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New regulations governing land sales in Central and Eastern Europe: Imposing restrictions via particularized institutions?[1]

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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. Since 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 foreigners but also for some groups of domestic investors. In this study, we analyze land market regulations adopted in Latvia, Poland, Romania, and Slovakia. We argue that these new regulations create particularized or non-inclusive institutions. We also argue that the new land market regulations will likely result in reduced competition and thus affect land prices, sale transactions, and access to land. The market impacts are different across the four countries due to the heterogeneity in the newly adopted regulations.

Key words: land acquisitions, land regulations, particularized institutions, Central and Eastern Europe

JEL classification: Q15, D02

1. Introduction

Upon joining the European Union (EU) in 2004 and 2007, New Member States (NMS) from Central and Eastern Europe[2] were granted a possibility of introducing transitory restrictions on agricultural land acquisitions by foreigners from EU Member States (European Commission 2014). The transitional measures were adopted to allow land markets to adjust gradually to competitive pressures from the single EU market. These pressures primarily originated from substantial differences in agricultural land prices between NMS and Old Member States (OMS)[3] (e.g., Swinnen et al. 2013).

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[1] We are grateful for comments from seminar participants at the European Commission. This report is based on Ciaian et al. (2016). The authors are solely responsible for the content of the paper. The views expressed are purely those of the authors and may not in any circumstances be regarded as stating an official position of the European Commission.

[2] 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).

[3] Old Member States (OMS) include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the UK.

The transitory measures expired in 2014 (in Poland in 2016). Subsequently, NMS governments introduced new regulations to govern national land markets. The objective of our report is to map these new land market regulations and analyze their potential impacts on farmland markets. In particular, we analyze to what extent these regulations limit access to land resources and create potential barriers constraining the optimal allocation of resources.

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 and exhibit different levels of the economic development, which implies that they 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. The analyzed countries also display substantial heterogeneity in terms of the role that land sales and land rental markets play for the local farmers. As a result, the four countries under investigation allow us 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.

As we show in this report, a common trend among many NMS was to preserve the status quo, that is, to maintain effective restrictions to the land acquisition by foreigners. Given that direct restrictions on foreign investments in the land 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 investors but also for some groups of domestic investors. As a consequence, the new regulations resulted in a non-level playing field, where the group of land market participants with easier access to land transactions is favored at the expense of other groups. We, therefore, argue that the new regulations governing land markets in the NMS under study 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. There also seems to be a consensus that institutions encouraging economic participation by large proportions of people are more favorable to stimulating economic performance than institutions providing privileges only to a relatively small subset of agents in the economy. The key role of distributional conflicts between different interest groups for the development of institutions and their impact on various socio-economic aspects is another important message emerging from the literature. These claims receive strong support in arguments advanced both in an early institutional economics literature (e.g., Commons 1924) as well as in more recent studies which use an institutional political economy approach (e.g., Obeng-Odoom 2013).

In this report, we investigate the impacts which the new land regulations, viewed from that perspective, may bring about. As such, our work 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. We try to complement these contributions by analyzing the likely impact of governmental restrictions imposed on land transactions. This issue is important as state interventions in land markets may reduce 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 improve our knowledge about the legislation governing land transactions in OMS and NMS before 2014, the new regulations introduced in NMS are much less researched. On the other hand, our analysis is related to studies concerning the phenomenon of land grabbing (Kay et al. 2015; van der Ploeg et al. 2015; Ciutacu et al. 2017). 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.[4] Foreign land ownership is often mentioned as a key driver behind this phenomenon (TI 2013; EESC 2015). Other line of research however, argues that foreign land acquisitions could promote the development of rural areas through attracting foreign investments, which could lead to a re-

[4] 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).

cultivation of the abandoned land, a job growth, the improvement of working conditions of the agricultural labor, improved market access for farmers, and an increase in the agricultural export potential (Görgen et al. 2009; Swinnen and Vranken 2009, 2010). In this context, our study tries to contribute to the 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.

2. Foreign land ownership in NMS

While the four countries under study differ in various features, they share many commonalities as regards the foreign land ownership. First, in all four countries, experts, politicians, and officials seem to unanimously agree that land regulations—in place during the transitory period after the EU accession—aiming at restricting the foreign land ownership were not very effective (Swinnen and Vranken 2009). As a result, the share of land owned by the foreigners has increased (EP 2016; see also sections 3.1-3.5). Moreover, it is often the most productive farmland (not marginalized land) that is being acquired by foreigners (Buday et al. 2013; RL 2013; Pravda 2015; LSM 2017).

