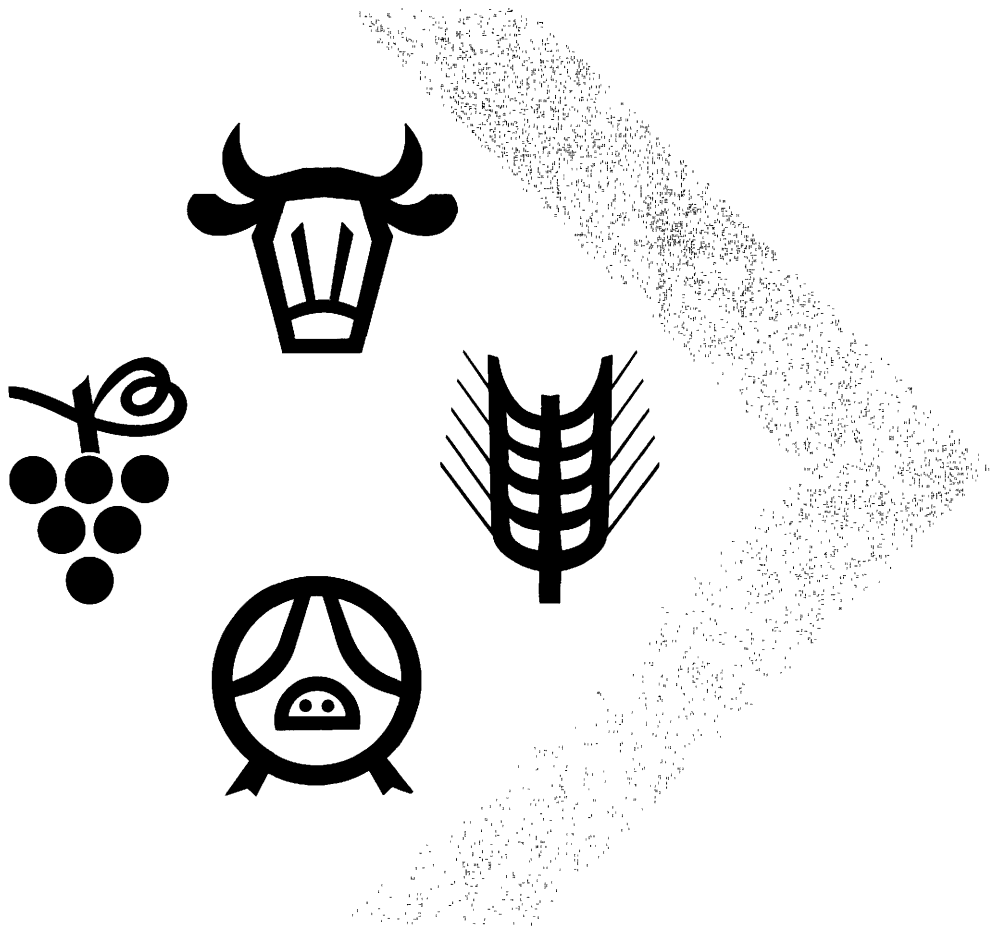


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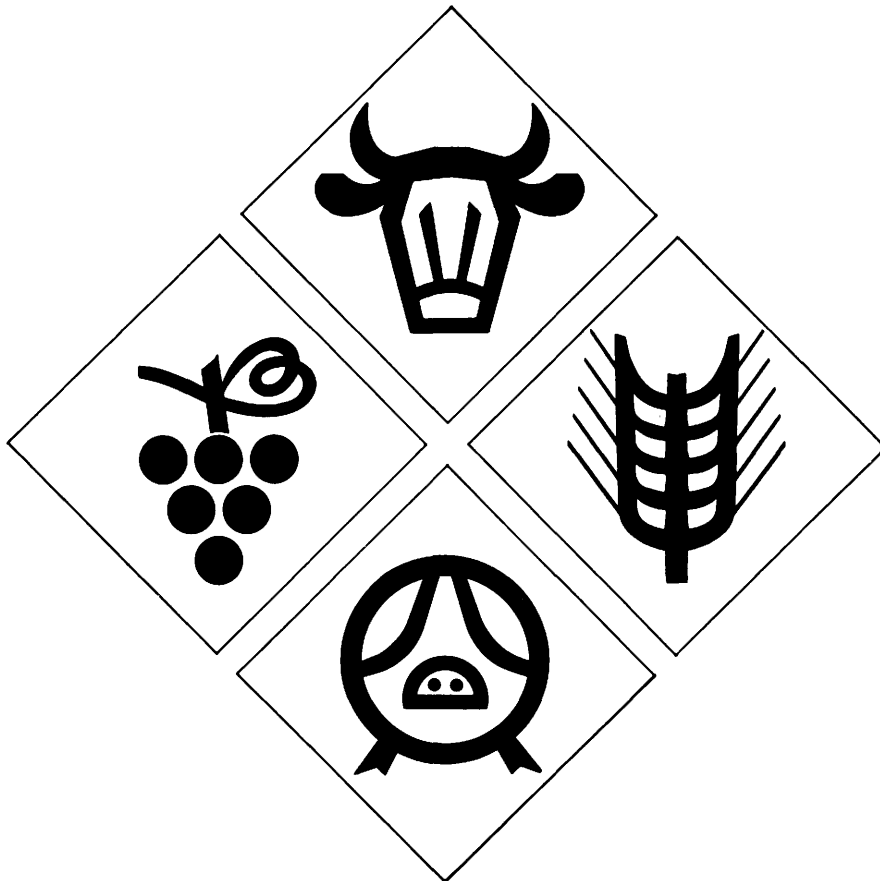
Factors influencing ownership, tenancy, mobility and use of farmland in Denmark





Information on agriculture

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FOREWORD

Within the scope of the study programme of the Directorate General of Agriculture monographs have been prepared concerning the factors influencing ownership, tenancy, mobility and use of farmland in the Member States of the Community.

The present report deals with the situation in Denmark and has been prepared by

J. FLØYSTRUP-JENSEN and

B. DYREBORG-CARLSEN

of the Dansk Landbrugs Realkreditfond, Copenhagen

The divisions "Reports, studies, statistical information, documentation" and "Elaboration of common structural measures" have been involved in the study.

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This study does necessarily reflect the views of the Commission of the European Communities and in no way commits the Commission as to its future position in this field.

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CHAPTER I

Introduction

Production and Marketing Conditions

During some decades the share in the Danish GNP of the agricultural production has shown a decreasing trend. At the beginning of the 1950s this share was about 17-18 per cent, measured in proportion to the total gross domestic product at factor cost. Through the 1950s there was only a slight reduction of the agricultural share in the GNP. It was not until the 1960s that the relative importance of agriculture in the Danish economy - measured solely on the basis of the gross domestic product at factor cost - diminished rapidly. The industrialization and the concurrent relatively large expansion in the other sectors of the economy, coinciding with the unfavourable economic conditions in agriculture characteristic of this decade, were essential factors in this development. During recent years the share of agriculture in the total GNP has apparently been stabilized at about 6-7 per cent. The relatively modest growth rates in Danish economy since 1973 have, of course, affected the 6-7 per cent position, in which is not included the increase in value achieved by the processing of agricultural produce through dairies, bacon factories and other industries.

As a whole, the agricultural production increased during the 1950s and the first years of the 1960s; then stagnation set in and the production showed falling trends right on to the beginning of the 1970s. After Denmark's entry into the EEC in 1973 this tendency was halted, it was only after 1977, however, that a clearly discernible rise in the agricultural production took place. Changing climatic conditions have caused considerable variations from year to year in the production of crops.

The characteristic trait in Danish agriculture is a large animal husbandry production based upon domestic grain and roughage cropping. The share of the animal

production in the total agricultural output value is about 85 per cent, and the market cash crops, account for the remaining 15 per cent; the latter has, however, been rising during recent years. From the beginning of the 1950s and on to the period around the EEC-entry the market cash crop share fluctuated between 10 and 12 per cent.

The trend in the animal and the cash crop productions is illustrated by the following table I.1.

Table I.1. Bulk Index of the Production of Agricultural Marketable Produce, exclusive of changes in Herds. -- 1970 = 100.

	1955 ¹⁾	1965 ¹⁾	1972	1976	1977	1978
Animal Production	80	105	100	104	107	111
Veg.Cash Crops	79	114	109	114	130	143
Total Agricultural Production	80	106	102	106	112	118

1) As the basis of the index computation has been changed from 1970 a direct comparison of the development before and after 1970 will not be possible.

Source: Danmarks Statistik.

Nearly two thirds of the animal production are exported while the remaining third is placed on the home market.

Measured in relation to the total Danish export of commodities and services the agricultural export accounts for about 20 per cent, including the transfers from the EEC agricultural fund FEOGA. Agriculture is, therefore, still playing an important role in the Danish intake of foreign exchange. In this connection it should be recalled that the agricultural export is produced with a relatively limited use of imported raw materials.

Even if the entry into the EEC caused certain redirections of exports to the initial EEC-countries it is still Great Britain which is by far the most important

single market for the Danish agricultural export. At the same time it is essential to point out that the export to countries outside of the EEC accounts for about one third of the total agricultural export.

Denmark's import of agricultural products is insignificant and the entry into the EEC has till now not caused mentionable changes in this respect. The import is, therefore, still concentrated around a range of raw materials and auxiliaries to be used in the agricultural production process - typically proteinic feeds and chemical fertilizers.

The net export of agricultural products, i.e. the export after deduction of the import of raw materials amounted to about 18.400 million Dkr. in 1978.

The Structure of Farm Properties

Considerable changes in the structure have taken place in Danish agriculture, especially since the beginning of the 1960s. Contrary to the development during the 1950s the number of farm units was considerably reduced during the 1960s. The reduction continued into the 1970s, but at a somewhat slower rate.

Table I.2. The Development in the Number of Agricultural Units (in thousands)

Agricultural area of the farm unit, hectares	1951	1960	1970	1977	1978
0,5 - 4,9	-	37,1	14,5	13,1	12,7
5,0 - 9,9	-	54,4	29,5	22,6	21,9
10,0 - 14,9	-	54,6	43,6	34,0	33,1
15,0 - 29,9	-	26,6	25,0	22,3	21,8
30,0 - 59,9	-	17,1	18,9	19,3	19,5
60,0 - 119,9	-	5,1	7,1	8,7	8,9
120,0 and above	-	1,2	1,6	2,0	2,0
Total	205,8	196,1	140,2	122,0	119,9
Total cultivated area in 1.000 ha	3.139	3.094	2.941	2.905	2.902
Average size in hectares	15,3	15,8	21,0	23,8	24,2

Source: Danmarks Statistik.

Under Danish conditions the census-unit used is the single farm consisting of the land with buildings, machinery, equipment and live stock as contained for the production unit by the owner of the farm. A production unit may, therefore, comprise several properties, for instance in case of co-management.

The reduction in the number of farm units has especially concerned the small farms whilst inversely a rise is observed in the number of units above 30 hectares. As a result of this development the average size of the single farm unit has increased and is now above 24 hectares. The total agricultural area has been reduced by a little 7-8 per cent since the beginning of the 1950s. The total agricultural area accounts for about two thirds of the aggregate land area of Denmark.

The Structure of Production

Concurring with this trend towards a smaller number of farm units the production structure has also changed. Previously the typical animal production on the individual farm had several lines whereas the production programme on the farm properties now shows a rather considerable degree of unification. This trend is attempted illustrated by table I.3.

Table I.3. The Development in the Number of Live-Stocks Herds.

	1955	1960	1970	1977	1978	1978 percentage of 1955
Number of Cattle Herds,	179.336	170.468	103.465	74.186	70.001	39,0
Cow Herds	177.211	166.688	96.528	64.897	60.025	33,9
<u>Pig Herds</u>	<u>177.875</u>	<u>171.764</u>	<u>120.370</u>	<u>79.609</u>	<u>76.383</u>	<u>42,9</u>
Total number of herds excluding cow herds	357.211	342.232	223.835	153.795	146.384	41,0
Number of farm units	198.783	196.076	140.197	121.994	119.945	60,3
Average number of herds per property	1,80	1,75	1,60	1,26	1,22	67,8

Source: Danmarks Statistik.

The table shows that all categories of herds have been reduced on a considerably larger scale than the number of production units. Especially marked has been the reduction of over 66 per cent in the number of cow herds. The specialization in production may also be seen from the observation that in 1955 the average number of live-stock herds per agricultural unit was 1,80 animal husbandry herds, meaning that the most common herds in Denmark of cattle and pigs were present on almost all farms. In 1978 the 'live stock-density' per farm unit had fallen to 1,22. In 1978 the situation was that nearly 40 per cent of the farms had pigs as well as cattle, whilst nearly 23 per cent worked no animal husbandry at all.

In the main the latter group consists of farms with small areas cultivated prevalingly with cash crops. Besides such cultivation the farms are used mainly for housing purposes. It should be added that the keeping of poultry was quite common on nearly all farms in the 1950s. In 1978 poultry was kept only on about 25 per cent of the farms. Furthermore it may be said that an essential part of the poultry in 1978 hardly can be considered kept for commercial production.

This rough picture of the development in the production structure of Danish agriculture since the beginning of the 1950s may be supplemented by the observation that the size of the live-stock herd in the different categories of animals has been rising. There is, however, still a considerably wide spread in the live-stock sizes in the cattle as well as in the pig production. For both lines it is valid to say that the main part of the number of pigs and of pieces of cattle by and by have come to be found in the larger live-stock units.

The Structure of Employment

The reduction in the number of farm units and the concurrent extensive mechanization of the work processes have resulted in a considerable reduction in the employment in the agricultural sector. A contributing factor in this development has, of course, been the trend

in the production, described above, showing that the animal husbandry production only towards the end of the 1970s again reached the level prevailing in the mid-1960s.

The following table I.4. shows the development in the agricultural labour force as expressed by the number of man-years (full-time workers).

Tabel I.4. Agricultural Labour Force Computed as Number of Man-Years.

	1950/51	1960/61	1970/71	1976/77	1977/78
Family members' work in own farm	184.651	165.000	142.000	97.000	94.800
Assistants	204.997	118.298	31.117	24.200	23.500
Total	389.648	283.298	173.117	121.200	118.300
Number of farm units	205.835	196.076	140.197	121.994	119.945
Employed per unit	1,89	1,44	1,23	1,00	1,01

Source: Danmarks Statistik and Landøkonomisk Oversigt

When evaluating the employment development in agriculture it must be taken into consideration that the basis of the agricultural statistics has been changed several times during the period under review. A direct comparison of the figures in table I.4. cannot, therefore, be made but the picture presented does undoubtedly give a valid description of the actual development. The reduction in family work has followed largely the reduction in the number of farm units. The decrease in the group of assistants has been quite considerable, with the result that this type of labour in 1976/77 represented only 11-12 per cent of the number in 1950/51. The decrease was very marked in the 1960s. There is much to indicate that the number of assistants on the farms, based upon the development during the most recent years, will be stabilized at a level of about 25.000.

The total agricultural labour force was reduced by about two thirds since the beginning of the 1950s.

On a farm is now employed an average of one full-time worker per year against nearly double this number 20-25 years ago. This situation is a very clear illustration of the fact that the family farm is the typical agricultural production unit in Denmark, and that the family members' work is the basic element of the production effort.

The migration of mainly the young people in the 1950s and 1960s was eased off by good employment prospects in other occupations, especially in industry and in building- and construction activities. A consequence of this migration was, at the same time, that the average age of the agricultural workers rose. For the owner-occupants the average age was 52 years in 1978.

The group of owner-occupants earning a wage-income outside of their farms was growing during the 1960s but apparently the number has now stabilized at a level of about 15 per cent. External work is common especially for owners of small holdings.

In the table on the agricultural labour force (I.4.) is not included the indirect employment engendered by the agricultural production, which in the Danish community is a relative important factor, due to the large proportion of processed agricultural products in the country's exports. In the meat- and milk-processing industries alone about 30.000-35.000 persons are employed.

Ownership Conditions

The ownership in Danish agriculture is characterized by owner-occupancy - contrary to conditions in most other European countries - which means that the user and the owner of a farm is one and the same person. This form of ownership completely predominates the Danish holding system. The trend in the farming structure towards larger units has not till now affected this system. The reasons why such influence has not been at work are, in the first place, that certain legal restrictions and conditions for the purchase of agricultural properties have been imposed, and secondly, that relatively wide financial facilities are offered, for instance in favour of the establishment of

young farmers as owner-occupants; such facilities are perhaps at the disposal of farmers more liberally than found in other countries. A third reason might be added - the tradition of owner-occupancy has deep roots and it influences undoubtedly the ownership structure in Danish agriculture to an appreciable extent.

Inversely the tenancy system plays an inferior role only. In Danish statistics a distinction in this field is made between farm-tenancy and land-tenancy. Farm-tenancy means that all the land and buildings contained in the property is covered by the tenancy contract. The tenant is thus owner neither of land nor of buildings. A comparison between the extent of the tenancy system in Danmark and its extent in other EEC-countries must be made on the basis of this type of farm-tenancy.

Under the head of land-tenancy come all tenancies covering agriculturally farmed land excepting farm-tenancies. Land-tenancy exists where a farmer owning his farm has additionally tenanted (leased) more land. Land-tenancy also applies to cases where a complete farm property with buildings is covered by the tenancy contract. The circumstance deciding whether the tenancy is farm-tenancy or land-tenancy is, according to these definitions, whether the farmer entering into tenancy is already holding ownership of an agricultural property.

Official statistics on the extent of tenancy can be traced only from the mid-1960s. In table I.5. the tenancy data for Danish agriculture are shown.

Table I.5. The Extent of Tenancy in Danish Agriculture

	1966	1970	1977	1978
Number of <u>farm-tenancies</u>	4.072	5.360	3.137	2.981
Per cent of total farm units	2,4	3,8	2,6	2,4
Per cent of total farm land	3,8	5,3	3,2	3,1
Number of units with land-tenancy	14.476	21.046	28.470	28.341
Per cent of total farm units	8,7	15,0	23,3	22,6
Per cent of total farm land	3,2	6,5	11,4	12,1

Source: Danmarks Statistik

The table shows that farm-tenancy is used in Denmark to an extremely modest extent and also that a rise during the latter half of the 1960s has been followed by decline during the past years of the 1970s. The proprietorship by companies, associations and institutions plays a most insignificant role, which fact further emphasizes that 97-98 per cent of the agricultural properties in Denmark are held under the owner-occupancy system.

On the other hand land-tenancy is on the rise and in 1978 22 - 23 per cent of all farm units had entered into land-use tenancies. Measured by the total agricultural land area the land-tenancies covered a little more than 12 per cent.

The limited extent of the farm-tenancy or land-tenancy systems in Denmark is the reason why the description of tenancy will be given only cursory treatment in the present report, which will concentrate on the owner-occupancy as the predominating form of ownership in Danish agriculture.

II.1. Sales of Agricultural Properties and the Trend
of Agricultural Properties Sales Prices

Sales of Properties

Sales of agricultural properties are made partly in the open market and partly by transactions between family members. Apart from 1977 - and to some extent also from 1978 - where special circumstances reigned, the major part of the properties is sold in the open market. However, the share of family sales is increasing considerably with growing size of property. For properties over 30 hectares the family sales dominate the sale. In absolute figures and as percentages the breakdown of the different types of sales is shown in table II.1.1. which includes also the number of forced sales transactions, the sales of small-holdings (ground-rent-holdings as well as exchange of properties etc. The small-holdings (ground-rent-holdings) differ from the other properties by the circumstance that the State owns the land and the cultivator owns the buildings. As payment for the right to use the land the owner of the State small-holding pays an annual ground-rent, fixed on the basis of the land value of the property. The big reduction in the sales of State small-holdings is explained by the fact that only few agricultural properties classified as such small-holdings are left. The background of this development has been that, effective from 1967, the owners of State small-holdings have been given the opportunity of taking over the land by paying a sum once and for all to commute the ground-rent levy. As the State, at the same time, offered loans to finance this commutation on favourable terms, many State small-holders have used these facilities to buy the land. Therefore the sales of former State small-holdings are now registered as transactions either in the open market or as family sales.

It may be noted that property sales made as part of a property exchange, at present times, play only an insignificant role.

Table II.1.1. Total Sales of Agricultural Properties
by Categories

	1955	1965	1970	1977	1978
Open market sales	5.142 (57,7)	4.552 (56,0)	3.645 (65,0)	2.852 (42,0)	3.123 (50,3)
Family sales .	2.080 (23,3)	2.442 (30,0)	1.457 (26,0)	3.754 (55,3)	2.961 (47,7)
Sales of small-holdings (ground-rent-holdings) .	489 (5,5)	377 (4,6)	74 (1,3)	10 (0,2)	5 (0,1)
Forced sales ...	62 (0,7)	52 (0,6)	82 (1,5)	87 (1,3)	61 (1,0)
Exchange of properties etc.	1.142 (12,8)	712 (8,8)	350 (6,2)	80 (1,2)	60 (0,9)
Total sales .	8.915 (100,0)	8.135 (100,0)	5.608 (100,0)	6.783 (100,0)	6.210 (100,0)
Total number of agricultural properties	199.219 ¹⁾	184.383	170.382 ¹⁾	153.392	151.658 ¹⁾
Sales as a percentage on total number of properties	4,47	4,41	3,29	4,42	4,09

1) Estimate

Source: Danmarks Statistik

It is important to draw attention to the fact that a distinction is made in Denmark between agricultural operational units and agricultural properties. Each agricultural property is separately registered and marked in the land register as such. This annotation in the land register means that the property is subjected to a number of restrictions on sales, parcelling and consolidation and on the use of the property as a whole, as well as also on the conditions for co-management with other agricultural properties.

Before 1960 the number of agricultural properties practically equalled the number of agricultural operational units, but through the 1960s and the 1970s such farming

units have decreased considerably more than the number of agricultural properties annotated as such in the land registers. The explanation is that the rules for tenancy and co-management were liberalized to a considerable extent during the 1960s. With effect from 1st January 1979 some slight restrictions were, however, imposed on these fields under the Agriculture Act.

The table also shows the yearly sales of agricultural properties in relation to the total number of such properties. With the exception of a few deviations the long-term tendency has been a relative decline in the yearly sales of agricultural properties corresponding to a reduction of the average turnover rate from about 22 years in the 1950s to nearly 30 years in the 1970s. The large number of sales in 1977 - and to some extent also in 1978 - is due to some special conditions which will be described later. One of the consequences of this trend has been an increase in the cultivators' average age from about 45 years around the mid-1950s to about 52 years in 1978.

There are several causes of the slow-down in the rate of turnover. The introduction of the EEC's agricultural policy in the beginning of the 1960s meant that Danish agriculture was gradually dislodged from the great European market. This implied bad economic conditions for agriculture and a dwindling interest to enter into agriculture as individual farmers. The mechanization and its effect of making the agricultural operations lighter also meant that elderly farmers postponed their retirement and the sale of their properties. An influencing factor in the same direction was undoubtedly the improvement of the housing standards in rural areas, initiated during these years, eliminating to some extent the difference in housing amenities between rural and urban areas. Furthermore should be mentioned that an increasing number of farmers bought motor cars during the 1960s and 1970s, which presumably has made it easier to run a household in the relatively remote places where farms are often located. Good roads and short distances to the facilities of business centres enhance the possibilities of continuing to live in the farm-house of the agricultural

property. On the large majority of Danish farms is only one dwelling-house and separate accommodation on the farm for the aged is not generally provided and is practically unknown in Denmark. The alternatives for the retiring farmer are, therefore, either to stay on in the dwelling-house of the farm or to move to an urbanized area.

In spite of the improvement in economic conditions for Danish agriculture following the EEC-entry in 1973 the rate of turnover in agricultural properties did not rise.

Contrary to expectations, a further decline in the rate of turnover was registered, which is explained, to some extent, by the steeply rising level of the grain prices after the entry into the common market. This development improved the economy of applying more extensive operational methods. Furthermore the property prices rose considerably, enhancing the possibilities of borrowing and simultaneously reducing the relative burden of the existing debts.

Finally, it should be noted that the capital profit tax on sales started to become effective on open market property sales. This tendency accelerated during the following years, as mentioned in chapter II.5.

The aggregate effect of these factors was to induce a number of elderly farmers to postpone the sale of their properties.

There will, however, always be a lower limit under which the rate of turnover cannot drop, and there are many indications that the factors mentioned above have become ineffective, and that the rate of turnover in agricultural properties will not be further reduced but will rather tend to rise.

The Trend of the Property Prices

In the official Danish statistics on sales of properties are included only such properties as are sold in the ordinary open market. The basic data for the statistics on property sales are collected from obligatory reports to the local tax authorities on all sales of separately registered real estate units, detailing the sales price and the mode of financing and paying such price.

In the statistics on property sales are included only agricultural properties of at least 1 hectare and such as are used prevalingly for agriculture. It is emphasized at the same time, that the amount of sales per hectare include only the real property, i.e. land and buildings, and a breakdown of the sales price into these two components of the fixed property is not possible. The value of machinery and equipment is, therefore, not included in the statistics. It is also essential to take note of the fact that the average prices shown are not cash prices. The cash down-payment amounts, on the average, to one third of the price whilst the remaining balance is financed by borrowings. Out of the borrowings the general rule is that about one third of the price is covered by loans taken over by the buyer from the previous owner, whilst the last one third is covered by the establishment of new loans. The typical procedure is that the buyer binds himself to raise a loan from a mortgage credit institution payable to the seller, and that he assumes the obligation to issue an additional mortgage deed in favour of the seller to cover any balance left. This issue of a 'private' mortgage-letter means that the seller gives the buyer a loan.

