

**“Water driven rural development in the Baltic Sea Region”**  
Interreg Baltic Sea Region Programme 2014-2020 project Nr. R094 WATERDRIVE

# **Valuation of agricultural land by the market**

**Finland’s strategic pathway dialogue #3**

**WP5 5.1**

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## Finnish partner organisations & the pathway task force

|         |                                     |                                                                                     |
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| Finland | Natural Resources Institute Finland |                                                                                     |
| Finland | Finnish Environment Institute       |                                                                                     |
| Finland | KVYV Tutkimus Oy                    |                                                                                     |
| Finland | Finnish Field Drainage Association  |                                                                                     |
| Finland | Baltic Sea Action Group             |  |

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Note! This pathway report is a preliminary outlook of the topic and the individual discussions relating to it carried out by the task group. No formal documentation of the discussions has yet been made or agreed. The discussions will continue in autumn 2021.

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### Background

The quality of the agricultural soil and management measures by the farmer contributing to long term soil health and environmental performance of the farm overall are not reflected in agricultural land value in the land purchase or rental market nor in the asset valuations of the farm, land owners or lenders. For instance, in Finland Myyrä & Ovaska (2018) conclude that there is no indication how certain attributes of the farmland affect land parcel purchase prices and further that the natural productivity of the soil is not reflected in the land price. There are also processes outside land purchase and land rent in which agricultural land has to be valued in monetary terms, such as land consolidation in connection with planning processes. On the other hand, different actors close to the market, many providing services for the farmers, are raising this question and seem to believe that the market should recognize differences in soil qualities and management practices for soil, water and the farm landscape. Furthermore, climate and carbon neutrality objectives are prompting increased commercial interest in soil carbon sequestration and there are several public and private initiatives that contribute to the establishment of a carbon market including also nature based carbon sequestration and agriculture. Agricultural fields carry characteristics which are not given by the nature but which are the result of the management practices in the preceding years and decades. This represent labour and intellectual investment by the farmer. It is worth exploring whether the increase in the value of the investment can be exchanged into a currency accepted outside the farm.

### Description of the pathway

The pathway will explore stakeholder positions, opportunities and outstanding questions concerning agricultural land valuation by the private market. In particular, this dialogue pathway aims to strengthen the position of the farmer and land manager in this context as well as promote development of market mechanisms which integrate sustainable and diverse agricultural business and food systems overall with the climate and environment objectives. Thereby, the pathway is, in particular, interested in how extra effort by the farmer/land manager in strengthening soil health, environmental quality, biodiversity or investments in climate change mitigation and adaptation can be rewarded in lower fees or rates or higher cash value of the land property itself in the private market. The core questions of this pathway exclude possible added revenue from increased or higher value yield, as well as savings in input costs (fuel and other energy, fertilizers, pesticides, antibiotics). Such aspects may surface during the dialogue, but they are excluded as study questions as it is part of routine farm management to minimize any costs and such external inputs cannot be constituted as attributes of the land or landscape value. However, what is interesting for the pathway is how different environmental attributes or objectives linked to the land property can be translated in features in the market (property market, financial market, consumer market) and accounted in cash value which partly or wholly would translate to revenue for the farmer/land manager.

### Initial mapping of opportunities and barriers

Based on the definition of the scope of the pathway, opportunities and barriers have been identified through stakeholder consultation and supporting literature. Below is a summary of the main

opportunities to be further explored in the pathway as well as real and potential barriers (subjective and objective) to take into account.

| Identified opportunities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Main barriers to address                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
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| <ul style="list-style-type: none"> <li> <p>• <b>Consumers’ preferences.</b><br/>Many stakeholders seem to believe that consumer preferences and consumer power is what will drive the transformation of food systems and primary production to the sustainable path. On the other hand, there are clear indications that consumer choices are steered strongly by price. If consumers are not willing to pay more for food, then something else must change in the pricing logic of agricultural products and food.</p> </li> <li> <p>• <b>Financial sector interest.</b><br/>There is strong indication that the financial sector, banks, asset management companies, insurance companies and financial control authorities are putting increasing attention on the impact of agriculture on common natural resources and the potential of agriculture to mitigate climate change and preserve biodiversity. Financial control authorities require the banks to introduce better risk management of their assets, of which agricultural land and property is part. Investment banks are developing new types of bonds and other investment products which would rest on sustainable land management.</p> </li> <li> <p>• <b>Food sector business initiatives.</b><br/>Supply chain security and local value added are gaining importance in strategies of food chain companies. This is visible in branding, but measures and programmes to provide bonuses or incentives for the primary producers for</p> </li> </ul> | <ul style="list-style-type: none"> <li> <p>• <b>Agricultural subsidies.</b><br/>At least in Finland, agricultural subsidies represent a major share of the farmer’s income. Thus subsidy conditions and subsidy-eligibility of the farm land are stronger factors in land valuation than any market attributes</p> </li> <li> <p>• <b>Privacy and trade secrecy of individual land parcel attributes.</b><br/>Although they support sustainable soil management and environmental measures, based on initial consultations in Finland, farmers’ interest organisations seem reluctant to any measures which would disclose attributes on individual land parcels or plots to the market thus enabling differentiation between land plots. Individual farmers have more varied views on this and could support more openness about the field attributes or management practises at least between the parties for particular contracts.</p> </li> <li> <p>• <b>Data and information gaps.</b><br/>Financing instruments need to rest on mechanisms and metrics which support following of long term effects and thereby attribution of changes in valuations of the assets. There is a need to pool research data and develop metrics which would enable associated market mechanisms to be put in place. An example of this are the requirements for a robust MRV for soil carbon credits.</p> </li> <li> <p>• <b>Flow and division of revenue.</b><br/>The farmer is often in the most disadvantaged position in the global</p> </li> </ul> |

