The persistence of the corporate farms: they survived the transition but do they have future under the CAP

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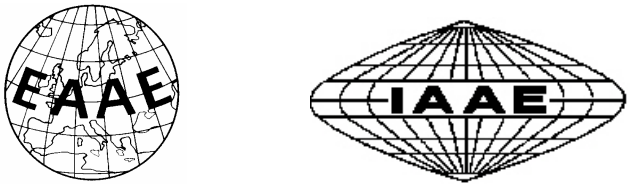

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the lessons learned."

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ABSTRACT

The newly emergent landowners in the 1990s left their land in the corporate farms due to the low level of farm profitability and the high risk in the general economic environment. The accession to the EU and the introduction of the CAP Single Area Payment (SAP) could induce incentives to landowners to withdraw their land if they are not satisfied with the level of rent. The negotiations between the corporate farm managers and the landowners concerning the rent level have been conceptualised as a simple two-player one-shot game. Overall conclusion is that although the SAP might induce more landowners to ask for a rent increase, it is unlikely that they will massively withdraw their land from the corporate farms. However, financially constrained farms might quickly loose their capacity to compete for land in the conditions of an increased land demand.

Keywords: Corporate farms, Land rent, Single farm payment, Slovakia

1 INTRODUCTION

On the basis of theoretical arguments concerning the superior efficiency of family farming, many predicted the disappearance of co-operatives and other large corporate farms, as variations in productivity would lead to a wholesale transfer to individual farming (for a summary of the debate, see Gorton and Davidova, 2004). Empirical evidence on changing farm structures in Central and Eastern European countries (CEECs) indicates that during the period of transition the corporate sector's role in agriculture has shrunk but in many CEECs the sector has survived and proved to be competitive under market conditions. The uncertainty is to what extent the corporate farms would be resilient to the new policy environment after the accession to the EU and the introduction of the CAP decoupled Single Area Payment (SAP). The landowners who left their land within the corporate farms could now cash the SAP themselves, providing they keep their land in good agricultural and environmental conditions (GAEC). They, therefore, have more incentives to withdraw their land from the corporate farms putting the future of those farms, who rent almost 100 percent of their land, at stake. This paper attempts to provide some insights into the future of corporate farming under the CAP payments. The case study country is Slovakia as there the extent of land use by corporate farms is still the highest among NMS. In 2005, the share of corporate farms in the total UAA was 85 per cent (Green Report, 2006). This is high even in comparison with the Czech Republic where the pre-transition structures were similar.

2 WHY DID THE CORPORATE FARMS PERSIST DURING THE TRANSITION?

Several reasons have been identified as responsible for the persistence of corporate farms in Slovakia during the period of transition. They include low profitability and low level of incomes in agriculture, a decline in domestic demand and a loss of export market share, deteriorating internal terms of trade, a lack of input market infrastructure and output marketing channels for individual producers (Blaas, 2002). Other reasons were the protracted identification of land titles (currently still about 500,000 hectares of land lack clear ownership titles), fragmentation of land ownership and the very slow land consolidation process.

Mathijs and Swinnen (1998) elaborated a series of propositions to explain the decisions of individuals to exit from the corporate farms and start an individual venture. They asserted the

assumption that the corporate farms' insiders would be the agents who would undermine the corporate farms and establish a new pattern of family farm structures. According to our observation, more significant actors who established new individual entities were the absentee landowners – the persons who received land in the process of restitution. Among the insiders, only those with skills, e.g. the former co-op managers, tended towards individual farming. The latter corroborates with Swinnen´s suggestion about the importance of skills for reducing the exit costs. Empirical evidence, collected through farm surveys, indicated that other "insiders", co-op farm members, did not possess the proper pre-conditions for starting an individual business (Blaas, 1995). Only less than one-third of the co-op members owned land or were expecting to inhered land. Only a small portion owned a land area sufficient for a full-time farming. The majority of those co-op members, who were landowners (57 percent), had only 5 or less hectares.

