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CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries
& Food
Whitehall Place
LONDON
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2 December 1988

I am writing concerning a difficulty which is causing us concern in relation to the encouragement of farm diversification schemes in Scotland, and how we might overcome the problem.

As you will be aware the take-up of grant under the Farm Diversification Grant Scheme has been much lower in Scotland than south of the Border and one reason for this is the rates to which the farmer in most cases becomes liable. Rates are probably a more significant cost in Scotland than in England and Wales and they appear to be inhibiting diversification which might otherwise go ahead. I am inclined, therefore, towards the extension of derating to diversification projects.

I appreciate the arguments against this, including those of unfair competition and the fact that other ratepayers will be required to meet the cost. I am also conscious of the fact that there is a risk of substantial deadweight costs if derating is extended to established businesses on farms, or to those which would have been established without assistance. I propose, therefore, that derating should be limited to new projects which are accepted for grant support under the Farm Diversification Grant Scheme. I also accept that there may need to be some time limit on derating of this nature. Such additional assistance under the Scheme will be of considerable help in our policy of encouraging farmers to diversify their activities.

I appreciate that this is a more significant problem in Scotland and you might consider this additional incentive should only be extended north of the Border. The legislation will be straightforward and appropriate for a Private Members Bill, and this is the approach I am minded to follow.

I am copying this letter to Nicholas Ridley, Peter Walker, Tom King and John Major; and also to the Prime Minister because I mentioned this matter to her at Chequers some time ago in the course of a wider discussion on rates.

MALCOLM RIFKIND

LOCAL GAT: Lake #12

