2005 – 592, 2006 – 532) and of the area covered by these permits (4718 ha, 2692 ha, 1786 ha, 575 ha, respectively). Concurrently, due to the annulment of the requirement towards nationals and entrepreneurs of the EEA Member States to apply for permit to purchase shares and stocks in companies holding agricultural real estate, similarly as in 2005 further drop was observed in the number of such permits and the area covered by them. In 2006 the area included only 16 ha and was as much as 191 times lower as compared to 2004.

As regards the group of agricultural real estate covered by the 12-year transitional period for their purchasing by the EEA nationals and entrepreneurs, after 3 consecutive years of the increase observed after the year 2002 (2002 – 109, 2003 – 129, 2004 – 279, 2005 – 373) in 2006 the number of issued permits dropped to 274 permits. Also the area covered by these permits decreased. After significant growth observed for the two consecutive years following the year 2003 (2003-398 ha, 2004-761 ha, 2005-1759 ha), in 2006 this area amounted to 532 ha. However, when analyzing factual transactions recorded in the Ministry of Interior and Administration register it must be noted that although the scale of purchase by foreigners is not significant, the interest in such transactions is still growing. In 2004, 130 ha was purchased, in 2005 – 352 ha and in 2006 as much as 523 ha. Significant growth was observed for the entire group of land real estate. In 2006 foreigners purchased more than 5 thousand ha (cf. in 2005 approximately 3.5 thousand, in 2004 – 2.7 thousand, in 2003 – 3.2 thousand ha).

The effects of introduction of the transitional period reflected also in the fact that, as the Ministry of Interior and Administration register shows, the agricultural land area (ownership, perpetual usufruct) purchased in 2006 by foreigners under permit was 14 times larger as compared to the area purchased without the need to obtain the permit. At the same time as much as 93% of the total land real estate purchased under permits concerned the agricultural real estate. As regards the group of non-agricultural land real estate, less than 1% of the total area was purchased on permit.

## VIII. The problems of the agricultural land market in the European countries

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The European agricultural land markets become increasingly unified, however they function in a fundamentally different manner in two groups of countries. The first group includes 15 "old" EU Member States, which accessed to the European Union before 2004; the second group includes other European states, which abandoned nationalized and collective type of agricultural land management in the nineties of the previous century (including 12 "new" Member States which accessed to the European Union after the year 2004).

In certain "old" EU Member States the significant growth of prices was observed on the agricultural land market. According to the agricultural land market analysts it is caused by the economic growth in these countries as well as effects of the EU Common Agricultural Policy.

As for the states which abandoned the model of centrally managed economy, the political and economic reforms caused that the prices of agricultural land in these countries started to increase as well and agricultural land became subjected to market turnover. The creation of the private sector and land markets in some of these countries is difficult as it is necessary to introduce new legal regulations and to recreate the land and mortgage register systems. Also certain financial, technical and social problems appear connected with the creation of private agricultural holdings on the basis of property earlier used by large-scale agricultural holdings. The legal and organizational solutions introduced in countries leading in transformation are quickly taken over by other countries of the region. The process of popularization of the legislation and introduction of technical and organizational solutions in agricultural land trading is supported by international organizations, including in particular the UNO Food and Agriculture Organization and agencies and funds with merits for shaping the agricultural structures in the "old" EU Member States (DLG in Holland, BVVG in Germany, VLM in Belgium, European technical organizations and scientific institutions).

In this context one must emphasize the role that the Agricultural Real Estate Agency plays in Poland, which was created on the basis of German trust institutions of the property of the State Treasury. A similar institution operating as a fund which manages the agricultural land was set up in Hungary in 2002. This fund currently uses 7% of the total area of Hungarian agricultural land and 40% of forests. Also the authorities of Albania show interest in creating a similar institution. In Bulgaria, a project of setting up agricultural real estate agency is prepared – in the nearest future it will be examined by the government. Also the Croatian government plans to submit the act on creation of the agricultural real estate agency to parliament for its consideration, aiming at creation of the "land bank" intended for improvement of the size structure of the private agricultural holdings. Furthermore, the Ukrainian government adopted in January 2007 a resolution on transformation of the current state committee of land resources into the state agency of land resources. However, this resolution was not approved by the Parliament.