Mathijs and Swinnen (1998) suggested that the higher productivity enterprises under the corporate farming conditions would stimulate farm workers to stay within the corporate farms whilst the low productivity will make the exit to individual farming more attractive. In Slovakia, individual farms which emerged through withdrawing land and non-land assets from the collective farms were mainly specialised in crops, whilst livestock production remained within the corporate farms. The drive towards individual farming avoided specialisation in labour and capital intensive sub-sectors.

Institutional, and particularly the legal framework, has been a crucial factor for the outcome of the transformation process. Mathijs and Swinnen (1998) argued that the restitution to former owners will maintain the collective farm structure and the outcome will be in contrast with the effects of the land distribution amongst farm workers. In Slovakia (and also in the Czech Republic) the restitution was the main policy option for reinstating private property rights in land, This differed from, e.g. Hungary, where there was a combination of distribution of land to the co-operative members, compensation for lost property and restitution to the former owners. As a results the role of the corporate sector in Hungary decreased more substantially than in Slovakia or the Czech Republic.

Mathijs and Swinnen (1977) also argued that countries and regions with highly fragmented land record a higher sustainability of corporate farms. Historically, the land ownership in Slovakia was more fragmented than in the Czech lands due to the different inheritance law before WW I. At the beginning of the collectivisation period (1949) 57 percent of all farms in Slovakia ranged between 2 and 5 hectares and 72 percent of the total land area was operated by farms with 20 and less hectares (Blaas, 2002). According to the land register, currently there are more than 1.2 million owners who own more than 7 million plots. To establish a farm business of economically reasonable size requires in most cases enormous transaction costs.

Coming back to the title of our seminar, the theoretical propositions about the outcome of land reform and farm restructuring in Central and Eastern Europe during transition, developed in the 1990s, were able to predict some of the country variations in the mix of farm structures.

3 WHAT CAN CHANGE UNDER CAP SAP?

As indicated in the previous section, several factors influenced the landowners' decision to leave the land within the corporate farms. However, this situation might change as the landowners can now cash the Single Area Payment (SAP) themselves, providing they keep their land in good agricultural and environmental conditions (GAEC). They therefore have more incentives to withdraw their land from the corporate farms putting the future of those farms, who rent almost 100 percent of their land, at stake.

The main conflict that could undermine the long-term existence of corporate farms under the CAP SAP concerns the distributional issues that may arise in relation to the way profit (including the CAP payments) will be distributed between rentals, dividends, wages and investment. As noted by Brem and Kim (2000), a corporate farm can be considered as an economic organisation consisting of different interest groups (the various stakeholders) who bargain on the objectives of this organisation: landowners, capital holders, workers and managers. The separation of ownership and control might induce managers to fulfil objectives that are not the other stakeholders' objectives, such as increasing the farm's size (Jensen and Meckling, 1976; Williamson, 1983).

As the CAP payments are allocated to the farm holdings, their use is at the discretion of the corporate farm managers. The latter have several options, such as using the payments for the current business operations, for investment, for repayment of debts or for increasing the payments to the various stakeholders. Since it is assumed that the managers derive an increasing utility from the farm growth, they might prefer to use the payments for the farming business. Therefore, the CAP payments might exacerbate the conflicts between the managers and the other stakeholders within corporate farms regarding the use of profit. If the landowners are not satisfied with the level of rent they receive from the farm, they have the option to end their rental contract and withdraw their land from the farm. The ease, or otherwise, to do this depends on the tenancy legislation in each country, the time period of the contract, when and how the lease may be terminated, and the requirements for notice of termination.

