

A study for NESAG,
Aberdeenshire
Council and
Scottish Enterprise
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Summary Document

Agriculture in Aberdeenshire looking to the future



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Introduction

Agriculture is facing very volatile market conditions, the Common Agricultural Policy (CAP) support system is being reviewed again, the economy is entering a damaging “credit crunch” and rural policy is being influenced by new pressures such as climate change and Greenhouse Gas (GHG) emissions policy. Given this background NESAAAG (the North East of Scotland Agriculture Advisory Group), Aberdeenshire Council and Scottish Enterprise commissioned this study, to build on their previous reviews of agriculture in Aberdeenshire, the last being for the period to 2003.

NESAAG is a cross-sector partnership drawn from public and private sectors comprising 3 local authorities, Scottish Enterprise and HIE Moray, agriculture, forestry, food safety and environment agencies, industry bodies including academia and research and farming sector representatives. The Group adopts a pro-active approach towards sustainable development of rural and land-based industries in the North East of Scotland. For this study, the NESAAG steering group included Vicky Thomson, Derek McDonald, Roddy Matheson (all Aberdeenshire Council), Clair Wright (Scottish Enterprise), Lorna Paterson (NFUS), Stewart Johnston (SGRPID), Professor Ken Thomson (University of Aberdeen) and Brian Pack (ANM Group).

The main report is structured into an analysis of the 2003 to 2007 trends in agriculture in Aberdeenshire (including a breakdown into the administrative sub-divisions of Buchan, Banff and Buchan, Formartine, Garioch, Marr and Kincardine and Mearns) plus the farming area covered by Aberdeen City, a review of the wider rural economy (including the food sector) within which agriculture operates, reviews of the major processing sectors, an analysis of labour and skills issues, a brief look at the land market, analysis of some of the major policy challenges facing the industry, financial forecasts for real case farms and, finally, to pull all this strategic analysis together,

a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis for Aberdeenshire. To assist in thinking ahead, drivers of change for the next 10 years and possible scenarios for the industry have been identified. Finally, the main report presents what needs to be done by the industry as a whole and makes specific recommendations for the commissioning organisations.

The study involved desk research, the modelling of agricultural output, widespread consultation within the industry, farm profit projections using real businesses, two workshops including a scenario planning event, and the preparation of illustrative case studies.

This document summarises the main report, which can be accessed at www.aberdeenshire.gov.uk/support/agriculture/future2008 and at www.scottish-enterprise.com/sedotcom_home/about-us/research-publications/rural-research-reports.htm. Alternatively call Derek McDonald on 01224 664606.

In this summary, “Aberdeenshire” means the Shire plus the farming within the Aberdeen City boundary. References to the “study period” mean 2003 to 2007.

What is distinctive about agriculture in Aberdeenshire?

Aberdeenshire is sometimes described as the largest contiguous block of arable land north of Yorkshire. It covers approximately 1.3 million acres (518,000 ha) of agricultural land, a third of which is rough grazing mainly on the eastern edge of the Grampians, leaving around 777,000 acres of arable split fairly equally between crops and grass.

This is one of the most mixed farming areas in the UK. All of the farming enterprises to be found in Scotland are also found in Aberdeenshire. While the area only has 9% of Scotland's agricultural land, it has a much higher proportion of most crops and livestock, and of farm labour (Table 1).



Table 1: Aberdeenshire share of Scottish Crop Areas, Livestock Numbers and Agricultural Labour, 2007

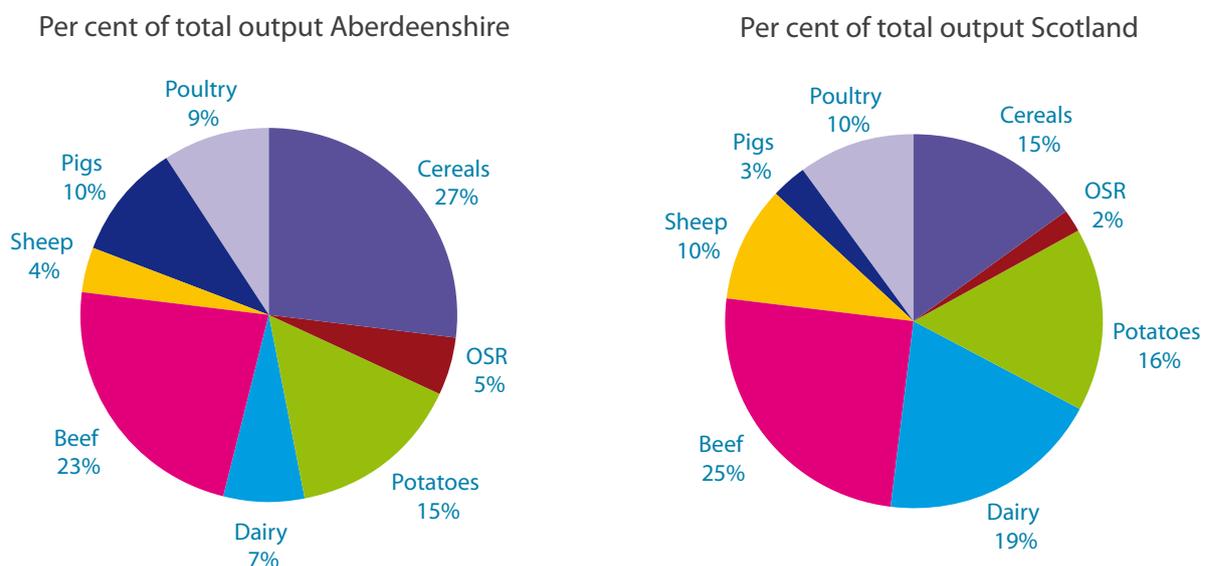
	Aberdeenshire Hectares and Numbers	Aberdeenshire as % of Scotland
Total Agricultural Area	517, 817	9
Cereals	110,754	27
Oilseed Rape	12,847	35
Potatoes	4,704	16
Total Cash Crops	131,841	26
Beef Breeding Herd	92,705	15
Feeding Cattle	112,124	26
Dairy Breeding Herd	14,101	5
Ewes	177,793	6
Total Pigs	260,542	57
Total Poultry	2,049,032	14
Total FT Labour	3,749	15
Total PT Labour	5,480	13



Aberdeenshire, traditionally seen as a livestock area, is a very important cereal growing area. Figure 1 shows that cereals account for 27% of Aberdeenshire agricultural output (15% for Scotland) and this ignores the value of cereals fed on-farm (which may be as much as a third of the total, compared to less than 10% in other arable areas of Scotland). The proximity to a large number of grain handling ports and an expanding malting industry is underpinning the importance of the crop sector

despite the apparent remoteness of the North East. There has been a steady shift toward winter cereals (32% of the total) reflecting their higher potential returns, the benefits of cereal/ rape rotations and to spread fixed costs, but Aberdeenshire is still dominated by spring barley, and this is likely to remain the case given the growth in the malting sector (Aberdeenshire now accounts for a third of Scottish malting barley requirements).

