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INFORMATION NOTE: STUDY "EXTENT OF FARMLAND GRABBING IN THE EU"

INTRODUCTION

This note aims to provide an **input to the discussion on large scale land acquisitions in the EU** and its relation to the Common Agricultural Policy (CAP) on the basis of the information and analysis provided by the European Parliament (EP) study "Extent of farmland grabbing in the EU" (IP/B/AGRI/IC/2014-069)¹.

The intention of the note is to clarify certain aspects and provide additional analysis required to better frame the discussion on such a complex issue as well as to provide a critical assessment of the study.

The note is structured around the following themes:

1. Definition of "land grabbing"
2. Structural and legal diversity in the EU
3. Structural change versus "land grabbing"
4. Land markets and CAP reform
5. CAP support and "land grabbing"
6. Methodological issues of the COMAGRI commissioned study.

¹ At the request of the European Parliament's Committee on Agriculture and Rural Development (COMAGRI), the study "*Extent of farmland grabbing in the EU*" (IP/B/AGRI/IC/2014-069) was carried out by the Transnational Institute (the authors are Sylvia Kay, Jonathan Peuch and Jennifer Franco). The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. The study was presented and discussed at the COMAGRI session of the 17th June 2015. It is available on the Internet at: [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540369/IPOL_STU\(2015\)540369_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/540369/IPOL_STU(2015)540369_EN.pdf)

1. DEFINITION OF "LAND GRABBING"

The issue of "land grabbing" has so far mostly been discussed with respect to large scale land acquisition in developing countries. The use of the term to describe land deals of particular characteristics in Europe is relatively new.

The COMAGRI commissioned study correctly starts by recognising that "farmland grabbing" is a contested term and "*there is not yet an authoritative view on how the term should be interpreted*" (p.15). It is indeed difficult to find a consistent and encompassing definition in the literature, even in studies looking at the more researched phenomenon of large scale land acquisitions in developing countries. There is certainly the general notion that "land grabbing" relates to large scale acquisitions of land by lease or purchase by domestic or transnational companies, governments, and individuals who are *not* the habitual or traditional users of land and that are to the detriment of the people who have been using the land before. However, as Hall (2011)² states, "The popular term 'land grabbing', while effective as activist terminology, obscures vast differences in the legality, structure and outcomes of commercial land deals (...)."

The study does not provide a precise explanation of the understanding of the term "land grabbing" as used in the study even though it would be particularly necessary to define it in the European context that it is applied to. There clearly are structural differences in the large scale land deals in Europe that the study intends to analyse and the case in developing countries, e.g. in the existing land use structures, the definition and enforcement of property rights, in the legal and cadastral systems and in the involvement of governments and official bodies.

The absence of a definition in the study makes it impossible to differentiate the phenomenon of "land grabbing" from other terms used in the study such as "large scale land acquisitions", "foreign direct investment", "land concentration" and "structural change". Clearly, it would be beneficial to find a common understanding of what is meant by the different terms in the European context and it may be preferable to use terms that are less emotionally charged and do not come with such a clear negative connotation as "land grabbing" to provide an objective analysis of the phenomenon.

2. STRUCTURAL AND LEGAL DIVERSITY IN THE EU

When dealing with issues of land markets and land concentration, it is of crucial importance to be aware of the substantial diversity within the EU with respect to physical farm size structures and legal frameworks.

