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Centre for Agricultural Strategy

Volume I

The future of upland Britain

Edited by RB Tranter

CAS Paper 2 · November 1978

25 The future role of the Highlands and Islands Development Board in the encouragement of rural-based industries

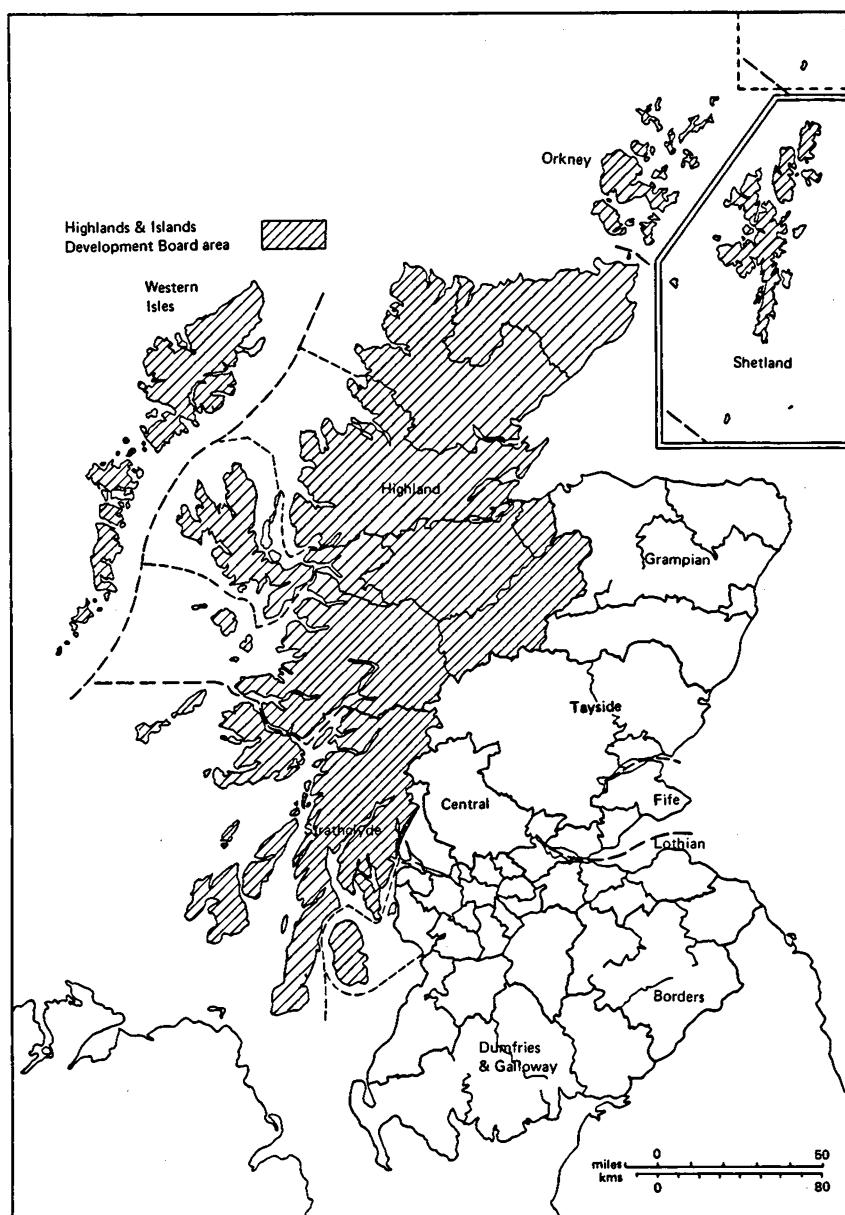
J K FARQUHARSON

INTRODUCTION

I seem to recall once reading a book which purported to deal with the future of the Scottish Highlands. About 90% of it was in fact devoted to the past of the Scottish Highlands, and the remainder consisted of rather anaemic and somewhat politically slanted speculation about what might happen in the next few years. Perhaps it merely reflected that exaggerated concern — some might say obsession — about the past which, to my mind at least, serves as an unwelcome distraction in the task of building a healthier economic and social future for the Highlands and Islands. At all events, I hope to achieve a better balance in this paper.

