

CONFIDENTIAL

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

INTERDEPARTMENTAL WORKING PARTY ON ALTERNATIVES USES OF
AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

At her meeting on 19 March, the Prime Minister invited you to prepare a paper for colleagues consolidating proposals on alternative uses for some agricultural land and for the encouragement of alternative employment in the countryside. You established an interdepartmental Working Party of officials from the relevant Departments, under my chairmanship, to assist you in this. The Working Party has now completed its task, and I submit its Report herewith. This note sets out my personal view on the considerations Ministers might wish to have in mind when taking decisions on these matters.

2. The remit stemmed from the need to consider what policies, if any, Ministers might consider necessary to mitigate the effects, not only on agriculture but also on the rural economy as a whole, of a reduction in agricultural activity resulting from the adoption of effective EC policies to reduce surpluses. It was not within the Working Party's remit to consider what EC policies might bring about this reduction nor the timescale of their introduction (although there are some brief comments on these points in Section I of the Report).

3. The Working Party attempted to establish the broad dimensions of the question, in terms of potential changes in land use, farming income and structure, and employment. They will of course depend critically on the decisions of the Council of Ministers, and the notorious difficulty of forecasting developments in Brussels has made the task necessarily somewhat imprecise. The results of our work are set out in Section II.

/ 4. On land

4. On land use, the central estimate is that, over the next decade, some 700,000 hectares less is likely to be needed for cereals and some 500,000 hectares less for dairying. On current trends, 200,000 hectares would be lost from agriculture to other developments, so leaving 1 million hectares of "spare" land. 100,000 to 150,000 hectares could go to an expansion of beef and sheep and in some areas there could be an extensification of agriculture, perhaps extending to a modernised version of 'dog and stick' farming. The immediate impact is likely to be on the marginal cereals and milk areas - eg south west, central and north eastern England, eastern and south west Scotland, parts of Wales. But as people squeezed out of cereals and dairying try to keep up their income by turning to beef and sheep, the knock-on effect on the farmers on the poorer land in remoter areas - the Less Favoured Areas - will feel the impact most unless special arrangements for them are made.

5. Developments in farm incomes and farm structure are particularly sensitive to the nature of policies introduced by Brussels - eg price restraint or quotas; and whether there will be discrimination amongst categories of farmers with some favoured - eg small farmers (and our small farms are not small by EC standards). Overall there could be a trebling of the reduction of numbers of farms - 15,000 on existing trends - to over 40,000. Within this total, the smallest (in UK terms) farms that do not provide employment for even one person may continue much as before, not least since many families on these farms do not rely solely on farming for their income. The largest farms are also likely to continue, though probably shedding labour. The squeeze is likely to be concentrated on those farms which give employment to one to three people - the "family farm". Ministers may wish to consider the social consequences of this.

6. The impact is also likely to be greatest among farmers with high indebtedness, especially (as we have already seen) where their debts have been covered by the value of their land, which is now falling sharply.

7. The effects on employment will be felt both by the agricultural industry and also by the ancillary industries. (The cutback of milk production following the introduction of quotas has already led to a loss of employment among eg milking machinery suppliers and creameries processing milk; and the land drainage contracting industry has slumped with the considerable reduction in the draining of agricultural land.) In agriculture, employment over the next decade is expected to fall by some 50,000 to 100,000, out of a current 615,000. The loss in ancillary industries is harder to estimate, but is likely to be at least half as much of that in agriculture.

Policy Options

8. The Working Party recognised that it was for Ministers to decide whether or not they wished to take any policy initiatives in the light of this situation. They could decide that no new action was called for, arguing that there was no certainty when the corrective action to agriculture would come, what its scale would be, or whether the agricultural cutbacks would be introduced so gradually that normal processes of adjustment would suffice. Ministers could decide that, if and when the cutbacks in agriculture did come, they could "tough it out", arguing that the run down in agriculture was no more than was required of all industries which were too big for the new circumstances, and that, in accordance with their free market principles, it was not the Government's role to interfere to channel the resources released from agriculture in any particular direction. They could point to signs that the growth points for employment seemed to be moving away from the larger towns to smaller towns and possibly to rural areas, and that modern technology allowed many information-based industries to be untied from a particular geographical base. This argument could be valid for southern and eastern England, but less so for the more remote rural areas. It is those areas at the end of the line which always suffer most in a squeeze; and the effects of the squeeze on agriculture would be felt most severely in northern and western

England, much of Scotland and Wales, and almost all rural Northern Ireland - amounting in some areas to dereliction - unless countervailing action is taken.

9. However, the Working Party has set out a number of options (in Section III of the Report, and Annexes B to E), if Ministers do decide that they want to take action. The prospect for novel crops and livestock enterprises are examined in Annex B. Some of these could have a considerable longer-term potential, but within the next decade they are unlikely to occupy more than 200 to 300 thousand hectares. There is no need for major Government involvement in this field - certainly it would not be appropriate for us to propose new EC price support regimes - but we should arrange to assess on a continuing basis the opportunities for novel enterprises, including testing them at the experimental centres.

10. The main potentially significant alternative use of agricultural land is in afforestation and the encouragement of farm woodlands. With a change of emphasis to permit the planting of trees on somewhat better land (grade 4 and the lower part of grade 3), it is estimated that the rate of planting could be doubled, and amount to 400,000 hectares over the decade. Annex C summarises the Working Party's consideration of this. Some financial incentive will undoubtedly be necessary, and careful cost-benefit studies will have to be made. The preliminary studies done for the Working Party are hopeful. The Departments directly concerned are pressing on with these studies, so that any scheme agreed by Ministers can be on as sound a factual base as possible.

11. The expansion of afforestation will also have to be consistent with the Government's environmental objectives. Sensitive landscaping, probably with a mixing of broad-leaf trees and conifers, and planting somewhat lower down the hill, could prove more acceptable to the environmental interests than some current afforestation high on the moors.

12. Woodlands on farms could also be encouraged, accounting for 80,000 hectares over the decade. A number of problems need to be resolved - not least, the need to maintain income during the time that the tree crop is growing, and possible legal difficulties - but this form of on-farm diversification could have a direct effect on marginal land currently producing surpluses. More immediately, the rehabilitation of woodlands currently on farms, often now very neglected, could help to sustain rural incomes and employment.
13. Land can also be used for conservation and recreation (Annex D). On conservation there is already a variety of arrangements whereby agricultural production is held below full potential, for the benefit of conservation. In the new circumstances, these arrangements could be extended. Similarly, in parts of the country there is unfulfilled demand for land for recreation - eg golf courses, land for horses and ponies, and a range of other activities. Between them, these recreational uses could occupy a significant area. Almost all of them are inherently profitable, and except in special circumstances they should not need to be supported by public expenditure, although some relaxation in planning arrangements might be needed.
14. These alternative uses of land can also contribute to rural employment. The last area which the Working Party examined concentrated on the employment issue, and considered diversification both on and off farm (Annex E). On-farm diversification can involve both adding value to the farm produce and moving into ancillary activities, such as recreation and tourism. Diversification off-farm can cover a wide range of enterprises. The Government already has a number of policies in these areas, which are described in the Report. We should aim to build on these, removing the "farm-gate barrier", and ensuring that the activities of the agencies concerned are well co-ordinated and given a new emphasis.
15. In addition to the references already made to modifications in the planning arrangements to facilitate recreational development,

the Working Group also considered whether more fundamental changes were needed in land use planning policy in relation to agricultural land. The requirements of agriculture are currently given considerable weight, dating from the time when the emphasis was on agricultural expansion. The relative weights to be given to the various considerations need adjusting. Some of the Working Party advocated a more radical approach, arguing that there was no need to have any policy for the protection of agricultural land, and that the amenity interests (eg Green Belt) could be safeguarded in other ways. Other members of the Working Party - with whom I personally agree - felt that complete abolition of protection for agricultural land would give rise to considerable opposition, as much from the environmental interests as from the agricultural interests; that there was still need for a policy, but that it needed to be revised to give less emphasis to agriculture and more to the deregulatory and job-creating possibilities. This issue is further examined in Annex F.

General Considerations

16. In addition to these comments on the content of the Report, I would like to draw attention to a number of more general considerations. I have already referred to the problems of making precise estimates of the scale of the problems following reductions in surpluses. Similar uncertainties relate to the extent and nature of possible EC policies to mitigate the impact on the rural economy in cutting agricultural support. The existing Structures Regulation has provisions for improving farm structure and sustaining the rural economy. The Commission's latest socio-structural proposals are intended as a further step in this direction, but they are half-baked and fairly spineless. This is important since some actions would only make sense as part of an EC-wide policy - eg "set aside" (on which you have already made proposals to your European colleagues). At the other extreme, some actions - eg on planning policy relating to the use of agricultural land - are entirely for national decision. In between it would be a judgement, in the light of what might be negotiable in Brussels, whether the

cost/benefit is likely to be more favourable to us by national or EC action.

17. Finance will be another major consideration. A number of recommendations in the report have no - or virtually no - public expenditure implications. But a number of them do. In some cases there should be offsetting savings from a reduction in surpluses. But the matching up of such savings in our contribution to the EC budget with any increase in expenditure to encourage alternative policies will not be easy. Certainly any new schemes will have to be designed to be cost-effective and to have clear objectives against which they can be monitored and evaluated. The Treasury have made their position on this, and their view that no case had been made out for increased public expenditure, very clear in the Report. The Working Party were agreed that in any case additional public expenditure can only be decided by Ministers as part of their PES review.

Conclusion

18. This consideration of alternative uses for some agricultural land and alternative sources of rural employment springs from the pressing need to cut back agricultural activity; but the issue should not be approached in negative terms. In my view, the alternative ideas which have been examined are laudable in themselves, and if adopted should be presented positively. The Government already has a number of policies designed to sustain the rural estate and economy, but gets little credit for them. I fear that there is a general impression that the Government is reacting to events, rather than being in control of them, in rural matters - and this has led to calls from its own sympathisers to set out its policy in relation to the countryside. To a degree this is unfair. It ignores what the Government is already doing, and also the fact that agricultural policy is governed to an overwhelming extent by what is negotiable in Brussels. Nevertheless, in my view the Government should now seize the initiative. It should turn the

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potentially negative message of cutbacks in agriculture into a positive policy by a coherent series of measures, building on those already in place, and carefully presented, to sustain the economic and social viability of rural areas in a way that is consistent with environmental objectives.

EJG

E J G SMITH
3 September 1986

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ALTERNATIVE USES OF AGRICULTURAL LAND
AND SOURCES OF RURAL EMPLOYMENT

A Report by an Interdepartmental Working Party

September 1986

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ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF
RURAL EMPLOYMENT

SECTION 1

INTRODUCTION

Background

1. At a meeting of Ministers on 19 March 1986 to discuss a longer term strategy for reforming the operation of the Common Agricultural Policy (CAP), the Prime Minister inter alia concluded that "it was also now necessary to look at alternative uses of some agricultural land, in particular possible ideas on "set-aside" and the encouragement of alternative employment in the countryside". She invited the Minister of Agriculture, Fisheries and Food to consolidate proposals on these points into a paper for colleagues. To assist him in this, the Minister established an Interdepartmental Working Party comprised of officials from HM Treasury, the Prime Minister's Policy Unit, the Scottish, Welsh and Northern Ireland Offices, the Departments of Environment, Trade and Industry, and Employment, and the Forestry Commission, under Ministry of Agriculture Chairmanship.

Terms of Reference

2. Based on the remit from the Prime Minister, the terms of reference of the Working Party were as follows:

"As part of our strategy for the Common Agricultural Policy, to consider possible alternative uses of

some agricultural land, and possible measures to encourage alternative employment in the countryside, and to make recommendations accordingly to Ministers."

The Problem and Mechanisms for Change

3. The European Community is faced with the prospect of mounting surpluses of most main agricultural products. New techniques (improved seed varieties, better livestock breeds, pesticides, etc) already in the pipeline will steadily raise agriculture's production capacity, enabling more output to be achieved at lower unit cost in real terms. For instance, the Commission envisages, without corrective action, intervention stocks of cereals in 1991 of 80 million tonnes (costing some £9 billion at 1986 prices to purchase) compared with 15 million tonnes at present. On current trends Community surpluses will continue to grow to the mid 1990's. In the case of milk, the annual surplus is some 13% of production in spite of quotas, whilst beef stocks are presently equal to 12% of annual consumption. The prospect that expenditure will exceed the Financial Guideline for the Community budget, together with the waste of resources inevitable from such over-production, highlights the urgent need for corrective measures. The fundamental problem for the Community is how to achieve, in the short term, a significant reduction in the production capacity of Community agriculture, and thereafter to ensure that production is matched to market needs.

4. There are a number of ways in which the Community could achieve this aim. The Government considers that the reduction of producer prices should be the foundation of whatever package of measures is finally decided. Prices may be reduced by lowering common prices, by weakening intervention and, although less

desirable, via introduction of co-responsibility levies. Price policy could be supplemented by, for example, voluntary set aside; but the ultimate objective would be to reduce the incentive to over-produce, squeeze out less efficient production in the Community, reduce prices to consumers, bring Community prices closer to those on world markets and generally reduce the costs of support.

5. Price reduction has until recently attracted little support from our Community partners, although the Commission now favours it. Quotas were introduced for milk in 1984 and it seems inevitable that they will not only continue, but also be progressively tightened. For cereals, the potential scale of the problem and the dilatoriness of the Community in tackling it means that a quota-type solution is frequently canvassed. That approach could certainly reduce production, but the gains for consumers and economic efficiency would then be forfeited.

6. The price and quota approaches, different though they are in their economic effects, would both be aimed at bringing down production of surplus products. Various combinations of the two can be envisaged, possibly including social payments, incentives to idle land and discriminatory devices favouring small producers. It was not within the remit of this Working Party to form a view on which of these combinations were desirable.

7. In the UK we face two problems. The first, common to the rest of the Community, is the need to reduce over-production (but in a manner that does not penalise our own efficient industry while sheltering the less efficient systems of some partners). The second is to ensure that the overall economy of our rural areas is sustained during this period of change, and the quality of our landscape protected.

8. The curbing of agricultural production after some 40 years of almost unfettered expansion, could have a profound impact on the farming industry, on ancillary industries and on the amenities of the countryside. Resolution of the Community problem would thus be likely to bring with it many other problems and needs, particularly for positive measures to sustain the rural economy. It is clear that any steps in this direction will lead to an increase in the demands already being widely expressed within EC Member States, including the UK, for measures to alleviate the pressures on farm incomes and rural employment. Tough decisions in the Council of Ministers on production restraint may therefore only be politically acceptable if linked to the development of policies designed to sustain the rural economy.

9. Whilst Community over-production of beef requires correction, and the beef support regime is under review, the two most urgent commodity problems concern cereals and milk. For the UK, these two products together account for 40% of the total output of the industry and occupy almost half the agricultural area (excluding rough grazing land). Significant contraction of their production would affect the level and pattern of farm income, rural employment and land utilisation. The pace and degree of these effects would depend on the precise Community policies adopted, and the difficulties involved in negotiating effective CAP reform should not be underestimated. The Working Party began by assessing the area that might be released from these two enterprises. This assessment is based on central assumptions, intended to provide an 'average' picture of possible changes, not on extreme assumptions. For example, it did not consider total elimination of all production in excess of Community consumption. Whilst UK agriculture, comprised as it is of 1/4 million small businesses, is

a resilient industry, there are likely to be limited long-term prospects for other traditional crop and livestock enterprises to occupy the released land, and over the next decade the prospects for novel crop and livestock enterprises are likely to be limited. The industry would thus need to make significant adjustments affecting the intensity of farming, the number of farms, land values, agricultural employment and employment in ancillary industries.

10. The Working Party's assessment is of possible changes over the next ten years. The precise rate and nature of such changes will depend critically on the extent to which the Community is prepared to get to grips with the problem of surplus production. The changes could come quickly and at short notice (as did milk quotas); or their introduction could be protracted (leading eventually to a series of crisis decisions). Decisions on policies to mitigate the effects of change will have to be taken in the light of this uncertainty.

Policy Options

11. It is a matter for political decision as to what extent the Government should itself intervene further to hasten or cushion the effects of the desirable structural adjustment. The Government already has a number of policies in this field, eg to sustain agriculture and population in the less-favoured areas, to encourage forestry, to maintain and enhance the wildlife and landscape value of rural areas, and to encourage small industries in particular rural areas; and the issue in many cases is the extent to which these policies need to be developed. If Ministers decide that further intervention is prima facie desirable, in the face of reductions in commodity support, clear criteria for assessing the justification for individual schemes will be needed.

Annex G summarises the rationale recently agreed for other industry in the context of the industrial support review. In the case of agriculture, account will have to be taken of the fact that the industry does not operate within a free market, and that some of the benefits of its structural adjustment are of an environmental kind, rather than quantifiable in financial terms.