Figure 1: Share of Output Value (excluding subsidy) by Main Crop and Livestock Enterprises, Aberdeenshire and Scotland, 2007



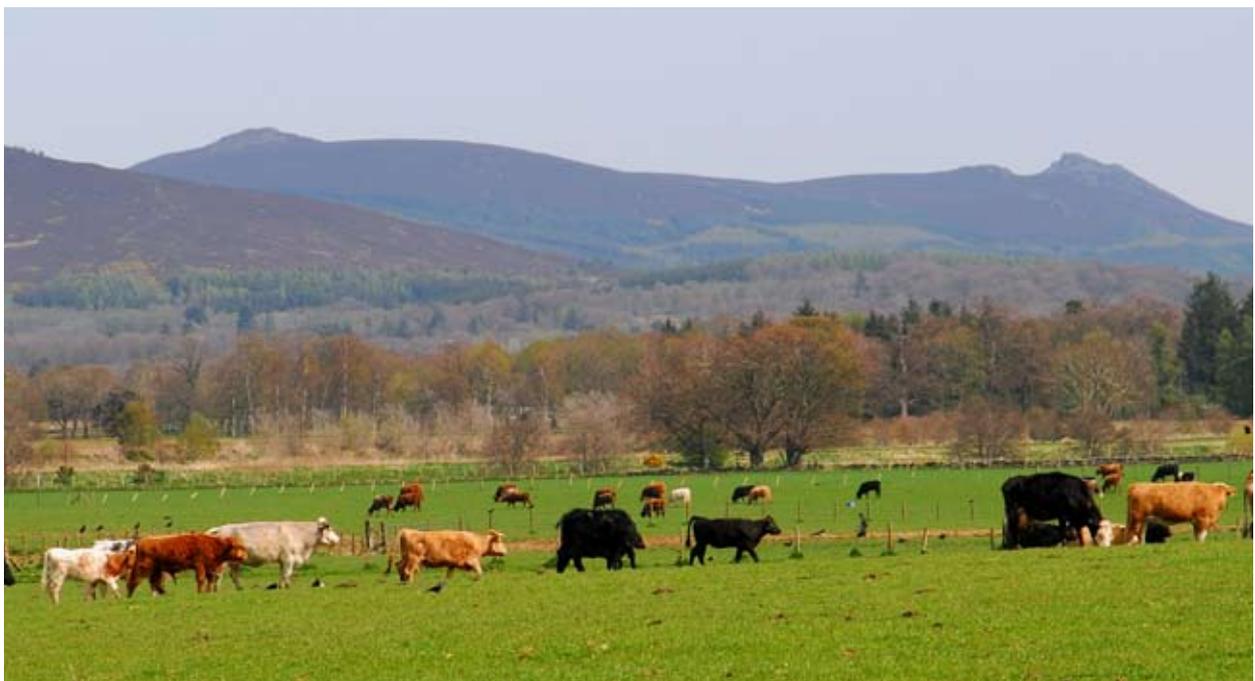
Potatoes occupy a small area in Aberdeenshire, but provide 15% of output. While the other potato areas of Scotland have shifted to over 70% ware production, the opposite has happened in Aberdeenshire, with over 70% in seed. Specialist fruit and vegetable crops occupy a small area, but have increased sharply recently, perhaps the green shoots of a shift to a wider range of crops and an indication of problems in their production further south. While cropping is important, some arable land is on the edge of what can be economically cropped, and as a result the area had a slightly larger proportion of set-aside and fallow than, for example, South East Scotland. This may now provide an opportunity for the region to profit from higher commodity prices.

Aberdeenshire is the lead area in Scottish cattle finishing, carrying a quarter of Scotland's total. The large beef sector has attracted a high level of direct support and this is now built into the SFP (Single Farm Payment). This may explain why Aberdeenshire is more reliant on subsidy (38% of total output) than Scotland as a whole (35%). Despite declining breeding cattle numbers in Scotland as a whole, feeding cattle numbers in Aberdeenshire have increased over the study period, with around a third imported into the area from the rest of Scotland. With similar (though stronger) trends in the sheep sector, the four Aberdeenshire

abattoirs have expanded their share of red meat slaughtering, from 37% of finished cattle and 30% of lambs in 2003, to 43% of cattle and 41% of lambs in 2007. While the share of red meat slaughtering has increased, the region has lost pig processing at Buckie and chicken processing at Banff. Despite this, the area still dominates Scottish pig production, with around 70 local producers accounting for almost 60% of Scottish output.

Perhaps the most surprising aspect of agriculture in Aberdeenshire over the period 2003 to 2007 is its stability. Despite very poor cereal prices to 2006, tremendous pressures in the livestock sector from low prices, BSE and FMD restrictions, export bans, the difficulty of attracting labour and the opportunity to cut numbers afforded by the complete decoupling of subsidies in 2005, livestock numbers and crop areas have declined very little. What may have changed more is how businesses organise their farming and where farm families get their income.

The main exception to stability is the dairy sector. Dairy cow numbers have almost halved since 1998 and output volume has fallen by a fifth over the study period. Ewe numbers have also declined significantly (17%) since 1998, but lambing rates are higher.



The changes in these two sectors may indicate several distinctive features of Aberdeenshire. The difficulty of finding and keeping good dairy workers in a region with high wages for semi-skilled oil workers has been a contributory factor to some farmers ceasing dairying. The loss of local processing demand may also be a factor. Robert Wiseman Dairies were paying a premium for extra production, but since losing retail contracts they would find it difficult to handle any extra production despite the local decline in output. The reduction in ewe numbers reflects low prices for hill sheep, but also the simplification of lowground farm systems – it is technically easier to operate a cattle-only system than a sheep-only system. The future of processing and how to farm with less labour are key issues for Aberdeenshire.



and Buchan and Formartine. Formartine, along with Kincardine and the Mearns, are the most heavily cropped (63% and 60% of the arable area respectively).