4 THEORETICAL REPRESENTATION OF THE CONFLICTS BETWEEN THE CORPORATE FARMS AND THEIR LANDOWNERS

4.1 Description of the game

In corporate farms landowners have three options available concerning the returns on their land. The first option is the *status quo*, that is to say to keep the land in the farm for the same rent. The second option is to ask for a rent increase and the third one is to withdraw the land from the corporate farms. Landowners will choose option two if they are not happy with the current level of the rent and option three if the rent renegotiation has been unsuccessful. As the negotiations between corporate farm managers and landowners about the level of rent are at the core of the issue, game theory has been employed as a framework to aid in generating prior expectations. In order to ease the understanding of how the propositions have been generated, a simple game is used (for more details see Latruffe and Davidova, 2007).

The game includes two representative players, the manager and a landowner, and is a non-cooperative static one. The negotiation process is one-shot; the manager (*F*) and the landowner (*L*) meet together once to decide about the level of the rent and make simultaneous offers. It is assumed that only two offers are possible, a low rent, that is the rent usually paid to the landowners, and a high rent, that includes an increase following the renegotiation. Both players have thus two possible actions: offering, respectively asking for, low rent and high rent. If both players choose the same action, they reach an agreement and the landowner rents the land out to the farm for the specific rent level agreed upon. If the rent is low rent, the outcome is thus "no change", while if the rent is high, the outcome is "rent increase". If the farm's manager proposes a high rent while the landowner asks for a low rent, it is straightforward to assume that there is an agreement on renting the land at a high rent and the outcome is "rent increase". Finally, if the farm's manager offers a low rent but the landowner asks for a high rent, there is no agreement and the rental contract is ended; the outcome is "land withdrawal" (Figure 1).

The landowner's choice of action depends on whether they have a better opportunity elsewhere. This is modelled here by introducing two types of landowners. Type 1 (with probability *p*) is a landowner who has a better opportunity for the land outside the corporate farm and who represents a credible threat of withdrawal, while type 2 (probability 1–*p*) does not. There is asymmetric information about the landowners' type. Although managers have information about the plots' characteristics, they are not fully informed about their landowners' values and situation, as most of them are absentees landowners living in cities.

The farm manager prefers to give a low rent than a high rent, but the land withdrawal is costly for the farm as it reduces the area farmed and consequently decreases the revenue and farm profit. Therefore, the farm's payoffs are ranked as follows:

$$\Pi^{F}_{low\,rent} > \Pi^{F}_{high\,rent} > \Pi^{F}_{withdrawal}. \quad (1)$$

Landowners prefer a high rent to a low rent. But if the payoffs of a withdrawal for type 1 (credible threat) are greater than the payoffs of continuing renting land to the farm for low rent (Equation 2), the situation of type 2 (no credible threat) is the opposite (Equation 3):

