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**The analysis of property transformation process
in Polish agriculture in the years 1990-2004**

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THE ANALYSIS OF PROPERTY TRANSFORMATION PROCESS IN POLISH AGRICULTURE IN THE YEARS 1990-2004

Abstract: The objective of the study was the attempt of estimation of the State Farms (PGR) evaluation. After the investigations of dominant trends in public agriculture, the property transformations in Polish agriculture were analyzed in macroeconomic conditions with regard to a number of indicators described new-instituted agricultural enterprises. In the study author has taken into account the principal data relating to the scale of the property transformation, like number of public sector farms, area of agricultural land in public sector, area of lands which has been sold and rent by State.

Key words: Land Ownership and Tenure, Property Transformations.

JEL: Q15

Introduction

The process of system transformation in Poland – conversion from socialist, central planned economy to market economy - started in 1989. The privatization, understanding like the transformation of public sector to private sector and consisting in „vesting of the state ownership to part of public property for private corporate or private person” has been acknowledged as the main, irrevocable element of the changes (Grzeszczyk, 1997).

The restructured activities in state agricultural enterprises sector came into particular prominence. In consequence of law and organizational weaknesses, the big State Farms (polish acronym: PGR) fell into very difficult financial situation standing face to face with new macro- economical conditions. It was grave problem because at the beginning of the nineties near 0,5 million persons have been worked in the State Farms and these farms were farming on every fifth hectare of agricultural land in Poland. (Halamska, 1999).

The transformation in public agriculture, considering above-mentioned scale of the occurrence, big value of ex-state farm property and limited capital, has been characterized in special way by different level of restructuring with little scale of real privatization (sale of property) at the same time. This situation was an effect of applicated solutions – adequate for industrial enterprises and unfavorable for agricultural enterprises. The rules of the reform in this area were adapted to specificity of land possessions and farming (it was acknowledged that manner and quality of land use are more important then its property). On the ground of this idea the lease of the Treasury land has become the domination form of the estate management.

The oncoming 15th anniversary of property transformations in public sector of agriculture and first year of activity of big transformed farm in developed European Union suggest the question about evaluation – from the view of time and accumulated experiences – of state farm privatization process, its range, stages and trends and further perspectives.

In the past years the problem of large space farms founded on the base of Treasury estate has been the subject of many investigations (Guzewicz, 1995, 1999, 1997, 2002, 2005, Kulawik, 1995, 1996, Świtłyk, 1995, 1997, Osuch, 1998, Leopold, 2001, Runowski, 2002, Dzun, 2002, 2003, Józwiak, 2003, Ziętara, 2003, Jarka, 2004). These studies, first of all, were concerned efficiency of farm in new organizational and law forms – production results and economic situation in following years of transformation. The problem of this study is qualitatively other than issues mentioned above.

The main purpose of this paper is an analyze of restructuring process of state agricultural enterprises in synthetic formulation in macro-scale. The complementary aim of investigations is a separation of succeeding stages of changes.

Property transformations in polish agriculture were analyzed in macroeconomic conditions (inflation, gross domestic product, relation between sales farm products and purchased articles and servicing) with regard to a number of indicators described new-instituted agricultural enterprises, like employment level, ability to make profit, gross receipts per 1 hectare of agricultural land, profitability of farms, financial liquidity and many others production, organizational and economic indicators. In the study author has taken into account the principal data relating to the scale of the property

transformation, like number of public sector farms, area of agricultural land in public sector, area of lands which has been sold and rent by Agricultural Property Agency of the State Treasury¹ (AWRSP).

In the study it was utilized material accumulated through own investigations in the years 1994-1999 in 30 large farms created from the State Farms and the others researches – particularly made by Institute of Agricultural and Food Economics (IERiGŻ) in Warsaw. The macro economical data come from Polish Central Statistical Office (GUS).