12. The Working Party has considered possibilities for encouraging non-farming activities and alternative uses of the land, whether for recreation, conservation or forestry. In the time available it has not proved possible to conduct cost/benefit analyses of the various policy options - although some work has been done in respect of forestry - nor to assess the nature and cost of any incentives that might be required. If Ministers wish the recommendations in this Report to be pursued, more rigorous appraisals will have to be made.

13. The options set out in this Report are those which appear to the Working Party to have prima facie merit if Ministers wish to take action in this area. Some have no significant implications for public expenditure, but a number do. In that regard, the Working Party took note that, in the Ministerial correspondence leading up to its establishment, the Chief Secretary expressed the view that any proposed expenditure should come from reallocation within existing Public Expenditure Survey (PES) provision. The Treasury representative on the Working Party made plain the Treasury's view that all references in this Report to additional public expenditure should be construed as reallocations within existing PES provisions. The Working Party as a whole recognised that the question of additional provision could only be decided by Ministers in the context of the PES.

14. Finally, while some of the actions considered by the Working Group are entirely for decision by the UK (eg changes in land use planning), others would only make full economic sense if adopted at EC level (eg set aside). The dividing line between the two types of case is essentially a political one.

SECTION II

POSSIBLE SCALE OF ADJUSTMENT ON UK AGRICULTURE

General

15. The scale of adjustments confronting UK agriculture will depend on the strength, timing and nature of mechanisms chosen at the Community level to reduce production capacity. The assessment outlined here (details in Annex A) rests on a set of assumptions about production, crop and livestock yields and thus on the surpluses that may be generated and require correction. Central assumptions have been chosen, but indications are provided of the sensitivity of the results if some of the crucial assumptions are varied. The first part of the analysis provides orders of magnitude of the areas of land that could face a change of use, no account being taken at this stage of novel crops, nor of a possible acceleration of the pace of afforestation. (These matters are considered in Section III).

16. The basic analysis rests on the assumption that the necessary production adjustments for cereals would be secured by price policy, bolstered by arrangements such as voluntary set aside. This is the preferred approach, but the alternative possibility of quotas has also been examined. The area of land displaced from cereals by the mid 1990s has been assumed to be the same, whether brought about by price or quota action. However, the distribution of that area around the UK - and the EC generally - could differ significantly. In the case of milk, the existing quota system is assumed to continue, but with progressively lower quotas in the coming years.

Possible Future Land-use Patterns

17. The results of the land-use assessment up to the mid 1990s are summarised in Table 1 of Annex A. For the UK as a whole the tillage area could decline by some 700,000 hectares (ha), or 13%, compared with 1985. This is almost entirely due to a reduction in the cereals area. (Reductions in the area of sugarbeet, potatoes, and horticulture, are assumed to be broadly balanced by continued expansion of oilseed rape.) If recent trends in cereal yield growth were to accelerate (due perhaps to the introduction of hybrid varieties) the transfer of land out of cereals could be up to one million ha. On the other hand, slower growth in yields, arising from reductions in the use of inputs, could mean under half a million ha being displaced. In the absence of alternative uses, this tillage land is assumed to revert to grass. With a continuing loss of agricultural land, to forestry and to other non-agricultural use, the grass area could increase by nearly $\frac{1}{2}$ a million ha (range $\frac{1}{4}$ to $\frac{3}{4}$ of a million ha).

18. Despite the operation of quotas, Community milk production exceeds consumption by a considerable margin. Quotas are to be cut by 3% over the next two years. If a further 3% cut is assumed thereafter and milk yields grow at $1\frac{1}{2}$ % a year, the UK dairy herd would have to be reduced significantly. At present stocking rates the grass area required for dairying would fall by about $\frac{1}{2}$ million ha. This area, added to the $\frac{1}{2}$ million ha released from tillage, means that about one million ha would need to find some other use.

19. At present stocking rates, one million ha would provide capacity for a massive increase in grazing livestock. Since dairy herd numbers could not

increase (and so, for the short run, there would be less beef from the dairy herd), there would be land available to allow beef and sheep numbers to expand by between 25 and 30 per cent. Such an expansion, which could well be mirrored in other Member States, could not in the longer run be accommodated by Community and export markets. Expansion of beef and sheep would thus have to be curbed; indeed the Commission has already tabled proposals to reduce the cost of supporting beef. Some arable and dairy farmers would, almost certainly, turn to these enterprises; but the inevitable curbing of the increased Community output would lead to many existing beef and sheep producers (mainly in the Less Favoured Areas (LFA's)) being squeezed out, as well as potential new ones being discouraged. It seems unlikely there could be room for more than, say, 100,000 to 150,000 new hectares being occupied by beef and sheep enterprises.

20. An alternative possibility would be to farm the land more extensively, using lower inputs and with lower stocking rates. Some farmers will attempt to compensate for a squeeze by extending the scale of their operations in this way. But this option for maintaining income will not normally be available to the smaller family farms, particularly those in the remoter and less-favoured areas which tend to suffer most when the whole industry is squeezed.

21. These analyses look to the mid 1990s. But technological progress and developments already in train will increase further agriculture's production potential to the end of the century and probably beyond. The adjustments outlined for the next decade are thus likely to continue throughout the 1990s.

Regional Land-use Implications

22. In England, which could in absolute terms account

for the bulk of the immediate adjustment (although the largest reduction in tillage area in percentage terms (17%) would occur in Scotland), tillage land in eastern, southern and central parts would need other uses. Most of the novel crops would probably expand in south-eastern parts. In central and north-eastern areas, tillage land could revert to grassland initially. In the West, former dairying land would add to the supply of grassland. The LFAs would probably be little affected initially, but before long could be considerably affected if more livestock in the lowlands captured their markets. In Scotland, the more marginal cereal and milk producing areas in the east and south west respectively would probably revert to beef and sheep initially. The LFAs, which occupy $\frac{4}{5}$ of both Scotland and Wales and $\frac{3}{4}$ of Northern Ireland could, like those in England, be affected later. In Wales and Northern Ireland the main immediate impact would be the increased availability of grassland no longer required for dairying. The initial effects will be most felt in areas dependent on dairying, particularly where the structure is poor - notably Dyfed. The social consequences in these areas could be very painful, as they might also be in the LFAs if levels of support outside the LFAs fell significantly in real terms.

Agricultural Incomes

23. Sustained pressure on prices or reductions of output by quota (unless compensated by substantial and unwarranted price increases) would depress farming incomes. Those on good arable land would strive to sustain cash flow by saving on labour, machinery and buildings. Some might establish or expand livestock enterprises to use the land and consume cereals. The greatest difficulties are likely to face mixed and mainly cropping farms on poorer arable soils and producers with sizeable debts. In the LFAs, which

account for half the UK agricultural area, farmers already receive considerable special assistance to compensate for present handicap. They specialise in sheep and cattle but these could be put under pressure by livestock expansion in the arable and dairying areas. Many hill farmers could therefore be affected later, and without additional assistance would not be immune from measures to correct the over-capacity of Community agriculture. These are the areas where there is little or no scope for alternative agricultural enterprises, and in some of them agriculture is particularly dominant in the economy of the area as a whole.

24. A quota solution to the cereals problem, would spread the adjustment evenly amongst cereals farmers (although a Community scheme might exempt smaller producers, which would be highly discriminatory against the UK). There would be pressure in the Community to raise cereals prices in order to sustain incomes. The quota solution could therefore lead to less pressure on incomes but at a cost, borne by taxpayers and consumers. Much land, however, would still remain to find a use and this area would grow over the years.

Land Prices and Structures

25. Agricultural land prices appear to have fallen by at least one-quarter since mid - 1984. Intensified income pressures and increased turnover of land would inevitably mean even lower prices in the future, affecting the financial structure of the industry. In 1985 some 13% of owner-occupied farms had liabilities exceeding assets, excluding land - double the proportion in 1980. Income pressure would make it impossible for many to service their debts. Only about 1½ to 2% of land has been sold each year; more land for sale will find buyers only at much lower

prices, in turn throwing more farm balance sheets in jeopardy.

26. More rapid turnover of farms is likely to speed up structural change. Even if recent trends continue, the total number of holdings would be expected to decline by 15,000 in the next decade. One to three-man farms would be most affected (see Table 2). Larger farms (4 men and over) would increase their share of a reduced total production to perhaps 60%. If financial pressures resulted in trebling of the pace of change - not implausible - the decline in holdings could be over 40,000. A possible pattern is shown below. The rapid loss of medium sized farms - generally regarded as "family farms" - would be particularly pronounced. The social implications of such a development would require consideration.

Table 1

UK - Number of holdings by size of holding ('000s)

	1975	1985	Mid 1990s	
				Project past trends
				If pace of change trebles
Under 250 smds*	126	127	128	123
250-500	56	42	31	16
500-1000	46	41	35	26
over 1000 smds	28	30	31	32
Total	257	240	225	197
Av. Area holding over 250 smds (ha)	111	124	139	174

* smds - standard man-days - a 250 smd farm would have crops and stocks sufficient to occupy one man.

Employment

27. There are now 615,000 engaged in agriculture. 290,000 are farmers, between 1/4 and 1/3 of whom have other occupations. Of the 325,000 workers, 160,000 are part-time or casual workers. The ancillary industries have been estimated to employ about the same number as are engaged directly in farming. Together agriculture and ancillary industries account for about 5% of civilian employment in the nation as a whole. But in rural areas agriculture is of course much more important and in some rural counties accounts for around 30% of civilian employment.

28. Over the next decade, continuation of recent trends would suggest the total number engaged in agriculture would decline by some 50,000 - a slower outflow than in the 1970s (although possibilities of alternative employment were much brighter then). With the land use and structural changes discussed above, this could more than double to around 100,000. The shedding of these jobs would be widely spread - even those arable farms continuing in cereals would need to cut costs of which the shedding of labour would be one. The greatest structural changes are likely to be seen in the reduction of 1-3 men farms in central and south-west England, parts of Wales, the intermediate areas of Scotland and throughout Northern Ireland. In addition a large number of jobs would be shed from the ancillary industries - as the introduction of milk quotas showed dramatically. Further reduction in output, reduced purchases of inputs and investment by farmers would have a significant and continuing impact on supplying and merchandising businesses - many are already having to contract their operations.

SECTION III

ALTERNATIVE POLICIES

General

29. The degree of adjustment in agriculture required to absorb the effects brought about by a reduction in surpluses could be substantial over the next decade. This Section considers alternative ways of using land and providing employment in rural areas.

30. The possibilities for alternative use of land and for sustaining the rural economy are considered under four main headings:

- i. Alternative agricultural uses of land (including set-aside and alternative crop and livestock enterprises);
- ii. Use for forestry and farm woodlands;
- iii. Use for conservation and recreation;
- iv. Diversification into secondary processing of agricultural products and into the development of non-agricultural enterprises, both on-farm and off-farm, to sustain and develop the rural economy;

In order to facilitate these possibilities with as few constraints as possible, policy changes are also considered under the further heading:

- v. Changes in the current policy for the protection of agricultural land.

31. This Section sets out the analysis which has been possible in the time available. Further detailed work and costing would be needed before any of the options could be implemented. Ministers will also need to consider whether in principle further Government intervention is justified and if so what the criteria should be. Individual schemes would have to take account of regional variations, and some options may not be possible in many regions. The main conclusions reached are summarised below, with additional detail in Annexes B to F.

Alternative Uses of Land for Agricultural

a. Set-aside

32. Against the background that around one-tenth of the present cereals area in the EC as a whole may be producing surpluses, the Government has presented in Brussels a scheme for encouraging the voluntary setting-aside of a portion of that land. This is designed as an adjunct to the policy of controlling cereal production by price restraint, through speeding up the diversion of parcels of land from cereal growing by assisting marginal growers to achieve a reasonable income from other uses of some of their land. It has mainly been focussed on a five-year time-scale.

33. Since this scheme has been the subject of consideration elsewhere in the Whitehall machinery, it is not discussed further here. Instead, attention is focussed on the options on a more permanent basis for alternative use of land.

b. Alternative crop and livestock enterprises

(Further details in Annex B)

34. There is some scope for the development of novel crops or livestock production. This subject has recently been studied by the Centre for Agricultural Strategy at Reading University. The study suggests that by 1990 around 100,000 ha could be taken up by new crops and 2 million ha for novel livestock over a longer period. While the first figure seems a reasonable one, the second is far too large, although there is considerable potential over the longer term. In both cases much would depend on the availability and size of likely markets, the economics of production (no EC subsidies would be likely or desirable), and the adaptability of crops and livestock to UK conditions.

35. While there is clearly considerable longer term potential, novel crops and livestock are unlikely to account in the next 5-10 years for more than 200,000 to 300,000 ha although they could provide a useful source of farm income and employment. The Government should therefore set up arrangements to assess on a continuing basis the technical, economic and marketing possibilities, including the testing of novel crop and livestock possibilities on Government-funded experimental farms.

Alternative Use of Land for Forestry and Farm
Woodlands (Further details in Annex C)

36. The potential for additional afforestation appears somewhat more promising and offers the most significant productive alternative land use so far identified. There is a large and increasing UK market for timber products which is currently 90% supplied by imports. (The EC as a whole is about 50% self sufficient in timber.) The total area of productive forestry in the UK is a little over 2m hectares, or 10% of the land area. This is expanding at the rate

of about 23,000 ha per annum, mostly in the private sector. This is three-quarters of the future growth envisaged by the Government when last it reviewed forestry policy in 1980.

37. There is scope both for expanding traditional forestry and for encouraging the development and rehabilitation of farm woodlands. The traditional industry could technically quickly double its rate of planting if the policy of steering planting to the poorest land of little agricultural value was relaxed, although the private sector is unlikely to plant better land at current prices without additional financial incentives. A move to plant trees on somewhat better land would have more impact on agricultural surpluses. But not all the land most suitable for a major expansion of forestry would necessarily be that most immediately affected by cuts in surpluses. Doubling the rate of planting would mean planting 400,000 ha in total over the next ten years.

38. The difficulty in encouraging farmers to replace agricultural production by farm woodland is the time taken for trees to produce any financial return to replace the income foregone. (Differences in their tax situation from major traditional forestry investors and the legal implications stemming from the definition of farm woodland in existing legislation may also cause some difficulties.) This could be overcome by introducing special woodland compensatory allowances, loans or loan guarantees. Allowances would be payable annually until the timber crop produced a significant return. Paragraph 9 of Annex C sets out the outline of an allowance scheme. More detailed work is needed to devise a cost-effective scheme, in particular on the relative merits of allowances, loans and guarantees, possible landlord/tenant problems and the advice to be given to

farmers on woodland management and marketing. A scheme could probably be implemented under the Forestry Acts.

39. On some farms a more immediate benefit to farm incomes could be obtained from the rehabilitation of derelict farm woodland. This could contribute a useful source of farm income in marginal areas over a relatively short time scale, but would not of itself directly reduce agricultural surpluses.

40. To justify new incentives for forestry or farm woodlands it would be necessary to demonstrate that increased planting would produce benefits for the economy as a whole. The Forestry Commission and the Agriculture Departments consider that the conversion of agricultural land to woodland could produce substantial savings in agricultural support costs, and that on medium to poor grade land the incentive required to encourage the planting of trees is likely to be less than the resulting savings in agricultural support; but the calculations on this have not been agreed with the Treasury and need further study.

41. The sometimes conflicting needs of environmental considerations and of rural employment and socio-economic considerations will have to be taken into account. In particular, problems arise because, whilst conifers offer the best and earliest financial return and so can give more help to maintaining the rural economy, in some areas they are seen by conservationists as an intrusion into the landscape and a cause of loss of wildlife habitat. However, careful planting design and management, including where possible broadleaved trees, can improve wildlife diversity, help to reduce acidification of fresh waters, provide useful recreational benefits and, if substituting for intensive arable production, reduce pollution of water supplies in lowland areas.

42. Looking to the future, additional research and development work should be undertaken on short rotation coppice, agro-forestry, certain aspects of planting on better land and tree breeding. These offer good long term prospect of improving the return from forestry, particularly farm forestry.

Use of Land for Conservation and Recreation Purposes
(Further details in Annex D)

a. Conservation

43. Rural land, especially in areas of high scenic quality, has considerable social value for recreation and tourism. This value is enhanced in areas that support a rich or unusual wildlife. Traditional farming practices created and maintained landscape and wildlife habitat. While this compatibility remains in some areas, especially in the uplands, elsewhere modern intensive agriculture has diminished the landscape quality. There is considerable public concern about the changes which have taken place and significant support for the protection of relatively unspoilt areas.

