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Working Paper
Market impacts of new land market regulations in Eastern EU Member States

EERI Research Paper Series, No. 02/2016

Provided in Cooperation with:
Economics and Econometrics Research Institute (EERI), Brussels

Suggested Citation: Ciaian, Pavel; Falkowski, Jan; Drabik, Dušan; Kancs, D'Artis (2016) : Market impacts of new land market regulations in Eastern EU Member States, EERI Research Paper Series, No. 02/2016, Economics and Econometrics Research Institute (EERI), Brussels

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Market Impacts of New Land Market Regulations in Eastern EU Member States

Pavel Ciaian, Jan Falkowski, Dušan Drabik and d'Artis Kancs
New regulations governing land sales in Central and Eastern Europe. Moving towards a limited-access order?

Pavel Ciaian, Jan Fałkowski, Dušan Drabik, and d’Artis Kancs

Abstract

In response to the expiration of the transitory restrictions imposed on agricultural land acquisitions by foreigners, governments in Central and Eastern Europe have introduced new rules governing land sales transactions. Given that direct restrictions on foreign investors would now be illegal under the EU treaties, the desire to preserve the status quo has resulted in limited access to land not only for foreign but also for some groups of domestic investors. In this paper, we analyze land market regulations adopted in Latvia, Poland, Romania, and Slovakia and we argue that these new regulations create particularized or non-inclusive institutions. Further, we argue that these new regulations will likely result in a reduced competition and thus impact land prices, sale transactions and access to land to farmers and foreigners. However, the market impacts are different across the four study countries due to the heterogeneity in the adopted new regulations. The new regulations are the most restrictive in Slovakia followed by Latvia and Poland and Romania. In Slovakia, Poland, and Latvia land prices are expected to decline, while the prices are expected to increase slightly due to the new regulations in Romania. The same holds for the foreigners’ access to land, whereas we expect the farmers’ access to land to boost in all four countries. Finally, land market transactions are projected to decrease in Slovakia, Poland, and Latvia and may slightly increase in Romania due to the new regulations.

1. Introduction

Upon joining the European Union (EU) in 2004 and 2007, New Member States (NMS) from Central and Eastern Europe\(^1\) were granted a possibility of introducing transitory restrictions on agricultural land acquisitions by foreign individuals and companies from EU Member States (European Commission 2014). These transitional measures were adopted to allow land markets to adjust gradually to competitive pressures from the single EU market. The primary reason for competitive pressures from Old Member States (OMS)\(^2\) was the existence of substantial differences in agricultural land prices between NMS and OMS (e.g., Swinnen et al. 2013).

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\(^1\) Throughout the text the term New Member States (NMS) refers to the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia (joined the EU in May 2004), as well as Bulgaria and Romania (joined in January 2007).

\(^2\) Old Member States (OMS) include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the UK.
These transitory measures expired in 2014 (in Poland in 2016). Subsequently, NMS governments introduced new regulations to govern national land markets. As we show in this paper, a common trend among many NMS was to preserve the status quo, that is, to maintain effective restrictions to the land acquisition by foreigners. As a consequence, the new regulations resulted in a non-level playing field, where the one group of land market participants with easier access to land transactions is favored at the expense of other groups.

The objective of the present study is to map the new land market regulations in selected NMS and analyze their potential impacts on farmland sales markets. In particular, we review the new land regulations in selected NMS and compare them with the regulations available in OMS. We analyze to what extent these regulations limit access to land resources and create potential barriers constraining the optimal allocation of resources and investigate the likely impact of the new land market regulations on land transactions and prices in selected NMS.

We argue that the new regulations governing land markets in NMS could be viewed as an example of what the institutional economics literature describes as a limited access order (North et al. 2009); non-inclusive institutions (Acemoglu and Robinson 2012), or particularized institutions (Ogilvie and Carus 2014). While each of these concepts has its distinctive features, they all put great emphasis on the fact that institutions can be classified according to their effect on the opportunities that individual agents/different social groups are given to participate in economic activities. This literature also seems to be unanimous in arguing that institutions encouraging the economic participation by large proportions of people are more favorable regarding stimulating economic performance than institutions providing privileges only to a relatively small subset of agents in the economy. This paper relates to the extensive literature studying the importance of land institutions for economic outcomes (e.g., Binswanger et al. 1995; Sokoloff and Engerman 2000; Deininger and Feder 2001; Banerjee and Iyer 2005; Vollrath 2007). These studies provide ample evidence that the way land markets are organized exerts a significant impact not only on the agricultural productivity but also, and more generally, on the economic development. An important channel through which this impact might be transmitted relates to land distribution and land inequality in particular. In this paper, we try to complement these contributions, by analyzing the likely impact of governmental restrictions imposed on land transactions. This is important, as state interventions in land markets may reduce the land inequality (e.g., Piet et al. 2012), suggesting that an additional mechanism transmitting the impact of land institutions on the agricultural performance is needed. In addition, while the existing literature is mostly
concerned with the historical analysis, our investigation focuses on institutional changes taking place now.

Our work also relates to studies analyzing the functioning of land markets in the EU. On the one hand, we refer to the literature focusing on existing land market regulations (e.g., Ciaian et al. 2010; Latruffe et al. 2013; Swinnen et al. 2014a,b). While these studies importantly improve our knowledge about the legislation governing land transaction in OMS and NMS before 2014, the new regulations introduced in NMS are much less discussed. On the other hand, our analysis is also related to studies concerning the phenomenon of the land grabbing (Kay et al. 2015; van der Ploeg et al. 2015). Interestingly, as argued in these studies, the process of an excessive land concentration associated with a detrimental impact on farming and local communities takes place not only in Africa or Latin America but also in Europe.\(^3\) The foreign land ownership is often mentioned as a key driver behind this phenomenon. In this context, our study tries to contribute to this literature by reviewing the existing evidence of the foreign land ownership in NMS and discussing potential consequences of measures undertaken to restrict foreign investors’ opportunities to invest in land.

In the present study, we analyze land market regulations adopted in Latvia, Poland, Romania, and Slovakia. These four case studies are representative of the whole region as they allow us to capture significant heterogeneities in regional and socio-economic contexts that can be observed across NMS. The countries under study cover various geographical locations ranging from the north, through the center, to the south of the EU. These four countries exhibit different levels of the economic development and thus potentially face a different demand for land from foreign and domestic non-agricultural investors. The structures of the agricultural sector and farmers’ lobby also differ in these countries due to a different legacy of the communist era. As a result, the four case studies under investigation allow to identify both similarities and differences in responses of NMS governments to the challenges related to the expiration of transitory measures which regulated their land sales markets after the accession to the EU in 2004/2007.

2. Foreign land ownership in NMS

While the four countries under study differ along various features characterizing their agricultural and farming sectors, they share surprisingly many commonalities as regards the foreign land ownership. First, in all four countries experts, politicians, and officials seem to

\(^3\) These phenomena have been also raised in numerous reports by various non-governmental organizations (e.g., TI 2013; Ecoruralis 2014) and a study requested by the European Parliament (EP 2015).
unanimously agree that land regulations aiming at restricting the foreign land ownership, which were in place during the transitory period after the EU accession, were not effective. As a result, the share of land owned by the foreign investors and farmers has increased in all four countries.