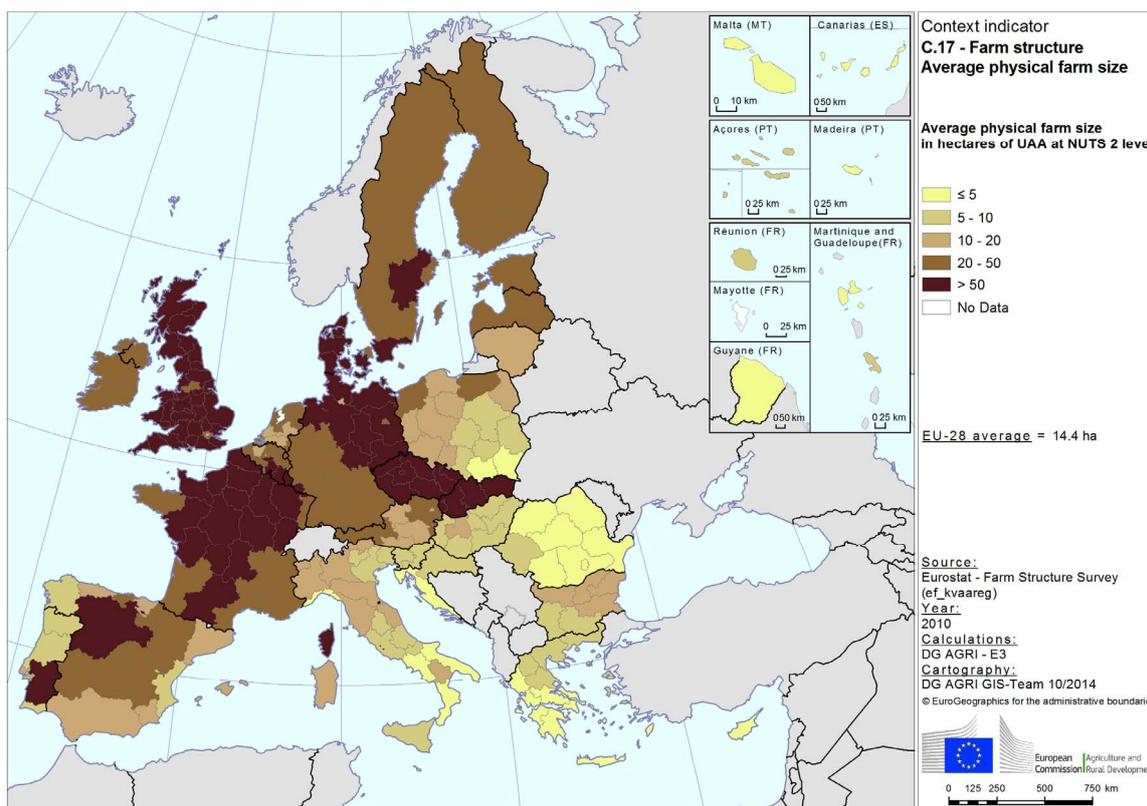
The average farm in the EU-28 had 14.4 ha of agricultural land in 2010 but **average farm sizes differ substantially between the Member States** (see map below). Big differences remain between the EU-15 (24.1 ha/holding) and the 13 countries that joined the EU in 2004 or later (7.1 ha/holding). Despite the on-going consolidation process, most farms in the EU-28 can be characterised as small in physical terms: 69% of them had less than 5 ha of agricultural land while only 6% had more than 50 ha and only 2.7% more than 100 ha of agricultural land in 2010.

² Land grabbing in Southern Africa: the many faces of the investor rush, Review of African Political Economy, Vol. 38, No. 128, June 2011, 193–214

Despite being so numerous, holdings with less than 5 ha occupy only 7% of the total agricultural area in the EU, while the small group of holdings of over 100 ha accounts for 50% of total UAA. This structural dualism is particularly pronounced in some Eastern European countries (e.g., Bulgaria, Hungary), where 80% of small holdings work less than 10% of the UAA, while over 65% of the area is managed by 1.5% of large holdings.

Average physical farm size in the EU grew by 3.8 % per year between 2005 and 2010. Annual growth rates in the EU-N13 (+5.5% per year) were almost three times higher than in the EU-15 (+2% per year).

It is also worth noting that, in comparison with other large agricultural countries, European farms remain rather small (Brazil: 64 ha; Chile: 107 ha; USA: 170 ha; Canada: 315 ha; Argentina: around 590 ha; Australia: more than 3 000 ha per holding).



Like all factor and commodity markets, the EU markets for agricultural land are subject to certain institutional regulations. **Land market regulation is a competence of the EU Member States**, although of course taking place within the framework of EU law.