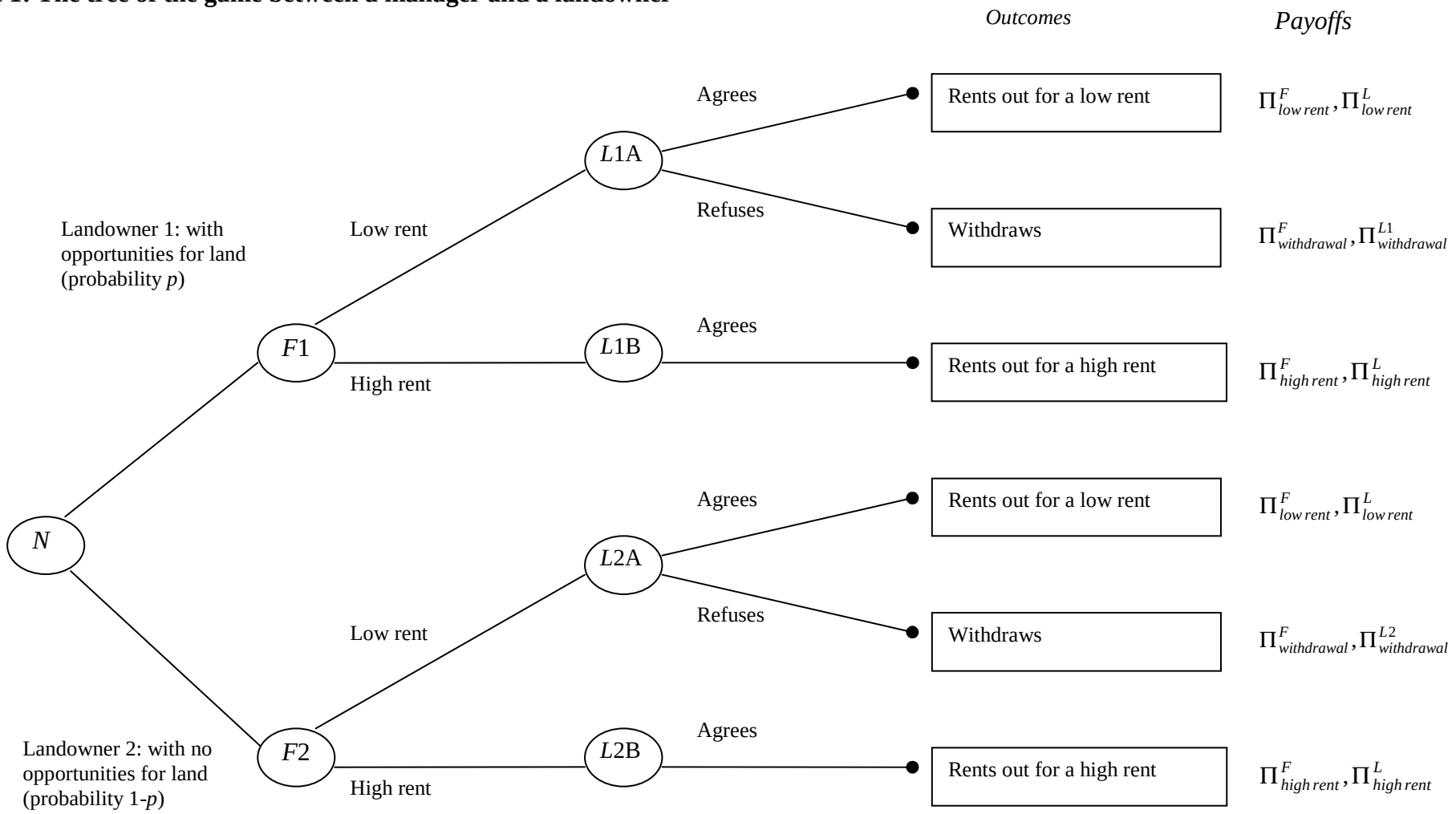
$$\Pi^{L}_{high\,rent} > \Pi^{L1}_{withdrawal} > \Pi^{L}_{low\,rent} \quad (2)$$

$$\Pi^{L}_{high\,rent} > \Pi^{L}_{low\,rent} > \Pi^{L2}_{withdrawal} \quad (3)$$

Players choose to play the strategy that maximises their payoff. The type 1 landowner's strongly dominant strategy is high rent and it will be played by them regardless of what might be played by the opponent (Rasmusen, 1994). Similarly, the type 2 landowner's strongly dominant strategy is to ask for a low rent in order to avoid the termination of the rental contract. There is no dominant strategy for the manager, but a set of two best responses: low rent if the landowner plays low rent, and high rent if the landowner asks for it. If there was no information asymmetry, then the manager would know which action would be taken by the other party. Therefore, in the case of a type 1 (credible threat) landowner, land would be rented for a high rent, while in the case of a type 2 (no credible threat) landowner, land would be rented for a low rent. This means that, in reality, if the manager had information about the landowner's type, the land would stay within the corporate farm. If the manager could not identify the opponent's type, it is assumed that they have some beliefs about the prior probability of the landowner's types, *p* and (1–*p*). Therefore, they will play the strategy that brings the greater of the possible expected payoffs. Hence, all three outcomes are possible but their frequency depends on the value of the probability *p*.