Second, in all four countries assessing how much land foreigners really own is difficult, if possible at all. In fact, what comes out of the official statistics is often very different from what is reported by unofficial sources. Specifically, according to the statistics that can be found in various research studies, media or reports prepared for/by non-governmental organizations, the share of foreign land ownership/control is much higher than reported by official sources. For example, in Poland these estimates range from 42 thousand hectares for the whole country (which is less than 1% of the total agricultural area), as reported by the Ministry of the Interior, to 400 thousand hectares in just one region (which accounts for almost 50% of the total agricultural area in this region) (TI 2013; SAO, 2014). Similarly, for Romania the estimates vary to a great extent and range between 1 to 4 million hectares (i.e., between 7% to 28% of the total agricultural area) (RL 2011; 2013; Ecoruralis, 2014; EP, 2015). The estimates for Slovakia range between 40 thousand hectares to 200 thousand hectares (i.e., between 2 to 10 % of the total agricultural area) (Aktualne 2013; Buday et al. 2013; Lazániová 2014; Pravda 2014; 2015). Finally, as regards Latvia, the available statistics seem to be comparably scattered and it is estimated that in 2014 roughly 185 to 370 thousands of hectares were controlled by foreign capital (i.e., 8% to 16% of the total agricultural area).

The discrepancies between the official and unofficial statistics could be explained, at least partly, by the fact that foreigners could bypass existing regulations by purchasing land through locally registered companies. This possibility exists because not all businesses have registered foreigners as de jure co-owners. Alternatively, the agricultural land could have been effectively taken over by foreigners through the use of a proxy (fake buyers), that is, farmers hired by foreigners to outbid other buyers and transfer the control of land to their patrons (TI 2013; EP 2015).

Third, in all four countries under study land prices increased considerably since accession to the EU. For example, over the period 2006-2014, the average price of the arable land increased from 700 EUR per ha to 2 300 EUR per ha in Latvia. In Poland, it was from

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4 This concerns the region Zachodniopomorskie, which borders with Germany.
2 400 EUR per ha to 7 700 EUR per ha in Poland. In Romania, the average price ranged from 1 200 EUR per ha to 4 000 EUR, and from 1 000 EUR per ha to 3 700 EUR per ha in Slovakia (IERiGŻ var vol.).

This increase notwithstanding, prices in NMS still remain significantly below the levels observed in OMS, which is the fourth similarity that can be observed. In fact, price differences between NMS and OMS were not eliminated over the transitory period and still persist (e.g., Swinnen et al. 2013). To illustrate this, notice that average land prices for the arable land in Germany in 2014 were 18 900 per ha, in Italy 20 000 EUR per ha, in Belgium 30 000 per ha, whereas in the Netherlands they amounted as much as 53 200 EUR per ha. The observed land price increase in the whole EU could be explained by a food price increase, a shift to land-based subsidy system in the EU, increasing urban pressures, and a general productivity growth (McCalla 2009; Ciaian and Kancs 2012; Michalek et al. 2014). Given this marked gap in land prices between NMS and OMS, in all countries under study there is a widespread belief that local farmers are not able to compete with investors from OMS in bidding for land. This is important as the majority of foreign owners in NMS are from OMS.

Finally, in all four countries it is observed that non-farming companies own some of the land owned by foreign investors. This observation is consistent with the argument advanced in the land grabbing literature (Kay et al. 2015, van der Ploeg et al. 2015).

3. New land market regulations

After the expiration of the transitory restrictions, land acquisitions in NMS should have become open to individuals and companies from any EU country. However, the reality is different. As a result of strong pressure coming mainly from farmer unions and often supported also by the general population, NMS introduced new restrictions on land sales transactions. Although, the new regulations do not target directly foreign investors (as this would be in breach of EU treaties), their introduction was motivated by fears of a potential increase in competition from foreign buyers. In effect, these regulations aimed at maintaining the general status quo established with transitory measures introduced at the time of the EU accession. While the regulations adopted in different NMS share some similarities, they vary

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5 These data for Poland refer to the private turnover. Prices in land transactions involving state-owned land were about 1150 EUR per ha and 6400 EUR per ha, respectively.
6 This average is for both Western Germany as well as Eastern Germany. However, in the former region prices are much higher than in the latter (about 28 000 EUR per ha vs. 12 200 EUR per ha).
7 It should be noted that prices in Finland and France are more comparable to prices in NMS. We get back to this issue further.
8 In response to the introduction of new regulations on land acquisition in NMS, the European Commission has initiated an infringement procedure under Article 258 of the EU Treaty as they restrict the free movement of capital (e.g., European Commission 2015a,b).
in the extent to which they favor domestic farmers vis-à-vis other subsets of domestic market participants or foreign investors. In this section, we describe the new land market regulations introduced in four NMS countries under study: Romania, Slovakia, Poland, and Latvia.

### 3.1. Romania

The key change introduced by the new regulation on land acquisitions adopted in 2014 as a response to the expiration of the transitional period (i.e. law no 17/2014) is granting the pre-emption right—that is, the opportunity to buy land before it is offered on the open market—to particular groups of potential buyers. Pre-emption right holders include co-owners, tenants, adjacent landowners, and the state of Romania (Table 1).  

A landowner intending to sell the agricultural land needs to request the local city hall to publish the sales offer. The request should include information on the seller, pre-emption right holders, and the land characteristics. The local authority has to display the sales offer at its premises and on its official website for 30 days. Further, the local authority is obliged to maintain the register of offers and to transmit the sales information to regional and central authorities, represented by the Ministry of Agriculture and Rural Development, that in turn maintain the regional/central register and publish offers on their websites for 15 days. Pre-emption right holders have 30 days from the date when the purchase offer is made public to express, in writing, their intention to acquire the agricultural land. If the land seller changes the offer within these 30 days, the whole procedure needs to be repeated from the beginning.

If a pre-emption right holder expresses his interest in buying an agricultural land and if the seller accepts the offer, the central or regional authority checks the legality of the transaction and emits an approval certificate that confirms the validity of the transaction and the purchase right of the pre-emption right holder. The central or regional authority also publishes the transaction approval certificate on its website. The regional authority emits certificates for land sales under 30 hectares, whereas the central authority emits certificates for transactions above 30 hectares. The transaction approval certificate is valid for six months from the date it is communicated to the seller. If pre-emption right holders do not express their intent to buy the offered land, the local authority issues a certificate that gives the seller freedom to offer the agricultural land on the open market.

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9 An eligible tenant needs to have a written and registered rental contract for the land offered for sale.
10 The order given in the text represents the order of priority each group has in the case of multiple intends of purchase.
11 The family relatives have priority before all the pre-emption right holders and are not subject to the new regulation; land transacted between family members does not need to follow the procedure established under the new regulation.
12 The seller has to sell the land to a pre-emptive right holder with the highest priority.
Additional conditions on sales transactions are imposed if the agricultural land is of an archaeological importance or if it is located at country’s borders. Then the land seller needs to obtain a permit from the Ministry of Culture or the Ministry of National Defense.

Violations of the pre-emption right or procedures and requirements entail the absolute nullity of the sales transaction of the agricultural land. This nullity also implies that any sale of the farmland at a price lower than the one mentioned in the initial sales offer or under more favorable terms is not recognized and makes the transaction legally not valid. Failure to follow these new regulations may trigger a fine between 11 111 and 22 222 EUR.13

3.2. Slovakia

The new land market regulation adopted in Slovakia in 2014 gives priority rights to buy the agricultural land to the certain groups of potential buyers, whereas other groups are legally excluded from the possibility of acquiring the agricultural land (Table 1) (Drabik and Rajčániová 2014; Lazikova and Bandlerova 2014; and Lazikova et al. 2014).