44. Rural land is important as a water catchment and it is necessary to protect surface and underground waters from pollution where these are used as sources for the public water supply. Recently agriculture has emerged as an increasing cause of acute pollution in surface water and concern is also growing about water pollution incidents resulting from fertilizer and pesticide usage. Changes from intensive arable to forestry or grassland and towards less intensive livestock production methods could make some contribution towards solving these problems.

45. As the need to reduce agricultural production is recognised, other objectives of public policy can be increasingly accommodated. Further, a reduction of

farming profitability and of the price of agricultural land should make many conservation measures more cost-effective. For example, voluntary restrictive management agreements with the Nature Conservancy Council, National Park Authorities and other local planning authorities under the Wildlife and Countryside Act 1981 would be less expensive if the net profits foregone by not undertaking damaging operations were reduced. Similarly, the costs of acquisition for conservation purposes will be reduced if land values fall. In the Environmentally Sensitive Areas (ESAs) designated under the Agriculture Act 1986 farmers should need smaller incentives to farm in ways beneficial to conservation, though still enough to achieve the objective of the policy. Conservation may also be assisted by the trends now developing in agricultural policy and practice. However there could be local, short-term disadvantages in cases where farmers have to intensify their methods on land which is of high conservation value as well as high agricultural potential. Care will also need to be taken to ensure that any increased public financial support for forestry, small industries or tourism does not put even more pressure on some of the most valuable conservation sites.

46. Conservation measures are relatively inexpensive in terms of overall public expenditure, and non-governmental conservation agencies are very active. Moreover, conservation-oriented management tends to be more labour-intensive than some forms of production-oriented agriculture. There are indirect employment effects from conservation in rural areas because of the increased attractiveness to tourists. There could therefore be advantages in encouraging additional conservation activity. The scope for more frequent use of positive management agreements and for the acquisition of land by voluntary private-sector conservation bodies (for example the Royal Society for

the Protection of Birds) should be examined and the effects of ESA status carefully monitored. More demonstration farms could be established, building on the existing framework but also including farms affected by the current changes, where landscape and wildlife habitats could be 're-created' on land which has been withdrawn from production.

b. Recreation

47. Countryside recreation embraces a wide range of activities from walking and traditional countryside activities such as hunting, shooting and fishing, to specialised sports and activities. Walking and climbing have grown considerably in popularity in recent decades, as the proliferation of long-distance footpaths and the erosion of popular routes by the sheer pressure of numbers indicates. Fishing is our most popular sport. These activities require only modest and low-cost facilities and go hand-in-hand with farming and forestry in the National Parks and many other areas, where the provision of accommodation for visitors is important to farm and village economies and there is scope for other farm-based recreational activities like pony trekking.

48. Nearer to urban centres, considerable areas of land are used primarily for recreation - notably as golf courses (140 to 170,000 hectares) and for the keeping of, or producing the feed for, riding horses (300 to 500,000 hectares). Demand for land for these purposes is growing, especially in south-eastern England, and there is considerable scope for their expansion, taking land out of intensive crop production or grazing. These enterprises are inherently profitable, and should require no assistance from public funds, though planning restraints will need to be eased. Forestry and farm woodlands can offer valuable recreational and sporting benefits.

49. The Countryside Commission will be publishing the results of a survey entitled "Recreation 2000" in the autumn and this will provide a basis for further analysis of the potential for recreational use of rural land in England and Wales and of the resulting economic benefits.

Diversification On and Off Farms (Further details in Annex E)

a. On-farm diversification

50. One-third of farm families already derive a significant part of their income from other gainful activities. Some of these have involved on-farm diversification. Further development of such diversification would help sustain farm incomes and employment. This can involve both agriculturally related activities (such as processing of primary production) and non-agricultural activities (such as tourism and crafts).

51. The scope for such diversification will vary regionally according to market, scenic and other factors. The impact is likely to be felt more in terms of sustaining the rural economy than in reducing surpluses. Nevertheless, diversification should be seen as an important element in an overall strategy for the countryside.

52. Initial steps to encourage diversification have been taken in the Agriculture Improvement Scheme which provides for grants for tourism and crafts for farmers in Less Favoured Areas and for a restricted range of secondary processing activities throughout the country. A provision in the Agriculture Act 1986 provides the statutory basis for an extension of agricultural capital grants to non-agricultural farm enterprise. Overlaps with schemes run by other Government agencies would have to be avoided and

decisions are required on the funds needed to implement this provision. There are constraints under EC law in the extent to which aids can be paid to encourage diversification. In addition, local authorities have recently been reminded of the need to look favourably upon applications for the conversion of redundant farm buildings for non-agricultural use.

53. Further steps to facilitate diversification should include provision of advice to farmers on such matters as matching resources with opportunities, marketing, training and legal requirements. It would seem appropriate that the agricultural development and advisory services should continue to be the initial source for advice to farmers on these matters. This must be done in close consultation with the other agencies working in this field, both agricultural and non-agricultural, to avoid any wasteful duplication of effort.

54. In order to help farmers assess the marketing possibilities of potential new on-farm enterprises, the industry might be encouraged to establish regional marketing advisory groups, with the assistance of the agricultural development and advisory services and the other agencies.

b. Off-farm diversification

55. Although on-farm diversification can play a useful role in helping to sustain the rural economy, it will not on its own be able to deal with the problems of displaced farmworkers and the decline in employment in ancillary industries associated with a reduction in agricultural output, particularly at a time of high unemployment in the rest of the economy. The rural employment problem will therefore only be solved through compensating economic

development off the farm. The main Government agency for promoting economic development in rural areas in England is the Development Commission (DC) and its agency CoSIRA. There are equivalent development agencies in Scotland, Wales, and Northern Ireland. The Agricultural Training Board, Tourist Boards and local authorities also have roles to play. However, the intervention of Government agencies will not invariably be necessary to encourage private enterprise to create new employment opportunities. Certain areas of the countryside have seen an increase in employment in high technology industries and this trend is likely to continue, but is unlikely to extend to the more remote areas.

56. The DC has recently submitted proposals to the Department of the Environment (DOE) for a substantially expanded programme including the provision of additional factory space and assistance to small firms in rural areas and a strengthening of their rural organisation. DOE supports this initiative and is making a bid for extra resources in the current PES round.

57. Help can also be provided by Local Enterprise Agencies (LEAs) - independent local organisations set up primarily by private sector sponsors, sometimes in conjunction with public bodies, and grant-aidable by the Department of Employment (DE) - of which there are now well over 300. As part of the DE's support scheme for LEAs, the DC have drawn up a supplementary scheme to give particular support to rural activities carried out by enterprise agencies to ensure that the needs of rural areas are adequately covered. These proposals are currently under consideration by DOE and DE, but have not yet been discussed with the Treasury. The Agriculture Departments should encourage the farming and land-owning interests to support LEAs. The Welsh Development Agency and the Development Board for Rural

Wales support LEAs in the Principality and at the Secretary of State's request are establishing experimental rural enterprise groups involving local people. The Scottish Development Agency similarly supports a number of LEAs within its area and the Highlands and Islands Development Board is also ready to consider assisting such projects.

58. An intensification of activity by the development agencies could create more off-farm employment opportunities and thus sustain the rural economy, but the agencies say that they could only do this if their budgets were expanded.

Changes in the current policy for the protection of agricultural land (Further details in Annex F)

59. The long established policy under successive Governments has been to protect good agricultural land and to ensure that, as far as possible, the less good land is used for development and that no more than is necessary is taken. This policy has withstood the test of time for many years, but the context within it operates is changing and needs to be redefined (and the relevant circulars to local authorities appropriately rewritten) in the light of the changing agricultural circumstances and of national objectives of encouraging job creation and economic development, including the need to encourage alternative employment in rural areas. Some members of the Working Party urged that Ministers be invited to consider a more radical option, leading to dismantling entirely the present policy towards protection of agricultural land; but the Working Party as a whole could not recommend this. There is also scope for reduction in the Agricultural Departments' role in the planning process, particularly in relation to ad hoc applications for development not in accordance with development plans. Such changes should have some

beneficial impact on employment in rural areas, and hence on the state of the rural economy.

60. Such changes in planning arrangements would not have any financial or EC implications. Unless carefully handled in presentation, however, they could be highly controversial with farming interests and ancillary industries on the one hand; and with environment and conservation interests on the other. These respectively see the current involvement of the Agricultural Departments as an indication of their concern for the long term interests of farming and the rural economy; and as important in helping to preserve the quality of the countryside. The public presentation of these changes would need to stress the continuing environmental safeguards as well as the positive, de-regulatory, wealth and job creating aspects.

SECTION IV
RECOMMENDATIONS

General

61. The Working Party recommends that Ministers consider whether, in the light of the discussion in Section II of this Report, they wish in principle measures to be developed now to mitigate the effects of action to reduce agricultural surpluses on the rural economy and employment, the environment, and agricultural land use. The following paragraphs set out a list of possible measures. In some cases further study is needed. This further examination should include consideration as to where action could best be carried forward at the Community level and where at the national level; the implications for the economy, employment and the Exchequer; and the scope for monitoring and evaluation against specified objectives. Officials should be asked to complete this further work by the end of March 1987.

62. If Ministers collectively decide that action should be taken, the Working Party recommends the following measures.

Alternative Uses of Land for Agriculture

63. Technical and economic appraisals of existing and future novel crop and livestock possibilities should be undertaken by the agricultural development and advisory services, and the results published on a regular basis.

64. Novel crops and livestock possibilities should be tested on Government - funded experimental farms and the results used as a basis for expert advice to farmers.

Forestry and Farm Woodlands

65. The expansion of forestry on better land, and of farm woodland generally, should be encouraged.

Further work should be done on possible measures to achieve this. This further study should bring out the employment, environment and Exchequer implications and consider the need for assistance towards provision of training and advice.

66. The rehabilitation of derelict farm woodland into an economic resource should be encouraged.

67. Additional research and development should be undertaken on short-rotation coppice, agro-forestry, tree breeding, and certain aspects of planting on better land.

Use of Land for Conservation and Recreation

68. Policies to maintain or enhance the landscape, wildlife or geological interest of land, or its value as a water catchment, should be pressed forward. The scope for more frequent use of positive management agreements and for the acquisition of more land by voluntary private sector conservation organisations should be examined. Appropriate procedures should be established for monitoring and evaluating the cost effectiveness of Environmentally Sensitive Areas, and the introduction of further areas pursued.

69. Where cost-effective, protective policies should be developed for water sources affected by agricultural operations, and forestry or grassland encouraged instead of arable uses where necessary for the protection of water sources.

70. Policies to encourage diversification of farm businesses by the provision of facilities for

recreation (accommodation, pony trekking etc) should be continued. The potential for income and employment should be re-analysed following publication of the Countryside Commissions' recent surveys "Recreation 2000" and "Scottish Leisure Survey". Further consideration should be given to allowing the use of small parcels of land for keeping horses for recreational use without the need for specific planning permission.

Diversification On and Off Farm

71. The agricultural development and advisory services should be the focus for initial advice for farmers on all aspects of on-farm diversification. Close liaison should be maintained with the other agencies who have expertise in diversification into non-agricultural activities.
72. The encouragement which has been given to local planning authorities to permit the conversion of redundant premises for use of workshops should be maintained.
73. The provision in the Agriculture Act 1986 on the grant-aiding of ancillary businesses on farms should be implemented, with appropriate funding, in co-ordination with existing Government agencies.
74. The industry should be encouraged to set up regional marketing advisory groups to help farmers assess the marketing possibilities of new on-farm enterprises, with support from the appropriate agricultural and non-agricultural agencies.
75. The budgets of the Development Commission (and equivalent agencies) and Tourist Boards should be increased to enable them to stimulate alternative rural employment as employment in agriculture and its

ancillary industries declines.

76. The Development Commission and CoSIRA (and equivalent agencies) could act as a focus for the setting up of any further Local Enterprise Agencies in liaison with the Regional Enterprise Units of DE (and equivalent agencies) and other interested parties, including the private sector. The Development Commission and DoE should consider what support should be given to rural Local Enterprise Agencies in addition to that available to DE's Local Enterprise Agency Grant Scheme.

77. There should be maximum co-operation between the efforts of the various advisory and grant-providing rural enterprise bodies, and the agricultural development and advisory services should be a focus for first advice for all these activities.

Policy for the Protection of Agricultural Land

78. DoE Circular 75 of 1976 (Welsh Office Circular 110 of 1976) should be reviewed and modified as necessary to reflect current conditions and priorities. A similar review of guidance applying in Scotland should also be undertaken. The revised versions should be published in draft for public comment.

Treasury Position

79. The Treasury considers that the possible extent of structural change over the next decade suggested in Section II would not of itself justify increased Government intervention in favour of agriculture and forestry. Should Ministers nevertheless decide that some further action should be considered, individual schemes would need to be assessed against the specific criteria set out in Annex G (which is based on the

rationale recently agreed for Government support in other industries) and any costs contained within existing planned PES programmes. The Treasury representative disassociated himself from the specific recommendations in paragraphs 63 to 77 because it is not clear that the associated costs can be financed within existing programmes.

SCALE OF ADJUSTMENT

1. The production capacity of Community agriculture now exceeds, and will increasingly exceed, the ability of Community markets to absorb the output.

Significant adjustments in that capacity will therefore be required in the coming years. This annex considers the possible scale of adjustment in the United Kingdom over the next decade.

2. Future UK land use patterns and changes in agricultural incomes, land prices and structures, and employment will be heavily dependent on the nature and timing of policy decisions taken within the Community.

They are consequently difficult to predict. The assessments made here of possible broad orders of magnitude rest on a range of assumptions, and are not forecasts. No account has been taken at this stage of any future use of land for novel crops or livestock or any increased transfer to forestry. Its purpose is to ascertain the area of land for which new uses might be sought.

3. The distribution of any production adjustment around the Community and therefore what proportion would occur in the United Kingdom, would depend on the particular policy instruments, whether price or quantitative (voluntary or compulsory), adopted. The use of the price mechanism as the underlying means of supply control - the approach favoured by the UK government - would tend to cause production to decline mainly in those areas of the EC (regions, farms, fields) where production was least efficient or most difficult. Quantitative supply controls on the other hand (such as quotas) would tend to reduce production across the board, all producers, regardless of their circumstances, being affected. If quotas were freely

tradeable, however, the pattern of adjustment over time would tend to approximate to that associated with a prices policy. The impact of other instruments, including set aside and early retirement schemes, would depend crucially on the precise arrangements adopted.

Future land use patterns

4. This assessment of land use for the mid 1990s is based on the premise that if yields continue to grow and the production of commodities in surplus is to be reduced, and new surplus production is to be avoided, then fewer hectares will be needed for growing cereals, sugar beet, potatoes and some horticultural products. Table 1 below shows the changing pattern of land use based on central assumptions about yield growth and the likely desired level of EC production. The specific assumptions used, and the sensitivity of the results to changes in the key assumptions, are discussed in the Appendix to this Annex. Two key assumptions underlying the projections for crops and livestock are considered in turn below.

Table 1

Derived UK Land Use in the Mid 1990s ('000 hectares)

	<u>1975</u>	<u>1985</u>	<u>Mid 1990s</u>
Cereals	3680	4010	3300
Other Crops	<u>1140</u>	<u>1250</u>	<u>1280</u>
Total tillage	<u>4820</u>	<u>5260</u>	<u>4580</u>
Grass	7210	6740	7210
Rough grazing	6550	6070	5870
"Other land"	<u>390</u>	<u>530</u>	<u>630</u>
Total agricultural area	<u>18970</u>	<u>18590</u>	<u>18290</u>
Grazing area ⁽¹⁾			
(in pasture equivalent)	8290	7740	8180
Forest area	2000	2300	2500 ⁽²⁾

(1) Includes rough grazings converted to pasture equivalents.

(2) Assumes continuation of present rate of planting.

5. As Table 1 shows, on central assumptions there could be a fall of just over 700,000 ha in cereals land - much of this being lower yielding land - only slightly offset by an increase in land used for other crops. The key assumption underlying the projection for cereals is that Community action would be taken - whether through prices or quotas - to achieve a position by the mid 1990's in which there was no net addition to stocks. The level at which stocks would stabilise would depend on the timing of policy actions to control output and on measures to increase demand. The indicative figure of some 700,000 ha reduction in the UK cereals area is based on the further assumptions that EC exports remain at their current level; potential yield growth continues at trend rates but actual yields are lower because of cutbacks in inputs; and that adjustments at the EC level result in equal proportionate adjustments in the UK.