In the past the highest agricultural land prices in Europe were recorded in countries having small land resources as compared to the number of their inhabitants. During last 3 years in several "old" EU countries having relatively large resources of land, prices have started to equal to the level of prices in countries with small land resources. Signals on extraordinary increase in prices first came from Ireland where the average agricultural land price in 2004 was 16 thousand EUR/ha but beginning from 2005 prices started to increase in steps. The upset prices of agricultural land in tenders organized in 2006 by the Irish real estate agents reached 37 thousand EUR/ha (25 thousand – 30 thousand EUR/ha in 2005). Also in Great Britain the average price of agricultural land set a record of 8164 GBP/ha in 2006 (7219 GBP/ha in the first half of 2006).

The increase in the agricultural land prices in Ireland is related to the economic boom in this country lasting for 10 years. In Great Britain in turn, the agricultural land prices are bumped up in particular by a group of purchasers interested in living in the country without the intention to introduce the commodity production. The increase in agricultural land prices is further supported by liberal legislation as regards purchasing agricultural land, which contributes to the creation of large-area commercial agricultural holdings accompanied by the concurrent growing number of small-area farms. It seems that this trend in purchasing agricultural land will be more and more popular in the "new" EU Member States. It will be driven by expected profits related to the increase in land prices and potential possibility to obtain subsidies on land use.

So far there have been no imitators of the Great Britain's policy on agricultural land trading opened for all land purchasers. Theoretically in countries such as Germany, Belgium, Luxembourg, Holland, Spain, Ireland, Portugal, France and Italy both nationals and foreigners can purchase agricultural real estate under the same regulations, however practically only active farmers purchase majority of agricultural land areas. It happens so as the most of these countries adopted statutory or non-statutory limitations in purchasing agricultural land by persons who cannot authenticate their connections with agriculture. Similar provisions are also included in the Polish legislation.

As for the "new" EU Member States, the accession treaties include clauses on transitional periods during which foreigners are obligated to obtain a permit for purchasing agricultural and forest land. The majority of the other European countries, which are not members of the European Union, have not yet introduced similar legislation.

By now, the introduction of restrictions in purchasing the agricultural land by the national legislation in the EU Member States was considered as in conformity with the EU legislation on free movement of capital. Doubts in this regard arose when, at the beginning of 2007, the European Court of Justice delivered a judgment referring to the compliant of a German national who purchased agricultural land in Denmark. The Court decided that the requirement of the permanent place of residence in the agricultural holding (of the area exceeding 2 ha of agricultural land) imposed as a condition under the Danish law since 1999 is contrary to the EU legislation. According to the Court, the requirement of the permanent place of residence in the agricultural holding is too strict as regards restricting the land speculation. The above-mentioned verdict of the Court may have implications on certain provisions on agricultural land trading in other EU Member States.

In two "old" EU Member States having large land resources, i.e. Germany and France, the dynamics in the price growth is rather insignificant. Within the period 1992 – 2004 the prices of agricultural land in Germany even dropped slightly as the result of the fall in the prices of land in the old "Lander" of Germany (due to the competitive prices of land offered in the areas of the former Democratic Republic of Germany). Also prices of agricultural land in France considered as of the best quality in the Western Europe remain at a relatively low level for many years as compared to other "old" EU Member States. In the sixties of the previous century France initiated a large-scale series of interventions on the agricultural real estate market, which was carried out by the Association of Land and Rural Management (SAFER). According to the land owners, admission of the pre-emption right to agricultural land for SAFER in case when the planned sale transaction does not comply with the requirements of the national agricultural policy resulted in "flattening" of agricultural land prices which now are not equivalent of the real value of land.

In view of some land market analysts, low prices of agricultural land are not favourable either for farmers nor for the agriculture in general. Cheap agricultural land is not treated as credible loan security. This problem appeared in many European countries, which abandoned a collective agricultural model. The lower land prices also create a serious obstacle in improvement of the size structure of agricultural holdings as the capital obtained from the sale of a small agricultural holding is not sufficient for starting up any alternative non-agricultural economic activity. As examples of several EU Member States show (Germany, Denmark), the improvement of the size structure of agricultural holdings takes place under the conditions of internal competitiveness, which leads to liquidation of economically weakest agricultural holdings which are mainly characterized by small area of land. Some of land market analysts consider that the competition mechanism mentioned above is interrupted in EU by national and international systems of subsidies for agriculture and social life conditions of rural population.