There are two groups of pre-emption right holders recognized by the new regulation. The first group includes family relatives, co-owners, and farmers; whereas farmers need to conduct their activity at least three years in the cadastral zone where the offered land is located. The second group includes farmers (individual farms, farm labor, or companies) with permanent residence (headquarters) in Slovakia of at least ten years, conducting an agricultural activity for at least three years. Further, the second group is distinguished by where the agricultural activity is carried out – farmers from a neighboring village have priority to farmers from other locations. Young farmers (under 40) are exempted from the requirement of conducting the agricultural activity for at least three years before the transaction. However, they cannot sell, donate, or rent out the land for three years from the date of purchase.

The seller is free to sell land to the first group of buyers; there are no special requirements that need to be fulfilled before the land can be sold to this type of buyers. However, if the seller intends to sell land to the second group of buyers, he is required to announce (free of charge) the offer for at least 15 days in an online registry of agricultural land offers administered by the Ministry of Agriculture (the Registry, for short) and on a public board in the village where the land is located. The announcement has to include information about the seller, land, price, and the date until when purchase offers can be submitted. Pre-emption right holders need to express their interest in writing within the period

13 RON 50 thousand and RON 100 thousand, at the exchange rate 4.5 RONs for one euro as of November 2016.
established in the offer. The regulation establishes that pre-emption rights (for both groups) expire six months from the end date the announcement is published in the Registry.

If none of the pre-emption right holders expresses their interest in acquiring the land, then the land can be sold to any buyer (not necessarily working in agriculture) from the European Union. However, the land can be sold only to individuals or companies with a permanent residence (or headquarters) in Slovakia of at least ten years but not earlier than six months since the end date the announcement was published in the Registry. This condition implies that individuals without a permanent residence in Slovakia cannot buy land in the country.

The validity of transactions is checked by district authorities where the land is located. The buyer is required to submit the documentation about the transaction and the local authority controls and issues a certificate confirming or rejecting the validity of the transaction within 30 days (60 days in exceptional situations) from the submission date.

3.3. Poland

Most recent changes in Poland were introduced in August 2015 (law no 1433/2015) – that is, just before the parliamentary elections in autumn 2015 - and in April 2016 (low no 585/2016) – that is, just before the expiration of transitory restrictions introduced upon joining the EU. There are many similarities, especially the pre-emption right, with regulations implemented in Romania and Slovakia.

In principle, new regulations specify that the agricultural land on parcels larger than 0.3 hectares can be bought only by an individual farmer. The total agricultural area owned by the land buyer (together with land being bought) cannot exceed 300 hectares. These regulations do not include situations when land is transacted between relatives or when land is purchased by the local government, the state, the Agricultural Property Agency (APA) acting on behalf of the state, the Church; or when the land transaction is the result of inheritance. Transactions with parties other than mentioned above (e.g., private companies) require the consent of the director of the APA. If the agricultural land was bought based on such consent, the buyer of land is obliged to run an agricultural farm which encompasses the transacted parcel(s) for the period of at least ten years (if a natural person bought it, he should run the farm personally). During this time, the land parcel cannot be sold or transferred to other individuals.

Whenever a plot of the agricultural land is going to be sold, the pre-emption right is with the tenant if the tenancy contract was written and was in place for at least three years and
if the farmland parcel for sale belongs to the tenant’s family farm.\textsuperscript{14} Afterward, the pre-emption right is with the APA. Those with a pre-emption right are notified of the offer by the notary who acts on behalf of the land seller. If not specified otherwise, the pre-emption right is valid for one month.

There are many exemptions to this pre-emption right, however. For example, it does not apply if the farmland parcel is bought by seller’s relatives if the land is purchased by the local government, or by the State Treasury. Similarly, the pre-emption right does not apply if the farmland parcel is bought by an individual farmer who would like to increase his farm within the limit up to 300 hectares and the land on offer is in the same or a neighboring municipality in which the land buyer lives.

Further, the new law specifies that, if the price of a land parcel grossly diverges from its market value, those with pre-emption right may within 14 days ask the local court to establish its price. Also, the new regulation also introduces the rule that rental contracts have to be written. Moreover, rental contracts for more than five years have to be concluded in the form of a notarial deed.

As regards land transactions administered by the state’s agency (APA), the new land market regulation specifies that the state-owned land can be only rented and not sold for the next five years. This rule does not include parcels of the agricultural land smaller than two hectares, land within the special economic zones or land which has been earlier intended for non-agricultural uses. Other exceptions need to be approved by the Minister of Agriculture and Rural Development. Further, the new regulation specifies that the APA should manage its land first of all with the aim to increase family farms.

Notwithstanding the moratorium on land sales of the state-owned land, the new regulations provide details on how the process of land sales should be organized. Information about land transactions offered by the APA should be available to everybody in a place where the parcel is located, in a local agricultural chamber, and in a local municipality council for 14 days before putting the agricultural land out to tender. If the price of the agricultural land for sale is higher than the equivalent of 10 thousand quintiles of rye, the information about the offer has to be announced in newspapers with at least of a voivodship scope. Importantly, sales by the APA may take place if the total agricultural area owned by the land buyer (together with a parcel being bought) would not be larger than 300 hectares and the total area bought from the APA by a given buyer at any time would not be greater than 300 hectares.

\textsuperscript{14} A family farm is defined as (i) a farm managed by an individual farmer and (ii) a farm whose total agricultural area is smaller than 300 hectares.
Priority to purchase land offered by the APA has/have (i) an agricultural cooperative which effectively holds the dominion of the land; (ii) tenants if the land tenancy lasts for at least three years; and (iii) those in charge of special economic zones. In addition, the APA may reserve that participation in tenders may be limited to a particular group of people (e.g., individual farmers wishing to increase their family farm if they live in the municipality where the land is offered or in a neighboring municipality, former employees of state-owned farms, or members of agricultural cooperatives which are put into liquidation). If the agricultural land was bought in such a closed tender, then the winner cannot sell the land for fifteen years\textsuperscript{15} and is obliged (if a natural person) to manage this land personally.

3.4. Latvia

In expectation of the termination of the previous restrictions on foreigners’ purchase of the agricultural land, Latvia adopted amendments to its law regulating agricultural land market – “Land Privatisation in Rural Areas” – on August 1, 2014 which changed the conditions of acquisition of the agricultural land in Latvia (Latvijas Republikas Likums 2014).

Under the new regulation, an individual (natural person) is entitled to acquire the agricultural land if he conforms to following criteria:

1) Performs an economic activity in Latvia and has registered it with the Latvian State Revenue Service (VID);

2) Has received direct payments under the Common Agricultural Policy (CAP) at least for a period of one year during last three years;\textsuperscript{16} or at least one third of his income from the economic activity during last three years has been derived from the agricultural production (this criterion entered into force on July 1, 2015); or has acquired agricultural education;

3) Has confirmed in writing that he will commence agricultural activities on the acquired land (either within a year, if the agricultural land benefited from single area payments under the CAP for the previous or the current year; or within three years if the application for single area payments have not been filed);

4) On the day of filing the request for acquisition of land has no tax debt (either in Latvia or the state of the permanent residence).

A legal company can acquire the agricultural land if it conforms to the above criteria 1, 3, and 4 as well as the following criteria:

\textsuperscript{15} This does not apply to transfers within close relatives. Further, it can be dispelled with a written consent issued by the APA.