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| <p>observing certain additional environmental or sustainability conditions are becoming more common. At best, these initiatives would involve other businesses to join, thereby enabling more holistic transition and development in the local communities.</p> <ul style="list-style-type: none"><li>• <b>Carbon market.</b><br/>The EU is developing a market framework for carbon credits for the offset market. Natural carbon sequestration in agricultural soil, landscapes and in forestry and agroforestry systems have a big role in this, not least due to the multiple benefits that could result. This would marketize an element, an environmental service that previously has had little commercial value – the agricultural soil’s capacity to store carbon.</li></ul> | <p>commodity market. Also, creating value added for the market in other terms than in cashable yield is lower priority. On the other hand, market players that could potentially value the investments in the agricultural land and soil operate in regional or global scales where the role of an individual farm is marginal. Furthermore, investors in all cases are looking for return on their investment which leads to competition between those who are responsible for creating the value added. In this competition, scale is an advantage. Hence, it could be difficult to construct business models which are appealing both to the market actors and yet provide reasonable additional compensation for the farmer while also maintaining the freedom and control of the farmer in farm management.</p> |
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## Outcome of the preliminary consultation phase

Two main themes or topics are identified for the follow-up consultation and dialogue phase. Further topics may emerge. These will include sub-topics to be specified depending on which stakeholders take part in the dialogue. In addition, parallel projects will explore further topics, such as the carbon credit market and data and information needs. The final pathway report will summarize the development in these topics as well.

### 1. Topical questions in the financing sector related to agricultural land value.

The pathway will engage representatives of financial institutions and financial control authorities in mapping the topical questions, needs and necessary steps.

### 2. Farmers’ perspectives on agricultural land as an asset.

The pathway will engage farmers, advisors and farmers’ interest organisations in discussion from the farmers’ perspectives in land valuation and preferences and possibilities to turn sustainable land management into extra savings or revenue.

## Further steps in the pathway

The pathway provides a scope and plan for dialogue on agricultural land valuation by the private market. This dialogue is emerging in different contexts and raised by different stakeholders and the pathway will follow the dialogue and develop the themes on this basis. As part of Waterdrive strategic

communication, the partner organisation BSAG will arrange/co-arrange 1-2 open/closed dialogue events during autumn 2021 on the topic. In addition, the topic is introduced to the [Forum for Environmental Information](#) for consideration as a theme in their upcoming dialogues. Concurrently, BSAG will meet with individuals with identified interest in the topic from the agriculture, financial, IT-service and other relevant business sectors, agricultural advisory, authorities and consultancy. Outcome of these discussions and dialogues will be reported in an updated pathway report by the end of the year.

## References

Ovaska, S. & Myyrä, S. (2018): Pellon kauppahintoihin vaikuttavat tekijät, in Puhakainen, T. & Hakojärvi, M. (toim.) *Maataloustieteen Päivät 2018, Esitelmä- ja posteritivistelmät*. Suomen maataloustieteellisen seuran tiedote No 34, s. 162.

## Appendix 1

List of persons/organisations that have inspired or otherwise contributed to this pathway  
(in alphabetical order by the organisation) – NOT FOR DISCLOSURE

Baltic Sea Action Group/Michaela Ramm-Schmidt

Baltic Sea Action Group/Vierelä farm/Eliisa Malin

Central Union of Farmers’ and Forest Owners of Finland (MTK)/Johan Åberg

FIM/S-Bank Group/Jussi Nykänen

Finnish Field Drainage Association/Helena Äijö

KVVY Tutkimus Oy/Mikko Ortamala, Janne Pulkka

Lähi-Tapiola Group/Sami Myyrä

Natural Resources Institute Finland (Luke)/Sami Ovaska

OP Group/Kati Ihamäki

ProAgria Keskusten liitto/Maarit Kari

Soilfood/Vierelä farm/Mika Malin