Second, in all four countries it is difficult (if at all possible) to assess how much land foreigners really own (EP 2015). The figures from official statistics and unofficial sources greatly differ (Swinnen et al. 2014a,b). According to 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 (EP 2016). For example, in Poland these estimates range from 42 thousand hectares (less than 1% of the total agricultural area) for the whole country, as reported by the Ministry of the Interior, to 400 thousand hectares in just one region (almost 50% of the total agricultural area in this region) (TI 2013; SAO, 2014).[5] Similarly, for Romania, the estimates vary 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 thousand 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

[5] This concerns the region Zachodniopomorskie, which borders with Germany.

through locally registered companies (Swinnen et al. 2014a,b). 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, 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 and from 2 400 EUR per ha to 7 700 EUR per ha in Poland.[6] In Romania, the average price increased from 1 200 EUR per ha to 4 000 EUR, whereas in Slovakia from 1 000 EUR per ha to 3 700 EUR per ha (IERiGŻ var vol.). It is commonly argued that part of this phenomenon is attributable to the demand from foreign investors (EP 2015).

The price increase notwithstanding, prices in NMS 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 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,[7] in Italy 20 000 EUR per ha, in Belgium 30 000 per ha, whereas in the Netherlands they amounted to as much as 53 200 EUR per ha.[8] 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 new investors in bidding for land, as the majority of the investors come from OMS (RL 2011; TNI 2016). In Latvia, for example, largest foreign farmland owners are from Sweden (171 977 ha), Norway (48 104 ha), Denmark (46 972 ha), Germany (30 550 ha), and Luxembourg (19 200 ha) (LSM 2017).

Finally, in all four countries, it is observed that non-farming companies control 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, Ciutacu et al. 2017). Our study provides evidence that farmland grabbing is taking place in all four studied countries, as measured by the degree of foreign land ownership, the concentration of

[6] 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.
[7] This average is for both Western and Eastern Germany. Land prices in the west of Germany are much higher (about 28 000 EUR per ha) than in the east (12 200 EUR per ha).
[8] It should be noted, however, that prices in Finland and France are more comparable to prices in NMS.

the land ownership in few hands, and the irregularities that often accompany numerous farmland transactions. In addition to the establishment of large corporate agricultural farms in NMS with the involvement of capital from OMS, recently the rush for land includes a new set of actors, such as financial investors consisting of banking groups, private equity companies, and investment funds that are traditionally not involved in the agricultural production (Buday et al. 2013; Ecoruralis 2014; Hajdu and Visser 2017). In Latvia, for example, out of ten largest foreign farmland owners, there is only one company involved in the agricultural production (LSM 2017).

According to Kay et al. (2015), there are multiple drivers of farmland grabbing in NMS: significant farmland price differences between OMS and NMS that encourage speculation and '*land artificialization*,' the unintended consequences of land reforms, land privatization and agricultural restructuring programs in NMS, the link between the control over farmland and CAP subsidy rent extraction, and other EU policies, such as bioenergy, climate and the environment. None of the four analyzed NMS fits in the mainstream 'target countries' (poor and land abundant), as identified in the land grabbing literature on Africa and Latin America (von Braun and Meinzen-Dick 2009, White et al. 2012). However, there are certain similarities with land grabbing processes taking place in other post-communist countries, for example, Ukraine, Russia, and Kazakhstan (Visser and Spoor 2011, Visser et al. 2012).

3. New land market regulations

After the expiration of the transitory restrictions, land acquisitions in NMS were expected to be 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 by the general public, NMS introduced new restrictions on land sales.[9] 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. These regulations aimed at maintaining the status quo established by transitory measures introduced at the time of the EU accession. While the regulations adopted in different NMS share some similarities, they also vary in several respects. In this section, we describe the new land market regulations introduced in four NMS countries under study: Romania, Slovakia, Poland, and Latvia.

[9] 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).

3.1. Romania

The key change introduced by the new regulation in 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,[10] adjacent landowners, and the state of Romania (Table 1).[11]

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 agricultural land and if the seller accepts the offer,[12] 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.

Additional conditions on sales transactions are imposed if the agricultural land is of 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

[10] An eligible tenant needs to have a written and registered rental contract for the land offered for sale.

