

STATE REGULATION OF AGRICULTURAL PRODUCTION

FINNISH-BALTIC JOINT SEMINAR
VILNIUS LITHUANIA 1992

*MAATALOUDEN TALOUDELLINEN TUTKIMUSLAITOS,
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Abstract. Agricultural economists from Finland and the Baltic countries had their third joint seminar in Vilnius, May 26-29, 1992. The seminar topic concerned the state regulation of agricultural production. The seminar was organized by the Lithuanian Research Institute for Agricultural Economics. This publication contains most of the presentations given in the seminar or summaries of them.

Agricultural economists from the host country examined the means and organisation of the agrarian reform in the Republic. Formation of the procurement prices, state policies for agricultural production and influence of East and West European markets were the most essential topics on the area of price policy. The taxation systems and function of the labour market in the countryside were other interesting subjects of Lithuanian economists. Attached to the joint studies of Lithuania and U.S.A. the American economists analysed privatization in policies for agriculture and modelling government policy for agricultural markets during the transition period.

Finnish presentations concerned the latest development of the agricultural structure and prejudged changes in it. Other topics dealt with the situation in the grain production in the country, features of efficient farms as well as taxation systems of Finnish farmers.

Latvian economists examined problems of small business and privatization and provided different approaches and possible ways of solution of the problems of privatization. The role of the Government in pricing, taxing and crediting was closely examined also from the Latvian point of view.

Estonian economists described the general situation of privatization in their country, agricultural taxation as well as the role of local municipalities in the process of privatization.

Index words: Agricultural policy, family farms, price, production, taxes, Finland, Estonia, Latvia, Lithuania

Photos by: Ossi Ala-Mantila, Juhani Ikonen and Maija Puurunen

Contents

	Page
Lithuanian agrarian reform: Legal and organizational aspects <i>B. Kuzulis</i>	7
Privatization in policies for agriculture <i>S. R. Johnson</i>	11
Problems of privatization of agriculture in Estonia <i>Valdek Loko</i>	15
Privatization process and issues of small business in Latvia <i>Aleksandrs Pugacevs</i>	17
Features of efficient farms in Finland <i>Maija Puurunen</i>	21
Finnish experience of family farming and viewpoints for the privatization of collective farms in the neighbourhood of Finland <i>Matias Torvela and Mikko Siitonen</i>	27
Modelling government policy for agricultural markets in transition <i>William H. Meyers and Natalia Kazlauskiene</i>	39
Grain production in Finnish agricultural policy <i>Ossi Ala-Mantila</i>	47
Taxation system in Finnish agriculture <i>Juhani Ikonen</i>	53
Latest reforms in procurement prices and taxes in Lithuanian agriculture <i>I. Krisciukaitiene, G. Kuliesis and A. Stadnikova</i>	57
Taxation of agricultural enterprises in Estonia in 1991 <i>Enno Koik</i>	61
Government order as an economic regulator in transition period <i>L. Kalinauskiene and O. Anapolskis</i>	66
The basic principles of agrarian reform in the republic of Latvia <i>Roberts Zile</i>	69

Issues in privatization of agricultural enterprises in Latvia and possible ways of solution <i>Andris Miglavs</i>	77
The government's role in determining prices, taxes and credits for individual farms <i>Biruta Arnte</i>	83
Lithuanian agriculture under the influence of eastern and western european markets <i>Antanas Poviliunas</i>	87
State regulation of rural labour market <i>Albina Aleksiene, Raimundas Duzinskas and V. Novogreckas</i>	93
<i>Memorandum</i>	97
<i>Program of the seminar</i>	99
<i>List of participants</i>	102

THE BASIC PRINCIPLES OF AGRARIAN REFORM IN THE REPUBLIC OF LATVIA

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The economic life of Latvia entered a new phase after the restoration of independence in August of 1991 and after the disintegration of the USSR. This period is characterized by a decrease in gross national product, by deterioration of living standards, by essential structural changes, by hyperinflation caused by monetary emission by an alien country, etc. The economic reforms should be based on acquisition of strategic targets, although this would prolong the crisis for a certain period of time. The economic reforms in Latvia are so closely linked with legal, political and demographic problems as it hardly is in any other post - socialism country in Eastern and Central Europe.

