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PRIME MINISTER

11 November 1985

ALTERNATIVE LAND USE AND RURAL ECONOMICS

Mr Jopling is right to argue for more positive presentation of Government policies to offset current concerns in the agricultural communities. However, we disagree with many of his specific proposals for new measures.

The basic thrust of the ALURE report is that a range of additional Government programmes (and expenditure) is urgently needed to encourage alternative use of agricultural land in response to growing food surpluses. This approach is unconvincing. As our earlier note on ALURE pointed out, the scale and gradual pace of the expected adjustment should allow market forces - in particular, the falling price of land - to reallocate land use without the need for further subsidies or state planning. The notion that one could be left with 1 million hectares of 'spare' land in a market economy is absurd.

However, as other Ministers have pointed out in their comments, the recommendations also embrace some wider aspects of Government policy for rural areas - including reform of planning controls, support for enterprise and encouragement of recreational activities. Some new initiatives in these areas could be very helpful in providing a positive message on economic development to depressed agricultural areas.

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Thus, while we would recommend that you reject Mr Jopling's request for a public document based on the whole ALURE approach, you could usefully use the occasion to agree a number of specific changes in planning policy that could and should be implemented now. In addition, you could encourage Mr Jopling to pursue those policy initiatives which are within the remit and budget of MAFF (for example, on new crop developments) while ensuring that the existing range of wider Government programmes are presented in the most favourable light.

For next year there is also a question as to whether it would be helpful (as Mr Ridley suggests) to work towards a White Paper setting out the Government's approach on the broader environmental issues in the development of the countryside, which would aim at the conservation interests as well as farmers. This is worth considering.

ALURE Proposals

Mr Jopling's memorandum draws attention to three major recommendations.

1. Encouragement for a major increase in the planting of trees

The report envisages doubling the rate of tree planting to cover 400,000 hectares over the next decade - through increased grants for commercial forestry and by providing

continued income support for farmers who plant woodlands on their farms. We do not believe these proposals are attractive either economically or environmentally.

The report argues that the savings to CAP from taking farmland out of production would pay for the increased subsidies. We doubt it.

- The calculated "savings" assume only a slow reduction in the current levels of CAP support for storage and disposal of surplus production that would otherwise be incurred. Surely, we should be aiming at a much faster reform of CAP that avoids the need for permanent, subsidised set-aside? This is an attempt to apply a long-term solution to a short-term adjustment problem.

- The savings of agricultural production assume planting on medium grade grazing and arable land. You might ask Mr Jopling how he expects this to be achieved? In our view, most commercial forestry would take the grants to expand planting on current uneconomic low grade upland sites rather than buying out more expensive farmland. And few farmers would be willing to take one or two fields out of production to plant trees. The economics of such small plantations are very poor. In addition, farmers are likely to be reluctant to lose the economies of scale they obtain from spreading fixed costs (labour and equipment)

while they maintain the fields as part of their arable or livestock activity.

- A more likely result is that higher subsidies would simply encourage more large scale forestry on marginal land - with little offsetting CAP savings. Furthermore, unless there were strict controls to ensure a proportion of broadleaved planting - which would raise the subsidy required to make it attractive - the result could be a further extension of conifer plantations which would create major environmental objections.

Mr Ridley's note suggests that, rather than increasing subsidies, there is a good case for reviewing existing grants and tax relief on forestry. These can now result in the taxpayer subsidising up to 70% of the investor's initial planting costs. We would suggest you encourage Mr Ridley and Mr Rifkind to review the environmental impact and economic efficiency of this whole set of policies.

The Chancellor would wish to be in the lead on tax aspects.

2. Increased effort to assist diversification into both agricultural and non-agricultural enterprises

While we agree with the objective of greater economic diversity in rural communities, the report suggests little new apart from more subsidies. The recommendations cover:

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- Providing farmers with more advice on business development through an expanded rôle for ADAS. (But do ADAS have the right skills? We doubt it.)

- Extending Agricultural Capital Grants to cover non-agricultural investment. \ (More subsidies. Why should farm-based businesses get an advantage over other new enterprises? And how could we prevent most of the money going to the already wealthy farmers who would be the first to take advantage of a new hand^{out}?)

- Establishing regional marketing advisory groups (new quangos).

- Expanded budget for the Development Commission and COSIRA (more intervention).

- Expanded budgets for Tourist Boards (more money).

- Expanded budgets for Local Enterprise Agencies (more money).

We believe the Chief Secretary was right to resist this additional expenditure. The report does little to examine the effectiveness of existing expenditure or to justify why rural areas should have a higher priority than - for example - inner city development. Mr Jopling should have room within his existing budget to shift priorities onto worthwhile new programmes.

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3. Some relaxation in current planning policies

Although the report makes few specific recommendations here, we believe that the relaxation of planning restrictions is one area where the Government can take some important practical initiatives to facilitate sensible economic development.

These issues are, of course, at the heart of the green debate. The Government will need to find the right balance between providing a positive message to agricultural communities while reassuring its natural allies in the conservation movement. However, we would recommend rapid action on two key areas:

- Conversion of redundant farm buildings to accommodate new business activities should be made easier (with refusal only where there is significant loss of amenities).

- Existing restrictions on the conversion of high grade agricultural land to non-agricultural uses should be withdrawn. Any new development would need to satisfy local planning requirements, but the current presumption that high grade agricultural land should be given special protection is outdated in an era of surpluses. Recreational uses, in particular, could be expanded.

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It is ridiculous to prevent farmland from being used to keep horses as part of a riding school or livery stable. With less restrictions, horse riding could expand rapidly around major conurbations. Similarly, many areas have a large pent-up demand for golf courses which could displace agricultural production while maintaining a pleasant, recreational environment.

You might ask Mr Ridley to examine the possibility of immediate action on these areas, while also reviewing whether it would be helpful to develop and publish a more comprehensive review of planning policies in rural areas. Such a document could help present the Government as having a positive approach to the countryside at a time when other parties are putting forward their own proposals, but it could also act as a focus for attack by the extremists in the conservation lobby. The alternative would be to wait for the Manifesto.

Recommendations

1. Put an end to ALURE as an exercise in MAFF planning and emphasise the importance of allowing long run market adjustments to work through.
2. Reject schemes to create new subsidies for forestry and suggest ^{the Chancellor,} Mr Ridley and Mr Rifkind review the impact of existing measures.

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3. Ask Mr Ridley to consider immediate action to ease the least sensible planning restrictions.
4. Ask Mr Jopling to tackle the problem of policy presentation to the farming community without calling for new funds.
5. Keep open the option of a major policy document on environmental and recreational policies for the countryside next year.

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