6. It must be emphasised that the range of possible adjustments to the UK cereals area is very wide - from 100,000 ha to 1 million ha depending on the assumptions used (Paragraphs 6.6-6.12 of the Appendix give further details). However, a range of between 500,000 to 850,000 ha seems reasonable for working purposes with a central estimate of 700,000 ha. If the Community pursued a policy of price reduction rather than quotas, then the UK could make proportionately lower adjustments than the Community given that UK growers could exploit the advantages of their superior farm structure, modern capital stock and managerial strengths. Thus the probable impact on the UK cereals area would be towards the lower end of the range. Similarly, slower-than-trend yield growth or greater cutbacks in input use would put the estimate of surplus cereals land at the lower end of the range, whereas higher yield growth - for example from the widespread adoption of hybrid varieties (now beginning to be commercially available) - or a reduction in Community exports would increase the impact on the cereals area in the UK.

7. The central projection of a decline of nearly 700,000 ha in the total tillage area represents a fall of about 13% compared with 1985 and 5% compared with 1975. Some 100,000 ha of existing tillage and grasslands could move out of agriculture for roads or housing, whilst another 100,000 ha could be utilised for farm roads, buildings etc. The net result would be some ½ million ha of tillage land becoming available for other uses by the mid 1990s. In the table this is reflected in an increase in the grassland area. In the absence of profitable alternative uses this process might result in some existing grassland reverting to rough grazing but this

has not been considered here. It has, however, been assumed that 200,000 ha of mainly rough grazing would go into forestry if planting continues at current rates.

8. On the livestock side, the key adjustment considered relates to milk. It is assumed that quotas are reduced by 6% (including the 3% already agreed) and that milk yields grow by 1½% a year. At present stocking rates, the area required by the grazing livestock sector could fall by as much as ½ million ha by 1995. A 6% reduction in quotas is modest in view of the current 13% annual production excess; if quotas were cut by say 9% dairy herds would contract further and in the UK an extra 100,000 ha of land would no longer be required for dairying. The ½ million ha of tillage which is assumed to be initially converted to grass, together with some ½ million ha released from dairying, suggests that, on central assumptions, around 1 million ha of grazing and arable land could become available for other uses. There is inevitably a wide range around this central figure. The industry would itself strive to adjust, and one possibility would be to farm the existing land less intensively eg lower stocking rates. The industry may also - and more probably - look to expand existing enterprises; the scope for this is now examined.

9. Amongst existing enterprises beef and sheep are likely to be considered by farmers. In the case of beef the Community already holds stocks of some 700,000 tonnes, in spite of large annual exports in excess of 800,000 tonnes. The cost of both holding stocks and financing exports is substantial. A reduction in the dairy herd would reduce the Community's beef production capacity and over the next few years should help achieve a better

supply/demand balance without the need for large and expensive exports and stocks. However, if farmers in the Community were to expand beef production on the "spare" hectares the beef surplus situation would not improve in this way. Indeed with continued advances in livestock breeding, grass production and grass conservation techniques, more intensive beef regimes on existing beef land could mean little or no need for additional beef from the "spare" hectares.

Whilst, therefore, farmers would find beef a ready, if less profitable, alternative to cereals and dairying, such a development could only provide a temporary respite for the industry and beef surpluses (despite the ban on hormones) would continue to require correction. Such corrective action could well impact on existing beef producers, such as those in the uplands, and consequently this enterprise is not likely to provide a secure alternative use for the "spare" hectares.

10. Sheep production in the UK has been expanding in recent years at 2½% per annum due to more intensive practices and expansion of lowland sheep farming. Continued husbandry improvements, particularly in the lowlands, should permit further expansion (the trend is already in this direction) without much new land being required. The demand for sheepmeat is weak and in the UK is on a slow downward trend although scope may exist for more sales to the Continental market and to displace imports from New Zealand. But continued expansion at 2½% per annum means an almost 30% increase in UK production by the mid 1990s. Whilst technically feasible, Continental farmers would also have land for more sheep and if they were to exploit this potential then such a large increase in UK production would be unlikely to be wholly accommodated by markets.

11. Beef and sheep therefore, whilst likely to be considered seriously by farmers, seem likely to occupy only about 100,000 - 150,000 ha of the land released from cereals and dairying in the longer term. Greater expansion of these products could create new surpluses and any adjustments that might then prove necessary would create conflicts between existing (including hill) farmers and new producers. Whilst there may be potential for land to be used for novel crops and livestock, it is unlikely they will occupy more than 200,000 - 300,000 ha over the next 5 to 10 years. These alternative land uses are discussed in detail in Annex B.

Regional Analyses

12. Assessments have been made of the possible regional breakdown of the land use changes. The results are summarised in Table 2 and are inevitably speculative. England might be expected to account for 540,000 ha of the 675,000 ha of tillage decline (amounting to 80% of the total UK tillage area and some 12% of the tillage area in England), with the Eastern Arable, Intermediate Arable and non-LFA counties accounting for most of this. Scotland could account for 110,000 ha of the tillage area reduction. In the Eastern and Intermediate arable areas the adaptability of the soil suggests that new and novel crops are likely to expand here if found economic.

13. The assumptions made about increased availability of grassland, due to conversion of cereal land and reduction of the dairy herd suggest that most of the excess pasture availability would be in England. Whilst widely spread around the country, there would tend to be concentrations in western and central England. In Scotland, the additional pasture

land would tend to be concentrated in the east and south west of the Country and in Wales, in the south west. The impact on the Less Favoured Areas (LFAs), which account for about half the UK agricultural area, would initially be relatively small. But the analyses take no account of the possible expansion of sheep and beef on the newly available pasture land. If this occurred then sheep and beef producers in the LFAs would face severe competition and the "knock-on" effect could affect production and land use in the LFAs.

Table 2
Possible Regional Allocation of Land Use Changes

	(000 ha)					
	1975		1985		Mid 1990s	
	Till- age	Grass(1) (Pasture equiv)	Till- age	Grass(1) (Pasture equiv)	Till- age	Grass(1) (Pasture equiv)
ENGLAND	4050	4760	4420	4220	3880	4610
East	1770	440	1890	290	1735	415
Arable ⁽²⁾						
Int Arable	570	550	620	460	550	510
Other non	1670	3050	1870	2740	1560	2965
LFA						
LFA	40	720	45	730	35	720
WALES	110	1080	90	1140	70	1150
SCOTLAND	580	1640	670	1560	560	1610
NORTHERN	80	810	75	820	70	810
IRELAND						
UNITED	4820	8290	5255	7740	4580	8180
KINGDOM						

(1) Grass and rough grazing (converted to pasture equivalent using a coefficient of 8 in Scotland and 4 elsewhere)

(2) Eastern Arable: Humberside, Lincoln, E Anglia, Cambs, Beds, Herts, Essex

Intermediate arable: Bucks, Berks, Hants, Surrey, Sussex, Kent, Notts.

LFA: Less favoured areas in England as designated in 1983

Other non LFA: Other areas of England

Land prices and structures

14. Agricultural land prices have fallen by a quarter on average from their peak in 1983/84 and 15% since early 1985. If income pressures build up and land prices fall further, more farmers will find their liabilities exceeding their assets, forcing further sales and weakening the land market. The normal annual turnover of farms (1½% to 2% of the land) could be expected to increase (although currently the area actually being sold remains low, indicating that buyers are holding off and waiting for lower prices). The extent of any price fall will depend on demand from farmers and non-farmers, for land purchases. This will vary considerably around the country and with proximity to urban areas.

15. Possible developments in agricultural structures are set out in Table 3. Extrapolation of past trends indicates the apparent durability of very small, part-time farms. On most of these the farmer would have another income source. The number of these has been maintained over the years whilst the number of large farms has increased. Those in the small and

medium size groups - the "family farms" - are the ones that have declined most rapidly. The projections suggest that there could be 15,000 fewer farms (as many as 43,000 if the pace of change trebles), with the larger holdings of over 1,000 smds increasing their proportion of UK output from 54% in 1985 to 60% on trend or even 70% if the pace of change were to treble (and both technological factors and policy factors - the squeeze on agricultural production and incomes - point in the direction of accelerated change). Those regions with a predominance of family farms could therefore expect to be disproportionately affected.

Table 3

UK - Number of Holdings by Size of Holding ('000s)

	1975	1985	Mid 1990s	
			Project past trends	If pace of change trebles
Under 250 smds*	126	127	128	123
250 - 500	56	42	31	16
500 - 1000	46	41	35	26
over 1000 smds	28	30	31	32
Total	257	240	225	197
Av Area holding over 250 smds (ha)	111	124	139	174

* smds - standard man-days - 250 smd indicate a one-man farm.

Employment

16. The number of persons (farmers and workers) employed in agriculture, including 250,000 part-time and casual workers and farmers, is currently around 615,000. Ancillary industries such as transport, machinery, feed and fertiliser suppliers, slaughter-houses and milk processing plants are estimated to employ about the same number, implying about 1.2 million in all. Projections indicate that on trend some 15,000 farms and some 35,000 of those engaged in farming might be lost by the mid 1990s. If the squeeze on agriculture led to a greater turnover of farms, a much more rapid shedding of labour could be expected. The total outflow could well double to around 100,000 over the next decade.

17. The impact on the regular whole-time and part-time hired farm workforce could thus be of the order of 70,000, leaving around 150,000. The 9,500 large holdings with 6 or more hired workers (on average 15) could account for a third to a half of the decline, leaving the rest to come from the 70,000 holdings with 1-5 workers. The effects on the rural population would vary throughout the country. In the LFAs much would depend on the degree to which the special assistance was adjusted to cope with the expected pressures outlined in paragraph 13. At the other extreme, farms on the better arable soils, situated mainly in the east and south of the UK, could be expected to be the most adaptable, although their response to a squeeze is likely to be to shed some labour (and these farms are significant in areas like Norfolk and Lincolnshire which, although agriculturally favoured, have limited other employment possibilities). The dairy sector, mainly in the western part of the country, would be expected to adapt through a reduction in number of smaller dairy farms and through smaller dairy units being maintained

on larger holdings. The greatest effects would probably be felt on the 1-3 man enterprises in central and south western parts of England, south west Wales, central and south western Scotland, and throughout Northern Ireland, where the majority of farms with the less adaptable soils are situated.

18. The ancillary industries would face reduced demand for their products and services. Already, sales of machinery to farmers are depressed and lower investment generally in buildings and works could be expected. Curbs on cereals and milk production would inevitably have consequences for employment in the transport, merchanting and milk processing sectors, as the introduction of milk quotas has already shown. The overall reduction in employment in these industries, which supply inputs, process and market the outputs of agriculture, could be half the numbers expected to be shed from farming.

APPENDIX to ANNEX A

LAND USE IN THE MID 1990s : ASSUMPTIONS

1. This Appendix sets out the main assumptions underlying the agricultural land use assessment conducted at the UK level for the mid 1990s. Details of the assessment are shown in the table attached to this Appendix for the four countries of the UK.
2. Briefly, the assessment comprises making assumptions both about the total area of land available for agricultural use and the area of "other" land on farms, and hence the area available for crops, grass and rough grazings. Assumptions are then made on the area of individual tillage crops. It is assumed here that any surplus tillage land would be transferred, at least in the first instance, to grassland. If the squeeze on agriculture was particularly severe some grassland might be expected to revert to rough grazing but this is not considered here. Separate assumptions are made about the transfer of rough grazings out of agriculture for afforestation.
3. Total agricultural area. The recorded total agricultural area of the UK fell by an average of 38,000 hectares (ha) a year between 1975 and 1985. It is evident, however, that the rate of loss has been declining due to less land being transferred to forestry and for roads and urban development. An annual average loss of 30,000 ha a year up to the mid 1990s has been assumed of which about two thirds represents rough grazings transferred to forestry. This latter assumption reflects current trends and allows for no acceleration of the pace of afforestation.

4. "Other" land on agricultural holdings (farm roads, buildings, woodland copses etc) increased on average by 13 - 14,000 ha a year in the past 10 years. It is questionable whether the next decade will see an expansion of buildings and roads at the same rate as in the past. An increase of 10,000 ha a year up to the mid 1990s has therefore been assumed.

5. Rough grazings fell on average by just under 50,000 ha a year in the 10 years to 1985. Some of this would be lost from agriculture (mainly to forestry) and some would be improved and subsequently recorded under some other use, generally grassland. Whether under existing policies the rate of transfer of rough grazings to afforestation would be sustained at historic levels is questionable: the rate has eased recently. Also, if pressures mount - and it is assumed they must - to curb arable expansion and reduce milk production, the incentive and means to improve rough grazings into better pasture is likely to diminish. The rate of loss of rough grazings could therefore slow down further. Over the next 10 years the rough grazing area is assumed to decline by 200,000 ha, almost all for forestry purposes. As indicated earlier, no allowance has been made for any transfer of grassland to rough grazing, though under certain policies this could occur.

6. Tillage crops. Possible developments in the area of the main tillage crops have been examined separately. Since the potential adjustments seem to be most significant for cereals this crop is considered last in more detail.

6.1 Sugar beet. It is assumed that this crop will continue to be regulated by quota and that UK production will continue at around 1 1/4 million tonnes of white sugar a year. If yields continue to grow - some 1-2% a year might be expected - the area

devoted to beet would decline correspondingly.

6.2 Potatoes. Production is regulated by quota under national arrangements, though yields fluctuate markedly from year to year. Total production is assumed to remain at around 6.8 mt though this will depend on competitiveness with imported products. If yields in the UK continue to grow - and they could perhaps reach 42t/ha by the mid 1990s- the area required would fall.

6.3 Horticulture. The UK horticultural area has been declining by about 1½% a year. It is assumed that this trend will broadly continue to the mid 1990s.

6.4 Oilseed rape. This crop has expanded rapidly in recent years. Since 1980 the annual increase in the area has averaged over 40,000 ha. It is unlikely that this rate of growth could be maintained over the next decade: it is assumed that the UK area will increase by a further 150,000 ha by the mid 1990s.

6.5 Other crops and fallow. This area largely comprises a range of fodder crops and fallow. In recent years, the area as a whole has been fairly constant, though significant changes have occurred for individual constituent crops. (Note: The decline in this area between 1975 and 1985 in the table attached to this Appendix is mis-leading because the fallow area for 1975 was unusually high and in 1985 was probably below trend.) Generally, expansion of stockfeed peas and more recently beans has offset declines for many other fodder crops such as turnips and kale. It has been assumed that this area as a whole will remain broadly constant in the next decade. It must be stressed that no account has been taken in this particular analysis of the emergence or expansion of novel or minor crops such as borage, evening primrose, lupins, trees for cropping etc. This issue

is considered separately.

6.6 Cereals. Developments in the Community cereals market (and in the world generally) point to the need for considerable adjustments in the coming decade. The potential implications for land use in the UK are accentuated because of the importance of cereals in arable cropping: cereals account for three-quarters of the tillage area in the UK and for one-third of the total crops and grass area, excluding rough grazings. It is assumed that any action to bring supply closer to demand will be promulgated at the Community level but the precise nature of the schemes introduced, their timing, and the speed of producer responses remain matters of conjecture. Any assessments must therefore be speculative and are capable only of indicating the broad magnitude of the adjustments that may be required.

6.7 The starting point of this assessment is a consideration of what level of cereals production in the mid 1990s might achieve a sustainable equilibrium in the Community (EC12) market, ie a situation in which there was no net annual addition to stocks. Central estimates suggest that consumption of cereals could be around 143 million tonnes (mt) in the mid 1990s. It is assumed that imports might fall to 11 mt, mainly of hard wheat and maize. Exports are currently about 25 mt: and whilst arguments can be advanced to support either a contraction or expansion of this volume, it is assumed that exports will remain at this level. These assumptions suggest the EC cereals production (excluding durum wheat and rice) would need to be about 157 mt a year in the mid 1990s to achieve "steady state" stocks: the actual level at which stocks stabilised would depend mainly on the level of production in years up to the mid 1990s. It must be stressed that this figure is simply indicative: the precise level of production that

could be accommodated would depend on the policy pursued to control supplies and on measures to encourage demand.

6.8 If it is assumed that Community production were to be stabilised at around 157 mt, the implications for the cereals area would depend crucially on the development of yield potential during the next decade, mainly reflecting the emergence of new varieties. However, it does not necessarily follow that the Community's cereals area would fall in direct proportion to the growth in yield potential. If the policies pursued included cost-price pressure, producers might use less inputs (particularly nitrogen fertilizer) and accept lower yields. Such adjustments would vary according to individual circumstances.

6.9 A number of possibilities have been examined and the results are summarised in the table below. This indicates the extent to which the Community's cereal area (as recorded in 1985) might need to be reduced under certain assumptions about growth in yield potential (col 1) and adjustment to the volume of inputs (col 2). Also shown (col 4) is the impact on the UK cereals area if adjustments at the EC level were mirrored here. Col 5 of the table gives an indication of the effect of varying the assumptions on, the "required" level of production: it summarises the impact on the UK if the Community were able to sustain production of 162 mt a year.