So far, however, the whole game has been based on the assumption that the corporate farm is able to offer the two levels of rent. If the farm is financially constrained and cannot afford a rent increase, in the case of a type 2 landowner (no credible threat) the solution will still be to rent the land for low rent, but in the case of a type 1 (credible threat) the solution will be withdrawal. In summary, the frequency of each of the three outcomes depends on the level of the probability *p* and of the farm financial constraints. The smaller the *p*, the more frequent is the outcome "no change". The more financially constrained the farms are, the more frequent are the outcomes "no change" and "land withdrawal".

Figure 1: The tree of the game between a manager and a landowner



N: Nature. *F*: corporate farm's manager. *L*: landowner.

4.2 Propositions about the effect of the CAP SAP

Proposition 1: Before the implementation of the CAP the outcome "no change" was more frequent than the outcomes "rent increase" and "land withdrawal".

The outcome "no change" prevailed as many farms were financially constrained due to the low profitability or loss-making (by the same token most landowners had no better alternatives to receive higher returns on their land outside the corporate farm).

Proposition 2: After the implementation of the CAP the frequency of the outcome "no change" will decrease.

Proposition 3: After the implementation of the CAP the outcome "withdraw land" will not be more frequent than the other two outcomes "no change and "rent increase".

It is proposed that the frequency of the outcome "no change" might decrease as, following the CAP implementation, p will increase as more landowners might be able to make a credible threat of withdrawal due to an increased demand for land. Also, the SAP delivered without attached requirements to produce might give incentives to landowners to manage their land themselves if the profit from it (taking into consideration the cross-compliance costs) were to exceed the rent they receive in the corporate farms. Hence, it can be expected that more landowners will want to change their situation and renegotiate their rent. However, despite an increase in rent renegotiations, withdrawals are not expected to be massive for two reasons. First, the introduction of the SAP is expected to relax farm financial constraints and thus more farms will be able to offer a high rent. Second, the probability p will not increase dramatically, meaning that the overall number of landowners with credible threat will not rise considerably in the next few years. This will be due in part to the typical small scale land ownership in Slovakia and the relatively low direct payments per hectare due to the phasing-in. If the landowners contemplate to withdraw land for individual management, the SAP might not be enough to offset the costs of cross-compliance (under the assumption that the cross-compliance will be properly enforced and monitored). The other reason is that the landowners, most of whom are absentee, might still prefer to have their land managed by somebody else and often the corporate farm is the obvious choice.

5 SURVEY OF CORPORATE FARMS

5.1 Structure of the questionnaire

The survey of corporate farms in Slovakia was carried out within the frame of the EU FP6 IDEMA project. The questionnaire attempted to account for the specificity of corporate farms with their complex organisation involving several stakeholders. In order to understand which are the stakeholders that would mainly benefit from the SAP, questions were first asked about the current farm decision-making characteristics (number of members/partners, directors and managers, voting procedure). Then the respondents were asked how the farm profit used to be allocated and how they intend to allocate it in the future amongst the alternative needs (working capital, investment/interest, dividends and land rentals). In order to have a better understanding of the structural farm characteristics, the surveyed farms were matched with their FADN entries averaged for 2001/2002.

One section of the farm questionnaire focused on the potential conflicts between the farms' managers and their landowners from the point of view of the farm management. The first questions aimed at collecting information about the characteristics of the landowners (e.g. individuals, state, municipality), the area rented, the rent level and the terms of the contract. Information was collected on whether some of the landowners had asked for a rent increase in

the past, or withdrew some land, and whether the corporate farm management knew whether their landowners had been offered a higher rent outside the corporate farm. Finally, the questionnaire asked about the opinion of the corporate farms' respondents on the potential behaviour of their landowners in the context of the introduction of the CAP payments.

The survey respondents were asked to state their role in the farm (director, manager or other), as this might induce some bias in the answers. Face-to-face interviews were carried out and 152 corporate farms were interviewed in Slovakia, including 101 cooperatives and 51 companies.