In accordance with the Hague convention and other international agreements, the re-birth of the Latvian Republic as an independent state claims to observe the principle of inviolability of property rights during the Soviet occupation. It means that in the Latvian Republic one should respect the property rights of Latvian citizens and other persons whose property had been nationalized or illegally expropriated after June 17, 1940.

A decree "On Land Nationalization" issued on the 22nd of June 1940 in the Latvian SSR followed by other acts of nationalization and illegal confiscation had a major impact upon property rights. But a distinctive feature of processes that took place in Latvian agriculture was forced collectivization under which people's property rights were taken over the state, but by a limited rural commune, thus depriving the owner of the right to act freely. It was presented as if carried out on a "voluntary" basis. As a result of this, the socialist way of management has led to a decrease in the acreage of agricultural lands by 1 million ha (see Figure 1), to destruction of the traditional rural environment, and in recent years, to the drop of production (in 1991 the gross agricultural product dropped by 15% compared with 1990, see Figure 4). It might be interesting to note that before the year 1940 agriculture was the most important branch of the national economy. According to many indices Latvia was one of the leading countries in agriculture.

Because property was expropriated both through collectivization and nationalization, property conversion should be conducted in the Latvian Republic in two ways:

I. Restitution of nationalized property rights (having restored the rights to land use, land tenure can be restored in accordance with the decree "On Land Reform in the countryside", as Figures 2 and 3 demonstrate the difference in land distribution between land users in 1991 and farm operators in 1935). Property rights can be restored if the formerly owned property is given back or if compensation is paid, including also the property equal in value (to the expropriated property). All property preserved in agriculture as well as nationalized or illegally expropriated property is subject to conversion only after the term of feasible demands for the property has expired.

II. Personalization of collectivized property (in Latvia the collectivization process that took place in 1949 - 50 was not judicially based). This collectivized property may be considered as one of the constituents of our farming property (since only the methods of collectivization are acknowledged to be illegal). Hence, it is unnecessary to carry out the property restoration, but property rights for part of the fixed assets of an enterprise. The above concepts form the basis for the agrarian reform with regard to ownership.

The Supreme Council has passed the following laws in order to carry out a conceptual agrarian reform in the Latvian Republic:

1. Law of Land Reform in Rural Areas (10-07-90),
2. Law of Privatization of Agricultural Enterprises and Collective Fisheries (21-06-91),
3. Law of Land Use (15-06-91),

as well as several acts (including those of the Presidium of the Supreme Council) dealing with separate issues mostly concerning the first phase of the agrarian reform (i.e. the period until the year 1996).

New Legislation and the First Step of Land Reform

The basic law in this sphere is the law "On Land Reform in Rural Areas". It was a highly disputed law because it was the first law about ownership conversion in Latvia. Next, the Supreme Council accepted the law "On Land Use" and then began to consider the next law "On Compensation for Land Property".

What is the substance of the land reform legislation? - The land reform is divided in two phases: the first takes place in the years 1990 - 1996, the second, in a period of 10-15 years, starting January 1, 1993.

In the first phase, all land petitioners: legal owners (who possessed the land before the occupation of Latvia in 1940), the present users and the new land petitioners handed in their requests for land allocations before June 20, 1991. All the district land use projects had to be developed and ratified, and the land had to be assigned by January 31, 1992. In the second phase, the land users can obtain or renew (legal owners) their land ownership rights.

Both the most important and the most disputable item was a point in paragraph 12, where the priorities for satisfying land petitions were determined:

Priority Number 1, to the legal owner, except when on his previous land holding or a part there are:

- developed farms or subsidiary plots
- obtained or built residential homes
- situated environmentally protected objects, historical, cultural and archaeological monuments etc. appointed by the Republic
- autonomously requested land
- land necessary for the needs of selection and trial
- situated constructions, buildings or orchards with production of social significance belonging to other owners (collective farms and state farms inclusive) with acreage defined by the regulations, if the beneficiary of priority Nb. 1 does not compensate the owner for his real estate value through mutual agreement.