Tabel II.1.2. Sales Price per hectare for Land and Buildings for Built-up Agricultural Properties Sold in the Open Market

	1-5 hectare	5-10 hectare	10-100 hectare	Total agricultural properties
1955	7.954	4.930	3.428	3.918
1962	12.093	7.758	5.898	6.422
1965	17.860	10.525	8.007	8.704
1970	26.131	15.815	11.044	12.058
1973	36.851	25.266	17.221	18.187
1974	66.379	36.938	22.002	21.946
1976	85.665	51.018	29.953	34.802
1977	108.833	64.080	37.093	43.026
1978	131.543	80.530	45.068	52.442
1979 ¹⁾	144.530	83.777	47.047	54.689
Index for Sales Price per hectare 1955=100				
1955	100	100	100	100
1962	152	157	172	164
1965	225	213	234	222
1970	329	321	322	308
1973	463	512	502	464
1974	335	749	642	560
1976	1.077	1.035	874	888
1977	1.368	1.300	1.082	1.098
1978	1.654	1.633	1.315	1.338
1979 ¹⁾	1.817	1.699	1.372	1.396

1) Covers the first 6 months of 1979 only.

Source: Danmarks Statistik.

Table II.1.2. shows the trend in prices per hectare for properties sold in the open market, indicating the prices during the first half of 1979 per hectare have been more than fourteen times higher than the prices realized by the middle of the 1950s. The prices increases have accelerated during the latter part of the period, and the rise has been specially marked during the years around and after the entry into the EEC.

There is hardly any doubt that the improved produce prices for Danish agriculture following the EEC-entry have been capitalized in the form of higher property prices. A contributory factor has, however, been the intensification of the general inflationary development which began during the latter months of 1973 following the steep rises in the energy prices.

A comparison of the prices per hectare between the various size categories of agricultural properties shows, not surprisingly, that the absolute prices are falling as the sizes of properties increase. The reason is that the value of the buildings weigh heavily on the small properties and that the weight per hectare is decreasing with an increasing area of land.

It is noteworthy, however, that the prices of the small agricultural properties of 1-5 hectares and to some extent also of the category of 5-10 hectares have risen considerably more than those of the other sizes of properties since 1973-74.

This development can be partly explained by the changes introduced in the Danish land legislation effective from 1973. Briefly, these changes aimed at restricting purchases of agricultural properties by 'non-farmers', the argument being that such measures would restrain the property price raises. In spite of unfavourable economic conditions in agriculture through the 1960s and during the first years of the 1970s the prices of properties had been rising, as shown by table II.1.2. During the same period the non-farmers' demand for agricultural properties had been rising.

The change in the Danish land legislation meant that the criteria to qualify as a buyer of an agricultural property were made more restrictive, and since 1973 the buyer has had to satisfy the following conditions:

- (i) the buyer has to be above twenty years of age;
- (ii) the buyer, his or her spouse and their children below 20 years of age, must not after the purchase jointly be owner or a part-owner of more than one agricultural property, such condition applying also to farming units abroad;
- (iii) the buyer must take permanent residence on the property not later than six months after the purchase;
- (iv) the buyer must, at the time of the purchase, make agriculture his main occupation if he has not already done so.

The rules of law on the requirements of main occupation did not apply to properties with a land assessment below 57.000 Dkr. nor to properties below 5 hectares and, therefore, these categories of properties were still accessible to 'non-farmers' who preferred to solve their housing problem by purchasing a small farm to buying or building a family house.

It can be assumed that the somewhat steeper price development for the small properties since the introduction of the restricted acquisition rules in 1973 is explained mainly by the circumstances mentioned above. There are, therefore, several indications that it will be more relevant to compare price level and price development for the small agricultural properties with the corresponding development for family houses.

With effect from 1 January 1979 further restrictions have been imposed on the acquisition of an agricultural property, cf. chapter IV. The more essential amendment is that further requirements of a professional agricultural training have been made to qualify a person as a purchaser of an agricultural property. The purpose of making the acquisition rules more rigorous was - as in 1973 - to moderate the property price rises. It seems as if the purpose set for the amendment

per 1 January 1979 has been achieved, because the rises in the property prices have decreased substantially from 1978 to 1979. An evaluation of this trend must, however, include the fact that the agricultural economy as a whole has deteriorated considerably during the same period.

A study of the period from the mid-1950s to the mid-1970s shows that the sales in the open market, as an average, have amounted to about 60 per cent of the total sales of agricultural properties - inclusive of buildings. During the period some fluctuations around this average have, of course, taken place and there has also, at the same time, been a tendency towards a reduction in the proportion of the open market sales.

In a similar way the share of the family transfers of the total sales has averaged about 25 per cent from the mid-1950s to the end of the 1960s. From these years a gradual rise in the proportion of the family sales has taken place. This average, however, covers the fact that the proportion of the family sales rise considerably with growing sizes of properties. In 1978, for instance, the share of the family sales was only about 30 per cent for property sizes of 1-10 hectares whereas the share for the size category of above 10 hectares was about 60 per cent.

The large share of the family sales in 1977 was influenced by the fact that family transfers made before the end of the calendar year were favoured by specially advantageous rules on calculation of the taxable profit in connection with the property transfer. Some explanation of the relative rise in family sales is, however, the low level towards which the number of other sales had gradually fallen.

The relatively high number of family sales is also explained by the circumstance that a number of sales transacted towards the end of 1977 was statistically registered at the beginning of 1978.

The development in the different categories of the shares of property sales in proportion to the total sales is shown in table II.1.3.

Table II.1.3. Breakdown of Total Sales of Agricultural Properties by Different Types of Sales as Percentages of Total Sales.

	1958-67	1961-70	1970	1973	1977	1978
Ordinary open market sales	60,7	61,5	65,0	64,1	42,0	50,3
Family sales	24,4	25,7	26,0	30,5	55,3	47,7
Other sales	14,9	12,8	9,0	5,4	2,7	2,0
	100,0	100,0	100,0	100,0	100,0	100,0

Source: Danmarks Statistik.

The price of properties transferred by family sales has, generally, shown the same development as prevailing for properties sold in the open market. It is, however, pertinent to stress that the family sales prices, as a general rule, were at a somewhat lower level than those of the open market. At the same time the terms for cash down-payment were easier.

In table II.1.4. the sales prices per hectare of land and buildings have been listed for family sales and for the open market sales:

Table II.1.4. Price per hectare in Family Sales and in Open Market Sales for Properties 10-100 hectares 1967-1979

	Prices per hectare		Percentage of Price of Family Sales to Open Market Sales
	Family Sales	Open Market Sales	
1967	7.942	10.257	77,4
1968	8.004	10.069	79,5
1969	8.435	10.200	82,7
1970	9.475	11.044	85,8
1971	10.029	11.855	84,6
1972	11.614	14.212	81,7
1973	13.096	17.221	76,0
1974	16.959	22.445	75,6
1975	19.535	24.892	78,5
1976	24.349	29.953	81,3
1977	29.389	37.093	79,2
1978	33.142	45.068	73,5
1979 ¹⁾	-	47.047	-

1) Covers first 6 months of 1979 only.

Source: Danmarks Statistik.

The table shows that the sales price per hectare in the family sales during the last decade have been 75-80 per cent of the prices registered for open market sales. As the average size of the agricultural properties traded in family sales is normally larger than in open market sales, the difference is often right away overrated. This is due to the trend, previously mentioned, of the lower weight per hectare of the building values on rising areas of land. It is, however, difficult to make any correction for this difference. The fact that the sales price per hectare in the family transfers amounted to only 73,5 per cent of the price in the open market should also be taken with some caution, because a considerable number of the family sales must be assumed to have taken place towards the end of 1977 whilst

they have been statistically recorded at the beginning of 1978. At a time of rising property prices this circumstance will, of course, contribute towards an underestimation of the figure shown as the sales price per hectare in 1978.

The more advantageous conditions of sale within a family are also expressed in the manner in which the terms relating to the cash payment are easier. Whilst the terms in open market transactions were just above 30 per cent of the price, the cash payment in the family sales was, typically, between 10 and 15 per cent. The loan terms agreed upon in connection with family transfers are also somewhat easier than those prevailing in open market sales. From these facts cannot be concluded that the credit facilities are better in the family sales situation. In the first place the sales prices of the family transfers are about 20 per cent lower than those of the open market, due - amongst other causes - to more lenient terms of cash down-payments. In the second place the buyer of a property in the open market must, in most cases, finance the cash payment by borrowings. As a general observation it is valid to conclude that the credit needs can be fully met by the existing financial facilities irrespective of the mode of sale.

The Credit Facilities

In the context of the considerable needs of capital arising out of the turnover of fixed property the existing possibilities for financing the sales should be further described. Especially in relation to the forms of ownership and the mobility of the factors of production, the credit system occupies a prominent place. One might imagine that a deficient credit system, in the shift of generations and perhaps especially where investments in existing properties are required, might easily prevent such necessary investments to be made - or made insufficiently to meet the requirements as determined by the realization of a rational work process to achieve a production marketable at competitive prices.

As already mentioned the prevailing rule is that the sales amount is composed of three elements, the cash payment, the transfer of existing loans and the establishment of new loans.

In this context it is relevant to discuss briefly whether the credit system meets the requirements arising out of the credit needs in connection with the generation shift and the investment projects.

The general rule is that loans from mortgage credit institutions can be issued in connection with property sales and investments up to 70 per cent of the valuation of the properties. As the basis of such valuation, in which are included livestock, machinery and equipment, is taken the commercial value of the property with normal mortgage loans. In case of uncompleted investment projects the estimated value of the finished project is added to the valuation basis. As a general rule the valuation must comprise also the actual operational condition and capacity of the production buildings. The term 'normal mortgage loans' is interpreted by a definite distribution of the commercial price on the cash payment and the borrowings, where it is assumed that all debts are subject to an interest charge of 10 per cent per annum. If the actual situation differs from such conditions a number of adjustments are made in the valuation basis. Typically the institutional mortgage loans have a repayment period of 30 years.

The mortgage credit institutions are the largest lenders to agriculture, covering over 60 per cent of the loan issue. The institutions get the means of their lending operations by the emission of bonds. This emission is a current operation and the quotation of the sales rate of the bonds is a daily routine at the Copenhagen Stock Exchange (Københavns Fondsbørs). At the present time by far the larger part of the mortgage credit bonds is emitted at a prefixed (nominal) rate of interest of 10 per cent with a repayment period of 30 years. The effective rate of interest for long-term borrowings has, however, during the later years been considerable higher - between 17 and 18 per cent per annum - and, therefore, the mortgage credit bonds are traded at a quotation much below par.

In addition to loans from mortgage credit institutions it will be possible to obtain supplementary loans from commercial banks or savings banks. The repayment period of such loans is, however, generally shorter; normally they are granted with repayment of up to 10 years. This source of credit may be augmented by raising bank loans abroad. The loans are not granted by Danish banking institutions which function only as agents, but in addition they also meet the essential requirement of issuing the guarantees demanded by the lending foreign bank. Loans of this type are subject to the restriction under the current Danish exchange regulations that the proceeds can be used for investments only. During recent years the Danish interest level has been considered relatively high by many borrowers and, at the same time, a number of restrictions on total lendings have been imposed on the banks; therefore, the possibility of obtaining credit abroad has been exploited by a continuously rising number of farmers. The exchange rate risks involved in this type of credit are born fully by the individual borrower.

The background of the high-interest policy in Denmark must be looked for in the general Danish economic problem complex arising out of the unfavourable trend of the current balance of payments during two decades.

Financing repayments on the existing foreign debts and, at the same time, the continued current deficit in the balance of payments has necessitated a high domestic level of interest - in order to attract an adequate import of capital and to motivate Danish enterprises to contract borrowings abroad.

The ratio of loans taken abroad by agriculturists in relation to the aggregate agricultural burden of debts is still small - only about 4 per cent. This ratio has, however, been steeply rising during later years, especially after the Danish banks have established subsidiaries abroad - mainly in Luxembourg.

The question whether and to which extent it has been profitable to raise loans abroad compared with domestic borrowings can be answered relevantly only at the time of expiry of a loan contract. Components entering an evaluation include, besides the difference in interest rates, also the

changes in the foreign exchange rates. In order to minimize the effects of changes in the exchange rate it has become common practice today to compose a foreign loan of several currencies. In such exchange-basket can be found 'hard' as well as 'soft' currencies.

The reduction of the exchange rate risk achieved by this practise makes it feasible to calculate in advance the approximate, fixed, effective rates of interest on the foreign loans. In this context it has undoubtedly been important that the general public seems to accept the view that there is broad political support behind the Danish participation in the European monetary collaboration. In other words: Danish exchange rate policy has been firmly stable.

A contract for a foreign loan composed of several currencies may be considered - at any rate in respect of interest - to have been profitable up to 1979 compared to a domestic loan through the Danish bond market. This conclusion depends, however, entirely upon the time of the loan operation, because the Danish bond loans, as a prevailingly main rule, carry interest rates fixed for the entire repayment period.

Amongst other sources of credit is that the seller of a property, in most cases, lets part of the sales price remain invested in the property. This means that the buyer issues an instrument of debt (a seller's mortgage-letter) to the seller who, in this way, acquires a mortgage-right in the property sold by him as security for his claim. The practice is that between 15 and 20 per cent of the basis of financing the property sales are provided in this manner.

Credit is, additionally, available through some loan facilities offered by the state, which are, however, especially reserved for farmers establishing themselves for the first time as owners of their agricultural properties. The principal purpose of the state loans is to offer a kind of support, which is given in the form of relatively low rates of loan interest and advantageous repayment conditions.

In the list of sources of credit open to agriculture must, finally, be mentioned the arrangement of contracting loans abroad with guarantee by the State against exchange rate changes - the so-called K-loan Scheme introduced in 1978. The main purpose is to further the investment activities as a precondition for increased production and employment in the sector of agriculture.

In principle this scheme is based upon the re-issue of loans - earmarked for building investments - of State moneys obtained through borrowings on the international capital markets. The State covers the exchange rate risks, normally involved in loan operations of this kind. On the re-issue to agriculture the interest rate per annum has been about 10 per cent in 1978 and 1979. Actually the procedure means that the State places loans at the disposal of farmers at a relatively low rate of interest for productive investments. The loans are granted for construction of production buildings. In comparison, the interest on ordinary bond loans taken in the domestic capital market has, during later years, been between 17 and 18 per cent per annum.

The political intention of the scheme has been to offer Danish farmers as possibility to invest in farm buildings at an interest rate comparable rather to the European level than to the Danish one.

The means placed at the disposal of farmers under the K-loan scheme were 250 million kroner in 1978 and 750 million kroner in 1979.

Amounts of this order of magnitude have, on the other hand, been insufficient to meet the total credit needs for investments in new farm buildings. In most cases the investing farmer has been compelled to exploit one or more of the other, more traditional credit facilities open to agricultural borrowers.

In the following are shown the more common sources of credit used to form the financial basis of the property sales and investments.

Creditor	Years of Repayment	Maximum Credit Limit in Relation to Commercial Value	Security Basis
Mortgage Credit Institutions	5-30	70 per cent	Real property + Livestock + Machinery and Equipment
Banks and Savings banks	1-10 (ordinarily)	as agreed	Real Property + Livestock + Machinery and Equipment - may be supplemented by pledges and sureties
Private Mortgagees	5-15 (ordinarily)	as agreed	Real Property + Livestock + Machinery and Equipment - may be supplemented by pledges and sureties
State Institutions	20-30	90-110 per cent	Real Property + Livestock + Machinery and Equipment

A review of the main credit sources open to Danish agriculture leads to the conclusion that the credit needs currently have been met in a purposeful and satisfactory manner. The same conclusion was reached by an experts' committee set up by the Minister of Agriculture in a report, published 1977, on the future of Danish agriculture¹⁾.

During the period under review no indications have pointed towards any shortage of credit which might impede the structural adjustment in agriculture. It may also be expressed by saying that the credit system has had a neutral effect in such a way that the sales of properties and rational investment dispositions - viewed from an economy angle - have always been adequately financed.

1) Betænkning nr. 795: "En fremtidig landbrugspolitik".

One of the more serious problems arising out of the predominant system of owner-occupancy and the sales of properties is that, especially during recent years, young farmers have been liable to feel somewhat faint-hearted in face of the task to save up a certain own capital for the purpose of buying a farm. This is understandable when the steeply rising property prices, especially for farms to be purchased at full price in the open market, are taken into consideration. With the exception of the trend in 1979 the property prices have risen so quickly that the annual price-rise on an ordinary family farm has exceeded, quite substantially, the savings which the young man - or the young couple - has been able to make. This situation explains why it has been queried whether the owner-occupancy system would be able to retain its pre-dominant role in the long run. It is thought that a more moderate development in property prices during the coming years would considerably damp this debate on the future of the ownership system.

II.2. Investments in Agriculture

There is no current collection of data on the agricultural production capacity in Denmark. Nor are data collected on the extent to which the available capacity is exploited. Under all circumstances such information would also suffer from a considerable degree of uncertainty.

A complete account of the agricultural building values is found in connection with the public property assessments, made since 1965 at intervals of four years. Before that year the assessments were carried out with more irregular intervals. These assessments include a valuation of land and buildings as well as a separate assessment of the dwelling house and land values. The value of the production buildings can then be found as the difference between the total property assessment and the value of the dwelling house and land. An indirect valuation of the production buildings is made in this way. As the starting point for an estimate of the total production capacity in agriculture the use of such computation will be very difficult. This is due, amongst other things, to the fact that it is the commercial prices that are used as the basis of the valuations and not the value which the agricultural capital represents from the point of view of production.

The extent of investments since the mid-1950s seems broadly speaking, to have reflected the changing economic situation of agriculture. In table II.2.1. is shown a comprehensive review of the fixed gross investments made in agriculture since 1955.

Table II.2.1. The Fixed Gross Investments in Agriculture
1955-1977 Gauged by 1955-Prices in Millions
Dkr

	Production Buildings	Dwelling Houses	Total	Machinery and Equipment	Land Improve- ments	Fixed Gross Investments Total
1955-59	189	60	249	257	51	557
1960-64	209	84	293	488	39	820
1965-69	182	103	285	472	33	790
1970	161	103	264	446	29	739
1971	179	91	270	456	27	753
1972	211	97	308	568	29	905
1973	291	116	407	696	28	1.131
1974	318	125	443	651	25	1.119
1975	301	142	443	648	25	1.116
1976	343	-	-	712	40	-
1977	385	-	-	708	47	-

Source: Danmarks Statistik.

Table II.2.1. shows that the total gross investments were rising until the beginning of the 1960s. Then a decline set in, and it was only at the beginning of the 1970s that the trend was turned into renewed increase. Stagnation marked the years from 1974 to 1976, but after this stand-still the total gross investments have again shown some growth.

The more important fluctuations in the investments development have been ascertained in the field of the agricultural production buildings. This area of investment is apparently highly susceptible to changes in the incomes in agriculture. The introduction of the common agricultural policy in 1962 in Europe meant that Danish agriculture became gradually excluded from a number of important markets in the original EEC-countries. The result was an unfavourable influence on the agricultural earnings. The effect was especially felt during the latter half of the 1960s, and concurrently the investments in new building capacity declined. This development was turned by the expectations of Danish

entry into the EEC at the beginning of the 1970s; the investments rose steeply and reached a high level before the Danish membership became effective on 1 January 1973. The growth in investments was, however, also prompted by the improved earnings setting in already in 1971-72.

Generally the investments in new production buildings have been kept at a high level since the entry of Denmark into the EEC and on through the 1970s. After a slight recess in the investment activity about the middle of the 1970s - which may be put down to the adverse influence of the drought on the agricultural incomes - the investments in new farm buildings rose significantly during the latter part of the 1970s. The steep rises in the produce prices from the end of 1976 and further through 1977 together with the return of normal growth conditions for the crop production were the essential incitements to the start of the new 'investment wave'. During the recent 1-2 years, when the income in agriculture has suffered a clear deterioration, the easier credit terms available from the beginning of 1978 through the so-called K-loan scheme (as mentioned before) have, presumably, contributed towards the maintenance of the high level of investments. (The K-loan scheme is mentioned in chapter II.1. under the section on credit facilities). It must be added, that a certain interest support has been available under the EEC Modernization Directive for a large number of the investment projects implemented.

A detail in the investment development is that the main part of the investments have been concentrated on the construction of new sow- and pig stables, which have provided the basis for a significant rise in the Danish pig production. Compared to the output at the middle of the 1970s the pork production in 1979 was 25-30 per cent higher.

The dwelling house investments have generally been marked only by small fluctuations and have been rising, on the whole, during the period under review. The data confirm the assumption that the housing standard in the rural districts has been considerably raised during the 1960s and the 1970s, and that it is being gradually brought up to the level found in the urban communities.

The fluctuations in machinery investments have been much smaller than those registered for production buildings; this type of investments has, however, also to some extent been influenced by the variations in the income development. The relatively high level of machinery investments through the 1960s reflects primarily the intense mechanization, especially of the field work, which took place during this period. Reference is made in this context to the large migration of labour away from agriculture characterizing these years.

During recent years the interest in mechanization and automation of the animal husbandry operations has grown. These changes in work processes are prompted, of course, also by the fact that the technical development in the field of machinery has moved and still moves very fast.

In connection with a review of the investment development it is relevant to make some observations on the changes in the agricultural production capacity, which are thought to have been the outcome of the investments made in buildings.

In order to find a measure of the real growth in the production capacity some account must be made for the depreciations. In this connection a distinction can be made between operational and structural depreciations. The latter, which are exceedingly difficult to size up, are primarily related to the reduction of the building capacity arising out of the closing down of farms, but partly also to the technical obsolescence of the production capacity in existing farm buildings. It is clearly evident that the structural depreciations will be quite sizable, especially at a time of intense concentration- and specialization tendencies, and also of development of new techniques in animal husbandry.

On the whole it must be assumed that the production capacity in Danish agriculture was rising up to the mid-1960s. During the following years, broadly speaking, at the time when Denmark was partly excluded from the continental markets of Europe, the capacity dropped, and only from the beginning of the 1970s the growth appears to have started again. It must, however, be assumed, that the production capacity only about the mid-1970s rose to

the level characteristic of the beginning of the 1960s, a level now, presumably, surpassed as a consequence of the considerable new investments in production buildings on Danish farms made during the last few years.

The Danish owner-occupancy agriculture is, with the predominant position represented by this owner-user form of farming, responsible for by far the main part of the investments required.

The fact that the production capacity only about the mid-1970s reached the capacity existing at the beginning of the 1960s means that Danish agriculture - expressed by the production capacity - has been unable to get its share of the food market which expanded during the 1960s and the 1970s. The question is, therefore, how it can be explained that the production capacity in Danish agriculture has not kept pace with the market development.

It has already been mentioned that some explanation is offered by the market conditions existing before the entry into the common market on 1 January 1973.

Another contributing cause, especially during recent years, has been a relatively high Danish wage- and cost level; the interest level is very high. These questions, especially those related to the Danish interest level, will be the subject of chapter II.6., where some comprehensive observations will be made on the problems of the owner-occupancy form of farming.

The insignificant rise in the production capacity which can be ascertained from the beginning of the 1960s and on to the present day might perhaps be explained by a lack of credit facilities to finance investments? It has, however, earlier in this chapter been said that the organized credit facilities open to the owner-occupancy farmer have been so far developed that there are no restrictions on the realization of investment projects explainable by financial limitations.

All considered, the result has turned out to be a small rise in the production capacity. Through this situation can, however, be discerned the fact that a very

large number of the owner-occupancy farms of family-farm size have been improved immensely during the years and especially after the entry into the EEC - and this progressive development will presumably continue during the coming years.

It may be added that the improvement in economic conditions befallen to the Danish owner-farmers, as far as their properties are concerned during the intense inflation of recent years - a subject to be dealt with later - has strengthened the security basis for loans to finance investments in the production plant.

It is generally held that the owner-farmer is in a better position than the tenant-farmer with regard to investments and that the former has easier access to the credit needed to finance them, cf. the description of the tenancy problems in Denmark. In this context it does play a role that there is no Danish law on tenancy protecting the tenants with any assurance of recovery of investment costs in case of expiry or cessation of the tenancy contract.

II.3. Analyses of Farm Incomes

The Trend in the Gross Factor Income

It is difficult to analyse farm incomes back in time because the method of processing data for the official statistics has been changed several times. It is, therefore, a most intricate study that must be made in order to render a comprehensive report with any sort of informative review of the past economic results of farming, and it is most difficult to make analyses of incomes centred around the individual farm unit.

Effective from 1973/74 the statistical basis was considerably improved for an evaluation of the earnings in the individual farm, due to the extension of the EEC information services on Book-keeping on Agricultural Economy, which was applied to a representative section of Danish farms. It has, consequently, been possible to collect data on the earning conditions related to, amongst other things, the farmer's age, the type of farmings and the size of the holding. The statistics available before 1973/74 tended rather clearly to be based upon the more rationally operated farms and, therefore, the level of income was likely to be somewhat over-estimated. Comprehensive series of fully representative data cannot, therefore, be presented as far back as the 1950s.

In order to describe the history of the income conditions in agriculture as a whole table II.3.1. has been compiled to show the development of the gross factor income, i.e. the surplus available to the production factors contributing jointly to the agricultural production. It must be observed, however, that the gross factor income, even if it offers an acceptable indication of the income development, does not, at the same time, adequately describe the overall level of income (rest incomes) for the independent farmers. This is due to the fact, that a number of important cost components, as interest paid, depreciation, repairs and maintenance, wages for external labour and property taxes has not been deducted from the

gross factor income. On the other hand no estimate has been made of the income earned mainly in the form of wages by a considerable number of farmers from jobs outside of farming. Generally the fluctuations in the individual farmers' incomes are somewhat bigger than found from the gross factor incomes.