Synthetically evaluating the processes of taking-over, restructuring and developing of State Treasury rural property, it is possible to recognize, that process of possessional transformation generally proceeded according to guidelines. The land formerly belonging to the State Farm was connected with heavy stock of fixed assets and considerable staff number in State Farms (interested in further work in agriculture) too. Besides, geographic allocation of these lands was adverse - demand occurred in another place than supply. In the result of these conditionality scarce amount of land was assigned on increase of peasant farms, and the farm emerging on post-public property could not assure employment for all former State Farms (PGR) staff. New owners and leasers, because of big cost subsequent from redemption of property components and current rural activity, at lack sufficing personal financial stock, met serious difficulties in farming. Not all of them could overcome the difficulties. Many farms has busted and the phenomenon of return from leasing has increased – especially in the end of 90th of 20th century (Runowski, Zietara, 2002).

The shallow range of restructuring processes was the weakness of property transformation in agriculture. Sometimes oversized farms were transferred for leasing. First of all the AWRSP commercial companies and the raising companies wrestled with this problem. District offices of Agency offered on bids so called organized estate, i.e. whole farms. This operation was motivated by indivisibility of property, big productive buildings, which it was necessary to develop in connection with big back of farm surface. In later years it caused that many livestock buildings were empty. The leasers stopped animal production and took a stand for Agency about their exclusion from leasing and disassembling (the buildings were oversized, technologically obsolete and they required expensive repairs). The time verified negatively also farms, which wanted to win a bid for any price (too high rent).

In result of research performed in restructured enterprises a range of phenomena and trends showing positive economically-productive repercussions of implemented programs of restructuring and privatization has been observed. The analyses confirmed simultaneously, that situation of large farm subjected changes and was depended in great part on macro-economic trends (compare fig. 1, 2 and 3).

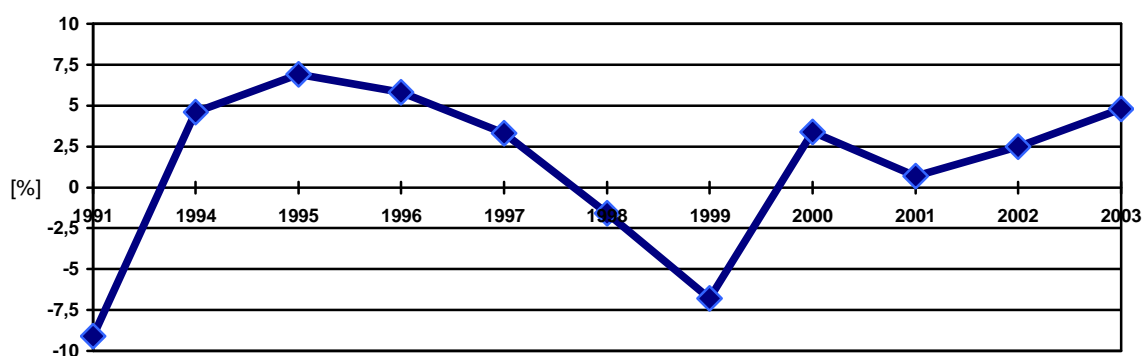


Fig.1. Average profitability ratio in great area farms investigated by Institute of Agricultural and Food Economics (IERiGŻ) in period 1991-2003*

*profitability ratio – relation: gross profits x 100 / total cost; in 1991 like state farm

Source: Guzewicz (2002) and ANR data (2004)

¹ From 2003 the Agricultural Agency of the State Treasury has been transferred into Agricultural Property Agency (ANR)

