



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

Prime Minister

Do you wish to
stand firm on 1p?
(1/2 p is worth 0.079%
on the RPI)

22 May 1979

The Prime Minister
10 Downing Street

Dear Prime Minister

I hear that you are concerned at the announcement of an increase of 1½p a pint on milk which I would like to make this Thursday.

I enclose a copy of the reply I have sent to the Chancellor of the Exchequer to his letter and I am sure that it is to our benefit to do the 1½p now rather than be faced with the almost certainty of 1p now for which our predecessors will be blamed, and at least 1p in October for which we will be held clearly responsible, with the October increase coming at a very sensitive time as far as the wage round is concerned.

If we purely gave an increase of 1p now with no adjustment in October, producers' incomes in real terms would be 23% less than last year, which was considered to be a poor year, and if with no further cost increase taking place, which is unlikely, we gave 1p now and 1p in October there would still be a drop of 4% in real terms.

I did point out in my original letter that even providing the 1½p increase I am advocating, there would still be a drop in producers' incomes of something like 6% in real terms compared with 1978/79.

With the drop in farm incomes that took place last year, of which we made a great deal in the election campaign, I feel it is essential to quickly restore confidence and I remain convinced that my proposal of 1½p a pint now would help to achieve this and also help the Chancellor's general strategy.

I have spoken to the Secretary for Trade and agreed with him to an independent review of the margins of the distributive trade and this will be done by an independent firm of accountants.

I hope therefore on reconsideration you will agree to my announcement being made on Thursday.

Peter Walker

PETER WALKER

*On White land
I had a letter
with Peter
Walker last
evening I
do go ahead now
to go ahead now*

*I don't know
where Mr Healey got
his figure of 1/2 p
from. The last administration
had not considered this
question of a
further
increase.*

*we get
a large
increase*

*in
October
was
not.*

*This
assumes
no green
pound
devaluation
assess*

of



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Northern Ireland Office
Stormont Castle
Belfast BT4 3ST

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

NRSM

Rmt

2 May 1979

LIQUID MILK PRICES

Peter Walker has sent me a copy of his letter to you about liquid milk prices. Although it is his responsibility to fix these for Northern Ireland I think I should comment because of the implications for the industry in Northern Ireland.

Firstly I agree with him about the importance of maintaining producers' confidence and in the short-term I see no alternative other than increasing the retail price by 1½p per pint. An increase of this magnitude is fully justified and preferable to a smaller increase now with the inevitability of a further increase in the autumn. The large increase now will bring home to both workers and employers in the dairy trade the consequences of large wage settlements.

I am however worried about the large liquid milk premium which will continue. This makes the UK liquid milk market very attractive to other Member States. Although our health regulations give protection at present from such imports we would be naive to think that we can retain these mechanisms for much longer. I am of course particularly worried about imports into Northern Ireland from the Irish Republic where we do not even have the physical protection afforded by a stretch of water.

I am also concerned about the financial and negotiating implications of this increase for Northern Ireland. MAFF officials have estimated



that the disadvantage to Northern Ireland producers will increase by £3m which is equivalent to setting the Northern Ireland Milk Aid 0.26 ppl above the maximum of 1.4 ppl approved by the EEC Council for the current Community milk year. While I can see no escape from this problem at present I think we must in the longer term aim to place more reliance upon Green Pound devaluations than on liquid milk price increases to keep producers' returns at a reasonable level. This would be in keeping with the Green Pound devaluation policy stated in our Election Manifesto and since then by Peter Walker. Such an approach would have the added advantage of keeping liquid milk relatively cheap and therefore encouraging consumption. It would also reduce the requirement for Northern Ireland Milk Aid.

We should examine the costings arrangements and the present system of milk price fixing as soon as possible. It does seem to me that a system under which the distributive margin can fluctuate as much as it has in the space of a few months, requires an overhaul at the very least and for a start I agree with Peter Walker that there is merit in moving to an average figure for the UK as a whole.

I am copying this letter to recipients of yours.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon George Younger MP
Scottish Office
Dover House
Whitehall
London SW1A 2AU

22 May 1979

RETAIL AND WHOLESALE MILK PRICES

Thank you for your letter of 18 May in which you propose that the retail price in Scotland should be increased by $\frac{1}{2}$ p per pint on 3 June and by a further 1p per pint on 15 July. I appreciate that, in making this proposal, you had in mind that it would be helpful in reducing the initial difference between the retail prices in Scotland and the rest of the UK. But I believe that this course would be likely to give rise to considerable confusion on both sides of the border - and I should also have thought that two increases in such quick succession would have involved more criticism on the part of consumers and greater risk to the level of consumption. I would therefore strongly favour the course originally proposed in my letter of 16 May to Geoffrey Howe and, as I trust that this (though perhaps with the date for the increase in Scotland being brought forward by a week or so from 15 July) is now acceptable to you, I hope we can proceed on that basis.

I wish to make an announcement on Thursday.

I am copying this letter to the Prime Minister, Geoffrey Howe, John Nott, Nicholas Edwards, Humphrey Atkins and Sir John Hunt.

PETER WALKER



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

22 May 1979

The Chancellor of the Exchequer
HM Treasury
Parliament Street
SW1P 3AG

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Mr Geoffrey

Thank you for your letter of 21 May. In making the suggestion of an increase of 1½p I very much had in mind the possibility of avoiding a further increase in the Autumn which I am sure would be of benefit to your economic strategy.

If we only make an increase of 1p now I am certain that we will need a further increase of another 1p in October for which we will be held totally responsible.

I have also agreed with the Secretary for Trade that we will appoint an independent firm of accountants to look into the costings which I am sure you will welcome.

Peter Walker

PETER WALKER