First let me define my terms. The Highlands and Islands Development Board was set up in 1965 to assist the people of the Highlands and Islands to improve their economic and social conditions and to enable the Highlands and Islands to play a more effective part in the economic and social development of the nation; it is responsible to the Secretary of State for Scotland, and funded by grant-in-aid from the Treasury, with a current annual budget of about £11 million. The Highlands and Islands, in the context of the Board, covers about half the land-mass of Scotland (Figure 1) including all the significant islands except the Cumbraes in the Firth of Clyde, but containing a total population of only about 322 000. The Scottish Economic Planning Departmental defines 'rural factory building' as the provision of factories . . . "in rural areas or country towns having populations of not more than 15 000 inhabitants." Apart from Inverness (population 37 000), the largest towns in the Highlands and Islands have no more than 10 000 inhabitants — so only Inverness is excluded from my scope. 'Industry' I will take mainly to mean manufacturing and processing industry, together with

Figure 1
THE AREA OF THE HIGHLANDS AND ISLANDS DEVELOPMENT BOARD



craft work. Agriculture and forestry, fishing and tourism each make a vital and major contribution to the economy of the area we cover, but they do not fall within my sphere of responsibility within the Board, and it would not be pertinent for me to discuss them in detail.

In tackling my theme, I shall distinguish three separate roles which I expect the Board to play in the foreseeable future. These may conveniently be described as the 'supportive role', the 'fostering role', and the 'research and lobbying role'. I will then go on to discuss various specific types of development in which we may be involved, and conclude with a brief general review of future prospects as I see them. To set the future scene in perspective, on the reasonable assumption that there will be no sudden radical change in the Board's direction, it will be necessary to refer to past and present policies. But I will do my best to be more forward-looking than those responsible for the book I mentioned above.

THE SUPPORTIVE ROLE

Our central task in encouraging rural-based industries, and the one for which we are best known, is to support commercial enterprises, both in helping to provide them with capital and in a variety of other ways. The Board offers direct assistance towards the capital funding of industrial, craft and selected commercial projects through grants, low-interest loans and/or subscription for shares. This assistance is individually tailored to the needs of each individual project, within certain constraints — in particular, we normally expect the private business to raise about 50% of the total capital required from commercial sources of funds (including bank overdraft facilities), and the absolute minimum requirement is a private sector contribution of 30%. Our vetting process requires the applicant to estimate the total capital required to fund his project — consisting usually of building costs, plant and equipment purchases, and working capital — and to demonstrate his ability to find the appropriate share of this sum from the private sector. In deciding whether to assist, we do our best to assess both the commercial viability of the project and the contribution it will make to the economic development of the area. Although we devote a good deal of effort to various kinds of industrial promotion, this type of assistance is largely responsive, in the sense that we are responding to someone else's plans rather than implementing our own. For this very reason, however, it enables us to stimulate a much higher volume of development than we could ever achieve by more direct measures, and represents an effective use of a large proportion of our total staff resources.

An important variation in the theme of straightforward financial assistance, and one which is rather more interventionist in character, is the construction by the Board of factories and workshops for leasing to light manufacturing or craft firms. These buildings may be either 'advance' — ie, built on a speculative basis in

order to attract manufacturing projects to particular communities — or 'bespoke', custom-built for the needs of a particular business. Rents are fixed independently by the District Valuer, and are normally well below an economic level in relation to current building costs. In addition, the Board has discretion to waive rent for up to two years at the beginning of the tenancy, thus affording firms a modest relief from financial pressures during what can often be a difficult phase in their development. By choosing the locations for new factories and workshops, the Board is able, to a limited extent, to steer new projects to those areas which are in need of economic stimulation and are capable of providing the necessary labour for new enterprises. It is, of course, not our policy to try to inveigle firms to areas where their prospects of commercial success will be jeopardised by problems of inadequate labour supplies, insupportable transport difficulties or other features of some of our remoter communities. Development in these communities must generally be sought by means other than the attraction of 'footloose' manufacturing industry.

The third main strand in our supportive work is the provision of an extensive range of services for small firms throughout our area. Within our own staff we include specialists in finance and management services, production engineering, manpower questions, and marketing and transport services, as well as a number of people with first-hand experience of specific industries. When necessary, this expertise can be supplemented by the use of outside consultants to advise on specific problems. The methods whereby these resources are placed at the disposal of Highland firms are many and various. In the first place, we have built up a pretty comprehensive knowledge of manufacturing and crafts firms in our area during the past eleven years, so that we are fairly well able to assess their needs — whilst they too are increasingly aware of the Board as a source of help and advice. Through our financial staff, we keep in touch with firms who have received financial assistance, and this helps to identify specific problems where a Board specialist may be able to help — for example, in improving a budgetary control system or a workshop layout, in designing a training programme or a marketing policy. Another useful device is the organisation of business workshops or seminars in different centres where local businessmen can meet to discuss common problems, with benefit of guidance from outside specialists.