5.2. Analysis of the survey responses

Relation with the landowners

Table 1 presents information about the rented land. As the rent level is a key variable in the analysis, it is presented in the table based on two sources – FADN and the farm survey.

The farms have hundreds of private landowners owning on average 68 percent of the total land rented in by the sample farms. On average 24 percent of the land is rented from the State and the remaining 8 percent from the Church and municipalities. The average rent indicated by both FADN records and respondents is consistent, about 14 Euro per ha (the cooperatives pay a lower rent than the companies).

Table 1: Characteristics of the sample farms concerning their rented land

	All farms	Cooperatives	Companies
	152	101	51
FADN 2002 data			
Average UAA (ha)	1,866	1,904	1,791
Average rent per ha (euro)	14.3	12.9	17.0
Data from the survey			
Average share of land rented from:			
Private landowners (%)	68	73	58
State (%)	24	21	32
Other (%)	8	6	10
Average number of private landowners	789	877	612
Size of private landowners' plots:			
Average (ha)	2.8	1.7	5
Smallest (ha)	0.7	0.15	1.7
Largest (ha)	43	27	75
Average rent per ha:			
Private landowners (euro)	16.9	14.7	21.2
State land (euro)	12.9	12.3	14.3
Time period of contract	In general 5 or 10 years		
Notice for contract termination	In general 1 year		

In the past, about one third of the farms have had requests for a rent increase, but by only 8 percent of their landowners (Table 2). Among these farms, 39 percent increased the rent; the remaining refused justifying their refusal by financial constraints. On average 3 percent of the sample farm UAA was withdrawn accounting for about 2 ha per landowner. The large majority of the individuals who withdrew land wanted to start their own farm. The fact that only few landowners asked for a rent increase or withdrew land, as stated by the corporate farms' respondents, supports Proposition 1 concerning the prevalence of the *status quo* in the past. Comparing the legal forms, the main difference is that more companies (63 percent) than cooperatives (25 percent) accepted the requests for a rent increase. This might be explained by the larger returns generated by companies, which made them more flexible.

Table 2: Past pressures on privately rented land (% in brackets)

	All farms 152	Cooperatives 101	Companies 51
Requests for a rent increase			
Farms that had requests for a rent increase	51 (34)	32 (32)	19 (37)
Landowners who requested a rent increase	48 (8)	48 (5)	49(12)
Reason given by landowners for the request	able to get higher rent elsewhere; heard that other landowner had an increase		
Farms that accepted to increase the rent [a]	20 (39)	8 (25)	12 (63)
Financial constraint used by the farms for refusing the request	75	70	87
Land withdrawals			
Farms who experienced withdrawals	89 (59)	62 (61)	27 (53)
Landowners who withdrew	27 (3.5)	27 (3.6)	25 (3.4)
Total UAA withdrawn from the farm; ha (% of UAA)	52 (3)	56 (3.5)	42 (1.9)
Justification of withdrawal by the start of own farm	85	82	93

[a] In brackets: as a percentage of farms having had requests for a rent increase.

Corporate farms' respondents were then asked to give their opinion on the possible future pressures. As presented in Table 3, three quarters of the respondents expect some request for a rent increase, but few of them believe that land withdrawals will take place. This also supports Propositions 2 and 3 that the *status quo* option will be less frequent in future but that withdrawals of land from the corporate farms will not be massive. However, if this is true on average, financially constrained farms may quickly loose their capacity to compete for land in the conditions of increased demand which has started being observed in the NMS after the EU accession. Therefore, a substantial structural change might be expected within the corporate farm sector with a better allocation of land to the more efficient users.

Table 3: Sample farms' expectations about their landowners' future behaviour (%)

	All farms 152	Cooperatives 101	Companies 51
Share of farms that expect SAP to induce more requests for a rent increase	76	75	77
Share of farms that expect SAP to induce more land withdrawals	20	20	20

Farms whose respondents do not think that the SAP will change their landowners' behaviour have already had a larger share of rentals in their cost of production structure (2.6 percent against 1.9 percent for the remaining sample farms). Farms whose respondents believe that the SAP will give incentives to their landowners to withdraw rather than ask for a rent increase are more often located in unfavourable areas, have already experienced more withdrawals in the past and have a larger share of individual landowners in their land portfolio.

