

AGRICULTURAL LAND MARKETS IN POLAND – PROSPECTS AND CHALLENGES

Dr. Andrzej Zadura, Poland

1. General Remarks.

Polish agriculture plays an important role in the country. From total number of 38.6 million Polish inhabitants 14.8 million (38.3%) live in rural areas and 2.7 million i.e. 19% of total labour force is working in agriculture, hunting and forestry. The share of agriculture (incl. forestry and hunting) in GDP accounted for 2.6 %. The agricultural land is equal 16.9 million hectares (ha) and arable land composes a majority share (77%) of that land. Good and very good soils (classes I-III) accounted for 26% of arable land, average (class IV) 40% whereas the share of poor and very weak soils (classes V-VI) is 34%.

Poland has a high position in the world with regard to production of potatoes, rye, apples, currants, strawberries, raspberries, cabbage, carrots, rape and ranks among the 15 biggest world producers of meat, milk and hen eggs.

2. Private Land Market.

2.1. Sale of Land.

The major part (88%) of total agricultural land in Poland is used by nearly 2 million private, family farms. The average total area of private farm is 8.3 ha, including 7.4 ha of agricultural land. Since 1990 the decrease in a number of farms has accelerated with tendency towards their “polarisation”. It was reflected in the growing share of farms with smallest area group (1.01-1.99 ha) and the largest one (15 ha and more). The increase in the share of larger farms has been explained by lack of limitation in land turnover (up to the middle of 2003). Liquidation of job places in non-agricultural sectors of national economy was a factor creating small farms through fragmentation of bigger ones.

The total area of deals concerning the sale/purchase of agricultural land with participation of private farmers is estimated at 300-350 thousand ha per annum and transactions “farmer to farmer” constitute 80% of all sale/purchase contracts. The private market, after some years of stagnation, demonstrates the rising number of deals. It resulted from increase in sale of land in relation; farmer to farmer and higher prices of land recorded in transactions concluded among the farmers. That tendency became with the moment of Poland’s EU accession (table 1).

Table 1. Private Market. Prices of Land.

| Year | PLN per 1 ha of arable land |
|------|--------------------------------|
| 1992 | 1220 |
| 1995 | 2421 |
| 1998 | 4379 |

| | |
|------|------|
| 2001 | 5197 |
| 2004 | 6755 |

Sources: Statistical Yearbooks of the Republic of Poland,
Statistical Yearbooks of Polish Agriculture,
1992-2004.

2.2. Private Market. Lease of Land.

In comparison to the “old” EU countries the scope of “farmer to farmer” land leasing in Poland is insignificant. Individual farmers usually lease small pieces of land (3 ha on the average) on the basis of short-term contracts (3-5 years). According to the investigations held by Research Institute for Agriculture and Food Economy, the payment of land tax (or neighbour’s aid) is the basis for a half of those contracts. Further one-fourth of leaseholders paid the rent in amount of 200 PLN per 1 hectare and the remaining from 200 to 500 PLN per 1 ha. About 2% of farmers operated exclusively on leased land and 14% on own and partly leased property.

3. State Market.

3.1 Sale of Land.

After II WW the state sector occupied about 25% of agricultural land. Following legislative work initiated by the government, the parliament adopted on October 19, 1991 the *Act on Management of Agricultural Property of the State Treasury*. The Act entrusted restructuring and privatisation of state agriculture to Agricultural Property Agency of the State Treasury (presently named Agricultural Property Agency – APA). The property entrusted to the Agency forms Agricultural Property Stock of the State Treasury (hereinafter called APS). Almost 80% of APS land comes from liquidated state farms. Since the beginning of APA activity up the end of 2004 APA sold 1479 thousand ha of land. The most important factor deciding about the prices of APS land is its location and quality of soil. The prices of state land were relatively stable over years and always lower than prices on private market (table 2).

Table 2. State Market. Prices of Land.

| Year | PLN per 1 ha of agricultural land |
|------|--------------------------------------|
| 1992 | 500 |
| 1995 | 1491 |
| 1998 | 3048 |
| 2001 | 3414 |
| 2004 | 4682 |

Sources: Reports on the Performances of Agricultural Property Agency
of the State Treasury and Agricultural Property Agency, 1992-2004.

3.2 State Market. Lease of Land.

The lease has become a convenient method of the state land use. At the end of 2004, APA leased 2311 thousand ha of land. The object of lease is land with planted perennials as other inseparable components of the property. The leaseholder is obliged to buy existing working assets and movable such as: machines, livestock, inventories, production in progress. The annual leasehold rent can be expressed in cash or cash equivalent of wheat value. The rent determined in cash is subject of valorisation on the basis of indexes reflecting the changes in purchasing prices of basic agricultural products (table 3).

Table 3. State Market. Leasehold Rent.

| Year | Kilograms of wheat per 1 ha of agricultural land |
|------|---|
| 1992 | n.a. |
| 1995 | 200 |
| 1998 | 200 |
| 2001 | 180 |
| 2004 | 350 |

Sources: Reports on the Performances of Agricultural Property Agency of the State Treasury and Agricultural Property Agency, 1992-2004.

APA leases the property following public open tenders or arranges restricted tenders for specific groups of bidders such as farmers, former workers of state farms, members of liquidated land co-operatives, repatriates and persons participating in APA settlement program. The standard lease contract is concluded for 10 years with the option of prolongation for longer period (maximum up to 30 years). The initial leasehold rent is determined by the quality of soil, its location and regional demand for agricultural land. The land of class VI (the lowest quality) is exempted from leasehold rent. The leaseholder can apply for extension of lease contract for further period on new terms agreed with APA (without tender).