\textsuperscript{16} The regulation requires that the land buyer has received single area payments under the EU Regulation No.73/2009 for at least one year during the last three-year period; or has received direct payments under the EU Regulation No. 1307/2013 as of 1 July 2015.
1) Has received single area payments under the CAP for at least one year during last three years\(^\text{17}\) or at least one-third of the company’s income during last three years has been derived from the agricultural production;

2) At least: (a) one of its owners or a permanent employee has professional education in agriculture or (b) one-third of the total income of at least one of the owners during previous three years is derived from agricultural activities;

3) Can confirm that all its beneficial owners are citizens of either Latvia, the EU, the European Economic Area, or the Swiss Confederation;

According to these amendments individual or company cannot acquire more than 2 thousand hectares of the agricultural land in total. It should also be noted that according to the new legislation, the local municipality (novada dome) can set a maximum amount of the agricultural land to be acquired by individual or entity which is less than the maximum amount stipulated by the national law.

To acquire the agricultural land, an application form together with documents evidencing: (1) the land transaction (a deed or agreement); and (2) the compliance with the above criteria, shall be filed in with the local municipality.

The new regulations also identify pre-emption rights on farmland. They include co-owners, the last tenant of the agricultural land that can prove that he has previously applied for single area payments for the land parcel put on sale. After co-owners and tenants, pre-emption rights are given to the Latvian Land Fund (Latvijas Zemes Fonds),\(^\text{18}\) which was established on July 1, 2015 to foster the use of land in the agricultural production by buying unused land parcels from landlords and selling or leasing them out to those who wish to use them for farming. Having pre-emption rights, the Latvian Land Fund can buy any unencumbered farmland for a price that does not exceed the average market price of farmland in the given region and county.

Since July 2015, when the Latvian Land Fund signed first agreements on farmland purchases, the Latvian Land Fund has bought a total of more than 100 land parcels covering 1855 hectares for 4.2 million EUR.\(^\text{19}\) Further, the Land Fund not only buys farmland but also leases it out to farmers who wish to use the agricultural land in farming. By February 2016, lease agreements for more than thousand hectares of land have been signed. Although the Land Fund owns less than 1 percent of the total agricultural area in Latvia, it has to be

\(^{17}\) Similar to individuals (natural persons), under the EU Regulation No.73/2009 for at least a year during the last three-year period; or under the EU Regulation No. 1307/2013 as of July 1, 2015.

\(^{18}\) http://www.altum.lv/zemesfonds

\(^{19}\) https://www.agriinvestor.com/latvian-land-fund/
recognized that the Fund has been operational for slightly more than a year, and its farmland ownership is increasing rapidly. In addition, currently it is acquiring land mainly in regions with the most productive farmland (e.g., Zemgale).

In economic terms, pre-emption rights (after co-owners and current tenants) given to the Latvian Land Fund, imply that the Latvian State can indirectly control which land is being sold on the market by taking into consideration potential buyers.

### 3.5. New land market regulations in the EU context

Regulations of land markets imposing (sometimes severe) restrictions on sales transactions are not unique to NMS. There is a great diversity of land market regulations in the EU, ranging from implementing a heavy intervention to a liberal approach in land markets. Swinnen et al. (2014a) provide an overview of land market regulations in the EU. According to their land regulation indicators, countries with strongest land market interventions include France and Hungary. These two countries regulate both sales and rental markets. At the other end of the spectrum are countries with least regulated land markets, including Sweden, Germany, Finland, the UK, Greece, and Ireland. These countries have minimal interventions in both sales and rental markets. Finally, several countries, such as Belgium, Italy, the Netherlands, Portugal, and Slovenia, implement a moderate level of regulations in land markets. These countries usually regulate one side of the land market: either the sales or the rental market. For example, in Belgium, where about 70 percent of the agricultural land is rented, most regulations are in the rental market. Another example is Poland, where most of the land is farm-owned and the sales market is more regulated. The regulations support family farms that operate on own land (Ciaian, Kancs, and Swinnen 2010; Swinnen, Van Herck, and Vranken 2014a, 2014b). Table 2 summarizes land markets in different EU countries following Swinnen, Van Herck, and Vranken (2014a). They classify land regulations into four categories: (i) measures to protect the tenant; (ii) measures to protect the small owner-cultivator; (iii) measures to protect the (non-farm) landowner; and (iv) measures to prevent the land fragmentation.

If we compare the recent regulations introduced in Slovakia, Romania, Poland, or Latvia, such measures are not new, and one can find them also in OMS. The most popular measure is the pre-emption rights granted to various market agents (e.g., tenants, neighboring farmers, co-owners). This type of measure is also the key change introduced by the new regulations in all four countries analyzed in this paper.

Compared to other EU countries – with the new regulations in place – Romania will remain as the country with the most liberal land market in the EU. Other EU countries
implement either approximately equal or stricter rules targeting land sales markets, rental markets or both.

On the other hand, the new regulation will make Slovakia one of the most protected land markets similar to France, where regional organizations (SAFERs) effectively control local land markets through their power to buy, sell, and rent out the agricultural land. They ensure that land is only owned by working farmers. The SAFERs can also affect the level of the farm restructuring and growth by requiring farmers to get authorization from them for the farm expansion (Latruffe et al., 2013). Similar measures to Slovakia are also in Austria where new owners of the agricultural land are required to have their residence relatively close to the land plot and have a proof of competence in the agricultural sector (through experience or education). In Hungary, there is a legal obligation for a new owner to ensure that the agricultural land is cultivated.

Poland and Latvia have moderately high land sales regulations, particularly if combined with pre-existing regulations. In Latvia, the new regulation requires a proof of competence in the agricultural sector (through experience or education) and buyers need to perform the agricultural production on the acquired land, while this is regulated by the pre-existing regulations in Poland. Additionally, the Latvian Land Fund may affect land markets through an active purchase and sale or rent of the agricultural land. In Poland a special privilege is granted to pre-emption right holders under the new regulation who can challenge the selling price asked by the seller in the court, if perceived too high, as well as transactions need to be approved by the Agricultural Property Agency.

4. Moving towards a limited access order?

As illustrated above, the new regulations have considerably changed the way in which land markets are organized. One important implication is that access to land for some groups of potential investors has become much more challenging. As such the new organization of land markets in the four countries under study share several important features of what the literature describes as limited access order. Limited access order defines the institutional organization of society that emerges as a cooperative behavior of different interest groups that control the violence and impose rules limiting access to resources that allow them to extract rents from the rest of population (North et al. 2009). The underlying concept behind the limited access order theory is that the dominant interest groups (elites)\textsuperscript{20}, that control violence,

\footnote{Following North et al. (2006) we define the elite as “a group of individuals pursuing a mix of common and individual goals through partially coordinated action”.

13
introduce rules that allow them to collectively extract rents in return for accepting (enforcing) non-violent social order.

In the context of the functioning of agricultural land markets, there are different competing interest groups (e.g. domestic *versus* foreign buyers; tenants *versus* landowners; farmers’ unions *versus* rest of society). All of them attempt to benefit from using this resource (e.g. status and place in the social hierarchy, farm subsidies). All these groups also possess, although to a different degree, control over some forms of violence (e.g. protests). In contrast to the general literature, here we imply that violence (e.g. protests) can be exercised by interest groups specific to land resource vis-a-vis the other societal (non-land related) groups and those with strongest relative power obtain privileged access to land.

Importantly, the theoretical analysis of van Besouw et al. (2015) shows that only a minor variation in the underlying characteristics of the socio-economic environment (e.g., productivity or the cost of conflict) may lead to substantial differences in the limited access order arrangements. This sensitivity seems to be consistent with the evidence presented earlier. More specifically, as the previous section showed, the land regulations observed in the countries under study, although designed with the same intention, exhibit a considerable variation as far as the adopted arrangements are concerned. This is also visible when one contrasts these regulations with those observed in (some countries of) the Western Europe. According to the existing literature, these differences can be explained, among others, by differences in the power between different interest groups combined with the external environment and pressures (e.g. globalization).