The study “On the Functioning of Land Markets in the EU Member States under the Influence of Measures Applied under the Common Agricultural Policy” (November 2008) reviews in detail the land lease and land sales market regulation in Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Spain, Sweden, and the UK. The outcome is that Member States' approaches to the governance of land prices and land transactions vary strongly, for example with respect to the question whether land sales or rental prices are regulated (e.g. maximum or minimum prices) or depend on a free negotiation between buyers and sellers, with respect to the amount of taxes and transaction costs associated with land purchase or rental and with respect to land use and other quantitative restrictions.

The study stresses that land market regulations are an important factor affecting land prices and land transactions, particularly in the case for rental exchanges as rental prices for agricultural land are more regulated by governments than purchase prices.

3. STRUCTURAL CHANGE VERSUS "LAND GRABBING"

Processes of structural change have been going on in Europe since a long time. It would be necessary to come to a better understanding of what should be considered as undesired "land grabbing" and what is simply a natural and even necessary process of structural change in agriculture.

A complete analysis of the developments would have to consider all the drivers linked to farm structural change which lead to farm size increase, including also the specific institutional contexts and policy settings in which this structural change takes place.

Land concentration is a complex and dynamic process that needs to be analysed over time and taking into account all the related dimensions. The COMAGRI commissioned study limits its analysis to the decline in the number of small farms in the EU during the last decade and increase in the number of farms bigger than 100 ha, based on data from Eurostat Farm Structure Surveys (FSS). From the FSS data provided, the study arrives at the conclusion that "*Europe is currently experiencing tremendous and rapid land concentration*" (p. 24) and that "*the expansion of large farms in Europe has come at the expense of small farms*" (p. 25).

In fact, **the structural analysis carried out within DG AGRI does not support these statements as it shows a gradual transition to larger farms**: existing farms buy or rent additional land and grow, thereby moving to a higher size class. In addition, the study does not take into account that the smallest farms are mostly owned by older people or by part-time farmers. Especially the older farmers will at one point stop farming and somebody else will take over - most likely another existing farm, which then becomes bigger. It should be clear that such developments do not necessarily have to be viewed as something negative.

Furthermore, the role of changes in statistical methodologies needs to be taken into account: For example, between 2007 and 2010, one MS changed its threshold for the FSS and "lost" 65% of its holdings in one go (most of which, by definition, were small).

As regards the importance of the large farms in Europe, the study only examines the overall figures of holdings of more than 100 ha (without examining higher thresholds) and does not take into account the differences for cereals, livestock or permanent crops. In fact, no other parameter (apart of physical size) is used. The use of the threshold of the 100 ha as "large farms" ignores that, in the international context, holdings with more than 100 ha are still rather small as shown in section 2. In fact, the study does not take into consideration that, since such holdings account for less than 3% of all holdings in the EU, there is still room for structural transformation in the EU.

The study itself recognises the fact that the dualistic agrarian structures which characterise some of the new MS have their origins in the time before their accession to the EU. It should be stressed clearly in this connection that in many of these MS large farms are not a new phenomenon that has appeared in recent years due to "land grabbing" but have a long history and that in these contexts the family farming model is not necessarily the predominant mode of operation. It does therefore not take sufficient account of Eastern European farming reality to state that "*the size of the landholdings*

acquired in these new land transactions (...) represent a deep rupture with family farming and the associated farm sizes that have characterized European farming so far" (p. 26).

4. LAND MARKETS AND CAP REFORM

In the analytical work supporting recent CAP reforms, **Commission services have paid specific attention to the impacts of changes in the different instruments of the CAP on land values.**

The specific impacts of the changes in direct support on land values became an important policy issue after the shift from coupled support to decoupled support (as from 2003). In this context it is important to be aware that the fact that agricultural support is capitalized in land prices is not a new phenomenon that arose with the decoupling of support. In fact, support that is coupled to land (i.e. coupled direct payments per hectare) has an even stronger effect on land prices. Price support, the predominant way of agricultural subsidies before the introduction of direct payments, is also capitalized in the value of the factors of production that contribute to the production of the respective product.

Several studies have been carried out to better understand the impacts of direct support and encourage policy decisions with the least disruptive impacts on land values, especially with a view to preventing an increase in the debt to asset ratios of farms. The most relevant research works to mention are the study "On the Functioning of Land Markets in the EU Member States under the Influence of Measures Applied under the Common Agricultural Policy" (November 2008) and the "Factor Markets" research project (supported by the 7th Framework Research Programme between 2010 and 2013).