Tabel II.3.1. Gross Factor Income in Agriculture ab Farmer 1959/60 - 1978/79 Calculated at Current Prices

	Gross Factor Income in Millions Dkr.	1959/60 = 100
1959/60	4.470	100
1960/61-1964/65	5.370	120
1965/66-1969/70	6.070	136
1970/71-1971/72	6.940	155
1972/73-1973/74	9.280	208
1974/75	10.940	245
1975/76 ¹⁾	10.623	238
1976/77	10.791	241
1977/78	14.049	314
1978/79	13.924	311

1) From 1975/76 and onwards the figures are not directly comparable to previous years because the definition of the Gross Factor Income was changed.

Source: Danmarks Statistik.

In spite of changes in the definition of the term Gross Factor Income the table shows clearly the uneven pace at which the incomes in agriculture have developed during the past 15-20 years. During the 1960s as a whole the nominal increases were very small. If the development in prices is taken into consideration there was, in fact, a relatively big decline in the real earnings in independent owner-enterprises, a development which was especially marked during the latter half of the decade 1960-1970. At the same time, the 1960s was a period where it became more common for the owner-farmer to engage in wage-earning in jobs outside of agriculture. It is noteworthy that the other sectors of Danish economy were marked by a steep economic growth, causing rising real incomes for the main part of the other groups of the population.

As previously mentioned the development in the earnings in agriculture during the 1960s and the beginning of the 1970s was influenced by the unfavourable market limitations for Danish agriculture, prevailing at that time in Europe. A contributing cause was also a large supply of animal as well as vegetable agricultural produce to the world market. It must be added that Danish agriculture from the beginning of the 1960s until the entry into the EEC in 1973, received some continually increasing income-subsidies, through arrangements of price subsidies, as well as by more direct income-subsidy measures. This income-subsidy policy had a duofold purpose; in the first place the aim was to mitigate the serious effects on farmers' income of the difficult European marketing conditions for Danish agriculture during the 1960s, and in the second place the intent was to maintain, to the widest possible extent, the agricultural production capacity with a view of an expected later entry into the common European market. As mentioned in chapter II.2. on the investments in agriculture this policy was only partly successful, inasmuch as the agricultural production capacity was reduced and worn during the latter half of the 1960s and the beginning of the 1970s.

The more favourable marketing conditions for animal husbandry produce occurring at the beginning of the 1970s, coinciding with Denmark's entry into the EEC, meant a decisive change in the income situation in Danish agriculture. During the two-year period of 1972/73 and 1973/74 the gross factor income rose by 30-35 per cent, and it is estimated that the earnings of the owner-farmers rose even more steeply, in spite of the fact that the major part of the subsidies were abolished with effect immediately after the entry into the EEC. The relatively large growth must, however, be understood in the light of the low take-off level.

Inversely, the period from 1974/75 to 1976/77 has been characterized by an almost stagnating development

in the agricultural gross factor income. Amongst other causes this halt is due to the very unusual and long-drawn drought, seen in an historic perspective, which prevailed especially in 1976. Besides the reduction in crop yields the price increases of fodder, due to the scant supplies, meant sharply rising costs in the animal husbandry production. This adverse situation was strained also by a somewhat subdued price raise of the agricultural market products.

The conditions of cropping became normal again in 1977 and, at the same time, the prices of animal husbandry products rose during the year, due to a number of devaluations of the 'green' Danish krone at the end of 1976 and during 1977; this course of events meant a marked improvement in the income results in agriculture in 1977/78. Stagnating sales prices combined with rising costs prevented, however, a continuation of the improvement in 1979/80 and a decline in the gross factor income has been recorded.

The Trend in the Total Income in Agriculture.

As an additional description of the income development in Danish agriculture table II.3.1a. has been compiled with figures carried back to 1967/68. The structure of the table has been explained in the foot note. It is however, emphasized that only the data from 1973/74 and onwards are acceptable as approximately representative for the income development as well as for the individual farm unit. It is observed, however, that an attempt has been made to combine the different sources of the data referring to the period before 1973/74 in such a manner that the material can be used for a more general evaluation of the income development. For the income earned outside of agriculture the data available before 1973/74 are incomplete.

Table II.3.1a. shows that the net income from agriculture (column 3) has been subject to considerable variations. Even after the entry into the EEC in 1973, which undoubtedly offered Danish agriculture much better production- and marketing conditions, the income development

has not at all been characterized by stability. The net income from agriculture increased by about 75 per cent from 1967/68 to 1978/79 and all the rise in income has been concentrated to the period immediately before and to the entry into the EEC in 1973. The prices of a number of essential food products were rising steeply already from the end of 1971, so that the membership of the EEC meant relatively limited price adjustments for several Danish agricultural products. An overall view is, however, that the entry into the EEC was followed by a considerable rise in the prices of the products.

Table II.3.la. - Income Development in Agriculture 1967/68 - 1978/79

Year of operation	Gross Factor Income	Gross Profit (Income from unencumb. Property)	Net ²⁾ Income from Agri-culture (Property)	Wage Income from other Occup.	Wife's Part of this Income	Other Income	Total Income of Farms	Average Income per Farm	Consumer Price Index	Average Income per Farm exclusive of Wife's Income	Average Real Income
(1)	(2)	(3)	(4)	(5)	(6) = (3+4+5)	(7)	(8)	(9)	(10)	(11)	
-----1000 million kr.-----											
1967/68	5,19	3,24	2,28	0,42	0,09	-	2,70	17,307	100,0	16,730	16,730
1968/69	5,57	3,62	2,54	0,52	0,13	-	3,06	20,473	104,3	19,603	18,795
1969/70	6,13	4,14	2,89	0,57	0,16	-	3,46	24,161	108,8	23,044	21,180
1970/71	5,56	3,46	2,25	0,62	0,18	-	2,87	20,813	116,4	19,507	16,759
1971/72	6,73	4,49	3,22	0,75	0,23	-	3,97	29,450	123,1	27,743	22,537
1972/73	7,79	5,32	3,89	0,93	0,29	-	4,82	36,102	132,0	33,930	25,705
1973/74	9,96	7,32	5,61	1,48	0,57	0,94	7,09	53,945	147,9	49,608	33,542
1974/75	9,86	6,86	4,86	1,72	0,67	1,07	8,03	62,486	169,4	57,273	33,809
1975/76	10,70	7,36	5,05	2,03	0,76	1,13	8,21	65,317	181,3	59,271	32,692
1976/77	10,12	6,48	3,59	2,20	0,84	1,43	7,22	58,339	199,7	51,551	25,814
1977/78	13,37	8,74	5,18	2,59	1,08	1,43	9,20	75,647	222,1	66,767	30,062
1978/79	13,96	8,53	3,99	2,61	1,20	1,61	8,21	68,697 ⁴⁾	236,2	58,656	24,833 ⁴⁾

Source: Danmarks Statistik and Jordbrugsøkonomisk Institut.

From 1973/74 and onwards the information on income in agriculture has been based solely upon the accounting data processed by Jordbrugsøkonomisk Institut. As these data cover farms above 4,9 hectares only, it has been necessary to make a number of small adjustments in order to present data representative for all agricultural units. In this context it is estimated that farms below 5,0 hectares contribute between 1 and 1½ per cent of the total number of farm units. It is further estimated that about 25 per cent of the wage income from external jobs is earned by farmers with holdings below 5,0 hectares. For the period prior to 1973/74 the data presented in the table are only approximately representative, for instance are the data available before 1973/74 on the income from other sources than agriculture incomplete.

1) Computed by deduction from (1) of property taxes, wages for employees and depreciation.

2) Computed by deduction from (2) of net interest costs.

3) Transfers from public support schemes, sundry income from outside enterprise, income from inheritance, gifts etc.

4) Estimates.

Table II.3.1a. - Income Development in Agriculture 1967/68 - 1978/79 - index 1973/74 = 100

Year of operation	(1)	(2)	(3)	(4)	(5)	(6) = (3+4+5)	(7)	(8)	(9)	(10)	(11)
	Gross Factor Income	Gross Profit (Income from unencumb. Property)	Net Income from Agri-culture	Wage Income from other Occup.	Wife's Part of this Income	Other Income	Total Number of Farms	Average Income per Farm	Average Income per Farm exclusive of Wife's Income	Consumer Price Index	Average Real Income
1967/68	52	44	41	28	-	38	119	32	34	-	50
1968/69	56	49	45	35	-	43	114	38	40	-	56
1969/70	62	57	52	38	-	49	109	45	46	-	63
1970/71	56	47	40	42	-	40	105	39	39	-	50
1971/72	68	61	57	51	-	56	103	54	56	-	67
1972/73	78	73	69	63	-	68	102	67	68	-	77
1973/74	100	100	100	100	100	100	100	100	100	-	100
1974/75	99	94	87	116	114	113	98	116	115	-	101
1975/76	107	101	90	137	120	116	96	121	119	-	97
1976/77	102	89	64	149	152	102	94	108	104	-	77
1977/78	134	119	92	175	152	130	93	140	135	-	90
1978/79	140	117	71	176	171	116	91	127	118	-	74

In table II.3.lb. the price fluctuations on the price and costs side of agriculture have been shown. It is seen that the produce prices have risen less than the factor prices during the period under review as a whole. The big leap of about 40 per cent in the price index for the market products from 1971/72 to 1973/74 is, as already said, explained by the generally good marketing conditions for agricultural products during a period immediately before the entry into the EEC and also by the higher price level in the EEC. The rise in the sales price level during the latest operational years is due primarily to devaluations of the 'green' Danish krone in relation to the EEC agricultural exchange unit; only modest adjustments in the common EEC price level have been made.

In the area of the factor price development it is of interest to underline that the marked rise in the price level about 1972/73 and 1973/74 is due partly to the well-known increases in the prices of energy, but the main cause is the price increase on proteinous feeds, due to scarcity situations for these raw materials. The second 'wave' of price rises setting in in 1975 and 1976 reflects the scarcity of a large number of feeds following in the wake of the drought in many parts of Europe. Inversely the return of normal crop cultivation conditions from 1977/78 has contributed to a trend of somewhat smaller increases in the factor prices during the last couple of years.

There is, of course, a close connection between the development in the sales/factor prices and the income development, but a thorough evaluation of the income conditions requires the inclusion of further quantitative movements on the sales and costs side.

The major part of the long-term loans raised in agriculture carry a fixed interest, and this condition means that it will not be directly practical to include the interest in an index on the development in the factor prices. Consequently table II.3.lb. (column 3) shows the development in the effective interest in contracting new bond loans.

It can be read that the level of interest generally has been rising since 1967/68 which has led to a situation where the interest costs - as a consequence of the considerable agricultural borrowings during the 1970s - have become a large item in the agricultural aggregate cost reflection. The steeply growing interest payments must be considered one of the main causes of the decline in the agricultural net income which has generally manifested itself since 1973/74 (cf. table II.3.1a. - column 3).

The growth in the external income is striking (table II.3.1a. - columns 4 and 5), but the defective and incomplete character of the data before 1973/74 should be remembered. There is, however, no doubt that the more expansive element in the overall review of income in agriculture since 1973/74 has been the income earned outside of the farm operations, comprising wages, income from transfers from public means and proceeds of enterprises apart from agriculture. These income components have to a large degree contributed towards a stabilization of the income development during a period where, above anything else, the drought in 1975 and 1976 made a heavy adverse impact upon the earnings from the actual agricultural operational areas.

If the development in the number of agricultural units (column 7) is taken into consideration it becomes possible to make a computation of the income trend as well as of the income level for individual farm units. Columns (8) and (9) show that the important improvement in the agricultural income took place, as previously mentioned, during the period preceding the entry into the EEC and simultaneously with the entry. This picture becomes even more sharply delineated by the figures in column (11) where the incomes per farm unit have been deflated in accordance with the development in the consumer prices (inclusive of sales taxes).

For the sake of comparison it may be taken into consideration that the average yearly income during the years of 1978/79 for a skilled worker in urban occupation was about 90.000 kroner. A complex of different conditions render it, however, difficult to make a direct comparison of income levels inside and outside of agriculture.

A review of the income development in agriculture does not comprise the variations in the value of the agricultural capital outfit, resulting from investments as well as from the general development in prices - the inflation. As far as the investments are concerned this appears to be justified, because the counter-effect of adding to the value of the capital outfit would be a reduction of the value of the balance of the net capital. It is a somewhat different matter with such increase in the value of the capital outfit as is due to the general price development. The steeply rising property prices have had the effect of adding an inflationary growth to the value of the capital outfit which has, at times, been larger than the results derived from the current operations. It is open to discussion whether the capital profits should be added to the current operational result, but it is immediately evident that such inclusion would raise large and complicated difficulties. In the first place the amount of the capital profits would depend upon estimates, based upon assessed commercial values. Secondly the capital profits would be nominally computed, and under the present level of interest a realization - through borrowings - would result in cash proceeds which would often be considerably smaller than the nominally computed amount of the raise in capital value. Finally it should be noted that a current taxation of capital profits under the general rules of income taxation would raise large liquidity problems which could hardly be solved out of the current income. In this context it is not taken into consideration that a tax claim can be 'frozen' as a public mortgage on the individual agricultural property.

The very large practical problems involved in a current assessment of the size of the increases in values in the individual farms have led to a practice under which the capital profits are attempted fixed only at the time of sale of the agricultural property concerned. The capital profits are then taxed under special rules. These rules and the effects of the Danish taxation of capital profits have been described and discussed in chapter II,5.

Table II.3.lb. - The Development in the Sales- and Factor Prices of Agriculture. 1967/68 = 100

	Sales Prices	Factor Prices (excluding costs of inte- rest and com- pensation to farmer)	Terms of Trade	Effective interest on new bond loans per cent per annum
1967/68	100,0	100,0	100,0	10,81
1968/69	102,5	103,6	98,9	9,68
1969/70	116,9	110,3	106,0	11,24
1970/71	118,3	119,0	99,4	12,80
1971/72	126,1	126,0	100,1	12,23
1972/73	151,4	141,6	106,9	11,92
1973/74	174,6	180,4	96,8	14,04
1974/75	175,8	199,0	88,3	16,35
1975/76	202,9	212,3	95,6	14,36
1976/77	217,0	241,0	90,0	16,40
1977/78	233,7	244,9	95,4	17,35
1978/79	233,7	259,2	90,2	16,57

Source: Jordbrugsøkonomisk Institut.

Dispersion of Incomes

As mentioned before, representative accounting statistics have been worked out since 1973/74 showing the earnings of the individual farm, by the owner-farmer's age, the size of the holding and the mode of operation. Supplementary to the general review of the income development in agriculture will, therefore, the income variations be mentioned in the following, as they are connected with the farmer's age, the size of the holding and the type of operation.

Table II.3.2. shows a breakdown of the income and the level of earnings by the farmer's age. There is a clear tendency towards a falling income level by rising age*¹), but it is also worth noticing that the composition of the sources of income changes simultaneously. The gross profit, i.e. the income from unencumbered property, for the age-group of 45-54 years corresponds largely to the average for the owner-farmers as a whole, whilst the gross profit for the younger and the elderly age-groups is, respectively, higher and lower than the average.

The gradually declining level of the gross profit indicates also that the animal husbandry operation occupies a considerably more prominent place in the younger farmer's economy than in the elderly farmer's activities. Inversely the crop production grows in importance with rising age of the cultivator.

When the net interest cost is deducted from the gross profit the result is the net income from agriculture. Thereafter the income difference between the age-groups is considerably narrowed down. The high net interest costs for the younger age-groups are explained by the facts that the establishment as farmers is still a load on the economy and also that the investment activity

*¹) In these calculations the harvest year of 1976/77 ought, to some extent to be disregarded, because the totally extraordinary drought-situation influenced the net income in agriculture quite heavily.

is higher in the group of young agriculturists. The relatively high level of interest in Denmark must also be taken into account. Income from wages and other occupations is an important item in the age-groups up to 55-64 years. The transfer incomes, on the other hand - mainly from pensions - are of increasing weight. All considered, it must be concluded that there are only minor income differences between the age-groups if the comparison is made between the total incomes. It is primarily the clear differences in the net interest costs between the age-groups that contribute most to this equalization. It adds also to an understanding, that the consumption- and savingsmodel shows large variations between the age-groups. The heavy burden of debts in the younger age-groups has the effect that the savings proportion in these groups is at a high level, due to the considerable repayment obligations shouldered by them.

Table II.3.2. Income in Agriculture
Breakdown by Age-Groups, Averages for the Period 1973/74 - 1976/77

	Below 35 years Dkr. pCt distrib.	35-44 years Dkr. pCt distrib.	45-54 years Dkr. pCt distrib.	55-64 years Dkr. pCt distrib.	65 years and above Dkr. pCt distrib.	Total Dkr. pCt distrib.
Gross Profit	86.713	79.329	61.623	48.565	30.425	59.383
Net Interest Paid ¹⁾	44.486	34.804	19.024	9.047	- 109	18.974
Net Income from Agriculture	42.227	44.525	42.599	39.518	30.534	40.409
Gross Income from Other Jobs and Wages ²⁾	21.177	19.031	18.090	10.572	4.901	14.409
Transfer Incomes	3.068	4.166	4.125	3.655	14.618	5.487
Other Income and Costs, including Inheritance and Gifts	2.241	3.217	3.713	1.373	- 4.054	1.989
Total Income	68.713	70.939	68.527	55.118	45.999	62.294
	100,0	100,0	100,0	100,0	100,0	100,0

1) Including Tenancy Rent.

2) Including Wife's Income in some cases.

Source: Jordbrugsøkonomisk Institut.

The dependence of the incomes on the size of the agricultural holdings is shown in table II.3.3. From this table a number of characteristic, but not very surprising features can be read. In the first place should be stressed that direct agricultural operations play an increasing role as the size of the farm unit increases; in the second place, income from external jobs, including an eventual wage-income earned by the wife, takes a more important place with a reducing size of the farm. It is amongst the owners of the smaller farms that the largest number of part-time farmers is found.

As the average age of the agriculturists is highest on the smaller farms the transfer incomes (pensions) play rather an important role. In total, there is also here a clear tendency towards a reduction of the spread around the average income when the total income is considered rather than the single income components. It is, however, essential to point out that the income level moves upwards with rising sizes of holdings. In the context of further study of agricultural structural problems this last situation is of some relevance.

Table II.3.3. The Owner-Farmers' Income as Depending on the Size of Holdings as Averages for the Period 1973/74 - 1976/77.

Hectares	5,0-9,9		10,0-19,9		20,0-29,9		30,0-49,9		50,0-99,9		100,0 and above		Total
	Dkr. pCt distrib		Dkr. pCt distrib		Dkr. pCt distrib		Dkr. pCt distrib		Dkr. pCt distrib		Dkr. pCt distrib		
Gross Profit	20.350	38.297	65.578	90.230	128.267	304.094	59.383						
Net Interest Paid ¹⁾	1.973	9.866	17.737	30.162	60.105	141.176	18.974						
Net Income from Agriculture	18.377	37,7 28.431	56,2 47.841	73,8 60.068	78,7 68.162	76,5 162.918	83,0 40.409	64,9					
Gross Income from other Jobs and Wages ²⁾	21.841	44,8 15.231	30,1 8.466	13,0 9.745	12,8 12.796	14,3 28.837	14,7 14.409	23,1					
Transfer Incomes	7.537	15,5 5.581	11,0 4.659	7,2 4.435	5,8 3.972	4,5 4.306	2,2 5.487	8,8					
Other Income and Costs, primarily Inheritance and Gifts	958	2,0 1.351	2,7 3.879	6,0 2.032	2,7 4.208	4,7 307	0,1 1.989	3,2					
Total Income	48.713	100,0 50.594	100,0 64.845	100,0 76.280	100,0 89.138	100,0 196.368	100,0 62.294	100,0					

1) Including Tenancy Rent.

2) Including Wife's Income.

Source: Jordbrugsøkonomisk Institut.

As a final analysis table II.3.4. shows the income variations in a number of typical modes of operation. It is worth noticing that an exclusive plant production combined with external jobbing has offered the best alternative, as far as income is concerned, during the whole period of 1973/74 - 1976/77. The transfer incomes are, in this combination, of quite some importance, which indicates, in a comparison with the income from external jobbing, that this mode of production is often felt attractive by part-time farmers and elderly cultivators. Largely, the same observations can be made on the mode of operation cropping combined with some animal husbandry in the form of pig/poultry production. This form of production, combined with the clean cropping proposition, leaves an opportunity for non-agricultural occupation. This mixed and rather non-intensive mode of operation as far as labour is concerned will be a natural and attractive alternative for the aging farmer. The same is absolutely untrue about the clean animal husbandry lines, especially about cattle farming. In spite of the fact that animal husbandry as a whole has only just rendered a net income during the period from 1973/74 to 1976/77 nearly equal to the result from exclusive plant production, there have been only very limited possibilities of supplementing the income from any other form of occupational activity. It must, however, be remembered that the drought influenced the earnings from animal husbandry decisively, in an unfavourable direction, during the harvest years of 1975/76 and 1976/77.

The economy in the pig production has shown a somewhat varying development during the last few years, mainly due to the large price fluctuations for feed. Taken as a whole, the pig production has presented an economically better alternative to cattle farming during the last couple of years, even if the income level has been far from impressive. The pig production does not bind the labour force as much as the cattle herds do and, therefore, it has allowed time for a certain measure of external jobbing.

Table II.3.4. Income in Typical Lines of Operation Broken Down by Incomes
as Averages for the Period 1973/74 - 1976/77

	Plant Production		Plant Production combined with Pigs/Poultry		Cattle		Pigs		Total	
	Dkr.	pCt distrib.	Dkr.	pCt distrib.	Dkr.	pCt distrib.	Dkr.	pCt distrib.	Dkr.	pCt distrib.
Gross Profit	48.412		48.228		66.579		69.425		59.383	
Net Interest Paid ¹⁾	12.647		17.209		27.985		22.549		18.974	
Net Income from Agriculture	35.765	48,6	31.019	49,6	38.594	75,1	46.876	69,2	40.409	64,9
Gross Profit from Other ²⁾ Jobs and Wages	28.847	39,2	21.424	34,3	7.135	13,9	14.054	20,7	14.409	23,1
Transfer Incomes	8.245	11,2	7.891	12,6	4.429	8,6	5.087	7,5	5.487	8,8
Other Income and Costs, primarily Inheritance and Gifts	664	1,0	2.163	3,5	1.239	2,4	1.763	2,6	1.989	3,2
Total Income	73.521	100,0	62.497	100,0	51.397	100,0	67.780	100,0	62.294	100,0

1) Inclusive of Tenancy Rent.

2) Inclusive of Wife's Income.

Source: Jordbrugsøkonomisk Institut.

Directly, the income represents only a total registration in terms of money of the effort and the dispositions made by the individual farmer during a defined period. It is, however, in this context, essential to draw attention to the fact that the farmer, in his decision-making, to a wide extent is bound by a number of external conditions on which he has only marginal influence. This is true about such important areas as produce- and factor prices, and to this must be added that the production activities must take place under certain legal impositions. It is, however, on the other hand evident that the effort and proficiency of the individual farmer do influence the final income result.

Within such external framework the farmer has to make his choice between alternative modes of production. Naturally, the farmer cannot change his production from one day to another, but over some time changes can be gradually made. He can, for instance, leave investments for a certain production or he can, over a period of time, change the production combinations. Experience indicates that freedom of disposition grows with the length of time the individual farmer has owned his farm. It is of some importance in this connection that the real value of his debts becomes a smaller burden to bear, just as the economic needs become easier to meet, as the farmer grows older. Inversely, it acts in a conservative direction that the farmers become more reserved against changes in production programmes the more they advance in age. After the entry into the EEC the high absolute produce price-level for plant products has made it more attractive to change over to more extensive forms of productions and has, at the same time, made such shift acceptably remunerative.

An essential element in this decision-making will be the existing earning possibilities in the individual production lines combined with an estimate of foreseeable prospects. In the decision process will also be included considerations of alternative external occupational and income-earning possibilities.

On this background the earning possibilities are an essential factor influencing the mode of ownership and the use of the land. Unsatisfactory earning conditions, over a long period of time, in animal husbandry will, for instance, gradually draw resources out of agriculture.

The land will, at all times, be cultivated. Depending upon the relationship between the price of grain and the cultivation costs in the grain field, the poorest quality of cultivated areas might be turned to other use, as the nearest measure, for instance, be converted into forests.

In animal husbandry quite a large degree of mobility seems to exist - dependent upon the profitability in the different lines - if conditions are viewed over a period of years. The desirable mobility exists even in the Danish one-family owner-occupancy farm, although the production buildings are of a rather solid construction, by international comparison. It has improved the possibilities of production changes that the farm buildings erected during recent years have been constructed over self-supporting steel frameworks where a change from cattle to pigs or vice-versa has become easy, if and when profitability and/or other circumstances induce such shifts. It is, however, generally experienced that the individual farmers cannot successfully make frequent changes in their production, because there are, after all, quite considerable costs involved in the rearrangements. At the same time, if it is assumed that the economy in the main lines of animal husbandry tends to even itself out over a period of years, much speaks in favour of letting abilities and interests decide the choice of the production programmes in the individual farm. The mobility between the different lines of production is to a large extent, a matter of choice of productions and investments made by incoming, newly-established farmers.