Swinnen (2002) and Swinnen et al. (2014b), show that the changes in land regulations and institutions in Europe were not necessarily efficiency-driven. Instead, – and in line with the limited access order theory – they largely reflected the relative power balance between different land market groups interested in capturing the highest rents possible, which is in line with the limited access order theory (de Janvry 1981; Baland and Platteau 1998; Swinnen 1999, 2002; Swinnen et al., 2014b). This finding is especially well illustrated for countries in Western Europe.

According to Swinnen (2002) and Swinnen et al. (2014b), land market regulations in Western Europe can largely be explained by the economic and political changes that took place in the late nineteenth and early twentieth century. In line with this view, the gradual shift of the political power from large and rich landlords to workers, small farmers and tenants

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21 This would largely depend on how easy they would find it to solve collective action problems (see e.g. Olson, 1965).
caused by the industrialization and democratization processes resulted in the adoption of regulations that gave tenants (landless workers and small farmers) more access to land either through the enhancement of tenancy regulations or supporting land purchases (e.g., Belgium, France, the Netherlands). Other countries, such as Ireland and Denmark, followed the second approach by introducing measures to help tenants to become the owners of land through government subsidies (stimulating the demand for land) or through increased land and inheritance taxes (stimulating the supply of land as it induced landlords to sell their estate).

As far as Eastern Europe is concerned, the existing land regulations are heavily affected by the communist regime in place before 1989 and the subsequent land reforms and the privatization process. As a result, in Eastern Europe, a power struggle between landlords and tenants, typical of Western Europe, did not exist. At the same time, the development of land markets took place in a highly globalized environment which created the demand for the protection of domestic farmers against foreign competition. The key land market regulation introduced in Eastern Europe was aiming at restricting foreigners’ access to land acquisitions. This regulation was introduced as a result of the accession of Eastern Europe to the EU and pressures coming from global markets which were expected to drive the competition for land from Western Europe and other developed countries where land was considerably more expensive.

That said, there were some important differences in motives for the introduction of the new land market regulations in the four studied countries. For example, land sales restrictions are especially relevant to Poland. Poland is a country with a rather strong political representation of small farm-owners. As a result, demands of this particular constituency had to be taken into account in various policy platforms. The latter, in some sense, had to respond to two issues. On the one hand, they had to support the sector by providing local producers with the time needed for the tedious process of land consolidation to take place. On the other hand, they had to support the sector by reducing the odds for distress sales of small-scale farmers to wealthy foreign investors. Taking these two forces together, the pressure for the introduction of the land sales market protection for domestic farms was particularly strong (Swinnen and Vrancken 2007; Macours and Swinnen 2002). A similar explanation tends to hold for Latvia, where small individual farms dominate the agricultural sector and where political pressures tend to support farms who operate on their land.

In Slovakia, the farming structure is dominated by corporate farms which rent more than 90 percent of the land they use. Typically, landowners are small or absent, and live in urban areas or are employed in non-agricultural activities. This situation makes corporate
farms vulnerable to an open competition on the land sales market (liberal land sales regulations) as they may lose access to land if the ownership structure would change (Ciaian and Swinnen 2006; Kancs and Ciaian 2010, 2012). The fragmented ownership structure in Slovakia favors incumbent corporate farms, as small landowners face high transaction costs of land sales market participation as well as they have a rather low bargaining power with respect to large corporate farms in negotiating the terms of their tenancy arrangements (Ciaian and Swinnen 2006). The liberalization of the land sales market may break-up the existing ownership structure and lead to a concentration of the land ownership, particularly if capital-endowed foreign investors would enter the land market. Such structural changes may reduce the bargaining power of incumbent corporate farms on the rental markets and lead to a loss of the land renting.

In Romania, small individual farms and large corporate farms coexist and small farmers own a significant share of the farmland they use. The political power distribution and conflicting interests between small individual farms and large corporate farms may have prevented the introduction of more stringent rules and thus may explain the adoption of a more liberal regulatory framework.

5. Conceptual analysis and expected outcomes of the new land market regulations

By creating a limited access to land, the new regulations importantly affect the distribution of rents linked to the land ownership. On the one hand, this concerns social privileges such as status and place in social hierarchy at the local level. Importantly, by limiting the land access, the current regulations may make the land inheritance an important determinant of the relative success at the farm level (compare with Loughrey et al., 2016). On the other hand, this concerns subsidies provided to farmers under the CAP. These subsidies, in turn, facilitate creating rents that benefit only a narrow interest of those with access to land.

The existing evidence on the functioning of similar regulations in OMS is very scarce. Piet et al. (2012) show, for example, that in France, a country with a heavy state intervention in land markets, restrictions on land transactions contributed to a reduced land inequality. Further, as reported above, land prices in France are among the lowest in the OMS and, in fact, close to those observed in NMS. Indeed, Latruffe et al. (2013) find that the intervention of public authority (i.e., SAFER) in agricultural land markets reduces land sales prices in Brittany (France).

While this evidence is interesting, it seems that there may be other potential consequences which restrictions on the access to land may bring about. In following sections, we focus on transaction costs that the new regulations create to market participants and alter
the overall land market transparency. We follow with the analysis of their potential market impacts with a more detailed focus on land price effects, distortions of land sales transactions, and on domestic farmers’ and foreigners’ access to land.

5.1. Transaction costs

The new land market regulations make land sales transactions more bureaucratic and time-consuming. In all four studied countries, indirectly, they also introduce restrictions to the foreign land acquisition. In sum, they generate additional direct and indirect transaction costs for land sales transfers not only to foreign but also domestic buyers.

The transaction costs include various direct costs (fees and various payments such as notary charges) incurred by the seller to prepare all the necessary documentation for the public announcement of the offer and to arrange the additional documentation that needs to accompany the sales contract. In all four studied countries, sellers are required to announce the offer in a designated public place/directly inform those with a pre-emption right. Further, the sales contract must be accompanied by various additional documents, which usually imply extra costs. For example, in Romania the new land market regulation requires the sales contract to be combined with a copy of the public offer certified by the local authority (in the case of an open market sale). Similarly, in Slovakia these documents include a certificate from a district authority proving the validity of the transaction if the agricultural land is sold to the second group of buyers.

Indirect costs to the land seller and buyer take the form of the opportunity costs of the time spent on arranging the whole procedure. These costs are specific to the land seller and buyer and depend on their characteristics (e.g., whether buyers have pre-emption rights, the size of the land market transaction). The land seller needs to spend the time to prepare the required documentation and to communicate with official authorities. Also, buyers are affected because they need, for example, to provide documents proving their status or they need to express their intent to buy in writing in the case of pre-emption right holders.

Further, potential buyers bear the cost associated with the uncertainty of completing the purchase transaction, because there are different types of potential buyers with a different priority (access right) and different waiting periods (up to 30 days in Romania and Poland and up to six months in Slovakia). The transaction uncertainty is the highest for individuals or companies without the pre-emption right because they need to wait the longest. The waiting time also implies opportunity costs of time to both sellers and buyers.

Note that the new land market regulations may induce transaction costs also for those individuals and companies that have pre-emption rights or are exempted from procedures
established by the new regulations. This possibility arises because they need to provide documentation proving that they belong to the exempted group. However, the transaction with this group of buyers tends to be associated with the lowest transaction costs, because this procedure is less demanding when selling land and buyers face the higher certainty of completing the purchase transaction.