Priority Number 2 in the following sequence:

- for expansion of existing individual farms and subsidiary plots if the petitioner has a residential home on the plot and if he has none
- for the construction of individual homes
- for the needs of inhabitants
- to legal entities - the present users of the land.

The following situation with land requests has developed after applying this law in practice:

- the total acreage subject to land reform is 6.3 million ha, 3.9 million ha of agricultural lands inclusive
- collective farms and state farms have petitioned for 2.7 million ha. This comprises 74% of the acreage, these farms are using at present 43% of the land subject to the reform
- 77 thousand individual farms have reserved land for the year 1996, the total acreage being 1.8 million ha, 35 thousand individual farms have requested land for the year 1992 in order to establish medium size (24 ha) farms, the total acreage of these farms is as much as 607 thousand ha
- 100 thousand subsidiary plots have been requested with total acreage of 616 thousand ha. The average size of a subsidiary plot is 6 ha
- 100 thousand plots for home workshop needs have been requested with total acreage of 240 thousand ha. The average size is 2.4 ha
- the former landowners, or their heirs, comprise 101 thousand or 36% of all the land petitioners. The city dwellers comprise 29 thousand or 29%, those living abroad (mostly in the USA, Canada, Sweden, Germany) 1.400 or 2%.

The total acreage of requested land is 8 million ha which exceeds the average submitted to land reform 1.27 times. The amount of land in the rural areas that has not been requested by anyone is insignificant. If the land user who has been allocated the land according to the decision of the land commission does not till the land for a year, it can be alienated.

The draft law "On Compensation for Land Property" envisages compensating the former landowners for the unclaimed or unallotted land plots. Evidently, the compensation will take the form of securities which may later be used in the privatizing process of other branches. At present, it is impossible to judge on the size of compensation, but the main idea is to compare it to rye yield from the particular plot of land and its price at the moment when the process of compensation begins.

What is the prognosis of the results of the land reform? Currently no one knows how many of the requests will be satisfied and how the land will be distributed between the groups of requestors. However, the experts forecast that the average size of private farms and plots will be approximately 12 - 15 ha, but former collective (state) farms will have an average size of approximately 1500 ha. When the former collective farms (new company) distribute their assets in the future, this 1500 ha will be distributed among individuals who buy cattle sheds or cow farms, etc. and the acreage of these private farms will range from 50 - 500 ha each.

The basic problem in the future will be small plots whose total acreage will be 15 - 17% of the agricultural land. Requestors for small plots mainly think from an economic point of view. Interests of these requestors are:

- to get small plots for family food and the “black” market,
- to keep the former collective farm because this is a place from which these requestors can obtain cheap resources for home workshops,
- to keep food prices high because they produce work intensive and expensive food.

The perspectives of these plot owners can be forecasted from the analysis of changes in the number of peasant farms in neighboring lands such as Finland, Sweden and Denmark.

Privatization of State and Collective Farm Assets

The conversion of nationalized and illegally expropriated property in rural areas will be regulated by the law adopted in the Latvian Republic “On Land Reform in Rural Areas”, the legislation “On Conversion of State Property” and “On Denationalization of Real Estate”, sections of legal acts on nationalized property and the norms of judicial acts on denationalization. The law “On Privatization of Agricultural Enterprises and Collective Fisheries” envisages to regulate the process of privatizing movable property and real estate, which were not nationalized. The objects of this law are collective farms and state agricultural enterprises that have been set up on the basis of peasants’ expropriated property.

Taking into account the contradictory legal status of the present day Republic of Latvia and the political socio-economic and demographic situation, the law “On Privatization of Agricultural Enterprises and Collective Fisheries” contains the mechanisms for regulating the privatization process so that it can correspond to the varied aspects of the problem. The economic principles of the law are the following:

