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OECD Report entitled "Developments in land markets: private sector investment in farmland and agriculture infrastructure" - discussions remarks

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Tekst jest udostępniony do wykorzystania w ramach dozwolonego użytku.

**OECD REPORT ENTITLED „DEVELOPMENTS
IN LAND MARKETS: PRIVATE SECTOR INVESTMENT
IN FARMLAND AND AGRICULTURE INFRASTRUCTURE”
– DISCUSSIONS REMARKS¹**

Economic development, together with quantitative and qualitative progress, requires also structural transformation. It also improves the use of accessible factors of production, so that they serve in the broadest possible scope the needs articulated by society. It concerns also farmland, the structures of which have been subject to transformation – the structure of farmland use, the area structure of agricultural farms and the ownership structure which determine food security of every country. Undeniably, globalization processes also have an impact on the situation. The report entitled **„Developments in land markets: private sector investment in farmland and agriculture infrastructure”** provides information concerning private investment in agriculture, which has recently seen its popularity grow. **In part, it is due to the economic downturn**, which started in 2008 and led investors to search for new capital investments that would be competitive to the equity market. The factors indicated as driving the growing interest in the agriculture sector include:

- the dramatic rise in commodity prices,
- increased consumption of animal protein and processed foods in developing economies driven by growing populations with rising disposable incomes and a dramatic demographic shift,
- alternative possibilities of developing farmland and, simultaneously, the need for land used for cultivation purposes,
- economic downturn which has compelled investors to seek out real assets and opportunities to diversify their investment portfolios.

Investment in farmland and agricultural infrastructure **is motivated by strong, long-term macroeconomic fundamentals, a high rate of historical return on land investment, connection between the current level of income and**

¹ Report TAD/CA/APM/WP(2010)11 was prepared for the session of the OECD *Working Party on Agricultural Policies and Markets* on 17–20 May 2010 in Paris.

the increase in the value of capital, uncorrelated returns with the equities market and a strong hedge against inflation. It should be also emphasized that investment in farmland market is not made exclusively by private institutions, but also by public funds, which is due to the aspirations of states wishing to ensure food security².

The report was drawn up with the assistance of a consulting company which specializes also in the area of global food, agriculture and renewable energy. The institution has gathered data obtained during a survey based on anonymous questionnaires concerning investment activities of private sector institution in a particular area. The analysis was carried out on the basis of 54 private entities, with headquarters in North and South America, Asia, Australia and Oceania, Africa and Europe. **The authors of the project emphasize that these enterprises constitute only an insignificant subset of the total number of financial institutions that invest their capital into different assets**, and the number of entities investing in farmland is constantly growing. Moreover, the list of entities that were subject to the research was narrowed to the private sector and it does not take into account state funds. Therefore, the chosen entities do not constitute a representative sample and, consequently, do not allow any generalization of the information obtained from the examined sample.

It is nevertheless appropriate to note that **the research which was carried out presents the one-sided attitude represented by investors, and therefore the report can be regarded as highly subjective. The obtained information and evaluations have not been verified from the point of view of the interests of national states, individual farms and societies which are concerned with the issues of farmland management.** Moreover, the stipulation concerning the lack of objectivity can also derive from the fact that these analyses were performed by a consulting company that represents the private capital market, and whose services have been used by the leading enterprises in the sectors of food, agriculture, biofuels, alternative energy sources, industry and financial services. Considering the consulting activity that has been directed at implementing strategies and investments, as well as managing the available resources, **interests of the consulting company can be recognized as convergent with the interest of the investors.** It is also appropriate to note that the presented survey method does not guarantee, even if an anonymous survey is carried out, that the collected information should be true and complete. The report asserts that the enterprises were unwilling to share part of information that was judged confidential, which means that the presented information can diverge from reality.

In the report, **private investment in farmland market and in the agricultural sector is identified with the functioning of private institutions that manage great assets, often for investment or speculative purposes.** Individual farming,

² H. Mann, C. Smaller, *Foreign land purchases for agriculture: what impact on sustainable development?*, United Nations „Sustainable development – Innovation Briefs” issue 8, January 2010, s. 3.

typical for instance in the European Union, is, however, ignored. It is important to note that even when the investor's headquarters are located in Western Europe, the area of investment covers the EU countries only in a limited scope, and in most cases it is limited to Bulgaria. The legislation of the European Union and the legislation of individual Member States has an unarguable impact on such a situation.

