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Scotland's rural areas have done quite well over the last thirty years; in several local authority areas population has risen and unemployment is low. But this buoyancy has much to do with growth in services and an inflow of population. Agriculture now accounts for only about 10 per cent of gross value added, but, because of the many activities that depend upon it, this understates its importance.

Hill and island agriculture, which is overwhelming livestock farming, is now in a critical state. These areas account for 70 per cent of Scotland's sheep output and 50 per cent of cattle. The high exchange rate for the pound is a factor but so too are changes in the Common Agricultural policy (CAP). These changes have come about because of pressure in the WTO trading rounds to reduce protection and have led to decoupling of support from production. Two principal support systems remain: the Single Farm Payment, costing some some £400 million for Scotland as a whole and in excess of £200 million in the hill and island areas, and the Less Favoured Area Support Scheme (LFASS), available only in the LFA, costing £61 million a year. The SFP is not related to output at all and only requires a farmer to keep land in 'good agricultural and environmental condition'. The LFASS has a minimal requirement to keep livestock.

Profitability therefore now depends on market prices and these have been very low. Some estates in the Highlands have got rid of their livestock altogether; many farmers have reduced their numbers drastically so that sheep numbers, for example, have already fallen by 18 per cent and further decline is inevitable. But the process of change to the CAP is by no means complete. Many people expect the SFP to end altogether in 2013, and the Treasury appear to favour this; LFASS may be replaced, because there are many other disadvantaged agricultural areas in the EU, but its future is uncertain. If agriculture is in a difficult situation now, much of it in the Highlands and Islands of Scotland and in the Southern Uplands would be unable to continue in anything like its present form if support were further reduced. It is because of this situation that the RSE set up its Inquiry to consider not only the future for agriculture, but the implications for the environment and the scope for increased activity in other sectors.

There are many reasons why we should not be content to see agriculture disappear. Many farmers in the most fertile parts of the world are turning to biofuels, China and India can be expected to be major food importers and climate change is having an adverse effect on production in many parts of the world. Already grain prices have doubled. This has only made matters worse for livestock producers but a time may well come when their prices too have to rise. We may then be glad of as much home production as we can get. But secondly, abandonment of agriculture in the hills and islands will have a major impact on the environment and landscape. Grazing is essential

to maintain the biodiversity of these areas and an unkempt landscape will have an adverse effect on tourism, by far the largest industry in Scotland's rural areas.

The RSE Inquiry is looking at the scope for the expansion of other activities in these areas. The Scottish Forestry Strategy envisages and expansion of woodland cover from 17 to 25 per cent of land area by 2050. Clearly forestry has an important role as a carbon sink and therefore in offsetting climate change. So far it is not profitable without grants but this provides a major reason for supporting it.. VisitScotland aims for a 50 per cent increase in tourist revenue, and many other activities in the more remote areas can prosper and expand as a result of developments in information technology, especially the use of broadband. This needs to be made more widely available and transport infrastructure also needs to be improved. Affordable housing is also a major issue. As people move into the area from elsewhere, many on retirement, and as houses are sold for second homes, the price of housing rises far beyond the reach of local people, even if they have employment.

Environmental issues form a major part of the Inquiry. Many people regard public goods, of which preservation and enhancement of the environment is an essential part, as the main justification for agricultural support in future. Many farmers are already participating in agri/environmental schemes. But this needs to be developed further if hill and island agriculture is to continue. Land management for the offsetting of climate change and the promotion of biodiversity involves new ways of looking at agriculture and some of what farmers may be expected to do will go against previous practice.

There are therefore many issues for our Inquiry to examine and we are now only about half way through. But if we can chart a way forward for agriculture and do something to unlock the potential for growth in other activities, we will have achieved our objective.