CHANGING CONDITIONS IN LITHUANIA’S LAND MARKET FORMATION AND ITS EFFECT ON FARMERS’ DECISION-MAKING

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Abstract
The paper is aimed at analyzing the formation and dynamics of farm land market in Lithuania as well as determining the factors and their effects on the decision-making of farmers as to the expansion of land-owned areas and intensification of the land consolidation processes. Even after the Lithuania’s independence had been regained in 1990, the land market of the country stayed inactive for a long time. It was stipulated by both objective and subjective reasons, though nowadays there exist more than enough limitations and obstacles. However, expanding market economy relations and improving the economic situation of the farm produce sales on domestic and foreign markets, direct payments made and the state support in land purchasing, contributed to the land market intensification.

Key words: farm land, land reform, land market, land market activity, land user, farm, private subsidiary holding.

Introduction
Land is a general property, a national possession of a nation. Land for a human is his living place, the main implement of production to grow agricultural and forestry production, a source of raw material for industry, and a territory for economical activity.

In most countries land belongs to the state or natural or legal persons held by the right of proprietary. The subjects are entitled to sell, buy or lease the land. The Lithuanian laws provide the owners of land with the right to sell, gift, pledge, or lease the land as well, thus all the preconditions for the formation of land market in Lithuania have been made. A well-functioning land market is very important for Lithuania, because the land reform and farm restructuring have totally changed the former structure of land ownership and usage.

However, the formation of land market is a slow process which depends on common economical and political situation and valid legal norms of the country. In the period of ten years after the restoration of Lithuania’s independence the land market was poorly developed. This was influenced by various causes: incomplete works of preparing the projects for land return and land planning, unfavorable economical situation for agricultural development, disorderly system of legal acts, strained barriers, and other causes.

The aim of the research paper is to assess the impact of development, transformations (purchasing and remission) and stir of Lithuanian land market, which are designated upon agricultural entities decisions; to determine the factors of land market development and their influence on diversification land-ownership areas and positive effects of the land consolidation process.
Methodology

The agricultural land market of Lithuania is the object of research. The methods of statistical data and logical analysis, synthesis, comparison, scientific abstractions, graphic and monographic analysis have been used for the analysis of the market of land designated for agricultural purposes. The data of Department of Statistics at the Government of the Republic of Lithuania, National Land Office at the Ministry of Agriculture, State Enterprise of Register Centre, National Payment Agency at the Ministry of Agriculture and the data of scientists published in economic and periodic literature have been used to prepare this article.

Results

Lithuania is the biggest Baltic state. It covers 6530 thousand of hectares. Agricultural landed property covers 53.2 percent, forests – 32.2 percent, water – 4.0 percent, built territory – 2.8 percent, roads – 20 percent, other land – 5.8 percent. The biggest part of state land fund is comprised of land designated for agricultural purposes. A land designated for agricultural purposes is land plots intended for functioning of farmers’ property and agricultural enterprises and other plots intended to use and used for developing an agricultural activity, as well as agricultural landed property, land designated for living houses and economic buildings, yards, roads, land suitable to be transformed into agricultural landed property, and other landed property intruded into these sites.

In the period of 2002–2006 the area of land designated for agricultural purposes varied very slightly, and on January 1, 2006 there were 3954.6 thousand of hectares or 60.6 percent of total state land fund in the country. As the data presented in Table 1 show, a major change took place in the structure of private and state land plots designated for agricultural purposes. At the beginning of 2002 the private land designated for agricultural purposes comprised 52.8 percent, and in 2006 it comprised 69.6 percent of total land designated for agricultural purposes in the country. In the period of 2002–2006 an area of private land designated for agricultural purposes increased by 31.6 percent, while the area of state land decreased by 35.5 percent.

In 2006 a private land designated for agricultural purposes according to land users was distributed as follows: natural persons possessed 97.8 percent, legal persons – 1.7 percent, members of gardeners’ societies – 0.5 percent of total private land designated for agricultural purposes. In the same year the structure of state land designated for agricultural purposes according to its lessees was the following: personal farms of dwellers leased 23.0 percent, natural persons (farmers) – 27.7 percent, companies and other legal persons – 9.4 person, gardeners’ societies – 0.6 percent, non-provided and non-leased land comprised 39.3 percent of total state land designated for agricultural purposes.