Perhaps the most widespread problem among Highland firms is that of marketing. Because of the distance which separates them from the country's main industrial areas and concentrations of population; small firms find it difficult to maintain adequate contacts with their markets and to keep abreast of competitive trends, whilst many lack the sophistication to conceive and pursue a positive marketing policy. We therefore give particular attention to direct support with marketing, notably by helping firms to show their products at appropriate trade

exhibitions (including our own Highland Trade Fair held each October at Aviemore), and by the publication of an attractive regional product catalogue, the 'Buyer's Guide', which is widely circulated to commercial buyers at home and abroad.

Another field in which we are becoming increasingly involved is that of training. Many different forms of training are required if a rural population is to adapt successfully to the needs of new industries, and many smaller employers in rural areas need rather more help than can readily be made available from the Training Services Agency, the Industrial Training Boards or other bodies with nationwide responsibilities. Our object here is not to duplicate the functions of these national bodies, but to collaborate with them to complement the services which they can provide. Our help can take the form of financial support for specific training programmes, advice in the drawing up and monitoring of such programmes, or direct involvement in the organisation of suitable courses. We believe that this activity closely reflects the objectives of the European Social Fund, and are engaged in seeking their financial support.

THE FOSTERING ROLE

So much for the supportive approach. We recognise that something more is required if we are to fulfil the hopes of those responsible for establishing the Board, and if the full development potential of the Highlands and Islands is to be realised. We relish too the challenge to initiative and creativity which lies in seeking to devise or identify and realise new development opportunities. I call this the fostering approach because it involves us in taking some initiative to bring together an appropriate mix of people, a product or products, money, and probably several other factors, which can combine to form the basis of a business venture. And if experience has taught us anything, it is that the central resource in development is not money, not land, not ideas, not plans, but people. In devising or identifying new development opportunities, we must build and depend on people. I am talking, of course, about people outside our own staff resources — our own organisation and capacity is geared primarily to the supportive rather than the entrepreneurial role, and it is unrealistic to expect our staff to shoulder the main burden of responsibility for running a whole series of business ventures. So we attach great importance to finding the right people with whom to work — people with motivation and some ambition, combined with a sense of commercial realities and a decent modesty which permits them to recognise a problem when they see one.

Of course people must be matched with products which are appropriate to their experience or capacity, as well as being capable of finding a market at an economic price. It is of little use to find a product with a booming market if all

the engineering skills of Birmingham are needed to make it, or to produce a simple article in penny-numbers when the market price is set by mass-production in some other industrial area. So, unless we are lucky enough to come across someone with a specialised talent, we tend to think of consumer products which require fairly simple skills and which perhaps command some slight cachet by virtue of their place of origin.

The fostering approach does not produce quick results, and we cannot claim any major successes for it yet. Nevertheless, we are experimenting now and will continue to experiment, particularly in the economically fragile parts of our area. Some examples may be mentioned:

- (i) In Barra we have set up and financed a programme of training in hand-operated machine knitting — having first identified that there were a number of women in the island who were interested in working full-time at this activity, and that a knitwear marketing firm in London were prepared to offer advice on design and handle the marketing of production with a view to becoming commercially involved in the project after the labour force was adequately trained. This scheme has encountered various problems which we are still trying to resolve, and we are fortunate in having found an effective local manageress to supervise the operation on a day-to-day basis. However, without our willingness to meet the full cost of developing a trained work force, it is unlikely that any commercial interest could have been attracted.
- (ii) In the Uists we have established that there are a number of experienced weavers who are not finding a suitable outlet for their capabilities. We are seeking to identify market openings for articles composed of or containing woven material, and may seek the assistance of design consultants to devise a new product range. This will then be put at the disposal of any organisation which is willing to employ the weavers. Alternatively, the weavers themselves may decide to set up a cooperative — a move in which we would give them every encouragement and help, provided that adequate local involvement and motivation were evident.
- (iii) On the west coast of the island of Lewis, we are planning to finance the lion's share of major fish-drying and fish-meal projects, based on fishing resources to the west of the Outer Isles. The fish-drying venture will involve Norwegian interests and depend on their expertise and markets, but would have had no prospect of going ahead if the Board had restricted itself to its normal supportive role. So in this case we envisage a special kind of partnership to bring substantial development to a very remote and difficult area.

THE RESEARCH AND LOBBYING ROLE

The Board's powers of financial support are restricted by certain limits on the total amount of capital which can be invested in any one project at any one time.

