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Foreword

Tradition and Innovation – International Scientific Conference of (Agricultural) Economists Szent István University, Gödöllő, 3-4 December, 2007

Tradition and Innovation – International Scientific Conference was held on December 3-6, 2007, in the frames of the anniversary programme series organized by the School of Economics and Social Sciences of the Szent István University. The aim of the conference was to celebrate the 50th anniversary of introduction of agricultural economist training in Gödöllő, and the 20th anniversary of the School of Economics and Social Sciences, which was founded in 1987.

The articles published in the special edition of Bulletin 2008 of the Szent István University were selected from the 143 presentations held in 17 sections of the conference and 30 presentations held at the poster section. The presentations give a very good review of questions of national and international agricultural economics, rural development, sustainability and competitiveness, as well as the main fields of sales, innovation, knowledge management and finance. The chairmen of the sections were Hungarian and foreign researchers of high reputation. The conference was a worthy sequel of conference series started at the School of Economics and Social Sciences in the 1990s.

Előszó

Tradíció és Innováció – Nemzetközi Tudományos (Agrár)közgazdász Konferencia Szent István Egyetem, Gödöllő, 2007. december 3-4.

2007. december 3-6. között a Szent István Egyetem Gazdaság- és Társadalomtudományi Kara (SZIE GTK) által szervezett jubileumi rendezvénysorozat keretében került megrendezésre a Tradíció és Innováció – Nemzetközi Tudományos Konferencia, amelynek célja volt, hogy méltón megünnepelje a gödöllői agrárközgazdász képzés fél évszázada történet elindítását, s ugyanakkor a Gazdaság- és Társadalomtudományi Kar 1987-ben történt megalapításának 20. évfordulóját.

A Szent István Egyetem által kiadott Bulletin 2008 évi különszámában megjelentetett cikkek a konferencián 17 szekcióban elhangzott 143 előadásból, illetve a poszter szekcióban bemutatott 30 előadásból kerültek kiválasztásra. Az előadások jó áttekintést adtak a hazai és nemzetközi agrárközgazdaság, vidékfejlesztés, a fenntarthatóság és versenyképesség kérdései mellett az értékesítés, innováció, tudásmenedzsment, pénzügy fontosabb területeiről is. Az egyes szekciók elnöki tisztjét elismert hazai és külföldi kutatók töltötték be. A konferencia a Gazdaság- és Társadalomtudományi Karon az 1990-es években elkezdett konferencia sorozat méltó folytatása volt.

Dr. László Villányi
Dean / dékán

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HUNGARIAN LAND OWNERSHIP PATTERNS AND POSSIBLE FUTURE SOLUTIONS ACCORDING TO THE STAKEHOLDERS' VIEW

FEHÉR, ISTVÁN – MADARÁSZ, ISTVÁN

Abstract

Following the rent free land use by large-scale farms under the communist regime, it was hoped that the restoration of private ownership of land and land-auctions would revive the land market and that the market would establish real land prices and farm rents in Central and Eastern Europe. In the majority of the former socialist countries of Central Europe the primary land privatization method was restitution to pre-war owners. In Hungary, a mixture of (i) restitution, (ii) division of cooperatively farmed land among cooperatives' workers and the (iii) sale of land to individuals were applied in land privatization.

In lack of a well-functioning land market and realistic land prices (i.e. prices set by the marketable values of a given parcel), prohibition of land ownership by foreigners was a matter of political compromise and that of public opinion.

Our study was aimed at identifying key factors determining land ownership patterns with the ban on foreign land purchase in focus. After revealing the stakeholders' attitude to this prohibition through qualitative interviews, we draw our conclusions concentrating on possible and adequate solutions that are meant to satisfy both domestic and foreign stakeholders.

