

## Agricultural Land Privatization in Poland

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### Abstract

The aim of the article is to present the process of agricultural land privatization in Poland, taking into account the role that this policy has played in terms of shaping the Polish agricultural model, based on family households. The purpose of the agrarian system shaping policy is the protection and development of family households. To this end, said group of agricultural households is being granted privileges in terms of access to agricultural land. From an economic point of view, it translates into replacing market allocation with political decisions. The sale of agricultural land on behalf of the state was conducted by the Agricultural Property Agency. Between 1992 and 2016, the total of over 2.6 million ha of agricultural land (amounting to 55% of all the acquired land) were sold. Natural persons acquired the total of 81% of privatized agricultural land, with the 19% being acquired by legal entities. In the years 2005-2016, the prices of agricultural land demonstrated an upward trend. The prices obtained by the Agency were very close to the prices on the private market. The average price amounted to EUR 4,271 per 1 ha in case of state-owned land, to EUR 4,454 per 1 ha in case of private land.

**Keywords:** agriculture; agricultural land privatization; family household; land market.

### 1. Introduction

The basic type of ownership in a market economy is private (individual) property. It is also one of the most important institutions in socio-economic life. Private property is understood as the right to use and dispose of an object with the exclusion of other people, in accordance with the economic and social intended use of objects and within the limits set by the rules of social coexistence<sup>1</sup>. In the theory of economics, private property is one of the key issues, because it is the main criterion distinguishing economic systems and it determines efficiency of management. Private property is treated as a natural human right (next to the right to life and freedom) and is necessary to preserve the social order. As the Scottish economist D. Hume stated in the *Treatise of Human Nature* [2005], private property emerged in the process of social evolution, as an institution that would resolve the conflict over access to scarce resources. Due to the constant collision of human interests, a series of behavioural norms has evolved that were intended to enable and consolidate peaceful cooperation. Therefore, the role of property law is, as a matter of fact, to ensure the stability of possession. In turn, the stability of possession is a necessary condition for the emergence of a developed economy based on production and exchange. This implies that development processes in the economy, consisting in saving and investing, can be initiated only under social norms that allow to preserve the effects of the entrepreneurial activities. The importance of property rights in the economic process was particularly emphasized by Austrian economists [6, 7, 9, 12]. These economists showed that the individual right to property and freedom is the condition necessary to unleash the human entrepreneurship. Creative and unhampered human activity results in a number of important consequences, such as discovering information about human needs and the ways of satisfying them, passing on this information and launching adaptive behaviours. These are phenomena that constitute the essence of market processes, which, as it turns out, are the only effective way of human activity in the world of uncertainty and limited knowledge. The effectiveness of market processes is primarily due to the fact that dispersed and hidden

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<sup>1</sup> In the Polish law, ownership is defined in art. 140 of the Act of April 23, 1964 – the Civil Code.

knowledge in society, in the conditions of protection of ownership rights and the freedom of contracts, will be disclosed and disseminated in the form of a system of market prices. These, in turn, are the basis of the economic calculation, without which it is impossible to run a rational economy.

The type of ownership is also the most important issue in the field of agrarian system structuring policy. The agrarian system comprises ownership relations and forms of production organization in agriculture [2]. The basis of the agrarian system of most European countries, including Poland, is a family farm based on the ownership of private land and other means of production. Supporting this form of farming in agriculture is associated with the development of the desired agrarian structure, and thus with the occurrence of a number of restrictions on trading on agricultural land. In the European Union countries, state interference usually involves the control of qualifications and shaping the area structure of agricultural farms [2]. The control of land trade is aimed at preventing irrational divisions of farms and excessive concentration of land. Legal solutions preventing divisions use such instruments as the minimum agricultural unit or the minimum farm surface, or the concept of a farm capable of supporting a farming family. Prevention of excessive concentration results from the fear of family farms becoming dominated by large producers. To this end, area norms are applied, the crossing of which is not possible without the consent of the administration. Other methods include the prohibition of having more than one farm, whose potential is sufficient to support a farming family, and the refusal to grant consent for the passage of land from family farms to large-area farms.