Roughly speaking, this means that we have little or no financial leverage on industrial projects costing more than £1 million in total. It does not mean that we have no interest in encouraging such projects. The Board has always taken the view that the Highland economy would be strengthened by the establishment of a selected range of large-scale capital-intensive projects, particularly in the Moray Firth area. It is perhaps stretching a point to call these 'rural-based' but certainly they have a major impact on an extensive rural area.

If we are to have any hope of influencing such developments, we must first be able to talk intelligently about them, to understand what advantages the area may have for them, to know what the snags are. Hence the need for research. The Board has its own Policy Research Division, and beyond that is willing to spend quite substantial sums on specialised consultancy studies, often working in close consultation with the appropriate Regional or Island Council.

Armed with the results of our research, we are in a position to represent the economic interest of the area in a responsible way to both Central Government and commercial interests. This will continue to be an important part of our work, although passing largely unnoticed by the public at large. The outstanding current example is our work in connection with oil and/or gas processing, and petrochemical production. The Board believes that this type of development should have a major contribution to make to the economy of the Inner Moray Firth area, and have supported the proposals to establish an oil refinery at Nigg Bay on the Cromarty Firth. We are now continually pressing the advantages of the Cromarty Firth for petrochemical developments based on North Sea hydrocarbons with both Central Government and with the oil and chemicals industries. Much here is likely to depend on whether the projected North Sea gas gathering pipeline system is built and — if it is — on the choice of landfall, and we are taking a very positive interest in the hope of exercising some influence in these matters.

NATURAL RESOURCE DEVELOPMENT

Let us turn now to consider some specific instances of rural-based industry which might be candidates for Board encouragement during the next twenty years or so. It would seem reasonable to start with an assessment of the potential for developing natural resources in our area. This general approach has already been fairly thoroughly explored by the Board, and I would not foresee a rapid burgeoning of new opportunities — the more obviously economic prospects are pretty fully exploited. However, if we allow a reasonable time-scale, there is scope for quite a number of new developments of this kind. Let me enumerate some of the possibilities:

(i) Food-processing: the scope here is limited by the availability of fish, sheep and cattle, and agricultural produce; however, fish-farming and the Board's new deer-

farming experiment may open up new opportunities in due course.

(ii) Timber-processing: apart from individual large-scale projects which must await the maturing of a greatly enlarged crop of trees, we are seeking to encourage more modest and scattered forms of development, which could perhaps make use of scrub timber and contribute also to improvement in rural land use patterns in the Highlands and Islands.

(iii) New mineral projects: although we foresee no minerals 'bonanza' (and indeed, there is strong opposition to some minerals projects on environmental grounds), new techniques of exploration or exploitation and changing economic circumstances are likely to render viable the development and perhaps processing of some mineral resources which today lie fallow. Some of these could help to revitalise rural communities by providing steady local employment for men over a long period.

(iv) Production of peat coke: because of the relative abundance of competing sources of energy in the UK, we believe that large-scale development of peat for energy purposes is unlikely. Accordingly, we are trying to identify other uses for peat in which it would have a premium value. One such use could be the production of peat coke, which can in turn be used in the manufacture of silicon and ferro-silicon.

THE DOUBLE SIGNIFICANCE OF ENERGY

Perhaps the most exciting and challenging of all the natural resources of the Highlands is its potential as a fount of energy. I refer not so much to hydro-electricity, or even offshore oil and gas, which are already part of an evolving scene, as to nuclear energy, wave-power and (in a limited way) wind-power. At Dounreay, we have the Prototype Fast Reactor in service, and we believe that there are strong arguments for locating the first Commercial Fast Reactor there. This would keep the Commercial Fast Reactor well away from major centres of population — the people of nearby Thurso show little apprehension about the prospect. It would thus go some way to meeting the objections of its opponents, while retaining the benefit of all the work which has been devoted to this technology, and the option to expand our use of the technology at a later date should circumstances make this desirable. Harnessing of the power of the Atlantic waves to the west of the Outer Isles may well prove a partial alternative to nuclear power, and here too we are keeping in close touch with the progress of research sponsored by the Department of Energy. Should some of the present hopes for this form of energy be fulfilled, the implications for electro-intensive industrial developments in the Western Isles could transform the economic prospects of one of the least prosperous parts of the area which we cover. More generally, it is not entirely far-fetched to see the Highlands and Islands becoming a power-house for Britain, based primarily on oil and gas, nuclear energy and the power of the

Atlantic waves. If history develops this way — and we will keep trying to nudge it in that direction — there will be a strong tendency to locate at least one major industrial complex in the north.