[11] The order given in the text represents the order of priority each group has in the case of multiple intends of purchase. Family relatives have priority over 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.

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 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; 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 in this case. However, if the seller intends to sell land to the second group of buyers, (s)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 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

[13] RON 50 thousand and RON 100 thousand, at the exchange rate 4.5 RONs for one euro as of November 2016.

months from 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 (Law 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 the local government, the state, the Agricultural Property Agency (APA) acting on behalf of the state, or the Church buy the land; 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, (s)he should run the farm in person). 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.[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.

[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.

There are many exemptions to the pre-emption right. 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 ask the local court, within 14 days, to establish its price. 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 only be 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 intended for non-agricultural uses. Other exceptions need to be approved by the Ministry 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 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.

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 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[15] and is obliged (if a natural person) to manage this land in person.

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 (Latvijas Republikas Likums 2014). Under the new regulation, an individual (natural person) is entitled to acquire the agricultural land if (s)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) for at least a period of one year during last three years;[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 (s)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 has 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 company can acquire the agricultural land if it conforms to criteria 1, 3, and 4 as well as the following criteria:

1) Has received single area payments under the CAP for at least one year during last three years[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

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

[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.

[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.

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, an 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 an individual or a company 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, needs to 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 (s)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),[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 around 200 land parcels covering more than 3000 hectares for almost 10 million EUR.[19] Further, the Land Fund not only buys farmland but also leases it out to farmers. By June 2017, lease agreements for more than two 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 recognized that the Fund has been in existence for a short period, and its farmland ownership is increasing relatively rapidly. In addition, currently, it is acquiring land in all regions, including 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.

[18] http://www.altum.lv/zemesfonds
[19] http://laukos.la.lv/atdzivinati-3000-hektaru-zemes/

Finally, in May 2017 Latvia adopted a new law further restricting land acquisitions by foreigners.[20] In particular, the knowledge of the Latvian language is required for all buyers of farmland in Latvia, and pre-emption rights are further strengthened in favor of current tenants and the Latvian Land Fund. These changes imply that the acquisition of the agricultural land by foreigners will become very difficult as from July 2017 when the new law enters in force.

Overall, in all the analyzed countries, the new regulations have considerably changed the way in which land markets are organized. While the introduced regulations share many similarities, they also vary across the four countries, despite the fact that they were designed with the same intention. This observation is in line with numerous studies which show 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 components of the institutional system (e.g., North et al. 2009; Acemoglu and Robinson 2012; van Besouw et al. 2015). The earlier discussion indicates that Slovakia has the strictest regulations while Romania seems to be the most liberal. Below we attempt to account for these differences and identify what strategies the beneficiaries of the new regulations used to advance their interests. Political influence and characteristics of key actors lobbying for the new regulations, combined with the external environment and pressures (e.g., globalization), appear to have played a particularly prominent role.

4. Explaining the new regulations

As illustrated above, one important implication of the new regulations in all four countries is that access to land for some groups of potential investors has become much more challenging. Such restrictions on land transactions share several features of what the literature describes as particularized institutions (Ogilvie and Carus, 2014). These institutions, instead of applying uniformly to all economic agents, apply only to a subset of them. In our context, the new regulations protect the interest of current land users and create entry barriers to new potential investors, regardless of their intentions to invest in land.

A particularly useful perspective to look at these issues is offered by political economy analyses of the functioning of land markets. A broad consensus that emerges from this literature is that the changes in land regulations and institutions in Europe were not necessarily efficiency-driven. Instead, they largely reflected the relative power balance between different land market groups interested in capturing the highest rents possible (Swinnen 1999, 2002; Swinnen et al. 2014b). This line of reasoning is consistent with the

[20] https://likumi.lv/doc.php?id=290640

argument advanced in the original institutional economics literature which emphasizes that the composition of the institutional system is often an outcome of distributional conflicts (Commons 1924; Polanyi 1944). More recent studies drawing on the institutional political economy approach (e.g., Bromley 2008; Obeng-Odoom 2016) provide further support for this view and convincingly argue that transitions from one institutional system to the other are often aligned with the interests of those having political influences and thus may not lead to overall efficiency improvements. This might be especially the case if one considers efficiency not only from an economic, but also from the social and ecological point of view (Obeng-Odoom 2016).

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). The outcome of the conflict between these groups depends on the resources that they can mobilize to advance their goals. This in turn largely depends on how easy they can solve collective action problems (Olson 1965).