Keywords: change of property structure, lack of land market, stakeholders' attitude, survey

Introduction

The Hungarian agriculture has always been a politically charged issue, especially where land ownership and structure of farming are concerned. Ownership and land use went through dramatic changes in the second half of 20th century in terms of land policy. A major reason for continuous political involvement in land ownership issues might be that 64% of Hungarian land is suitable for agricultural activities.

Recent privatisation of land (1992-1996) started soon after the change of political system. Land compensation was closely related to and was associated with the generic privatisation of agriculture. Technically, land privatisation was the major articulation of the privatization in agriculture. Dominancy of state-owned land was terminated. Due to the introduction of Compensation Act in 1992, at least half of the country's total area was involved in the compensation process associated with the privatisation of land, cooperative farms, and the majority of state farms. Structure of land ownership and land use developed inadequately, large-scale plots were split to parts.

Hungary joined the European Union on 1st May 2004 (with 7+3 years derogation of land policy). Additional land ownership reforms will be required if the Hungarian agriculture is to efficiently compete with other EU nations and to benefit of expanded trade. Further efforts aimed at rural development and competitiveness of agriculture are also required. But a substantial change of land policy cannot be expected during the next seven years due to the derogation prohibiting foreigners and legal entities to acquire ownership of arable land in Hungary. Fine-tuning and adjustment of the current regime is more than nothing, but there is far more to do.

There are several structural problems generated by privatization: the high number of small farms, the unwillingness of farmers to form cooperatives, the separation of land ownership and land use, and the imbalance (and weak connection) between production and processing. Other problems are of financial matters, such as the lack of capital in agriculture, the low level of investments and obsolete machinery. The high level of average age and the low level of education among agricultural workers (farmers included) are also weaknesses.

Most agricultural experts are well aware of and several publications revealed the incomplete steps in the process of structural change and for the first time, Hungary has a good chance to solve these problems with the help of the expected influx of EU – funds between 2007 and 2013. A re-consideration of land policy can also be of major importance in this respect.

Methodology

This article is related to an extended land market research project we conducted lately. Data collection and analysis methods are alike. Our main tool was qualitative interviews based on a questionnaire and analyzed by SPSS.

Analysis of the official resources showed the lack of updated data on the Hungarian land market. We made a significant effort to collect the latest information. The relevant part of the questionnaire is in Annex I. The questionnaires were distributed by the help of the two farmers' organizations and the "village advisors" of the Ministry of Agriculture and Rural Development. Some advisory organizations were involved also in the gathering of questionnaires. After three months work, 438 usable questionnaires were returned from the seven main Hungarian regions and data was entered into SPSS, the statistical analysis software package.

The Chi-Square Test we used for the processing of the questionnaires is described below.

Chi-Square Test

We used it for hypothesis test of independence between types of farms and Agreement on the prohibition on the acquisition of ownership over agricultural and forest land by foreign physical persons.

The P value, or calculated probability, is the estimated probability of rejecting the nil hypothesis (H_0) of a study question when that hypothesis is true. Most authors refer to statistically significant as $P < 0.05$ and statistically highly significant as $P < 0.01$. In this case the fact that the Pearson chi-square value under "Asymp. Sig" is 0.000 and less than 0.01, statistically highly significant association was found between Types of farms and Agreement on the prohibition the acquisition of ownership over agricultural and forest land by foreign physical person.

The Contingency coefficient was used to determine strength of the relationship between two variables. A measure of association based on chi-square. The value ranges between 0 and 1, with 0 indicating no association between the row and the column variables, and values close to 1 indicating a high degree of association between the variables. The maximum value possible depends on the number of rows and columns in a table. The calculated coefficient shows weak but significant correlation between the assessed variables.

Results

Land use

Privatisation in agriculture generated wide range of diversity in legal status, size and ownership of agricultural holdings. There are nearly 1 million private holdings with the average size of 4,5 ha. Small holders – private farmers – cultivate 47 % of the total agricultural area, medium and large scale corporate farms (companies and co-operative farms) share 40 % of cultivation (Table 1).