But of course energy is even more significant in a different way. Contemporary patterns of rural development, which we blithely plan to extend and refine in the future, are utterly dependent on the availability of liberal supplies of energy at a tolerable cost. Who knows what the situation will be in this respect by the end of the century? It is all very well to depict the Highlands as a fount of energy: so they can be, but the resources available for our kind of rural development and the markets for our products depend on much wider considerations. If energy is scarce and expensive on a global basis, what will happen to our motor-borne tourist traffic, to the transport costs of our raw materials or finished products, to our energy-intensive agriculture and fishing? What indeed will happen to the international economy of which we are all part? Some might say we will have to develop an entirely different development strategy, emphasising greater self-sufficiency and simpler technology. Personally, I would prefer that we invest in developing as many new energy options as possible and for all their adaptability. I doubt whether many Highlanders would relish emulating Mr and Mrs Good of Surbiton in their return to nature.

LIGHT INDUSTRY AND CRAFTS

Light industry is always in demand among development-hungry communities, and we shall continue to encourage its development in all the population centres of our area. Considering our extreme peripheral location within the UK, we have made reasonable progress in this respect, and this should be maintained if we can avoid a prolonged energy crisis. We have made particular efforts to encourage projects in the electronics field and there are small electronics manufacturing firms in such unlikely places as Sanday (Orkney Islands), Skye and Wick. But the term 'light industry' covers a very wide field, and we want as much diversity as we can get — the interesting point is that we have already succeeded in attracting some manufacturing activities which, on the face of it, sound very unlikely candidates for a Highland location. So we are not too convinced of the merits of a highly selective approach to industrial promotion.

What we call 'the crafts industry' has achieved a remarkable rate of expansion and diversification in recent years, and the industry has a unique role to play in Highland development. By its very nature, it is capable of extending its ramifications into many of the remotest parts of the area, where it is effectively impossible to attract or establish conventional manufacturing industry of any kind. This capacity for dispersal, which embraces both traditional and non-traditional crafts, is an invaluable attribute from our viewpoint, and we have every confidence in the

further growth potential of the industry. Fields in which Highland craft producers have already achieved conspicuous success include glass, pottery and china; precious metals and jewellery; high quality knitwear; and soft toys. But the diversity of craft activity is already impressive, and we will build on this in the future. One other point is worth mentioning. The characteristic of dispersal, which is so valuable from a rural development viewpoint, gives rise to problems for the individual craft firms concerned. We have therefore formulated proposals for the establishment of 'Highlands Craftpoint', a new multi-functional project designed as an offshoot of the Board to stimulate and support the development of the crafts industry, primarily but not exclusively within 'our' area. These proposals are the outcome of a searching investigation of the needs of the crafts industry in the Highlands and Islands. Their central objective is to stimulate and support the development of the industry by providing a comprehensive range of services, including various forms of training; employment, technical and information services; marketing services; the improvement of design and quality standards; and the encouragement of new craft activities, particularly in the more remote parts of the Highlands and Islands.

FUTURE PROSPECTS – GENERAL REVIEW

Apart from the supreme issue of peace or war, it seems to me that the crucial factor overhanging decisions on strategy for rural development to the end of this century is that of progress in energy technology. Energy costs will have a decisive part to play in determining what is feasible in our work, through their impact on the markets we serve and on the technology we employ. There may be key roles for Dounreay and/or Hebridean wave power to play in this respect. The alternative of reverting to a simpler more self-sufficient way of life fills me with apprehension, not least because of the extreme social stresses it would entail. Provided we can solve the energy conundrum, the long term prospects are bright, and the Highlands and Islands can themselves contribute more than ever before to the national economy.

The Board has built up a formidable amount of experience as a foundation for its future work, and I am confident that it will have the confidence to respond to changing circumstances by pursuing a flexible approach. But the process is likely to be an evolutionary one rather than a series of radical shifts in direction; the main strands which I would discern include:

- (i) The encouragement of a well balanced mix of small, medium and large-scale development according to various locational criteria, and using the various approaches I have described.
- (ii) The encouragement of maximum diversity in the manufacturing and craft sectors of the economy to provide diversity of employment opportunities and to

reduce the area's dependence on specific industries or markets.

(iii) Continuing efforts to exploit the existing natural resources of the area, including those relevant to the provision of energy, and to expand their potential with the object of increasing the supply of raw materials for an enlarged processing industry

(iv) The devotion of special attention to the more economically fragile areas within the Highlands and Islands, with a good deal of emphasis on grass roots development and use of the fostering approach.

Forecasting has always been a hazardous profession, and the visions we see before us may vanish like mirages as we approach. But we can only persevere, and then at least there is a chance that some of them may be realised. I count myself lucky to be involved in this endeavour.