In Poland, a family farm, as the basic form of farming in agriculture, was established in art. 23 of the Constitution of the Republic of Poland of April 2, 1997. In addition to the Constitution, the most important regulations shaping the agricultural system in Poland are: the Act of April 11, 2003 on shaping the agricultural system, the Act of October 19, 1991 on the management of agricultural property of the State Treasury and the Act of April 14, 2016 on suspension of sale of property from the Agricultural Property Stock of the State Treasury and the amendment to certain acts. According to these regulations, a family farm is a farm: (i) which is run by an individual farmer, (ii) whose total area of agricultural land is not more than 300 ha. An individual farmer is considered to be an owner, perpetual usufructuary, independent possessor or lessee of agricultural properties whose total area of arable land does not exceed 300 ha, who has agricultural qualifications and has for at least 5 years lived in the commune, where one of the agricultural properties belonging to the farm is located, and who ran the farm personally during that period.

As part of the policy of shaping the desired agricultural system, the state conducts interventions aimed at: (i) improving the area structure of agricultural holdings, (ii) preventing excessive concentration of agricultural property, (iii) ensuring that agricultural activities are carried out on farms by persons with appropriate qualifications. These activities are carried out in the form of a ban on the purchase of agricultural properties by persons who are not individual farmers. This limitation applies to all agricultural properties<sup>2</sup> with an area of 0.3 ha, excluding properties designated for spatial development plans for purposes other than agricultural. Acquisition of agricultural land by a person who is not an individual farmer requires special consent. The obligation to run a farm personally for 10 years is also imposed on the buyer. Currently, control over the land market is carried out on behalf of the State by the National Support Centre for Agriculture (until 2016 called Agricultural Property Agency). For this purpose, NSCA was equipped with such rights as the right of pre-emption and repurchase. The right of pre-emption consists in the fact that in the situations specified in the law, NSCA has the right to enter into the transaction and purchase the agricultural property at a price and on the terms specified earlier by the seller and the buyer. The right of repurchase has similar consequences as the right of pre-emption. It allows NSCA to acquire an agricultural property in the case of contracts transferring ownership other than a sale agreement, such as, for example, a donation, making contribution-in-kind of an agricultural property to a commercial company, divisional agreements, and property exchange. By executing the right of pre-emption and repurchase, NSCA may prevent the purchase of agricultural properties by natural persons who are not private farmers, and by legal persons.

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<sup>2</sup> Art. 46 [1] of the Act of April 23, 1964 - the Civil Code defines agricultural property as real estate that is or may be used to conduct agricultural manufacturing activity in the field of crop and animal production, including horticultural, fruit and fish production.

Compared to other European Union countries, Polish agriculture is characterized by a significant potential of land and its large fragmentation. At the same time, the gross added value of farming, per one employee, is one of the lowest in Europe. Under these conditions, the desired process is enlarging the area of farms, because it optimizes the proportions between production factors and leads to an increase in labour productivity [10]. Therefore, enlarging the area of farms has become the main direction of structural changes in the Polish agriculture, initiated in 1990 along with the political transformation of Central and Eastern European countries. The pace of structural changes in agriculture depends on the efficiency of the land market. An important source of land for farms in Poland was, apart from the private land market, sale of state-owned land, acquired from former state farms. Thus, the privatization of state-owned land is an important factor in the structural changes of Polish agriculture.

The aim of the article is to present the process of agricultural land privatization in Poland, taking into account the role that this policy has played in terms of shaping the Polish agricultural model, based on family households. The analysis was concerned with state land resources, the scale of land sale, its distribution and prices.

## 2. Material and Methods

The statistical information presented in the paper refers to the sale of state-owned agricultural land in Poland. The data from the report on the activities of the Agricultural Property Agency as well as the publications of the Central Statistical Office and the National Bank of Poland were used in empirical studies. The research period covers the years 1992-2016, i.e. from the beginning of the Agency's activity to the year to which current data on the issue under consideration refers.

The paper has a theoretical-empirical character. The applied research methods include: primary sources analysis, deduction, verbal logic, and statistical measures and indicators. Statistical methods were used for the purpose of a strict analysis of changes in the structure of privatized agricultural land, and the evaluation of agricultural land price dynamics in the Polish economy. Changes in the analyzed categories were studied on the basis of annual data.

