

Agriculture in the HIE Area / August 1998

Introduction

Network Strategy, in collaboration with Projects & Marketing, recently commissioned SAC to prepare a report on the volume and value of agricultural output in the HIE area over the period 1990 to 1997. As well as updating research carried out in 1995, the report assesses the longer-term impacts of the 1992 reform of the Common Agricultural Policy (CAP) and identifies early impacts of the BSE crisis.

This factsheet summarises the main findings of the report, highlighting the changes in the volume and value of output, the dependency upon subsidies and employment trends. A future factsheet will outline the possible implications of the Agenda 2000 CAP Reforms on agriculture in the HIE area, the subject of a second report by SAC.

Main Findings

- Relatively small changes in the volume of output were noted between the pre- and post-reform periods (1990-92 and 1995-97 respectively);
- The average value of output over the period 1995-97 was 11% greater than the average for 1990-92, but the annual output figures have shown a steady decline since 1993;
- Output in the HIE area is concentrated in six LEC areas, namely AIE, CASE, OE, RACE, MBSE and INE, together accounting for almost 90% of total output;
- The value of subsidies (livestock headage payments and arable area payments) in the HIE area reached £103 million in 1997 representing 36% of total output;
- Full time equivalent employment in agriculture fell 1.4% per annum between 1990 and 1997 although numbers engaged in agriculture increased slightly.

Policy Background

Prior to 1992 the Common Agricultural Policy (CAP) comprised four elements; price support, direct subsidies, production control measures, and capital grant schemes. In 1992, the reform of the CAP shifted the balance from price support to the remaining three, particularly enhancing direct subsidies.

While the policy reforms were significant, perhaps of greater influence on the value of agriculture has been the effect of currency fluctuations induced by the UK's withdrawal from the ERM. The devaluation of the pound in 1993-95 compensated for the cut in price support, and enhanced the sterling value of subsidies. During 1996 and 1997 the strength of the pound has had the opposite effect and, together with the BSE crisis, is now largely responsible for the present difficulties in the farming industry.

Under Agenda 2000, there is renewed pressure for further reform of the CAP, with one of the aims being to reduce its cost, and to take steps to conform to World Trade Agreements. The proposed reforms are currently under negotiation, with final details expected by March 1999.

Agricultural Output

Volume of Output

The average volume of output over a three year period for the main agricultural products in the HIE area is shown in Table 1 below. The change between the pre-reform period 1990-92 and the post-reform period 1995-97 is illustrated. Three year averages are preferred to one year figures, so that the effects of extreme weather conditions or rotations are eliminated or reduced.

Table 1: Agricultural Output in the HIE Area (volume)

	Cereals	Oilseeds	Potatoes	Milk	Store Cattle	Fat Cattle	Lambs	Pigs
Average	'000 Tonnes			Million Litres	'000 Head			
1990-92	129	8	68	126	84	50	1127	14
1995-97	130	9	61	129	81	47	1040	22
% change	0.8	12.5	-10.3	2.4	-3.6	-6.0	-7.7	57.1
% of Scottish 1995-97 avg	6.3	6.0	6.3	9.6	48.2	15.0	29.1	6.5

Overall, the changes in the volume of output have been relatively small, particularly in the sectors affected by the CAP (cereals, oilseeds, milk, cattle and sheep). The figures do suggest, however, a shift from livestock production to crops, possibly due to the introduction of arable area payments. The fall in the number of store and fat cattle being sold from the HIE area may reflect a deepening of the BSE crisis.

Sectors outside the influence of the CAP include Potatoes and Pigs. Uncertainty over the future of the Potato Marketing Board may have been one of the factors resulting in a drop in the volume of potatoes produced in the area. The doubling of pigs produced is mainly due to an increase in the number of contracts available and the attraction of these in terms of secured prices.

Despite a small decline in the volume of livestock reared in the HIE area, this agricultural sector does continue to represent a much greater share of the Scottish total than arable production. Almost 50% of Scotland's store cattle and one third of Scotland's lambs are reared in the HIE area. In contrast, cereal production in the HIE area only accounts for c.6% of the Scottish total.

Value of Output

The value of output in the HIE area averaged at £308 million between 1995-97, representing almost 15% of the Scottish total. Table 2 below illustrates the annual value of output over the period 1990-97. Total output includes the value of subsidies and the product value.

