



PRIME MINISTER

MILK PRICES

As you know, the Minister of Agriculture, with the support of the Welsh and Scottish Agriculture Ministers, is seeking to increase the retail price of milk by $1\frac{1}{2}$ p this October to assist the milk producers whose profit margins have been severely squeezed this year. It is argued that failure to give milk producers a sufficient profit margin will lead to reduced dairy herds and to a substantial increase in milk imports. The price increase proposed would leave the target rate of profit for distributors unchanged but would increase the maximum wholesale price of milk. It would also allow the $\frac{1}{2}$ p premium per pint of sterilised milk to be increased to 1p. Northern Ireland Ministers broadly support the proposal that producers' incomes should be increased but suggest an alternative approach; a 1p increase in milk prices plus a devaluation of about $7\frac{1}{2}$ per cent of the Green Pound. They also urge the continuation of the present Milk Aid Scheme in Northern Ireland. The increase proposed comes, however, on top of a $1\frac{1}{2}$ p increase in May which the Minister argued, at that time, would prevent the need for further increases this year. In the event distribution costs since May have increased more than expected and the planned increase to the wholesale price at the expense of the distribution margin, leaving the retail price unchanged, is not now possible. The second $1\frac{1}{2}$ p increment now would mean a total increase of 22 per cent since May. The Minister of State for

Prime Minister

You have agreed to take this in Cabinet on Thursday. It seems to me there are two issues not considered here:

i) Do we need to stimulate milk production when less than half is being sold as liquid?

ii) Is the distributors' margin sacrosanct? Why not wait for the current study by accountants to be completed before further price increases?

12/1/60



Consumer Affairs opposed the increase on the grounds of the expected effect on the food and retail price indices, and of possible adverse effects on the forthcoming wage round. There is, additionally, the important political point that a second increase this year of that magnitude may undermine the credibility of the Government. The Government is committed by the Manifesto to some improvement in farm income but there is nothing specifically about dairy farming. In this context Treasury argue that the decision on the increase of milk prices should be postponed and considered alongside other forms of support for farmers in a paper being prepared by MAFF on the agriculture industry generally. Discussion at E(EA) on Friday failed to resolve these issues and you might consider whether this could be taken at Cabinet next Thursday. The Minister of Agriculture has undertaken to prepare a paper for Cabinet, on a factual basis agreed with other Departments, setting out his proposals.

I am copying this to members of E(EA), to the Secretary of State for Northern Ireland and to Sir John Hunt.

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K J
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