This concentration of intensive enterprises is a sensible economic reaction to rising costs and the need to expand and specialise, but raises some fears in terms of pollution and NVZ regulations. Generally, the mixed nature of farming, the pockets of unimproved land, spring cropping and many small and part-time farms operating at lower intensity, favours biodiversity and the environment.

Case Study: Patrick Dickson, Acrestrype, Fyvie.

In many respects the Dicksons represent the typical Aberdeenshire mixed family farm. They operate 450 tenanted acres across three units with 80 beef cows, 220 ewes and 250 acres of winter and spring cropping. All calves and lambs are finished on mainly home-grown feeds, and are marketed through local abattoirs. Changes to the farm system since 2003 reflect the regional picture. Decoupling of subsidies has allowed cow numbers to be reduced slightly as breeding and health issues have been tackled. Cattle and sheep breed changes are underway to allow a reduction in labour requirement as Patrick senior nears retirement. Contractors are increasingly used for crop work. Premium markets are being sought with a move into malting barley and breeding heifers. The Dicksons are keen members of specialist beef, sheep and general discussion groups and have recently become the Buchan Monitor Farm. The business is well managed and profitable, but is reliant on the Single Farm Payment (SFP). In response to modulation of the SFP, the Dicksons have taken up RSS and Land Management Contract schemes to “claw back” some of this lost income.

The farming is carried out by around 4,500 occupiers (of which just over 2,000 are full-time) operating 7,122 holdings (units recorded individually under the SGRPID June census) averaging 73 ha in size. This suggests a farm size of 115 ha. However, the figure of 2,900 SFP (Single Farm Payment) recipients perhaps gives a better indication of the number of farming businesses, suggesting an average farm business size in Aberdeenshire of around 180 ha (440 acres). These averages hide the fact that, more than the rest of Scotland, Aberdeenshire farm size is growing at the two opposite ends of the range – a

Aberdeenshire is an intensively farmed area. Almost half the grass area is mowed (only a quarter in Scotland as a whole), and stocking rates are double the national average. Within Aberdeenshire there is evidence of a concentration of cattle finishing, dairy and pigs in Buchan and Formartine, and poultry in Banff

rapid growth in very small holdings (part-time, equine and hobby farms) and in very large commercial units. Economic Size Unit data confirms that there are a higher proportion of commercial units in Aberdeenshire than in Scotland as a whole. Productivity (output value per worker) is also higher. Aberdeenshire farms

are more heavily owner-occupied than is the case in most of the rest of Scotland.

Perhaps 300 businesses (<10%) account for 40% or more of Aberdeenshire farm output (excluding subsidy) and around 8% of businesses receive around a third of the total Single Farm Payment. From a policy point of view, this means that the output of the region (and the knock-on effects to processors and the food industry) depends on the reactions of very few businesses. However, the rural, social and environmental impacts of policy depend on all businesses, and some may actually depend more on small businesses. Moreover, large and small businesses often depend on each other; large farms seasonally rent land from part-timers and provide contract services to small farms, small farms often provide seasonal or part-time labour to larger units, large units rent sheds and buy straw and feed grains, intensive high-output livestock units get access to surrounding farms to spread dung and slurry avoiding NVZ problems, and small "horsiculture" and hobby farms buy high-value supplies from agricultural merchants which underpins continued service to lower-margin mainstream farms.

Labour trends in Aberdeenshire have been following a long-established pattern, similar to the rest of Scotland; a steady fall in the number of occupiers, less employed labour, more part-time and casual labour, more use of contractors and a greater dependence on family labour. Buchan and Garioch - areas with smaller farms, yet close to the oil industry - have the most part-time occupiers. Those left in the industry are probably older with lower work capacity, but there is not a lack of young people for the likely future number of farm businesses. Indeed, the study has highlighted a very vibrant farming culture with keen competition for land, a large number of strong and often unique organisations (North East of Scotland Farm Management Association, Royal Northern Agricultural Society, Young Farmers' Clubs, North of Scotland Grassland Society, discussion groups), a strong local farming press, a higher concentration of co-ops than anywhere else in Scotland, and a comprehensive show circuit.

While employment in farming is small (2% of Aberdeenshire employment, ranging up to 6% in the most "agriculturally employed" districts), it contributes to a food and drink sector which provides 10,500 direct jobs (30% of the Scottish food industry total), 30% of Scottish food and drink exports and 20% of Scottish food sector Gross Value Added.

Other rural sectors such as tourism and forestry are small, but forestry cover has expanded to match the Scottish average (17% of land area) assisted by the Grampian Challenge Fund and the poor returns from alternatives during the period to 2006. Tourism is increasing occupancy rates in line with the rest of Scotland and is successfully shifting from reliance on business travel to recreational tourism.

The Aberdeenshire rural economy is shaping agriculture, rather than the other way round. Rural Aberdeenshire is typified by population growth (even in the remotest areas), wages exceeding Scottish and UK averages, higher than average economic activity and business participation rates, and very low levels of official "deprivation". The only such "deprivation", relates to access to services and amenities, with for example rural shops and petrol stations declining by 20% and 65% respectively since 1981. Industrial production and construction is over-represented in Aberdeenshire, and this suits the skills of part-time farmers and ex-farm workers. Finding and retaining labour in all sectors is a big issue, despite on one estimate over 12,000 migrants (30% east European) entering the area since 2002/03.

How well is the industry placed to face the future?

Medium Term Profitability Outlook

Budgets for models based on real Aberdeenshire farms suggest that for most farm businesses 2007 and 2008 should have been years of improved profitability. However, the sharp input cost rises, and downward movement in feed grain prices expected as of summer 2008, result in estimated 2009 profits

returning to pre-2007 levels (Table 2). The recent boom in crop prices may be short lived, but there will still be opportunities for systems which allow input reductions. The figures also tell us that we are in a new era of volatility and higher risk, which has implications for the entire food chain.