4.1. Accounting for the differences among the analyzed countries

The interest-group theory seems to be particularly useful to highlight the mechanism behind introducing the new regulations in Slovakia. The Slovak agricultural sector is dominated by large corporate farms, which use more than 81% of the total agricultural land (Table 2).[21] The high concentration of land usage is important as it may easily translate into the strength of the pressure that farming interest groups, composed of relatively few large players, can exert on the state when seeking protection. The reason for this is that smaller groups find it easier to solve collective action problems. This results from the fact that members of such groups have typically more to win from a given policy since the benefits they face are much more concentrated (Olson 1965). The new regulations allow large corporate farms in Slovakia to enjoy the benefits of restricting land markets as follows. The corporate farms rent most of the land they operate on (around 90% according to EP 2014). Typically, landowners are small or absent, and live in urban areas or are employed outside of agriculture. 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 changed (Ciaian and Swinnen 2006; Kancs and Ciaian 2010, 2012). The fragmented ownership structure in

[21] For comparison, in other countries under study, land use is much more fragmented and farming is mostly undertaken by small-scale family farms (EP 2014; Swinnen et al. 2014b). For example, in Poland and Latvia family farms use around 90% of agricultural land. In Romania, this share amounts to 56% (Table 2).

Slovakia favors incumbent corporate farms,[22] 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 entered 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.

The interest group theory seems to be unsatisfactory in explaining the situation in the three remaining countries. This is because in Poland and Latvia, and to a large extent also in Romania, the new regulations favor relatively small-scale farmers who constitute a great majority of farm operators.[23] According to the interest group theory summarized above, these large groups of relatively small producers should face serious free-rider problems and therefore be less efficient in lobbying for protection.[24]

To explain the introduction of the new land regulations in Romania, Poland, and Latvia, we identify two main mechanisms. Both of them relate to the influence that the beneficiaries of the new regulations exert on the decision makers through the political system. The first mechanism relies on farmers' political power which stems from their group size. In all three countries, farmers constitute an important part of the electorate, especially in rural areas. To illustrate this, the employment share of agriculture, forestry, and fisheries in rural regions amounted to 39% in Romania, 27% in Poland and 15% in Latvia in 2009 (Eurostat 2009). In addition, in many predominantly rural regions of these countries, this share was higher than that observed for industry, construction, or even services.[25] One may, therefore, assume that demands of this particular constituency had to be taken into account in various policy platforms (Swinnen and Vranken 2007; Macours and Swinnen 2002). Consequently, the political decision to introduce the new regulations that would make access to land for small-scale producers easier could be seen as an attempt to win their electoral support. The fact that in all three countries the introduction of the new land regulations was followed by national elections (either presidential - Romania, Poland, or parliamentary - Latvia, Poland)

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[22] The agricultural land ownership is split into 9.6 million plots in Slovakia with an average plot size of 0.45 hectares owned by between 12 and 15 owners (Bandlerova, Marisova and Schwarcz 2011).

[23] Compared to Slovakia, in the three remaining countries the share of land rented is also much lower and varies from 17% in Romania, 20% in Poland, to 27% in Latvia (Swinnen et al. 2014b).

[24] We would like to thank an anonymous referee for drawing our attention to this issue.

[25] Eurostat, http://ec.europa.eu/eurostat/statistics-explained/index.php/Agriculture_-_rural_development_statistics (accessed: 22nd March 2017)

supports this argument.

The second mechanism to explain the new land regulations in Latvia, Poland, and Romania draws on the fact that farmers' demands to introduce restrictions on foreign land ownership received large support from the general public. For example, according to the opinion poll conducted on a representative sample in Poland in October 2016 (i.e., already after the new regulations have been introduced), 76% of respondents strongly agreed or rather agreed that Polish land should not be sold to foreigners (CBOS 2016). In all three countries land acquisition by foreigners was often presented and perceived by the public as a threat to the national food security or the livelihoods of local communities. While we are not aware of any study that would investigate the importance of land issues in voters' preferences, the support that a general public in the analyzed countries gave to the new regulations is very much in line with the literature documenting that voters often engage in "sociotropic" voting (Duch and Stevenson 2008). According to this view, voters' decisions are driven by their perception of the situation at a macro or local level rather than at the individual or household level (Ansolabehere et al. 2014). Consistent with this reasoning, there is now an extensive literature showing that exposure to risk deriving from global competition shapes support for protection and that this effect is not restricted to a specific category of voters (Mayda and Rodrik, 2005; Margalit, 2012; Colantone and Stanig, 2016). In our context, this could be used to explain why people may support restrictions on foreign land acquisition even though they are not directly affected by it. As before, these determinants of voters' behavior must have been taken into account by politicians who sought to be (re)elected and might have paved the way for adopting the new land regulations.