The land market of land designated for agricultural purposes began to form when the independence of Lithuania was restored, after the private land proprietary was legitimated and the land was started to return to its former owners or lawful inheritors. According to the data of State Enterprise of Register Centre the Lithuanian market of land designated for agricultural purposes was forming slowly until 2003.
Table 1

Distribution of land designated for agricultural purposes in accordance with proprietary forms and users in 2002 and 2006

<table>
<thead>
<tr>
<th>Proprietary form and users</th>
<th>2002 (ha, in thousands, percent)</th>
<th>2006 (ha, in thousands, percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private land</td>
<td>2090.5 (52.8)</td>
<td>2750.7 (69.6)</td>
</tr>
<tr>
<td>out of it: land owned by natural persons</td>
<td>2077.0 (99.4)</td>
<td>2690.1 (97.8)</td>
</tr>
<tr>
<td>land owned by legal persons</td>
<td>- (0.0)</td>
<td>46.7 (1.7)</td>
</tr>
<tr>
<td>land owned by members of gardeners’ societies</td>
<td>13.5 (0.6)</td>
<td>13.9 (0.5)</td>
</tr>
<tr>
<td>State land</td>
<td>1865.7 (47.2)</td>
<td>1203.9 (30.4)</td>
</tr>
<tr>
<td>out of it: land owned by personal farms of dwellers</td>
<td>561.9 (30.1)</td>
<td>276.8 (23.0)</td>
</tr>
<tr>
<td>land leased by natural persons</td>
<td>423.8 (22.7)</td>
<td>333.8 (27.7)</td>
</tr>
<tr>
<td>land leased by agricultural enterprises and other enterprises</td>
<td>137.7 (7.4)</td>
<td>113.4 (9.4)</td>
</tr>
<tr>
<td>land leased by gardeners’ societies and their members</td>
<td>8.1 (0.4)</td>
<td>7.5 (0.6)</td>
</tr>
<tr>
<td>land non-provided to use and non-leased</td>
<td>734.2 (39.4)</td>
<td>472.4 (39.2)</td>
</tr>
<tr>
<td>Total land designated for agricultural purposes</td>
<td>3956.2 (100.0)</td>
<td>3954.6 (100.0)</td>
</tr>
</tbody>
</table>

Source: Composition and Usage of Land Fund of the Republic of Lithuania on January 1, 2002-2006 http://www.nzt.lt

After restoring Lithuanian independence big political, social and economical changes took place in Lithuania. Eastern markets of agricultural and food products were lost, and products non-complying to the Western standards were produced, thus decreasing used agricultural landed property and plot areas, number of livestock, production of different agricultural products (especially stockbreeding), occupation of country people and the level of their receivable and disposable income, also a large part of country dwellers lost their basic social guarantees.

Moreover, during the first decade after the restoration of independence the programic provisions of agriculture and country development of eleven governments which governed the country at that time were different. The tendencies of agricultural reform, the priorities of agricultural trade and country development, and the forms of state support were constantly changing (Kazakevičius, 2001).

In the first decade after the restoration of independence the macro-economical environment was also not favorable for agricultural trade. Huge economical decline, big inflation (in 1991 – 383 percent, in 1992 – 1163 percent, in 1993 – 189 percent, and high level of unemployment were present. The “scissors of prices” – uneven variation of prices of material resources and agricultural production existed almost during the whole period. The governments wanted to reduce the social tension when reforms started, thus began to restrict increase of prices for food products, at the same time regulating the increase of price for buying main agricultural production. Due to...
the imperfect governmental politics of price regulation in agriculture the loss was not covered even by imposed material support out of the support funds functioning at that time. Also, the farmers had poor financial possibilities, the banks demanded a guarantor, and the farmers failed to have it (Fund of Agricultural Loan Guarantees was not yet functioning). Besides, the producers of agricultural production experienced the results of ineffective system of mutual payment for the realized agricultural production. The biggest economical problem was constant late payments from procurement and reprocessing companies (Kazakevičius, 2001). It all created huge loss for agriculture and no-confidence in agricultural politics for farmers, as well as uncertainty about the future of agriculture.