Table 1 – Distribution of land use by type of agricultural holdings, 1996-2002 (1000 ha)

Type of agricultural holding	1996	1997	1998	1999	2000	2001	2002	1996 (%)	2002 (%)
Companies	2615	2538	2410	2620	2560	2785	3040	28,11	32,68
Co-operatives	2010	1825	1671	1495	1230	855	638	21,61	6,86
Individual farmers	4192	4627	4745	4689	3983	4196	4339	45,06	46,64
Other	486	493	477	499	1530	1467	1286	5,22	13,82
Total area	9303	9303	9303	9303	9303	9303	9303	100,00	100,00

Source: KSH, FVM, 2002

A large number of individual farmers do not have enough land to perform a profitable and sustainable farming, as a result of imbalanced land use of agricultural holdings by size. Owners of small parcels are leaving the business. Their land is leased out, or is offered for sale on the market or for the National Land Fund.

Land ownership structure

For the operation of the market economy it was necessary to hand over the land, and in particular the agricultural land, into private property. Today, 83.1% of agricultural area is in the ownership of private persons. The share of private individuals in sowing area is much smaller (72.3%) due to the large share of state property of forests.

Between 2000 and 2004 the concentration of land in the property of private individuals was of 7.6%, and the average area of the property increased from 2.6 to 2.8 hectares. The average size of land in the property of legal entities decreased by about 13%; in 2004 it hardly reached 4.3 hectares. Between 2000 and 2004 the shares in cooperatives – which anyhow had only a small share – decreased to one tenth. This is partly the consequence of the transformation of the cooperatives into economic organisations, of closing down the joint management and the handover of the areas into private ownership (Tóth, 2004).

In the two years following the Accession no significant changes could be seen in the structure of land ownership; the share of private property and the concentration of this property seems to decrease slightly (Table 2). The property share of private individuals decreased by only 0.3% to 86.9% (3936.2 thousand hectares); in the case of legal entities the share of the area of corporations decreased by 0.1% to 2.8% (127.7 thousand hectares) during two years (to 2006). The share of cooperative property in arable land decreased to 0.7% (by 41.7%) (29.5 thousand hectares), while the share of state property increased by 0.9% to 8.7% (395.2 thousand ha).

The changes were caused by the land purchase contracts of private persons, who are members of cooperatives or have shares in corporations. The reasons of state land purchases are (i) the Life Rent Program and (ii) the bids of individuals to the State to purchase their land since they no longer could satisfy the obligation to cultivate the arable land one owns.

Table 2 – Land ownership structure in rural areas in accordance with land registration

Property	Arable land	Agr. area	Sowing area	Total area	Properties	
					No.	Av. area, ha
Area by the type of property in 2004 (ha)						
Property of natural persons	3971229	4818530	5544048	5622428	2006326	2,80
Property of legal entities, total	584314	968712	2105907	2800990	653039	4,29
- area in state property	354421	615276	1674220	2090789	197925	10,56
- area in cooperative property	55926	105270	127975	189064	124266	1,52
- area of corporations	131479	177234	217126	312037	76560	4,08
- other (local govt., federations, church)	42488	70932	86586	209100	254288	0,82
Total	4555543	5787242	7649955	8423418	2659365	3,17
Area by the type of property in 2006 (ha)						
Property of natural persons	3936153	4784637	5523641	5605222	2013859	2,78
Property of legal entities, total	593786	974040	2121211	2814090	651034	4,32
- area in state property	395225	676288	1749661	2165053	209268	10,35
- area in cooperative property	29505	57333	73999	117217	84423	1,39
- area of corporations	127353	169847	211048	307448	77758	3,95
- other (local govt., federations, church)	41703	70572	86503	224372	279585	0,8
Total	4529939	5758677	7644852	8419312	2675693	3,15
Area by the share of the various properties in 2004 (%)						
Property of natural persons	87.2	83.3	72.5	66.7	75.4	88.3
Property of legal entities, total	12.8	16.7	27.5	33.3	24.6	135.3
- area in state property	7.8	10.6	21.9	24.8	7.4	333.1
- area in cooperative property	1.2	1.8	1.7	2.2	4.7	47.9
- area of corporations	2.9	3.1	2.8	3.7	2.9	128.7
- other (local govt., federations, church)	0.9	1.2	1.1	2.5	9.6	25.9
Total	100	100	100	100	100	100
Area by the share of the various properties in 2006 (%)						
Property of natural persons	86.9	83.1	72.3	66.6	75.3	88.3
Property of legal entities, total	13.1	16.9	27.7	33.4	24.3	137.1
- area in state property	8.7	11.7	22.9	25.7	7.8	328.6
- area in cooperative property	0.7	1.0	1.0	1.4	3.2	44.1
- area of corporations	2.8	2.9	2.8	3.7	2.9	125.4
- other (local govt., federations, church)	0.9	1.2	1.1	2.7	10.4	25.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: National summaries by the districts of administration and by locations. 1 Jan. 2004, 2006, FVM FÖMI, Budapest, 2000, 2004, 2006