However, landowners are only one of the stakeholders in the corporate farms. The overall profit allocation provides a broader picture involving the interests of other stakeholders as well.

Past and intended future farm profit allocation

As shown in Table 4, in the past the profit was used, first, to finance the current expenses, and second, for investment. The increase of rental payments was the least used option by the sample farms. This confirms the above findings that few farms accepted their landowners' requests for a rent increase on the grounds that they could not afford it. This is also consistent with the theoretical argument that when the control and ownership are separated, managers may have an agenda of their own, often different from the one of the factor owners.

The respondents were also asked to rank the same options from the least probable to the most probable in future, taking in consideration the SAP. It appears that there is a strong past dependency; the preferences for the future appear to be similar to the past. The most favoured option is to finance the farm current operations, followed by investment. The increasing of the land rent is still the least preferred option.

Table 4: Past and future use of profit by the sample farms

	All farms	Cooperatives	Companies
	152	101	51
Profit used for: (% of respondents who answered yes to an option)			
Farm current operations	63	64	61
Investment	50	46	59
Dividends	20	18	24
Land rent increase	5	6	2
Other	18	19	18
Profit will be used for: (% of respondents who ranked an option as most probable)			
Farm current operations	71	71	69
Investment	24	26	22
Land rent increase	1	6	0
Other	4	3	6

ANOVA was carried out to disentangle the farm characteristics that may explain the variations in the farms' decisions regarding the distribution of their profit. The results suggest that those farms which in the past did not allocate any profit to investment have a higher share of livestock production in their output mix and they are farms that did not benefit much from the investment subsidies. This tends to suggest that some of the variations were induced by policies which may have stimulated investments in certain types of production. These farms are also smaller measured by the land area and pay a lower rent to their landowners. The only significant difference between the cohorts of farms that used part of their profit to increase the land rent and the farms that did not allocate any profit to rent increases lies in the type of owners (credible threat of land withdrawal) and the managers' information about the type of landowners. Forty three percent of farms that used some profit for rent increases knew that some of their landowners had been offered a higher rent outside the corporate farms (this percentage is 18 amongst the farms that did not increase the rents). Regarding the intended future use of farm profit, farms that are less likely to reinvest profits have received a smaller amount of investment subsidies in the past (7.1 against 25.4 thousand Euro). Farms that intend to allocate some of their profit to rent increases in the future have received in the past more other (i.e. not investment) subsidies per ha, which suggests that they might be less financially constrained.

An interesting policy insight is provided by the study of the relation between the farm intentions for a future use of profit and their beliefs (or otherwise) in the irreversibility of

decoupling. It is proposed that farm intentions concerning their future use of profit depend on whether farm managers/directors believe that the decoupling is a sustainable policy or they expect another policy switch, either towards coupled payments or to a full removal of farm support. First, the farms have been clustered according to the three credibility statements that were included in the questionnaire. The respondents were asked to rate these statements. The possible ratings were from 1 "Not probable at all" to 6 "Very probable". The statements 6.1.1 and 6.1.2 suggest respectively that the policy change towards a decrease in sectoral support and a move to less distortive instruments is credible, while the statement 6.1.3 suggests that the policy is not credible. A two-step cluster analysis based on likelihood was performed on the three credibility statements with the number of clusters restricted to three (Table 5). The Cluster "no payments" includes the farms which consider that the probability of full removal of payments is high (a high rating of the statement 6.1.2). The farms in the other two clusters think that payments are more likely to remain, but as decoupled, Cluster "decoupled payments" (a high rating of the statement 6.1.1), or that policy will revert to coupling, Cluster "coupled payments" (a high rating of the statement 6.1.3).