Moreover, the land reform executed in 1991 in the country also interfered with the formation of land market. According to the data presented by National Land Office at the Ministry of Agriculture of the Republic of Lithuania, from 1991 till the end of 2003 the citizens of the Republic delivered more than 710.3 thousand of applications to restore the proprietary rights in 4.0 million ha of land located in country terrain. The process of land reform continued slowly in the country. This process was interfered with frequently changing laws and legal acts, controversies between citizens willing to return the land in kind, and local citizens which were given the land by the former owners for developing their personal farm activity. Up to January 1, 2007 691.7 thousands of citizens’ applications were satisfied – the decisions to restore the proprietary rights in 3.8 million ha of area in country terrain were adopted (Land Reform…). The process of restoring the proprietary right of the citizens to the land is supposed to be radically finished in 2008.

Only after the European Union adopted a political decision on EU development and the Governmental Commission of the European Integration approved on the preparation of Lithuania’s membership, the political, legal and economical situation changed in Lithuania. The national legal documents were harmonized with EU documents, the institutions were established for administering common agricultural politics of EU, the laws, strategies and programs regulating the subsequent politics of agricultural and country development were prepared and adopted.

According to the data of National Land Office 15.4 thousand of contracts were made in Lithuania in 2002, whereof 58.1 thousand ha of land designated for agricultural purposes were transferred, and the activity of land market (the proportion of area of private land designated for agricultural purposes realized and gifted annually with the area of total private land designated for agricultural purposes) was 2.8 percent, while in 2003 respectively – 16.8 thousand of contracts, 58.5 thousand ha and 2.6 percent (Land Accounting…).

The market of land designated for agricultural purposes became more active from 2004, when on January 28, 2006 the Seimas (the Parliament) adopted the leading laws of the amendment of Article 7 of the Constitution of Lithuania, envisaging the conditions of acquiring the land both by foreigners and the domestic legal persons, after adopting the emendations of Provisory Law on Acquisition Land Designated for Agricultural Purposes on July 15, 2004, which changed the order of acquisition the land designated for agricultural purposes, simplifying the procedure of
making land contracts, thus expanding the circle of possible purchasers, refusing the requirements for qualifying preparation for farming and moving to the district where the acquired land is located. Moreover, the integration to EU had a big influence increasing activity of land market and support for agriculture. The external macroenvironment of the country became more stable and safer to develop the agricultural and other trade, and the rendered financial support from structural funds of the EU and state national budget, as well as direct payouts, allowed to enhance the financial and competitive capability of producers of agricultural production and guarantee the development of agriculture (Lithuanian ...).

As the data presented in Figure 1 show, the land designated for agricultural purposes in 2004 was transferred 2.2 times more than in 2003, that is 126.9 thousand ha of land. An especially active group of purchasers in 2004 comprised agricultural companies and other legal persons having bought about 20 thousand ha of land. The biggest amount of land designated for agricultural purposes was purchased in the regions of intensive agricultural activity (Municipalities of Panevėžys, Pasvalys, Kėdainiai, Šakiai and Marijampolė). In 2004 the average activity of market of private land designated for agricultural purposes was 4.9 percent (The data …).
Activity of the market of land designated for agricultural purposes in 2005 and 2006 developed additionally. In 2005 comparing with 2004 the number of contracts increased by 41 percent, total area of land transferred 33.4 percent, and in 2006 comparing with 2005 – by 17.0 and 4.8 percent respectively. According to the date presented by State Enterprise of Register Centre in 2005 even 14107 ha of land designated for agricultural purposes were sold and gifted monthly on average. Activity of market of land designated for agricultural purposes in 2005 and 2006 was 6.5 percent.