Positive effects of being an owner of an agricultural land, which can be measured by the land price growth, appeared in almost each new Member State (tab. 18). However, the price level of agricultural land in majority of "new" EU Member States is significantly lower as compared to the "old" EU Member States. Among all the Central-European countries, only agricultural land prices in Slovenia are comparable to prices reported in "old" countries of the Western Europe. Poland catches up on the distance to the Western Europe. It seems however that the current growth in agricultural land prices in the majority of the Central and Eastern European countries does not allow to state that they will equal to the prices in the "old" EU countries in short term.

The most important characteristic of the agriculture of the EU Member States from the Central and Eastern Europe and certain countries emerged after the disintegration of the Soviet Union, was the process of restitution of private land property initiated at the beginning of the nineties of the previous century.

In certain countries (Czech Republic, Slovakia, Slovenia, Hungary, Estonia, Lithuania, Latvia) restitution consisted in restoration of documented rights of property through  physical return of the real estate, assignment of replacement property or through financial indemnification. Certain group of countries (Albania, Bulgaria, Moldova, Ukraine, Russia) chose to grant the right of property to persons working in the former state agricultural and collective holdings as well as to other categories of authorized rural inhabitants. In Baltic States (Lithuania, Latvia, Estonia) it was attempted to rapidly privatize the agriculture according to the motto: „let's give land to those who want to cultivate it”.

Table 18. The average rentals for the APS's agricultural land leased in 2006 by area* in dt of wheat per 1 ha

| Country | Type of land | Price in EUR/ha |
|---|---|---|
| Belgium | Agricultural area | 17 038 |
| Denmark | Agricultural area | 16 000 |
| Finland | Agricultural area | 5 197 |
| France | Agricultural area | 4 500 |
| Greece | Irrigated land | 13 000 |
| | Non-irrigated land | 6 500 |
| Spain | Irrigated land | 23 511 |
| | Non-irrigated land | 6 668 |
| Holland | Agricultural area | 29 300 |
| | Agricultural land on polders | 35 000 |
| Ireland | Agricultural area | 16 261 |
| Germany – western "lands" | Agricultural area | 16 000 |
| – former Eastern Germany area | Agricultural area | 4 000 |
| Sweden | Agricultural area | 2 455 |
| Italy | Agricultural area | 16 000 |
| Bulgaria | Agricultural area | 685 |
| Czech Republic | Agricultural area | 1 282 |
| Estonia | Agricultural area | 351 |
| Lithuania | Agricultural area | 406 |
| Latvia | Agricultural area | 1 044 |
| Romania | Agricultural area | 284 |
| Slovakia | Agricultural area | 945 |
| Slovenia | Agricultural area | 13 000 |
| Hungary | Agricultural area | 1 900 |
| Poland | Private market – arable land | 1 463 |
| | APSAT – agricultural land | 1 033 |

*Source: prepared by A. Zadura on the basis of EUROSTAT, Real Estate Council, Internet publications of the Ministries of Agriculture of selected countries and information gathered during international seminars.*

This practice was abandoned when former landowners and their inheritors began to claim their rights. In Hungary, as it was impossible to physically return the real estate, compensation bonds were issued which were used to settle claims for purchased property.

