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DEPARTMENT OF TRADE

1 VICTORIA STREET LONDON SW1H 0ET

Telephone 01-215 7877



From the Secretary of State

Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food
Whitehall
London
SW1

21 May 1979

Dear Peter.

MILK PRICES

Thank you for copying to me your letter of 16 May on your proposals for milk price increases. The proposed increase of 1½p per pint raises issues of considerable importance.

I accept, of course, that we must stand by our commitment to the health of British farming. But I believe that the proposed increase conflicts directly with our most vital objective namely a reform of the CAP and the elimination of the milk surplus. The medium-term outlook for our producers will only improve if we take a firm line in the EEC. In this respect it will surely undermine our negotiating position if the UK appears to be taking action to maintain our own milk producers' margins at the very time when we are seeking greater reductions for those of dairy farmers elsewhere in the Community. For this reason, it seems to me essential that we should be able to defend whatever price increase is agreed for June as the minimum necessary for British agriculture.

For this reason, I should favour confining the price increase to be made in June to a minimum, but to make it clear that we shall review the situation in September. I have read this weekend's farm press - for relaxation rather than for knowledge - and I do not find a universal expectation of an 1½p increase (please note the editorial comment in Big Farm Weekly). At this stage it is recognised that there are many

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uncertainties still to be settled: the milk co-responsibility levy, the action we may decide to take on the green pound, and the eventual outcome of the price fixing in Brussels. I should therefore prefer the increase to be confined to 1/2p per pint. This would still make it possible, if events required it, for dairy farmers' returns to be increased in September by a further increase if you fail to achieve your wider objectives in the EEC farm negotiations.

It is still more important that we should look as soon and as hard as possible at the arrangements for milk. It is intolerable that we should be faced with the task of automatically funding inflationary wage settlements through retail price increases. I realise that the MMB is the sacred cow of British agriculture but it is still essential to consider how we can introduce more competition into the system, to face those responsible for decisions with their consequences. I therefore favour a review, but of a nature radically different from that you propose. First it would be wrong to suppress competition still further by submerging differences in costs and efficiency in different parts of the UK by adopting a UK costing system. Secondly instead of a review by officials from Agricultural Departments alone, I would favour a totally independent study, designed to introduce an element of competition (for the benefit of the consumer) into this area and a study of how we can adjust to the stimulus of liquid milk imports. This is just the sort of industry where our recent decision to strengthen the Office of Fair Trading and the Monopolies and Mergers Commission should be translated into practice.

As you will appreciate there are other short-term political considerations concerned with the impact on the RPI but these weigh far less heavily with me than the need to achieve the fundamental reforms which are essential in this field.

I am copying this letter to those who received your letter.

JOHN NOTT

*Yours ever
John . 2*

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