According to the guidelines of the Common Agricultural Policy, **the basic production unit in European Agriculture is a family farm**³. Moreover, this form of farming is also stipulated in the provisions of Member States' legislation, for instance in Article 23 of the Constitution of the Republic of Poland, which asserts that the basis of the agricultural system of the State shall be the family farm⁴. Consequently, the regulations concerning farmland management are related mostly to the trade of land that favors transactions concluded among individual farmers who run family farms. If the owner of a property is a non-farmer, these regulations strengthen the position of leaseholders as direct agricultural producers. Private ownership of farmland, especially when the owner of the asset runs a farm, is a stimulus for the development of farming. On the one hand, it motivates the owner to take care of the assets and to use one's own property to the best advantage; on the other hand, it reduces the risks connected with farming. The ownership of land facilitates the access to loans, because a real property can serve as a guarantee for incurred liabilities⁵. The protective function of a property is also important. The ownership of land allows one to carry out farming activities for one's own purposes, permitting self-sufficiency and, possibly, supplementing the income⁶. **Therefore, the activities of large-capital investors on farmland market in Europe are contrary to European agricultural policy.**

In the EU, farmland market is **not free of state intervention, which in most cases takes the form of regulations concerning the institutional and legal aspects**. Many Member States have regulations that **aim at protecting individual family farms, and at the same time curb speculation in farmland trade. They take the form of a ban on selling land for purposes that do not conform to the guidelines of the arrangement plan, limits on territorial norm, requirements relating to the buyer's agricultural education or work experience, requirements related to the location of the farm and the place of residence in a particular area, requirements regarding the age and nationality of the buyer, farm income restrictions and limitations concerning**

³ A. Stelmachowski (red.), *Prawo rolne*, LexisNexis, Warszawa 2008, s. 66.

⁴ The Constitution of the Republic of Poland of 02.04.1997 (Journal of Laws, 1997 no 78, item 483).

⁵ M. Tracy, *Polityka rolno-żywnościowa w gospodarce rynkowej; Wprowadzenie do teorii i praktyki*, Uniwersytet Warszawski Wydział Nauk Ekonomicznych, OLYMPUS Centrum Edukacji i Rozwoju Biznesu, Warszawa 1997, s. 31.

⁶ A. Sikorska, *Rynek ziemi i struktura agrarna*, „Gospodarowanie Ziemią Rolniczą” z dnia 24 maja 2007 r., s. 10–13.

any further sale of the land, etc⁷. As a result, the European legislation puts emphasis on **maintaining the agricultural purpose of a real property also after its sale**. Personal use of an agricultural property constitutes one of the most common restrictions in the land trade within the EU, as it normally constitutes one of the conditions that allow a farm to be considered a family farm, which in turn entitles it to preferential land purchase and exempts it from the provisions of the pre-emptive clause guaranteeing special rights to governmental agencies. Such solutions are put into practice in France, Germany, the United Kingdom, the Netherlands, Denmark and Spain. These restrictions form in-and-out barriers on the farmland market. Their application aims at preserving the agricultural use of farmland and a specific earning power of a farm and the efficiency of agricultural production. Norms eliminate a certain volume of demand which has speculative motives or is not connected with the intention of running a farm. Moreover, in order to reduce the scale of land acquisition for speculative purposes, in a number of countries the evaluation of the price of land is based on its revenue-based value, not its market value. The regulations in force guarantee the use of land by individual farmers and their families, in accordance with their agricultural purpose. In Poland, there is an additional circumstance, related to the development of the existing farms, which stimulates the processes improvement of the local agricultural structure.

As a matter of fact, the politics of the European Union regarding agriculture and rural areas have contributed to guaranteeing food safety in Europe. Consequently, also owing to the changing needs of the population in relation to agricultural and rural products (services), the aims and objectives of the Common Agricultural Policy evolve, towards guaranteeing the sustainable development of agriculture and rural areas. Together with biological and technological progress, there is an increasing need for the development of farms focused on intensive production and those that specialize in extensive production, which at the same time provide public goods. As owners of resources, the latter constitute a specific guarantee, because their output capacity could be, if necessary, used for the purposes of cultivation.

The report describes also the impact of private investment made by powerful capital companies on farmland market with regard to employment, local agricultural economy and local society. Using the example of investment in North America, the report shows a negligible or inexistent impact of investment on the economy. However, it has been pointed out that companies that operate on the markets of Eastern Europe, South America and Africa have positive influence on creating new jobs in local communities, offering in some cases better

⁷ A. Zadura, *Kształtowanie struktury gospodarstw w wybranych krajach UE*, „Biuletyn Informacyjny” 2008/1-2 (118), Ministerstwo Rolnictwa i Rozwoju Wsi, Agencja Restrukturyzacji i Modernizacji Rolnictwa, Warszawa 2008, s. 17; B. Czyżewski, A. Majchrzak, *Efektywność rynku ziemi rolniczej oraz waloryzacja rent gruntowych w kontekście regulacji instytucjonalno-prawnych w wybranych państwach członkowskich Unii Europejskiej*, typescript.