While the two mechanisms could have played their role in Latvia, Poland, and Romania, the three countries differed in terms of resources that farmers mobilized to advance their interests. Interestingly, in Latvia and Romania there were hardly any protests against foreign land ownership. In Poland instead, the situation looked very different, and nationwide farmers' protests were continuously launched. These protests took various forms which included hundreds of road blockades at different points across the country, manifestations gathering thousands of people in the capital or the occupation camp outside the prime minister's office lasting for four consecutive months. Importantly, the protests were organized not only close to the date in which the old transitory measures were supposed to cease to exist but were launched continuously over a couple of years. Thanks to this they had a higher chance of breaking through to the general public and win its support.

In Latvia and Romania, the main pressure on the government to introduce the new regulations was coming from farmers' unions but not through the street protests. In Latvia, the main pressure to tighten the legislation concerning the farmland acquisition by foreigners was coming mainly from coalition partners in the Latvian government. Since 2014, the Union of Greens & Farmers and the National Alliance (together with Unity) are main governing parties in Latvia. The Union of Greens and Farmers, which holds both President and Prime Minister positions, strongly supports Latvian farmers – for obvious reasons. The second largest governing party – the National Alliance – is concerned among others about the property acquisition by foreigners. As a result, between 2014 and 2017 a number of farmland sales restrictions have been anchored in the Latvian legislation. In Romania, in turn, the issue of land distribution additionally played a role. Small individual farms and large corporate farms coexist in Romania. 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.

4.2. New land market regulations in the EU context

The implementation of the new regulations in all the analyzed NMS has also been greatly facilitated by the similarity of land markets restrictions used by some OMS. While there is a great diversity of land market regulations in the EU, some of the OMS support very particularized institutions which are strongly biased in favor of local agricultural producers (for an overview of land markets regulations in the EU see Swinnen et al. 2014a, and Table 3).[26]

As often acknowledged by officials from the four NMS under study, the changes in the governance of land markets in their countries often followed the example of the regulations in OMS. The most popular measure among OMS 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 analyzed countries.

Compared to other EU countries – with the new regulations in place – Romania will remain 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

[26] According to Swinnen et al. (2014a), one of the strongest land market interventions can be found in France. 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 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.

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 only working farmers own the land. 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), the knowledge of the Latvian language 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.

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

By creating limited access to land, the new regulations affect the distribution of rents linked to the land ownership and land usage. On the one hand, this concerns social privileges such as status and place in social hierarchy at the local level. 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, the new organization of land markets has a direct impact on the distribution of benefits related to various subsidies provided to farmers under the CAP. This is because these subsidies are to a large extent land based.

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. 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, there may be other potential consequences that restrictions on the access to land may bring about. In the 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 costly in terms of bureaucracy and time. 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 and sellers.

The transaction costs include various direct costs (fees and various payments such as notary charges) incurred by the seller. 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.

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 or 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 in writing to buy 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 a 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

While the new regulations can be associated with the increased transaction costs (direct or indirect) it should be noted that they may reduce the problem of the imperfect information and increase the market transparency. 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 elements of the new regulations which may contribute to 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.

5.3. Market impacts of the new regulations

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, in turn, 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. Finally, following this analysis we draw some implications of the new regulations for local communities in rural areas.

5.3.1. The impact of seller's transaction costs

As explained above, transaction costs on the seller's side make land sales more expensive. Since sellers need to incur additional costs (e.g., administrative costs, opportunity costs of time), they 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, depending on the ability of public authorities to put an effective implementation of the new regulations in place (Table 4).

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 4). 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 more expensive and administratively more 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. The administrative procedure is more demanding from the seller's point of view only in Slovakia if the land buyer is not a farmer. Non-farmers have to wait for at least 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 4).