Despite high activity of land market, the average area of transferred plot of land designated for agricultural purposes has been small: in 2002 it comprised 3.8 ha, in 2003 and 2004 – 3.6 ha, in 2005 – 3.4, and in 2006 – 3.1 ha. Meanwhile, the average area of transferred plots in places favourable to develop agriculture has been bigger (5–6 ha), and at the bigger cities of the country (Vilnius, Kaunas, Panevėžys, Šiauliai and Klaipėda Cities) has been less than average (1.5–2.5 ha). Thus we can assume that at the bigger towns the land designated for agricultural purposes is being bought for building dwelling-houses and commercial activities, while in the places favourable to develop agriculture – for farming and reselling, expecting a price increase of those land sites. Activity of market of land designated for agricultural purposes in 2002–2006 was 5.1–5.5 percent in the regions of fertile land plots, and 3.1–4.0 percent in less fertile land plots. The plots of land designated for agricultural purposes of bigger fertility spread in the central regions of the country have a bigger demand than less fertile land plots spread in the areas less favourable for farming, except in suburban and recreational territorial land (Land Accounting…).

Land prices in Lithuania until 2003 were low, an average price of land designated for agricultural purposes amounted up to 800–1200 Lt/ha. After activity of land market increased, in 2004 the average land price increased by 20 percent comparing with 2003 and amounted to about 1400 Lt/ha (Čiapaitė, 2005). In 2005 land prices were rising steadily, and according to the data of Register Center the average price of land designated for agricultural purposes has reached 2400 Lt/ha. While in 2006 the demand for land designated for agricultural purposes was not on the decline, the average land price was rising steadily and comprised up to 2500–3000 Lt/ha. The most expensive land was at the biggest cities and in recreational territories.

The simplified purchasing procedure of land designated for agricultural purposes has influenced the increase of price of land designated for agricultural purposes, which enabled the persons not dwelling in the villages to invest theirs funds into the property of this land, expecting an increase of their price in future; also low price of land, comparing with prices of other EU countries; improved financial position of the inhabitants and farmers of the country; people’s anxiety about unclear consequences of euro establishment, etc. Moreover, after the direct payouts for crops and agricultural landed property were received, the land owners raised the price of leased land, which allowed increasing the price of realized land as well.

Although activity of Lithuanian market of land designated for agricultural purposes has been high, it still should not decline because of the present objective and subjective causes: low price of land, comparing with the prices of other EU countries;
increased financial capacity of farms and willingness to expand the area of cultivated land; willingness to sell the recovered land having no possibilities to develop the agricultural trade; willingness of foreigners and rich Lithuanians to purchase real estate in Lithuania, as well as the land.

The land market of Lithuania is still young, and the land prices comparing with other countries of the European Union are considerably lower. This encourages persons from foreign states to purchase the land designated for agricultural purposes in the name of other persons. Besides, a lot more people fail to cultivate the land recovered during the land reform and try to sell it, while others try to purchase it as soon as possible, thus willing to expand their farms and earn profitably in the future. According to the data of National Land Office, in 2006 492.6 thousands of natural persons possessed 2690.1 thousand ha of private land designated for agricultural purposes, and 127.5 thousand of personal farms of inhabitants leased 276.8 thousands ha of land designated for agricultural purposes from the state for developing activities of personal farms (…of Land of the Republic of Lithuania). Meanwhile, the number of real farming persons is considerably low. This has been proved by the data of National Payment Agency. At the same year 213 thousand of applications were presented by the agricultural subjects on direct payouts for the crops, and 110 thousand of applications on payouts for land plots less favourable for farming (Information…).

The alterations of agricultural land market formation in Lithuania created the pre-conditions for sustainable process to expand land-ownership areas for agricultural entities and to develop more actively the land consolidation process. Therefore, according the confirmed normative documents in the process of land restitution the compact land-ownership areas were structured with exception of separate land reform projects. Generally, the restituted land areas are small.

According to the data of the National Service of Land (Department of LR Ministry of Agriculture), the restituted average land area per heritor was 5.6 ha during the period 1991-2006. Obviously, the farms in Lithuania are too small, otherwise the restituted land is not concentrated as a single area, between public land are dislocated private land areas. The fragmentation (dispersion) of land-ownership and land areas creates the great problems for land users. Average restituted land area per unit is compounded of 2.3 ha (Composition…).

For the attainment of the singleness competition for Lithuanian farmers, the fragmentation of land should have to be reduced and the land areas have to be enlarged. The land restitution process is coming to end, and the second stage of Land reform is oriented to the land consolidation. The land consolidation is the reconstruction process of land area lots under owners requests. The borders and places of land area lots are changing in reaching to enlarge the land area lots, to construct the rational land area lots, to improve the structure of land area lots and the production infrastructure and to implement the objectives of rural development.

