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CONFIDENTIAL

PRIME MINISTER

SCOTTISH OFFICE: VALUE FOR MONEY SEMINAR

No point in taking any further

Prime Minister:
Mr Tonger's explanation of the high level of support for agriculture in Scotland. Do you wish to take this further eg to seek SW Riba 1665 annexes

When we met on 27 November one of the points you particularly raised with me and asked me to consider further was the apparently high level of support for agriculture in Scotland relative to farmers' incomes.

14/11

I have now had an opportunity to look more closely at the position. I agree with your estimate of support expenditure in Scotland in 1983/84 at around £165m; this figure is high in relation to farmers income and was particularly so in 1983/84, largely as a consequence of unfavourable weather conditions. Since however the objective of our support policies goes wider than income support I would argue that net farming product (the difference between outputs and inputs) provides a better standard of comparison and in 1983/84 that stood at around £400m in Scotland. But whatever comparison basis is adopted the general point which you made about the high level of support costs remains. The main thing to bear in mind is that 75% of Scotland's land area lies within the Less-Favoured Area and the rates of assistance there push up support costs. It is estimated that in 1983/84 farms and crofts in receipt of Hill Livestock Compensatory Allowances accounted for 33% of net product in Scotland (including 55% of cattle and 85% of sheep), in return for which these farms benefited from some 62% of support expenditure. The remaining part of the industry in Scotland accounted for 66% of production at a cost of some 38% of support - that is a net product of £260m set against support costs of some £63m, a ratio of 4.5:1 which is comparable to the ratio for lowland farms in the UK as a whole.

In the hills and uplands Government support does more than provide agricultural employment and the care of the countryside: it serves indirectly to maintain as many jobs outside agriculture as within it and provides the essential basis for the whole economic and social fabric of the areas concerned. Without these various aids there is little doubt that large tracts of the country would suffer serious

depopulation; the prevention of such deleterious effects, using agriculture as the main vehicle for assistance, is at the heart of the objectives of the Less Favoured Areas Directive.

As regards agricultural research and advice in Scotland, the figure of £40m quoted in our discussion does include the total cost of the agricultural colleges, thus taking in the cost of agricultural education (about £4m per annum) which has I would suggest a rather broader purpose than the other measures and would not feature in comparable figures in England and Wales. It is relevant too that a good part of the effort of the Scottish agricultural research institutes is directed to meeting UK rather than specifically Scottish needs.

To sum up I believe that the Scottish support figures compare with those elsewhere in the UK and are a fair reflection of our present policies. Support levels are high where for reasons of socio-economic policy we know they must be in relation to agricultural returns; for the rest I believe they give good value in the shape of agricultural output for the money expended.

G.Y.

G.Y

13 December 1984