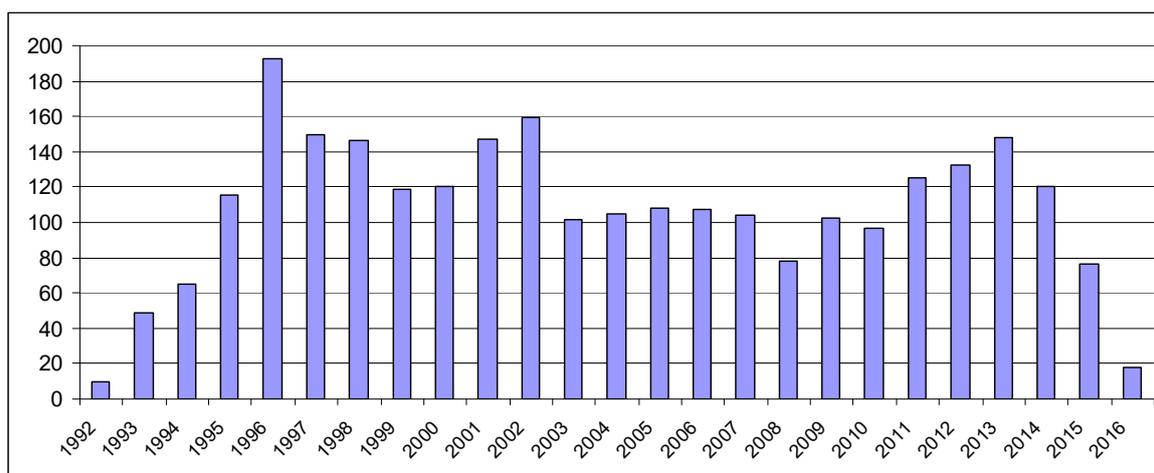
## 3. Results and Discussion

In Poland in 1990, which was when the system transformation began, agriculture was dominated by private farms, unlike in other economic sectors [1]. This year private farms occupied 14,228 thousand ha of agricultural land (76,3% of total agricultural land), state-owned farms 3,490 thousand ha (18.6%), and production cooperatives 696 thousand ha (3.7%) [16]. State-owned farms, despite their 45 years of existence in the socialist system, occupied a relatively small part of agricultural land in the whole country. They were mainly located in the areas taken over by Poland from Germany after the Second World War. These are located in the western and northern Poland, primarily in the following voivodships: West Pomerania, Lubusz, Lower Silesia, Pomerania and Warmia-Masuria.

Transition to the market economy, one of the main features of which is private ownership, and the implementation of an economic policy that limits radically state intervention in the economy, including agriculture, marked the start of privatization of state-owned agricultural land. Among other things, for this purpose, the Agricultural Property Agency of the State Treasury was established in 1991 (since 2003, called the Agricultural Property Agency). It was taking over the land and then managing it, mainly by selling it to private buyers. By the end of 2016, the Agency took over 4,740 thousand ha from all sources, mainly from former state-owned farms - 3762 thousand ha (80% of all land taken over). The Agency completed the takeover of the majority of the farms in the mid-1990s [14]. In addition, land from the State Land Fund and other types of agricultural land owned by the State Treasury were taken over too, on the basis of other acts, among others, on the shaping the agrarian system and on the social security scheme for farmers.

According to the Agency's declarations, the development of state-owned agricultural land was aimed at accelerating the improvement of the area structure of private family farms. This was to be achieved by selling or leasing agricultural properties to enlarge the existing ones and create new family farms [15]. The main form of permanent distribution of state land was its sale. Until the end of 2016, the Agency sold 2,703 thousand ha of land (57% of all land acquired), and transferred 653 thousand ha of land (14%). It means that it permanently developed 3,357 thousand ha of land (71%). The agency handed over the land to: regional water management

boards and voivodship marshals (230 thousand ha), state forest administration (154 thousand ha), church legal persons (90 thousand ha), local government units (58 thousand ha) and other entities (37 thousand ha). The agency sold 2605 thousand ha of agricultural land (55%) [14]. It should also be mentioned that agricultural land was also sold by other state entities, e.g. higher education institutions or research and development units. However, these were marginal figures. After almost 30 years of transformation in a country that had the ambition to build an economy based on private ownership, especially in agriculture, such a result is not positive. The privatization of the land was too slow. The causes of such a state include: lack of determination of political authorities, transferring the land for lease (until the end of 2016, the area of the leased land was 1,022 thousand ha (22%)), poor quality and inconvenient locations of the land owned by the Agency, and unregulated ownership issues.