Table 2: Aberdeenshire Model Farm Net Profits (£) 2006 to 2009, by farm type

	2006 actual	2007 actual	2008 budget	2009 guesstimate
LFA cattle and sheep	23,000	31,000	22,500	9,700
Finisher	30,000	57,000	43,500	22,900
Cropping	9,600	32,900	67,800	42,300
Pigs	(23,000)	(140,000)	(153,100)	(3,000)
Dairy	25,500	50,000	74,500	49,000

Current Strengths and Weaknesses of the Industry

Strengths

The **resilience** of the farming industry in Aberdeenshire is generally underestimated. Through the study period, farmers have mostly found ways to adapt and innovate so that they can survive, and a significant number have started new enterprises (see the growth of organics, free range eggs, soft fruit, diversification). The degree to which systems can be radically adjusted is constrained by the range of land quality on most Aberdeenshire farms. Monoculture is risky in our climate and the stock/crop mix produces multiple benefits which will be lost by eliminating one enterprise. Balance Sheets are strong due to the long-term rise in property prices (and interest rates are still relatively low). Off-farm income has been easy to find, either as part-time jobs or contracting in the buoyant non-farm economy. And finally the culture is very strong – individuals want to make their farming systems work, they have networks and local organisations which allow the sharing of ideas and best practice, they believe there is a future, they have a deep-

rooted interest in livestock, and they are in the company of many who believe the same.



Case Study: Farmlay

Cockmuir, Strichen, in the heart of Buchan is a long way from the main UK population centres and retail buyers, but this business operated by the Chapman family has doubled output of its egg business over the last 5 years to total £8M, and now employs over 40 staff. This family business has produced eggs for decades, originally for the local packing station and then wholesalers, but Robert and Ethel Chapman have driven the recent growth in the business through securing a Morrison's contract for its Scottish supermarkets, investing in improved growing, feeding and packing facilities, and grabbing the opportunity presented by the growth in free range sales. Now a third of sales are free range and 5% organic. Further expansion is planned with farmers from Caithness to Ayrshire producing eggs on contract.

In the meat and combinable crop sectors

Aberdeenshire has strong **infrastructure**, which in turn links to a relatively large, **locally based food and drink sector**. The red meat sector is especially strong in that it has increased its share of the Scottish kill, the area has a growing share of Scotland's specialist finishers and finishing cattle, the area has well recognised stock skills, and it is well served by the auction system and a range of marketing channels and expertise. There are opportunities for direct meat marketing and value adding by farmers as these businesses can access slaughtering capacity and butchery skills – often a barrier in the rest of Scotland. For multiple retailers and independent butchers looking to establish clear linkages between producer–processor–consumer, this is a good area to target because the links in the two first parts of the chain are geographically short. A major advantage for the combinable crop sector is that users are close. Malting capacity in Moray and Angus is expanding, as is the distilling industry, the area has five major feed millers (taking around 200,000 tonnes of feed grains per annum) and an oat miller, there is a significant user of feed grains in the pig and poultry sector (an outlet for feed grains and a useful bottom on the market in a difficult year), there are a range of independent and co-operative merchanting/storage businesses, and exports (e.g. all Aberdeenshire oilseed rape) to continental Europe are viable through five local ports. The sizeable local food and drink sector creates a number of benefits – better understanding of processor and consumer needs, added value opportunities, niche marketing.

Aberdeenshire has “**scope**”. It is a big enough area to support a range of competing processors and input suppliers, it carries a wide mix of enterprises allowing each to benefit from the other (straw for covering carrots, brock tatties for finishing cattle, distilling by-products for feeds, contract finishing pigs for empty sheds, crop land for dung to avoid NVZ problems), it has a large area of soils which may not be the best in the world but which can grow a range of crops and forages, it has space to accommodate intensive enterprises, it has a range of skills within an area with common organisations and hence

networks, and it has the range of farm sizes and types which allows businesses to expand within a zone of known weather and soil conditions.

Aberdeenshire has “**cohesion**”. This means there is a sense of belonging, a commitment to the area, an enthusiasm for the industry, an entrepreneurial spirit, a positive outlook and an openness to change. This is difficult to support with quantitative data, but as an example the area has 12 co-ops, many more than the other Scottish regions. There is a strong local farming press. There are a large number of local organisations supported by the industry; an independent Farm Management Association, the Royal Northern Agricultural Society, a Grassland Society, a surprisingly resilient YFC movement, a strong show circuit, and perhaps 30 agricultural discussion groups. These create networks which share information and ideas and build confidence and recognition. There are high-calibre people in both farming and industry organisations, and the area has a strong SAC (Scottish Agricultural College) and independent consultancy sector. Thainstone acts as a focal point with its meeting facilities, mart, agricultural support businesses and SGRPID office.

While Aberdeenshire is exposed to changes in the **CAP subsidy regime**, it does have some positives. Several important sectors are not directly affected by the CAP – pigs, poultry, potatoes and other specialist crops. Also much of the area is less exposed to changes in the LFA regime than the bulk of Scotland (payments per farm are low at an average of £2,643, and lower in Buchan, Formartine, Garioch and Banff

and Buchan) and there are only just over 1,000 claimants. Marr is the main LFASS recipient, receiving over 52% of the Aberdeenshire total, an average of over £3,300 per claim and with 20% of claimants receiving over £5,000. For Aberdeenshire as a whole the Rural Stewardship Scheme (RSS) is twice as important as the LFASS. Our analysis shows that the CAP Health Check proposals for progressive modulation are a minor threat affecting only 160 businesses at an average loss of SFP of only 2,500 Euros. In total, this is a reduction in Aberdeenshire's SFP of only around 0.4%. A shift to a flat rate SFP, unless heavily regionalised, would be a much greater threat.

The **strong local economy** and **proximity to a major city** has drawbacks, most notably the competition for labour. However, it has more benefits. Areas such as Dumfries and Galloway and even the Borders often feel that their agricultural sector and rural economy suffers from the lack of a city focal point. The city enhances the overall infrastructure, increases asset values which assists restructuring and investment, creates niche markets, fosters a

food industry, creates opportunities for services on the urban fringe (horse livery, storage, landscape maintenance), supports education facilities, and creates competition for resources (labour, land, capital) which arguably makes farming investments better targeted and pushes up productivity.

Aberdeenshire has **good environmental and biodiversity credentials**. This is due to the Grampian mountain back-drop to the area, the diverse range of habitats from mountain to coastline, the high degree of mixed farming and pockets of unimproved land even in the best areas. There is little monoculture, lots of spring cereals with overwintered stubbles, a generally low reliance on slurry systems, a recent increase in uptake of lowground woodland options, a significant number of small part-time units which tend to be less intensively farmed, and an active and well informed consultancy sector. The results are few negative externalities, a number of real environmental/ biodiversity benefits, and an ability to rapidly adopt schemes such as the RSS.