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 4). This result is the reverse of the impact discussed above for the sellers' transaction costs.[27]

Similar to sellers' transaction costs, also buyers' transaction costs lead to sales market transaction distortions compared to a situation without the new regulations. 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

[27] 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. 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.

productive buyers willing to invest in agriculture may be deterred from the land market participation. Overall, the ability of the market to facilitate the relocation of land from less to more productive land users diminishes (Table 4).

Further, the new regulations will improve access to land to farmers and reduce the access to foreigners (Table 4). 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 and have knowledge of the Latvian language, 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 smaller than is Slovakia. In these two countries, the 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 need to have knowledge of the Latvian language and 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 (Table 4).

5.3.3. The impact of greater transparency

The expected impact of an 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 4).

The main beneficiaries of improved transparency are expected to be mainly external buyers, including foreign ones. External buyers may benefit because usually they have more costly access to the local land market information compared to local buyers. 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 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 improved market transparency is expected in Romania followed by Latvia, whereas in Poland and Slovakia the impact will likely 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 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 foreigners fulfilling this requirement may benefit from a greater transparency, which may increase their access to land. Further, as described above, sales offers done with buyers of group one are not required to be announced in the designated public place. It is likely that also in Poland the transparency effect will be close to zero because private transactions are not required to be published; this concerns only sales of public land.

5.3.4. Overall impacts

Table 4 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 in Romania the prices are expected to increase slightly. 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 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 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 policy objective to reduce foreign buyers' access to land in Slovakia. However, the collateral effect is greater distortions in land markets and land value loss. The new regulation devaluates the value of land, thus generating losses to landowners, of whom many are farmers or reside in rural areas.

Also in Poland and Latvia, potential land market effects are driven by a lower competition due to 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. 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).

5.3.5. Impact on local communities

The introduction of the new regulations increases the costs of organizing land transactions in all four countries under study. The relationship between the changes in the functioning of land markets and overall costs, however, is far from being obvious when analyzing the impact on local communities. In line with the literature on agrarian change, rural sociology or institutional political economy, it can be argued that the new regulations can help to avoid incurring considerable costs in the future (e.g., van der Ploeg 2008; 2013; Borras and Franco 2012; Obeng-Odoom, 2013).[28] This is because the new regulations are expected to slow down several processes that are likely to interfere with the existing land-based social relations and which may, therefore, have negative impacts on the sustainability of rural livelihoods. These processes include excessive land concentration, land grabbing or a strong preference towards commercialization of the way in which resources are governed. These phenomena are often associated with small-scale farmers and rural poor (often older or less educated farmers) being dispossessed and/or displaced. In this context, the new regulations may potentially contribute to lowering the costs related to accommodating these people in new places and/or jobs as well as preserving the culture and traditions which are part of local communities. As such, the new regulations may relieve, at least to some extent, the budgets of regional or cohesion policies which otherwise would have to cope with potentially detrimental impacts of keeping the land regulations too liberal.

As the above analysis suggests, the impact of the new regulations on local communities is expected to be heterogeneous across the four countries under study. The highest effect of new regulations is likely to be in Poland and Latvia, followed by Slovakia. In these three countries, the new regulations improve farmers' access to land relative to non-farmers and foreign buyers (Table 4) which may support local farmers and thus limit the disruption of existing land-based social relations. Although in Slovakia the new regulations introduce a relatively strong protection for local farmers, the fact that the majority of land is controlled by large companies (through rental markets) (Table 2) implies that the gains for local communities (or small farmers) may be limited. Whether land is controlled by the incumbent large farms or new (foreign) buyers will likely not significantly alter the fabric of rural areas. Recall also that, in line with the interest group theory, the new regulation was

[28] We thank an anonymous referee for drawing our attention to this point.

adopted in Slovakia with the aim to protect the current farm structure (i.e., the incumbent large farm's access to land); it never attempted to be addressed towards supporting and protecting small farmers or local communities. In Poland and Latvia, the gains for local communities could be present given that the farming structure in these two countries is dominated by small farms (Table 2). However, the impacts are likely to be very location specific depending on farm structure and social relations present in a particular region.