The area proportions of the various property titles and the tendencies of the changes discussed above probably will not change significantly in mid-term. Private property remains to dominate in the future. A significant change can only be expected following the termination of the land purchase moratorium, allowing the land purchase by foreign citizens and legal entities.

Among the types of properties we have to mention the so-called undivided (joint) property¹. A characteristic problem of this type of property is not only the scattered locations but also the establishment of “property communities” – a total area of 1.5 million hectares – leaving the property in one parcel due to the fragmented ownership stake. The property communities use these areas as joint tenancies.

¹ Similar to “common land” established in the English legal system.

The land ownership structure is characterized by over-fragmentation. Lessening this is limited by the property communities developed under compulsion which had a restraining effect on the otherwise actively functioning land market (Tóth, 2004). The majority of land owners in Hungary have very loose or totally lacking connection with the agriculture, therefore they lease their land.

Land rental patterns

Hungarian data on farmland rental is inconsistent. Based on data generated from the Hungarian section of FADN, the agricultural companies rent two thirds of the agricultural land in average. This proportion is inverse in the case of private farms, two thirds of their agricultural land is their own property and they rent only one third of their agricultural land (Table 3). The proportion of rented land by private farms is increasing. It increased by almost 3,5 % between 2001 and 2005. The activity of common agricultural ventures is predominantly based on land rental (97 to 98%). The proportion of land use ex gratia has fundamentally decreased by 8,4%.

Table 3 – Proportion of leased agricultural land in FADN farms (%)

Denomination	2001	2002	2003	2004	2005
Total of the farms					
Owned	33,06	33,78	34,41	33,07	33,34
Leased	66,94	66,22	65,59	66,93	66,66
From that leased without payment	18,28	15,14	10,68	10,77	8,36
Individual farms					
Owned	66,94	67,59	65,23	62,64	63,58
Leased	33,06	32,41	34,77	37,36	36,42
From that leased without payment	46,56	37,64	27,08	31,07	23,91
Corporations					
Owned (%)	2,07	2,21	1,87	1,36	1,61
Leased(%)	97,93	97,79	98,13	98,64	98,39
From that leased without payment	9,55	19,83	4,54	2,53	2,32

Source: FADN system, 2006

Based upon the characteristics of farms discovered through interviews (Kapronczai, 2005) lease is the determinant amongst land rental titles. Lease ensures 84% of rented land of private farms and 98% of that of common agricultural ventures (Table 4). Ex gratia land use is also popular in some regions of the country, mainly in Central Hungary, on the Northern Great Plain and in Southern Transdanubian regions.