6.10 The table indicates a wide range of possible adjustments in the UK from 100,000 ha to 1 million ha. If yields were to increase at trend rates (2½% a year) the reduction in the cereals area would need to be about 21% (860,000 ha) to achieve a "required" level of 157 mt, and of around 17% (700,000 ha) if inputs were reduced such as to depress trend yields by 5%; if the Community were able to sustain the higher level of

production of 162 mt a year, the reduction in the UK area would be 760,000 ha and 590,000 ha respectively.

"Required" reduction in the EC (and UK) cereals area under various assumptions

Assumed yield growth potential per year	Assumed impact on trend yield due to input adjustment	Implied cut in UK cereals area 157 mt	Implied cut in UK cereals area 157 mt	Implied cut in UK area to achieve EC production of 162 mt (000 ha)
(1)	(2)	(3)	(4)	(5)
3%	(0%	25%	1000	900
	(2½%	23%	920	820
	(5%	21%	840	740
2½%	(0%	21%	860	760
	(2½%	19%	780	680
	(5%	17%	700	590
1½%	(0%	10%	410	300
	(2½%	8%	320	200
	(5%	6%	220	100

6.11 Several factors may of course influence the growth of yield potential. For example, if hybrid wheat varieties were to become widely adopted in the next decade - and opinions on the likelihood of this differ, though the technology is becoming available - the growth rate could be faster than hitherto. Similarly, if lower yielding fields were the first to be removed from cereals production the effect would be equivalent to a faster yield growth. On the other hand, yield growth could slow down if inputs were cut

back in response to mounting cereals surpluses. The table includes alternative assumptions to illustrate these possibilities.

6.12 The simplifying assumption has been used that cereals area adjustments at the Community level would result in equal proportionate adjustments in the UK. This assumption is reasonable if quotas were the chosen supply control instrument, but would not be so if control were principally through price policy. If UK growers were able to exploit the advantage of their superior farm structure, modern capital stock and managerial strengths the adjustments here in response to price pressure could be proportionately less than in the Community as a whole.

6.13 In the assessment, it is assumed that by the mid 1990s the UK cereal area would be reduced by about 700,000 ha to some 3.3 million ha. A broad indication is given in the table attached to this Appendix (in parentheses) of the possible impact in the four countries if quotas were pursued and based on 1985 shares of the UK cereals area.

Land Use in 1965, 1975 and 1985 with Derived Patterns for 1995: UK by Country

000 hectares

	1965					1975					1985					1995					
	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	
<u>Arable crops</u>																					
Cereals (with quota)	3008 (-)	90 (-)	442 (-)	116 (-)	3656 (-)	3047 (-)	81 (-)	464 (-)	61 (-)	3653 (-)	3361 (-)	67 (-)	527 (-)	54 (-)	4010 (-)	2800 (2769)	55 (56)	400 (432)	45 (43)	3300 (3300)*	
Sugar beet	180	-	3	-	184	197	-	-	-	197	205	-	-	-	205	160	-	-	-	160	
Potatoes	209	8	57	25	300	157	5	31	11	204	139	6	33	13	191	117	5	28	10	160	
Oilseed rape	nc	nc	-	-	-	39	-	-	-	39	271	1	23	1	295	408	1	40	1	450	
Horticulture	248	2	9	4	264	266	2	13	4	285	207	1	12	3	224	161	1	10	3	175	
Other crops and fallow	296	31	103	2	432	341	22	74	2	439	236	16	73	6	331	235	10	80	10	335	
Total tillage (with cereals quota)	3941 (-)	131 (-)	613 (-)	147 (-)	4836 (-)	4046 (-)	111 (-)	582 (-)	78 (-)	4816 (-)	4418 (-)	91 (-)	670 (-)	77 (-)	5256 (-)	3881 (3850)	72 (73)	558 (587)	69 (67)	4580 (4580)*	
<u>Grassland</u>																					
Temporary and permanent pasture (with cereals quota)	4850 (-)	933 (-)	1127 (-)	662 (-)	7572 (-)	4450 (-)	932 (-)	1081 (-)	749 (-)	7212 (-)	3924 (-)	1014 (-)	1035 (-)	766 (-)	6739 (-)	4329 (4360)	1020 (1019)	1101 (1071)	764 (766)	7214 (7214)*	
Rough grazing (incl commons)	1297	657	4986	276	7216	1226	602	4499	227	6555	1171	527	4172	200	6070	1140	510	4030	190	5870	
Other land	nc	nc	nc	nc	nc	222	30	86	58	395	333	45	112	40	530	406	54	130	40	630	
Total agricultural area	10089	1722	6728	1084	19623	9944	1615	6247	1112	18978	9846	1676	5988	1083	18594	9756	1656	5819	1063	18294	
Forest area					1800					2000					2300					2500	

nc = not collected at Census.

* The figures in parentheses allocate the assumed UK cereals area according to the distribution in 1985 to indicate the possible impact of a cereals quota scheme.

ALTERNATIVE USES OF LAND FOR AGRICULTURE

1. A study of possible alternative crop and livestock enterprises has recently been carried out on behalf of MAFF by the Centre for Agricultural Strategy (CAS) Reading¹. The results are summarised and discussed in the following paragraphs.

(a) Crops

2. The successful use of land to grow alternative crops is dependent upon the following criteria being satisfied:

- (i) the crops must be suitable for the soil and climate;
- (ii) they must provide needed products with identifiable markets;
- (iii) they must be capable of competing on price and quality with any alternatives;
- (iv) they must be able to provide the grower with an adequate financial return.

1. Carruthers, SP (Ed): Alternative enterprises for agriculture in the UK. Report No 12, Centre for Agricultural Strategy, Reading 1986.

The following crops were identified in the CAS Report as having the potential to meet these requirements.

(i) Flax

3. 700 ha of flax was grown in the UK in 1985, much of it in Northern Ireland, but most of the needs of the Northern Ireland linen industry, some 13 thousand tonnes (kt), were met by imports from Europe. The interest being shown in the wider use of flax in textiles could provide increased demand in the future, but no estimate of the likely size of future demand is available. Growing, processing and marketing expertise is currently lacking and advice on these factors would be required before a significant expansion in flax growing could occur.

(ii) Flavour, perfumery and medicinal plants

4. The market for flavour, perfumery and medicinal plants is complex with few statistics available. The market for culinary herbs is estimated to be expanding by around 10% per year with imports satisfying 70% of current demand. The demand for medicinal plant products is estimated to be increasing by 25% per year, with over 90% provided by imports. For flavourings the most significant demand is for peppermint oil where some £10 million worth is imported annually. Import replacement could result in 10-15 thousand hectares (kha) of UK production. Favourable climatic conditions are likely to be confined to the south east of England; but more consistently favourable conditions occur in, e.g, France.

5. Apart from production considerations, buyers will

need to be convinced that UK sources of supply would be dependable. Marketing cooperatives would help and could be encouraged under the Government's Agriculture and Horticulture Cooperation Scheme.

(iii) Grain Legumes and Oilseeds

6. The EC as a whole is only 20-30% self-sufficient in both animal feed protein and edible oil. Of the possible sources of these products, peas, chickpeas, lentils, pearl lupin and linseed have the greatest immediate potential for new or increased UK production, with sunflowers and navy beans as longer term prospects (more than 10 years), provided varieties suitable to UK conditions can be developed. Suitable varieties of chickpeas and lentils exist already but field trials are needed. The successful introduction of pearl lupin would be dependent on identifying types suitable for farm use and attractive to seed crushers. A continuing increase in the area of peas and linseed is considered likely without any specific promotion being needed.

7. Overall, chick peas, lentils and linseed could, according to CAS, occupy as much as 60 kha of land within 5-10 years, mainly in South-East England. Linseed could develop from the 4 kha grown in 1985 to as much as 40 kha by 1995. UK demand for sunflower is currently equivalent to about 50 kha with the demand for navy beans ("baked beans") 120 kt a year. But further work to develop suitable varieties is needed.

(iv) Alternative Cereals

8. There could be some potential for an increase in durum wheat and triticale production. The UK demand

for pasta products using durum wheat is increasing at around 7% a year but only 8 kha are grown in the UK. Triticale occupied 6 kha of land in the UK in 1985 compared with 100 kha in France. Any large-scale expansion of domestic production would have to depend on the development of overseas markets where the demand is greatest. Competition is fierce and with both these crops quality and yields vary greatly. Probably they have only limited potential in UK over the next few years.

(v) Horticulture

9. Most future opportunities in horticultural products are likely to derive from improved marketing techniques aimed at both import replacement and export. At the present time 100 kt of cauliflower, 20 kt of lettuce, 35 kt of carrots and turnips and 18 kt of celery are imported, amounting to some £40 million a year - imports have increased significantly in recent years. While there have been some considerable export successes by individual groups of growers (bulbs being an outstanding example), growers generally need more education and advice on producing the right quality and on marketing for export.

(b) Livestock

10. Of the twenty-four species of various creatures studied by the CAS, only goats, sheep and horses were considered likely to command satisfactory prices, be sufficiently productive and have the potential to use significant areas of land. Whilst bees, free-range chickens, outdoor pigs and turkeys might supplement some farmers' incomes, they use only small amounts of land.

(i) Goats

11. CAS estimate that up to 700 kha of land could be occupied by goats in the longer term (more than 10 years). They are unclear how much of this would occur in the next 5-10 years. The goat population for milk production is reported to have doubled in the seven years to 1983 and demand for goat's milk, cheese and yogurt continues to increase, although currently the volume is very small. All three products sell at a premium over other dairy products to meet a specialist demand. UK goat's cheese makers apparently see no insuperable obstacles to gaining a large share of the international market currently dominated by the French. Constraints on the expansion of production include problems of widening the market (local markets provide insufficient demand) and the unwillingness of large retail outlets to stock goat products unless a steady and substantial supply can be guaranteed. Any further expansion in goat numbers for dairy products is therefore likely to be fairly slow and the land used by them will thus almost certainly remain small over the next decade.

12. Mohair, produced from Angora goats, is principally imported from South Africa (£36 million in 1983). Also £21 million of cashmere was imported in 1983. Both products command substantial premiums over other fibres and are thought by CAS to be worthy of further consideration. However, these breeds of goat barely exist in the UK and therefore they can have little significance over the next few years until development work has been done.

13. The production of goats for meat production could have potential to satisfy demand from ethnic

groups, the restaurant trade and exports to Italy. However, research into suitable breeds, husbandry methods and marketing will be needed if such an enterprise is to develop to any significant scale.

(ii) Sheep

14. Wool production in the national flock is of secondary importance to meat production. Wool output is well under 10% of total cash output from sheep in the lowlands, rising to 25% in the hills. There is scope for increasing production of fine domestic wools and for considering the introduction of Merino sheep to replace the £70 million worth of this wool imported annually. However, development of suitable cross breeds would be needed and the performance of the Merino sheep under UK conditions tested before the potential for either could be assessed.

15. Sheep dairying has expanded from nothing to 5000 ewes in the last 10 years. Future expansion will depend on market demand as profitability is tied to the premium that the milk currently commands over alternatives. The prospects are probably better than for fine wool production but over the next decade dairy sheep are likely to occupy only a small area of land.

(iii) Horses

16. The potential is for the keeping and feeding of horses for recreational purposes. This is discussed further in Annex D of the present Report. It is difficult to estimate the rate at which further expansion in horse keeping might occur dependent as it

is on demand (which is buoyant) and on various constraints such as planning restrictions and possible public concern about the continuation of certain of the activities involving horses, such as hunting (which currently employs 40,000 horses). Any expansion in land used for horses is likely to be unevenly spread, with most occurring in the south east of England.

Conclusions

17. Taking the novel crop and livestock possibilities together, the CAS has estimated that up to 100,000 ha of land might be used for new crops by 1990 and a further 2 million hectares by new livestock enterprises (half by sheep), though over a somewhat longer period. The figure relating to livestock seems much too high. First the availability and size of suitable markets is uncertain as are UK production costs (no Community support is likely) and much more needs to be learnt about the suitability of crop and animal breeds to UK conditions. Genetic improvements would take years to develop as would the physical multiplication of seed and breeding stock. The scope for occupying land with new crop and livestock enterprises by 1995 must therefore be very limited, although there and could be considerable potential in the longer term.

18. Overall, there is a clear need to investigate further the possibilities which have been identified both from the technical (suitability to UK conditions) and the economic and marketing point of view. This should be part of a continuing investigation process into novel possibilities, where Government -funded experimental farms should play a part. Farmers who might be considering diversifying into new enterprises will require expert advice before launching into large

scale production. If this became available the development would be speeded. Farmers will also need to be sure of the availability of suitable markets, and marketing groups should undertake this exercise for the most promising products.

ALTERNATIVE USE OF LAND FOR FORESTRY AND FARM WOODLANDS

1. This Annex examines some of the issues that arise in relation to expanding forestry, the possible development and rehabilitation of farm woodlands and the potential for short rotation coppicing, for agro-forestry and for further research to improve the economic viability of forestry.

Traditional Forestry

2. The total forest area in the UK (including farm woodlands) is 2.3 million hectares or nearly 10% of the land area. Just over half is in private ownership. Forestry is currently expanding at the rate of 23,000 hectares per annum, some three-quarters of the level of the future growth envisaged by the Government in 1980¹ when it reviewed forestry policy. This is mainly taking place in the private sector, except in Northern Ireland where there is little private activity. Most of the expansion is on the poorest quality hill land in the uplands of Scotland. This reflects the longstanding Government policy of confining forestry as far as possible to land of little value to agriculture. However, the total area planted each year has declined markedly since the early 1970s and the private sector is actively searching for suitable new land to plant. The industry considers that it has the capacity to double the existing rate of planting every 5-10 years if sufficient land were available. This would absorb 400,000 hectares over the next ten years. Without further falls in land prices or additional incentives, the industry would, however, be unlikely to plant better quality, and therefore more agriculturally productive, land.

¹ Official Report 10th December 1980, Col 927-8

3. There is no technical constraint on afforesting marginal arable and pasture land (Grade 4 and poorer Grade 3 land). Indeed the productivity of such lowland forestry can be more than twice that in the uplands. However there is scope for work aimed at reducing the costs of woodland establishment in the lowlands which has had less attention than has been given to upland afforestation.

4. There is a large domestic market for softwoods and a smaller one for hardwoods. Domestic production meets only 14% of the UK market, and imports cost some £4 billion a year. The EC is the world's largest importer of timber and is less than 50% self-sufficient. Long-term price prospects for timber are difficult to predict with confidence, but on cautious assumptions the returns from conifers appear satisfactory and are reasonably robust within the range of historic real price variations.

5. The principal considerations for the private forestry investor are the size and nature of grants, the tax arrangements, and the cost of land. The current tax regime makes forestry attractive mainly to higher rate taxpayers. This rules out most farmers who tend to pay no more than standard rate tax, unless they are able to enter into some form of leasing or partnership arrangement with a higher rate taxpayer. A preliminary analysis by the Forestry Commission suggests that at the level of incentives now available, existing private investors would be unlikely to pay much more than £1000 per hectare. Little marginal land is currently available at this price. Either a fall in land prices or an increase in incentives would thus seem to be needed before forestry could become a significant user of this quality of land. Action by the Community or the UK to curb surplus production could lead to further reductions in land prices and lead to some parcels of better land being planted. There may also be ways of drawing in tax - exempt financial institutions for which the price of land is less crucial. These possibilities should be examined

further.

6. The level of planting by the Forestry Commission² in Great Britain and DANI in Northern Ireland is determined by Forestry Ministers. Current policy is for planting of about 5,000 hectares per annum.