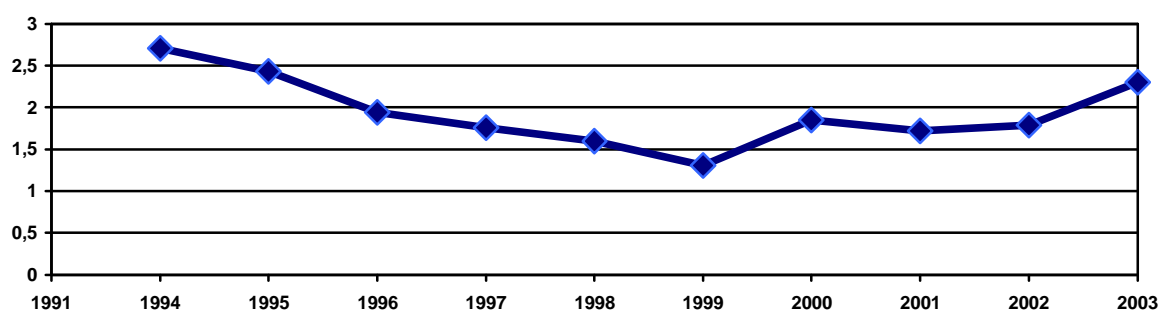


Fig. 2. Liquidity ratio in restructured farms investigated by IERiGŻ in years 1994-2003*

*current liquidity ratio-relation: current assets / current liabilities in the end of year

Source: Guzewicz (2002) and ANR data (2004)

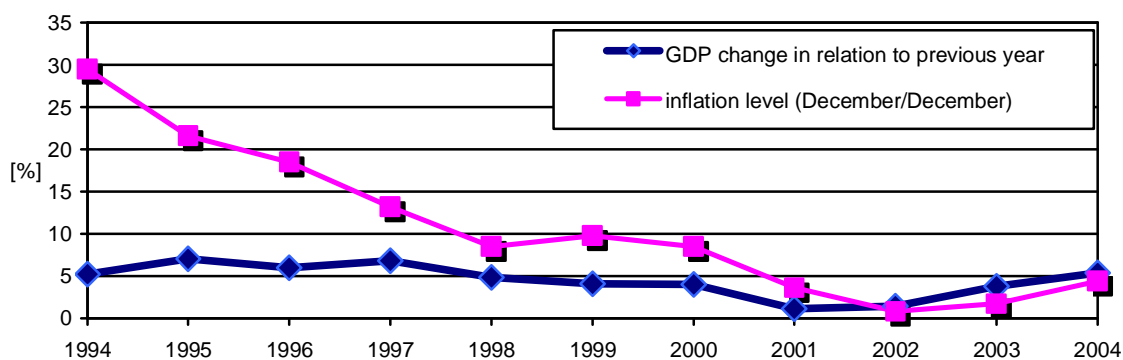


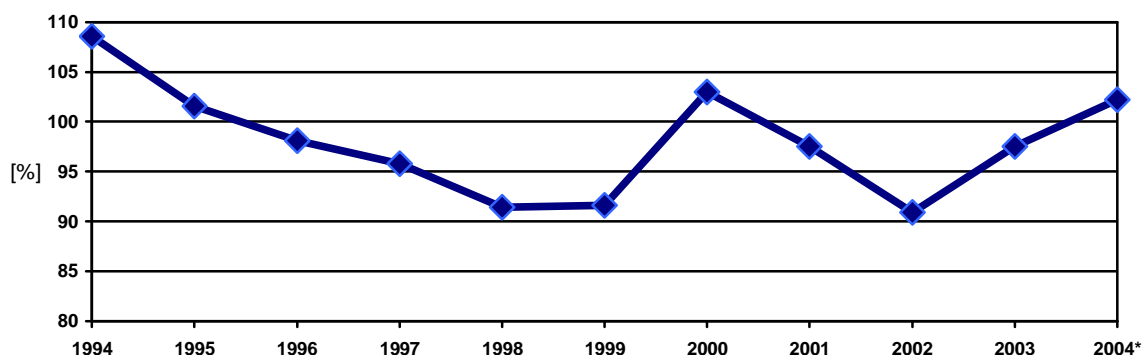
Fig.3. The most important macroeconomic ratios in years 1994-2004

Source: GUS data (2005)

The changes of economic-social system initiated in the turn of the 80th caused deep and wide metamorphoses. In agriculture they were initiated by exemption of agricultural product price from legal (State) regulation, in the beginning of August 1989. However, the results of liberalization were adverse for Polish agriculture - so called synthetic index of economic situation has gone down by about 30 percent. It caused correction of rural policy and attempts of improvement of the unfavourable situation. The process lasted at least to 1998 and it brought correction of farming conditions initially. Besides, the part of agricultural processing enterprises received budgetary support for realize an investment. This help corrected quality of national farm products and food-stuffs and it enabled effective competition with imported goods. The communes also received funds for extension of technically-productive infrastructures of villages that facilitated administration. At the same time the revival in non-agricultural branches followed, which have been transmitted into agriculture in course of time. In results, the situation in agriculture was improved (years 1994-1995).