The consequences of the Land reform present the situation, that agricultural land market is formed, and the activity in land market is concentrated to form the competitive farms, increase the land areas for farmers.
Conclusions

1. The land market in Lithuania began to form when the independence of Lithuania was restored, after the private land proprietary was legitimated and the land started to return to its former owners or lawful inheritors.

2. The market of land designated for agricultural purposes was forming slowly until 2003. This was influenced by an unfavorable external macroenvironment (political, legal, economical-financial, social and psychological), unfinished land reform and other factors.

3. The market of land designated for agricultural purposes became more active from 2004 after the laws were adopted envisaging the conditions of acquiring the land both by foreigners and the domestic legal persons, state support for those buying the land designated for agricultural purposes, and a simplified procedure of acquiring this land. Activity of land market increased after the financial capacity of agricultural subjects had risen when Lithuania entered the EU.

4. In 2004 the land designated for agricultural purposes was transferred 2.2 times more than in 2003, activity of land market was 4.9 percent. An especially active group of purchasers comprised agricultural companies and enterprises which acquired the right to purchase the land in proprietorship.

5. In 2005 and 2006 activity of the market of land designated for agricultural purposes expanded steadily, and in both years amounted up to 6.5 percent.

6. The average area of transferred plot of land designated for agricultural purposes was small: in 2002 it comprised 3.8 ha, in 2003 and 2004 – 3.6 ha, in 2005 – 3.4, and in 2006 – 3.1 ha. Meanwhile, the average area of transferred plots in places favourable to develop agriculture is higher (5–6 ha), and at the bigger cities of the country is lower (1.5–2.5 ha).

7. Activity of the market of land designated for agricultural purposes in 2002–2006 was 5.1–5.5 percent in the regions of fertile land plots, and 3.1–4.0 percent in less fertile land plots. The plots of land designated for agricultural purposes of bigger fertility located in the central regions of the country have a bigger demand than less fertile land plots located in the areas less favourable for farming, except in suburban and recreational territorial land.

8. Land prices until 2003 were low, an average price of land designated for agricultural purposes amounted up to 800–1200 Lt/ha. After activity of land market increased, in 2004 the average land price amounted to about 1400 Lt/ha, in 2005 reached 2400 Lt/ha, in 2006 – up to 2500–3000 Lt/ha. The most expensive land was at the biggest cities and in recreational territories.

9. The simplified purchasing procedure of land designated for agricultural purposes has influenced the increase of price of land designated for agricultural purposes, which enabled the persons not dwelling in the villages to invest theirs funds into the property of this land, expecting an increase of their price in future; low price of land, comparing with prices of other EU countries; improved financial position of the inhabitants and farmers of the country; people’s anxiety about unclear consequences of euro establishment, etc.
10. The changes in the land market influenced the alterations for new preconditions to develop land market, to enlarge land area lots, to develop consolidation process, to develop competitive farming.

References

ИЗМЕНЕНИЕ УСЛОВИЙ ФОРМИРОВАНИЯ РЫНКА ЗЕМЛИ ЛИТВЫ И ЕГО ВЛИЯНИЕ НА ПРИНЯТИЯ РЕШЕНИЙ ФЕРМЕРОВ

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Аннотация
Цель работы – проанализировать формирование и динамику рынка земли сельскохозяйственного назначения в Литве, определить факторы и их влияние на решения фермеров относительно расширения площадей землевладений и активизации процессов консолидации земель. Даже после восстановления независимости Литвы в 1990 г., длительное время рынка земли как будто и не было или он был совершенно неактивный. Это было обусловлено как объективными, так и субъективными причинами, хотя и до настоящего времени ограничений и препятствий предостаточно. Однако, расширяющиеся отношения рыночной экономики и улучшающаяся экономическая ситуация реализации сельскохозяйственных продуктов на внутренних и внешних рынках, получаемые прямые выплаты, помощь государства при покупке земли активизировали и рынок земли.

Ключевые слова: земля сельскохозяйственного назначения, земельная реформа, рынок земли, активность рынка земли, землепользователь, фермерское хозяйство, личное подсобное хозяйство.