II.4. Rules of Inheritance on the Transfer of Ownership to Agriculture Properties

As mentioned in section II.1. the share of family sales of the total number of property sales has grown gradually since the end of the 1960s. At the same time the predominance of the family sales in the group of large-size properties has been rising.

The ownership transfer of agricultural properties from an old farmer during his life-time to the next generation is a most important element in the generation shift in agriculture. As a rule certain favours are conferred on the heir taking over the farm.

Since 1769 certain regulations on inheritance of agricultural properties have existed in Denmark. Briefly the essence of these regulations is that the owner-occupier shall be entitled to write into his will which of his children shall inherit the property with its livestock and moveables, regardless of the normal rules in favour of heirs apparent. At the same time the owner-occupier has the right of fixing the price at which the transfer shall take place. If the owner of an agricultural property uses these rights he becomes, however, subject to some limitations of his right of bequeathing the remainder of his estate.

The reason for the introduction of this special set of rules of inheritance for the properties of owner-occupiers was a desire to prevent a subdivision of the owner-occupancy type of farms. The owner's special right of bequest was generally accepted by the family as well as by the community because it was found desirable to retain a viable size of undivided property in the hands of one of the heirs after the owner's death, instead of selling the farm to a third part with a subsequent distribution of the sales proceeds amongst the heirs. The concern was that heirs leaving agriculture would take their inheritance out of agriculture. Finally, it was found reasonable that the heir taking over the farm should not be loaded with a burden of debt preventing him from maintaining the farm as a viable agricultural unit.

This ancient special right of bequeath for owner-farmers is still in force, but in practice it is very rarely used. This is due to several circumstances.

It has, in this context, been said that the rules - in spite of their relatively clear formulation - in their full consequence lead to favouring excessively one single heir at the disadvantage of the other heirs, and such discrimination is no longer found compatible with the general concept of justice calling for a certain equality of status amongst the heirs. The background is, of course, that the owner-farmer has the sole right of fixing the transfer price of the property.

An equally essential reason for the very rare use of the owner-farmer's special rights of bequeathing his property is, however, that a testator - under the general legal provisions for inheritance and gifts - has the possibility of transferring his farm undividedly to one select heir. This is a consequence of the rule that a testator, under the laws on inheritance, is entitled to will the heir of the farm one half of his estate. In addition to such bequest the farm-heir participates equally with other heirs-at-law in the distribution of the remaining half of the estate. Under the legislation on gifts the donor is allowed to transfer all of his estate to one select recipient.

In this context is to be noted that a will can be wholly or partly given effect during the testator's life-time, if the rules on advances on heritage are applied.

As mentioned earlier, the property price level for family sales is, on the average, about 20 per cent lower than the level of the open market prices. By far the most common type of family sale is the transfer of an agricultural property from a father to a son. In such case the general rules of inheritance (and gifts) quite clearly offer the retiring farmer fair possibilities of favouring a single heir. A favourable price, lower than the one obtainable in the open market, represents also a certain balance between the regard which should be paid, in accordance

with common ideas of justice, to the interests of other heirs, by attempts to arrive at the highest possible degree of equality, and, on the other hand, also the establishment of a reasonable and proper economical starting base for the heir assigned to carry on the operations of the family farm.

Finally, it should be noted that the rules on the capital gain tax in Denmark, especially during recent years, has imposed certain limitations on the parties to contract freely the transfer price of agricultural properties. As mentioned, such price has normally been fixed at amounts lower than the real market values of the properties.

Quite apart from the fact that an eventual difference between the actual commercial value and the family transfer price is considered a gift/heritage advance, on which the son must pay a gift or heritage levy, the tax authorities have, as a main rule, based their computation of an eventual capital levy on the seller on the actual value (the free commercial value) or on a modified value related to it. This practice puts, naturally, a lower limit to the transfer price which can be fixed in a family sale, because the transferor has, of course, to defray an eventual tax levy out of the sales proceeds.

Up to and during 1971 the general practice was that the tax authorities accepted the most recent public property-tax assessment as the lower limit for a transfer price on which they would compute an eventual capital gain taxation. Such property-tax assessments have been made normally with intervals of four years. Assuming that an even growth takes place in the property prices this means that the public tax assessment will reflect the actual value of the property to a diminishing extent the nearer the transfer takes place to the time when a new public assessment is to be made.

In 1972 the rules on the capital gain taxation were amended so that the most recent assessments were to be currently raised during the four year period to correspond to the price development. However, this practise has some undesirable consequences on the transfer of properties and

in order to facilitate the generation shift in agriculture certain modifications of the taxation rules were made in 1977 so that the principles now followed are again very much the same as were applied before 1972.

It is difficult to state generally how far the non-realized capital gains have been taxed on the seller of an agricultural property in a family sale. In all events the tendency is to approximate the transfer price in family sales to the minimum transfer price to be used by the tax authorities for the computation of an eventual levy.

The conclusion is that the general rules on inheritance, wills, and gifts are applied to family transfers of agricultural properties in Denmark, whereas the special rules on bequests valid in agriculture are only very rarely used. In price agreements regard is paid to the other heirs and the price will, to some extent, also be influenced by the current taxation rules.

The pattern of family transfers of agricultural properties has apparently remained unchanged during the last couple of decades. It might be assumed that co-heirs today, compared to the past, would generally find it more difficult to accept that special favours are given to a select heir. The explanation of such reluctance might be that many heirs-at-law to an agricultural property have today on slight connections with agriculture and consequently little knowledge of the economic conditions of farming. It is also difficult to see that the pattern of transfer has been changes in cases where the heir taking over the family farm has perhaps worked for a certain period in a non-agricultural job, and after the take-over wants to continue a certain connection with such job - thereby making him actually only a part-time farmer. Also in such cases the practice is to allow certain favours to the heir taking over the family property. The maintenance of the relatively fixed transfer pattern can undoubtedly be explained by the fact that the transferor and the other heirs consider the retention of the farm as a family property

an intangible asset, justifying a certain reduction of the transfer price in relation to the actual commercial value.

Finally shall be mentioned that no changes in the Danish legislation on inheritance or gifts have been made nor have any attempts at such changes been made during recent years.

II.5. Taxation Conditions in Agriculture

In Denmark the taxation conditions in agriculture are almost identical to the conditions ruling under the general tax legislation applying to all groups of citizens. The report on taxation in the agricultural sector must, therefore, be based upon the general rules. Where deviating rules apply to agriculture they will be described in details.

The following types of taxes are mentioned briefly: income tax, indirect taxes (sales taxes, point levies), property taxes (rates) and capital levies, and besides these also a number of special taxes such as gift- and death duties, disengagement fees, capital profit levies etc. Company taxation is left out because in Denmark it is not possible for companies to buy farms. In a very limited number of cases - about 100 - farms are owned, for instance, by a joint stock company. The ownership is in such case established before 1957. Because of the limited number this form of ownership is not commented on in the present report and for the same reason also companies organized to possess agricultural operations are left unreported.

Income Tax

Denmark is divided into three administrative units: the state, the counties and the municipalities. Income tax is paid to all three units. The assessment of the taxable income of the individual citizen is made in accordance with uniform rules, as far as possible. For the independent entrepreneur, including the agriculturist, the principle applied is that the taxable income is assessed as the actual turnover of goods from which the costs incurred to produce the sales value are deducted. Variations in stock on hand are also adjusted in the income assessment.

The state income tax is levied on a progressive tax scale with three steps of income. The extent of the single stretch in the tax scale is adjusted annually in accordance with the development in a wage regulating price index. The tax scale, on which the state income tax is computed for 1979 is as follows:

On the first	77.400 Dkr.	taxable income is paid	16,0 pCt.	¹⁾
On the next	62.000 Dkr.	" " " "	32,0 pCt.	¹⁾
On the rest	" " " "	" " " "	44,0 pCt.	¹⁾

In addition to the income tax to the state a number of contributions to pension arrangements financed by the state are paid. These contributions are paid by all taxpaying citizens at the same percentage rate irrespective of the height of their income.

The income taxes to the counties and the municipalities are computed by an identical rate regardless of the height of the individual income. This means that the principle of proportional tax is applied. There are, however, quite considerable variations between the tax rates applied in the counties as well as in the municipalities. These variations are, mainly, explained by differences in the assessment bases, in the desired service levels, in the age-grouping etc.

For 1979 the average tax percentage in the counties can be put at 5,6 per cent and in the municipalities at 17,9 per cent. Furthermore the municipalities collect a special church tax which they transfer to the state. The church tax will be collected for 1979 at an average rate of 0,8 per cent, but it is paid only by members of the Danish People's Church.

A compound computation of all income taxes relating to conditions in 1979 can be made on the basis of the rules mentioned above. It shows the average tax percentages in each proportional step for the country as a whole:

On the first	77.400 Dkr.	taxable income is paid	42,9 pCt.
On the next	62.000 Dkr.	" " " "	57,3 pCt.
On the rest	" " " "	" " " "	68,1 pCt.

Indirect Taxes

Amongst the indirect taxes the general sales tax (the additional value-levy VAT) is the most important in respect of proceeds. The rate was raised on October 1978

1) Similar to the years 1975-78 the taxes are levied with 90 per cent on these rates. The taxable income must exceed a certain limit before income tax is payable.

from 18 to 20,25 per cent. With regard to sales tax agriculture has been given more favourable terms of payment than other sectors. It means that the agricultural sector in a way is getting a sort of credit. Besides this tax the taxes on motor vehicles and petrol as well as on tobacco and spirits play rather a big role in Denmark.

A special levy on turnover is the stamp duty charged on sale of real property and on loan documents. For deeds the current rate of stamp duty is 1,2 per cent of the sales price, whilst the issue of mortgage letters on real property must be stamped with 1,5 per cent on the nominal amount of the mortgage. Because of the steeply rising prices on real properties the stamp duty on deeds and mortgages has become quite a considerable cost item in connection with transfer of titles to properties. The rates of stamp duty have also generally been raised during recent years.

In this category of levies may also be included the fees for real estate brokers and for lawyers, because they charge their fees as a percentage on the sales price.

There are varying, geographically differentiated customs in Denmark with regard to the sharing of these trading costs between the buyer and the seller of an agricultural property. The establishment subsidy from the state to young starting farmers, amounting to 2,5 per cent of the price of the property with a maximum of 25.000 Dkr., is often used to cover the payment of the type of duties and fees mentioned.

Capital Tax

Agriculture is in no privileged position as far as capital tax is concerned, but is taxed in accordance with the general rules. Up to the end of 1979 the capital tax amounted to 0,9 per cent on the part of the capital exceeding 630.000 Dkr. up to 2 million Dkr. and 1,1 per cent on the capital exceeding 2 million Dkr. Rules existed, however, to reduce the capital tax in cases where the taxable income was very low in proportion to the amount of the taxable capital.

The limits of the amounts liable to payment of capital tax are adjusted normally at regular intervals, and such adjustments have taken place during recent years subsequent to the public property assessments, which were mentioned in details in chapter II.4. If such adequate appreciation of the limits were not made at intervals, the steeply rising property prices - even if they are only reflected in the public assessments with some delay - would make a growing part of the population liable to pay capital tax.

For agriculture the problem would be especially big, because the price development for agricultural properties has been exceptionally drastic and because by far the major part of the assets of agriculture consists of fixed property (near to 90 per cent). Generally the adjustments of the limits of the taxable amounts have, however, not completely covered the rises in the property prices, and the effect has been that a steadily increasing part of the independent farmers has become liable to pay capital tax. With the relatively low rates of capital tax the levy, till now, however, has been rather modest magnitude.

From 1st January 1980 the rules on capital taxation have, however, been amended. The amendment means that no tax is levied on the part of the capital below 1 million Dkr., whilst the capital tax rate applied to the part of the capital exceeding 1 million Dkr. is 2,2 per cent. At the same time the rules providing for a reduction of the capital tax under certain circumstances have been restricted; such reduction was allowed prior to 1980 in cases where the taxable income was very low compared to the amount of the taxable capital.

For owners of capital of appreciable size the amended rules mean an escalation of the capital tax, and amongst such owners will be found some farmers owning larger properties whose net assets have often risen well above 1 million Dkr., due to the steep rises in the prices of agricultural properties during the 1970s. It is, however, at the present time, impossible to offer any concrete evaluation of the consequences of the escalation of the capital taxation.

Property Taxes

An essential part of the tax revenue of the counties and the municipalities derives from the collection of property taxes (rates) and by far the larger part of the rates is levied on the proportion of the fixed property corresponding to the land values. The property taxes are computed on the basis of the public assessments where the valuations are determined by the actual use and the location of the land. Land used for agriculture is thus assessed at lower values than areas used for housing purposes. The variations in soil qualities will also be reflected in the assessments.

In accordance with current rules the property taxes for the counties are collected at a uniform rate for all the country, in 1979 at 1,5 per cent on the public assessment. In order to reduce the economy load of these taxes on agriculture the prevailing major rule since the beginning of the 1960s has been to give some form of compensation to agriculture to reduce the property taxes payable to the counties. From 1961 and on to Denmark's entry into the EEC in 1973 the state paid a subsidy which in virtual fact covered the property taxes of agriculture to the counties.

With effect from the beginning of 1978 a special arrangement has again been introduced in favour of agriculture. Under this arrangement a minor part of the county property taxes is channelled back to agriculture. The amounts thus reversed are accumulated into a special fund earmarked for general schemes of market promotion.

It is a measure of opposite effect that a special land tax to the state has been levied on agriculture at a rate of 0,7 per cent of the land values - provisionally for the year of 1980. The purpose of this measure has been that the government, as part of its economic policy, has wanted to neutralize the rise in agricultural income originating from the 5 per cent devaluation of the krone against the other EEC currencies as of 30th November 1979.

The municipal property taxes are collected at highly varying percentages from one municipality to another. The individual municipality has the right of fixing the percentage of this category of property taxes and in the local councils there are very different views on the weight which should be placed on the revenue from property taxes as opposed to the proceeds obtainable from income taxes. It is, however, commonly found that the property rates are lower in the typical rural municipalities where high tax percentages on property would tend to place an unreasonably heavy load on the agriculturists compared to the tax liabilities of other groups of citizens in such local communities.

The property taxes paid to the county and to the municipality are deducted in the tax-payer's annual tax return form contrary to the ordinary income tax.

Death Duties and Levies on Gifts

Under Danish law, amounts received as inheritance or as advances on inheritance are exempt from income tax. Instead a death duty has to be paid. The extent of this duty depends on the family relationship between the heir and the deceased (the testator). Close relations (spouses, children) pay the duty at especially low rates whilst the duty will raise the farther the family relationship is. All together

three different classes of duties are applicable. The heirs are placed into these classes by the character of the family relationship.

Danish tax legislation rules, in principle, gifts as liable to income tax payment. If the gift is donated to near relatives the amount is, however, subject to gift levy instead of ordinary income tax.

As was the case for death duties, the rates at which gift levies are paid depend on the character of the family relationship. In general the rules are, however, that the family groups, to which the gift levy rules are applied, are considerably more limited compared with those comprised by the rules on death duties. If the recipients are not persons very closely related to the donor they must pay ordinary income tax on the gift where they in an inheritance situation would be able to pay tax according to the more favourable death duty rules. The rates of death duty and of gift levy are identical but the range of persons within the single tax classes is different.

In chapter II.4. the rules and conditions for family transfers of agricultural properties were described. It was said that the rules applied were those generally valid for inheritance and the donation of gifts, and that this procedure opened the possibility of affording an appropriate favourable price settlement with the heir selected to continue farming the family property. It has already been mentioned that the heir, or the recipient of a gift, is liable to pay tax on an amount corresponding to the difference between the value of the property in the open market and the actual transfer price fixed within the family.

On this background it appears relevant to ask whether the amount of the death duty or the gift levy has a prohibitive effect impeding the generation shift, i.e. the mobility between the generations. This question is answered in the negative because the taxation of an inheritance or a gift received by a close relative is very moderate, in almost all cases.

The rates of death duties and gift levies rise progressively. Under the current rules the levy in class A (comprising near relatives) is 19.000 Dkr. on the first 200.000 Dkr. and 18 per cent on exceeding amounts up to 500.000 Dkr. The inheritance/gift element will be below 500.000 Dkr. in nearly all cases.

In a limited number of transaction relating to large properties, i.e. properties with holdings above about 100 hectares, the amounts of the levies are more burdensome because of the progression in the rates of levy. For a limited number of large estates the current legislation on death duties and gift levies is apparently quite prohibitive. It is, however, thought that the burden of debts on the large properties are not felt to be of the same relative height as on the ordinary peasant farm. High death duties and or gift levies may have the effect of raising the burden of debts on certain categories of large properties.

Development Levies

This type of tax has a special relationship to agriculture. The tax liability arises when an agricultural property or part of it is transferred from a rural zone to an urban zone or a summer cottage zone. The object of this tax is to withdraw a part of the rise in value normally taking place when agricultural land is transferred for use in housing or other urban development.

The rules for the computation of the rise in land are complicated, but briefly the first 200.000 Dkr. of the rise is taxed by 40 per cent and the exceeding amount is taxed by 60 per cent. Taxation takes place at the time of the transfer of an agricultural property to another zone, but if a further profit is realized by a later sale of the property in question, such profit is liable to additional taxation. By and large such tax is computed in accordance with the general rules for taxation of capital profits. The basis for the computation of any capital profit will be the actual sales price and the assessment made of the property when it was transferred away from the rural zone. It is

worthy of notice that these zonal transfers take place mainly in connection with town- and regional planning measures, as described in chapter IV. The individual farmer has, in this context, only very little influence on a course of events which may lead to the transfer of his property away from the rural zone into another zonal area.

Capital Profit Taxation

In Denmark a number of profits of a once-for-all nature (or losses of the same character) since 1965 been liable for taxation (or, in case of losses, deductible). This applies amongst other things to profit on sales of real estate. Profit on sale of housing units (owner-houses) is exempt from taxation, in by far most cases, by a number of special clauses in the laws. It is, in fact, only properties used in the owner's occupation which are comprised by the rules on capital profit taxation.

The rules on taxation have been worked out after the following lines of direction. One basic point in the tax computation is the purchase price, but for properties acquired before 1 January, 1966 the owner has the option of using the 13th ordinary public assessment (1965) as the amount of acquisition. The objective is to tax only the rise in value beyond the general development of prices, and, therefore, the amount of acquisition is subject to "price index adjustment". Even if an upward adjustment took place in 1975 of the percentage rates authorized to be used in this "price index adjustment" of the amount of acquisition is has, however, not fully reflected the price raises on real estate which have actually taken place - especially not during recent years. If the property in question has been improved, the cost of such improvements is allowed included in the amount of acquisition.

The second main element in the tax computation is, of course, the sales price itself, normally consisting of a cash downpayment together with a number of loan arrangements, where a distinction can be made between loans established by the former owners and loans contracted to

finance the transfer of title. For the latter category of loans any loss arising out of the sale of bonds at quotations lower than the nominal amount of loan is deductible from the sales price so that it is, practically speaking, the cash value of the new loans which is included in the sales price. The first 100.000 Dkr. of any profit is not taxed whilst the balance of the profit is taxed at 75 per cent.

The following example illustrates the principles applied to the computation of the capital profit taxation:

Example of Computation of Capital Profit Taxation

A property is sold in 1979 for 1.600.000 Dkr. and movables are priced at 200.000 Dkr., or a total price of 1.800.000 Dkr.

Under the conditions of the transaction the seller raises a 7 per cent mortgage association loan nominally of 500.000 Dkr. quoted at 47, and a 10 per cent DLR-mortgage loan of nominally 400.000 Dkr., quoted at 65. The seller accepts the quotation losses on these two loans. The quotation losses are 371.000 Dkr. on the mortgage association loan and 140.000 Dkr. on the DLR-mortgage loan, or a total loss of 511.000 Dkr. The seller also assumes the sales costs of a total of 29.000 Dkr.

The seller's costs and quotation losses are all together 540.000 Dkr. or 30 per cent of the sales price of 1.800.000 Dkr.

The property was assessed at 240.000 Dkr. by the 13th public assessment, and in 1971 improvements on buildings were made at a cost of 30.000 Dkr.

The adjusted amount of acquisition at the sale in 1979 would then be:

Property value by 13th assessment	240.000 Dkr.
+ adjustment for general price development	362.000 Dkr.
Improvement 1971	30.000 Dkr.
+ adjustment for general price development	30.300 Dkr.
Adjusted amount of acquisition	<u>662.700 Dkr.</u>
The special income will be:	
Sales price of fixed property	1.600.000 Dkr.
- costs and quotation loss 30 per cent of 1.600.000 Dkr. (as detailed above)	<u>480.000 Dkr.</u>
Adjusted amount of transfer	1.120.000 Dkr.
- adjusted amount of acquisition	<u>662.700 Dkr.</u>
Profit (capital gain)	457.300 Dkr.
- tax-free deduction	<u>100.000 Dkr.</u>
Reduced profit	357.300 Dkr.
+ 50 per cent addition	<u>178.650 Dkr.</u>
Special income from sale of fixed property	535.950 Dkr.
- basic deduction	<u>6.000 Dkr.</u>
Special income on which tax is computed	<u>529.900 Dkr.</u>
Special income tax (50 per cent)	<u>264.950 Dkr.</u>

This example cannot be considered representative because there are large variations in the conditions of the sales of properties.

No clear conclusions can be drawn on the effect of the capital profit tax on the generation shift. With a considerable degree of certainty it can be said, however, that the rules were applied to only very few cases of taxation until the beginning of the 1970s. The background was that the prices of properties rose only modestly during the latter half of the 1960s. The actual rise in property prices kept within the percentage at which the rules allowed an addition to the sales price - as mentioned above. Another influence was that the tax authorities accepted the price agreed upon between the parties, especially in family sales, as long as the price was not below the value set by the most recent public assessment.

As mentioned in chapter II.4. a change was made in the administrative practice in 1972, so that the values shown by sales in the open market were applied to the tax computations also in family sales, regardless of the fact that the price actually agreed upon would often be lower.

This circumstance has undoubtedly had the effect that this tax impeded the sales of properties but an additionally aggravating influence was that the property prices rose sharply as a consequence of the expected Danish entry into the EEC and also of the general rise in prices and wages. The change in the administration of the law and the rise in prices created problems for the sale of properties in certain regions of Denmark in the 1970s. The reason why this trend was not of the same gravity in all parts of the country was that, in the first place, the public property value assessments in 1965 showed differences between the regions and, secondly, that the sales prices of properties since 1965 to some extent were set at different levels in different parts of the country.

No discussion shall be proffered on the economic-political intentions motivating the taxation of certain types of capital profits in Denmark, nor on

the extent of taxation of profits - nominal or real - aimed at in connection with the sales of agricultural properties. Only the effects of this type of tax on the generation shift in agriculture - and not least the expected effects - shall be mentioned, at any rate as it is viewed over a medium range of time.

It must be assumed that the fear of having to pay tax on part of the considerable rises in value of fixed property, which have taken place, is one reason why the level of turnover in properties was very low during the years directly after the entry into the EEC. It must be noted that the practice of the revenue authorities to base their computation of an eventual profit in family sales on the prices in the open market in many cases would imply that the seller of a family farm would be taxed on a non-realized profit.

There is a fairly natural explanation why it is difficult to draw a clear conclusion on the effects of the capital profit tax on the circumstances behind the decrease in the property turnover during the period after the entry into the EEC. Contributing factors were that the high rises in the prices of grain offered favourable economic conditions for more extensive cultivation after the EEC-entry, and that the rise in property values increased the possibilities of raising additional loans. In this context the inflationary development led to a hollowing of the real value of the load of debts. All these factors have, as may well be understood, induced a number of farmers to postpone the sale of their properties.

One of the disadvantages of the decreasing property turnover was a rise in the average age of the farmers which had, at the same time, an unfavourable effect on the size of the animal husbandry production.

Regardless of the weight of any single factor behind the diminishing property turnover after the EEC-entry, the expectations of further negative effects on the generation shift and, inherently, on the agricultural production, if their rules on capital profit taxation remained unchanged,

led to the introduction of a modification of the rules as far as family sales are concerned.

Briefly, the modification implied that the revenue authorities would now respect the price agreed upon between the parties - as was the administrative practice before 1972. The lowest acceptable price for taxation purposes was, however, fixed at the value set by the most recent public property assessment. The modification led immediately to a marked increase in the generation shifts in the second half of 1977.

Comprehensively it must be concluded that the problems in the turnover of family farms must be considered solved in an acceptable manner, at any rate for a shorter period.

Even if stagnation in the property prices has set in during 1979, it is a valid assumption that the steep rises in prices during the 1970s may mean that "the profits" on sales in the open market will increase to such magnitude that there will be basis for heavy taxation. It is essential, however, to mention in this context that the amounts liable to tax payment will be actually realized profits.

Finally must be added that it has been a politically decisive view on the amendments in the legislation on taxation of eventual profits on sales of fixed property that the rules and practices of taxation should be framed and administered to avoid restrictive impediments on normal turnover of properties. This means that only profits, which can be considered abnormally high, should be liable to tax payment - interpreted in the way that they are found to lie beyond a reasonable height compared to the general price development. On this basis it is foreseen that a need for a change in the taxation rules relating to sales in the open market will become imminent within a relative short time. The present annual additions to the amount of acquisition are about 2-3 per cent on the actual market prices of properties, which can be compared with the general price increase rate of about 10 per cent at present and with the price increases on real estate, on agricultural properties until 1979 15-20 per cent on an annual basis.

Credit Costs

In chapter II.1. a review was made on the credit facilities open to Danish agriculture. The conclusion was that the credit needs have been continuously met in a purposeful and satisfactory manner. Therefore a brief report is given in the following on the credit costs.