7. Four issues of public policy require consideration:

- a) **The effect on the environment.** The Countryside Commission (CC) and the Nature Conservancy Council (NCC) have expressed concern about the effects of major conifer planting on certain upland areas. Indeed objections by the CC to such planting in National Parks and the Areas of Outstanding Natural Beauty, which account for 60% of the uplands in England and Wales, have been partly responsible for keeping planting to only 2000 hectares per annum in these countries. The principal objections relate to

² The Forestry Commission's objectives, aimed primarily at traditional forestry, can be summarised into a primary objective and three secondary objectives. The primary one is to increase the quantity of wood supplied to industry and the profitability of forestry by enlarging Britain's forest area and by raising the efficiency with which forests are established, managed and harvested. The secondary objectives are to support and stimulate the economy in rural areas; to increase the opportunity for enjoyment by the public of recreation in the forests and to protect and enhance the quality of the rural environment. This last objective has now been given statutory backing. Under the Forestry Act 1967 as amended by the Wildlife and Countryside (Amendment) Act 1985, the Commission is now required to achieve a reasonable balance between afforestation, the management of forests and timber production on the one hand and the conservation and enhancement of the natural environment on the other.

the change in the appearance of the landscape brought about by large blocks of single species planting and the loss of open ground wildlife habitats. On the other hand, the NCC acknowledges that it would be both ecologically and economically sensible if some of the land released from agricultural production could be used in growing trees. The NCC's recent publication ("Nature Conservation and Afforestation in Britain") advocates the use of a wide variety of species, including broadleaves, and suggests that new forests in the lowlands would have higher wildlife value than the arable or improved pastures they replace. This could be a means of satisfying timber production aims, whilst relieving the pressure on more important wildlife areas. The Countryside Commission for Scotland has recently published a major review of forestry in Scotland which envisages scope for a continuation of planting at current rates. The UK Centre for Economic and Environmental Development, established as part of the British response to the World Conservation Strategy, recommended in a recent report³ that "the further expansion of the British forestry industry is in the national interest and should be encouraged, subject to constraints arising from meeting the reasonable needs of other land users". There could be a reduction in nitrate pollution of water supplies, and therefore in the cost of water treatment if forestry replaced arable crops. A good deal can now be done to blend new planting into the countryside by sensitive landscaping. This is encouraged under the consultation arrangements regulating private forestry. Planting of broadleaved species is usually welcomed by environmental interests. The

³ CEED "Forestry: Britain's Growing Resource" - 1986

forestry industry prefer conifers because they yield higher and earlier returns. However broadleaved planting is now being stimulated by the higher incentives introduced in October 1985 under the Government's Broadleaves initiative. The Forestry Commission and DANI could also plant more broadleaves on land taken out of agricultural production, but only at greater cost to the Exchequer.

- b) **Exchequer consequences.** It is not easy to estimate either the cost involved in encouraging a major expansion of tree planting or the savings which would accrue through a reduction in surpluses of agricultural crops. However, MAFF and FC estimates set out in Table 1 suggest that, at current grant rates for tree planting and existing levels of agricultural support, the savings in disposal costs of agricultural products on Grade 4 land normally supporting sheep and cattle and poorer Grade 3 land yielding up to 5 tonnes per hectare of cereals might over time outweigh the additional costs in cash terms. However, the estimated CAP savings make no allowance for the changes in support policy envisaged elsewhere in this Report. If these changes took place the savings available from additional afforestation could be significantly reduced. The illustrative example in table 1 is necessarily speculative and there are also problems in making a comparison between the Exchequer costs of private sector and public sector plantings. For example, the figures are calculated over only 10 or 20 years, and therefore do not bring out the fact that the Government gains a public asset in the form of land which could be disposed of in the future. It might also be necessary to exclude the availability of afforestation incentives in areas of particular scientific or landscape interest. Further work will be required to provide more

accurate estimates of the economic and financial effects under various assumptions about land prices and agricultural output levels and support prices.

- c) **Employment.** The Forestry Commission estimate that about 80 jobs are created in the establishment phase for a planting programme of 1,000 hectares per annum sustained for 10 years. With such a programme the number of jobs could be expected to increase to about 160 when thinning commenced around year 20. Employment would eventually increase further when the forest became due for felling, which is the most labour intensive part of the growing cycle. Downstream jobs would be created at the rate of one for every two in the forest but most of these would not be achieved until thinning commenced after say twenty years.
- d) **EC implications.** The case for support for forestry also needs to be considered on a Community basis. EC Commission proposals on forestry are expected later this year following the consultation paper on EC forestry measures published in January⁴. Consideration of whether to adopt (if permissive) and, if not, how to adapt these to suit UK circumstances will be needed. Some proposals on forestry are included in the EC Commission socio-structural package⁵ but these are mainly linked to early retirement.

4 COM(85) 792 final and COM (86) 26 final

5 COM (86) 199 final

Woodland as a Farm Crop

8. Some expansion in farm woodlands (forestry within an agricultural unit) could also be beneficial. This falls into two parts: development of new woodlands and rehabilitation of existing woodlands.

9. The development of new farm woodlands offers potential for reducing agricultural production whilst maintaining farm income and employment of labour. A recent study by the Agricultural Departments and the Forestry Commission⁶ identified potential for new planting of this type at an average rate of 8000 hectares per annum or 80,000 hectares over the next 10 years. Although there might be scope for drawing on private capital or institutional funds, an increase in farm woodland on this scale is likely to require additional public funds. In particular incentives might be necessary to compensate for the loss of agricultural income on the land in question which is not recouped until significant revenue is generated from the timber crop if farmers were unable to borrow from the private sector against this future income. This would be a period of about 20 years for conifers and 40 years for broadleaved species. This compensation would be in addition to the planting grants payable by the Forestry Commission and could take the form of grants, loans or loan guarantees. The precise details of such compensation schemes would need careful consideration, as would the level of assistance that could be justified in the light of savings in agricultural support costs. An illustrative example of a scheme providing for woodland compensatory allowances roughly equal to the average current farming income on three typical categories of holding is costed as follows. The higher rate (say, £490 per hectare in these costings) would be payable on high yield Grade 3 land, a

⁶ "Woodland as a Farm Crop" MAFF 1985

lower rate (say £190 per hectare) on low yield Grade 3 land and the lowest rate (say, £95 per hectare) on Grade 4 land. This would target on the areas identified as being most vulnerable in the event of a successful EC policy of reduction in agricultural production, and recognises the greater loss of income from agriculture on higher grade land. It is questionable whether Grade 5 land should attract any allowance, as existing incentives to afforestation are adequate here. Grade 1 and Grade 2 land could be excluded to prevent the loss of the very best agricultural land. The compensation scheme would need to be carefully drafted, for example, to exclude existing commercial forestry and minimise leakage through tax concessions. Environmental problems would be minimised through the Forestry Commission's grant schemes' consultation procedures. However, the compensation schemes may have to recognise the varying time over which agricultural income were foregone as between planting conifers, mixtures or pure broadleaves, so as not to act as a disincentive.

10. Such a scheme raises a number of issues of public policy which require careful examination.

- a) It has been calculated, on a necessarily speculative basis, that a farm woodland scheme of say 10,000 hectares per annum might involve expenditure of £15½m a year on average over the first 10 years, and £22m a year on average over the next 10 years. In the view of the Agriculture Departments this would be more than offset by savings on surplus disposal costs assuming the continuation of current levels of agricultural support in real terms and that there is no tax leakage. Details are set out in Table 2. There would also be some administrative costs in making payments, in verification and in advising farmers on eligibility of their land for the woodland compensatory allowances, although it should be possible to make use of the advisory services and

the existing land classification system. There could also be costs involved in providing advice and training. An alternative to a national scheme would be to try to negotiate an EC scheme with 25 or 50 per cent FEOGA funding. This should be explored, though the overall costs and benefits to the UK of any EC scheme would need careful consideration. Meanwhile there is a good case for pressing ahead with development of a national scheme with clear objectives and provision for the monitoring of its cost-effectiveness. The cost might be limited by closing the scheme once a target area had been reached.

- b) The provision of advice and training on woodland management at all stages, particularly on the eventual marketing of the crop, would be needed. The former could be provided by the agricultural advisory services in co-operation with the Forestry Commission and DANI. Farmers might need to co-operate in selling their timber and wood products and some encouragement of wood marketing co-operatives or similar ventures could be beneficial. Consideration should be given to the possibility of making any such arrangements self-financing.
- c) Account will also need to be taken of developments in woodland rehabilitation, short rotation coppice, and agro-forestry outlined in paragraph 12 to 14 below. Any scheme for farm forestry would have to be designed so as to avoid undermining more cost-effective schemes in these areas.
- d) Whilst it might not create many new jobs, farm forestry could have a role in retaining existing ones, particularly as the peak demand for forestry labour fits conveniently into the agricultural cycle.

- e) Under most tenancy agreements a tenant requires his landlord's consent to afforestation. Tenants could face problems in obtaining this since land committed to woodland could not be used for other purposes for many years. Moreover if the woodlands were not regarded as "ancillary to the farming of the land for other agricultural purposes" the land in question could fall outside the definition of "agriculture" in agricultural holdings legislation. If woodland became a significant part of the holding (which might be as low as 20%) the tenant could lose various rights, notably to two-generation succession and to end-of-tenancy compensation under this particular legislation. This aspect needs further study and may require legislation.
- f) The environmental, exchequer, employment and wider EC implications, discussed in para 7 in relation to traditional forestry, would also need to be considered.

Rehabilitation of Woodland

11. This would also offer some potential as an alternative source of farm income and of continued rural employment. The majority of the 250,000 or so hectares devoted to farm woodland at present is unmanaged and in a poor state. Depending upon its age and condition, rehabilitation and management of this woodland could bring some farmers a positive return from sales of timber already on the ground within a relatively short period. A number of local initiatives have been funded by Government in recent years to encourage farmers to begin to bring neglected woodland into management. The latest of these, Project Silvanus, is due to be launched soon. It is aimed at encouraging farmers' active participation in bringing some of the 74,000 hectares of unmanaged, mostly broadleaved, woods in the south west of England under management over a 10 year

period. The intention is to create a self-financing management cycle. This would sustain the traditional wildlife (including game) and landscape of the region, develop an alternative source of farm income from timber, and create new employment in the wood using industry. A similar initiative has been taken in Wales. Attention should be given to the possibility of extending such projects to other areas in the light of evidence on their cost-effectiveness.

Short rotation coppice

12. Short rotation coppice involves the harvesting of fast - growing broadleaved species, such as poplar and willow, at intervals of 3 to 5 years for use in the raw state or, after chipping, for fuel, hard board or as a chemical feedstock. The Department of Energy is financing research on the use for fuel through its Energy Technology Support Unit. Final results are not expected until 1988, but preliminary work suggests that the potential depends critically on the price of alternative raw material sources, which are very competitive at present, and the development of an adequate marketing chain. There are interesting long term prospects and research into the various possibilities should be continued.

Agro-forestry

13. Agro-forestry is a system in which widely spaced trees are grown in conjunction with agricultural crops and livestock. In some parts of the world, notably New Zealand, this provides a higher combined income than either woodland or agriculture alone. It also ensures an annual income in the early years before the woodland matures. The extent to which it could be applied in the different conditions of the UK is uncertain. Current research will provide some answers, but it is likely to be some years before comprehensive results are available for dissemination. The impact on agricultural surpluses would

incentives from public funds might also be less because of the continuing income from agriculture in the early years. Work on this should be pressed forward.

Research

14. In view of the potential forestry now offers as an alternative land use, both on a traditional basis and as a farm crop, there is scope for a change in research emphasis. Continued government funding is required in view of the long term nature of such work, but contributions might be forthcoming from farming organisations, who are expressing increasing interest in forestry, and from the EC. Priority areas are cost-effective methods of establishing woodland on better land, and design for conservation and landscape enhancement. Work should continue on short rotation coppice, agro-forestry and tree breeding, which offer good long term prospects for improving returns from forestry.

Table 1

Illustrative UK Exchequer Savings (Post-Tax) for a Possible Large-Scale Commercial Forestry Scheme

	Costs per hectare (£)					Potential implications of planting 10000 ha pa (£m)					
						Over 10 years (2)			Over 20 years(3)		
	Grant(1)	Land cost	Tax foregone (5)	Establish- ment cost	Total	Cost	Saving on surplus disposal (4)	Net saving	Cost	Saving on surplus disposal (4)	Net saving
Private	240	-	408	-	648	62	249	187	65	701	636
Public	-	1300	-	700-1000	2000- 2300	200- 230	249	49-19	200- 230	701	501-471

- Notes:
- (1) The Forestry Grant Scheme 10 + ha rate has been assumed - £192/ha at planting plus £48/ha at Year 5: £240/ha in total.
 - (2) Ignores costs and savings from Year 11 onwards.
 - (3) Ignores savings from Year 21 onwards.
 - (4) Surplus disposal costs based on current MAFF estimates of UK marginal exchequer net contribution to FEOGA cost of the changes in production.
 - (5) Assumes no opportunity for other tax savings, hence this is a maximum tax loss assumption.

- General
- (a) Assumes no change in level of CAP support over the period.
 - (b) Assumes no Woodland Compensatory Allowances paid to the private sector.
 - (c) Assumes 10000 ha plantings made up of 5000 ha Grade IV, 2500 ha high yield Grade III and 2500 ha low yield Grade III - see Table 2.
 - (d) Values are at present day prices.

TABLE 2

Illustrative UK Exchequer Savings (Pre-Tax) for a Possible Farm Forestry Scheme

	Costs per hectare (£)		Exchequer implications of an Annual Planting Programme of 5000 ha each on Grades III and IV land (£'000)					
			Over 10 years ⁽³⁾			Over 20 years ⁽⁴⁾		
	Grant ⁽¹⁾	Woodland compensatory allowance ⁽²⁾	Total cost	Savings in surplus disposal ⁽⁵⁾	Net position	Total cost	Savings in surplus disposal ⁽⁵⁾	Net position
Grade III land (high yield) 2500 ha	420	490	76825	91290	14465	200375	257540	57165
Grade III land (low yield) 2500 ha	420	190	33575	65315	31740	84125	184065	99940
Grade IV land 5000 ha	420	95	45025	92125	47100	94625	259625	165000
Total (£m)			156	249	93	379	701	322

- Notes: (1) The Forestry Grant Scheme 3-10ha rate has been assumed - £336/ha at planting plus £84/ha at year 5: £420/ha in total.
- (2) The Woodland Compensatory allowance is equal to the estimated income foregone. Agricultural production is assumed to be cattle and sheep on Grade IV land and wheat on Grade III land assuming yields of 5 and 7 tonnes/ha.
- (3) Ignores costs and savings from Year 11 onwards.
- (4) Ignores benefits from Year 21 onwards.
- (5) Surplus disposal costs based on current MAFF estimates of UK marginal exchequer net contribution to FEOGA cost of the changes in production.

General (a) Assumes no change in level of CAP support over the period.
 (b) Values are at present day prices.

THE USE OF LAND FOR CONSERVATION AND RECREATION
PURPOSES

1. Rural land is valued not only by those who, like farmers, earn their living from it, but also by those who see it as an amenity, interesting in itself and as the location for recreational pursuits, or as a source of water.

Conservation

2. There is substantial public support for the protection of certain areas because of their landscape, wildlife, geological or archaeological interest. The major conservation designations (which overlap to some extent) cover some 6 million hectares, 30% of the UK land mass: 3 million hectares for National Parks and Areas of Outstanding Natural Beauty, 1.8 million hectares for Green Belts and 2 million hectares for Sites of Special Scientific Interest (SSSIs). Other areas are of significance in their locality.

3. Many of the features which people wish to conserve are the product of farming and compatible with traditional agricultural practices. However, since the war, the intensification of agriculture, especially increased arable use, larger fields, improved pasture and more use of fertilisers and pesticides, has been mainly responsible for changes in scenic landscape and loss of (semi-) natural habitats, together with their animal and plant species. While these changes in the countryside have sometimes been exaggerated by some lobbyists, conservation policy has become increasingly concerned with the protection of key sites from intensive farming methods through

designation and a largely voluntary system of compensation through management agreements, together with the encouragement of "environmentally-friendly" farming over larger tracts of countryside.

4. The quality of water resources is significantly affected by agricultural land use in the water catchment area. Intensive arable farming leads to increased nitrate concentrations in ground waters which are used for water supplies. This problem is causing serious concern, particularly in the Midlands and Eastern England. Reductions in agricultural intensity, especially over water catchment areas on aquifers which are sources of ground water supplies, would be beneficial. The establishment of Water Source Protection Zones (under the Control of Pollution Act, 1974 and as proposed in the recent Consultation Paper on water privatisation and the water environment¹) would imply less intensive cultivation of such areas. Changes from intensive arable to forestry or grassland would be most beneficial. Further, both intensive livestock and arable farming can pollute surface waters. Less arable and livestock farming, accompanied by more forestry, amenity and recreational use of land, could bring significant improvements in the quality of rivers.