Table 4 – Proportion of the leased land surfaces according to the main of type of use (%)

Denomination	Individual farms	Corporations
Leasehold	84,0	98,2
Leasing without payment	12,7	0,2
Disengaged, unsettled	2,2	0,4
Other	1,1	1,2
Total types	100,0	100,0

Source: Kapronczai István (et al.) (2005): A mezőgazdasági termelők alkalmazkodóképességének jellemzői (Characteristics of adaptability of agricultural producers), AKI, Budapest, p. 30.

The opinion of stakeholders on the ban of land purchase by foreigners

An analysis on farmer's opinion concerning the ban on foreign land ownership revealed that less than 8% did not agree with the prohibition of foreigners. The opinion of corporate farms on foreign purchase of land was more positive than that of individual ones. These results clearly reflect the general public opinion towards the liberalization of the land market. Today,

in Hungary, it seems that there is no political acceptance of foreign land ownership. The majority of inhabitants are not ready to accept without restrictions that any foreigner could own agricultural land. Arguments against foreign ownership seemed to be based more on emotion and spirituality than on economic reasoning.

Table 5 shows the two types of farms in detailed figures, while table 6 shows regional patterns in opinion.

Table 5 – The attitude of individual and corporate farms on the ban of land purchase by foreigners

		Agreement prohibition by foreign					
		Not agree		Agree		Total	
		Number	%	Number	%	Number	%
Types of farms	individual farms	14	4,6	289	95,4	303	100,0
	corporate farms	19	14,5	112	85,5	131	100,0
	Total	33	7,6	401	92,4	434	100,0

Own calculations

Statistically, it is significant that more private farmers agreed strongly with the prohibition than the representatives of the companies and cooperatives, namely 95,4% for the private farms and 85,5% for the companies. There is not any significant difference among regions.

The interviewed persons used the following typical arguments about the prohibition on the acquisition of ownership of foreigners.

After the question number 21 "Do you agree with the ban on acquisition of land by foreigners?" in the Question number 22 we put the question to respondents (Q. 22.) "Would you prolong the ban?"

If yes, why?

If no, why?

Summarized in the following lists, the main arguments mentioned by respondents to the questions are listed.

Private entrepreneurs – Agree (i.e. those who opted to prolong the ban on foreigners' land purchase based on the arguments below)

- Hungarian farmers are less competitive than foreigners.
- Supporting prolongation due to the threat that the total land area might be owned by foreigners.
- The interest of Hungarian farmers should be prioritized.
- Foreigners do not respect the rules of and regulations on farming.
- Land should remain the property of Hungarian citizens and part of the national wealth.
- The ban has good effects on employment
- Hungarian farmers cannot compete with foreigners, and if foreigners buy land, they do not sell it, or only on a much higher price than they had purchased it.
- Hungarian citizens should be motivated to farm Hungarian land.
- Effective demand for land exists in Hungary.
- Shortage of capital, lack of competitiveness.

- Land prices are five times higher in Austria, than in Hungary.
- Farms should reach the level of EU 15 average; in this case they become competitive on the land market. Foreign land ownership forces prices up.
- There should be sufficient amount of land available for Hungarian farmers.

Table 6 – The results of the analysis by regions show, there is no great difference among the regions

	Agreement prohibition by foreign persons						
		Not agree		Agree		Total	
		Number	%	Number	%	Number	%
Region	Central Hungary	1	11,1	8	88,9	9	100,0
	Central Transdanubia	6	9,0	61	91,0	67	100,0
	West Transdanubia	2	3,0	65	97,0	67	100,0
	South Transdanubia	4	12,1	29	87,9	33	100,0
	North Hungary	1	6,7	14	93,3	15	100,0
	Northern Great Plain	10	8,1	113	91,9	123	100,0
	Southern Great Plain	8	7,3	102	92,7	110	100,0
	Total	32	7,5	392	92,5	424	100,0

Own calculations

Private entrepreneurs – *Disagree* (i.e. those who opted to terminate the ban on foreigners' land purchase based on the arguments below)

- Capital inflow. Transfer of knowledge. Opportunity of setting up appropriate, profitable joint businesses.
- Foreigners should consider land as an investment, and not a subject of speculation, so they should cultivate the land they own and carry on production
- The prolongation of the ban would make it more difficult to sell land for a reasonable price.
- Obligatory cultivation, agricultural utilization.
- Land is not taken away, while capital can be invested in the agriculture.