employment conditions than local employers. The management of farmland by these companies has contributed to the introduction of new practices in efficient agricultural production, which have been adopted by the local communities, as well as a rise in the productivity of the cultivated land, access to agricultural products and services, and an increased demand for local goods and services. The examined entities point out their good relations with central and local government. It should however be emphasized that the information comes from investors and it has not been confirmed by the members of local communities. Provided that there are important benefits for entities that have undertaken cooperation with investors, what has not been examined is the impact of these relations on the situation of farms which have not sold their land, and therefore have not handed over the management of their land to international, monopolistic corporations. It is also important that a number of investors cooperate with such institutions as the World Bank, the International Financial Corporation, or the United Nations Food and Agriculture Organization, which stimulate the activities taken up by the companies. However, as the example of Russia (see further) demonstrates, the cooperation with these organizations in land management does not necessarily contribute to the positive development of agriculture in the whole country.

The report presents certain degree of inconsistency. On the one hand, it states that a growing demand for agricultural products in the global economy has been observed, which will necessitate the use of further 75 million ha of land for farming by 2015. These estimates take into consideration the potential technological progress in agriculture. On the other hand, the model of agricultural production characterized by a lower level of crop yield than it is the case of the EU Member States is presented in the report as an example of the positive impact of private institutions investing in farmland and managing it. It is considered to be consistent with the concept of sustainable farming; however, what should be considered is whether it does not lead to the reduction of biodiversity in these areas. From this point of view, the coexistence of farms focused on intensive production and actions undertaken in order to protect natural resources, also through excluding parts of farmland from agricultural production, seems to be more justified. From the point of view of the investors, the increase in productivity per unit of land will result in a decrease in the area used for the purposes of agriculture, and consequently in a reduction of assets that is the subject of investment. It is important to note that the increase of the area used for cultivation at the expense of the land that has not been used for agricultural purposes can have a negative impact on the environment, and it may not be consistent with the growing demand for public goods produced in rural areas.

The report does not present the negative impact of globalization processes on the sector of agriculture, apparent through:

- decreased food safety of individual countries,
- impending processes of monopolization that contribute to the worsening of the situation of producers of agricultural goods,

- use of natural resources, including land, by monopolistic, transnational structures, which in turn contributes to the disruption of previously formed social relations⁸.

Since most cases of land purchase by investors do not lead to increased food production in the country where the property is located, but it constitutes an element of food safety measures benefitting of the investor's country, private investment activities on the farmland market can have severe consequences for the countries that face the problem of limited food self-sufficiency. In fact, some of the countries that are affected by farmland investment by foreign investors are *affected by the problem of malnutrition*. It is true in particular for the Republic of Congo, Ethiopia, Kenya, Madagascar, Mozambique, Sudan and Tanzania. In order to curb the effects of this phenomenon, several of these countries have been forced to introduce exportation limits⁹. Another important factor is water scarcity; foreign investors acquire the right of access to its sources to the detriment of their previous users. Moreover, in the countries of farmland investment, there is a growing danger of environmental pollution, including the pollution of water resources, with chemical substances used in farming; workers' protection is diminishing considerably as well¹⁰.

Russia, whose land is also subject to investment processes considered in the report, can be used as an example in order to verify the statements made thereby. Representatives of scientific institutions declare that an increase in the supply of agricultural products will necessitate an appropriate management of farmland, and in particular of its ownership structure; at the same time, it is important that it guarantees the development of agriculture and rural areas in accordance with natural as well as cultural and historical conditions. They also emphasize that farmland management must be executed with the participation of private investment institutions, and that the involvement of the state may increase its efficiency. Farmland management should take into account the specificity of a particular country/region, including natural as well as cultural and historical conditions, the economic situation or the geo-economic location. Agrarian factors constitute an important element that shapes the political system of a country, which means that they must not be omitted when directions and perspectives of the country's development in the context of globalization are formulated¹¹.

Transformations of Russian agriculture resulting from the processes of globalization have led to a significant lowering of the agricultural production level, whereas the natural conditions in Russia allow not only ensuring food self-sufficiency, but giving the country the opportunity to become an important

⁸ L. W. Nikiforow, T. E. Kuzniecowa, *Stan i rozwój wsi rosyjskiej w warunkach wyzwań globalizacji*, [w:] A. Czyżewski (red.), *Polska i rosyjska wieś w świetle wyzwań globalizacji*, Wydawnictwo Key Text, Warszawa 2009, s. 43.

⁹ H. Mann, C. Smaller, *Foreign...*, dz. cyt., s. 5.

¹⁰ Tamże, s. 4–8.