Table 2: Agricultural Output in the HIE Area (value)

Year	Total Output (£'000s, 1997 Prices)	Proportion of Scottish Total (%)
1990	273,104	13.92
1991	281,653	15.07
1992	275,937	14.55
1993	329,214	16.67
1994	318,867	15.13
1995	328,651	14.78
1996	311,596	14.93

1997	284,050	14.03
1990-92 Average	276,898	14.52
1995-97 Average	308,099	14.58

Following the 1992 CAP Reform, the value of output peaked at almost £330 million in 1993 (first transitional year). This was, however, mainly due to the devaluation of the pound and the resultant increase in the sterling value of subsidies. The total value dropped a little in 1994 and 1995, and then experienced a more significant decline in 1997 due to a combination of the BSE crisis and the increasing strength of the pound. The trends were similar in Scotland as a whole resulting in the HIE share of total Scottish output remaining around 14 - 15%.

Despite the value of output in the HIE area declining since 1993, the 1997 output value is still 4% greater than the 1990 output. Taking the three year averages, output grew by 11% between 1990-92 and 1995-97.

Value of Output by LEC Area

Output in the HIE area is concentrated in six LEC areas, namely Argyll, Caithness & Sutherland, Orkney, Ross & Cromarty, Moray, Badenoch & Strathspey and Inverness & Nairn. Together these areas account for 88% of output (Table 3).

The productivity of the land in the HIE area varies considerably. In Orkney, for example, output per hectare is £517, compared with only £32 in Lochaber. The majority of Orkney's land is suitable for good quality grazing, whereas a large proportion of Lochaber's land is suitable only for rough grazing.

Livestock production, especially beef and sheep, is the dominant activity in the HIE area, accounting for almost 87% of the area's output. Beef accounts for more than half the agricultural output of Orkney, Caithness and Sutherland, and Moray, Badenoch and Strathspey. Sheep is of similar importance in Shetland, the Western Isles, Lochaber and Skye and Lochalsh.

Crops account for 13.5% of the agricultural output in the HIE area. Cereal production is particularly important around the Inner Moray Firth area, where the soil is most fertile and conducive to good yields. Crops account for almost 50% of the value of output from Ross and Cromarty, and almost one quarter of output from Inverness and Nairn.

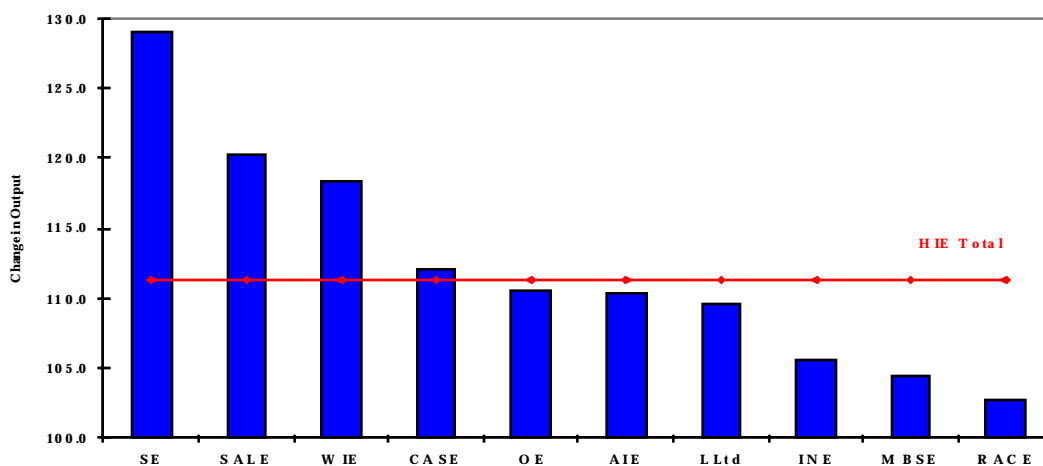
Table 3: Output by LEC Area

	Total Output (£m) 1995-97 Average	Output per Hectare	% Share of output generated by Crops : Livestock		Share of HIE Output (%)
AIE	70.3	149.9	1.4	98.6	22.8
CASE	54.4	103.4	8.9	91.1	17.6
OE	44.1	517.6	6.3	93.7	14.3
RACE	37.9	95.3	49.4	50.4	12.3
MBSE	33.9	117.1	17.7	82.3	11.0
INE	31.1	127.5	24.1	76.1	10.1
WIE	18.3	186.3	6.7	93.3	6.0
SE	17.5	234.8	2.5	96.9	5.7
SALE	11.6	88.5	0.9	98.6	3.8
LLtd	10.2	32.3	0.0	99.0	3.3
HIE	308.1	116.2	13.5	86.8	100.0

Output across all of the LEC areas has increased between pre- (1990-92) and post- (1995-97) reform periods (Figure 1). The change in output was greater than the HIE average in Shetland, Skye and Lochalsh, the Western Isles and Caithness and Sutherland. These are the main crofting areas where there is a greater dependency upon sheep production. Although the volume of lambs declined, the value of output in the sheep sector increased 20% as a result of the increase in direct subsidies.