The above mentioned research projects show evidence that CAP subsidies have an impact on land values, but the impact varies importantly across countries and appears relatively modest compared to other factors - such as expectations on the development of commodity prices as well as urban pressure - in particular where land prices are high. The functioning of land markets is found to be strongly affected by land market regulations that affect land prices and land exchange modalities, which differ substantially between EU Member States (see section 2). The findings also suggest that the historical SPS implementation model leads to lower capitalisation of the SPS into land values than the regional and hybrid models and capitalisation under the SAPS (used in most of the new MS) may be particularly high.

These findings were taken into account in the impact assessments carried out by the European Commission during the last two CAP reforms (in 2008 and 2011).

5. CAP SUPPORT AND "LAND GRABBING"

The COMAGRI commissioned study names the CAP as one of the drivers of "land grabbing" and explains this by the fact that there is a link between direct support and land.

While this link is undisputed (see section 4), the study fails to present any evidence - and also does not make a convincing theoretical argument - as to why CAP support capitalisation in the price of land should be an incentive for "land grabbing".

In fact, **the claim that direct support under the CAP provides an incentive for "land grabbing" is based on inaccuracies in the understanding of how direct support works**, as becomes clear by the statement that *"the distribution of CAP benefits (...) has led to the concentration of holdings in terms of UAA (...) and thus, to land concentration"* (p.31). In reality, the distribution of CAP payments is linked to the existent farm structure - and not the other way around.

Furthermore, the study does not present a differentiated argument that takes into account the different models of direct support and their different impact on land prices. For example, it uses arguments which refer to the SPS system, yet all the MS that are identified as being affected by "land grabbing" use the SAPS, which does not work on the basis of entitlements to be activated with land but has a direct link between support and land.

The study's argumentation has another important shortcoming in the fact that it ignores the requirements to have farm history or to be a farmer in order to be allocated SPS entitlements or have access to SAPS payments. New entrants without a farm history - including those who make large scale land acquisitions in the EU - actually have to pay for the future access to support payments by acquiring either land and payment entitlements (under the SPS) or land into the price of which the future right to direct support has been capitalised (under the SAPS) in order to have access to the direct support. Thus, the investment that the new entrant makes includes the price of future support - and the more support payments investors want to have access to, the higher the necessary investment. The study does not recognize this fact, but instead implies that large CAP payments come "for free" to those who acquire access to large tracts of land.

Another observation that actually runs counter to the claim that "land grabbing" is driven by the objective of getting access to high support payments under the CAP is the fact that large scale land acquisitions have only been observed in the new MS, which have on average lower direct payments than the EU-15. If indeed access to CAP support was a strong motivation behind such deals, then more "land grabbing" should be expected to happen in those MS with the higher average direct payments, i.e. the EU-15.

In fact, the inability of the study to provide a conclusive argument for a causal link between CAP support and "land grabbing" suggests that the real drivers of large scale land acquisition in the EU are outside of the CAP - such as the positive prospects for world agricultural markets and prices, the existing land ownership structures in the EU-15 and the privatisation process that made large tracts of land available for purchase/rental in the new MS, possible difficulties with access to capital for smaller potential buyers etc.

The study includes a number of policy recommendations for the CAP. Many of these recommendations go beyond the scope of the competences of the European Union. As regards the **specific recommendations on the CAP, in general they reflect the policy instruments already taken in the context of the last CAP reform** (although the exact mix and weights vary across Member States):

- Redistributive payment: principle adopted in the last CAP reform (as voluntary). Its introduction as compulsory (as suggested by the study) would not fit with the high diversity which characterises EU agriculture,
- Capping: principle adopted in the last CAP reform. The European Commission had originally proposed a compulsory 100% reduction at a level of 300.000 EUR;

- Young farmers: adopted as compulsory in the last CAP reform;
- Small farmer scheme: adopted as voluntary in the last CAP reform;
- Definition of active farmer: adopted in the last CAP reform.