The costs of attracting capital are expressed by the height of the interest. In table II.5.1. the development has been shown in the effective interest on long-term bond loans, which is the form of borrowing predominantly used in Danish agriculture.

Table II.5.1. The Development in Effective Rates of Interest on Bond Loans for Agriculture.

	Effective Interest per cent per annum
1950-59	5,63
1960-64	6,55
1965-69	8,95
1970-72	10,02
1973	12,56
1974	15,85
1975	12,72
1976	15,57
1977	16,83
1978	17,22

Source: Danmarks Statistik.

Except in 1975, where special conditions existed, the interest costs on long-term bond loans have shown an uninterrupted increase since the 1950s. The rise has been especially marked during recent years. The average for 1979 will presumably not differ much from the level in 1978. There are several causes behind this development. First and foremost must be pointed to the fundamental problems of balance in Danish economy in the shape of continuous deficits in the balance of payments vis-a-vis foreign countries,

which necessitates that the Danish interest must be kept at a higher level than found abroad, so that Danish enterprises are induced to contract borrowings in foreign countries. The span between the Danish and foreign interest rates must, at the same time, be of a width including adjustments in foreign exchange rates. More general causes of the higher interest level today, compared to former years, are found in the acceleration of the inflation which has prevailed in the 1970s compared to the development in the 1950s and 1960s.

A special factor to be underlined is the Danish real estate credit system, which is based upon emission of bonds. The characteristic trait of this system is that the loan conditions of interest and repayment are fixed for the whole of the repayment period already at the time of establishing the loan. This means that the creditor - or the buyer of the bonds - at his entry into the credit operation - must try to estimate the deterioration in the purchasing power which the loan is expected to suffer by continuing inflation. This takes place by offering the loan at a quotation below par. The difference may be said to represent the creditor's compensation for the deterioration in purchasing power which the realized loan proceeds will suffer during the repayment period. For the debtor the realization of the loan at a quotation below par can be considered an increase in the credit- or interest costs. To complete the information must be said that the debtor has to repay an amount corresponding to the par value.

The repayment of bond loans is based either on the annuity or the equal capital principle. Under the first method the loan is repaid by constant amounts relating to the loan principal whilst the equal capital method implies decreasing repayments (constant instalments and decreasing interest payments).

These loan conditions mean that a continuing inflationary development will have the effect that the real value of the repayments on a bond loan will decrease during the repayment period of the loan. This is a consequence

of the fact that the repayments have been nominally prefixed. Inversely the real value of the repayments will often be felt as a very heavy burden during the first years of the loan period.

The problem is, however, that this profile of the sequence of the repayment does not coincide with the development of the debtor's earning conditions. From a rising nominal income the debtor's economic capacity will more easily enable him to repay rising nominal loan payments which would, at the same time, mean a change in the real distribution of the obligations under the encumbrances.

In spite of the relatively high level of interest characterizing the 1970s it is proper to underline that the real interest as a whole has been negative over a long period of years. This is the conclusion if the right of deducting the interest cost in the tax return and also the inflation development are taken into consideration.

To which extent the credit system impedes the generation shift and investments into a more optimal production structure is difficult to say. This will depend entirely on a buyer's or an investor's time horizon, because a long period of years will often lapse under the existing credit system before the investments will prove fully profitable. During such period the creditor must be prepared to a certain extent to refinance payments falling due on earlier loans. There is no doubt, however, that the high nominal level of interest keeps a large number of middleaged and old farmers from investing in a more modern production structure, because these groups of agriculturists have a time horizon considerably narrower than the one sustained by younger groups of farmers.

With a certain degree of reason it may be said that index loans, i.e. types of loans where the real value of the loan is secured by adjustments of the remaining balance of debt in line with the general price development. Index loans would ensure better harmony between loan payments and earnings. The disadvantage of index loans is, however, that the future price development is unknown, which means that the nominal value of the loan payments cannot be determined in advance.

The possibilities of using index loans in agriculture are not to be excluded. The hesitation in the application of index loans in the financing of agriculture is due to the fact that difficulties may be expected by laying down a satisfactory basis for the index payment computation.

Furthermore it would be unfortunate if the loan payments by index adjustment reached their peak at a time when the work capacity was growing smaller.

Index loan clauses have in the past been used only to an extremely limited degree in Denmark. As an example can be mentioned, however, the ancient subsistence contracts on catering and housing for the old people where certain traditional elements of index adjustments were built in; the subsistence due to the old people included certain quantities of food, fuel, and other produce as well as services independent of any price development. The number of such subsistence contracts is very small in agriculture and it is only in very rare cases that new agreements of the kind are made.

Agriculture and Legislation on Social Services

The legislation on social services contains no special sections or rules applying solely to agriculture. The criteria by which social services are enjoyed in Denmark are uniform to all citizens. This is valid also for the criteria existing to obtain benefits under the public pension schemes. The right to receive the people's pension is obtained when the recipient reaches a certain age - the normal rule is that it takes effect when the person in question has become 67 years of age. For single women the age criterium is, however, only 62 years of age. The people's pension has been arranged as a basic amount with a number of different additional benefits; the basic amount is paid to all citizens of 67 years of age regardless of their economic position. The different additional benefits are granted in accordance with certain defined criteria.

In the EEC a retirement scheme for old farmers has existed since 1972 as part of the EEC agricultural

structure policy. The directive has, practically, the character of a pre-pension scheme. In contrast to the other countries this scheme has not been introduced in Denmark. Apart from the fact that there has hardly been any need to promote the structure development in Denmark by pre-pensioning elderly farmers, it has been an essential consideration by the Danish authorities that the introduction of a special pre-pension scheme for farmers and for farm assistants would go against an important principle in Danish social legislation, namely that social security schemes must, as a matter of principle, be open to all citizens on equal conditions.

Pre-pension can, however, be granted under the Danish social laws. It can be granted to men and women who are between 60 and 67 years of age, when failing health or other quite extraordinary circumstances speak in favour of such grant.

Summarizing the substance of the chapter it is evident that agriculture is given special treatment only to an extremely limited extent.

On the background described in this part of the report it seems pertinent to characterize agriculture as fully commercialized in line with other occupations, which is also illustrated by the fact that the subsistence obligation towards the aged is rapidly tapering off. Taxation takes place to a large extent on the basis of appropriate book-keeping of the same good quality as is obligatory in other economy sectors.

II.6. Owner-occupancy and its Problems

Introductory Remarks and Definition of the Problems

To a large extent the problems around owner-occupancy are linked to the conditions under which the generation shift is carried through but, at the same time, also to the possibilities for a current adaptation of the production outfit to the prevailing technical-economic conditions determining the most favourable coordination and combination of the production factors.

The establishment conditions and the possibilities of a current and continuing adaptation to the structure development are of essential importance to the earnings open to an owner-occupant. The basis of the retention of owner-occupancy as the prevailing form of ownership, as it has been accepted as politically desirable up to the present time, is, therefore, that this type of ownership in respect of earnings represents an alternative just as remunerative - at any rate considered over a period of years - as other forms of ownership. How the income concept should be defined - whether it should include, for instance, also the raises in the value of the soil and fixed property - is not going to be discussed here.

It requires quite considerable amounts of capital to establish oneself as an independent farmer and also to make the investments needed to attain units with a satisfactory economy of size capable of efficiently taking part in an international competition. It is relevant to raise the question whether these large capital requirements will not gradually undermine owner-occupancy as a form of ownership. The capital requirements may become too large to be met by any single person. A condition for the preservation of owner-occupancy is, therefore, that establishment can take place in an economically reasonable manner, and also that the new techniques are developed in such a manner that the adaptation in size and in economy can be made on a farm where the predominant part of the labour is provided by the family.

It has been said already that owner-occupancy is accepted in Danish politics as destined to continue as the prevailing form of ownership. Consequently the institutional framework for the agricultural occupation has been shaped under influence of such political intent. The Danish legislation on agriculture does not directly exclude other forms of tenure as, for example, the tenancy system.

It should be mentioned that farms can be owned and run by partnerships, with unlimited or limited liability. The partnership form has been used to a certain limited extent in the past. Lately partnerships have been used to an increased extent, in a number of cases of joint ownership of father and son during the years in advance of the time when the former would reach the pension age. This manner of arranging things may have helped to maintain the level of production also during the latter part of the father's time as owner. If such arrangement were not made it would often be observed that production would be tapering off, and also that the re-investments needed to maintain the building- and machinery productivity would not be made. At the same time it is to be noted that there is a long tradition in Denmark that the farmers' sons, after the end of school and until they settle down as independent farmers, get part of their agricultural training in service on other farms than the family farm of their birth. It is generally considered a positive thing that the son becomes co-owner of the farm of his birth. The tendency towards this type of joint ownership has, however, developed to a discernible extent only during the past five years.

One of the reasons why joint ownership in the farm of the son's birth has become more common is that it offers the son an opportunity to get an easier start as an independent farmer. During recent years it has been seen with increasing clearness that the new generation has become better able to manage economically the take-over of the latter part of the property when they had been given the chance of reaping a certain infaltionary profit over some

years on the first part of the property taken over. When the steep rises in the property prices during recent years are taken into consideration such 'sliding' generation shift has fully justified itself.

Partnerships with sleeping partners have been open as ownership possibilities for about 10 years and it has been argued in some discussions that this form of ownership would fit well into a family situation where there are several heirs. A permit must be obtained from the Ministry of Agriculture in each single case. This permit will be granted on the condition that the heir taking over the farm is ensured a satisfactory degree of freedom of disposition. Till now only 3-5 partnerships of this nature have been established, and therefore, it may be assumed that partnership with inactive co-partners is not considered a very attractive form of ownership in agriculture.

The tradition of owner-occupancy has so very deep roots that any significant extension of alternative forms of ownership has never been advocated by politicians - this applies also to the tenancy systems. The relatively few legal provisions in existence on tenancy are included in the Danish legislation on agriculture as a number of special sections.

In the following some observations are made on the problems which owner-occupancy may have to face. The description will to a large extent be based upon the sectional conclusions made at the end of each of the previous chapters.

In principle, a distinction can be made between two types of problems. In the first instance there are the problems arising out of the legislation shaping the institutional framework around the agricultural occupation. As examples might be mentioned a number of provisions imposed by the tax and land legislation of a character creating difficulties for the owner-occupancy type of ownership.

The second kind of problems might then be those arising out of the circumstance that the production of the agricultural outputs is normally put out under a number of

varying economic conditions, such as the price- and market development and also under the influence of the inflation upon the terms offered to the young farmers when they start as agriculturists.

There is, however, no clear dividing line between the two areas of problems. On the contrary it will often be seen that adverse economic conditions for agriculture will lead to more or less extensive adjustments in the institutional framework. It may, for instance, be expected that growing difficulties for the generation shift may be attempted met by a number of legislative adjustments. Reference may also in this context be made to the economic aid-schemes introduced to ameliorate the destructive effects of the drought on the agricultural economy.

On this background it may not be very fruitful, in a description of the owner-occupancy problems, to make a distinction between institutional problems and those relating to the economy and profitability of the agricultural occupation. It appears more relevant to focus the report on the complicity of problems related to the generation shift, because it will be possible to draw a number of more general conclusions from an expose on this problem area.

Legislation of essential importance to owner-occupancy as a form of ownership in Denmark is found in the following areas of law:

- (i) legislation on inheritance;
- (ii) legislation on taxation;
- (iii) legislation on credit and on the credit system;
- (iv) legislation on aid schemes for new farmers;
- (v) the direct agriculture legislation covering amalgamation and joint operation of agricultural properties and also the conditions to be met to get possession of an agricultural property.

Re (i) Legislation on Inheritance

The rules on inheritance and gifts were described in section II.4. It was said that the general rules for inheritance and gifts were applicable to most family transfers of agricultural properties. Such application takes place in spite of the fact that very favourable special concessions have existed since 1769 on inheritance of agricultural properties.

The reason why the general rules on inheritance and gifts are preferred to the old special rules is that the former allow a certain advantage to be given to the heir taking over the family farm, at the same time as they provide for a certain equality between the heirs. The current rules on taxation of profit on sale of fixed property also fix certain lower limits for the family sales price which the parties are allowed to agree upon.

In section II.5. about taxation in agriculture has been mentioned that a certain levy is payable to the State on an inheritance, an advance on inheritance and on gifts. It was concluded that this tax was levied at very moderate rates as long as the property transfer was made to near relatives.

Re (ii) Legislation on Taxation

The conclusion on the effect of the capital profit taxation on the mobility in the generation shift was, however, somewhat more ambiguous. Since the mid-1960s certain types of once-for-all profits (losses) have been subject to taxation. This applies, for instance, to sales of industrial or other occupational properties. These tax rules have started to exercise some effects only after the beginning of the 1970s, following the drastic acceleration in property price rises then setting in. The seller's fear of becoming liable to pay tax on a profit contributed to a marked decline in the number of agricultural properties coming into the market during the years after the entry into the EEC. A further explanation of this situation is that the tax authorities adopted a practice, during a period of years on

to the beginning of 1977, by which it was the value of the property in the open market which was taken as the basis for the computation of the profit. This administrative practice hit the family sales hard, because the price agreed upon between the parties was usually somewhat lower than the current market price. In order to avoid this taxation of non-realized profits a moderation of the tax authorities' practice was made from 1977, applying only to family sales.

It is difficult to say today to which extent the generations shift is impeded by the capital gain taxation. It is under all circumstances true to conclude about the present administrative practice of the taxation rules on the sale of fixed property that only realized profits of a certain magnitude are subject to taxation. The rules aim, in principle, at taxation of the real profit only. On this background may be assumed that the legislation on taxation takes a more neutral place in relation to the problems of the generation shift, after the change in the administrative practice mentioned above.

It should, however, be added that the capital gain taxation after a period of years may well mount to a considerable magnitude if endeavours to check and reduce the price rises on agricultural properties do not become more permanently successful; such price rises were of a magnitude of 15-20 per cent annually during the 1970s. In this context it is to be noted that the prices during 1979 have been stagnating. Too intense price rises will undoubtedly curtail the supply in the open market of agricultural properties and in order to repair this situation it may, at some future date, become necessary that the taxation rules on open market sales are made more lenient. This might have a considerable psychological effect, not least upon the elderly farmers' dispositions.

Apart from the problems around the capital gain taxation it can be said that no taxation rules are applied exclusively to agriculture. It is, of course, always a matter of discussion at which level the personal taxation should be laid, but there is no basis for a postulate saying that any part of the taxation-complex either favours or discriminates against owner-occupancy as compared with other forms of tenure. This would be the case if it were

permitted to run farms owned by joint-stock companies or by other kinds of corporate bodies where the tax on the profit is levied at lower rates than those valid for the personal taxes. The more lenient taxation on companies is due to a favourable assessment on current savings in order to stimulate the accumulation of capital.

Re (iii), (iv), and (v) Legislation on Credit and on the Credit System, on Aid Schemes, on Agriculture Legislation etc.

In a description of owner-occupancy problems and, in this context, especially the complicacy of the generation shift problems, it is difficult to illuminate the conditions adequately through a number of fractional descriptions of the credit system, loan terms, capital requirements, aid schemes in favour of new farmers and of relevant sections of the Agriculture Act. These areas are so involved that the complicacy of the generation shift is perhaps best dissolved if all elements are gradually drawn into a cohesive description of the orb of the problems.

An area of great importance to the owner-occupancy system and to the generation shift is the credit system. In section II.1. was concluded that the Danish credit system had been developed to cater currently for the credit needs of agriculture in a purposeful and satisfactory manner. During the last couple of decades no tendency has been observed to indicate that dearth of credit has impeded the structural development in Danish agriculture. The credit system has functioned in a neutral manner, meaning that sales of properties and rational investment dispositions, viewed from an economy angle, have faced no financial difficulties. The good credit facilities has, perhaps, at the same time had the negative effect of putting an upward pressure on the prices of agricultural properties, for instance by capitalizing the advantage inherent in the long-term loans and by the relatively high credit limits on which the loans are issued in the organized bond market for real-credit lendings. A relevant observation is also that borrowings in Danish agriculture - irrespective of

the purpose of the loans - until recently were an automatic affair as long as the security was acceptable - and this has been the case almost without exceptions during the 1970s on account of the steeply rising property prices.

Whilst there will be practically no problems in getting the generation shift financed, it must be concluded that the high level of property prices compared to the feasibility of profitable agricultural operations has now become a problem for the young farmers about to start on their own. The problem is, of course, not lightened by the fact that the agricultural production of today is highly capital-intensive. The problem is aggravated where the property has to be bought in the open market at full market price. Family sales are made at comparatively favourable prices. It is, however, a matter of some concern if a person, to settle as an owner-farmer, must necessarily have been born and have grown up on a farm. This condition has, until now, not prevailed in Denmark where a natural market for agricultural properties has always existed and where the prices have not, through the years, been pressed to a height preventing young people from other community sectors to qualify themselves, through training and by savings, to join the competition for the properties offered for sale. The amendment of 1st January 1979 to the Agriculture Act concerning agricultural properties aims at strengthening the young trained farmers' competitive situation in relation to the purchase of agricultural properties.

The steep rise in the property prices is partly explained by the rising interest level during the 1970s, which manifested itself to the debtor in the form of increased quotation losses on the sale of bonds from a loan, but it is also an important fact that a continuing intense demand for agricultural properties pressed the prices upward. These circumstances were described in section II.1. It should only be mentioned here that three almost equally large groups of buyers have been active in the market for agricultural properties during the 1970s, namely (i) young farmers wanting to make their initial start, (ii) farmers already established and finally (iii) 'towns-people'

The first two groups compete more directly with another because they are both of them interested in the ordinary agricultural properties. The farmers already settled may be motivated in their purchase of another farm by a desire to amalgamate or to operate their farms jointly in order to get a more remunerative production basis. It can, however, not be excluded that the steep rises in the property prices during the 1970s. may in themselves have provoked an increased demand by the existing farmers who are in the market with the idea of earning a profit from an expected rise in the value of land and buildings.

The same motives may induce towns-people to buy agricultural properties. Aspects of environments may also count and it is characteristic that towns-people often look for smaller agricultural properties to serve primarily their housing needs.

The considerable costs involved in getting started on his farm manifest themselves to the young farmer by the interest on the borrowings - at any rate during the first years after his start - claiming a share of the earnings so high that only a modest amount is left to pay for the farmer's labour effort. The low 'earnings level' must also be viewed on the background that it is quite usual to find that the young starting farmer's working-day very often is considerably longer than what is normal in other occupations. The reason for this is that a young farmer as a rule, will be forced to work intensely with animal husbandry in order to get the means to cover the repayments on his loans. It is no rare sight to see that the starting farmer is forced during the first years to supplement his earnings by wages from external jobs.

Furthermore it is important to stress that the mode of operation in the traditional Danish credit system with the issue of bonds as described in section II.5. contributes to an aggravation of the establishment problems. This is due to the fact that a considerable part of the real worth of the payments has been placed at the beginning years of the repayment period of the loan, which typically is 30 years. The creditor's attempt to get 'inflation

compensation' on the cash proceeds of the loan is the main explanation of this circumstance. He achieves this through the debtor's obligation to repay a larger amount than the actual cash proceeds realized from the sale of the bonds.

To complete the description it must be added that the real load of interest and repayment usually will be diminishing in rhythm with the raise in the general level of prices, which is assumed will include also the agricultural sales prices. The real value of the loan payments will, in such development, be reduced as they are disbursed as nominally fixed amounts.

Loans with modes of payment adapted more closely to the debtor's underlying earnings, for instance index loans, have been used only to a very limited extent, as previously mentioned. On the other hand it is quite usual that the debtor, with practically no reluctance, changes the loan payment arrangement for the original borrowings by re-financing to some extent with new loans the payments due during the first years of a repayment period. By such credit dispositions the economic burden of the interest and instalment payments during the first years after the start is brought into a more convenient relationship to the development in the debtor's earnings.

It should be understood that the problem of the high loan payments during debtor's start on his farm is concentrated not only on the situation of the generation shift in agriculture, but it is generally found in all investment situations where investments of a certain magnitude are made. The problems appear within all occupations but they are particularly heavy in agriculture where the capital turnover rate is low.

The existence of owner-occupancy as the prevailing form of ownership is then, to a large extent, closely tied to the conditions under which the generation shift takes place. Till now the problems appear to have been solved, and the solutions have been eased through by the general increases in prices and incomes, which have taken place at

a higher speed than foreseen. The State aid schemes in favour of young starting farmers have also helped to solve the problems. Roughly simplified it may be said that the inflation is an advantage/necessity for the farmers already established, whilst the effects of the expectations of a continued inflationary development make the generation shift more difficult. This forces the newly established farmer in his dispositions to base his calculations on a continued inflationary development, on which, naturally, no safe prediction can be made. Especially can no guarantee be given that the inflation will move on at any predicable rate.

It is, however, clearly evident that a continued growth in the capital requirements may be feared to gradually remove the basis for the owner-occupancy when properties are offered for sale. The growth in capital requirements may be out of any reasonable proportion to the potential earnings or the needs may move and increase so fast that the person concerned loses control of his situation. In this context it should be recalled that, in principle, each generation shift necessitates the establishment of a quite new capital basis. Excessive capital requirements in proportion to potential earnings must, of course, make other forms of tenure with more modest capital needs more attractive. This very problem has come into the foreground through the property price boom of the 1970s.

The ever bigger properties, resulting from the structural changes now in process and which have already led to a considerable raise in the average size of the Danish farm units, emphasize the problems mentioned above. Furthermore should be added the prospect of only limited price rises on the marketing products of agriculture. These may quite well become lower than the increase in the general price level leading to a deterioration in agriculture's 'terms of trade'

As mentioned in the introduction to this section there will often be a certain interaction between the institutional framework and the current market conditions

for any occupation. By changes in the institutional framework a number of regulating interventions can be made in order to eliminate to a larger or smaller extent the undesirable effect of the existing market conditions.

By a number of legislative measures it has been attempted to counter the threats against the owner-occupancy system mentioned above. Young starting farmers, who qualify under a number of conditions, can be granted State loans on favourable interest and repayment terms. The size of the loans depends on the current bond interest level. The typical use of the loans is a cash down payment on an agricultural property. The maximum loan amount is about 180.000 Dkr. which corresponds to a price of about 2 million Dkr. for a farm of average size. EEC's directives on support to the modernization of farms also open up an important possibility of assistance to the young new farmers. There is a need for such support because the young farmer must make considerable investments, either in connection with the transaction of the generation shift or in order to expand the production capacity of his farm.

To this series of measures aiming at reducing the capital costs in agriculture can be added the Foreign Loan Scheme, under which borrowings are contracted abroad and covered with a State guarantee against the risks involved in changes in exchange rates. This scheme was introduced in 1978. The State procures the means by raising loans on the international capital markets, and in 1978 and 1979 the funds thus obtained have amounted to 250 million and 750 million kroner respectively. The loans are earmarked solely for investment in stables, and the rate of interest has, till now, been fixed at a little below 10 per cent per annum, which compare to a domestic bond loan interest of about 17-18 per cent during recent years. Furthermore the State covers the exchange rate risks normally involved in this type of loan operations.

The latest attempt to lessen the establishment problems of young farmers has been made by amendments in the Agriculture Act. The amendments have been described in chapter IV. The main purpose is to check the price rises by curbing the demand for agricultural properties. The amendments provide that young farmers, who are trained in accordance with official requirements, must be given precedence above other groups of buyers when they are in the market to buy an agricultural property. At the same time the possibilities of amalgamation and of joint operations of farms have been somewhat reduced. As the amendments are of a recent date and the rules of administration have not yet been issued; it is, at present, impossible to make a precise estimate of the effects of the amendments on the establishment conditions.

The Replacement Problem

During recent years the problem of vacations for farmers and their family has come to the foreground - the problem of being tied too firmly down to the job has cropped up.

Leisure time has been given a steadily growing priority in the Western communities, and this is the direct background for the emergence of the replacement problem also in agriculture. A contributing factor to the situation, where this problem has come up, has also been the better opportunities of combining agriculture with certain external employment outside of the farm by taking wage-earning jobs, which were easy to get during the 1960s and 1970s. It has been of special importance that it has become customary practice today that young farmers' wives are partly or fully employed in external jobs. It follows quite naturally that they consider their week-ends and holidays as their leisure time which they should be free to use for the same spare-time and recreational activities enjoyed by other groups of the population.

A number of the agricultural lines of production is, however, not immediately amenable to offer any increased priority to leisure time. The problem is particularly imminent in animal husbandry where continuous care and

vigilance are necessary. It is easier to satisfy the desire for increased leisure time where cropping is the sole line of production - perhaps combined with some pig raising.

The solution of the problem may well be found through arrangements providing for replacement of the farmer for shorter or longer periods. In some few places local short-term caretaker-schemes have been introduced but the problem must now be considered ripe enough to justify more widely coordinated initiatives. A similar problem arises in case of illness. The establishment of caretaker schemes might comprise also the cases where the character of the illness requires that labour is provided through a replacement arrangement of the type on which the local experience mentioned above has been made.

In October 1978 a task group was set up under the Ministry of Agriculture to look into the question of extension of the caretaker-schemes.

The group submitted its report in July 1979. No detailed proposals were made on the manner in which an extension could be carried through, but some main principles, which might be applicable, were formulated for the conditions on which public support might be offered.

The report proposed

- that replacement in case of short-time illness should be given priority; if the farmer is incapacitated for a relatively long period of time, another and more lasting solution to the problem must be found,
- that the replacement scheme must be worked by a mixed personnel of full-time and part-time caretakers,
- that a sufficient degree of stability must be ensured by the members assuming an obligation to use the replacement scheme to a prefixed extent, for instance by a subscription-agreement covering a planned vacation and a certain number of days off.

