Introduction

This submission focuses on one aspect of the Agriculture Bill (Bill 266) recently laid before Parliament. This is the provision in Part 2, Chapter 1, Section 7, that would permit not only the phasing-out of Direct Payments in England, but also the suggestion that they might be delinked from future agricultural production and activities.

Defra’s Policy Statement is more explicit: ‘we will delink payment from the land’ (Defra, 2018b: 16). The accompanying slide-pack prepared by Defra (2018c: 46) claims that: ‘Delinking offers the opportunity to provide a clear signal that Direct Payments will cease, and may encourage more rapid structural change, while at the same time simplifying the payment process for recipients.’ It explains that: ‘Delinking breaks the link between the land and the Direct Payment, meaning people would continue to receive payments regardless of production levels, land area or if they decide to stop farming altogether. Instead, how much an individual receives would depend on a reference period, and the payments would taper to zero at a fixed end point. This would allow greater flexibility during a transition phase, which should help people to adjust to removal of Direct Payments’. The Policy Statement also suggests that ‘To provide further flexibility ... [Defra] will look to give farmers the option of taking a one-off lump sum payment in place of all their annual Direct Payments’ (Defra, 2018b: 16).
We very much support delinking, as we did in our submission to Defra under the consultation exercise launched by the February 2018 White Paper *Health and Harmony* (Defra, 2018a), although we then used an equivalent term: ‘decoupling’ (Swinbank & Tranter, 2018). We note, however, that Defra’s summary of the responses to its consultation says: ‘The ‘delinking’ of Direct Payments from land was less popular amongst respondents than retaining and simplifying the existing schemes’ (Defra, 2018d: 4). Consequently, in this submission, we reiterate the case for delinking (or decoupling), and discuss some related issues.

**The Case for Delinking**

We understand that the Government is determined to phase out Direct Payments to recipients in England over the course of the planned agricultural transition, extending from 2021 to 2027, although the rate at which payments will be reduced is yet to be determined.

If Direct Payments are to be eliminated, it is axiomatic that cross-compliance in all its forms (including greening and the active farmer rules) will disappear too. Consequently, Defra (2018b: 17) have said: ‘We are committed to maintaining a strong regulatory baseline, with enforcement mechanisms that are proportionate and effective. Alternative enforcement mechanisms will be introduced before Direct Payments are delinked so that we can maintain agricultural and environmental best practice.’ This objective we fully endorse.

The question that arises is whether phasing-out Direct Payments can be made more palatable to recipients (farmers and landowners), and more beneficial to society. As we said in our submission to the Defra consultation, we believe that delinking would enable farm businesses and their owners and managers to more quickly and efficiently adjust to the new subsidy-free environment, and help create the dynamic and competitive farm sector the industry, society and Government seek (Swinbank & Tranter, 2018).

It should, perhaps, be pointed out that the delinking/decoupling of compensation payments from input use and farm production is a policy proposal that has been advocated by agricultural economists for many years (for example see Nash, 1965, or Tangermann, 1991). In the early 2000s, together with
Professor Tangermann, we undertook a thorough reappraisal of the desirability and feasibility of applying his 1991 Bond Scheme proposal to facilitate reform of the then Common Agricultural Policy (Swinbank & Tranter, 2004; Tranter et al. 2007). This was a study funded by the European Commission, and involved an extensive survey of farmers in the United Kingdom, Germany and Portugal. We draw on that work in the comments that follow. On the whole, farmers at the time suggested they would make relatively few changes to the delinking/decoupling of payments: for example 32.6% of UK respondents said they would not change their mix of farming activities, leave any of their land idle, or change the intensity of their production or the amount of labour employed (see table).

**Table: Response of UK survey respondents to four key questions about their behaviour under decoupling**

<table>
<thead>
<tr>
<th>Proportion of respondents who responded:</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No to the question: ‘Would you alter your mix of farm activities?’ (1)</td>
<td>69.1</td>
</tr>
<tr>
<td>None to the question: ‘Would you leave any of your land idle?’ (2)</td>
<td>79.9</td>
</tr>
<tr>
<td>Remain unchanged to the question: ‘Would your intensity of production change?’ (3)</td>
<td>59.3</td>
</tr>
<tr>
<td>Remain unchanged to the question: ‘Would the amount of labour employed on your farm change?’ (4)</td>
<td>72.7</td>
</tr>
<tr>
<td>No to (1) above, none to (2) above and remain unchanged to (3) and (4) above</td>
<td>32.6</td>
</tr>
</tbody>
</table>

Source: Tranter et al. (2007), Table 3.

Defra’s proposal has many of the characteristics of the Bond Scheme rearticulated by Swinbank & Tangermann (2004). Thus, it would delink payments from future land use and agricultural activities, whether or not the original recipients remained in farming. What is not clear from Defra’s proposal is whether or not the entitlement would be inherited by the heirs of the original recipient should the latter die before the end of the agricultural transition period.
in 2017, or how other farm business structures (as opposed to an individual farming on their own account) would be treated.