However, it is important to note that, due to the fact that the study does not demonstrate a link between the CAP and "land grabbing", it remains unclear what exact impact the authors expect from these measures in terms of limiting the "land grabbing" or land concentration phenomenon.

6. METHODOLOGICAL ISSUES OF THE COMAGRI COMMISSIONED STUDY

The COMAGRI commissioned study **has a number of methodological shortcomings that affect the reliability of the conclusions and the possibility to generalize the findings.** These are, among other things, the lack of clear elaboration of causal links, missing definition of terms, lack of reference to verifiable sources and to back many of the key statements by evidence.

It should be kept in mind that the study does not provide a comprehensive empirical analysis and data collection on large scale land deals in Europe but presents evidence mostly from secondary sources – some of it anecdotal. It is therefore clear that it cannot provide a comprehensive and representative assessment of the situation with respect to large scale land acquisitions in the EU. Specific data provided, like the extraction from the "land matrix" data base and the specific local cases mentioned, do not provide robust evidence on the scope/importance of the problem discussed. In fact, the data provided make reference to large-scale land deals in the EU covering a surface of 166 359 ha (which is a marginal figure, as it represents a mere 0.1% of total EU agricultural area).

When the authors elaborate on the specific "land grabbing" situation in Eastern European countries they should be clearer on which sources they refer to when citing 'various sources' or 'official databases'. The comparison between the level of dualism in the EU and Brazil, Colombia or the Philippines is also not well justified - no sources or references are given for the calculations of the Gini coefficient used and there is a lack of other more appropriate indicators. As regards the links between the agri-business concentration along the food supply chain and land grabbing, again no evidence is provided.

Finally, the section on potential economic impacts of "land grabbing" lacks evidence. The data behind the strong statements concerning the effects of "land grabbing" on farm productivity, rural depopulation, creation of entry barriers and food security is not clearly presented. The study considers that large farms "*turn out to be economically vulnerable (...) and more likely to go bankrupt*" (p. 42), that "*in several places where land is more highly concentrated, yields per hectare and per animal are going down*" (p.43), and that they show "*lower productivity per unit or labour compared to small farms*" (p.43), which all are very generalized and undifferentiated statements that are not elaborated in enough detail.

Due to these methodological deficiencies, the study does not actually provide a sound backing for its claim that "*there is significant evidence that farmland grabbing is underway in the EU today*" (p. 25). The complexity of the issues examined would require a more thorough and dispassionate analysis in order to present the topic in a way that would allow a discussion based on evidence and facts.

SUMMARY AND CONCLUSIONS

In summary, this note argues that:

1. The discussion on "land grabbing" suffers from the lack of a clear definition of the term, especially in the European context,
2. The large diversity between EU Member States with respect to farm structures and the functioning of land markets requires a differentiated approach to the analysis,
3. To have a better basis for discussion, it is necessary to define and differentiate what are natural structural change processes in EU agriculture and what is undesired "land grabbing",
4. Land markets and their link to the CAP have been taken into consideration in the last three CAP reforms,
5. The study fails to present convincing evidence for the claim that the CAP is a driver of "land grabbing",
6. The study has methodological shortcomings so that its conclusions should be regarded with caution.

The study "Extent of farmland grabbing in the EU" is a contribution to an interesting debate about the phenomenon of large scale land acquisitions in the EU and the possible role of the CAP in this process.

It is clear that EU policy making needs to pay attention to these developments and that the Commission should, as has been done in past CAP reforms, continue to analyse the impact of the CAP and its reforms on land markets and structural change processes. **DG AGRI will continue to take up the issue in future evaluations and impact assessments.**

This is especially necessary because the present study has certain important shortcomings - in particular the lack of a clear definition of the term "land grabbing" in the European context and the failure to actually demonstrate the alleged causal link between CAP support and "land grabbing" - and does therefore not fully do justice to this pertinent topic.

In the context of this debate it should also be emphasized that the scope for the CAP to influence the structure of land ownership is very limited as the competence for dealing with land market regulation lies - and will remain - with the Member States. What is within the core business of the CAP and has been a growing focus in recent reforms, however, is to address issues of *land use* in order to address particular economic, environmental and structural challenges of the agricultural sector.