



10 DOWNING STREET

From the Private Secretary

24 March 1980

Review of Liquid Milk Costings System

The Prime Minister has read the letter of 21 March from the Secretary of State for Trade to your Minister on the above subject. She is very interested to see that Binder Hamlyn's report on distributors' margins confirms that milk could be available through the shops at lower prices than on the doorsteps, and she strongly supports Mr. Nott's proposal that they should now be asked to recommend how the system of controlled prices can be improved in the interests of the consumer.

I am sending copies of this letter to John Wiggins (HM Treasury), Stuart Hampson (Department of Trade) and David Wright (Cabinet Office).

J. P. LANKESTER

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

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From the Secretary of State

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries
and Food
Whitehall Place
SW1

Prin Amisth

This is encouraging, and
suggested course of action
at X on page 2 seems
sensible. Content?

Yes - excellent
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21/3

21. March 1980

Dear Peter

REVIEW OF LIQUID MILK COSTINGS SYSTEM

In Cabinet on 6 December, we agreed to look again at the retail distribution system for milk, once Binder Hamlyn's report on distributors' margins was available (CC(79)24th Meeting: Item 6.5. The Prime Minister had argued that the housewife should be able, as in other countries, to buy milk at a lower price in the shops than through the door-to-door delivery system. As you know this is my view also: consumers' organisations are understandably questioning a pricing system which makes our milk prices apparently the highest in the Community in spite of our efficiency in milk production. I believe this will become increasingly hard to defend.

Now Binder Hamlyn's report is available, I see that it confirms that milk could be available through the shops at lower prices than on the doorstep, and that the cost of doorstep delivery accounts for some 60% of the difference between the price the consumer pays and the price the producer gets. But they remark that the lower costs of selling through shops are totally excluded from the present costing system, and recommend a further study of ways of incorporating them, including the possibility of a separate, and presumably lower, maximum price for shop sales.



From the Secretary of State

This is encouraging. I understand you have asked them to continue their work; and no doubt this aspect of their findings will be followed up. Although more competition in the dairy trade might eventually make dairies readier to sell to the shops at genuine arm's-length prices, and obviate the need for price controls, with the present state of competition we have to ensure that the regime of controlled prices gives a fair deal to those who buy milk in the shops as well as to those who buy it at the doorstep. One way to do this would be to set a lower maximum price for shop sales, as Binder Hamlyn suggests: but as there is plenty of competition between food shops it would seem more logical to set a lower maximum on the price at which the dairies sell to the shops.

X We should need the Accountants' advice on the level at which this should be set, and I suggest that this should be included among the questions on which we seek their further advice. If you agree, and if the Prime Minister is content, I would therefore suggest that, rather than bring the issue back to Cabinet at this stage, the best way to meet the concern she expressed in December would be to ask the accountants to recommend how the system of controlled prices can be adapted to protect the interests of the customers of dairies who buy milk other than through their own doorstep deliveries: and that this should include advice on the appropriate level at which a maximum price might be set for their sales to shops. This advice would put us in a better position to decide collectively how to proceed. If you agree, our officials can determine the detailed terms of reference.

I am copying this letter to the Prime Minister, Geoffrey Howe and Sir Robert Armstrong.

John Nott
J.N.

JOHN NOTT