Beef output in the HIE area grew by only 4%, with the increase in direct subsidies being counter-balanced by the BSE crisis and declining prices. Hence the slightly weaker performance of agricultural output in Orkney and Moray, Badenoch & Strathspey. The more intensive farming areas where crops account for a larger proportion of output, experienced the smallest increases in total output. Their less than average performance is largely due to declining cereal prices caused by the strength of the pound and cheaper imports.

Figure 1: Change in Value of Agricultural Output by LEC Area (1990-92 Output = 100)



Role of Subsidies

Direct subsidies are those received by individual farmers in the form of arable area or livestock headage payments. The dependency on subsidies has increased both in the HIE area and nationally over the period 1990 to 1997. This was a deliberate move of the 1992 CAP reform, to switch from price support and to compensate by increasing direct support to producers.

In 1990 direct subsidies accounted for 17% of HIE output. Across Scotland as a whole the proportion was only 7%. By 1993 the proportion had increased in the HIE area to 25%, and in Scotland to 16%. During the next four years, it had increased rapidly to over 30% in the HIE area, and over 20% across Scotland. In 1997 the total subsidy value in the HIE area had reached £103 million (36% of total output).

The role of subsidies has increased throughout the HIE area. By 1995-97 the Western Isles' dependency on subsidies had risen to 47% (Figure 2), whilst Shetland had reached 43% and Skye and Lochalsh 39% of total output.

Areas which were previously only lightly subsidised are now very much more dependent, due to the introduction of arable area payments. Ross and Cromarty, for example, now derives 30% of its output from direct subsidies compared to 11% in 1990-92.

Figure 2: Dependency upon Subsidies by LEC Area

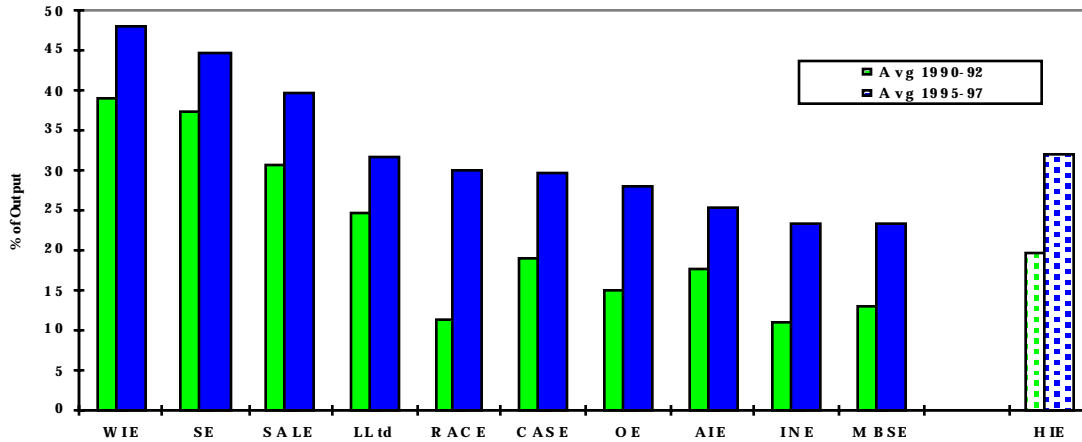
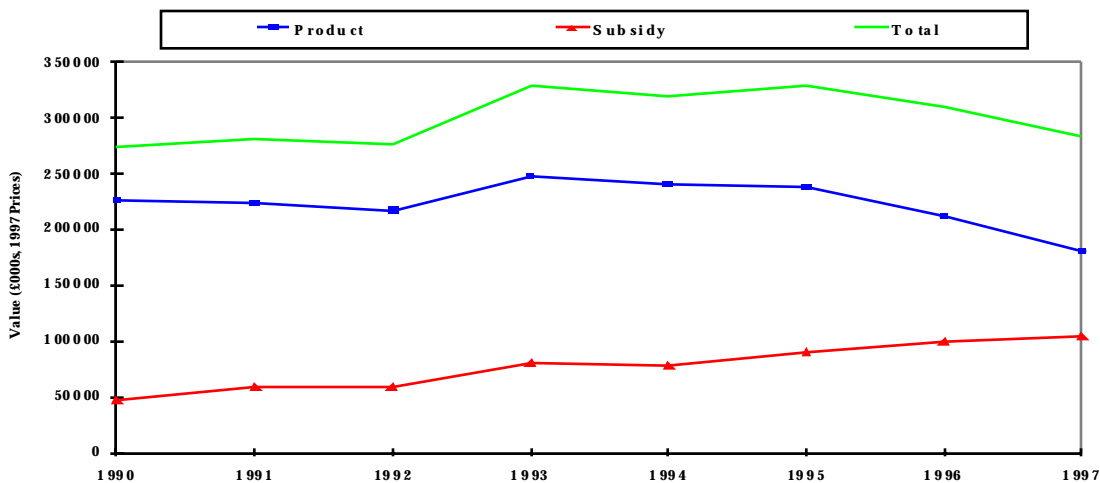