5. The main conservation mechanisms are:

i. Planning Controls Designation of land as a National Park, Area of Outstanding Natural Beauty, or Area of Great Landscape Value (or similar) in a structure plan carries with it a stricter approach to

1 The Water Environment: The Next Step, Department of Environment and Welsh Office, April 1986.

development proposals and a recognition that the landscape is of particular importance. The Nature Conservancy Council (NCC) must be consulted on proposals for development in SSSIs. The agricultural and forestry use of land is, however, specifically excluded from the definition of 'development' in the Town and Country Planning Act 1971, although some operations for agricultural purposes are within the definition of development.

ii. Restrictive Management Agreements These are voluntary, and are made by the NCC, National Park Authorities, the Broads Authority and other local planning authorities. They already protect over 100,000 hectares and the figure is rising steadily. Agreements are expected to cover about 30% of SSSIs (0.7 million hectares) in due course. Expenditure this year will be about £9 million.

iii. Acquisition by Public Bodies The policy of the conservation agencies is to acquire land only as a last resort apart from reserves needed for scientific or demonstration purposes. The NCC own about 40,000 hectares in National Nature Reserves (with a further 120,000 hectares protected through other forms of tenure, including leases and Nature Reserve Agreements with farmers). The National Park Authorities own 28,000 hectares. Transactions such as sale and lease-back, or purchase for re-sale under restrictive covenant can help to stretch the public resources available. There could be increasing pressures for purchase if declining land and produce prices encourage farmers to sell land rather than to accept compensation under management agreements.

iv. Acquisition by Non-Governmental Conservation Bodies This has been very successful; for example, the National Trust's "Enterprise Neptune" has purchased 465 miles of coast at a cost of

£8.5 million. The Trust owns a total of 200,000 hectares of land, making it the third largest landowner in the country after the Crown and the State. Other major landowners are the Royal Society for the Protection of Birds (RSPB), with 47,600 hectares, and the County Conservation Trusts. Bodies such as the Woodland Trust and the British Association for Shooting and Conservation are also acquiring land. The current British Wildlife Appeal by the Royal Society for Nature Conservation on behalf of the County Trusts was launched to purchase and manage sites because so much marginal land of conservation value was coming onto the market. It aims to raise £8 million.

6. Other mechanisms not yet employed on a large scale include:

i. Positive Management Agreements These require the owners/occupiers of land to do something, rather than preventing them from doing something. The NCC already use them on a limited scale.

ii. Grants for Maintaining/Adopting Traditional Farming Practices in Environmentally Sensitive Areas Under the Broads Experimental Grazing Scheme in the Halvergate Marshes, farmers are paid £50 per acre to maintain the traditional grazing regime. This scheme covers 7000 ha. The Agriculture Act 1986 provides for this approach to be extended: Agriculture Ministers can designate environmentally sensitive areas (ESAs) in which farmers will be offered incentives to adopt or maintain conservationally beneficial practices. Initially this approach is to be tried only in 8 or 9 areas (covering around 170,000 ha in England and Wales and perhaps another 80,000 has in Scotland and Northern Ireland) at a cost of £6 million per annum in a full year with the effects being monitored against

the specific objectives of the schemes. However, a larger number of potential areas have been identified by the NCC and the Countryside Commissions.

iii. Conservation Plans for Individual Farms The Countryside Commission, some local authorities, and the Farming and Wildlife Advisory Group run demonstration and link farms to show how conservation and agricultural objectives may be integrated. The NCC demonstrates "environmentally - friendly" farming techniques on some of its National Nature reserves and the Countryside Commission also agrees conservation plans for individual farms as a basis for some of its grant aid. Under the Agriculture Improvement Scheme, grant aid is available for conservation elements, such as hedge and tree-planting, in farm plans.

iv. Management Support for Conservation-Related Activities 'Project Silvanus' in the South West is designed to provide marketing coordination for rehabilitated small woodlands (see paragraph 11 of Annex C). 'Coed Cymru' is concerned with improving the management of existing woodlands in Wales.

7. Conservation measures are relatively inexpensive: total grant-in-aid to the NCC and the Countryside Commission and National Park Supplementary Grant is some £60 million this year, to be used for a very wide range of purposes. Management agreements under the Wildlife and Countryside Act 1981, entered into because of the threat of intensification, generally involve payments based on 'net profit foregone'; as farming profitability falls, the cost of such agreements will tend to decline, although (as farmers endeavour to maintain incomes) there may be greater need for them. The overall effect is likely to mean more agreements at lower cost per hectare - so representing better value for money - as farmers occupying 'designated' land increasingly look to

conservation to maintain their incomes. This offers the opportunity to develop management agreements in a positive sense, ie to include positive management in the interests of conservation.

8. Much conservation activity is funded by the public through their support for voluntary bodies. The RSPB, for example, has a staff of 350 and a budget of over £6 million a year. The National Trust has a budget of over £50 million a year. The County Trusts already own, lease or manage about 50,000 hectares in over 1600 nature reserves. As land prices fall, these organisations will be able to acquire more for the same money.

9. Management of land to maintain or enhance its conservation value is labour-intensive. It can therefore help to sustain the rural economy by boosting employment directly. There are also the indirect regional employment effects from the tourists attracted to areas of high landscape or other natural interest. The effect on agricultural surpluses depends on the type of management regime promoted: planting trees extensively in areas of intensive arable cultivation would have a major effect, whilst simply paying for the maintenance of existing field boundaries would not.

10. In summary, there is considerable public support for conservation. The need to reduce surpluses should lead to a corresponding reduction in pressures on the land and opportunities both to safeguard more land and to reverse some of the changes of recent decades. In particular, the scope for more frequent use of positive management agreements, for the acquisition of land by non-Governmental conservation bodies, the expansion of demonstration farms and more conservation plans for individual farms and the integration of current efforts, should be examined. The effects of

ESA designation should be carefully monitored, and, where cost-effective, the use of this designation extended.

Recreation

11. Countryside recreation embraces a wide range of activities from walking, and traditional countryside pursuits such as hunting, shooting and fishing (which are generally compatible with conservation), to specialised sports and activities. A list of those most commonly engaged in is given in the Appendix to this Annex. The results of a survey conducted by the Countryside Commissions in 1984² and 1985³ show that the majority of recreation activities undertaken in the countryside take place informally without being highly managed or influenced by marketing or publicity techniques (Table 1). Most trips are made by car owners; with nearly half travelling less than 20 miles (in Scotland the average trip is of 60 miles). The needs of motorists and walkers appear to be reasonably well catered for at the present time although the Ramblers' Association continues to campaign for increased access to woodlands, moorlands and land adjoining lakes and rivers. Demand is less well met for horse riding, where bridleways are expensive to provide, motor and motor cycle sports, where there is a need to provide more facilities to avoid the illegal use of footpaths and bridleways, golf, where private clubs are heavily over-subscribed, and archery, where the number of participants continues to rise.

² National Countryside Recreation Survey 1984, Countryside Commission Publication 201

³ Scottish Leisure Survey Volumes 1-4, Countryside Commission for Scotland, 1985.

Table 1
Spread of Interest in Countryside Recreational
Activities in England and Wales

Drives, outings, picnics	19%
Long walks	18%
Visiting friends and relatives	14%
Sea coast	8%
Informal sport	12%
Organised sport	7%
"Pick-your-own"	4%
Historic buildings	4%
Country Parks	4%
Watched sport	3%
Others	7%

12. The main options for increased recreational provisions which would make use of significant areas of land appear to be as follows:

(i) Woodlands. These offer facilities for a wide variety of recreational uses (see Appendix) and many of them are heavily used for that purpose. Subject to any title restrictions and to occasional operating constraints, the Forestry Commission has opened woodlands to the public free of charge for a number of years with considerable success. A range of associated facilities including cabins, camping and caravan sites and visitor centres are also provided and these are operated commercially where appropriate.

(ii) Country parks. There are areas of the UK, particularly the south west of England, where there are very few country parks. They need not occupy large areas of land (some are as small as 7 ha) although, of course, there need not be a limit (some are up to 1200 ha).

(iii) Golf courses. There are currently around 1900 golf courses in England and Scotland and 120 in Wales. Their average size is about 60-80 hectares giving a total area of land occupied in the region of 140-170,000 ha. Most of these are over-subscribed so there is likely to be an increasing demand for more to be established in the next 5-10 years. Although establishment costs are high, the potential profitability should attract private investment. Planning conditions would need to be relaxed if scope for expansion of golf courses was to be maximised.

(iv) Horses. There are up to 550,000 horses in the UK (including 50,000 race horses), which together make use of 3-500,000 ha for keeping, grazing and producing feed. Over 40% of horses are thought to be in the south east of England and less than 26% in the north, Scotland and Northern Ireland. There is an increasing rate of demand for leisure horses with the British Horse Society's membership increasing at 4-6% a year for the past 5 years. Clearly, therefore, there is considerable potential scope for an expansion in land used to support this activity. With rents as high as £500 per horse per year, the net profit per animal can easily exceed that of an average dairy cow. Case law has held, however, that the use of land for keeping (but not grazing) horses for recreation (but not agriculture) requires planning permission, as does the erection of buildings for that purpose. This can represent a constraint on horse-keeping activity. An earlier proposal to exempt up to 2 hectares of land for keeping horses for recreation from the need for planning permission produced a hostile response from local authorities and amenity interests because of the possible adverse effect on amenity (eg pressure for new buildings) particularly in the Green Belt. A revival of this proposal would therefore need to be handled very carefully to avoid an unfavourable public reaction. However, a limited relaxation would be a

useful de-regulatory move, and the scope for this should be reconsidered. If such a relaxation were pursued it would be necessary to make plain that the present controls were not being dropped completely.

(v) Use of land for game. It is possible, where the farmer owns the shooting rights, for additional income to be earned by small farm woodlands if they are managed for game. Mixed and broadleaf woodlands provide the best game cover although conifer woods are also valuable. The precise values are likely to vary greatly, but a 400 hectare farm containing six 2-hectare broadleaved woods should be able to attract rents for shooting rights in the region of £2,000 per annum.

13. In summary, there is clearly a growing demand for more recreation facilities to be provided in the countryside, some of which would appear to be capable of making use of significant areas of agricultural land. Many of these would need little or no injection of public funds (though they would involve some relaxation in planning rules) and would not be dependent on EC constraints. However, a more detailed study of the extent and nature of the demand, the resources needed to satisfy it and the economic and employment prospects that might flow from it, would be necessary before definite conclusions could be drawn. The Countryside Commission is currently engaged in soliciting views and ideas on future recreation possibilities in response to a discussion paper, "Recreation 2000", published in May. The results from this exercise are expected in the Autumn and should go some way to clarifying the issues in this important area of countryside activity. Further consideration should then be given to the matter.

Major Recreational Land Uses

1. Footpaths and bridleways
2. Camping and caravanning
3. Country parks
4. Picnic sites
5. Theme and amusement parks
6. Zoos, safari parks and wildlife and nature reserves
7. Farms (eg "pick-your-own")
8. Historic sites and landscape gardens
9. Village pubs and cafes
10. Sports
 - eg field sports
 - horse-riding
 - orienteering
 - mountaineering and other climbing
 - football, rugby and cricket
 - golf
 - motor sports
 - gliding, flying, ballooning and parachuting
 - archery
 - skiing
11. Woodlands
 - eg picnic places
 - camping and caravan sites
 - log cabin chalets
 - walks
 - horse-riding and pony-trekking
 - motor rallies
 - orienteering, fishing, shooting and archery
12. Areas adjoining water
 - eg walking
 - fishing, boating and sailing

DIVERSIFICATION ON AND OFF FARM

Future rural employment trends

1. Information about farm incomes (eg 1983 survey of agriculture holdings¹, the annual survey of personal incomes² conducted by the Inland Revenue and a study conducted by Wye College³) reveals that about one-third of all agricultural holdings in the UK have one or more members of the family with a source of paid income other than that derived from agriculture undertaken on the farm. The Wye College study also revealed that two-thirds of holdings with other sources of income made less than £2000 from their farming activities on the holding in 1983-84, with 38% making no net income.

2. The nature of employment among the wider rural population has also changed in recent years. Agriculture is no longer the dominant source of jobs with the number employed on farms dropping from 675,000 in June 1977 to 616,000 in June 1985. It now accounts for only 24% of the rural workforce and this downward trend can be expected to continue over the next several years.

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- 1 Structure Survey of Agricultural Holdings 1983, Ministry of Agriculture, Fisheries and Food, 1983
- 2 The Survey of Personal Incomes, Inland Revenue, 1977-1984
- 3 Gasson R: Other Gainful Activities of Farm Families in England and Wales, Wye College, University of London, 1986.

Table 1

Changes in Farm Employment 1977-1985

	Number employed on farms '000		
	June 1977	June 1985	% Decrease
Farmers including partners and directors	296	292	1.35
Workers and managers*	379	324	14.5
Total	<u>675</u>	<u>616</u>	<u>8.7</u>

* Includes part-time employees and casuals (69,000 and 93,000 respectively in 1977 and 61,000 and 98,000 in 1985)

3. Some parts of the UK are, nevertheless, still highly dependent on agriculture as a source of employment and this is likely to continue (Table 2). Moreover it has been estimated that a similar number of non-agricultural jobs are in activities ancillary to agriculture and thus sensitive to changes in agriculture.

Table 2
Percentage of Employed* Rural Residents Working in
Various Industries

	Agricul- ture	Energy and Water	Manu- facturing	Const- ruction	Distribu- tion and Catering	Trans- port	Other Ser- vices
Cambridge- shire	13.0	1.0	22.9	8.0	17.9	4.7	31.8
Cumbria	17.2	1.6	21.5	7.8	19.9	4.6	26.6
Essex	9.9	1.6	21.7	8.8	18.8	5.2	33.0
Lincoln	23.7	1.5	16.8	7.1	18.2	5.3	26.6
Norfolk	17.4	1.3	19.9	8.7	18.3	4.5	29.2
Northumber- land	22.4	5.0	11.3	6.4	16.2	4.2	34.0
Powys	13.1	3.0	20.4	3.8	16.9	4.8	37.4
West Wales	9.8	5.9	10.2	6.5	19.5	6.0	41.9
Dumfries and Galloway	34.7	0.9	12.6	7.1	17.3	4.3	22.2
Grampian	25.8	3.8	13.4	8.6	16.1	4.4	27.1
Orkney Islands	38.9	2.0	5.7	9.7	14.3	9.0	19.3

* Excludes farmers and other self-employed workers

Source: OPCS (1984)

4. In recent years there have been signs that employment in manufacturing industry has held up better in small towns and rural areas than in the conurbations and large towns. There have also been signs of movement to the rural areas by the urban population. This may well accelerate as the improvements in telecommunication technology allow more people to work away from their traditional areas of employment. This trend is, however, likely to remain patchy over the UK as a whole, with some areas

continuing to suffer from a population decline and general loss of employment opportunities.

5. Given the prospect for a continued decline in agricultural output (with the associated knock-on effects on ancillary industries) there is likely to be a continuing need to stimulate enterprise and new business activity in rural areas. In part this can be met by on-farm diversification both into other agriculturally related activities (such as processing of primary production) and into non-agricultural activities (such as tourism and crafts). But, given the potential scale of the employment problem, this is unlikely to be sufficient in itself to sustain the rural economy and provide jobs for those made redundant both on farms and by contracting ancillary industries. Catering for these may require more wide-ranging off-farm rural development policies even though a number of Government agencies and Non-Departmental Public Bodies operate schemes to stimulate enterprise and new viable business activity in rural areas. Any barriers to diversification and development should be rigorously examined. The creation of new employment opportunities should involve the rural economy as a whole, and not (except for categorisation) be artificially divided at the farm gate.

On-farm diversification

6. An increasing number of farmers are showing interest in the potential for diversification on-farm. ADAS socio-economic advisers form the spearhead in the advisory effort associated with this in England and Wales. Where diversification takes the form of development into non-agricultural activities they work closely with the Development Commission and CoSIRA and equivalent Welsh agencies and, where appropriate, with

the Tourist Boards. ADAS should remain the focal point for advice in England and Wales in the first instance. This role should be undertaken by the equivalent services in Scotland and Northern Ireland.

7. Financial support for on-farm diversification is available under a number of schemes. Under the Agricultural Improvement Scheme (AIS) grants of 25% on up to £24,000 of expenditure are available for on-farm tourism and craft enterprises in the LFAs. To qualify, a farmer must submit an improvement plan including some purely agricultural investments, and indicate how the aided facility will be marketed. The grants cover building conversion, access, power supplies and the provision of lavatories. Grants under the AIS are also available at 15-30% for converting buildings for processing enterprises such as cheese and butter manufacture. In addition other grants are available to aid agricultural and horticultural marketing schemes.

8. Section 22 of the Agriculture Act 1986 gives Ministers powers to grant aid diversification by farmers into ancillary activities. The funding of this provision will have to be determined as part of the normal PES discussions and overlaps with schemes run by other Government agencies will have to be avoided. A list of potential on-farm diversification activities identified by the Working Party is given in the Appendix to this Annex.

Other rural development measures

9. Two of the sources of employment, both on-and off-farm, are provided by tourism and small manufacturing enterprises, including craft workshops. Industrial enterprises can start up in converted redundant farm or other rural buildings and on purpose-built industrial estates. Planning

authorities have been repeatedly urged by Government to accept a flexible approach to applications to convert old buildings and there is now evidence of a clear change in attitude, although in some areas old attitudes still persist to some extent. However, there are sometimes problems with finding suitable premises in certain areas and there may be scope for action here. Future telecommunication developments may well offer employment opportunities for people living in the remoter rural areas, and the Highland and Islands Development Board, for example, is currently exploring the possibilities. Some significant employment opportunities created by major industrial sites and residential development can be controversial within a rural environment and planning authorities will need to balance carefully the needs of rural enterprise and of protection of the environment.