Weaknesses

Aberdeenshire farms, and specifically the beef sector, are **subsidy reliant**. QMS (Quality Meat Scotland) data shows that the average LFA beef breeder/ finisher loses £165 per cow (2006) before subsidy and even the top third make a loss in excess of £40 per head. The improvement in beef prices since 2006 will have filled some of this gap, but feed, fertiliser and power costs will also have increased sharply. At a world trade level, it is widely recognised that beef would be one of the most sensitive sectors to reductions in tariff barriers. The fear for the processing sector is that a sharp deterioration in margins could lead to a fall in the beef herd, undermining their margins and the Scotch Beef brand. This is less of a problem for farmers as they have the option, at least in the medium term, of cutting stock numbers and still receiving the full SFP.

Aberdeenshire has **inherently higher costs and risks**; distance from markets increases costs and reduces market knowledge, our northern climate can be disastrous for late crops (and the wheat area has increased steadily over the last 5 years) and the intensity of production means exposure to higher fuel and fertiliser prices. The important pig sector is notoriously cyclical, volatility has increased generally, and property prices, Balance Sheets and labour costs are uniquely influenced by oil industry prospects.

The oil-related economy of Aberdeen provides attractive wages and far better conditions, even when the oil industry is not booming. The study has highlighted real problems in **attracting and, especially, retaining good staff**. The livestock sector finds it especially difficult to re-organise its systems to meet young people's expectations for working hours and conditions. This has hastened change in sectors such as dairying which has seen an exodus from the industry and a shift to all-year-round housing and robot milkers.

There has been very **little technical improvement** (growth rates, feed conversion, prolificacy, longevity) in the beef and sheep sectors over the last 20 years, though there are now signs of change. The input supply trade highlight a lower technical ability in cropping than other arable areas of Scotland. Technical

and business **training** for farmers and workers has all but disappeared, with almost all training covering only statutory topics. The Aberdeen-based **agricultural education and research infrastructure** (which with SAC, Macaulay, Clinterty College, University of Aberdeen and Rowett Institute used to be one of the largest in the UK) has now all but disappeared, and the remaining provision is struggling. This is happening at a time when the demand on individual farmers' management capacity is increasing (to manage compliance, and to cope with change and less labour). The study has highlighted specific weaknesses in **understanding the new world** conditions we are entering.



There is **fragility in the Aberdeenshire-based processing sector**. We have lost pig, chicken and vegetable processing. There is a constant pressure for national and international businesses to centralise facilities. Primary processing makes sense close to the producers, but high-value activity may be best placed near the main UK population centres and the large retailers and food service companies. Primary processing margins are low, food legislation adds major costs and investment is therefore difficult. Many meat plants are in old sites and are increasingly enveloped by urban development. There are very few new entrants to these primary processing sectors. The secondary processing sector, with its high value-added potential, is very small.

While Aberdeenshire has good environmental credentials, there are **environmental risks**. Most of Aberdeenshire is in an NVZ with a controversial problem centred on the Ythan. Intensive enterprises seem to be concentrating in Formartine and Banff/ Buchan for sensible economic reasons, but are creating a challenge in coping with large quantities of dung and slurry in a small area. Investments required for slurry storage are very high. At the same time, there is the possibility that environmental schemes will be abandoned if their payments cannot match farming margins. Overall, the environmental and biodiversity positives of the region seem under-utilised in marketing farm products.

Future Prospects for Agriculture in Aberdeenshire

Opportunities

Aberdeenshire retains some old **locational advantages in seed production and livestock breeding**. It has a big interest in livestock health because it imports so many feeding cattle and lambs, and distance from waves of new disease challenges spreading from continental Europe and the benefits which could come from controlling endemic diseases such as Johnes and BVD (Bovine Viral Diarrhoea) are also opportunities. The region may also have some **new locational advantages** in protected crops, potatoes and vegetables, given that **water supplies** are becoming scarce and expensive in eastern England, and high daytime temperatures are damaging succulent crops. Proximity to maltsters and ports are important in an era of high transport costs.

A **revolution in genetics** is creating many opportunities in livestock breeding, including gene markers for eating quality, genetic traceability tools, Estimated Breeding Values and "easycare" selection. However, the loss of local research capability and expertise raises some questions over how easily the local industry can tap into these technologies. On the crop side, controversial GMOs (Genetically Modified Organisms) and related technologies could radically cut costs and allow the development of pharmaceutical and bio-

polymer crops. Even the **widespread adoption of existing technology** could have a major impact on the competitive position of the local industry.

Joint action on the workforce issue must have great potential. This could include a modern apprenticeship scheme, developing flexible work contracts more attractive to young workers, and the development of east European/ migrant labour.

Building a **better fit to markets** will always be a major route for improving the fortunes of the industry. There are an increasing number of niche markets, there are retailers who want to secure supplies from dedicated producers, and wealthy consumers are interested in local and traditional products. Working closely with the whole chain can cut out costs for everyone. The local food industry is large and the good thing for beef and sheep producers in Aberdeenshire is that a large chunk of the chain is on their doorstep. Aberdeenshire has a very good farming, food and environment story to tell. The number of local farm-based processors selling this story direct or through specialist retailers has increased, including all types of meat, vegetables, dairy products, organic goods and vegetable oil. At a commodity level

the malting market is clearly very important for the future, and possible rationalisation or consolidation in the red meat sector also may create opportunities. The meat sector must have some opportunities for joint action on waste and regulation.

The industry has for decades generally been in a consolidation or contraction mode. This may not necessarily be the future, given the growth in the world population and incomes. **Expansion is possible.** While it would have environmental negatives, this region, more than many others, has marginal land which could be reclaimed and improved. There is capacity and skill to handle more livestock and crops. Taking a different angle, this area has tremendous skills and expertise which it could sell globally, as to some extent it did into eastern Europe during the transition to a market economy.

The steady transition of the CAP into **a rural development policy** will also create opportunities for those with good environmental, diversification and business development ideas. **Renewables** such as windpower are providing tremendous returns for some farm businesses and there are likely to be more opportunities in future, for example through micro-hydro, biomass, second generation bio-fuels and even bio-diesel.