This inheritance question was addressed by our original Bond Scheme proposal, as we envisaged the creation of a paper (or electronic) asset that could be inherited, exchanged or sold. We were clear that the payment profile — *how much would be payable and when*— had to be definitely established at the outset: *how else could the Government 'give farmers the option of taking a one-off lump sum payment in place of all their annual Direct Payments' as suggested by Defra (2018c: 45)?* This future stream of payments — guaranteed by HM Treasury— would have some of the characteristics of a Government Bond, that could be traded like any other financial asset.

**Landowners and Tenants, Land Prices and Rents**

We endorse Defra’s claim that Direct Payments drive ‘up farm rents, which in turn increases the price of land itself’ (Defra, 2018e: 26). The rent that tenant farmers have been willing to pay will have reflected, in part, the Direct Payment they could claim on that land; and similarly we believe that there will have been some capitalization of Direct Payments into farmland prices. Thus, the elimination of Direct Payments will, *ceteris paribus*, over time result in a corresponding reduction in rents and land prices. Whilst this will be detrimental in the longer term to landowners (whether they farm or let-out their land), lower rents and land prices will make it easier for new entrants to become farmers, and others to expand the scale of their farm enterprises, helping to boost agricultural productivity.

Delinking payments during the agricultural transition period will, we believe, accelerate this process, which will be beneficial for the restructuring of a competitive industry. As the period involved will be relatively short, and any detrimental impact on the value of landlords’ assets will take time to feed through, landlord-tenant relations will, we hope, not be too strained by delinking, but this is an issue on which Defra needs to consult.

**Taxation**
One of the conditions laid down by Nash (1965: 147) for delinking was that payments ‘should not affect the choice of any individual whether to remain in farming’. Our expectation is that delinked payments received by a farm business would be treated as farm revenue for taxation purposes; but we suspect that HM Revenue and Customs would subject payments received by retired farmers to a different tax regime. A similar issue arises with respect to inheritance tax on the entitlement to the future flow of delinked payments if the original recipient dies during the agricultural transition period. Whether these are important issues, or not, is not clear to us. But, if farmers are to take full advantage of delinking during the agricultural transition period they will need clarity on these points.

A One-off Lump Sum Payment?

Defra’s suggestion that they might ‘give farmers the option of taking a one-off lump sum payment in place of all their annual Direct Payments’ (Defra 2018b: 16) raises a number of issues. Again taxation is one: how would a one-off payment be treated for tax purposes?

Second, how would the size of the one-off lump sum payment be determined? As indicated above, farmers would need to know, definitively, the stream of future payments (as they would from the payment coupons, specifying dates and amounts, they would have received under the Bond Scheme) before judging whether to accept the one-off payment. A payment at some future date is, of course, worth less than a similar payment today. If, for example, the interest (discount) rate that a farmer thinks reasonable is 3 percent, that farmer would presumably be equally satisfied to accept £97.09 now rather than £100 a year from now.

Third, would the Government simply make an offer to an individual farm business (based on its own discount rate), possibly on a first-come first-served basis, or would it ask farm businesses to tender for a limited pool of cash, only accepting those offers with an implied discount rate above the Government’s borrowing costs?

Fourth, what is HM Treasury’s view on the rather different time profile of Government expenditure a one-off payment scheme would involve?
One significant advantage of a one-off payment to the recipient, or of the recipient’s ability to sell their future stream of delinked payments as in the Bond Scheme proposal, is the ability to raise capital to reinvest in the farm (or indeed any other) business at the beginning of the agricultural transition period, further lubricating the restructuring of the industry.

**Other Influences on Farm Revenues**

The Government’s decision to phase out over the agricultural transition period Direct Payments in England will, of course, reduce farm business revenues. However, costs will reduce, including rents, and farm businesses will restructure. Thus, the net impact on farm business incomes will, we believe, be less severe than some impact studies might imply. Nonetheless, the picture is by no means uniform, and the impact on individual farm businesses will also, in part, depend on their mix of farm enterprises, their current receipts of Direct Payments, the detail of their tenancy agreements, their level of farm indebtedness, etc.

In addition, there are two further influences to bear in mind. One important aspect of the *Agriculture Bill* is the Government’s statement that its ‘new agricultural policy will be underpinned by payment of public money for the provision of public goods’ (Defra, 2018b: 4). Some (but not necessarily all) of the funds released by the phasing-out of Direct Payments will be devoted to these new schemes. These could add to the demand for farm labour, augment farm incomes and even land prices in certain regions, keep some marginal land in production (although the deliberate wilding of certain regions might be welcomed by some) and, hopefully, enable farm businesses to improve their productivity. Clearly, these are potentially important considerations, but we make no further comment.

A second influence that will profoundly impact on the profitability of UK (not just English) agriculture, land use, etc., that is not addressed in the *Agriculture Bill*, is the trade regime that a post-Brexit UK will pursue. Import taxes (tariffs) and sanitary and phytosanitary regulations would remain more-or-less intact if the UK negotiates a very close trading relationship with the remaining EU Member States, implying little change for British agriculture. However a more open trade
regime, advocated by some, permitting cheaper imports from around the world, could be problematic for dairy, beef and sheep, and sugar beet producers (Swinbank, 2017).

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References:


Swinbank, Alan (2017), ‘Brexit, Trade Agreements and CAP Reform’, *EuroChoices*, 16(2).