Support for new measures

10. The Development Commission (DC), through its wholly-financed agency the Council for Small Industries in Rural Areas (CoSIRA), offers a range of advice and financial assistance to small firms throughout rural England for which farmers are eligible. CoSIRA can help particularly with questions of finance, training, premises and planning requirements related to the setting up of new rural enterprises, both on and off-farm. Loans at commercial rates of interest are also available. This function is carried out in Scotland by the Highlands and Islands Development Board and the Scottish Development Agency, in Mid-Wales by the Development Board for Rural Wales and in North and South Wales by the Welsh Development Agency. In Scotland the Scottish Development Agency operates two schemes specifically aimed at rural areas; Programmes for

Rural Initiative Developments (PRIDE) and Development of Rural Area Workshops (DRAW). The DC and CoSIRA offer a more comprehensive range of services in Rural Development Areas (RDAs). These cover the more remote areas designated by the DC, using criteria of both economic and social disadvantage. Within them the DC has a major programme for providing small workshops, and offers grants for the conversion of redundant buildings and loans to small businesses at preferential rates of interest. It also coordinates the economic and social programmes of other agencies and local authorities in their areas through the system of Rural Development Programmes. Broadly similar help is available in Scotland and in Wales from the bodies operating there although there is no equivalent to the RDAs.

11. A recent DoE commissioned review of DC programmes showed them to be broadly cost-effective in bringing new jobs to rural areas. Further work on the efficiency and effectiveness of the delivery of DC programmes is being done in a review currently being undertaken by the DC. There may therefore be scope, within existing DC provision, for funding any additional measures which can be justified to cope with a decline in the prosperity of agriculture. Nevertheless the DC has recently submitted proposals to the DoE for a substantially expanded programme including the provision of additional factory space and assistance to small firms in rural areas and a strengthening of their regional organisation. The DoE is supporting this initiative in principle and a bid for some additional resources to fund it is being considered as part of the current PES round. However, even if the bid were to be successful, it would still be likely to fall short of the amount the DC would consider to be necessary to carry out additional measures to meet the problems of declining agricultural prosperity.

12. The Small Firms Service (SFS) of the Department of Employment (DE) also provides advice and counselling to new and small enterprises. In Wales a similar service is provided by the Welsh Development Agency. CoSIRA provides a more intensive service in rural areas. A merger of this agency with the SFS was considered and rejected by E(A) in 1985. They were however enjoined to cooperate as closely as possible - which they now do. There is also a strong case for close liaison between these agencies and ADAS and such links should therefore be encouraged.

13. The Agricultural Training Board (ATB) provides a range of training courses in agriculture to both farmers and their employees. (In Northern Ireland this is undertaken by the Department of Agriculture.) If farmers are to diversify into new areas in which they have little practical experience they will need to acquire a wider range of skills. The ATB would be the most suitable agency to provide this in liaison with other advisory groups, and a recent Sub-Committee of the House of Lords has recommended that its powers be extended accordingly.

14. The Tourist Boards provides advice and financial assistance towards the capital costs of tourism developments. This scheme has a budget of £9.4 million for England for 1986/87 (the equivalent figures for Wales and Scotland are £2.5 million and £3 million respectively). New guidelines for the operation of the scheme designed to increase its cost-effectiveness in creating new jobs were introduced in 1986, but if it is desired to influence current trends in the number of jobs in rural tourism by the 1990s, these budgets may have to be increased.

15. Apart from the help that is available for new enterprises from the various formal bodies described

in the previous paragraphs, support is also given to local economic development by less formal groups. Particularly prominent among these groups are the Local Enterprise Agencies (LEAs) which have grown in number from less than 100 three years ago to well over 300 now. LEAs are independent local organisations set up primarily by private sector sponsors sometimes in conjunction with local authorities and other public bodies in order to tackle the economic problems facing the local community. They give advice and counselling, they may help to run workshops, to identify sources of finance and to be involved generally in supporting the development of the local economic community and in particular small businesses. These agencies may apply for financial support from the Government under the Local Enterprise Agency Grant Scheme operated by the DE or in Wales from the Welsh Office (as of next year, the Welsh Development Agency). In Northern Ireland these matters fall to the Department of Economic Development. The aim of this scheme is to make the LEAs more efficient and to increase the support given to them by the private sector. The scheme is therefore designed so that the decline in public sector contributions is offset by progressive increases in private sector support.

16. It was recognised when the Local Enterprise Agency Grant Scheme was set up that LEAs in deprived urban areas and in rural areas can face particular difficulties. These stem from a small private sector base and the presence of relatively few large companies with extensive resources which might provide funding and practical support to the enterprise agencies. Indeed in rural areas where agencies tend to cover larger geographical areas, these problems are intensified. CoSIRA and the Development Commission are therefore considering the possibility of providing additional support to enterprise agencies in rural areas over and above that available under the DE

scheme. Such support should be linked to additional activities or projects undertaken by the enterprise agencies. In Wales the Welsh Development Agency and the Development Board for Rural Wales have established Rural Enterprise Groups in areas where private sector activity is thin on the ground and successful local enterprise agency activity is unlikely, and at least one County Council has established an agency similar to Local Enterprise Agencies and geared to the needs of rural areas. Enterprise agencies in rural areas should look to increase their private sector support. In this context the larger and more profitable land owners and farmers should be encouraged to support LEAs. The Agriculture Departments should pursue this with the various representative bodies.

Potential On-farm Diversification Activities

1. Food and agricultural product processing
 - eg chipped potatoes
 - chopped and shredded vegetables
 - shelled peas and beans
 - cauliflower florets
 - frozen vegetables
 - dried herbs
 - fruit, frozen or bottled
 - fruit juices or pulp
 - vegetable oils
 - wine, cider or other fermented drinks
 - meat pies
 - bakery
 - flour
 - pickles
 - bottled water
 - cream and cheese
 - flavoured and plain yogurts
2. Farm manufacture
 - eg wood products
 - basket weaving
 - iron work
 - treatment of wools
3. Tourism
 - eg bed and breakfast and self-catering accommodation
 - camping and caravan sites
 - teas and other meals
 - pony trekking and horse-riding
 - fishing
 - shooting
 - golf, driving and putting
 - nature trails
 - access to a working farm
4. "Pick-your-own" and farm shops

CHANGES IN THE CURRENT POLICY FOR THE PROTECTION OF
AGRICULTURAL LAND

1. The Government's policy for the protection of good agricultural land is a long-standing policy which successive Governments have maintained. It was set out in DOE Circular 75 of 1976 and Welsh Office Circular 110 of 1976, which stated that

"Government policy for the protection of agricultural land is to ensure that, as far as possible, land of a higher agricultural quality is not taken for development where land of a lower quality is available and that the amount of land taken is no greater than reasonably required for carrying out the development in accordance with proper standards".

A similar policy for Scotland is set out in SDD Circular 24/1981 and the associated National Planning Guidelines.

2. The policy is implemented through the land-use planning system. As expressed in Circular 75/76, it is clearly set in the context of the high priority being given at that time to the expansion of UK food production (eg the White Paper Food from Our Own Resources), and hence to the need to reduce the loss of productive agricultural land to development.

3. Since that overall policy context is now changing, in the light of the development of agricultural surpluses and the probable need to take some land at least temporarily out of full agricultural production, the 1976 Circular will need to be revised or replaced. Likewise the priority that it gave to protecting agricultural land needs to be

reviewed. There are other important national policy objectives - such as the encouragement of private enterprise and job-creating new development, and the conservation of the countryside and the maintenance of Green Belts - which also influence the operation of the land-use planning system. The balance between these varied and sometimes conflicting objectives needs to be re-assessed. In particular, the need to expand and diversify the rural economy, in view of the likely reduction in agricultural and associated employment, has to be given full weight in considering proposals for new development in rural areas.

4. In making this re-assessment there are two broad approaches which Ministers may wish to consider.

5. Taking a radical approach, it can be argued that the efficiency and flexibility of higher grade agricultural land will be reflected in the economic returns from its use for agricultural production and hence in the relative price it can command in the open market. The 1976 Circular in effect applies a shadow value, over and above that price, to uses of such land for agriculture as opposed to other forms of development. In the absence of such a shadow value, other forms of development might produce an equal or higher economic return. In the interests of the economy as a whole, there is a case for removing this artificial restriction. The result would be that proposals for development on agricultural land of whatever quality would be subject only to normal planning criteria. These will include many environmental and amenity reasons - quite separate from agricultural arguments - which may legitimately militate against development in a given rural area.

6. Taken to its logical conclusion, the market economy solution would be to dismantle entirely the present policy towards protection of agricultural

land. This would be consistent with the Government's overall approach to the economy, with the emphasis on wealth and job creation through the operation of free markets and open competition and the minimum of intervention and regulatory constraint.

7. Alternatively, it can be argued that good quality agricultural land remains a valuable, finite national asset. In particular:

- (a) less than 3% of agricultural land in England and Wales is grade 1 and some 14% is grade 2;
- (b) the higher the quality of the land, the more adaptable it is, thus assisting farmers to adjust to the pressures for change they are increasingly facing;
- (c) the inherent quality of the high grades of land plays a vital part in maintaining the efficiency and competitiveness of UK agriculture; and
- (d) the extreme differences in the value of even the best land for agriculture and the prices developers are prepared to pay (up to £4,000-£5,000 per hectare compared with up to £400,000-£500,000 per hectare) renders comparisons between the two meaningless.

In view of these considerations, there remains a strong case for conserving good quality agricultural land. That policy also accords well with the policies of conserving the countryside and maintaining Green Belts, which command widespread public support.

8. Under this approach, there would be no need to change the way in which this policy is expressed in the circulars mentioned in para 1 above but the

context in which it operates has to be redefined and the circulars appropriately rewritten. These changes might reinforce the presumption in favour of development in the planning system; stress that greater relative weight should be given to job creating and diversification proposals, whether on or off farm; and stress that, even with reduced agricultural production, if UK agriculture is to remain efficient and competitive with our EC partners, the most economic and flexible agricultural land must be safeguarded. The policy line will, however, need to be decided in the light of the conclusions the Government reaches about the consequences of changes in agricultural support and the effects of those changes on the farming community and on the countryside.

9. If a policy of protecting good agricultural land is to be maintained within this changing policy context, it will also be necessary to review the way in which it is applied in practice.

10. First, such a policy cannot be applied in an absolutist fashion, because the agricultural quality of the land itself varies from place to place and because the weight to be attached to other policy objectives will also vary from case to case. The policy therefore has always been applied in a pragmatic fashion. It will clearly be even more necessary in future to weigh carefully the occasions on which the agricultural priority should prevail over other considerations.

11. Although no general announcement has been made, MAFF is already prepared to accept proposals to use better quality land for recreation - golf courses etc - where it is reasonably practicable for the land to be returned, without significant loss of quality, to agriculture at some time in the future. This approach

should be continued. It is already conveyed through the advice given on individual planning applications, but it should now be made publicly known.

12. It is a requirement, under the Town and Country Planning General Development Order 1977 (the GDO), that MAFF/WOAD be consulted on individual planning applications that are not in accordance with an approved development plan and would involve the loss of 10 or more acres of agricultural land. DAFS are consulted about broadly similar applications in Scotland. Although there is little evidence that the Agriculture Department's involvement in these individual cases has had a significant impact on the total amount of development, it can lengthen the planning process. The GDO could be amended to remove the statutory requirement to consult the Agriculture Departments on individual cases. If this course were pursued, it would be important for those Departments to retain the ability, in the more substantial cases (eg the recent applications for "commuter villages" around London), to ensure that local planning authorities were made fully aware of the agricultural implications of the proposal. Agriculture Departments should also continue to be consulted by mineral planning authorities to advise them on the restoration and aftercare aspects of minerals planning applications where the land is to be returned to agricultural use.

13. It is also for consideration whether the Agriculture Departments should continue to be involved in consultations, as at present, with local planning authorities on the agricultural implications of development plans. On balance, particularly if the Departments were not to be consulted on the generality of individual cases, it seems desirable that they should continue to be consulted on the preparation and review of development plans. If the proposals put

forward by the Secretary of State for the Environment to move to a single tier development plan are adopted, Agriculture Departments should also be consulted on drafting of the regional or sub-regional strategic guidance.

14. Any change in policy in this area is bound to be controversial. Those seeking to develop wealth and job creation opportunities (including some local authorities) would welcome relaxation; so too would those farmers who wish to diversify in order to minimise the impact of adjusting to the need to reduce surplus production.

15. On the other hand, the farming interest and ancillary industries see the Agricultural Departments' involvement in the planning system as an indication of their concern for long term interest of farming and the rural economy, and are likely to criticise any disengagement as signifying a diminution of this concern. Criticism would also come from the 'green' lobby, which sees the Government's policy for the protection of agricultural land as an important factor in protecting the wider countryside from intrusive development. Some local planning authorities might also be critical, since the policy is often helpful to them in reinforcing their opposition - for other planning reasons - to proposals for development in the countryside.

16. The Government would be able to explain and present the changes outlined above on the following lines:

(a) it must ensure that Government policy takes full account of current conditions and priorities, including changes affecting the agricultural industry;

(b) while it is necessary to maintain a policy of protecting good agricultural land, it is also necessary to encourage other forms of job-creating development, including alternative types of employment in rural areas;

(c) this approach implies no weakening of the Government's commitment to the maintenance of Green Belts and the conservation of the rural heritage;

(d) local planning authorities have had many years' experience of cases involving the development of agricultural land and it is no longer necessary for there to be such a detailed direct MAFF involvement in such cases.

17. It is recommended that

(a) The policy context of DOE Circular 75/76 (and Welsh Office Circular 110 of 1976) should be revised in the light of the approach that Ministers decide to adopt on the wider issue of changing agricultural support policies and their implications. The policy adopted in Scotland should similarly be revised.

(b) Within that broader policy context, a policy for protecting good agricultural land should continue but should be weighed along with other relevant policy objectives in deciding individual planning applications and in allocating land for development.

(c) In the light of the changing conditions, the Agricultural Departments need not continue to offer advice on the generality of planning applications although they should have the opportunity to do in cases of special significance, and should also be able to contribute to the preparation and review of

development plans, and on regional and sub-regional guidance (if adopted).

(d) These changes in the policy context and in the application and administration of arrangements for conserving good agricultural land should be incorporated in a new circular to replace DOE Circular 75/76 (and Welsh Office Circular 110 of 1976). Other Departments concerned should be consulted on its preparation and it should be published in draft for public comment.

(e) The reasons for these changes should be presented on the lines set out in para 16 above.

THE RATIONALE FOR GOVERNMENT INTERVENTION

1. The Government's general policy view is that the allocation of resources is normally best left to the free market. Nevertheless there are cases where defects in the market mechanism cannot be sufficiently improved or can only be improved slowly. In these circumstances public intervention may in principle be justified. Given the need to obtain value for money it is essential that the clearest possible objectives should be set for particular schemes of intervention, and that adequate means of monitoring and evaluation of such schemes are established from the outset.

2. The criteria that ought to be satisfied before Government support is provided are:

(i) the supported activity should be expected to become viable without continuing support and should offer long-run real benefits to the national economy;

(ii) the activity should be additional in the sense that it would not otherwise have taken place, and should not simply displace another activity with no net gain to efficiency;

(iii) intervention should seek to improve the working of the market mechanism and the benefits from intervention should exceed the costs of the distortion created by the intervention itself;

(iv) the case for intervention and the form of that intervention must be based on a diagnosis of the specific circumstances or market failures, which can justify Government support.

3. A joint report by Treasury and DTI into DTI industrial support (The ISR) produced in August 1985* and endorsed by Treasury and DTI Ministers concluded that there was no single accepted way of classifying those features of the economy which may justify support to an industry. There are, however, a number of arguments which may provide a prima facie case for intervention in the Agriculture and Rural sectors. These will include risks beyond the capability of the producers concerned to bear themselves (without jeopardising survival) or to pool with others, inadequate information flows, entry or exit barriers, and external effects where the gains are not appropriable and the costs cannot be recognised through the market.

4. It will be clear from the above that export promotion or import substitution do not of themselves constitute a justification for Government support. The criteria suggested are designed to achieve efficient allocation of resources through cost effective methods of intervention; as such, they help to distinguish between the efficiency justification for intervention and the distributional or income support arguments.

* The review of DTI industrial support. Joint Report by the Treasury and DTI, August 1985.