In the group's view no basis exists for coverage of the costs by the users of a replacement scheme developed on the principles mentioned above, and its report suggests, therefore, various possibilities of public support.

A bill for an act on a replacement scheme in agriculture may be tabled already in the parliamentary session of 1979/80.

Conclusions

Owner-occupancy is considered extremely competitive as a form of tenure in the Danish family-farm type of agriculture, with large herds where the constant care and vigilance have an essential impact upon the economic result. The owner-occupancy system may experience serious dangers in years ahead, if young farmers prove unwilling to shoulder the considerable obligations - in work-load as well as in money - which the system faces them with. As yet there are no real indications showing that young farmers seriously want other forms of tenure. It should, however, be taken into account that there is a certain pressure borne by the farmers' wives upon the present living conditions. This points towards a change in the ways of life to make them comparable to those enjoyed by other groups of people, especially in respect of vacations and leisure time activities.

The Extend of Tenancy in Denmark

Contrary to conditions in a number of other EEC-countries tenancy systems have never been used to any large extent in Denmark.

The causes of the predominant position of owner-occupancy in Danish agricultures are found, principally in the historical development peculiar to the peasantry in Denmark. Up to the end of the 18th century by far the larger part of the peasants were copyholders and consequently economically and socially living under the conditions offered by the landowners, who were mainly manorial lords and squires.

During the second half of the 18th century a strong movement arose to better the living conditions of the peasantry, and, amongst others, the royal court and the estate of government officers became actively involved in it. In practice a large number of reforms were introduced towards the end of the century. The fundamental idea in these reforms was that the tenancy system should be replaced by owner-occupancy, and to enable the peasants to take over the copyhold-farms the state placed considerable financial means at their disposal.

Since that time Danish thinking and legislation in the field of agriculture have been dominated by the concept that the economic interests of the community are served in the best possible way if the form of occupancy in agriculture was based upon self-ownership. A contributing factor to consolidate owner-occupancy has been the co-operative movement which started about the middle of the 19th century. Briefly, this movement built upon the idea that peasants had to stand together and jointly had to find solutions to their problems, in order to maintain an independent peasantry estate. It is to be added that the co-operative movement actually was developed into a popular rising, where preponderant importance was placed upon education and the spread of knowledge.

It is self-evident that one condition for the maintenance of owner-occupancy is the existence of an adequate credit system to take care of financial needs, not least those arising from the transfer of ownership from one generation to the next. Dearth of credit would easily result in a state of affairs where forms of occupancy requiring smaller capital would become more attractive. It has been mentioned elsewhere that the credit system serving Danish agriculture is functioning in a satisfactory manner.

The insignificant extent of, especially, farm tenancy in Denmark is the reason why tenancy as a form of tenure has been the subject of only very little statistical treatment. Reasonably sufficient data seem to exist only on the extent of tenancy. Collection of data on this subject is not made with the same regularity as is the case on the owner-occupancy form of farming. The information on the economic conditions of tenants is especially defective and, at all events, statistical information on this subject is available only for the most recent years. The dim statistical light thrown on the tenant's situation renders it, at the same time, difficult to assess whether the availability of tenancy as a form of holding has influenced the flexibility in the agricultural occupation. It is to be assumed that the rules on co-management of agricultural properties, on amalgamations limits etc. have been so liberal that no real impediment has been placed in the way of the structural development in agriculture.

In order to present a comprehensive picture of the conditions of tenancy in Denmark it has been necessary to use sources of information not of the same general validity as the information available on owner-occupancy.

The extent of farm- and land-tenancy in Denmark is shown in table III.1. The area tenanted per property is 3,4 hectares corresponding to 13,1 per cent of the average area of land per property in 1976-77.

Table III.1. Agricultural area within area classes and all holdings, ha per holding

	5,0- 9,9 ha	10,0- 19,9 ha	20,0- 29,9 ha	30,0- 49,9 ha	50,0- 99,9 ha	100,0 ha and above	All holdings 1976/77	1975/76
Agricultural area at start of year:								
Freehold	7,0	13,5	22,0	32,3	53,4	148,6	22,5	22,0
Farm tenancy	0,1	0,4	0,3	0,7	0,7	3,8	0,5	0,5
Land tenancy	0,2	0,6	2,1	4,7	11,2	34,7	2,9	2,9
Total	7,3	14,5	24,4	37,7	65,3	187,1	25,9	25,4

Source: Jordbrugsøkonomisk Institut.

Statistically a distinction is made between farm tenancy and land tenancy. By farm tenancy is understood a copy-hold comprising all the land and all buildings of at least one property, and where the tenant is not, at the same time, the owner of an agricultural unit.

Land tenancy is a form of copy-hold where an area of land or a property is managed jointly with a property already owned by the tenant. The number of farm tenancies is very small and it is most common for properties with landareas above 100 hectares.

A certain reduction in the number of farm tenancies has taken place during recent years and the area concerned was in 1978 3,1 per cent of the total agricultural area, cf. table I.5. In this context it should be noted, however, that it is provided in the Agriculture Act, which became effective as of 1st January 1979, that the Minister of Agriculture after 1st January 1984 will be authorized to order an agricultural property let on lease. This authority comprises cases where companies, associations etc. own more than 5 agricultural properties or cases, where co-management covers more than 2 agricultural properties with an aggregate area of 100 hectares or more. Exceeding properties can, in such cases, be ordered let on tenancy provided they are considered economic units. At length this may, therefore, result in a modest increase in the number of farm-tenancies.

Land tenancy has undergone the reverse development. In 1966 about 9 per cent of the total agricultural area were under land tenancy. A steady rise has taken place year by year, and the data for 1978 show that about 23 per cent of the farms held in tenancy a total of 12 per cent of the total land. The reason for this development is that many farmers own machinery with a capacity to cultivate larger areas than they own, and that they, therefore, find it profitable to lease additional land which they can cultivate without any increase in their machinery investments. The conditions for land tenancy have at the same time been favourable during recent years because a growing number of elderly farmers have wanted to live longer on their farms, and at the same time they have been interested in lessening their burden of work.

Therefore a tendency has cropped up for elderly farmers to adopt rather an extensive mode of cultivation or to let out land to a neighbouring farmer. By such measures the elderly farmer gets, at the same time, his share of the appreciation of the value of land and buildings which generally has taken place during the 1970s.

An additional stimulation to land tenancy may have been the factual and psychological influence of the capital profit taxation. A moderation of the current rules would contribute to an increase in the number of farms offered for sale in the general open market. This kind of turnover in agricultural properties seems to limp behind the sales in the family market, with a consequent impeding influence on the productivity development as well as on the volume of the total agricultural production.

There has been, undoubtedly, a near connection between the rising average age of the farmers and the increase in the land tenancy.

A Comparison between the Owner's and the Tenant's
Economic Conditions

The following table shows the economic conditions of owners and tenants by an analysis of the private economy within the two forms of occupancy.

Table III.2. Review of owners' and tenants' private economy 1976/77 within the size groups 15-30 hectares and 30-60 hectares

Category, hectares Nature of Occupancy	15-30		30-60	
	Owner	Tenant	Owner	Tenant
1. Number of properties	3697	48	3449	49
2. Land Area, hectares	22,5	23,6	40,8	42,3
3. Tenancy rent, Dkr. per hectare	965	963	1023	1107
	— 1000 Dkr. per property —			
4. Yield unencumbered property	88,7	84,8	133,2	124,7
5. Wages, external jobs etc. ¹⁾	19,4	28,9	20,9	26,2
6. Interest income	8,4	16,9	11,5	19,5
7. Total income (4+5+6)	116,5	130,6	165,6	170,4
8. Interest expense	43,6	12,3	79,8	23,6
9. Tenancy rent	1,5	22,6	5,0	46,4
10. Private Consumption	59,5	58,0	70,2	66,2
11. Personal taxes and insurances	22,5	32,5	29,9	38,5
12. Total expenditure (8+9+10+11)	127,1	125,4	184,9	174,7
13. Income - Expenses (7-12)	- 10,6	5,2	- 19,3	- 4,3
14. Inheritance, gifts, etc. net	2,3	- 0,1	2,9	2,8
15. Surplus for consolidation	- 8,3	- 5,1	- 16,4	- 1,5
16. Prosperity/depression profits	192,4	37,5	275,7	76,7
17. Net investments	25,8	1,0	65,1	12,7

1) Including reversed operational depreciation on the farm buildings under tenancy.

Source: The National Committee for Agricultural Economy of the Federation of Farmers' Unions (De samvirkende danske Landboforeningers landsudvalg for Driftsøkonomi).

The data are based upon information collected from farm tenants' accounts. A few considerably deviating accounts have been left out before processing the material. Even if only a limited number of tenants' accounting records has been available it may be accepted that the table does, nevertheless, offer a fair impression of the conditions, and the result is reasonably comparable with the consolidation which can be made from a similar, but much larger group of owner-occupants' operations.

The accounting results have been shown for the size categories of 15-30 hectares and 30-60 hectares. The tenancy rent per hectare is 963 Dkr. and 1107 Dkr. respectively for the two groups. The expenses of property tax and fire insurance premiums must be added, as they are normally paid by the tenant.

The tenancy rent reflects the true economic relationship between owner and tenant. Beyond the rent no payments are made from one party to another. On account of the character and of the limited extent of tenancy in Denmark, and especially because the agreement on the amount of the rent is reached through free negotiation, no part payments are made 'under the counter'

The table shows also that the tenant's gross income (line 7) on properties in the 15-30 hectares group is 14.100 Dkr. higher than that realized by an owner. In the group of 30-60 hectares this difference has been reduced to 4.800 Dkr., but it is still in the tenant's favour.

If interest expenses and tenancy rents are taken into further consideration the difference between the tenant's and the owner-occupant's situation is even more increased. In the size group of 15-30 hectares the tenant's net earnings can be computed as 95.700 Dkr. whilst the owner makes only 71.400 Dkr. The corresponding figures for the property group of 30-60 hectares are 100.400 Dkr. and 80.800 Dkr. respectively. On the other hand the owner's smaller current earnings are balanced off by a marked larger appreciation of the real capital. On this point the difference in 1978/79 for the group of 15-30 hectares was 154.900 Dkr. and 199.100 Dkr. for the larger properties.

Tenants enjoy no favours in respect of taxation.

Legislation on Tenancy and Contents of Tenancy Contracts

No direct tenancy legislation exists in Denmark, but in the Agriculture Act a number of provisions has been included to cover the tenancy situation. A general observation is that the rules on tenancy have been more restrictive by the Agriculture Act of 1st January 1979 and that they have been adapted to the provisions applying to owner-occupancy farming as described on pages 106-114. Previously the rules on tenancy in agriculture were, as a matter of fact, very liberal, which, however, did not bring about an increase in the number of farm tenancies of any significance. The requirements in respect of training and domicile are now the same for tenants as for newly established owner-farmers. In respect of the extent of tenancy it must also be observed that the maximum number of units allowed under a tenancy is 5 properties. If, at the same time, the tenancy covers land from more than 2 properties the total area tenanted must not exceed 100 hectares. It is assumed in this context that the properties tenanted are under co-management. Finally the distance by road between the areas belonging to properties under the lease must be no more than 15 kilometers measured from the tenant's property of domicile. Contrary to the requirements applying to owner-occupancy properties the tenant is not under any obligation to have agriculture as his major occupation.

In almost no cases is it required to have a tenancy agreement approved by the authorities, but in case of farm-tenancies it is a legal requirement that the tenancy agreement must be concluded in writing and contain clauses on the length of the tenancy period, on the terms of notice and on the amount of the tenancy rent.

Farm tenancy can be contracted without permit from the Minister of Agriculture for a period of up to 15 years, and even to 20 years if the property has status as a part in a development plan. Land tenancy can be agreed upon for a maximum period of 10 years, and no written contract is required to cover such agreement.

Finally it has been provided that corporate bodies with effect from 1st January 1979 can enter into tenancy of an agricultural property only after preceding permission by the Ministry of Agriculture in each single case.

Even if the legal requirements for the contents of the tenancy contracts are still modest, it is customary that a contract contains a number of paragraphs defining the owner's and the tenant's rights and obligations. In a number of cases a standard formula is used.

No current statistics are compiled to show the contents of the tenancy contracts made. An important source of information is a report on an examination made by Jordbrugsøkonomisk Institut. The report covers a total of 272 farm tenancies.

The report concludes that tenancy normally covers land, buildings and fixed equipment whilst the tenant, as a rule, himself must bring in livestock and machines. The land must, at the expiry of the tenancy, be surrendered in the same state of cultivation and fertilization, and eventually with a crop rotation pattern, as existed at the establishment of the contract, and the buildings must have been currently maintained.

Few tenants make any long-term investments in land improvements and in buildings, and normally, no compensation in this respect is paid by the owner.

It is further reported that owner-occupants invest considerably more than tenants do. On the average the owners invest six times as much as the tenants, as far as the size category of 15-30 hectares is concerned. The difference is, however, dimmed out in the larger properties (cf. table III.2.).

The difference in the investment motivation is due to uncertainty about the possibilities of eventually getting the tenancy contract extended. At the same time the allegation is affirmed that tenants are normally less interested in making long-term investments and, therefore, often choose more extensive modes of cultivation.

By far the major part of the investments made by a tenant is put into machinery and equipment and also in herds. A consequence of this is that the tenant's credit needs are considerably smaller than those of the owner-farmer's. On the other hand the tenant may well face a situation where he finds it difficult to borrow sufficient capital, because the fixed property cannot be mortgaged as security for loans. This means that the banking institutions will often demand security in the form of personal sureties or deposit of financial assets. It is also an additional disadvantage that the tenant can borrow on relatively short terms (a maximum of 10 years) compared to the terms offered to the owner-farmer, to whom the mortgage credit institutions offer loans with a repayment period of up to 30 years.

These conditions show quite clearly that the tenant generally is at a disadvantage as far as credit is concerned, in respect of the provision of security for loans as well as in respect of repayment terms.

The remarks made above pertain to cases where the lease covers a farm-tenancy, as defined in chapter I, on page 8. Conditions are different in case of land-tenancy. In the latter case the tenant has the possibility of raising loans on his property to finance investments in the properties tenanted, and he will, therefore, in most cases, as far as credit is concerned, be in a situation comparable to that of the owner-farmer. A complete evaluation of the credit problems will show, however, that they are of minor importance, also because farm-tenancy has been a decreasing form of holding over the years.

The Danish legislation on agriculture contains no provision affording any support whatsoever to the tenants in the form of any rights to extension. It is very common that farm tenancies are contracted for five, eight or ten years. After the expiry of this period the parties decide by free negotiation whether a contract shall be written for a further period. In case of a new contract period the parties are totally unbound by previous agreements - also in respect of the amount of the rent.

Only rarely a real valuation is made on the elements of the tenancy at the beginning of the tenancy period. Any arrangement on the manner in which eventual disagreements shall be negotiated and settled is made in advance in only very few cases. Nor have most tenants received any expert assistance from a consultant or a lawyer in advance of their entry into a tenancy contract.

As mentioned the tenancy contracts are written usually for a five year or an eight year period. A clause often says that the tenancy can be terminated in case of the tenant's death. Only about ten per cent of the tenants have a right of pre-emption to the farm at a fixed price, or at the public assessment valuation, or at the ordinary value in the open market.

The tenancy rent for 1978/79 corresponds approximately to the amounts listed in table III.2. In 60 per cent of the tenancies the rent is variable and is adjusted in line with the grain price development (kapitelstakst)¹⁾. The rent is normally paid half-yearly and, as a rule, no security deposit is made for the payment of the rent.

A clear pattern emerges on the type of farms let on lease under tenancy contracts. Contracts covering parsonage farms and properties owned by the state or by a municipality constitute a considerable part of the total number of farm tenancies. The share of the parsonage farms is declining whilst properties owned by municipalities are a growing part of the total tenanted units.

In the past the large agricultural units (big estates and foundations) used to let part of their buildings and land on tenancy. During recent years the tendency has been that the owners themselves have chosen to run their properties after the expiry of the tenancy contracts. It is especially this circumstance which explains the decline ascertained in the extent of farm tenancy.

1) Kapitelstakst is a rate representing the average sales price obtained by the farmer on sale of 100 kilos of dry and cleansed barley during the post-harvest period from August to December.

As has been mentioned earlier the land tenancy has to a considerable extent been a function of the rising average age of the owner-farmer in Danish agriculture. The extent will, therefore, to some degree be determined by such progress in the generation shift, which would mean a lowering of the average age. In case such successful development takes place a decline in the extent of land tenancies can be expected over a period of years.

Over a long period of years it has been possible for companies to enter into farm tenancy contracts but in spite of this very few such contracts have been made. As mentioned, this type of tenancy requires permission in each single case from 1 January 1979.

Farm tenancy where the tenant is a physical person does not require any special comments. It has often been said that young farmers are attracted to the possibility of tenancy in preference to becoming farm owners. In a number of cases it would be possible to tenant a larger property than the farmer in question would be able to buy. In other cases a young farmer chooses to become a tenant for a five year or an eight year period in order to take over the parents' farm as owner at a later time.

Some tenants continue as such all their lives, but that is common only on large properties. As the development has been, with rising property prices, the persons concerned will often find it difficult to cease being tenants and instead buy a property of a corresponding size. In these circumstances a small group of professional tenants has been formed. The existing tenancy system, under which the tenancy rents are currently adjusted up to market prices, ensures that these tenancy farms are run efficiently and often with the weight laid upon crop production, including sugar beet cultivation and seed cropping. This element of tenancy appears to have become a natural part of the Danish agricultural 'ownership structure'. No tendencies are observed towards either a limitation or an extension of this element beyond the very insignificant effect of the tenancy obligation previously mentioned, coming into force from 1 January 1984.

The other element - land tenancy - is desirable, as it stimulates mobility with regard to land as well as to other production resources. Tenancy of soil is often preceding a purchase of the land in question to be added to the property owned by the tenant. One of the problems has been that many farmers for varying reasons have wanted to get land on tenancy. The competition for the land offered has been quite keen, and the rents have become rather high. The rents for small areas, where an obligation to maintain buildings is not involved, have often been considerably higher per hectare than the rent for farm tenancy.

Prior to the most recent revision of the Danish land legislation the question was raised whether a separate tenancy legislation would be needed in Denmark. On the background of the insignificant extent of the farm tenancy system in the past, even under very liberal conditions, the answer to this question was in the negative. A number of new provisions in the Agriculture Act which came into force on 1st January 1979 define explicitly - and restrict - the tenancy rules. The rules on establishment of tenancy have in many ways, been made a little less liberal.

It may be expected that the provisions in the new Agriculture Act will tend to improve the tenant's position because the number of potential tenants will become smaller, whilst the number of tenancies offered may, perhaps, increase.

The effects of these restrictions are not deemed to become very impressive. It is thought that the future development of the structure of Danish agriculture is best served if - as will be the case - land tenancy is allowed to exist to approximately the present extent.

CHAPTER IV - LAND USE AND ARRANGEMENTS TO REGULATE
 COMPETITION RELATING TO THE LAND RESOURCES

IV.1. Land Use

Only two complete reviews of land use have been made in Denmark, in 1951 and in 1965. Variations in the grouping of different types of land use mean that the two reviews cannot be directly compared for all the forms of land use. At present it is planned how the 1965-review can be brought up to date, but under all circumstances it must be assumed that the result of a new investigation into the total land use in Denmark can be available only after some years. Below has been shown a table on land use in Denmark. Annual reviews are made only for agricultural and horticultural areas.

Tabel IV.1.1. Land Use in Denmark (in thousands of hectares)

	1951	1965	1970	1976	1978
Agricultural Area	3.139	3.001	2.941	2.912	2.902
Market Gardening and Orchards	23	21	24	21	22
Forests, Plantations	438	472	.	.	.
Built-up Plots etc.)	190	204	.	.	.
Summer Cottages etc.)		41	.	.	.
Streets, Roads, Railways, Hedges etc.	122 ¹⁾	86 ¹⁾	.	.	.
Building Sites etc.	39	43	.	.	.
Water Areas, Lakes etc.	61	70	.	.	.
Other Areas	281 ¹⁾	369 ¹⁾	.	.	.
Total Area	4.293	4.307	.	.	.

1) Not directly comparable as the grouping has been changed.

Source: Danmarks Statistik.

The table shows that the total agricultural area since 1951 has been reduced by 7 og 8 per cent. During recent years, however, an approximate stagnation has set in

in the total agricultural area, which is due, amongst other reasons, to a sharply declining demand for land for urban purposes during the last few years. On the latest revision of the Agriculture Act it was directly put into the act that the agricultural areas should be preserved to the farthest possible extent. The land use should be administered with due regard to the view that agricultural land is a limited natural resource, meaning that the use of cultivable land for non-agricultural purposes should take place by, first and foremost, using the agricultural land of the poorest quality. It is worth noticing that the forest areas have been growing since 1951.

There are in Denmark only insignificant areas where ownership has not been registered.

IV.2. Land Legislation on Regulations of the Access to Purchase etc. of Agricultural Properties and Agricultural Land

Rules for Acquisition of Agricultural Properties

Legal provisions to regulate the number of buyers entitled to acquire agricultural properties have become steadily more restrictive during the past 20 years.

Since the end of the 1950s companies - i.e. joint-stock companies and institutions - have been excluded by law from taking over ownership of agricultural properties. Before the introduction of these restrictions only a limited number of companies and institutions had shown any interest in buying agricultural properties. The present situation is that companies and institutions own only a very small number of farms. The Ministry of Agriculture must approve every single case where a company or an institution wants to buy. Approval is granted only in cases where the buyer indicates and proves that the purpose of the acquisition is to undertake scientific research and experiments. Purchase of agricultural properties by public authorities has not previously been subject to similar strict control, but this has become the case now after the amendments to the Agriculture Act of 1st January 1979. This means that the Minister of Agriculture is now authorized to turn down applications for repeal of the farming clauses on a certain area if the agricultural interests - amongst them the soil quality and the structure of the property - are found adverse to, for instance, the use of the farm land for public or other purposes.

In respect of physical persons the legislation during the past 30 years has moved from a state where no limitations were imposed on the number of properties any single person was allowed to buy and farm anywhere in the country, and over to the present quite restrictive statutes. Ever more extensive sets of rules have been introduced to regulate the number of properties a single person is permitted to buy and to define the conditions of farm management applying to the properties in acquisition of the same owner.

The first encroachment on the free right of acquisition aimed at a limitation of the number of properties

to two which one person was allowed to buy as owner or part-owner. Later on - in 1973 - the rules of acquisition were further restricted by the provision that the buyer had to live on the property first bought, and that he had to make the running of the farm his main occupation. The rule on main occupation and the condition of domicile did not, however, apply to property transfers within the nearest family. This meant that children living in a town were permitted to get title-deed to the parents' property and still were allowed to keep their main occupation and their home in town.

The rule of domicile on the farm and of farming as the main occupation had the 'unintentional' effect that many housewives with no outside jobs came forward as buyers of agricultural properties, and quite lawfully so. During the period 1973-1978 many properties were sold where the legal requirement of domicile on the farm was met by the 'town-family' moving in to live in the farm dwelling house, whilst the house-wife could declare that she had taken on farming as her main occupation. Table IV.2.1. shows the breakdown of the property sales by groups of buyers.

Table IV.2.1. Breakdown of Property Sales by Buyer Categories 1971-1975

	Family Sales		Open Market Sales		Total		Absolute Figures per year	
	pCt of Properties	pCt of Area	pCt of Properties	pCt of Area	pCt of Properties	pCt of Area	Number	Hectares
First time buyers getting agriculture as main occupation	54,2	63,4	22,5	29,8	<u>35,2</u>	47	<u>1500</u>	<u>30</u>
First time buyers with other main occupations	24,2	15,3	38,1	26,8	<u>32,5</u>	21	<u>1500</u>	<u>15</u>
Purchase by farmers already in farming	21,6	21,3	39,4	43,4	<u>32,3</u>	32	<u>1500</u>	<u>22</u>
Total	100,0	100,0	100,0	100,0	100,0	100	-	-

Source: Etableringsundersøgelser, foretaget af Danmarks Landboungdom, 1975.

Study of établissement carried out by Danmarks Landboungdom, 1975.

Reference is made to the analysis of the three groups of buyers in chapter II.6. In the first place it is characteristic that the groups are of nearly equal size, and, secondly, that young farmers dominate the family sales whilst 'town-people' and already established farmers are the largest groups under the open market sales.

With effect from 1 January 1979 Parliament passed in May 1978 a number of further restrictions on the access of persons to buy agricultural properties. The more extensive restrictive measures have a background of administrative difficulties during the period 1973-1978, especially in controlling the requirement of the main occupation. Furthermore Parliament wanted to avoid a large extension of the 'housewife-farming'. In this context it should be recalled that the relatively short distances in Denmark mean that the major part of Danish farms are located within reasonable road distance from an urban area.

The following requirements must, therefore, now be met to qualify as buyer of an agricultural property:

"Title to an agricultural property in rural zone or title to part of such property can be acquired by persons provided,

- (i) the buyer is above 18 years of age;
- (ii) the buyer, spouse and their children below 20 years of age after the purchase will not jointly be owner or part-owner of more than one agricultural property, inclusive of farm property abroad, or of more than two agricultural properties the soil of which are located within a road distance of 15 kilometres (nearly 10 miles);
- (iii) the buyer is a citizen of Denmark or a citizen of a country of which the citizens by virtue of the rules reigning in the European Economic Community or by virtue of treaty have access to acquire agricultural land in Denmark;
- (iv) the buyer within six months after the purchase makes the property his permanent domicile;

- (v) the buyer verifies that he has availed himself of the Farmer Training Scheme sponsored by the Federation of Danish Smallholders' Union (the 'green certificate' or that he holds proof of other equal training or meets the training requirements set by the Minister of Agriculture as negotiated by him with the agricultural organisations, and provided
- (vi) the buyer either has or by the purchase gets agriculture as his main occupation and he himself will manage the property."

