PM seen in Cab. bundle.

Agriculture

CONFIDENTIAL

Qa 04371

To: PRIME MINISTER

From: SIR KENNETH BERRILL

Milk Prices

1. After this afternoon's meeting I said that I would let you have a further note on the milk price question. There are two issues:

(i) the immediate one of whether the price of milk should be increased by $1\frac{1}{2}$p. (mainly to benefit the farmers but also in part to compensate the distributors for the cut they took in October); and

(ii) the longer term one of the future of the British system of milk distribution.

2. Now is not the right time for Ministers to consider the milk distribution system. MAFF have commissioned a review of the formula used to determine distributors' margins. This will have been completed in the New Year. It is then that it will be appropriate to ask more fundamental questions about our system of distribution and the scope for greater competition from supermarkets, etc.

3. However, Ministers may get on to the question tomorrow and if they do the Minister of Agriculture will no doubt want to argue that nothing should be done to endanger doorstep deliveries. These are the 'social' arguments for the daily milkman but he will also suggest that total milk consumption will fall if the delivery system is reduced in the face of competition from the shops. Against this -

(a) in both Scotland and Eire doorstep deliveries have continued in the main urban areas despite competition from shops (54 per cent and 51 per cent respectively of milk is still delivered to the door);

(b) in countries where the consumption of liquid (whole) milk has fallen this is partly because people now consume more low fat milks and fresh dairy products (yoghurts, etc.) - the range of which is limited in this country. (In Holland consumption of whole milk fell by 40 per cent between 1960 and 1974 but consumption of liquid milk and fresh dairy products together remained constant.)

(c) Even the basic assumption that the decline where consumption has declined has been due to the delivery system can be questioned (e.g. in Holland consumption of whole milk had been on a declining trend for many years).

4. The immediate issue to concentrate upon is whether the price should be increased to help the producer now. If it is not then real margins will fall to a low level in real terms (a 5 per cent devaluation increases returns from manufactured milk only after a time lag and not by very much). The 1½p. increase proposed raises the net margin on milk in 1980/81 to roughly the same level in real terms as in 1979/80.

5. In discussing this 1½p. claim Ministers should bear in mind that it is most unlikely that even an increase of 1½p. will remove the need for further increases in 1980. More money will be sought for the distributors in April, and by October the farmers will be asking for their 'normal' annual increase. (Indeed, this is a certainty if less than 1½p. is given now.)

6. All the above suggests that interdepartmental work on these issues needs to continue - particularly in view of the line we shall be taking on the CAP and the effects that this will have on our agriculture.

7. I am sending a copy of this minute to Sir Robert Armstrong.

KB

5 December 1979