**Figure 1.** Annual sales of state-owned agricultural land in Poland (thousand ha)

Source: Report on the Activities of Agricultural Property Agency, Warsaw 2017.

In the years 1992-2016, the Agency was selling on average 108 thousand ha of agricultural land annually. Figure 1 shows that the most was sold in 1996 (193 thousand ha) and 2002 (160 thousand ha). The least (9 thousand ha) was sold in 1992, that is in the year of establishing the Agency, and in 2016 (18 thousand ha). That year, the Act of April 14, 2016 on suspending the sale of properties included in the Agricultural Property Stock of the State Treasury, came into force. The sale of state-owned land was suspended for 5 years, excluding agricultural properties of up to 2 ha and intended for non-agricultural purposes. In 2016, individual farms exploited 13,294 thousand ha of arable land (91% of arable land in total) [17]. Altogether, private farms and private legal persons used approximately PLN 13,900 thousand ha of arable land (about 96%). Private farms owned about 13,200 thousand ha (about 91% of agricultural land in total), and the state agricultural land accounted for about 1200 thousand ha (about 8%). This is primarily the effect of the privatization of state-owned farms and the outflow of agricultural land to the statistical position ‘agricultural land not constituting farming enterprises’ [3]. In Poland, land can also be purchased by foreigners, once they obtain necessary permits. By the end of 2016, foreigners bought from the Agency 1984 ha (0.1% of the sold land in total). It is estimated that Polish entities with foreign capital, not being foreigners, bought from the Agency approximately 66 thousand ha of land (2.4%) [14].

**Table 1.** Area of sold state agricultural land until the end of 2016 by area groups

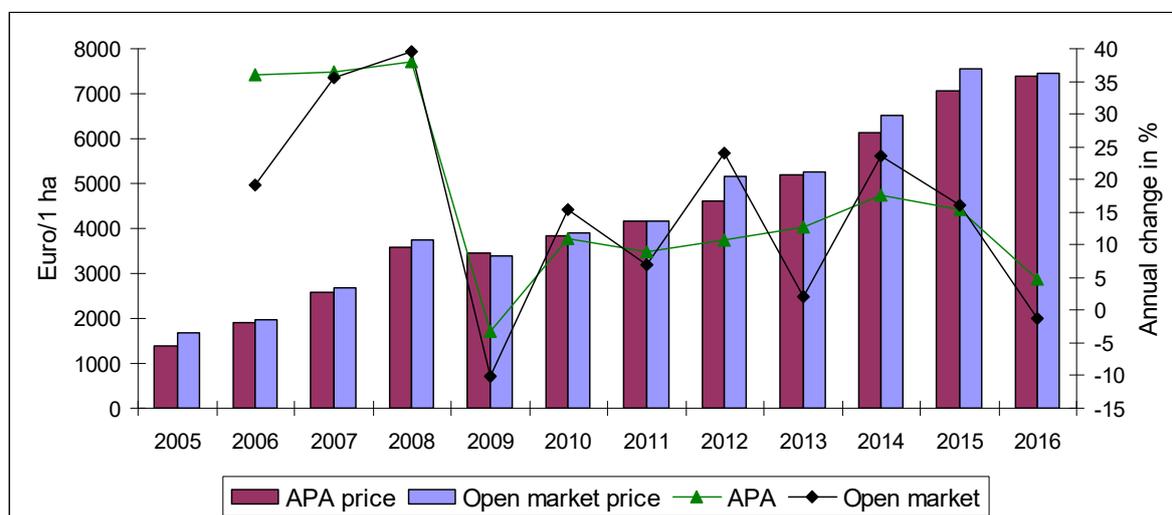
Area group	Total	Natural persons	Legal persons	Share in agricultural land (%)
up to 2,00	126 831	124 774	2 057	4,9
2,01 - 4,99	146 282	142 610	3 672	5,6
5,00 - 9,99	181 244	174 964	6 280	7,0
10,00 - 19,99	288 913	274 453	14 460	11,1

20,00 - 49,99	692 629	622 899	69 730	26,6
50,00 - 99,99	220 409	188 034	32 375	8,5
100,00-499,99	701 068	471 197	229 871	26,9
500,00 - 999,99	187 484	89 437	98 047	7,2
1000.00 and more	60 639	16 622	44 017	2,3
Total	2 605 499	2 104 988	500 511	100
Overall share in agricultural land in 2016 (%)	17,9	14,5	3,4	-

Source: Report on the Activities of Agricultural Property Agency, Warsaw 2017 and own calculations.