The actual size of transaction costs will ultimately also be determined by the efficiency of public institutions in charge of the implementation of the new regulations. Public authorities need to put in place administrative structures that will implement and enforce the new land market regulations. This requirement holds for all local, regional, and central authorities. However, most burdens are imposed on local authorities, as they execute the new administrative procedures and directly communicate with the sellers and buyers. If the resources of public authorities are not supplemented, procedures may be prolonged and thus further increase transaction costs for land buyers and sellers.

5.2. Market transparency

Market transparency might be a problematic in the presence of an imperfect (costly) information available to market participants about the agricultural land transactions. In general, information about sales offers of the agricultural land is costly and often hardly accessible to external buyers. The evidence on rural land markets tends to suggest that residents have easier access to information because they are integrated into the local economic and social environment and have a better knowledge about potential sales offers or the land quality. As a result, agricultural land sales transactions tend to be localized at the village level (Deininger and Feder 2001; Johnson et al. 2008; Janssen et al. 2014).

The requirement to publicly announce sales offers is one of the key element of the new regulations which may contribute to a higher market transparency. The public availability of information increases access to land offers to all buyers. In particular, external buyers may benefit disproportionally more from greater access to information of sales transaction than local ones, as they face higher search and information costs. If more potential buyers obtain information about sales offers, it may lead to a higher competition on the land market.

However, the transparency effect of new regulations differs between the four study countries. The impact of the new regulations on the market transparency is expected to be greater in Romania and Latvia than in Slovakia or Poland. In Romania and Latvia, all offers need to be publicly announced. In Slovakia, offers are announced if the land is only sold to another type of buyers than the first group. In Poland, only offers from the state Agricultural
Property Agency need to be publically announced; there is no such a requirement for private transactions.

5.3. Market impacts of the new regulations

The above discussion indicates that the new regulations can have profound effects on land markets. Three channels can be distinguished by which the new regulations may impact land markets: (i) seller’s transaction costs, (ii) buyer’s transaction costs, and (iii) sales market transparency (e.g., lower search costs). The first channel is materialized through the cost of selling land. The second channel reduces access to the land market to buyers without pre-emption rights. The transparency effect reduces the information asymmetry among market participants and thus may imply a higher competition in land markets. In the following sections, we analyze the potential impacts of these channels on land prices, distortions on land sales transactions, and domestic farmers’ and foreigners’ access to land. We evaluate the impact of these variables in comparison to a counterfactual situation without the new regulations in place.

5.3.1. The impact of seller’s transaction costs

Transaction costs on the seller's side make land sales more expensive. Sellers need to incur additional costs (e.g., administrative costs, opportunity costs of time) induced by the new regulations when offering land for sale. Sellers will tend to ask higher prices to offset the increased costs or will restrict the land supply quantity if costs are perceived as too high. The expected impact of both effects is a higher pressure on the land demand, likely leading to higher land prices. However, the magnitude of the price effect depends on the size of the sellers’ transaction costs which may vary from country to country as well as between regions within a country, also depending on the ability of public authorities to put an effective implementation of the new regulations in place (Table 3).

Further, seller’s transaction costs cause distortions in land markets through reducing the number of land market exchanges relative to a situation without the new regulations (Table 3). More costly land transactions will deter buyers from land acquisitions because of higher prices or will reduce sellers’ participation in the land market due to heavier bureaucratic hurdles. The land market will diminish its function in facilitating the land reallocation toward higher productivity. Thinner and more expensive land sales transactions will likely inhibit the transfer of land from less to more productive land users. Instead, seller’s transaction costs may support the land renting as landowners may prefer disposing land on the rental market if the costs associated with land sales become too expensive and administratively too costly.
The increase in sellers’ transaction costs induced by the new regulations will impact farmers’ and foreigners’ access to land if transaction costs depend on the type of buyer, that is, if selling land to farmers or foreigners imply different transaction costs to sellers than if selling it to non-farmers or domestic buyers, respectively. As explained in previous sections, the administrative procedure is more demanding from the seller’s point of view only in Slovakia if the land buyer is not farmer. Non-farmers have to wait for a minimum period of six months to be able to bid for land which increases the seller’s opportunity costs of time and the uncertainty of completing the transaction. Hence, selling land to farmers (those registered in Slovakia) implies lower transaction costs to sellers, implying that farmers have better access to the land sales market.

In Romania, Poland, and Latvia the seller’s transaction costs to a large extent do not depend on whether the buyer is a farmer or non-farmer or whether it is foreign or domestic. All types of buyers appear to induce same transaction costs to sellers. As a result, the new regulations do not alter farmers and foreigners access to land if the impact of sellers’ transaction costs is taken into account. In these three countries, sellers may face only some uncertainty of completing transactions when selling land to non-farmers (domestic or foreign) because pre-emption right holders may exercise their right, implying that transaction cannot be certain even if pre-agreed before all legal procedures are completed. For this reason, sellers may prefer buyers with pre-emption right if the sales price is equal. Hence, the new regulations may cause a small impact of seller’s transaction costs on improving land access to farmers and decreasing the land access to non-farmers (domestic or foreign) (Table 3).

5.3.2. The impact of buyer’s transaction costs

The new regulations imply higher and more heterogeneous buyer’s transaction costs between different types of buyers. First, transaction costs on the buyers’ side lead to more expensive land acquisitions because buyers need to incur additional costs (e.g., administrative costs, opportunity costs of time) when bidding for land sales offers. Second, the new regulations generate asymmetric transaction costs between different types of buyers (i.e., between those with pre-emption rights and those without). Land purchase costs are higher to buyers without than with pre-emption rights. The land market participation of buyers without pre-emption rights may decrease, leading to a lower competition in land markets. Both effects will tend to exercise a downward pressure on land prices (Table 3). This result is the reverse of the impact discussed above for the sellers’ transaction costs.²²

²² This is a standard result of policy impact analysis: suppliers’ taxes lead to a decrease in supply, thereby increasing prices; while demand taxes decrease the demand, thereby decreasing prices, but increase overall costs.
Similar to sellers’ transaction costs, also buyers’ transaction costs lead to sales market transaction distortions. More costly land transactions will deter buyers from a land market participation. In particular, the market participation of buyers without pre-emption rights may be reduced because of heavier bureaucratic hurdles imposed on them. Moreover, some buyers are completely excluded (e.g., buyers without a permanent residence in Slovakia) from the market participation. These factors will likely reduce the dynamics and the number of land market transactions. More productive buyers willing to invest in agriculture may be deterred from the land market participation. Overall, the market ability to facilitate the relocation of land from less to more productive land users diminishes (Table 3).

Further, the new regulations will improve access to land to farmers and reduce the access to foreigners (Table 3). Farmers are preferred to non-farmers in the form of having pre-emption rights. Overall, this implies that the new regulations tend to improve the farmers’ access to the land ownership. This is more important in Slovakia followed by Latvia, and Poland, while the impact is expected to be minor in Romania. In Slovakia, buyers need to have competence (experience) in the agricultural sector to have pre-emption rights. In contrast, non-farming buyers need to wait for a minimum of six months to be eligible for a land acquisition which increases their opportunity costs of time and the uncertainty of completing the land sales transaction. Similarly, in Poland and Latvia the competence in the agricultural sector (through experience or education) is also required to have access to pre-emption rights. Further, in Latvia buyers need to perform agricultural production on the acquired land, while in Poland buyers with pre-emption rights can challenge the land price in court if perceived too high as well as transactions need to be approved by the Agricultural Property Agency if the buyer is not an individual farmer. In contrast to Slovakia, there is no waiting period in Poland and Latvia for non-farming landowners. The farmers’ access to land may also improve in Romania but not as much as in Slovakia, Poland, or Latvia. The protection of farmers through having pre-emption rights is significantly lower in Romania as there are no additional requirements such as competence. Non-farmers without pre-emption rights may face only the uncertainty of the transaction completion and some opportunity costs of time.