¹¹ L. W. Nikiforow, T. E. Kuzniecowa, *Stan...*, dz. cyt., s. 46.

exporter of agricultural products. It is all the more important considering the global food problem that results from a growing demand for food, accompanied by a rise of prices of agricultural goods. According to the statements made by Russian scientists, taking advantage of this potential needs creating conditions to enable the reconstruction of the Russian countryside. Thus far, globalization processes have had a negative effect on the rural system, also owing to the involvement of monopolistic, transnational institutions¹².

The reforms implemented in accordance to recommendations made by the International Monetary Fund and the World Bank have led to the deindustrialization of agriculture in Russia, which has become backward and adopts the small farm model¹³. It was attributable, among other factors, to the limitation of the involvement of the state in the economy to the level of 10%. However, we must not forget that the share of state ownership in the GDP of the USA amounts to 32%, Japan – 35%, England – 40%, Canada – 43%, Germany – 48%, Italy – 51% and Sweden – 62%. The demands of an unconditional limitation of state involvement in the economy appear to be exaggerated. What is more, against the prognoses of liberal reformers, the diversity of forms of ownership and farming did not lead to an increase in the productivity or the competitiveness of agriculture¹⁴. We may therefore conclude that it is not advisable to support investors who have large funds at their disposal as the direction of development of farmland management on the global level.

The development of Russian farming provides a good example because it requires finding a solution to the problem of ownership relations with regard to farmland. Russia owns 10% of the global farmland for farming, but produces only 2% of global output¹⁵. One third of the land has been bought by big capital and often is not used in accordance with its purpose. Moreover, in the majority of cases the purchase of land by these entities involved a breach of federal law. Hence there are not rare demands of land renationalization in Russia, which exist also in other countries. State ownership of land guarantees food independence of the country and the use of land for farming purpose. It is also demanded that the purchase of land and its use by foreign investors should be subjected to legal control.

Agricultural law in Russia is currently undergoing a process of modification, with new amendments to the existing law being drawn up. Their purpose is to curb and prevent speculative sale of farmland and modification of its purpose. Changes that have been introduced enable the country to carry out the policies

¹² Tamże, s. 50–51.

¹³ M.A. Korobienjnikow, *Stan kompleksu agrarno-przemysłowego Rosji i strategia jego rozwój*, [w:] A. Czyżewski (red.), *Polska i rosyjska wieś w świetle wyzwań globalizacji*, Wydawnictwo Key Text, Warszawa 2009, s. 61–62.

¹⁴ E. G. Łysenko, *Strategiczne zarządzanie formami gospodarowania e sektorze agrarnym gospodarki Rosji*, [w:] A. Czyżewski (red.), *Polska i rosyjska wieś w świetle wyzwań globalizacji*, Wydawnictwo Key Text, Warszawa 2009, s. 237.

¹⁵ M. A. Korobienjnikow, *Stan...*, dz. cyt., s. 69–70.

of multifunctional development of agricultural sector considering its production objectives, but also social, demographic, environmental, spatial and communication purposes. Such solution will enable sustainable development and improve the international competitiveness of the agriculture sector in the context of globalizing economy¹⁶. Wealthy countries plan to lease or purchase farmland, or invest in agricultural projects abroad in order to guarantee the provision of agricultural products; this is the result of limited agricultural production caused by climate change. In Russia, climate change processes shall lead to an expansion of cultivated areas and an increase in crops yield¹⁷.

Considering all of the above observations, it can be assumed that **the evaluated report presents an outline of the factual situation and the tendencies that characterize private investment in farmland and in agriculture sector, as well as the opinions of investors regarding their vision of development in this domain. It cannot, however, be assumed that the activity of companies that dispose of large funds should be the prevailing direction of development for farmland market.** Moreover, the subjective method of analysis that led to the drawing up of the report makes it impossible for the presented information to be accepted as evaluative.

It should be emphasized that owing to the method of research employed, the report presents the issue under investigation in a biased manner. The information obtained from individual investors should not be treated as universally relevant and international organizations that are quoted as sources of information do not constitute a representative sample. In order to assess the role of private investment in the management of farmland it is necessary to analyze their impact in a multifaceted manner, taking into consideration their impact on the environment, the situation of individual farms, the stand of central and local governments, as well as the question of food independence of individual countries and the historical, cultural and social context. These aspects are missing from the evaluated report, which should be regarded only a contribution to further deliberation on the subject of farmland market, not a guideline for the Common Agricultural Policy in 2013–2020.

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¹⁶ B. E. Frumkin, *Narodowy projekt kompleksu agrarno-przemysłowego i rozwój rolnictwa w Rosji*, [w:] A. Czyżewski (red.), *Polska i rosyjska wieś w świetle wyzwań globalizacji*, Wydawnictwo Key Text, Warszawa 2009, s. 131.

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