The next years (beginning from 1996) it's a period of breakdown of economic situation in agriculture again. The crisis was not so deep as in 1990, but it lasted longer. At least two factors have contributed to this adverse situation. First factor consisted in limitation of national consumption of food product, caused by poverty of society in general and by result of diet evolution of richest part of society (limitation of consumption of the most caloric products). The second factor, of economic downturn in agriculture from 1996, was related with high prices of majority of food products, which

made impossible export without proper surcharges from the budget. In years 1996-1998 subsidized export of Polish farm and food products had conservative character, and amount of exported goods in this way was small. Moreover, so called Russian crisis has been imposed on this adverse situation. The subsidizing of food-stuffs export acquired permanent character in years 1999-2002. Insufficient export of goods surplus (for which raw materials were fabricated in agriculture), has exerted negative influence on price dynamics. From 1996, the dynamics indicator of agricultural sales products prices and purchased goods and services (former year = 100) only in 2000 and in exceptional 2004 surpassed level "100", whereas in remaining years this factor fluctuated from 91% to 97% - compare fig. 4 (Jóźwiak, 2003, GUS, 2004).



Ryc. 4. Sales products prices / purchased goods and services ratio („prices scissors”)

* 2004 estimation
Source: GUS (2004)

Mentioned above economic situation phenomena forced on farms adjusting operations and simultaneously they caused, that depending on adaptation ability, in financial-economically sphere, distinct disparity among enterprises appeared (deepening polarization phenomenon). The share of high and low economic proficiency level farms grown and the share of average ones fell down. In result near 1/5 of farms was deficit, at over double superiority of farms with average (from 0 for 10 %) and highest (over 10%) profitability level (compare fig.5).

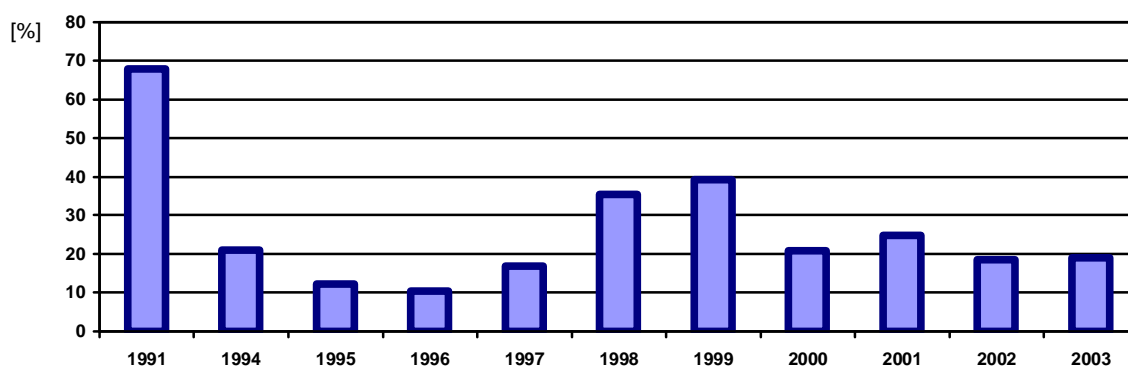


Fig. 5. Percentage of great area farms with loss by Institute of Agricultural and Food Economics (IERiGŻ) investigations in years 1994-2003

Source: Guzewicz (2002) and ANR data (2004)

Besides, the research proved, that smallest farms were in better economically - financial condition than big farms and that purchased farms were proficient economically generally. This fact authorizes

conclusion, that greatest and rented enterprises should be restructured deeper. However, this problem is more complicated - about farthest privatization decide not only economic and social reasons but also political context. The State, promoting enterprises responsible for biological and technical progress in agriculture, is inclined to solution of privatization these subjects in hitherto existing organizational structures. It is true, that state farms of new property forms (particularly AWRSP companies) got considerably better productive results than individual private farms. There is particularly visible in capacity of production of milky cow (compare fig.6).