Figure 3 illustrates that while overall output in the HIE area has increased since the pre-reform period, the actual value of the product is decreasing and the value of the subsidy is increasing.

Figure 3: Trend in Subsidy and Product Values



A key consequence of moving towards direct support in this way is that it reduces the flexibility of farmers to react to market forces. Producers may tend to make their decisions based more on subsidy and less on market signals. Farmers will be more exposed to changes in subsidies and to the effects of currency fluctuations, as is being experienced at the current time.

Employment Trends

Employment in agriculture comprises a complex mix of employee types such as full time occupiers, part time occupiers, spouses, hired full and part time, family full and part time, casual/contract and seasonal staff. The total number of persons employed in agriculture in the HIE area is 22,460. This represents 33% of the Scottish total and a marginal increase of 0.2% since 1990. In terms of Full Time Equivalents, however, the current total in the HIE area is 11,680, representing a decline of 9.8% since 1990, or 1.4% per annum.

The employment by LEC area is detailed in Table 4 below. All of the LECs have shown a decrease in the number of FTEs with the exception of Lochaber. This, however, is due to a change in the boundaries and definitions of small holdings. A number of the LEC areas have shown an increase in the absolute number of people employed in agriculture. While this may illustrate a shift to more part

time involvement, especially in areas such as the Western Isles, Ross and Cromarty and Skye and Lochalsh, it may partly be explained by changes in the definition of insignificant holdings.

Table 4: Employment in Agriculture by LEC Area

LEC Area	1990-92		1995-97		% Change
	Persons	FTE	Persons	FTE	FTE
SE	2,625	1,299	2,632	1,179	-9.2
OE	2,498	1,606	2,328	1,412	-12.0
WIE	4,134	1,890	4,267	1,637	-13.4
CASE	3,223	1,847	3,171	1,708	-7.5
RACE	2,096	1,225	2,184	1,185	-3.3
INE	1,230	811	1,248	763	-5.9
SALE	1,562	785	1,687	776	-1.1
LLtd	686	376	833	417	10.9
MBSE	1,042	756	1,060	713	-5.7
AIE	2,867	1,932	2,922	1,875	-3.0
HIE	21,964	12,526	22,328	11,661	-6.9
Scotland	70,615	49,650	68,737	44,351	-10.7

Conclusions

The 1992 CAP reform appears to have had a significant positive impact on agricultural output in the HIE area, with the average output over the period 1995-97 up 11% compared with 1990-92. It should be noted, however, that currency fluctuations have had a substantial role in negating the effects of price cuts and enhancing the role of subsidy payments. The role of exchange rates is further illustrated in the lower output in 1997, with the strength of the pound reducing prices and the sterling value of subsidies.

The most important impact of the 1992 Reforms has been to substantially increase subsidy dependency in the HIE area, further reducing the flexibility and responsiveness of the area's farmers to market forces. At the start of the decade, the dependency on subsidies was found only in the livestock sector, but now the role of subsidies in crops is also increasing.

The pending reform of the CAP in 1999 aims to further reduce price support and to partially compensate this with an increase in the level of subsidy. The reforms may lead to an overall increase in output value, but the share of output determined by subsidy will increase to over 40% and much higher in areas which are already very heavily dependent on subsidies such as the Western Isles.

Employment in full time equivalent terms has declined in all LEC areas. The rate of decline in the HIE area as a whole has, however, been below the Scottish average.