Regarding foreign buyers, they are almost completely excluded from accessing land in Slovakia because any land buyer is required to have a permanent residence in Slovakia for at least ten years. In Latvia and Poland, the negative impact on foreigners’ access to land is

These results do not hold in an open economy model since prices may be determined on the international markets. However, this matters less for our study since farm land is not traded in international markets.
much smaller than is Slovakia. In these two countries, access is not completely restricted; only certain additional requirements are imposed on foreigners (e.g., EU individuals not being an individual farmer in Poland need to get special permission, in Latvia individuals and companies cannot buy land if not registered within the State Revenue Service). In Romania foreigners’ access to land is not affected by the new regulation compared to domestic buyers; the new requirements are imposed equally on all type of buyers irrespective if they are domestic or foreign.

5.3.3. The impact of greater transparency

The expected impact of increased transparency is an increase in the competition in the land market coming from less-informed buyers which is projected to exercise an upward pressure on land prices. Greater information availability about land offers reduces buyers’ search costs and increases the land demand. These changes may be accompanied by an increase in the number of land sales transactions thus having the opposite effect compared to sellers’ and buyers’ transactions costs (Table 3).

The main beneficiaries of an improved transparency are expected to be mainly external buyers, including foreign ones. External buyers (including external farmers’ buyers) may benefit because usually they have more costly access to the local land market information. Local buyers are typically more aware of sales offers on the local market as they are integrated into the local social and economic environment and thus are expected to be affected less (or minimally). However, the overall impact will depend on overall market imperfections, that is, in the size of the actual information asymmetry between external buyers and local buyers. Note that also local buyers may benefit from a greater transparency if the information problem exists at the local level; for example, if markets are not well developed (e.g., non-existence of real estate agencies).

The largest impact of an improved market transparency is expected in Romania followed by Latvia, whereas in Poland and Slovakia likely the impact will be small. Contrary to the initial intent, the new regulation may facilitate foreigners’ access to land in Romania because it improves the transparency of land transactions. This effect will materialize if there are uninformed foreigners willing to offer a higher price than domestic buyers. All land sales offers are announced on a public web page in Romania. Although the primary aim is to inform the pre-emption right holders about the land offer, it also provides information for the rest of potential buyers. As explained above, the impact is particularly relevant in the presence of imperfect information in the land market when local sales offers are not known to external buyers (to those outside the village).
A similar effect is expected in Latvia because all offers are required to be published. However, because a buyers’ competence in agriculture is necessary, likely the transparency effect will minimally improve access to land to external non-farm buyers; only external farm buyers may benefit.

In Slovakia, the transparency effect will be minimal, given that foreigners without permanent residence are effectively excluded from land sales markets. Only those foreigners fulfilling this requirement may benefit from a greater transparency, which may increase their access to land. Further, sales offers done with buyers of group one are not required to be announced in the designated public place. In Poland, it is likely that also the transparency effect will be close to zero because private transactions are not required to be published; this concerns only public land sales.

5.3.4. Overall market impacts

Table 3 provides a summary of the expected effects of the new regulations compared to a situation without regulations. In Slovakia, Poland, and Latvia land prices are expected to decline, while the prices are expected to increase due to the new regulations slightly in Romania. The same holds for the foreigners’ access to land, whereas the farmers’ access to land is expected to increase in all four countries, though less so in Romania than in other countries. Finally, land market transactions are expected to decrease in Slovakia, Poland, and Latvia and may slightly increase in Romania due to the new regulations.

As indicated above, the effects in Slovakia are driven by a lower competition due to limited access to land for certain types of buyers. The non-farmers access to land is heavily restricted which reduces the competition on the land market. This effect will likely dominate the other two effects. In particular, the gain from a greater transparency will be low, given that the potential beneficiaries of this effect (external buyers) are restricted in accessing the land sales market, while foreigners are almost entirely excluded. Overall, it is likely that the new regulation will achieve its intended objective to reduce foreign buyers’ access to land in Slovakia. However, the collateral effect is greater distortions in land markets and land value loss (i.e., lower land price). The new regulation devalues the value of land, thus generating losses to landowners many of which are farmers or reside in rural areas.

Also in Poland and Latvia, potential land market effects are driven by a lower competition due to a hindered access to land for non-farming buyers. This effect is expected to dominate the other two effects. In contrast to Slovakia, foreigners are not entirely excluded from the land market; their access is only hampered. Hence, some impacts of greater competition from a higher transparency might be materialized in Latvia. Overall, the new
regulations likely will partially achieve their objective to reduce the land acquisition by foreigners in Poland and Latvia. Land market distortions are expected to materialize in reduced land transactions and lower prices.

In Romania, the transparency effect will likely dominate the other two effects. The competition effect is minimal, as access to particular types of buyers (those without pre-emption rights) is reduced, though not as much as in Slovakia, while none of the buyers are excluded from the land market. Also, the transparency effect will likely offset the seller’s transaction costs effect. Thus, contrary to initial objectives, the new regulations may improve foreign buyers’ access to land to the detriment of local farmers. The new regulation collects and supplies free of charge information on sales offers to market participants, the greatest beneficiaries of which are likely external buyers (including foreign ones).

6. Conclusions
This paper describes the new land regulations introduced in Romania, Slovakia, Poland and Latvia as a response to the expiration of the transitory restrictions imposed after the EU accession on agricultural land acquisitions by foreigners. With the desire to preserve the status quo, the new regulations provide limited access to land ownership directly to some groups of domestic buyers and indirectly also to foreign ones. The objective of this paper is to investigate their potential implications for land markets, land prices, transaction distortions and access to land to domestic farmers’ and foreign buyers.

The main element of the new regulations common across all four studied countries is the introduction of the pre-emption rights to certain groups of potential buyers. However, what differs between the four studied countries is the coverage of pre-emption rights which give a differentiated protection to domestic farmers vis-à-vis non-agricultural or foreign investors. In line with the limited access order theory, this can be explained by the observed differences in the relative power of interest groups competing for land resources and the particularities of the external pressures (e.g., globalization, privatization). By far, the regulations adopted in Slovakia are the most restrictive, followed by Latvia and Poland; while Romania has adopted the least restrictive measures. The preference given to local farms in the new regulations (particularly in Latvia and Poland and Slovakia) also finds the support of concerns raised in the “land grabbing” literature, as they restrict non-farming investors’ access to land acquisitions and give a certain power to state agencies (in Latvia and Poland) to intervene in agricultural land markets in favor of domestic farmers.
An important direct implication of the new regulations is that they increase transactions costs to land market participants. Land market transaction costs include various direct costs (fees and various payments such as notary charges) incurred by sellers and buyers to prepare all the required documentation, opportunity costs of time spent on arranging the necessary administrative procedures, and the cost associated with the uncertainty of completing the sales transaction. While the new regulations make the land transaction more costly, an unintended effect is an increased transparency of land sales transactions. The requirement to announce offers on the public space may improve the information access to market participants. The implications of a greater transparency are not only at the local level, but also at national or international levels, as sales offers need to be announced publicly and are freely available to all market participants.

That said, potential investors/farmers with a higher land market productivity may be excluded from land markets. In particular, some foreign buyers (especially in Slovakia), who may bring investment and new technologies into the agricultural sector, are restricted in accessing land. This adverse effect may be reflected in unrealized productivity gains in agriculture ultimately leading to lower land prices. In that case, landowners will lose from the new regulations, because the land will be devaluated and the land market will become thinner (less liquid).