Direction and rate of restructurization of public sector (strategic companies) indicated, that its role is limited for creation and accustoming of biological progress in agriculture. However, in this range, the interaction will diminish by reason of limitation of state farm number. Except it, foreign raising firms enter Polish market more strongly (Dzun, 2003).

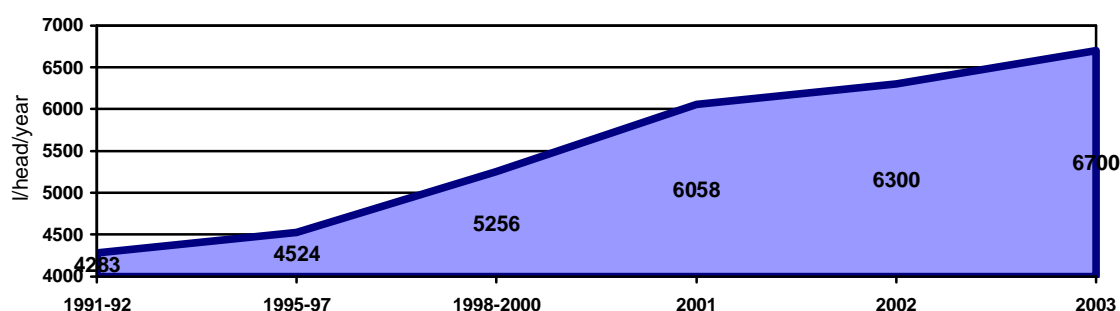


Fig. 6. Cow lactation in restructured farms by IERiGŻ investigations in years 1991-2003

Source: Guzewicz (2002) and ANR data (2004)

In result of restructuring process, the acreage of agricultural land in public sector in Polish agriculture decreased over 4,5 times in period 1990-2004 (compare fig. 7).

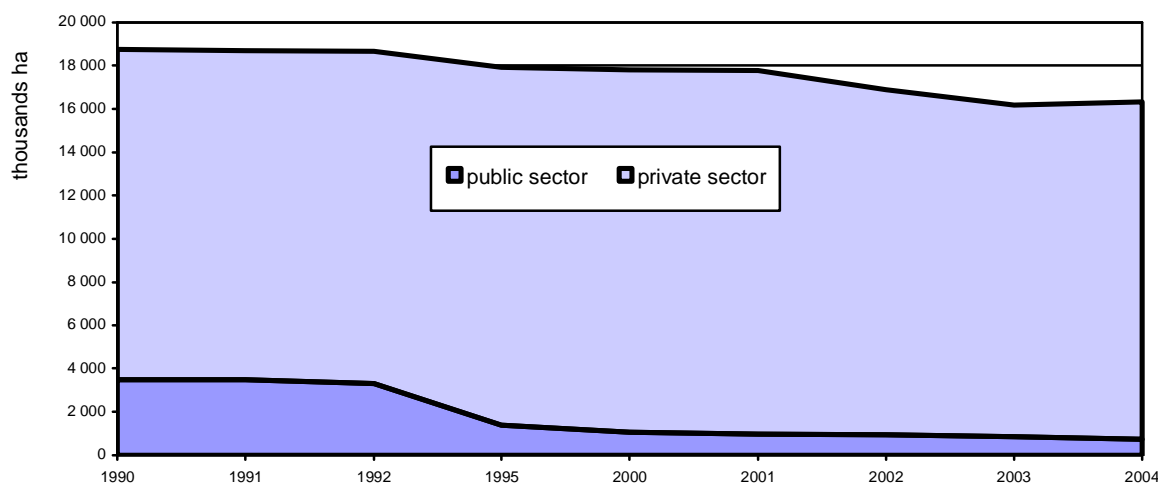


Fig. 7. Agricultural land in state (public) sector of agriculture in years 1992-2003

Source: GUS (2004)

Particularly, the acreage of agricultural land in AWRSP administration has decreased. This phenomenon is correlated with decrease of the Agency farms number (compare fig.8).