In Romania, the impact of the new regulation is expected to be minimal or rather negative on local communities because it actually may improve foreign buyers' (and non-farmers) access to land to the detriment of local farmers. The entry of external players may have some adverse implications for social relations in rural areas and may displace older or less educated farmers. However, the impact of improved foreigners' access to land might not necessarily affect adversely rural development in Romania. In fact, the displaced farmers may benefit from greater job availability in rural areas due to an increase in foreign investments. In fact, a part of land grabbing literature argues that foreign land acquisitions could be instrumental in promoting growth and development in rural areas. A multitude of direct and indirect positive effects can arise from foreign investments such as re-cultivation of abandoned land, job growth, adding value to underutilized land, improvement of working conditions of agricultural labor, adoption of new technology and innovations, improved market access for farmers, and increase in agricultural export potential (Görgen et al. 2009; Swinnen and Vranken 2009, 2010).

6. Conclusions

This report 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 report was to investigate their potential implications for land markets, land prices, transaction distortions and access to land to domestic farmers' and foreign buyers. As we show, the overall impact of the new regulations is not obvious, and both their pros and cons could be mentioned. In addition, the effects of the new organization of land markets will likely differ across the analyzed countries.

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 among the four studied countries is the coverage of pre-emption rights which give differentiated protection to domestic farmers vis–à–vis non-agricultural or foreign investors. In line with the interest group 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). 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 preferential treatment given to local farms in the new regulations (particularly in Latvia, Poland, and Slovakia) seems to address, at least in part, several concerns raised in the "land grabbing" literature, according to which the farmland grabbing is weakening the socio-economic and environmental vitality of rural economies. In combination with an increasing concentration of land ownership and decreasing numbers of small farms in NMS, land grabbing is endangering the sustainability and multifunctionality of rural economies, which may have negative implications for the food security, social cohesion, employment, and the environment in the EU.

In light of potential negative consequences identified in the land grabbing literature, there may be a case for a policy intervention. In order to avoid the negative effects of land grabbing on the local fabric of rural areas in NMS, there is some scope for the land market regulation, for example, by restricting non-farming investors' access to land acquisitions and giving a certain power to state agencies (as done in Latvia and Poland) to intervene in agricultural land markets in favor of local farmers. Regulating the process of the 'commercialization of commons' would be in line also with institutional political economy arguments. However, this needs a careful analysis, and it is highly specific to the overall context. For example, although Slovakia introduced a relatively strong protection for local farmers, gains for small farmers (or local communities) are expected to be small, because the majority of land is controlled by large companies, and the new regulation is perceived to protect their status quo situation rather than aiming to improve land access to small farmers or to protect local communities. Moreover, there is now a considerable research arguing that foreign land acquisitions could be instrumental in promoting growth and development of rural areas. Foreign land acquisitions may stimulate foreign investments in the rural area and lead to a variety of positive effects spanning from the re-cultivation of an abandoned land to the improvement of working conditions of agricultural workers. Hence, policy interventions may not be desirable on this ground, suggesting that the new regulations (particularly in Slovakia, Poland, and Latvia) may hinder the development of rural areas.

Further, it has to be noted that 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. From this perspective, the new regulations make land transactions more costly and limit the potential of land markets to facilitate reallocation of resources towards more efficient uses. 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). Of particular concern should be the fact that potential investors/farmers with a higher land market productivity may be excluded from land markets (especially in Slovakia).

On the other hand though, the new regulations, perhaps unintentionally, increase the transparency of land sales transactions and thus 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 potential buyers.

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Table 1. **Summary of new restrictions on land sales transactions in Romania, Slovakia, Poland and Latvia**

	Romania	Slovakia	Poland	Latvia
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 companies 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. Farm structure in countries under study (2013)

	Share of land use in total agricultural area (%)		Average farms size (ha)	
	Family farms	Corporate farms	Family farms	Corporate farms
Latvia	87	13	20	176
Poland	91	9	9	361
Romania	56	44	2	207
Slovakia	19	81	18	559

Source: Eurostat

Table 3. Land market regulations in the EU

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

Source: Swinnen, Van Herck, and Vranken (2014a).

Table 4. 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
Seller's transaction costs	RO	+	–	0, +	0, –
	SK	+	–	+	–
	PL	+	–	0, +	0, –
	LV	+	–	0, +	0, –
Buyer's transaction costs	RO	–	–	+	0
	SK	–	–	++	– –
	PL	–	–	++	–
	LV	–	–	++	–
Higher transparency	RO	+	+	0, +	+
	SK	0, +	0, +	0, +	0
	PL	0, +	0, +	0, +	0
	LV	+	+	0, +	0, +
Overall impact	RO	+	0, +	0, +	0, +
	SK	–	–	+	–
	PL	–	–	+	–
	LV	–	–	+	–

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.

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