References


IERiGŻ (var. vol.) *Rynek ziemi rolniczej – stan i perspektywy*. Warsaw: IERiGŻ.


<table>
<thead>
<tr>
<th></th>
<th>Romania</th>
<th>Slovakia</th>
<th>Poland</th>
<th>Latvia</th>
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</thead>
</table>
| **Pre-emption right holders** | Family relatives,* co-owners, tenants, neighbors, the Romanian state | *Group 1:* family relatives, co-owners and farmers from the village**  
*Group 2:* farmers/farm labor/agricultural companies from neighboring village or other locations conducting their activity at least three years and with at least ten years residence in Slovakia | *Private transaction:* tenants; neighboring individual farmer; APA,**  
*Public-private transaction:* priority right is with the agric. cooperative if it holds a dominion of the land, tenant if the tenancy lasts for at least three years, those in charge of special economic zones | Co-owners, current owners or the last tenant of land that has applied for CAP direct payments, Latvian Land Fund |
| **Which offer needs to be announced?** | All sales offers | Land sold to another type of buyers than Group 1 | *Private transaction:* there is no requirement to announce the offer publicly. Yet, seller needs to notify the pre-emption right holders about the sale; further seller needs to inform local APA office which establishes whether the land can be sold  
*Public-private transaction:* all sales offers | All sales offers |
| **Where is the offer announced?** | Website and in the premises of local city hall, and on the website of the central and regional offices of the Ministry of Agriculture | Online registry administered by the Ministry of Agriculture and on the public board in the village where the land is located | For public-private transaction the offer needs to be announced in accordance with a local custom; in a local agricultural chamber and a local municipality council; if the value of land exceeds the value of 10 thousand quintiles of rye the offer has to be announced in newspapers with at least voivodship scope | Not specified |
| **Duration of the publication of the offer** | 30 days: local authority  
15 days: regional/central authorities | At least 15 days | *Public-private transaction:* 14 days before putting land out to a tender | Not specified |
| **Period within which the pre-emption right can be exercised** | 30 days | Within the period established in the offer | Either within the period established in the offer or, if the period is not specified, within one month | Within the period established in the offer |
| **Who checks the validity of the transaction?** | Regional authority: if area smaller than 30 ha;  
Central authority: if area larger than 30 ha;  
Local city hall: if pre-emption right holders do not exercise their right | Regional (district) authorities | Regional authorities (both local municipalities as well as regional office of APA) | Local authority (novada dome) |
| **Can land be sold on open market** | Yes, if pre-emption right holders do not exercise their right | Yes, if pre-emption right holders do not exercise their right | Yes, if pre-emption right holders do not exercise their right | Yes, if pre-emption right holders do not exercise their right |
| **Which buyers** | Non-EU citizens without | Individuals or companies from EU | *Private transaction:* Non-EU citizens. EU citizens | Individuals or companies from other |
| cannot acquire land | permanent residence in EU with permanent residence in Slovakia of less than ten years but not earlier than six months from the date the announcement was published. Also, a country (or its citizens) that does not allow Slovak citizens to buy land in that country. | not being an individual farmer in Poland have to get special permission. *Public-private transaction*: Land administered by APA cannot be sold but only rented in the next five years. Further, APA may reserve that participation in tenders may be limited to a particular group of people; in addition, it is assumed that after the expiration of the moratorium on public land sales, public land would not be sold to a person if his/her total owned land is larger than 300 ha, or if his/her total purchases from APA are greater than 300 ha. | countries than EU, EEA or Swiss Confederation. Individuals or businesses from EU in the following situations: -if not registered within the State Revenue Service (VID) as persons who perform economic activities in Latvia; -if cannot prove that during the last three years have received CAP direct payments, or that their agricultural income was more than 30% of total income, and have agricultural education -if not commencing agricultural activities on the acquired land -if have tax debts at the time of purchase |

Notes: * Transaction between family relatives is not subject to the new regulation in Romania; ** farmers conducting their activity at least three years in the cadastral zone where offered land is located; *** many exemptions exist though to this pre-emption right (for example, this right does not apply if sellers' relatives buy the land; by an individual farmers who would like to increase his/her farm within the limit up to 300 ha; or by the State Treasury).
### Table 2. Land market regulations in the EU

<table>
<thead>
<tr>
<th>Type of regulation</th>
<th>Countries</th>
</tr>
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<tbody>
<tr>
<td><strong>Measures to protect the tenant</strong></td>
<td></td>
</tr>
<tr>
<td>Maximum rental prices</td>
<td>Austria, Belgium, France, the Netherlands</td>
</tr>
<tr>
<td>Minimum rental contract duration</td>
<td>Austria, Belgium, France, Italy, the Netherlands, Portugal, Slovenia</td>
</tr>
<tr>
<td>Automatic rental contract renewal</td>
<td>Belgium, the Czech Republic, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, Slovenia</td>
</tr>
<tr>
<td>Conditions for rental contract termination</td>
<td>Belgium, France, the Netherlands</td>
</tr>
<tr>
<td>Pre-emption buying right of the tenant</td>
<td>Belgium, France, Italy, Portugal, Sweden, Hungary, Lithuania,</td>
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<tr>
<td></td>
<td>the Netherlands, Slovenia</td>
</tr>
<tr>
<td><strong>Measures to protect the small owner-cultivator</strong></td>
<td></td>
</tr>
<tr>
<td>Requirements for land owner</td>
<td>Austria, Denmark, Spain, Hungary</td>
</tr>
<tr>
<td>(Maximum) sales price regulations</td>
<td></td>
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<tr>
<td>Pre-emption right-for neighboring farmers</td>
<td>France, Italy, Portugal, Hungary, Slovenia</td>
</tr>
<tr>
<td>Maximum transacted / Owned Area</td>
<td>Denmark, France, Hungary, Lithuania</td>
</tr>
<tr>
<td><strong>Measures to protect the (non-farm) land owner</strong></td>
<td></td>
</tr>
<tr>
<td>Maximum duration of rental contract</td>
<td>Denmark, Finland, Sweden, Hungary</td>
</tr>
<tr>
<td>Minimum rental prices</td>
<td>Austria, the Czech Republic, France, the Netherlands</td>
</tr>
<tr>
<td><strong>Measures to prevent land fragmentation</strong></td>
<td></td>
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<tr>
<td>Regulations on pre-emption buying rights of the co-owner</td>
<td>Italy, Portugal, the Czech Republic, Hungary, Lithuania, Slovenia</td>
</tr>
<tr>
<td>Minimum plot size</td>
<td>Germany, Bulgaria, Estonia, Lithuania</td>
</tr>
</tbody>
</table>

### Table 3. The expected impact of new regulations on land markets in Romania, Slovakia, Poland, and Latvia

|                                | Land price | Transaction distortions | Farmers' land access | Foreigners' land access |
|                                | RO         | SK | PL | LV | RO | SK | PL | LV | RO | SK | PL | LV | RO | SK | PL | LV |
| **Seller's transaction costs** | +          | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  |
| **Buyer's transaction costs**  | –          | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  | –  |
| **Higher transparency**        | +          | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  | +  |
| **Overall impact**             | +          | 0  | +  | 0  | +  | 0  | +  | 0  | +  | 0  | +  | 0  | +  | 0  | +  | 0  |

Notes: ‘+’ means increase, ‘–’ decrease and ‘0’ no change; two signs (e.g. ‘++’, ‘––’) mean greater impact than one sign (e.g. ‘+’, ‘–’); two different results (e.g. ‘+, 0’) indicate the variation of the expected effect.