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To hold for the meeting.

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

Your meeting on 13 November will be the opportunity to decide how we are to develop and present a convincing set of policies for rural areas before the next election. Michael Jopling rightly says the issues are not only agricultural; obviously, however, falls in farm income will produce problems in those areas where farming is already only marginally viable.

From my point of view, I would like us to focus on the following questions in particular:

- i. MAFF advise that Government expenditure on the CAP is running at over £1.6 billion and we will not get it down much in the immediate future. Can we under present EC law, switch more money towards our priority areas? Are there achievable EC legislative changes we should seek in order to do this more freely?
- ii. The Working Party's report paints a picture of production rising inexorably. What is the sensitivity of output trends to adjustments in the CAP? Can we not find ways of steering a freer market towards opportunities for less intensive farming? This would have other benefits such as reducing the use of nitrogenous fertilisers which in turn, would significantly improve water quality.
- iii. Some land is bound to be released from farming, although falling land prices will enable new entrants to start farming at less cost than in the past. In so far as we want to support agriculture as an industry, we should be thinking about ways of easing the farming community into alternative forms of activity - at minimum cost to the Exchequer - rather than paying them to do nothing.



iv. Forestry must be an important alternative land use. But should we really pay farmers to plant trees? In forestry, as in other sectors of the economy, we should surely be seeking less, not more, intervention. Moreover, current trends in afforestation are having effects on the environment which give cause for concern. Cutting both tax incentives for forestry and the agricultural support which has inflated land prices could well produce a more acceptable pattern of planting. I note Malcolm Rifkind's concern about the afforestation of the uplands: there are similar pressures in England. Some carefully targetted incentives may be necessary to direct forestry of particular sorts and to particular areas. For all these reasons, I think we need a radical review of the fiscal concessions for forestry, and the role of the Forestry Commission in future. I attach a short paper raising these issues in more detail.

v. We should investigate other land uses further. The expansion of sports such as shooting can generate both income and employment. Then there is scope for more recreation and tourism, as long as we maintain and enhance the wildlife and landscape interest of the countryside.

vi. We have in the past lost some attractive and interesting countryside - including heaths, wetlands and chalk grasslands; I believe there would be considerable public support if less intensive production allowed some such areas to revert to their former state. We therefore need to consider very carefully the type of set-aside scheme which would prove negotiable and also likely to prove environmentally beneficial. A permanent set-aside scheme as opposed to rotational fallow would be much the preferable option from the environmental point of view, and I believe from the farmers point of view, because it can provide alternative income.



vii. David Young regards the Working Party's key recommendation as the need for some relaxation of planning in relation to agricultural land. In fact it is not planning policy that is at issue here but agricultural land policy. In the past, the protection of agricultural land from development has been accorded priority and the planning system has been used as the means to enforce this. It is therefore not the planning system which needs some modification but the national priority given to the protection of farm land. We need now to take more account of other objectives, including the need to diversify the rural economy, but it would be quite wrong to abandon our policy of protecting the countryside from development which could go onto urban or previously used land.

These issues are all difficult, and very important politically. I think there is a case for a White Paper, but I do not believe we will be ready to produce it by Christmas.

/ I am copyng this to recipients of Michael Jopling's minute to you of 22 September.

NR

7 November 1986

CONFIDENTIAL

THE CASE FOR A REVIEW OF FORESTRY POLICY

1. There is increasing concern that current forestry policy is producing a pattern of afforestation in Britain which is environmentally damaging.

2. Since the end of the First World War the main objective of forestry policy has been to subsidise the expansion of domestic timber production. This has been pursued directly, through grant-in-aid to the Forestry Commission and indirectly by grants and tax incentives for private forestry. Total Government subsidy for forestry planting amounted to nearly £60m in 1984/85: £41m to the State Forestry Enterprise; £6m in grants to private foresters and at least £10m in tax incentives (providing a subsidy of up to 70% of planting costs in some cases).

3. In terms of this objective, the policy has been successful: there are now some 2.2 million hectares of woodland in Britain today, compared with 1.2 million in 1924. Nearly all the growth has been accounted for by coniferous forests, especially in the uplands. The last five years have seen a particularly rapid expansion of private coniferous forestry, where the tax incentives appear to have been a particularly potent force in stimulating large-scale, uniform coniferous afforestation with absentee ownership.

4. It is the rapid development of this kind of afforestation which is worrying from many points of view. There is concern that it has an adverse visual effect on the landscape; that it reduces wildlife habitat and breeding grounds; that it causes acidification of streams and water courses; and that it restricts public access to previously open land. Moreover, the growth in coniferous forests has been accompanied by a steady decline in the more environmentally desirable broadleaved woodland.

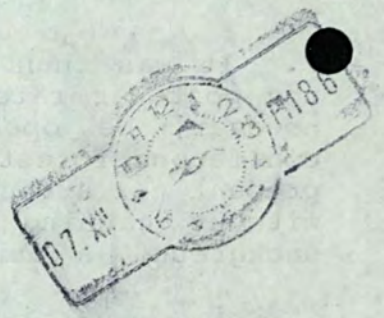
5. But concern about the environmental impact of current forestry policy and incentives raises wider doubts about the validity and value for money of that policy. It gives poor value for taxpayer's money, and employs relatively few people. And the rapid expansion of softwood plantations, in some areas at the expense of hardwood forests, may not provide the balance we seek in forestry policy terms alone.

6. The rationale for promoting timber production has, since the creation of the Forestry Commission in 1919, rested on a combination of strategic, economic and social objectives. Current forestry policy (set out by the then Secretary of State for Scotland in a Parliamentary statement in 1980) gave first priority to reducing our dependence on imported wood. A secondary objective was maintaining employment in forestry and associated industries.

. It was then envisaged that new planting should continue at the post-war rate of about 30,000 hectares per annum. It must, however, be open to question whether continued planting of coniferous forests on this scale - which is in practice what the present tax arrangements apparently encourage - can be maintained without causing further environmental damage. Against this background, a number of questions present themselves:

- i. What is the case for subsidising import substitution of timber as compared with any other product? In general the Government has not pursued a policy of subsidising uneconomic industries in order to keep out exports. Is any realistic expansion likely to make a significant impact on the 90% of timber demand currently met by imports?
- ii. Alternatively is there a case for building up yet further a strategic reserve of timber? Are we still at risk either from a major disruption of softwood supplies from overseas or do we envisage a future world shortage of hardwoods?
- iii. Does the relatively small number of jobs in the forestry and wood-processing industries provide adequate value for money?
- iv. In the past we have pursued a policy of encouraging planting on the poorer agricultural land and protecting the better land from forestry. There has recently been some relaxation of this policy in Scotland: but as more land comes out of agricultural use do the present arrangements provide sufficient encouragement to small-scale planting (particularly of broadleaved hardwoods) by individual farmers and landowners?

8. There may well be a valid case for subsidising forestry. We need to be clear what that case is. The current pattern of incentives encourages large scale softwood planting on environmentally valuable uplands. It appears to provide relatively little encouragement for individual farmers wishing to manage effectively existing hardwood forests. It may even have deterred those wishing to develop forestry to diversify their sources of income on land suitable for forestry but which has been used until now for agricultural production. All this suggests that we need to review the objectives of forestry policy as a whole and the mechanisms used to achieve them.



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