Case Study: Equine Diversification

This 300 acre farm on the outskirts of Aberdeen grows 150 acres of barley, finishes 160 cattle per annum and has a small ewe flock. Father and son have supplemented their farm income through agricultural contracting, but recently converted a machinery shed, on the edge of the farm steadings and adjacent to a 13 acre field by a main road, to stabling. Loose boxes, services, a ménage and fencing were installed and a dung vacuum purchased, for a total of around £11,000. 13 loose boxes let on a DIY livery basis now generate a margin of around £7,500 per annum. The facility is managed by a sub-contracted local, taking a commission on all sales. The manager has the credibility and knowledge required by clients. Disruption to the farm system has been minimal and hay and straw are sold to the users.

Threats

Being on the far North West margin of farming in Europe must always be a threat, especially in tough times. There have been times when major suppliers for example have considered **“closing the gate at Perth”** given the added cost of servicing a small distant area in European terms. Rising energy costs make this situation worse – transport cost increases for all inputs and exports. More enterprises become marginal, and low-value, bulky, perishable or sensitive commodities (vegetables, cast ewes, milk) become uneconomic to shift.



The **opening up of world trade and cuts in the SFP** are clearly major threats to an industry which is subsidy-reliant. The collapse of the 2008 Doha Round of world trade talks means no medium-term change, but the long-term direction seems set. The beef sector is perhaps most vulnerable and with it the large red meat processing sector in Aberdeenshire. Even if Aberdeenshire stock numbers hold up, declines elsewhere in Scotland will hit processors hard. Rural development expenditure in Scotland is the lowest in Europe on a per hectare basis so this will provide little buffer against SFP changes. A key issue will be the speed and distribution between countries and farms of any reduction in support payments and protection.

Labour is a recurring theme throughout this study. If the Aberdeenshire industry cannot develop the skilled people it requires or cannot adjust systems to maintain output with less labour, then there will be a major simplification within farming with less output and a knock-on to processors and the food industry. An industry lacking good people cannot grasp future opportunities.

Red tape may be over-estimated as a threat, but the **regulatory load** is a real issue for some sectors. There will be a reduction in the range of crop chemicals and veterinary products. Intensive systems which produce a lot of effluent will be restricted in their actions. Farmers will spend more time recording and managing how they affect the environment. To this might be added the management of "carbon footprints" and their influence on climate change. The seemingly high carbon footprint of ruminant livestock systems is a real threat to mixed Aberdeenshire farming systems. Stricter planning policy and objections from new residents, as the Aberdeenshire population grows and housing expands at the high rate envisaged in the Aberdeenshire Structure Plan, might limit future restructuring and diversification options.

The possible impacts of the current **credit crisis and recession** in the UK and world economy are probably underestimated at the moment. Much of Aberdeenshire's farming prospects depend on luxury goods – for example whisky and beef. The great source of stability through the tough years of 2000 to 2006 – strong Balance Sheets – may also be threatened, and that would cause real change, as experienced in Aberdeenshire in the late 1980s.



What needs to be done?

There are unlimited possibilities for action, but to secure a prosperous future for agriculture and its related sectors in Aberdeenshire, the following are priorities. These actions are aimed at all organisations and businesses in Aberdeenshire.



Major technical improvement. To survive “on the edge”, Aberdeenshire farmers need to be better than average performers. The drive for technology and knowledge transfer needs to continue. The gap in business skills and world understanding needs to be plugged.

Reducing subsidy reliance in the beef sector. Some herds are making profits without subsidy, and the rest need to learn from the best. A lot can be done on cow type, feeding systems, organisation of systems and genetics for growth rate and eating quality. Cows in some areas may never be profitable without subsidy, but provide other public goods – this needs to be confirmed or otherwise, and communicated via bids for regional, sectoral or farm-level payments.

Strengthen the processing sector. Joint action on waste, regulation, planning and regional infrastructure might be important. Contingency planning for the loss of one red meat plant and the loss of the last Scottish pig processing plant may also be advisable. Sourcing labour and developing migrant labour are key issues.

Expand our range of markets. A thriving industry needs a range of routes to market (commodity, niche, retail, food service, small processors, large processors, export, added value outlets). It also needs new outputs – new high-value crops, renewables. And overall

it needs a good understanding of what consumers of all types want.

Risk management.

The industry needs ways to cope with the much higher risk caused by rapidly moving diseases, international incidents and volatile world markets, especially as the EU has moved to less market support and reduction of tariff barriers. This includes

looking at mixed systems which reduce reliance on one output and reduce input needs, brand loyalty and closer links to consumers, marketing strategies such as hedging prices and using pools, health schemes, and investigating crop and livestock insurance and lobbying policy makers.

Build labour and management capacity. A comprehensive programme for attracting labour, developing skills, management training and succession training is required. It does not exist at the moment and any programmes are piecemeal.

Invest. The whole industry needs to invest. On-farm infrastructure has been deteriorating until very recently. Poor buildings, handling systems, roads, drainage, fencing, soil nutrient status are holding back productivity. Abattoirs are ageing. Investment is needed in new technology e.g. automatic weighing systems and heat recovery driers.

Improve local education and research. It is one thing to fully grasp what is already known, but the industry also needs new research, new ideas and, critically, the people who can turn complex research into practical farm improvements. A broader understanding of business and of the world economy is needed. And the industry needs to be able to update these skills periodically.

Be ready for “events”. Crises are usually unexpected (BSE, Foot and Mouth, credit crunch). Monitoring what is happening in the world might help predict some problems, but more important is maintaining a structure in Aberdeenshire which can; share the correct information widely and quickly so that all players have good understanding of the problem; find the correct people; coordinate any regional actions; draw out lessons; and help form contingency plans for potential crises.

Keep improving Aberdeenshire’s environmental credentials. This is not only important for issues such as biodiversity and water quality targets, but it also sells products. It is part of the Aberdeenshire brand.

Better targeting of support and a clear timetable. National and EU support is limited and declining in real terms (and could be under severe pressure as a result of the impact of the credit crunch on EU and Government budgets). Serious thought needs to go into where support will have the most public benefit and industry impact. Producers and the entire food chain also need a clearer picture of when and how the CAP and SRDP (Scottish Rural Development Programme) may change, so that they can develop their own strategies.



What can NESAAAG, Aberdeenshire Council and Scottish Enterprise do?