Table 5: Cluster means according to policy credibility statements

	Cluster "decoupled payments" (88 farms)	Cluster "no payments" (37 farms)	Cluster "coupled payments" (27 farms)
6.1.1. Payments decoupled from production but conditional on other service provision will be maintained.	4.7	2.9	2.3
6.1.2. Farmers will receive no support payments what so ever.	2.0	4.9	1.6
6.1.3. Payments will be recoupled to agricultural production.	2.8	3.9	5.2

The use of these clusters to investigate the differences in intended future profit allocation is presented in Table 6. Farms that do not think the decoupled payments are credible are more likely to use their profit for investment and less likely to use it for current operations. This means that they do not intend to change their behaviour as they think that the decoupled payments and the option to receive payments simply by keeping the land in GAEC are temporary policy instruments. The expectations for payments linked to production create incentives for investing. Concerning the use of profit for a rent increase, the farms that believe in the irreversibility of the 2003 CAP reform and the continuation of decoupled payments are more likely to give priority to land rentals in comparison with the farms expecting the payments to be re-coupled or to disappear all together. This might indicate a perceived danger of landowners' withdrawals under decoupling when they can cash the payment themselves without the need to be engaged in production activities.

Table 6: Intended future use of profit by the sample farms according to their perception about policy credibility

	Cluster "decoupled payments" (88 farms)	Cluster "no payments" (37 farms)	Cluster "coupled payments" (27 farms)
Share of farms giving priority to (%) [a]			
investment	21	22	41
current operations	74	73	59
rent increase	13	3	0

[a] Farms are classified as giving priority to a particular option if they ranked the option as the most probable (rank 1) for investment and current operations, and the most or relatively probable (ranks 1 and 2) for a rent increase.

6 CONCLUSIONS AND IMPLICATIONS

The widespread existence of corporate farms in the NMS has raised doubts about their viability under the CAP direct payments, the so called Single Area Payments (SAP). The preference of the newly emergent landowners in the 1990s to leave their land in the corporate farms was linked to the low level of farm profitability and the high risk in the general economic environment. This was coupled with the fact that many city dwellers received land during the post-communist land reforms but did not have skills and experience in farm production and management. The accession to the EU and the introduction of the CAP support, and in particular the SAP, have improved the market conditions in the NMS and increased farm incomes. The main question analysed in this paper is whether under these circumstances the landowners would still prefer to leave their land in the corporate farms or whether a quick disintegration of these organisations will be witnessed.

There are variations in the corporate farms' attitude toward rent increases. Overall, the corporate farm management rarely puts the land rent increase as a future priority. However, larger farms which are more dependent on numerous landowners give a higher priority to the use of future profits to reward land factor owners than the smaller farms do. Also, farms that trust the policy drive to decoupling and perceive the 2003 CAP reform as irreversible are keen to use the profit for rent increases. They realise that the decoupled payments that do not require production are easier to be captured by the individual landowners, and that they have to share with the factor owners the increase in the value of land due to the capitalisation of support. This indicates a perceived danger of landowners' withdrawals under decoupling. Farms that do not think the decoupled payments are credible are more likely to use their profit for investment. This means that they do not intend to change their behaviour as they think that the decoupled payments and GAEC are temporary policy instruments. The expectations for payments linked to production create incentives for investing.

Overall, the main policy conclusion is that the SAP will induce more landowners to review their situation within the corporate farms and to try to capture the capitalisation of the SAP through higher rents. However, it is unlikely that they will massively withdraw their land from the corporate farms. Therefore, the expected behaviour of landowners does not put the very existence of the corporate farms under question, at least within the short- to mid-term horizon. However, if this is true on average, financially constrained farms may quickly loose their capacity to compete for land in the conditions of an increased land demand which has started being observed in Slovakia and the other NMS after the EU accession. Therefore, a substantial structural change might be expected within the corporate farm sector with a better allocation of land to the more efficient users.

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