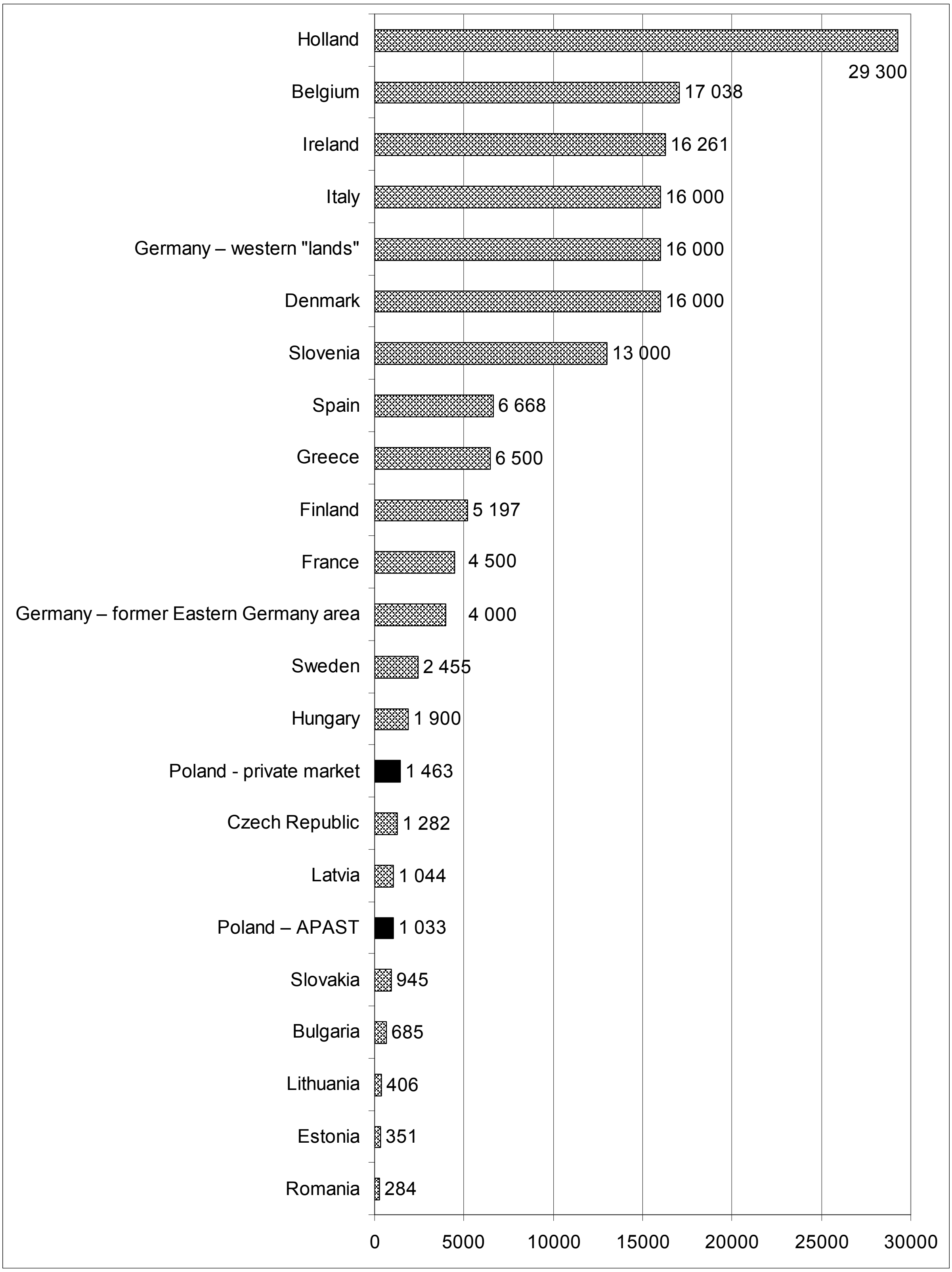
In many Central and Eastern European countries holding the right of land property does not automatically mean that its owner also uses the land. Most frequently the landowners who did not plan to use it, leased it to farmers. At times, separation of private farms from large area state agricultural holdings became difficult not as much as for technical reasons as for economic and social difficulties (not all restitution beneficiaries knew how to manage a farm or had sufficient financial means for starting up the economic activity).

In the period 2000-2005 the decision to give up independent management was taken by 32% of the new users of agricultural land in Hungary. Lack of people willing to independently use the agricultural land did not lead however to its resale. In Hungary the agricultural land is considered as a safe capital investment.

Former owners of the agricultural land and forests located within the area of the former Democratic Republic of Germany obtained, depending on their legal status, a various degree of preferences as regards restoration or purchasing land owned by the State Treasury. In Ukraine, to a larger extent than in Russia, some part of land was transmitted for private use. Concurrently, it became a very popular practice to issue the so-called share warrants to land property without geodetic separation of borders of granted plots. The Ukrainian Parliament submitted a memorandum for land sale until 1 January 2008 however with high probability of prolongation for another period. The results of the sociological research conducted recently in Ukraine show that 42% of surveyed persons consider that the free land market will strengthen the large area land property (of the area between 10 and 200 thousand ha), which is, at present mostly used under lease agreements. A similar group of surveyed persons (37.5%) considers that it is indispensable to allow for free land trading.

Currently almost all European countries declare that the process of restitution of rights of property to land is entirely or almost complete. Only the authorities of Kosovo, currently administered by the UNO, admit that the process of privatization carried out by the trust agency of the State Treasury has not been completed there yet.