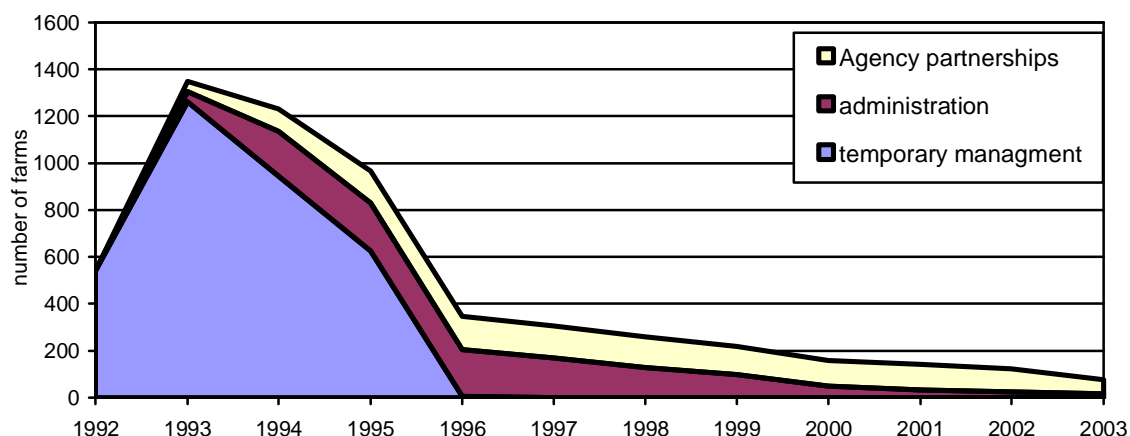


Fig. 8. Agricultural Property Agency of the State Treasury (AWRSP) farms in years 1992-2003

Source: Guzewicz (2002) and ANR data (2004)

At present Agency farms use less than 1 percent of total agricultural lands in Poland and it is 19 times less than in all State Farms (PGR) in 1990. The share of public sector in global rural production, in final production and in goods production decreased 7 times in this period. Current share in crops structure (2,1percent) is 9 times lowest than in 1990 for PGR. The divergence between share of state sector in use of land and share of this sector in total rural production is visible too. This is the result of situation in which considerable part of state rural land is not sowed – a repercussion of big share of marginal grounds, very hard for cultivation in total structure of state lands (Dzun, 2002).

Capital barriers in agriculture determined small percentage of land sale from AWRSP in last fifteen-year period - or privatization in the strict sense of the word. In the end of 2003 only 29 percent was sold i.e. 1 373, 5 thousand ha of total 4 706 thousands of taken over land (which land from former PGR presented majority - 3 761 thousands ha) (ANR 2004). The sale was uneven in individual years and it has achieved apogee in 1996. (compare fig. 9).