The new rule in relation to past conditions is that farmer training is now required to qualify a person as a buyer of an agricultural property. Politicians have not, however, wanted to make agriculture a 'closed' occupation reserved exclusively for persons with farmer training and, therefore, it has, at the same time, been ruled that persons untrained in agriculture are permitted to meet the training requirement by employing a farmer-trained manager for a period of the first four years after the purchase of the farm. In this connection it is a condition that the buyer must substantiate that the property is of such size and quality that its operation can fully employ at least two persons. It is also a condition that the manager meets the legal requirements in respect of training and experience, that he or she is working full time and is living permanently on the property. After the expiry of the 4-year-period the owner can freely decide whether he wants to continue the employment of a manager.

It is still too early to evaluate the effects of the new restrictions imposed upon the acquisition of farms, especially in the light of the main purpose which was to limit the number of potential buyers of agricultural properties to such persons who would seriously engage themselves in agriculture. Other purposes were to stimulate production in animal husbandry lines and to put brakes on the growth rate of the property prices.

The observation can, however, be made that one effect of the new rules of acquisition appears to have been that the prices of agricultural properties, after the introduction of the restrictions, have stagnated and have

even been slightly falling for the categories of larger properties. This development cannot be fully ascribed, however, to the restricted rules of acquisition because the agricultural economy has, on the whole, been weak. There is no doubt that the future trend in property prices, to no small extent, will depend on the manner in which the authorities will administer the rules of acquisition. A restrictive administration will contribute to a more even and quiet price development, whilst a more lenient application of the rules would have only a more limited effect compared to what would have been the case if no restrictions of the acquisition rules had been introduced. One of the most serious criticisms of the recent legislation is that the rules are so dimly formulated that even the legislators themselves stand in doubt about the range of the provisions of the bill they have enacted.

The rules cited above concern the sales in the ordinary open market.

The rules on family sales have also been made more restrictive, but not at all to the same extent as those imposed on sales in the open market. The rules say now that the seller must have held his title-deed on the property concerned for at least three years before he became 67 years of age, and also that the buyer must make the property his domicile at least two years after the purchase.

There are no requirements of having agriculture as the main occupation nor of any farmer-training as far as the purchase of a farm in a family sale is concerned.

The Rules on Amalgamation of Farms

The introduction of more restrictions on purchase and on joint operations has been accompanied by extensive moderations in respect of the access to amalgamation. Up to the beginning of the 1960s the interest of the community was largely to preserve as many agricultural units as possible. It was practically impossible to be permitted to join, for instance, two neighboring properties together, each of them of 10 hectares of good soil, into a holding of 20 hectares. Through the 1960s and at the beginning of the 1970s the

amalgamation rules were moderated in rhythm with the mechanization which raised the need for larger units to exploit the machinery reasonably and also in rhythm with the growing migration away from agriculture. In the 1960s young trained farmers were not available in a number sufficient to take over all the properties offered for sale. Therefore, and also for other reasons, it was especially difficult to sell small properties during the 1960s. Contributing to the weakness in the property market for farms during this period was also that Denmark and particularly Danish agriculture suffered from the then existing market conditions in Europe. Especially towards the end of the 1960s agricultural properties were poor sales objects.

On this background amalgamation limits were introduced, starting at 35 hectares, later on raised to 100 hectares on condition that the general rules described in chapter II.1. in respect of the interlocation of the land were met. The more liberal rules administered since the beginning of the 1960s led to closing down of about 40.000 registered agricultural properties. One of the recent amendments to the Agricultural Act of 1 January 1979 is a reduction of the amalgamation limit from 100 hectares to 75 hectares. This reduction was made because politicians feared that too many viable farm units would be closed down. Apart from the new limit of 75 hectares an amalgamation permit cannot be expected granted if the result is a close-down of a property whose valuation exclusive of the dwelling house exceeds 700.000 kroner, and where it is simultaneously assessed that the property is a viable farm unit.¹⁾

The argument in favour of the prohibition to close down viable units was that, gradually, ordinary peasant-farms had been amalgamated, for instance by joining together a 30 hectares property with a 50 acres farm. The property of 30 hectares might have offered a

1) By a viable unit is understood an agricultural property where the value, exclusive of the dwelling house, exceeds 700.000 Dkr. The limit of the amount is fixed after each assessment.

satisfactory establishment proposition for a young farmer. The reduction of the amalgamation limit from 100 hectares to 75 hectares must, therefore be understood as an attempt at restricting wealthy farmers' purchases of viable units with intentions of amalgamation. The well-established farmers' possibilities of buying these properties were good in spite of a somewhat inflated property price level. The persons concerned have seen some very high raises in the value of the property they already own, and due to this boom in property prices they have met no difficulties in financing the purchase of number two farm.

In spite of the prohibitive restriction the well-established farmers have, however, still a possibility of buying number two property with intention of arranging joint operations with the first property acquired. The only disposition excluded in the future is an amalgamation of two properties where the property bought must be considered viable by itself. The prohibition against closing down viable units is expected to curb, to some limited extent, the purchase by wealthy farmers of a second farm. The prohibition has also been found acceptable by the agricultural organisations because one of the expected effects is that young farmers will come into a stronger position in the competition for the properties offered for sale.

The reduction of the amalgamation limit from 100 hectares to 75 hectares is the result of a political compromise between the existing 100 hectares limit and a new limit of 50 hectares proposed by the Minister of Agriculture. The Minister's proposal found no political support in Parliament.

It might well be argued that an amalgamation limit of 50 hectares would be acceptable - especially if it became effective for only a shorter period of years. Still, it should be considered more important that the amalgamation limit is fixed in line with the long-term tendencies towards larger operational units which undoubtedly will characterize to an ever increasing extent the agricultural occupation in Denmark as well as in the EEC as a whole.

It is still a generally accepted estimate that the number of farms will continue declining in Denmark and in the EEC for a long period of years.

In spite of the reduction in the amalgamation limit it is essential to stress the liberalization during the past 15 years, which step by step has brought the limit up to 100 hectares. The limit of 75 hectares now introduced will, it is thought, not impede the activities of any large number of farmers. A limit of 50 hectares would actually have become constricting and out of line with the development of desirable amalgamations in a considerable number of cases. It is also a sound view that the amalgamation limit ought not be changed too frequently. The reduction of the amalgamation to 75 hectares should not mark an unfortunate start on a zigzag-course which would mean that farmers would suffer from discriminatory and differentiated treatment due to such frequent changes in the amalgamation limits. It should be recalled, in this context, that rather intense feelings are involved in the application of the rules on land purchase as well as on the amalgamation processes.

Besides the provisions on amalgamation the Danish land legislation contains detailed rules on joint operations, and on other aspects of agriculture. As mentioned in chapter III the rules on joint operations have some bearing upon the tenancy situation.

Concluding Observations

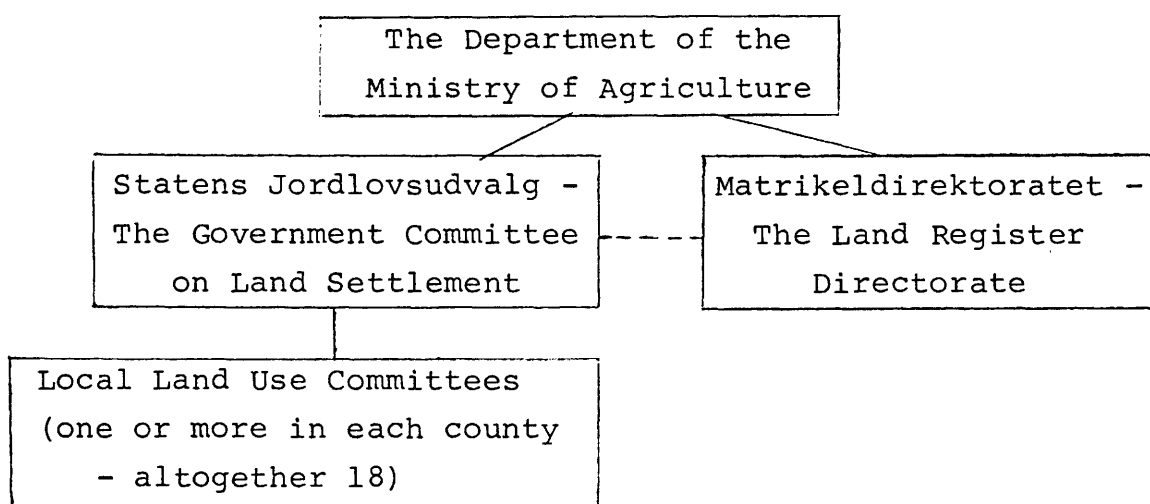
The Danish land legislation must appear quite complicated. The complexity has grown by a couple of changes made in the legislation during recent years. Questions of the lawfulness of one or another concrete matter depend to some extent on the date of the establishment of the case.

It must, however, be admitted that the Danish agricultural legislation only with difficulties could have been more clearly written than it has been done - considering the chosen aims and means. Only, at the same

it must be stressed that the individual farmer will meet difficulties in understanding the legal validity of certain dispositions, for example in cases of entering into tenancy of land.

The Intervention of the State in the Structure Adaptation

The administrative structure of the administration of the land legislation is illustrated by the following graph:



The Department of the Ministry of Agriculture

The Department is in charge of legal affairs and of cases of complaints. The day-to-day administration of the land laws and regulations is deputed partly to The Government Committee on Land Settlement and partly to The Land Register Directorate - both of these offices considered independent directorates under the Ministry of Agriculture.

The Land Register Directorate

This directorate administers authoritatively a number of land registration cases, first and foremost, naturally, the normal recording of changes in registrations, but the directorate has also to pass recommendations in parcelling cases and amalgamation cases except where principles are involved. If problems of principles arise out of the case on the table the administrative process is coordinated with either The Government Committee on Land Settlement or the Department of the Ministry.

The Government Committee on Land Settlement

The Government Committee on Land Settlement comprises a select committee and an administrative office. The latter has about 100 employees. The Committee proper of 18 members has lost influence during recent years, because the administrative office has been charged with other tasks beyond those in the regimen of 18-member committee. The role of the 18-member committee is a matter of discussion because 10 of its members are appointed by parliament (Folketinget). Part of these 10 members are in different ways actively engaged in agricultural politics. The influence of these persons upon the processing of individual cases is quite large, taking into consideration that they are, at one and the same time, members of the central Government Committee and chairmen of the local land use committees.

Their role is under discussion also on the background that they, to a certain extent, themselves inspect the individual cases in the field in their capacity of chairmen of the local land use committees and that they themselves write the recommendations for The Government Committee of Land Settlement.

'Statens Jordlovsudvalg', The Government Committee on Land Settlement - has in the past had an active influence upon the development of the structure in Danish agriculture.

During the period from the end of the first world war until the mid-1950s Statens Jordlovsudvalg assisted in the establishment of a considerable number of small-holdings of typically 10-20 hectares, the average size rising during the years. Statens Jordlovsudvalg bought land, improved soil and parcelled out the holdings. The land was sold to young farmers of modest own means. Loans were granted for the purchase of land and for the erection of buildings as well as for machinery and implements. The land for these new holdings was procured out of the transfers of land to the state in connection with the conversion of entailed estates into private property in 1919 and from other sources. Furthermore Jordlovsudvalget entered the market and bought large farms from which one or more small-holdings were parcelled out and the remaining main holding with buildings was then resold. Statens Jordlovsudvalg exerted a very

important function in carrying out the political intention of establishing a larger number of agricultural units. It was never made possible in Denmark for public authorities to expropriate land for parcelling.

Since the mid-1950s parcelling has stopped because, amongst other reasons, it was realized that the trend was now towards larger units and because the migration from agriculture had started.

Statens Jordlovsudvalg now takes care of a number of tasks including amongst others the administration of EEC's structure directives and the implementation of parts of the agriculture act. Furthermore the committee administers the act on land redistribution as still needed in some locations, especially in Southern Jutland, where the land of a farm may be scattered in 12-16 plots or perhaps even more. Land redistribution may also often be needed in connexion with road constructions. Jordlovsudvalget is empowered to enter the market and buy one or more properties if this is found necessary to achieve a rational redistribution of land.

As part of the administration of the agriculture act a main task, since the beginning of the 1960s, has been to define the administrative framework for amalgamation of properties; since 1960 about 40.000 registered farm properties have been closed down.

It should be added that relatively few but rather clearly defined conditions must be met in order to get the amalgamation of two properties approved, namely

- (i) the distance between the land of the two properties must not exceed 1 kilometre (0.6 mile);
- (ii) the land of the two properties must not be located on either side of a public, heavily trafficed road;
- (iii) if, as part of the amalgamation transaction, one set of buildings is sold, only about one half hectare of land must be included in the sale, corresponding to the area directly surrounding the buildings;
- (iv) the amalgamated property must have a holding not exceeding 75 hectares;

- (v) a new rule will from 1 January 1979 have the effect that no close-down of viable units must take place. This new legal provision has been introduced because the present tendency to close down viable farms is considered undesirable.

The Land Use Committees

The chairmen of the local land use committees are, as said, also members of The Government Committee on Land Settlement.

Apart from this the vice-chairmen of the local land use committees are focal members of the local committees because they are involved in the administration of the large number of tasks assigned to The Government Committee and to The Local Land Use Committees.

The vice-chairmen as well as the lay members are active farmers.

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By virtue of the Agriculture Act and its administration, and when all factors are taken into consideration, it appears safe to say that a rational structure development in Danish agriculture is ensured. The individual farmer has a certain freedom of movement in respect of increasing the area of land belonging to his property provided certain general rules are observed. The main purpose is to prevent disintegration in the well-rounded land-holding conditions prevailing in Danish agriculture.

IV.3. Prospects of Agriculture under Conditions Framed by Legislation on Community- and Country Planning and Other Legislation

Until the end of the 1960s no comprehensive community planning directives applied to the appropriation of agricultural land for other purposes than cultivation. Locally some consideration was given to the interests of agricultural cultivation, rather as an expression of an inherent attitude, but no co-ordination took place between different geographical locations and no common rules guided the practices in different municipalities. In these circumstances building in urban and sub-urban as well as in rural areas developed in a relatively uncontrolled manner. The 1960s was a period of intense building activities, and therefore the absence of community and regional planning was rather unfortunate. There was, for instance, no adequate joint planning of road routes, shopping facilities, school locations etc.

In the 1960s legislation on country planning on a national scale was passed and it was followed by a zonal law in 1969, dividing the country into three types of zones, urban, rural and summer-cottage zones.

Under this zonal law a number of dispositions and regulations of resources was made.

The zonal law of 1969 still exists but it has been supplemented during the 1970s by further legislation enacting the procedure to be followed to introduce development plans within the three zones. Under this legislation it is foreseen that the following planning programme will be implemented:

- (i) Directives, covering the whole country;
- (ii) Regional Plans, each covering one 'amt' (14 amts)*);
- (iii) Municipal Plans, one for each local administrative unit (about 270 municipalities);
- (iv) Local Plans, covering parts of a municipality (number unlimited).

*) Danish-English Dictionaries suggest that 'amt' is translated as 'county' - although with some reservations.

The zonal law of 1969 imposed no restrictions on parcelling of land and on building in urban zones and summer-cottage zones. In rural zones permits have to be applied for and to be given in each individual case, apart from certain exceptions.

In this manner the zonal legislation ties up the actual rural districts and withdraws to some extent the future right of owners' dispositions as far as these zones are concerned.

In the rural zones the zonal law is administered by the county councils. Briefly the provisions of the zonal law in respect of the rural sector are the following:

-- Without special permit no parcelling of land can take place unless the area in question is intended to be enclosed into an existing agricultural property. During recent years fusions of agricultural properties have become very common, and they are not affected by this restrictive clause, but the county council has the authority to decide whether permit should be granted for separation of a plot from the farm land for, for instance, building a house as contractual accommodation for the former owner of the farm.

In rural zones no new buildings can be put up nor any building modifications made without consent from the county council unless such buildings or modifications are occupationally necessary for the operations of the property as an agricultural or a silvicultural production unit or for fishing.

By occupationally necessary buildings are understood buildings used for direct operations including also one dwelling house, and such buildings can, therefore, be raised without a permit under the zonal law. But any accommodation beyond the one provided by a single dwelling house (an 'extra' house, accommodation for employees or for the 'pensioned' farmer) can be build only after the grant of a permit. --

From time to time a transfer of land can, of course, take place from a rural zone to an urban zone or to a summer-cottage zone where an alternative use of the areas in question is intended, the basic view being, that urban zones and summer-cottage zones should, at all times, be large enough to meet the expected needs for a increase in the number of building plots.

The zonal legislation is considered a satisfactory instrument of planning as far as about the last 10 years are concerned. It has introduced homogeneous guide-lines and increased co-ordination, but on the other hand, it has prevented, rather too far, a natural extension of the building of one-family houses in the smaller rural communities.

Building activity in this line is not a direct agricultural concern. The absence of possibilities of building one-family houses in the villages has, however, contributed to a situation, where many, even relatively large, village communities have been unable to sustain a number of traditional activities - as for instance, schools village meeting halls, sports establishments and shopping facilities.

The up-keep of some of these activities would under all circumstances, have been difficult, but the zonal legislation has aggravated these difficulties. This means that the possibilities of the villages to function as natural, well-balanced social communities have been curbed.

At the same time this has meant that elderly farmers, who have sold their farm property, have had to move into larger urban communities, estranged from the near, local society of which they had previously formed a natural part.

The background of the restricted building possibilities in the small village communities has, amongst other reasons, been a wish to preserve the existing traditional milieu of the villages. Furthermore, the accumulation of housing in larger communities facilitated,

in the short view, the provision of the technical amenities such as sewerage systems, purification plants etc.

An understanding has, however, been growing that the village communities should be offered increased chances to survive and to develop through parcelling and building.

As mentioned, the zonal legislation in the 1970s (1974-1977) has been followed by other planning legislation aiming at several levels - an all-country plan, regional and municipal plans, detailing also rules to guide local planning.

The aims of such detailed planning have been to create a basis for a comprehensive social evaluation for the use of the country's land- and other natural resources. In such planning regard has to be paid to environmental as well as to economic aspects.

In the context of country planning the Milieu Minister has been authorized to issue binding directives for the regional planning administration and, as a consequence of this authority, indirectly also for the municipal planning administration.

In the implementation of the planning legislation emphasis has been laid on decentralization. A number of central administrative functions have been transferred to the county councils and to the municipal councils. It is also significant that the regional and municipal planning, initiated in 1974/75, to a large extent has been made a public concern so that the plan proposals are presented to the citizens for open debates.

The regional and municipal planning projects are not expected fully implemented until the beginning of the 1980s.

When the actual implementation of this planning legislation takes place a number of temporary legal provisions aiming at planning measures will become obsolete, as and when they are superseded by the steering and co-ordination enacted by and administered under the new legislation.

The new legislation on planning in the form of regional, municipal and local plans does not directly and decisively affect the scope of agricultural development, but it will be rather an advantage to the agricultural sector because of the element of public participation in the detailed elaboration of the plans. This applies, for instance, where local plans are made to cover agricultural areas where road construction is projected. The cultivators in the area concerned will be highly interested in participating in this form of planning right from the beginning. By such participation the authorities will gain an increased insight into the ways in which the plan dispositions will affect the scope for the agricultural operations in the area.

The prospects of agricultural activities are further regulated by a number of other forms of legislation, to be briefly mentioned in the following.

The Nature Conservancy Act, (Naturfredningsloven) provides that agricultural buildings must be kept at a certain distance from beaches, forests, lakes and public watercourses. Furthermore that fur-farming and fish-ponds may be established only an approval by the conservancy authorities. In the same way an owner of an agricultural property had to obtain the consent of the conservancy authorities if he wanted to move his dwelling house to another location; this restriction was in force until 1 February 1977, and a similar provision had now been included in the zonal law.

The nature conservancy authorities work out preservation plans which can tie up the use of agricultural properties.

Conservancy clauses arising out of conservation projects may prescribe rules for the future use of the conserved area. The imposition of conservation on an agricultural property is followed by a compensation for the restrictions imposed.

The Raw Materials Act, (Råstofloven 1972)

permits every farmer to extract stone, gravel, peat and other natural resources for his own use, understood as his and his neighbours' use, but any commercial exploitation of such resources is conditioned by a permit.

Amongst the purposes of this act is to maintain a safe-guard of Denmark's raw materials so that they are exploited on the basis of a comprehensive socio-economic evaluation, including also estimates of the availability of resources.

Permission to exploit resources is given usually for a period of 10 years and includes normally the following conditions:

- (i) that the extraction takes place in accordance with an approved plan containing the main lines to be followed in the operations;
- (ii) that reconstruction and re-establishment take place in the area of extraction after the close of the operations;
- (iii) that an adequate deposit is made as security for such re-establishment.

By such conditions it is ensured that agricultural land which has, for instance, been used for the extraction of gravel is re-established after such use.

This legislation is of recent date. There is no doubt that the exploitation of raw materials on agricultural land, started after the enactment of the law, will take place with complete certainty that the areas will be re-established. Raw materials exploitation, started before 1972, is not subject to the same reestablishment conditions. Land which was exploited for raw materials before the current legislation was introduced is often lying waste. This is the case for areas where lignite was extracted during the second world war and for areas exploited as gravel-pits.

It will, of course, be difficult to assess whether the cultivation value after re-establishment will correspond to the same value before the raw materials

exploitation started. Besides the cultivation value the landscape beauty plays a certain role in connection with the re-establishment.

Assuming that an exploitation permit has been obtained the extraction takes place against no payment of any royalty or other kind of levy to any public authority. However, with effect from 1 August 1978 a small levy has been introduced by exploitation of gravel-pits. This freedom of exploitation does not apply to the extraction of resources from the Danish underground. Raw materials from this source (oil and gas) are national property.

The installation of field irrigation plants requires a permit of extraction in the same way as for the exploitation of raw materials. If the estimated average volume of water used over a 3-year period does not exceed 2.000 cubic metre per year per property the irrigation permit can be issued by the municipal council. If the volume of water is foreseen to exceed 2.000 cubic metre per year the county council has to consider the issue of a permit in case of water extraction from tube wells. Exploitation of surface water, i.e. from watercourses and lakes, for field irrigation requires under all circumstances a permit from the county council.

In Eastern Denmark the water extraction rules may prevent the issue of irrigation applications because of the prerogative given to the supply of drinking water to the Metropolitan area of Copenhagen. In the Western part of the country it is the other way around. The population density is smaller and the downpour bigger. At the same time the soil in the Western part of the country is more sandy and the needs for irrigation are more pressing.

Until the dry summer seasons of 1975 and 1976 the interest taken in water extraction for irrigation purposes in Eastern Denmark was very small, the reason being not only the soil quality but also the fact that the land was cultivated mainly with grain and seed crops and only to a limited extent used for pastures which are primarily fit for irrigation.

A comprehensive milieu legislation to replace the former municipal health by-laws etc. and also intended to complete and codify a number of scattered rules on the prevention of pollution became effective from 1 October 1974.

The milieu legislation provides an arrangement for the approval of industrial and other enterprises, the gist of which is that a large number of enterprises can be established, modified or extended only if their location and lay-out can be approved by the authorities in respect of sewerage outlets, odour- and noise inconveniences etc.

Agriculture is not generally subjected to this occupational approval arrangement, unless the property is run as a pig farm, a poultry farm or a fur farm. In the decision whether a property is to be considered a 'farm' in this sense emphasis is laid mainly on whether the production can be said to take place on an 'industrial' basis.

For ordinary agricultural properties no direct approval of buildings and installations is required but the owner must be ready to bear the economic consequences if complaints of one sort or another are filed. A complaint may result in an order to the owner to modify the plants or - if the worst comes to the worst - he may be ordered to stop the production in question. In such situation no compensation is given.

It may be considered an advantage to be subject to the approval regulations and thereby acquire the protection inherent in an explicit approval of the enterprise. It can be practical for owners of agricultural properties, where a relatively large pig production is developed, to apply for an approval. This is advisable, not least, in the cases where the property is located in or quite near other built-up areas.

The milieu legislation has also introduced rules to the effect that new stables and dunghills must respect certain standards and distance requirements. The distance requirements concern the distance to the dwelling house of the farm, to other dwelling houses, to open wells and tube-wells, to public roads and neighbouring boundaries,

to food-producing enterprises and to watercourses and lakes.

The milieu legislation has since it became effective on 1 October 1974 set up wider requirements in respect of the lay-out and location of farm buildings and especially also in respect of the sewerage arrangements.

The legislation has caused a certain raise in the agricultural production costs by the higher standards set for investment in technical installations.

The measures prescribed by the law must be considered rational as they counteract pollution of streams and other watercourses and as they reduce the danger of fouling the subsoil water. In a number of situations the approval arrangement, which is open also to agriculture, must be considered a beneficial measure.