Diagram 18. The average prices of agricultural land in selected European countries in 2004 in EUR/ha




*Source: prepared by A. Zadura on the basis of EUROSTAT, Real Estate Council, Internet publications of the Ministries of Agriculture of selected countries and information gathered during international seminars.*

The restitution of the rights of property to agricultural real estate in the Central and Eastern European countries, Balkan states and states emerged after disintegration of the Soviet Union was accompanied by the "first wave of reforms" connected with the creation or recreation of land registration systems, granting rights of property, distribution of land and beginnings of the land market. The "second wave of reforms" included attempts to overcome negative effects of restitution, including primarily the dispersion of runners of the field owned by the private agricultural holdings. They consist in carrying out the land consolidation, mainly under the pilot projects. Given insufficient financial resources, it is still very rare that the land consolidation projects conducted in the mentioned countries cover realization of complex rural area management projects, including construction of roads and renewal of decapitalized melioration devices and irrigation systems.

The scale of the problem of agricultural dispersion and field location can be illustrated on the examples from particular countries. As the result of restitution, 2.6 million of Hungarian nationals were granted the right of property to 5.6 million ha of land. In Moldavia, 1.8 million ha out of the total of 2.5 million ha were already handed over to private persons, including 1.5 million ha which was divided between 1.1 million of owners. The average Moldavian private agricultural holding consists of 2 to 8 plots of land of the area of 0.3-0.5 ha. The positive effects of political changes in agricultural land trading in Moldova consist of resolving legal provisions allowing for free trading in agricultural land. As the result, in 2006 more than 51 thousand transactions connected with the land trading (4 thousand transactions more as compared to 2005) were registered, including buy/sell transactions, deeds of donation and inheritance, lease agreements and other transactions connected with land trading. The problem of dispersion of land is mitigated to some extent by wide-spread use of lease agreements – the leased land accounts for 30% of the total area used by private agricultural holdings.

The privatization of the land property consisting of physical division of former state and collective agricultural holdings led to large dispersion of individual agriculture in Kosovo, where the area of approximately 80% of all agricultural holdings is less than 4 ha and only 0.6% farms hold the area larger than 10 ha. As the result of agricultural reforms carried out in Ukraine, 6.8 million rural inhabitants obtained on average 4 ha of land each divided physically or granted in the form of share warrants to the land property. In Romania 4.5 million of small agricultural holdings were created. They have the average area of 1.7 ha and consist of 4-5 plots. In Lithuania the right of property was restored as in case of 95.7% of land (3.82 million ha). The average area as per 1 private agricultural holding is 12.3 ha, however the most numerous group include agricultural holdings of the area of less than 5 ha. Beginning from 2005 the Lithuanian government started to implement the pilot projects of land consolidation in cooperation with partners from Denmark.

In Bulgaria the areas owned by private agricultural holdings cover almost 70% of the total area of agricultural land and the average size of a plot is equal to 0.5-0.6 ha. According to estimates, approximately 30 – 50 thousand ha need to be consolidated each year, however until now no organizational concept of land concentration was drawn up. A similar situation refers to actions in the field of the use of surface and underground waters for irrigation and sprinkler irrigation. Therefore a group of countries (Lithuania, Bulgaria, Romania) established a technical cooperation for preparing optimum strategy for land concentration in countries under the system transformation in agriculture (Farland project).

In countries emerged in connection with disintegration of the former Yugoslav republic, additional damages were inflicted due to ethnical conflicts. In Croatia, a large part of inheritors of the right to land property is still in emigration and therefore it is difficult to obtain their acceptance for establishing methods of use of land owned by them. Some countries of this region have problems not only with identification of landowners but also with cases of forgery of land title deeds and identity documents (Kosovo). Serbia in turn struggles against the problem of demographic ageing of rural inhabitants. As regards approximately 15% of Serbian villages, the agricultural holdings are owned by persons of over 50 years of age and as regards 7.5% – persons over 60 years. Due to the significant dispersion and old age of proprietors, as much as 20% of Serbian villages may be liquidated in the next 15 years.

In several cases (Latvia, Estonia) some part of restitution beneficiaries planned to sell their land rapidly which led to surplus of supply over demand and creation of large areas of fallow lands. In the Czech Republic and Slovakia the restitution process does not pose problems as a numerous group of owners directly after acquiring land property rights leased them to agricultural cooperatives or companies of various legal status. Therefore the land map in the Czech Republic and Slovakia did not significantly changed as compared to the status from before the reforms. However, as for these states, it is considered that their citizens have never lost property rights to their real estate and that these rights were only suspended during the period of collectivization and nationalization of agriculture.