

AGRICULTURE

ECONOMIC UPDATE

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Overview

Agriculture remains the most important primary industry in the Highlands and Islands. Production mainly comprises livestock, such as sheep, beef and dairy herds, and cereal or fodder crops. Horticultural products, such as bulbs, nursery products and vegetables are also grown. Significant changes have occurred in the agricultural sector over recent years, driven by developments such as the reform of the Common Agricultural Policy, the BSE and Foot and Mouth crises and advances in technology. The current importance of the sector to the Highlands and Islands economy is summarised below:-

Employment

- There are 24,200 people in the Highlands and Islands engaged in agricultural activities (35% of the Scottish total). This equates to 12,423 FTEs, including occupiers, family and hired workers¹.
- Agriculture provides full-time employment for 4.8% of the working age population, compared to 1.4% in Scotland².
- Agriculture provides full-time employment for over 10% of the working age population in Orkney, the Western Isles and Skye & Lochalsh, and over 5% in Shetland and Caithness & Sutherland².
- Average full-time weekly earnings in the land based industries in Scotland are £325, lower than the all industry average of £427³.

Units/Farm Type

- There are approximately 23,300 agricultural holdings in the Highlands and Islands, representing 47% of all holdings in Scotland¹.
- The majority (12,200) are small minor holdings. The lowest average holding size is found in the Islands areas, the largest in Lochaber and Argyll¹.
- Cereal output is significant in the Inner Moray Firth area, along with pigs and poultry. There is significant milk output in Argyll and Orkney and beef output in Orkney, Caithness & Sutherland and Inverness & Nairn. Sheep account for more than half the output value in Shetland, the Western Isles, Skye & Lochalsh and Lochaber¹.

Output

- The Highlands and Islands contain more than half of Scotland's agricultural area.
- Total agricultural output in the area averaged £258 million (2001 prices) per annum between 1998-2001, 16.4% of the Scottish total. This is 25% lower in real terms compared than the previous 4 years¹.
- Almost 87% of the output value was from livestock production and crops made up the other 13%¹.
- Output per FTE averaged just under £21,000 per annum from 1998-2001, compared to almost £30,000 (in real terms) for the previous 4 years¹.
- GVA at basic prices for agriculture in Scotland is approximately £23 million⁴.
- This represents c. £11,500 GVA per employee for agriculture⁷.

Workforce/Skills

- Self-employment is highly prevalent in agriculture and employment is male dominated⁵.
- The Good Farming Practice, including 18 EC directives & regulations and 23 Good Agriculture & Environment Conditions, presents a range of legislative requirements and environmental guidelines⁶.
- The need for farmers to keep comprehensive records of their business has resulted in a demand for IT and business management skills⁶.
- The Scottish Agricultural College (SAC) delivers tailored training to meet local needs, incorporating legal and environmental guidance as stipulated in the Good Farming Practice⁶.
- Increased diversification of farming activities is bringing requirements for new skills⁶.

¹ Source: Agricultural Land Use and Output in the Highlands and Islands of Scotland 1998-2001 (SAC/HIE)

Note 1 – Figures used are from 2001

² Source: Strategy Group estimate using population figures from GROS 2001 Census (HIE)

³ Source: Futureskills Scotland Industry Profile: Land-based Industries in the Highlands and Islands 2003

Note 1 – Earnings data taken from New Earnings Survey 2002 (ONS)

⁴ Source: Scottish Annual Business Statistics: Scotland by Division 2001 (Scottish Executive & ONS)

Note 1 – Based on ABI employment data which excludes self-employed

⁵ Source: Skills Foresight 2001 (Lantra National Training Organisation)

⁶ Source: Growing Businesses and Developing Skills Group 2004 (HIE)

SWOT Analysis

The following analysis illustrates the main issues facing the development of the agricultural sector in the Highlands and Islands.

Strengths	Weaknesses
<p>Existing farm base</p> <ul style="list-style-type: none"> - Large areas with low intensity farming - Farms tend to be family businesses which are adaptable and well diversified <p>Quality of product</p> <ul style="list-style-type: none"> - Good quality products with traceability - Breed and Health Improvement Schemes in operation <p>Traditional skills</p> <ul style="list-style-type: none"> - The workforce currently has a good multi-skilling ability - Family businesses <p>Skills development initiatives</p> <ul style="list-style-type: none"> - Whole Farm Business Review now incorporates a skills check which will help farmers identify training needs - The SAC is delivering a range of tailored training to meet sector needs - New training initiatives are in place to help farmers, such as on farm meetings 	<p>Geographical disadvantage</p> <ul style="list-style-type: none"> - Relatively poor soils over much of the land - Distance from markets <p>Workforce shortage and modern skills issues</p> <ul style="list-style-type: none"> - Ageing workforce with less succession to family members - Lack of business management & IT skills in an increasingly commercial market - The volatility and seasonality of the industry makes it hard to forecast labour needs <p>Reliance on additional income</p> <ul style="list-style-type: none"> - Direct subsidies accounted for more than 1/3 of output value in the Highlands & Islands (the Scottish average was 1/4) between 1998-01 - Increasing reliance on spouse income and diversification opportunities (such as B&B's) to supplement farm income
Opportunities	Threats
<p>CAP reform</p> <ul style="list-style-type: none"> - CAP reform will introduce decoupling methods which will free up the choice of production <p>Embrace ICT</p> <ul style="list-style-type: none"> - Technology advance provides opportunities to increase the efficiency of production <p>Provide added-value</p> <ul style="list-style-type: none"> - Opportunity for higher quality services, better marketing, branding and management rather than mass provision - Potential for farmers to increase participation in latter parts of the food chain eg, direct selling through Farmers Markets and Local Food Future Initiatives <p>Specific markets</p> <ul style="list-style-type: none"> - Higher margins are available in certain organic markets - Horticulture, with its longer exposure to open competition, is faring better than agriculture <p>Diversification</p> <ul style="list-style-type: none"> - Diversification provides additional economic opportunities, such as agricultural tourism 	<p>CAP reform</p> <ul style="list-style-type: none"> - CAP reform will have the potential impact of changing local farming practices which are otherwise environmentally and socially important <p>Lack of market/price control</p> <ul style="list-style-type: none"> - The food market is dominated by a few significant retailers - A trend for food prices lowering to world market levels means farmers are facing increasing price competition <p>Health and safety concerns</p> <ul style="list-style-type: none"> - Agriculture is subject to high levels of scrutiny by the media impacting on consumer confidence - Industry players are increasingly concerned with safety, traceability, quality and environmental protection which puts additional pressure on farmers

Priorities for Action

Factors identified for positive development of the agriculture sector in the Highlands and Islands include the following:-

- Encouragement of new workers to enter the sector
- Improved business management and IT skills of farmers
- Support for diversification activities to help supplement farm income
- Increased awareness of potential to “add-value” to products
- Improved collaboration and linkages between producers and processors
- Development of a strong brand image of high quality produce
- Environmentally responsible farming