

Post-Brexit implications for Agriculture & Associated Land Use in the Highlands and Islands

This study was commissioned by the Highlands and Islands Agricultural Support Group (HIASG). It considers potential economic, social and environmental impacts of Brexit on agriculture, crofting and related land use across the Highlands and Islands. The main findings are that:

- Extensive livestock grazing across the region is **vulnerable** to potential Brexit-induced price reductions and, especially, to the removal of income support measures.
- This will accelerate existing trends of **declining agricultural activity, land abandonment and a shrinking agricultural workforce**, with limited scope for alternative land use activities.
- Declining active land management will **impact negatively on upstream and downstream sectors**, notably the Scottish Government's target growth sectors of Food & Drink and Tourism, risking wider economic activity and employment.
- Declining active land management will also **impact negatively on a range of unique and internationally important environmental and cultural public goods** maintained by extensive and small-scale agriculture.
- Scope for appropriate policy support may be constrained by a range of external factors, but **mitigating Brexit impacts will require both income support to maintain a resident population of land managers plus more targeted support for providing specific public goods**.
- Crucially, relative to current and past arrangements, **policy support measures and funding levels need to better reflect the distinctive needs and contributions of the Highlands and Islands**, consistent with National Performance Framework and international commitments.

Executive Summary

Introduction

- S1. This study was commissioned by Highlands and Islands Agricultural Support Group (HIASG) and draws on published analysis, literature and data plus telephone interviews with regional stakeholders to consider the potential economic, social and environmental implications of Brexit's impacts on the distinctive agriculture, crofting and related land use found across the region.

Farm-level effects of Brexit

- S2. Different scenarios exist to describe possible arrangements for post-Brexit trading and domestic support, but various modelling exercises indicate that the type of extensive livestock grazing that dominates land use across the Highlands and Islands (H&I) is generally vulnerable to projected reductions in farmgate prices, exchange rate fluctuations and any removal of income support.
- S3. Projected Brexit impacts will accelerate existing trends of loss-making farms, a reduction in agricultural activity levels (including land abandonment), a lack of reinvestment and a smaller agricultural workforce.

Wider production and employment effects

- S4. Farm-level impacts will ripple back along the supply-chain and across other sectors via multiplier effects. Upstream input suppliers to H&I agriculture contribute around £61m of Gross Value Added (GVA) to the regional economy, whilst the downstream (and priority growth) sectors of Food & Drink and Sustainable Tourism contribute a further £244 and £344m respectively.

- S5. Unless mitigating actions are taken, the severity of potential farm-level contractions and subsequent reductions in demand for input goods and services, the availability of raw materials for processing and also maintenance of landscapes and heritage attractive to visitors will place much of this aggregate economic activity and associated rural employment at risk.

Community viability

- S6. In-turn, the viability and/or cultural identity of rural (especially crofting and island) communities may be adversely affected by reductions in employment and population size. For example, by a loss of critical mass required for continued provision of public services. This applies particularly in locations where alternative employment opportunities are limited by biophysical constraints and/or remoteness, but even if alternative opportunities exist community identity may be eroded.

Public goods

- S7. Negative impacts will also be felt in terms of wider, non-market ecosystem services such as climate and water regulation, soil and habitat formation and landscape aesthetics. In particular, the prevalence of High Nature Value (HNV) and environmental designations across the region indicates the importance of extensive, often small-scale agricultural management to maintenance of internationally important landscapes, habitats and species, many of which are not found elsewhere in the UK and which will be at risk if agricultural activity declines.
- S8. The policy rationale of public money for public goods is increasingly recognised in Scotland and elsewhere, and provides a basis for framing policy support more broadly in terms of multiple outcomes rather than simply agricultural production. Encouraging public good provision requires support payments, but also accompanying advice, training and investment grants – productivity improvements are required for all ecosystem services, not simply commodity production.

Policy responses

- S9. These perspectives are not new and have been noted previously in numerous strategy and policy documents, but Brexit starkly reinforces the need for action. Historically, support measures have failed to reflect the distinctive contributions and funding requirements of the H&I, neglecting the additional production costs imposed by remoteness, the cultural heritage of crofting and the maintenance of unique landscapes and habitats.
- S10. If negative Brexit consequences are to be mitigated, future support for the H&I needs to improve on past arrangements, preferably through a combination of more equitable income support payments and better targeted agri-environmental payments, in tandem with appropriate advice, training and capital grants to improve productivity for both commodity and public good provision.
- S11. Although Brexit offers flexibility outside of the Common Agricultural Policy (CAP), policy design will still be constrained by various external factors. In particular, World Trade Organisation (WTO) rules limiting agri-environment payments to cover costs incurred and income foregone will (unless interpreted differently) make it difficult to derive income from public goods provision, reinforcing the need for separate income support – but this will have to be agreed under a UK common policy framework and funded from a probably smaller budget.

Conclusions

- S12. The distinctive environmental and cultural characteristics of the H&I region, together with the exposure of its dominant agricultural land use to Brexit-induced pressures, provide a compelling case for distinctive and targeted policy interventions consistent with the Scottish Government's National Performance Framework and international commitments. The extent to which appropriate support is forthcoming will be a test of political commitments to the economic, environmental and social conditions of the region, but also of how well the case can be made to the public for discretionary expenditure on agriculture and natural capital rather than on other competing demands.