Individual businesses and organisations can and should tackle many of the issues listed above. However, NESAAAG, Aberdeenshire Council, Scottish Enterprise and other development organisations should concentrate their effort **where individual businesses cannot be expected to take action.**

[These recommendations are presented as a basis for discussion with the commissioning organisations, and the wider industry.](#) We have listed organisations that could take lead roles, but these are only suggestions at this time. Under each heading we have listed actions, who might be responsible, and a timescale for their completion, including how much priority should be given to these actions in terms of resources (people and money).

1. Leadership. Local leadership is central to tackling all aspects of policy related to the actions listed earlier under “what needs to be done?” With the restructuring of Scottish Enterprise, the regionalisation of the SRDP, the general trend toward geographic targeting of policy and devolution of power, there is a real need for a **strong regional voice** for the farming, food and land-based sector. There will be a lot of policy battles to be fought and, as discussed in the main report, Aberdeenshire has real “cohesion” which can be built upon.

Actions

- Continuation of NESAAAG in its monitoring, information and promotion role at a strategic level
- Communication of this role to NESAAAG members so that it is seen as the first port of call for generating a regional response to strategic threats and opportunities
- Promotion of NESAAAG and its views to policy makers
- An agricultural/ land sector voice on ACSEF (Aberdeen City and Shire Economic Forum)

Responsibility

- Role and promotion of NESAAAG: NESAAAG chair, vice chair and secretariat
- ACSEF: Aberdeenshire Council economic development staff and SE NESAAAG representative

Timescale

- Over the next 12 months
- Resource priority: HIGH

2. The role of NESAAAG. Risk management and being ready to respond to “events” are major areas where action is required if Aberdeenshire agriculture is to have a prosperous future. The world is changing very rapidly and there is a need to monitor and interpret what is happening on an ongoing basis, for impartial and accurate analysis, and for a forum which then develops a common view of regional interests. Overall, Aberdeenshire needs a mechanism which allows businesses and organisations to improve their strategic understanding and to allow the region to punch beyond its weight in corridors of power.

Actions

- An annual update of the position of agriculture and rural sectors. This could simply take the form of an arrangement with SGRPID statistics division to automatically update the census data, as structured in this report, for Aberdeenshire on an annual basis.
- A biannual rural forum in which all the interests represented on NESAAAG are invited to briefly present the position of their sector. This could include farming, trade, primary processing, food sector, forestry, environment, land-based tourism, renewable energy, and training. Held every second year, this would provide a simple position statement for each sector and how it is changing,



informing the wider industry and informing policy makers.

- Ad hoc meetings of NESAAAG or sub-groups when crises strike the industry.
- Responsibility
- NESAAAG and secretariat
- Feedback from NESAAAG members
- Timescale
- Establish over the next 2 years, and then ongoing.
- Resource priority: MEDIUM

3. The Aberdeenshire brand. As stated earlier, Aberdeenshire farming needs to expand its range of markets and strengthen its position in premium beef markets. This is a food exporting region with a quite unusual production environment (densely mixed farming, high environmental credentials, cultural cohesion, strong traditions and enthusiasm, strong links to world brands like Scotch whisky and Aberdeen Angus and Royal Deeside, long established processors, good communication links via Europe's oil capital), but which might not be that well known or understood, especially outside the beef sector. Working with others to build this overarching brand image could help all added value sectors and provide a "hook" for local processing (as does "Scottish" on a national scale).

This regional branding may be covered by "Grampian", for example through the Grampian Food Forum. It is recognised that any shift in regional branding may be seen as a threat for areas like Moray which currently fit under the Grampian banner. However, this study has highlighted a very strong Aberdeenshire identity. It is worth noting that TESCO have recently recognised this identity by introducing an Aberdeenshire branded beef product. Overall, we feel there is a very important task in continuing to build national and indeed international understanding of what is unique and interesting about this area.

Actions

- A review of the Grampian and Aberdeenshire brands; how do they add value, how well are they understood and where can improvements be made?

Responsibility

- SE and Aberdeen City and Shire Councils
- Grampian Food Forum
- Role for LEADER programme?

Timescale

- Over the next 2 years
- Resource priority: LOW

4. Common interests in the meat

sector. Strengthening the meat processing sector, and tackling some of the fragility of the beef sector due to its subsidy reliance, are key aspects of what needs to be done to secure a future for farming in Aberdeenshire. One priority must be dealing with the cost of waste disposal (the knackery issue) and finding markets for the fifth quarter. There may be other common interests such as generating on-site energy to reduce power costs, or common responses to threats such as full cost recovery in the Meat Hygiene Service. Involving new and small meat businesses in this forum must be important.

Actions

- A joint meat industry meeting on waste and regulatory costs; are there common strategies which would benefit many local meat businesses?
- Meat sector to consider the need for a Meat Industry Forum
- Contingency plan for loss of Scottish pigmeat processing plant

Responsibility

- Meat industry
- NESAAAG as facilitator?
- Aberdeenshire Council Economic Development and SE
- Scottish Pig Producers for pig processing contingency plan

Timescale

- Over the next 12 months
- Resource priority: HIGH

5. An environmental strategy.

The study has thrown up a conflict over what promotes biodiversity and a quality environment e.g. water quality: is it the widespread adoption of schemes and compliance, or is it particular practices and structures which have little to do with schemes? This is economically important because the environment is increasingly "sold" in the

package of benefits in a product purchased by a "wealthy" consumer, and because it is a central reason for the growth in tourism in the region. There is a need here, perhaps in stimulating work by environmental organisations, to understand cause and effect. This helps in responding to policy consultations and in building the local brand.

Actions

- Task environmental organisations to answer this question: "What has most impact on the quality of the Aberdeenshire environment: common practices (e.g. spring cropping, rotations, low intensity part-time and hobby farms) or adoption of specific measures under environmental schemes?" This could be a topic for a NESAAAG meeting.

Responsibility

- NESAAAG and member environmental quality organisations (SNH, RSPB, SEPA)

Timescale

- Over the next 18 months
- Resource priority: LOW

6. Beneficial Linkages. Workshops and interviews have identified the value of linking food, tourism, the new core path network, environment sites, woodlands and farm based crafts and galleries. The food trail concept is well established. Could this approach be extended? The relevance for the Council and SE is their ability to bring the range of interests together and perhaps to access funding.

