# COMMISSION DECISION

## of 7 April 2011

## extending the transitional period concerning the acquisition of agricultural land in Latvia

**(Text with EEA relevance)**

(2011/226/EU)

THE EUROPEAN COMMISSION,

Having regard to the Treaty of Accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia,

Having regard to the Act of Accession of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, and in particular Chapter 3 of Annex VIII thereto,

Having regard to the request made by Latvia,

Whereas:

(1) The 2003 Act of Accession provides that Latvia may maintain in force, under the conditions laid down therein, for a 7-year period following the accession, expiring on 30 April 2011, prohibitions on the acquisition of agricultural land by natural and legal persons from other EU Member States who are neither established nor registered nor having a branch or an agency in Latvia. This is a temporary exception to the free movement of capital as guaranteed by Articles 63 to 66 of the Treaty on the Functioning of the European Union. This transitional period may only be extended once for a period of up to 3 years.

(2) On 6 December 2010, Latvia requested to extend the transitional period concerning the acquisition of agricultural land by 3 years.

(3) The main reason for the transitional period was the need to safeguard the socioeconomic conditions for agricultural activities following the introduction of the single market and the transition to the Common Agricultural Policy in Latvia. In particular, it aimed to meet concerns raised about the possible impact on the agricultural sector of liberalising the acquisition of agricultural land due to initial large differences in land prices and income compared with Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom (hereinafter the EU-15). The transitional period was also designed to ease the process of restitution and privatisation of agricultural land to farmers. In its Report of 16 July 2008 on the Review of the transitional measures for the acquisition of agricultural real estate set out in the 2003 Accession Treaty (hereinafter the 'Mid-Term Review of 2008'), the Commission has already emphasised the importance of the completion of the above-mentioned agricultural reform by the end of the foreseen transitional period [1].

(4) According to data available to Eurostat, agricultural land prices in Latvia are lower than the agricultural land prices in the EU. Complete convergence in agricultural land sales prices was neither expected nor seen as a necessary pre-condition for terminating the transitional period. Nevertheless, the noticeable differences in agricultural land prices between Latvia and EU-15 are such that they can hinder smooth progress towards price convergence.

(5) Similarly to the levels of agricultural land prices, the data from Eurostat show that the gap in per capita GDP in Purchasing power standards in Latvia and EU-15 still persists. Thus, existing agricultural land prices in Latvia are high for the Latvian residents relative to their purchasing power.

(6) The lower competitiveness of the Latvian agricultural sector compared to the agricultural sector in EU-15 also persists and the problem is compounded by difficulties in access to financial resources and by high interest rates applied to commercial credit lines for the acquisition of agricultural land (15 % per annum in 2009 according to data supplied by the Latvian authorities).

(7) Moreover, according to data supplied by the Latvian authorities based on the State Land Service of Latvia, as of 1 January 2010, the agricultural land constitutes 37,7 % of the country's total territory, and forests areas cover 45,8 % of it. In 2007 62 % of agricultural land was owned by farmers and 26,6 % of it was rented. While agricultural land in Latvia is already predominantly in private hands, the process of restitution of ownership rights and the land reform in rural areas are still not completed.

[1] COM(2008) 461 final, 16 July 2008.

(8) The lack of clarity on property rights inevitably hinders land transactions and consolidation of agricultural estates. Land fragmentation, in turn, further contributes to lower competitiveness and leads to less market-oriented farms. In this context, Eurostat data show that, although gradual consolidation of land is ongoing and the average exploited agricultural area per farm in Latvia increased from 10 ha to 16 ha per farm between 2001 and 2007, the latter is still lower than in other EU Member States, such as Denmark, Germany and Sweden, where this average amounted to 60 ha, 46 ha and 43 ha respectively in 2007.

(9) The recent global financial and economic crisis also had a negative impact on Latvia's economy. The lack of demand followed by a sharp reduction in purchase prices for agricultural products, at the time when the prices for raw materials remained at the high level of 2008, additionally aggravated the already disadvantaged position of Latvian farmers compared to farmers from EU-15.

(10) Against this background, it may be anticipated, as do the Latvian authorities, that the lifting of the restrictions on 1 May 2011 would exert pressure on the land prices in Latvia. Therefore, a threat of serious disturbances on the Latvian agricultural land market upon the expiry of the transitional exists.

(11) An extension by 3 years of the transitional period referred to in Chapter 3 of Annex VIII to the 2003 Act of Accession should therefore be granted.

(12) In order to fully prepare the market for liberalisation, it continues to be of utmost importance, even amid adverse economic circumstances, to foster the improvement of factors such as credit and insurance facilities for farmers, and the completion of the agricultural structural reform during the transitional period, as already emphasised in the Mid-Term Review of 2008.

(13) Since the open single market has always been at the heart of the European prosperity, an increased inflow of foreign capital would bring along potential benefits also for the agricultural market in Latvia. As emphasised in the Mid-Term Review of 2008, foreign investment in the agriculture sector would also have important long-term effects on the provision of capital and know-how, on the functioning of land markets and on agricultural productivity. The progressive loosening of the restrictions on foreign ownership during the transitional period would also contribute to preparing the market for full liberalisation.

(14) For the purpose of legal certainty and in order to avoid a legal vacuum in the national legal system of Latvia after the expiry of the current transitional period, this Decision should enter into force on the day of its publication in the *Official Journal of the European Union*,

HAS ADOPTED THIS DECISION:

*Article 1*

The transitional period concerning the acquisition of agricultural land in Latvia referred to in Chapter 3 of Annex VIII to the 2003 Act of Accession shall be extended until 30 April 2014.

*Article 2*

This Decision shall enter into force on the day of its publication in the *Official Journal of the European Union*.

Done at Brussels, 7 April 2011.

*For the Commission*
*The President*
José Manuel BARROSO