- 1) while changing the character of entrepreneurship and ownership in agriculture, it is necessary to maintain the existing production capacities,
- 2) the principle of publicity should be observed when the property of an enterprise is being privatized,
- 3) gradualness must be observed in the transition from collective (with limited liberty) business activities to private businesses (farms, service enterprises and so on),
- 4) owing to the fact that the methods of collectivization are illegal and some other considerations it is admissible to buy the capital certificates with the current currency and other means of payment,
- 5) specific articles from the collective farm property (tractors, cattle, buildings) can be obtained in one’s private ownership if the holder of the certificate becomes an entrepreneur (in any form of private initiative), however, movable property has to be divided in the way necessary to manage the real estate (see Figure 5),
- 6) certificate is meant as a means to get free of charge property for starting entrepreneurship, not as a means for consumer payments (for there can be a situation in the process of privatization that the certificates of those who do not want to start private business activities can lose their initial value),
- 7) guaranteed rights to all shareholders to obtain in their possession or to participate in a closed auction (if there are other pretenders) when a technically or technologically integral object is being privatized, in other words, we cannot allow “the dog to sit in the manger”.

The problem of estimating the privatizable capital has existed in all East European countries. Great attention is being paid to this problem in the Baltic Republics resulting in too much time and money being wasted. The following principle is well known: the privatizable property costs that much as it is paid for and how profitable it is for the state to privatize the enterprise, in other words how prepared the both sides are to sell and buy. In the Republic of Latvia this problem is deepened by the lack of its own money. The estimation of the capital of agricultural enterprises will be performed according to the laws existing in the Latvian SSR, which determine that the property of a collective farm belongs to its members. In Latvia the following order will be observed when estimating the property of the privatizable collective farm and that of the state enterprises being equalled to them:

- fixed assets are assessed according to the remaining value of the balance (i.e. without the sum of amortization),
- other assets according to the data of bookkeeping.

The total sum of these assets must equal the sum of the privatization certificates in the enterprises, since all assets are the property of the members of the collective according to the existing legislation.

Therefore the concrete fixed assets can be revaluated according to their real value in case the previously determined balance is being observed. The total capital is equal to the sum of the certificates. In the law "On the Privatization of Agricultural Enterprises and Collective Fisheries" it is envisaged that in case the property of the agricultural enterprises is being privatized by the entrepreneurs, the holders of the certificates, market relations will be used, including the prices. The essence is as follows:

- the shareholding company is founded on the basis of the collective farm according to the law its code of articles offers to this participants the property included onto the fixed assets,
- the offered initial price for the concrete property is the price which is obtained in the course of inventory and included in the calculation of the certificates,
- if the farmer or any other entrepreneur hands in the request to the executive body of the shareholding company, that he wants to acquire a tractor, a farm or any other thing and if in a month's time after the public announcement there are no other competitors, then this thing becomes his property, if he pays for it initially by the means of the certificates or in any other means of payment,
- if it has other competitors then the executive body arranges an auction, receiving certificates or any other means of payment including payments in the form of a loan from the shareholding company in auction prices (above the initial prices),
- if the shareholding company considers it necessary to privatize an unprofitable enterprise it can be announced for sale for a price which is lower than the initial price to arrange a diminishing sale.

As the sociological rating (by the end of 1991) of the collective farmers shows in the majority of cases, in the case of total privatization of the property of a shareholding company, the executive person receives a lower price than the assessed value received during the inventory (the real value of the thing is lower than its initial price).

However, taking into consideration the hyperinflation of the rouble at the end of 1991 and the beginning of 1992, this process will take a turn in the opposite direction and that might be a tremendous stimulus for privatization and for the speeding up of this process

in the countryside. If the basic means, and together with it the sum of the shares (certificates) of a company will be recalculated according to the rate of inflation, it is impossible to predict the actual speed of privatization of agricultural enterprises. The specific methods refer to the service and processing enterprises of the collective farm (mechanic shops, dry houses, meat processing shops and so on).

It must be guaranteed that in the course of privatization the entrepreneurs who are engaged in the basic agricultural production (cultivation of plants and animal husbandry) receive the right to obtain the control packet. The mechanism of their guarantees can be diverse: proportional to the managed area of land, proportional to the shares or other rights or to the value of the certificates, although while there are no mortgage solvent institutions in Latvia, when finishing the activity of the enterprise both in the case of bankruptcy and according to the decision of the owner the liquidators have to observe the agricultural specificity prescribed by law, including the fact that the certificates (shares) in this particular case serve to determine the liquidation quotas.

This specificity appears also in the following way: after the demand of third persons are observed, the property is auctioned so that the running of perspective real estate is preserved to the maximum.

