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2 MARSHAM STREET
LONDON SW1P 3EB

01-276 3000

My ref:

Your ref:

The Rt Hon Malcolm Rifkind MP
Scottish Office
Dover House
Whitehall
LONDON
SW1

9 January 1989

Dear Malcolm

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Thank you for sending me a copy of your letter of 2 December to John MacGregor about farm diversification schemes in Scotland. I have also seen John's response.

Although I understand your wish to boost the take-up of the diversification grant scheme, I strongly agree with John MacGregor's objections to any extension of agricultural derating. The agricultural exemption is itself an anomaly in the rating system which is difficult to justify. I do not believe that it would be possible to confine to Scotland the concession you propose and it is inevitable that any exemption of this sort would cause further problems for me at the boundary - it would for instance invite the advocates of the derating of stud farms to reopen that issue, on which we were able to avoid defeat in the Lords only with the promise of the de minimis concession about which I wrote to John recently. It would also, as you acknowledge, have to be paid for by other ratepayers.

I agree with John MacGregor that derating would result in unfair competition. While it may be legitimate to give farmers capital grants towards the costs of diversification, a continuing subsidy would give them an unreasonable advantage over similar businesses, especially in tourism, run by non-farmers. Moreover the subsidy would encourage over-provision: indeed our experience in Devon and Cornwall is that tourism grants have had this effect and I wonder whether the same is true of Scotland and whether this is part of the explanation for the low take-up of farm diversification grant there.

I am copying this letter to the Prime Minister and to John MacGregor, Peter Walker, Tom King and John Major.

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NICHOLAS RIDLEY

LOCAL CART: Rainy PT. 2

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