In 1975 a new building act was passed, replacing the existing building legislation. The previous legislation set the condition only that the dwelling houses on farms should adhere to certain minimum standards. Generally, the new building law introduces technical treatment for the building of dwelling houses, and the farm buildings have now been subjected to a notification duty. This means that a project shall be submitted to the municipality before the construction is started, and the duty to notify the authorities comprises also modification of existing buildings and additions to them. The notification must contain

- (i) a blue-print showing the building plot, the location of the existing buildings and the location of the buildings to be constructed;
- (ii) blue-print with inscribed measures (at least 1:200) showing plan and section of the projected buildings;
- (iii) blue-print of new and existing sewerage outlets and their connection to the buildings.

If no objection is raised by the municipality within four weeks after its receipt of the notification the building construction can be started.

This amendment means that the municipal building authorities are informed about the building activities in respect of farm buildings which was not the case under

the former rules. The farm building projects are, however, not given a technical treatment of the same kind as is applied to the construction projects of industrial and other business buildings in sectors apart from agriculture.

Marginally the notification duty may mean that unfortunate consequences of errors in dimensions are avoided in agricultural building. It has not been seen, however, that errors relating to static standards have raised any appreciable problems in agricultural buildings until now.

A homogeneous municipal treatment of agricultural building cases is, however, practical, also on the background that some municipalities did apply the same technical treatment to cases of farm buildings as they gave to factories, workshops etc. in other sectors, using such practice with recourse to the rules laid down by the former building law.

The main conclusion on the extent of the planning legislation etc., relating to the agricultural sector, is that the agricultural properties in a large measure are subjected to restrictions in respect of land use, raw materials extraction, irrigation, environment questions as well as to regulations on the building of dwelling house and farm buildings.

A number of the arrangements regulating the use of the agricultural properties aims at environmental conservation and improvement.

The farmers may have reason to feel that they are being fenced in by a number of regulations which are too farreaching in their consequences. This feeling may prevail rather intensely during a period where a large number of reforms are instigated - as has been the case during the last 8-10 years.

It must, however, be accepted that the progressing socio-economic development requires a continual

adaptation of arrangements regulating the use of agricultural properties as well as of other properties.

Unfortunate effects of restrictive measures can, of course, always be pointed out.

One of the more predominant complaints made at the present time seems to be concerned with a lack of administrative co-ordination of the rules of law on all the measures proposed during the last decade.

One of the problems is that the authorities themselves appear to have no comprehensive overall view of the situation. This means that the farmer must apply to quite a number of offices to obtain the number of permits necessary to legalize the steps he intends to take.

It is, naturally, to be expected that the authorities should be able to co-ordinate the rules of law in such a manner that the farmer, who is no expert in case treatment and administrative procedures, could become certain that an investment, for instance in a farm building, would be legal if he had got his project accepted in one single place at one single desk - for instance at the municipal office.

Another problem of a more general nature for the agriculture sector is the important question of adequate economization with the cultivable land.

During the years the prevailing tendency has been that the agriculture obligation - an obligation to farm agricultural land in a proper way - in principle resting on all farm land, has been unhesitatingly waived, when such land was requested transferred for other use, first and foremost for purposes of parcelling.

This practice has meant that large areas of agricultural land of good quality have been transferred to non-agricultural use, and it has been felt that all the social interests in the use of land resources have not always been appropriately weighed and evaluated; these interests have not always been considered in any farsighted manner.

The question of the quality of the land ought to play a role in connection with transfers to non-agricultural use. Land of inferior quality should preferably be used for building plots and also for road construction wherever possible.

Data from Danmarks Statistik show that relatively large areas of cultivable land were released for other purposes at the end of the 1960s and at the beginning of the 1970s. During the period 1946-1957 the average yearly reduction of the farm land was about 5400 hectares. During 1975-1977 the yearly reduction was 10.000 hectares. During the years around 1970 the yearly transfer of land to non-agricultural purposes was somewhat more than 10.000 hectares.

As regards the price on land transferred to other use than agriculture it may be assumed that it will be about 300.000 kroner per hectare if the land is ripe for immediate use for housing purposes.

By an amendment of the Agriculture Act in 1973 the first step was taken to tighten up the rules on repeal of the agriculture obligation.

As mentioned it should be endeavoured to use land of inferior quality in preference to better quality land; there was, however, no recent soil classification and such classification was, therefore, started in 1974 and completed in 1979.

In this context should be added that the planning legislation, previously mentioned, provides legal basis for due consideration of agricultural interests in connection with physical planning. There is a clause in the law about municipal planning to the effect that the size and location of areas reserved for agricultural use shall be clearly shown in municipal plans.

The Minister of Agriculture has had an act on agricultural properties passed by Parliament in May 1978; it is said in this act, that its purpose is also 'to safeguard the agricultural use and the lasting cultivation of the agricultural land areas'.

It must be considered very practical that this amendment has been added into the current Agriculture Act so that the Minister of Agriculture gets increased authority to refuse transfer of agricultural land to other purposes where important agricultural considerations support such refusal; the amendment may have the effect that more weight in the final consideration is given to agricultural interests.

A special problem arises out of the fact that purchases by public authorities of agricultural properties in rural zones have not been subject to the general restrictions on the acquisition of such properties.

The municipalities have been able to buy, for instance, agricultural properties in rural zones free of restrictions. Several municipalities have bought large areas of farm land during the last 10-15 years in order to secure, in a farsighted manner, the future town development.

These purchases have raised big problems, also in relation to the purposes of the general State policy on the structure of agriculture.

Furthermore, it has been difficult for the farmers to understand and to accept the free right of the municipalities to buy agricultural property.

The amendments to the Agriculture Act recently passed provide that purchases of agricultural properties in a rural zone by a municipality has been subject to some restrictions.

The strengthening of agricultural interests, the completion of a proper soil classification and also the increased control on the purchases of agricultural properties by municipalities, must be considered very desirable elements in the comprehensive planning concerned with land use and structure development; these elements are parts of an entity of the legislative provisions described in the present chapter.

During the post-war period Danish agriculture has been living through years of very unsteady conditions. As far as structure is concerned the production takes place today in far less units in comparison with the beginning of the 1950s, and, at the same time, the production programme on the individual farms has been considerably simplified. During the same period the use of labour has been immensely reduced, the labourforce today being only one third of the force employed at the beginning of the 1950s. Confluently a thorough mechanization of the agricultural production processes has taken place. As far as field-work is concerned this process was largely finished about the mid-1960s. In animal husbandry it will still be possible to introduce changes aiming at more capital-intensive production processes. Such changes will, typically, occur in connection with or following generation shifts.

Because of its orientation towards the export markets the most significant event for Danish agriculture during the post-war period was no doubt the establishment of the European Economic Community, and especially the introduction of the common agricultural policy from 1962, resulting from the formation of the EEC. The reason why this event must be attributed such central importance is that Danish agriculture has felt the effects of living outside of as well as within this community.

The period until the beginning of the 1970s, where Denmark was not a member of the EEC, was marked by stagnation and even decline in Danish agriculture on account of its exclusion from important markets in Continental Europe. Through the 1960s quite a comprehensive policy of subsidies was adopted in favour of Danish agriculture. The aim of this policy was to keep the agricultural production capacity reasonably intact so that the occupation could stand ready if Denmark would enter into EEC-membership at a later date.

The mobility was of a considerable extent during the 1960s in spite of the adverse economic conditions. Amalgamation of properties took place at great speed. At the same time agriculture released labour in large numbers. In spite of the stagnation in the volume of production and in investments the structural changes in the occupation were quite remarkable.

In many ways the period after the entry into the EEC in 1973 contrasts to the 1960s. An immediate consequence was an immense rise in the investment activities inspired by the improved earning prospects, caused partly by the higher price level of sales products and partly by the highly improved marketing conditions.

The entry into the EEC in 1973 opened up for an expansion in Danish agriculture where a continued existence outside of the EEC would, undoubtedly, have meant a reduction of agricultural activities of no mean measure.

It is, however, pertinent to emphasize that the EEC-entry did not lead to a situation, where problems do not continue facing Danish agriculture. The problems have, to a certain extent, changed in character. Whilst the problem, typically, before the entry into the EEC, was one of survival, the post-entry problem may best be described as a question of the extent to which Danish agriculture will be able to exploit the range offered by the whole spectrum of the EEC agricultural policy as well as by the domestic legislation. It must be taken into account that Danish legislation, to a considerable degree, still provides the framework within which Danish agriculture must unfold its occupational activities, in spite of the EEC-membership; this applies especially to questions relating to ownership conditions and to the use of agricultural land.

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In the preceding chapters a description has been presented and an evaluation has been given on forms of ownership, on institutional frames and on structural conditions in Danish agriculture. Before the most essential problems are finally described, the contents of the

previous chapters are briefly summarized and the partial conclusions are reiterated.

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Danish agriculture is characterized by the predominance of one-family farming. Only about one fourth of the farms employ outside labour. On the background of an average size of farm of about 25 hectares the very essential question can be raised whether such properties offer a satisfactory basis for investments in modern techniques seen from the angle of an economical scale. It is thought, generally, that no problem confronts Danish agriculture in this respect. There is, however, a tendency towards a situation where the size of the area becomes too small on properties when relatively large cowsheds are built to accomodate 60-100 cows in cubicles.

On properties running pig production similar problems are not faced.

The level of interest is of determining importance in connection with a concentration of the production on a steadily decreasing number of farms, because such concentrated operations necessitate large investments. For the Government commission examining the conditions of agriculture in 1975-1977 some calculations were made, showing that the major part of the farmers cannot make the investments in modern stable-buildings profitable at the high level of interest of 16-18 per cent per annum prevalent during the years of 1975-1979. The calculations have also shown that the considerable rise in the prices of agricultural products and the rising building construction costs have, in spite of all concerns, resulted in more satisfactory proceeds, over a few years, than was calculable at any time of the moment of an investment. In the calculations due regard has been paid, of course, to the EEC-modernization scheme. In spite of the lacking momentary profitability it is justified to consider the momentary extent of investments quite satisfactory in the context of a more long-term development.

A number of the investing farmers are relatively new settlers, and they assume extremely heavy burdens of debts when they make their large investments. These farmers are in a situation where they benefit from a very considerable good-will from the traditional agricultural credit agencies when they present their investment projects. Besides the highest possible domestic bond loans the projects must be financed by additional loans from banks and savings banks. In addition to the domestic credit facilities large loans have been taken abroad during recent years through the Danish banking institutions. On such borrowings the farmer himself has to carry the risk of changes in the rates of exchange.

It should be repeated that many farmers, by their investments, have taken on large obligations and that even very small set-backs - or perhaps only a period of stagnation - in the prices of produce and/or in the property prices will have dire economic consequences.

The effects on employment and production of an increased investment activity in agriculture may be found to serve the interests of the community and industry and trades in general, but the individual farmer has to shoulder the economic responsibility on his own and his real interests in an expansion of his production may well deviate from more general desiderata.

Amongst special measures taken to soften the investment climate, in addition to the EEC modernization subvention arrangement, can be mentioned the Government scheme of 1978 for foreign loans with public guarantee against changes in currency rates, under which the interest has been kept unchanged, until now, at a little less than 10 per cent per annum. The funds at disposal under this scheme are, however, still rather limited in proportion to the total agricultural credit needs, but it is difficult to visualize any selective interest policy reaching beyond these schemes, nor do other forms of investment support appear feasible. The EEC-harmonization must aim generally at tapering off such types of schemes, so that the terms of competition between the agricultural sectors in the EEC-countries are made more homogeneous.

The transfer of a farm to the next generation during the owner's lifetime is a very important element in the generation shift in agriculture. As a rule a certain favour is bestowed on the heir taking over the farm. Even if special rules of bequest have existed since 1769 in relation to agricultural properties, general inheritance, bequest and gift rules are applied to family transfers of agricultural properties in Denmark. The general rules allow agreements favouring the heir taking over the farm, but also the consideration of the interests of possible other heirs enters the negotiation of the price of the family farm. To a certain extent the price is also influenced by current rules of taxation. On this background the old, special rules are used only in very rare cases.

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Danish farmers are liable to taxation in accordance with the rules generally valid for other citizens, and agricultural properties are, in principle, under the same obligation to keep accounts as is applied to other economic enterprises.

Besides the legislation on inheritance and the rules on the donation of gifts the current legislation on death duties plays a considerable role in connection with the mobility between the generations as far as the largest agricultural properties are concerned, because the death duties are levied on a progressive scale. For ordinary farms the death duties appear to pose no serious problem.

The capital profit taxation has put a brake on the sales of properties during recent years, in case of family sales as well as in case of open market sales.

In respect of family sales the rules have been amended, effective from 1977, in such a way that family sales can be made without raising any serious problems in the form of a capital profit levy. During the period 1972-1977 the family sales were subjected to rules implying that the seller was taxed as if the property were sold in

the open market at full market price even if the actual price between father and son was notably lower. This meant that a none-realized profit was taxed. Conditions had become untenable.

This problem has, however, been solved, for the time being, but the fact remains, that a capital profit tax is often levied in connection with the sale of properties in the open market. Whether this tax, under the present rules, is likely to become heavier will depend on the development in the property prices during the coming years. A continuation of the considerable rises in prices, as generally manifested during the 1970s, must lead to the assumption that the capital profit tax will be more widely levied.

In order to remove undesirable effects on the sales of properties it will become necessary to amend the Danish legislation in this field, if attempts to continue the restraint on the development in the property prices recorded in 1979 prove unsuccessful.

It is part of the picture that real property of a non-occupational character is, practically, exempt from the capital profit tax.

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Chapter III on tenancy shows that tenancy has only a limited extent in Denmark and that a growth in this form of tenure has enjoyed no political sympathy so far.

The report has illustrated that the tenants' current earnings compare well with those of the owner-occupants, but the tenants get no share in the rises taking place in the values of fixed property. They have, therefore, not the same possibilities of getting an income supplementing the general people's pension paid to all Danish citizens.

The owner-occupants can, mostly, look forward to their pension-age with a feeling of relatively large

security, by virtue of the raises in the value, they have been able to encash on their properties. It must be recalled that, by tradition, only few agricultural properties provide subsistence or separate housing facilities for the retired old people. The typical arrangement is that a farmer buys a house of his own when selling his farm.

The prices of dwelling-houses have also risen much, even if the rise is smaller than in the prices for agricultural properties. Especially for owners selling small farms the situation may well be that they will have difficulties in getting the means to buy a house and at the same time having an income supplementing the ordinary people's pension, if they become, perhaps, also liable to pay even a certain amount of capital profit tax.

It has been reported that the tenants do not make investments to same extent as owner-occupants which may be due to the fact that they are offered no legal protection with regard to compensation for the investments.

No rules exist to fix ceilings for tenancy rents by any public authority.

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The Danish land legislation directly affecting agricultural properties has been subject to frequent amendments during this century. During the first decades on to the period after the second world-war the primary aim of the land legislation was partly to preserve all existing farm properties and further also to establish small holdings farms.

The desire to establish an increased number of agricultural properties was, amongst other reasons, a marked interest in enabling agriculture - as long as the major part of the occupational activities in Denmark was centred around agriculture - to employ a reasonable part of the ever-increasing population.

The new small-holdings of, typically, 10-15 hectares were principally financed under Government loan schemes. The establishment of new farms took place mainly by parcelling larger properties, because practically all arable land had been taken under cultivation at the turn of the century. A small part of the new farms were, however, established on such remaining moorlands as were found fit for tilling.

After the end of the second world war the establishment of small farms with government support was stopped. On the other hand the existing number of properties was maintained until the beginning of the 1960s under rigorous restrictions on the amalgamation of farm units.

Through the 1960s and 1970s the restrictions on amalgamation have repeatedly been modified, partly as a result of the technical and economic development necessitating larger farm-units, as expressed by an average size of farm in 1979 of about 25 hectares as against about 15 hectares at the beginning of the 1960s. The migration away from agriculture has also prompted the modifications of the restrictive rules.

The present situation is that amalgamations within a limit of 75 hectares, after the fusion, are free of restrictions on condition that certain inter-location requirements are met.

The range of persons qualified to acquire agricultural properties has been made narrower during the last decades. On to 1949 any person, company or society could buy an unlimited number of farms at any location in the country. In 1949 a provision was introduced that no single person or party could acquire proprietary rights to more than two agricultural properties. In inheritance situations other rules applied. In 1957 companies and institutions were prohibited from buying agricultural properties unless this restriction was waived in each single case by the Minister of Agriculture. Since 1957 such exemption has been granted only in cases where the purchase was made to establish experiments and scientific research.

In 1973 new restrictions were added to the two-property rule in respect of purchase of farms by individual persons. It was now required that the buyer should take residence on the farm and make agriculture his major occupation. Exceptions from these rules were made in case of family sales.

With effect from 1st January 1979 another restriction has been added to the residential and occupational conditions, namely that the buyers of agricultural properties must be qualified under certain training criteria.

These restrictions may appear very radical. The pressure on the market for agricultural properties has, however, been heavy and severe restrictions of some sort have had to be accepted as necessary, at any rate as long as the demand for agricultural properties is as intense as was the case before the law amendment of 1 January 1979.

In spite of the introduction of these restrictive measures it should be noted that the long-term tendency cannot, really, be interpreted as an attempt to limit the basis of recruitment of future farmers; politically the view has been emphasized that agriculture should be an open occupation. On the other hand the concept has been that only persons seriously intending to run proper agricultural activities ought to have a position of priority as buyers of the agricultural properties offered for sale; this view is based upon the idea that the resources of the country ought to be exploited as effectively as possible.

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On the background of many discussions on the future of the owner-occupancy system - inter alia as a consequence of the enlarged capital requirements - a Government committee was set up in 1978 to consider whether corporate bodies, amongst them co-operative societies, should be permitted to become farm-owners.

The committee had also on its agenda the question whether 'minor groups of inter-related persons' should be allowed to acquire agricultural properties when the persons in question formed a company, a partnership or a society to buy and run the farm.

The Government committee issued its report early in 1979, and it pointed out that co-operative societies in the future ought to be able to get a deed on an agricultural property. The report recommends generally that such right is conferred on forms of societies which can be considered variants of owner-occupancy, whilst it repudiates the view that a partnership or a joint-stock company should be permitted to own an agricultural property.

Even if it has now become possible to register co-operative societies as owners of farms provided the members of such societies meet the general acquisition rules (i.e. the requirements of domicile, agriculture as main occupation and of training and experience), the interest in establishing such societies is expected to prove rather dim.

In this connection it is recalled, that the current Agriculture Act provides that the acquisition of a farm by a society, a company or other corporate bodies must in all cases be approved by the Minister of Agriculture.

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Besides the special land legislation directly pertaining to agricultural properties, a number of acts with planning and regulating purposes has been passed during the last decade, as reported in chapter IV.

This legislation on environments, transfer of agricultural land to alternative uses, development of water resources etc. has a direct bearing on agriculture.

This legislation is considered necessary as a consequence of a progressive socio-economic development. The legislation, including also the acts on nature conservation, does, however, impose easements on agricultural properties which are considered excessively restrictive in a number of cases.

The comprehensive opinion on this legislation is, however, that it affords an opportunity of rationally steering towards a development where due regard is paid to proper economy in dispositions on agricultural land resources, safeguarding also at the same time, aesthetic and recreative interests in the landscape.

It has been characteristic of recent years that one act has been passed hastily after another so that the total picture may be somewhat flickering. Simultaneously, it appears as if the acts up to now have been administered with a certain instability, which perhaps is natural since legislation in these fields is of a new date.

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The prevailing problems of today in Danish agriculture arise primarily out of the general economic development and not out of the institutional framework. The steep rises in prices and wages during the 1970s have thus in and by themselves created a number of problems - not least in connection with the generation shift and - for Danish conditions - thereby with owner-occupancy itself as a form of proprietorship.

Inflation has the effect of distributing incomes and wealth more or less haphazardly and unintentionally between the citizens of a country. Inflation has also a large number of unfortunate effects on the allocation of resources. The prospect of at least full compensation for future raises in the general price level by investing capital in land and real estate led to a growth in the number of potential buyers of agricultural properties, which contributed to a price development for such properties not reflecting the underlying income development in the occupation. The added number of buyers consisted of farmers already established on their properties and 'towns-people' who are often in a better financial position in respect of capital as well as in income than the young people about to settle in farming for the first time. Pulling in the same direction is that anticipations of continued price rises will influence the supply because the owner of an agricultural property - in order to realize as high a sales price as possible - will feel inclined to postpone the sale. Newly settled farmers will, therefore, often find themselves in a situation where they must accept a price out of line with the existing profitability in agriculture. At the present time it is difficult to

evaluate to which extent the restriction of the acquisition rules, effective from 1 January 1979, has changed this situation. The prices of agricultural properties have, admittedly, been stagnating through 1979 but, at the same time, the agricultural economy has markedly deteriorated, which points towards a settlement situation for the new, young farmers which has hardly undergone any change in comparison to the conditions ruling before 1 January 1979. In this connection it must be taken into consideration that the debts and the repayment obligations assumed by the new farmer on his settlement are relatively heavier burdens to shoulder because of the generally rising Danish level of interest. Nor does it make the problem less aggravating that the new, young farmer is compelled to expand his production capacity considerably, in order to be able to realize a large animal husbandry output, in connection with or rapidly following his establishment on the farm. Amongst the motivations for such expansion is the aim of earning the means to cover the fixed costs.

The problem complex sketched above is, of course, more serious for the young farmer who buys his farm in the open market, whilst it is more manageable in the family transfers, where the farm prices on an average are 15-20 per cent lower than those ruling in the open market.

In addition to the 'excess price' - understood as a sum not reflecting the existing economic conditions for the production of the output - the young, new farmers have a special load to bear, because a considerable part of the real payments on the debt incurred by the purchase is payable during the first years of the repayment period of the loans. This is a consequence of the common usage of having to make fixed nominal payments during the whole repayment period of a loan, which is the predominant procedure in the Danish capital market when long-term mortgage loans on fixed property are contracted. The main cause of this practice is that the creditor - as reported in chapter II.6. - wants to obtain an 'inflation safeguard' on the cash proceeds of the loan, which the debtor must consider as an increase of his credit costs.

Excessive prices on agricultural properties combined with an 'asymmetric' repayment profile on the debts incurred, evaluated in relation to the anticipated price- and wages development, rooted basically in the inflationary development during the 1970s, do aggravate the establishment situation of young farmers. The problem of the 'asymmetric' repayment profile on long-term loans is, however, in practice solved by taking certain supplementary loans.

Till now the establishment problems of young farmers appear to have been solved largely by the general rise in prices and incomes, but also by the circumstance that the prices of agricultural properties during the 1970s have risen at a still quicker pace than expected; a contribution towards the solution has also been the favourable effects of the Government subsidy schemes open to new settlers. The rises in the farm prices have in this way created the basis for further borrowings to cover the operational losses to be foreseen in many cases during the period after the settlement or after a sizeable expansion of the production capacity. The abrupt stop - or rather stagnation in farm prices in 1979 - has, however, raised difficulties in the way of further borrowings, because the real estate property did not provide the same extent of mortgage security as was the case formerly. This brought a number of groups of young farmers into liquidity trouble.

As mentioned earlier the inflation has a large number of unintentional and unacceptable socio-economic effects. The endeavours of the economic policy must, therefore, be clearly directed towards lowering the rhythm of the inflation.

It will be imperatively necessary to further the generation shift in agriculture by reducing considerably the immense price rises on agricultural properties of 15-20 per cent per year, characteristic during the 1970s. This is imminent also because only quite modest price adjustments of the common EEC-prices seem likely to be made during the coming years. If the boom in property prices is not stopped very difficult conditions will come to reign in the generation shift and consequently in the owner-occupancy system of Danish agriculture. The capital requirements will

be insurmountable for young farmers, and they will, at a longer sight, mean that other forms of ownership will enter the proprietary structure of Danish agriculture, unless the Government schemes supporting the young farmers are expanded.

There is no doubt that a notable reduction in the general rhythm of the price rises will be the most rational means of modifying the boom in agricultural properties, thereby contributing towards a situation in which only persons with intentions of seriously engaging themselves in farming would come forward as buyers. This would open up for a condition where the price fixation on agricultural properties would again tend to show a saner proportion to the earning conditions in agriculture. The credit costs would also be reduced, whereby the establishment situation of the young people would be easier to tackle.

The taxation problems posed by the capital profit tax would also be easier to cope with, because quite simply the price rises on fixed property characteristic of later years, with the exception of 1979, would not occur. The tax aspects of the sale of an agricultural property would then not have the same predominant effects on the seller's dispositions as is often the case under the current rules.

It can be further concluded that the institutional framework for Danish agriculture has been set up in such a manner that it does not prevent the agriculturists from making such structural adjustments as are necessitated by the technical development and which constitute the precondition of maintaining and improving the external competitive power of the occupation.

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Danish agriculture is characterized by the clear predominance of family farming. Tenancy is of little importance and has enjoyed no political sympathy so far.

Important structural changes have taken place during the post-war period: The number of farms has diminished, the production programs of the individual farms have been considerably simplified, the use of labour been immensely reduced, and an important degree of mechanization has taken place. In particular the improved earning prospects after the entry into the EC led to a rise in investment activities. Prices of land and capital have become of determining importance in this context. Special measures have been taken, in addition to EC assistance, to ease the investment climate.

The land legislation has been subject to frequent amendments during this century. After a long period of favouring small farms the existing restrictions on amalgamation of farmland have repeatedly been relaxed through the last two decades.

At the same time the range of persons qualified to acquire agricultural properties has been restricted in order to limit land speculation and to give a clear priority to buyers seriously intending to farm the purchased land themselves.

It is indeed an important problem for Danish agriculture that high inflation led to an increase in the demand for agricultural properties and increased thereby land prices considerably. In particular, newly settled farmers will, therefore, often suffer from prices for farm land which are out of line with the existing profitability.

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