The main task of the privatization of collective and state farms is to form within the borders of the pagasts (small rural districts) the following scene: 50-60 farms about 20-40 ha large mutually cooperated and specialized 5-10 share companies or private enterprises which run the big farms and produce fodder for sale on the land which is not asked for by the farmers and parties concerned on the basis of the former collective farms service enterprises (mechanical shops, dry-houses, shops for processing food-stuffs).

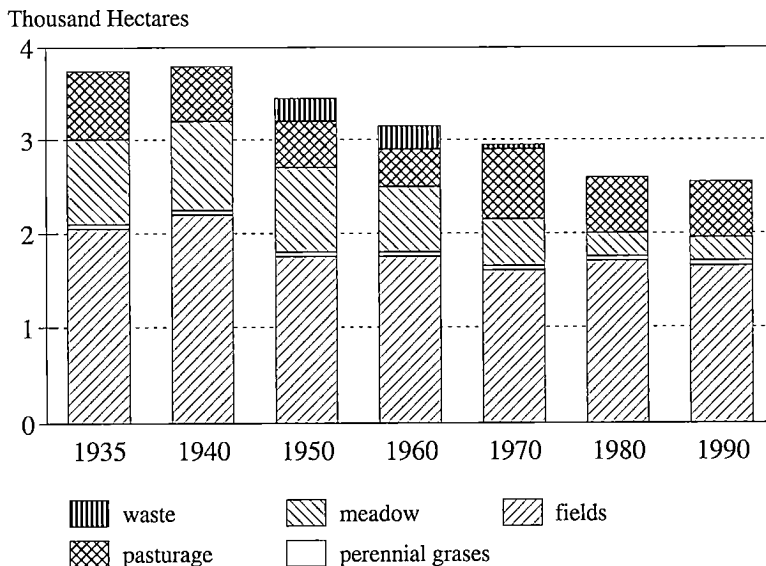


Figure 1. Dynamics of land resources.

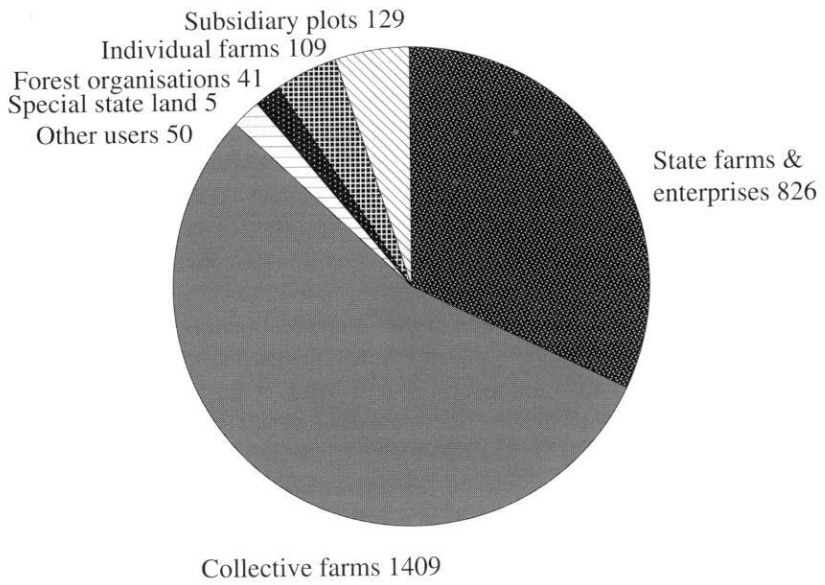


Figure 2. Agricultural land resource distribution among users.