Actions, Responsibility and Timescale

Could initially be tackled in a similar fashion to 5. above, but with the lead involvement of VisitScotland and rural development expertise e.g. via the Macaulay Institute

Resource priority: LOW

7. Education and Research. The University Department of Agriculture, SAC at Craibstone, Aberdeen College at Clinterty

plus the Rowett and MLURI once provided a larger concentration of rural education, research and specialist advice than almost anywhere in the UK. This has now largely gone and the remaining parts of the education provision are very fragile. The Council and SE are limited in what they can do, but there is a role for lobbying and for working with the remaining institutions to find innovative ways of maintaining provision in the long term. The benefits of this infrastructure are very difficult for the industry to measure, but given the pace of technological change and the need for excellent business skills to survive in a rapidly changing world, our feeling is that the area will lose competitive advantage if education and research are difficult to access.

Actions

- A joint meeting of local education and research providers with a clear remit to look at how provision could be maintained and improved and the scope for joint activity both in delivery and securing funds.
- Lobbying Scottish Government on the impact of this market failure.
- Highlight the skills need to Skills Development Scotland.

Responsibility

- Lead role for industry representatives (NFUS, SRPBA, SEBG) and the delivery organisations (University, SAC, Aberdeen College) in organising a joint meeting.
- Lobby activity through planned promotion of this study to policy makers.

Timescale

- Over the next 2 years
- Resource priority: MEDIUM

8. Knowledge and Technology transfer.

To survive “on the edge” Aberdeenshire farmers need to be better than average performers. Aberdeenshire is well served by SAC and independent consultants providing technical advice. However, there are areas of market failure. One is learning

from all the recent initiatives such as Monitor Farms and Planning to Succeed. These involve relatively small numbers of farmers. Capturing the lessons from these initiatives and getting it out to the “late adopters” or those simply unable to access one of the programmes must be important.

Actions

- As a first step pull together the wide range of local farmer controlled organisations (for example RNAS, FMA, NORGRASS, YFCs, Co-ops) to consider joint action. It is very important to work with the grass roots of the local industry and to avoid creating yet another set of meetings in an already crowded calendar. It is also important to strengthen local organisations.
- Consider an Aberdeenshire conference to present key points from these programmes to a wider audience and to generate wider press coverage.
- Look at wider sources of funding (SE Rural, Leader, company sponsorship) for a mailshot to all Aberdeenshire farmers or to assist in joint action by local farmer organisations.

Responsibility

- Local organisations, with NESAAG (supported by Aberdeenshire Council and SE) providing the initial lead.

Timescale

- Over the next 3 years
- Resource priority: HIGH



9. Workforce Development. There is a very strong demand for increased focus and involvement by the industry and supporting agencies in workforce development. People are the future of the industry, and good workers are scarce. Whole sectors could be at risk if skilled people cannot be attracted to and developed within the industry. For example, the labour problem has been a contributory factor in the decline of dairying in the North East.

Actions

- Establish a Workforce Development Action Forum led for example by Lantra (possibly based on NESAAAG) as a means of progressing this and the associated actions and solutions identified in this report (changing the shape of farm businesses to provide a good work environment, look at innovative ways of contracting staff, promotion of agriculture as a high tech part of the food industry with a healthy lifestyle, modern apprenticeships and development of staff on the job, leadership to pull providers and industry together). The Forum would gather intelligence and undertake further targeted research as required. (Lantra have indicated that they would be prepared to lead / co-ordinate such an initiative).
- Investigate the development of an apprenticeship/workforce development approach using either one of the coops or the NFUS or some other collective grouping. There are examples of this “modern apprenticeship” in other parts of the UK, for example the Dartmoor Hill Farm Project operated via the Duchy College, Cornwall.
- Explore workforce issues and needs together with potential and actual solutions through the Monitor Farm vehicle
- Explore and demonstrate the business improvement results and other cost benefit aspects of training through the Monitor Farms programme and other targeted activity

- Migrant worker support to source, develop and retain this important workforce.
- Business update training (financial analysis, budgeting, planning) for managers and farmers

Responsibility

- NESAAAG may have an initial coordination role, but key players are Lantra, Ringlink, SAC, NFUS and local farm/trade employers. The initiative needs to be led by the industry.
- Agricultural banks and consultants for business update training for managers and farmers.

Timescale

- Establish over the next year
- Resource priority: HIGH

10. Planning Policy. Investment, reducing subsidy reliance and strengthening the processing sector all have important implications for planning policy. The ability to financially restructure farms through development has been one reason why the local agricultural industry has remained dynamic during a time of very low margins. Now new development opportunities are appearing in renewables. For the processing sector, often in old sites within towns, relations with planners and regulators are critical. This is always a controversial area, but better understanding and on-going dialogue between producers/processors and planners must be important.

Actions

- A continuing dialogue between planners and industry is central to this recommendation. As part of this project, the involvement of planners in both the “NESAAAG Plus” seminar which launches this report and the “Support and Infrastructure” seminar specifically for trades, regulators and planners, will add to this dialogue.



- Planners should be invited to make a presentation on the Structure Plan and planning policy in the countryside, to one of the scheduled NESAAG meetings.

Responsibility

- NESAAG
- City and Shire planners.

Timescale

- Seminars autumn 2008, presentation to NESAAG within next 18 months.
- Resource priority: LOW

11. Developing the Infrastructure.

For an exporting region the road, port, airport and communication network is critical. Other areas of infrastructure such as the power and water networks may also have increasing importance as a means of exporting renewable energy and supporting new crops, so a dialogue with the industry must be important.

Actions, Responsibility and Timescale

This is an ongoing activity with responsibility falling on all agricultural land using organisations and representative bodies to communicate the needs of the sector. Aberdeenshire and City Councils and central Government have a major role in ensuring

the continued development of road, rail, port, airport, utility and telecommunication facilities.

12. Risk Management. As discussed earlier most of this is down to the industry. However, an area for joint action may be to investigate national or regional scale crop and stock insurance for natural/ climate/ disease disasters. This is actually raised within the CAP Health Check proposals. The North East has suffered badly in the past from bad harvests, especially in the late 1980's, after which many businesses took a decade to recover from losses. Another area for consideration could be national or regional livestock and crop health schemes.

Actions

- Investigate commercial, CAP based and Government guaranteed models.

Responsibility

- NESAAG with farm and estate representative organisations? (NFUS, SRPBA)

Timescale

- Within 1 year.
- Resource priority: LOW



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