4. APA and Private Farming.

APA can sell APS property when, as a result of transaction, the total area of agricultural land being in potential purchaser's possession is not over 500 ha. APA has also the re-purchase right its earlier disposed property within 5 years, counting from the day of transaction. The most APA contracts (98%) are concluded for areas up to 100 ha. The former state real estates are mostly used for expanding the existing family farms. In that way in 1992-2003 more than 300 thousand privately managed farms increase their size (by 4.5 ha on the average) through purchase or lease the land from APS. The significant improvement of the farm structure is observed in the western and northern part of the country. It was possible due to availability of the land from former state farms concentrated in those regions. The real estates organised into larger units are also distributed through sale or lease. As a result of that, Poland has more than 5 thousand private farms with total area over 100 ha using more than two million ha of land (approx. 400 ha per contract).

4.1 State Control of Private Land Market.

Limitations in state land market started working in connection with the Act *on the Formation of Agricultural System* which came into force on July 16, 2003. On the basis of that Act the Agricultural Property Agency of the State Treasury has been transformed into Agricultural Property Agency (APA). The Act designates to APA the following tasks of state land policy:

- improvement of farm structure,
- resistance to excessive property concentration,
- assurance of agricultural activity on the farm by persons with proper qualification.

The Act defines the concept of individual farmer who is the owner or leaseholder of family farm (with size not over 300 ha), managing farm personally, having agricultural qualifications, residing in the commune in which, at least, one part of his/her property is situated. APA supervises the private land market applying the pre-emption right of land in the case of sale contracts or repurchase right in the case of other forms of ownership transfer (e.g.; donation, bringing into company). Since 16th of July 2003 up to the end of 2004, APA received 113 thousand of draft sale contracts for confirmation their consistence with mentioned rules. The average area of notified property was 1.6 ha and only 23% of contracts concerned properties with an area larger than 1 ha. So far, APA has bought 2000 ha of land valued of 10.5 million PLN. The scale of that intervention is not treated as satisfactory but it depends on the APA financial possibilities.

5. Support for Agricultural Land Market.

In cases justified by socio-economic reason, especially when a real estate is purchased in order to establish a new farm or expand an existing farm, and also when new jobs are provided the payment for APA can be made into instalment scheme. Also, the price of state real estate entered into the register of monuments can be reduced up to 50%. In the case of APA lease contract the working assets and movable can also be a subject of purchase on instalment payment scheme. APA also may not apply the interest for payment of amount due for the property sold on instalment payment scheme, not used at least one year prior contract conclusion and located on the territory of communes threatened by high structural unemployment. The leaseholder can also be exempted from leasehold rent for arable land for a period of up to 3 years if the land was idle at least one year prior the conclusion of contract. That support is fully covered from own APA resources.

The second institution giving its support for agricultural land markets is Agency for Modernisation and Restructuring of Agriculture (ARMA). ARMA financial assistance has a form of subsidies to the interest rate of loans for entitled borrowers on purchase of land as well as credit for farmers up to the age of 40 wanting to establish new farms or organise farms under APA settlement scheme. The difference between the interest paid by borrower and market rate is granted by state budget. ARMA co-operates with banks providing service for agricultural and food processing sectors which have their branches in almost every rural community.

6. Recommendations.

Agriculture and rural areas are very important for Polish social life and national economy. Poland has considerable resources of farmland which major part is used by individual farmers. In 1990-2003 Polish agriculture has been affected by substantial changes resulted from liberal land policy. Some issues in this respect were subject of fundamental transformations in state sector of agriculture.

The Polish land law is similar to the regulations in “old” EU countries but rules concerning privatisation of state sector are specific for Poland. The process of changes in Polish state agriculture is still accompanied by emotional discussion about goals, methods and effects of those changes. It is very probable that essence of future land policy will be shifting from the sphere of legal measures towards economic regulations with their importance for shaping private property in agriculture.

APA is not only operator of ownership changes in agriculture but financial supporter of structural changes in private farming. It seems to be very probably that APA activity in that matter, due to its restricted financial resources, will be replaced by banks and co-financed from EU funds.

It can be expected that further transformation of agricultural system in the country will be characterised by collapse of small farms accompanied by the growth of average size of farms. That had always been the case of countries joining the EU. Prices of agricultural land, after accession to EU, have increased but it is not expected that Poland would be able to repeat the growth of prices in some western countries (eg. Ireland). The prices of agricultural land can achieve the European level in longer period of time when Polish agriculture will have been fully included into CAP financial mechanism.

Some of land experts (mainly real estate agents) were the opinion that APA intervention on private land market would paralyse the land turnover, or would be a reason of irregularities. The execution of the *Act on Agricultural System* shows that black scenarios did not come true and the Act fulfils its role as the measure for improvement of farm structure.

References

- Zadura, A. (2004), *Annual Report 2003 on the Performance of the Agricultural Property Agency – Abridged Version*. Warsaw, June 2004.
- Zadura, A.(2004), *Lease and Sale of Agricultural Property (Procedural Framework)*. Warsaw, May 2004.
- Central Statistical Office (2003), *Statistical Yearbook of the Republic of Poland, Year LXIII*, Warsaw, 2003.
- Ministry of Agriculture and Rural Development, Agricultural Property Agency, the Research Institute of Agriculture and Food Economy (2004), *Agricultural Land Market – State and Perspectives*. Warsaw, September 2004.

Contact

Dr Andrzej Zadura
Agricultural Property Agency/ Agencja Nieruchomości Rolnych
00-215 Warszawa
ul. Dolańskiego 2
Poland
Tel. +48 22 860 65 45
Fax. +48 22 860 65 77
E-mail: azadura@anr.gov.pl
Web site: www.anr.gov.pl