

C(68) 47

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CABINET

COMPENSATION FOR LOSSES FROM FOOT-AND-MOUTH DISEASEMemorandum by the First Secretary of State

I ask the Cabinet to resolve a difference of view in the Agricultural Policy Committee on a proposal by the Minister of Agriculture relating to compensation for farmers from losses resulting from the foot-and-mouth epidemic.

2. Compensation for stock slaughtered to prevent the spread of the epidemic is at present calculated, under the relevant legislative provisions, on the basis of the market value of the stock at the time of slaughter. Any payments not on this basis would have to be made ex gratia. The Minister of Agriculture argues that farmers whose stock had to be slaughtered in the early weeks of the epidemic (i. e. in October and November of last year) have suffered disproportionately because market values for cattle have risen by 25 per cent since then. The rate of compensation received by these farmers has thus been substantially less than the rate received by farmers whose stock were slaughtered later, and the Minister argues that this is inequitable. These farmers have also been out of business pending re-stocking for several months instead of the usual six weeks. He therefore proposes, as a matter of common justice, that their compensation should be brought up to the level received by farmers whose stock had the disease later. He estimates that this would cost the Exchequer £800-£900,000, of which a proportion - possibly about £200,000 - would be recovered in tax.

3. I should mention a number of other relevant factors -

- (i) Existing compensation is subject to income tax, and it is estimated that the Exchequer will recover a substantial sum in this way. The Minister of Agriculture is not challenging this, but points out that it is causing great resentment among the farming community and argues that this strengthens the case for his present proposal.
- (ii) The position of farmers who have suffered losses has already been eased by two measures designed to take the pressure off immediate re-stocking: first, a ploughing grant of £10 an acre to encourage a switch to arable farming; and second, a grant for replacing slaughtered dairy cattle by "dry stock", i. e. cattle which will not produce milk for the farmer for a further period. These two measures will together cost about £ $\frac{1}{2}$ million.

(iii) It is open to farmers to insure against loss of income (though not specifically against the incidence of foot-and-mouth disease). But the Minister of Agriculture informed the Committee that, because of the high premiums and the limited coverage, few farmers in fact take out such insurance.

4. Some members of the Committee were opposed to the proposal. They argued that -

- (i) To depart from the existing statutory basis of compensation according to market value would set a dangerous precedent.
- (ii) The rise in the market value of cattle had brought an uncovenanted bonus to farmers whose stock were not affected by the epidemic, and if there was any case in equity for higher compensation to those affected earliest, the cost of this should be met by a levy on other farmers rather than by the taxpayer.
- (iii) Account should be taken of the fact that compensation was normally paid within three weeks of slaughter, and those affected earliest had had the benefit of a return on their compensation payment during the interval before re-stocking.

5. Other Ministers argued that -

- (i) A departure from the market value formula was justified by the exceptional length and severity of the epidemic.
- (ii) A levy on other farmers was not practicable and would in any case require fresh legislation.
- (iii) The return on compensation payments in the interval before re-stocking was insignificant compared with the losses of income incurred.

6. There was some support in the Committee for a middle course - i.e. to accept the proposal by the Minister of Agriculture and invite him to discuss the details of a scheme with the Farmers' Unions, but to limit the total amount of payments to £500,000 (of which, of course, a proportion would return to the Exchequer in the form of tax). On balance, this is the course I would recommend to my colleagues.

M. S.

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