Corporate farms – *Agree* (i.e. those who opted to prolong the ban on foreigners' land purchase based on the arguments below)

- The ban is necessary for the better standard of living in the countryside.
- Mainly Hungarian farmers should be provided the opportunity of land acquisition.
- Hungarian farmers are short of capital.
- Foreigners are better capitalized.
- Hungarian farmers could gain strength in order to compete with each other (and not with well-capitalized foreigners) in developing the optimal economic size.
- The ban is ineffective, since foreigners can find loopholes to buy land.
- Lack of equal opportunities.
- Hungarian land tenures are unsettled.
- People in the countryside make their living out of agriculture.
- Why could foreigners buy land, if Hungarian joint ventures are not allowed to do so?

- The income position of Hungarian farmers is not the same as that of the foreigners.
- Elderly farmers intend to sell their land to foreigners in the hope of receiving more money.
- Foreigners are better capitalized, thus they squeeze out Hungarian farmers.
- Farmers cannot afford further increase in prices.
- Hungarian land tenures are not appropriate.
- Hungarian capital for buying land is not enough.
- Hungarian farmers are short of capital. Foreign speculative funds should be prevented from entering Hungarian land market. Hungarians should be the owners of and not servants on their own lands.

Corporate farms – *Disagree*: (i.e. those who opted to terminate the ban on foreigners' land purchase based on the arguments below)

- The owner should live his everyday life on the farm, or at least within the administrative borders of the settlement (from a taxation point of view).
- The ban contradicts the principle of free movement of capital and the freedom of enterprise.
- Cultivation, permanent usage.
- Foreign capital fosters the development of a healthy market structure.
- Local residence and profitable agribusinesses are both important.
- Foreign capital can be beneficial for the given region.
- While using proven methods of Member States, the nature of land turnover can be bustled and more realistic prices can be formed.
- Foreigners can find way to buy land despite the ban.
- We should adopt EU land prices (HUF 2-12 Million/ha).

Conclusions

Land policy has focused on preventing foreign ownership of arable land and providing chance to land users – tenants, farmers – and local people to continue their farming and acquire further land ownership. Pre-emptive rights of purchasing and leasing land were introduced to improve land ownership and land use, helping rural population to strengthen the rural economy.

Further consolidation of land ownership and land use are expected in medium terms. Further progress can be achieved on long term basis, when relevant regulations of general land consolidation will be improved within the frame of Land Consolidation Strategy.

Development of land market will be in progress as the results of medium and long term achievements in the progress of land consolidation.

Structure of land ownership and land use will be improved, slowly geared by the land consolidation in medium term. Significant changes will be experienced on long term basis probably, after the derogation period of time and the introduction of decoupling of the EU subsidies.

Major changes are expected in land policy, when derogation period of time passes and Hungarian land market will be open for foreigners as well.

Hungarian land policy is basically adapted to the current situation, further development of land market can lead to a land policy better suited to circumstances within the EU.

Land use and land ownership developed in various ways after the privatisation of Hungarian agriculture; small scale agricultural holdings need to be consolidated, while medium and large scale farming enterprises use land mostly in consolidated circumstances.

Voluntary, spontaneous land consolidation can provide some local results, state-involvement has to promote and facilitate nation-wide, comprehensive consolidation.

Legal and financial frameworks has to be improved and National Land Fund should be prepared for being active in land consolidation to initiate and provide capacities (land assets)

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