The Agency sold state agricultural land of various areas (Table 1). In the first years of its operation, primarily middle and small state farms were sold, as they were easier to privatise. In the following years also large and very large farms were sold, due to the need to quickly obtain income [13]. The Agency did not apply any special area norms when selling land, although the development of family farms was included in the act. In that period agricultural properties were bought by capital owners [4].

The Act of May 6, 1999 amending the act on management of agricultural property of the State Treasury imposed the obligation on the Agency to support the development of individual farms and limit the development of large-area farms, which focused on the lease of state-owned land. Limited tenders for the purchase of land were introduced. The largest group in those tenders were farmers willing to enlarge the family farms. By the end of 2016, most of the state-owned land was purchased by natural persons - 2105 thousand ha (14.5% of total agricultural land in Poland in 2016 and 80,8% of the agricultural sold by the Agency). Legal persons purchased 500 thousand ha (3.4% and 19.2%). The majority of the privatized land lots had the area of 100 to 500 ha, with their total area amounting to 701 thousand ha. They also constituted the largest share in the land sold by the Agency (26.9%). The sold land lots with the area of 20 to 50 ha amounted to the similar total area – 693 thousand ha – and similar share (26.6%).



**Figure 2.** Level (EUR for 1 ha) and annual dynamics (%) of prices of agricultural land sold by the Agricultural Property Agency and on open market in Poland

Source: own calculations based on APA and NBP data.

In Poland, in 2005-2016, agricultural land prices showed an upward trend (Figure 2). Prices expressed in zlotys increased each year. In contrast, prices expressed in euros decreased only in 2009 and 2016 on open market. This was mainly due to changes in the exchange rate, which meant a rapid increase in the value of euro in relation to zloty [5]. The annual growth rate of the analysed prices varied. The fastest growth occurred in 2006-2008. The reason for that was the rapid increase in demand for agricultural land, which resulted from Poland's accession to the European Union in 2005. The pace of price increase depended also on the economic situation [11].

The prices obtained by the Agency were very similar to prices on open market in trade between farmers. In the whole analysed period, prices of the sold state-owned land expressed in EUR increased by 348%, and prices of the sold private land - by 431%. The average annual price of state-owned land amounted to 4,271 euro for 1 ha, and private land – 4,454 euro for 1 ha. In 2016, the Agency sold agricultural land on average for 7,394 euro per 1 ha.

#### 4. Conclusions

State-owned land privatization is an important factor of changes in the Polish agriculture that are aimed at improving management conditions. Broadening the scope of private property should be considered a beneficial phenomenon.

At the same time, the purpose of the current agrarian system shaping policy is the protection and development of family households. It consists in shaping the predetermined agricultural model within the framework of the private sector. This policy creates privileges in terms of access to agricultural land for those agricultural households which have the status of family households. Such regulations result in directing the transfer of land irrespective of economic rationality, which means that access to land is not determined by economic efficiency but instead by the status of the buyer. From an economic perspective this means that market distribution of land has been replaced with political decisions.

The sale of agricultural land on behalf of the state was conducted by the Agricultural Property Agency. Between 1992 and 2016, the total of over 2.6 million ha of agricultural land (amounting to 55% of all the acquired land) were sold. Initially, the selling process was open and with no area restrictions. Since 2003 there have been introduced changes which allowed the Agency to counteract the excessive concentration of land and to facilitate access to land for family households.

Natural persons acquired the total of 81% of privatized agricultural land, with the 19% being acquired by legal entities. The largest group for which the Agency organized limited tenders were farmers who intended to enlarge their family households. In the years 2005-2016, the prices of agricultural land demonstrated an upward trend. The prices obtained by the Agency were very close to the prices on the private market. The average price amounted to EUR 4,271 per 1 ha in case of state-owned land, to EUR 4,454 per 1 ha in case of private land.

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