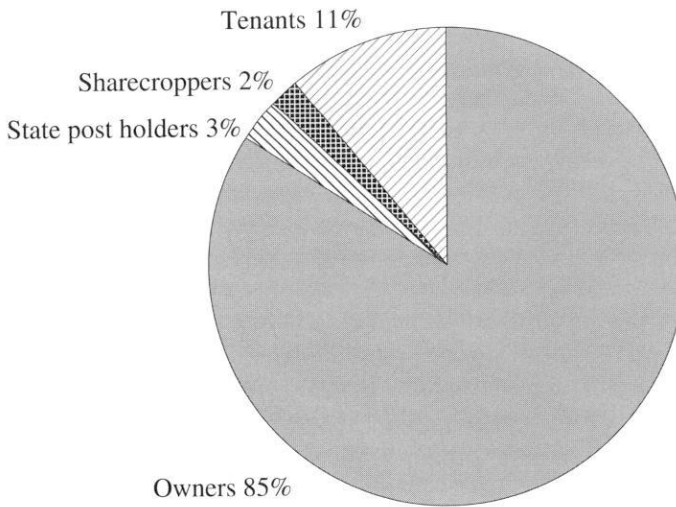


Figure 3. Farm operators in 1935.

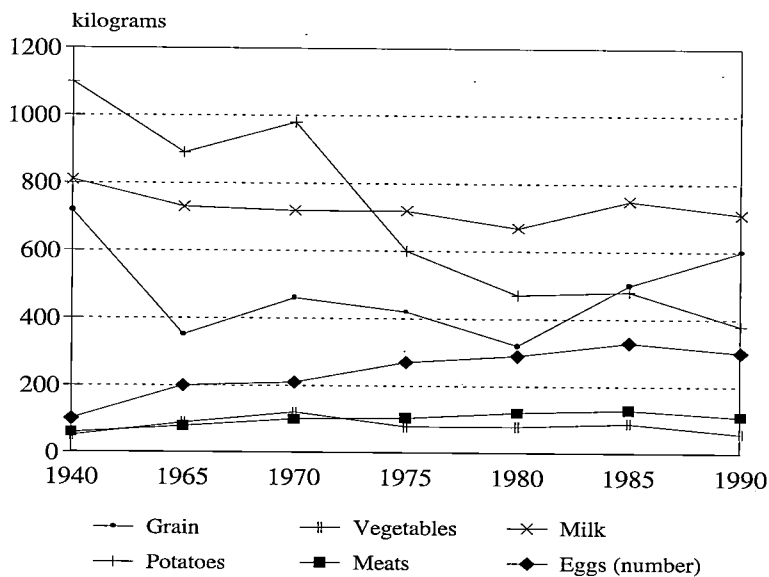


Figure 4. Annual per capita production of basic agriculture products in Latvia.

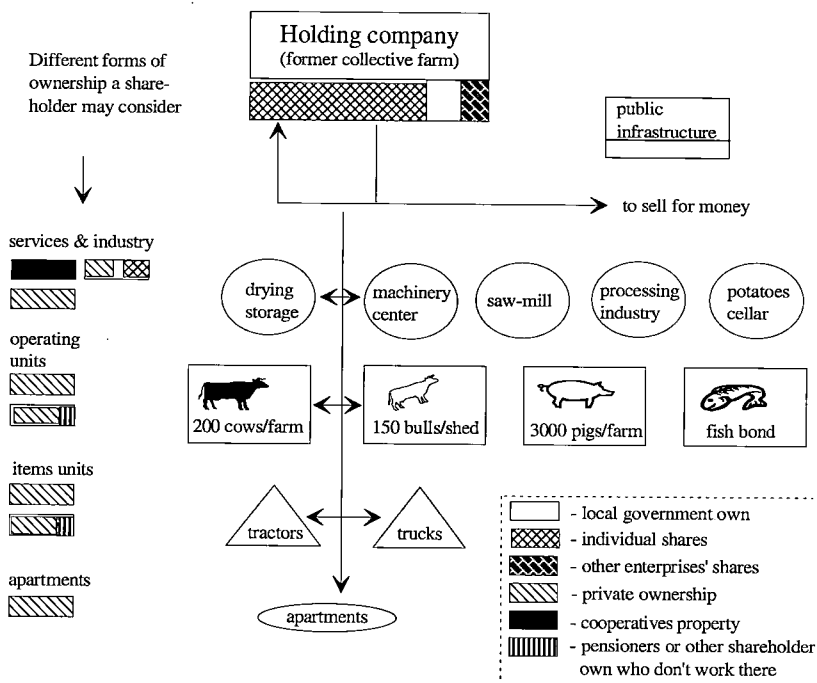


Figure 5. Opportunities for shareholders to manage their shares.