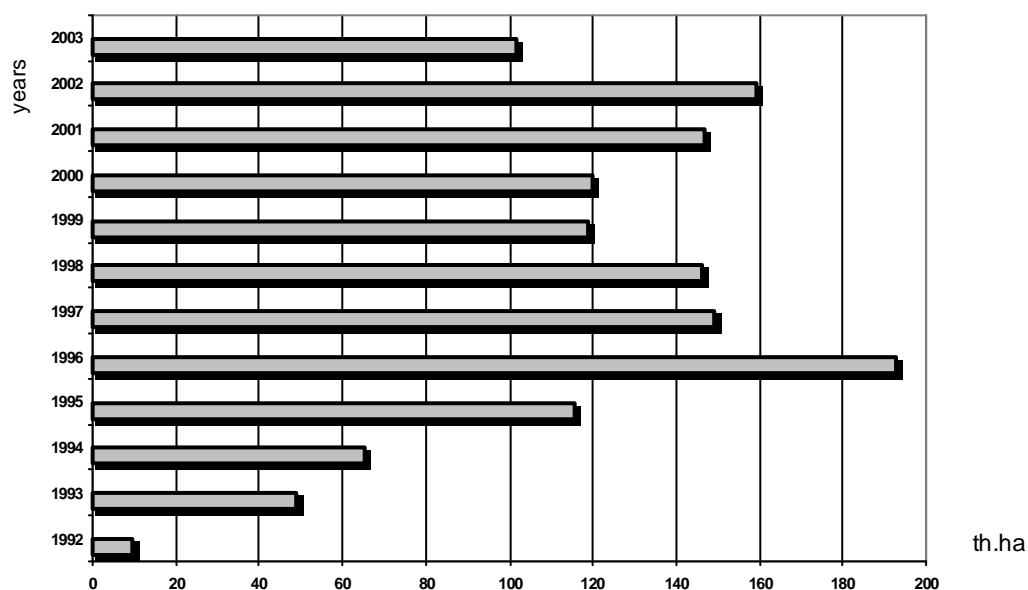


Fig. 9. Sale of grounds from AWRSP (ANR) fund in period 1992-2003

Source: ANR data (2004)

At general lack of capital in Poland, in the process of possessional conversion in agriculture, the lease become available and convenient manner of use of Treasury rural estate for wide circle of farmers, businessmen and companies. Agricultural Agency of the State Treasury, at present Agricultural Property Agency has contracted over 293,5 thousand leasing agreements, including about 4669 thousands ha (data for period from 1992 to the end of September 2004). However, the continuous movement has occurred in leasing.

Agency covenanted but simultaneously (because of unkeeping of conditions agreement by leasers) dissolved the contracts. The leasers also applied for annulments, when they wanted to buy rented grounds (principle of pre-emption) or when they gave up use of land for economic causes or family reasons. Besides, the part of agreements expired and the other part of land was excluded from leasing. By that reason 142,5 thousands of leasing agreement (48,5 % of total), including 2320 thousands ha (near 50% of rented grounds), was object of secondary transaction. In September 2004, the leasing agreements ("in course") were 151 009. They included 2349 thousands ha of land, that is about 50 percent of land accumulated by AWRSP. From 1997 the superiority of return land over yearly rented land has been a worrying phenomenon (ANR 2004).

Conclusions

On the base of own research² and survey of literature, it is possible separated 5 phases of restructuralization of public agricultural sector. The each stage was named on the ground of summary interpretation of the tendencies and occurrences happened in the period 1990-2003. Moreover, probably the entrance of Poland to EU in 2004 has started the next, qualitatively different, transformation phase, in other words the 6th stage. It was distinguished the following phases:

- I. years 1990-91, „shock therapy” - sudden crisis and crash of State Farms (PGR),
- II. years 1992-93, „creation of AWRSP and liquidation of PGR”
- III. years 1994-1997, „putting an estate in working order and development of new enterprises”,
- IV. years 1998-1999, „impasse and slump”,
- V. years 2000-2003, „little stabilization and expectation”,
- VI. from 2004 r., „in EU realities”.

Evaluating restructurization process of state agricultural enterprises it is necessary to ascertain, that:

1. State Farms in „old” property and organizational form could not survive. The lack of immediate law solutions enabled start of adaptation process for market economy conditions and changes of political system, caused to bankruptcy of PGR at the beginning of 90th years.
2. In spite of limited scale of real privatization (owner change) the generalization of Treasury land lease has made so-called “farming privatization” possible.
3. The analyzed farms, on account of their big output, has felt strong fluctuation of economic situation and it has been found the correlation between restructuralization degree and economic efficiency of farms in transformation process
4. The share and importance of public farms sector in agricultural and rural development has grow smaller successively.
5. The entrance to EU will extort the need of further privatization and deeper restructuralization of state farms in order to attain the adaptation for keen international competition too.

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