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Prime Minister

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



From the Minister

CONFIDENTIAL

HLS 16/12

PRIME MINISTER

16 December 1981

BINDER HAMLIN AND LIQUID MILK PRICES

The Chief Secretary has sent me a copy of his minute to you of 16 December and the paper he enclosed.

2. As our two papers will have shown, this is an extremely complicated subject. I would however like to emphasise just three points. First, the Chief Secretary's paper may give the impression that the proposed method of calculating the dairy trade's costs assures the trade that the total of these costs will be covered, together with a target rate of profit, however defined. This is not so. The costs will be calculated from a representative sample of dairies, whose results will be averaged arithmetically without any weighting for turnover or throughput. As it happens the larger units tend to have higher costs than the smaller largely because the larger ones tend to maintain delivery rounds in the big cities which are only marginally profitable. As a result, the arithmetical average understates true total costs, and deprives the trade as a whole of some £50m a year which they would get if the costs of particular enterprises went into the sample on a weighted basis. If the method of calculating profit is indeed somewhat more favourable to the dairies on the current cost accounting basis, this only partly makes up for the squeeze on their returns which results from the way in which costs for the trade as a whole are calculated.

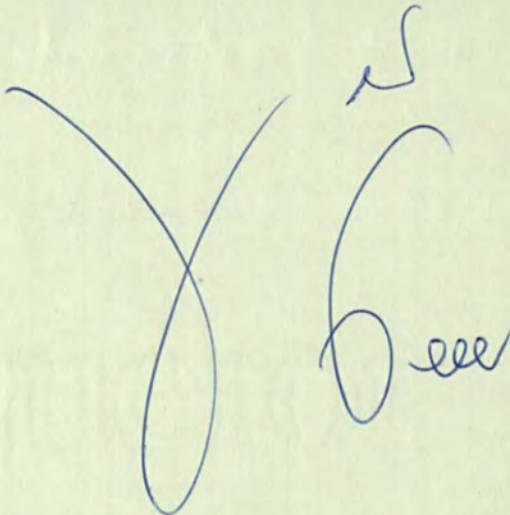
3. Secondly, it is essential to see the problem in its proper context. If the system operated by the Labour Government and guaranteed to the trade by my predecessor had been maintained, the trade would have a legitimate claim to £40m, in respect of the period between my suspension of the system and 1 October 1980, which my proposals write off and withhold from them. Over the 18 months from October 1980 to next March my proposals give them £30m less than the Labour Government's system. And from next April they will get some £20m a year less than under the previous system. These figures show just how tough the proposals are. Little wonder that they have been so very hard to sell to the dairy trade.

/4. This brings ...

This brings me to the third and final point. There is in my judgement no way in which the dairy trade can be brought to accept any further squeeze on top of the very severe one I am proposing to apply. If we try to squeeze them further they will no longer consent to be bound by the price system. We cannot compel them to go along with it, and the result could in that case be chaos, leading to the eventual breakdown of the system of doorstep milk delivery. It would be politically very dangerous to the Government if that could be laid at our door. I am sure we should not take the risk.

5. I hope therefore that you and our colleagues will agree that we should go ahead with the tough proposals I have put forward.

6. I am sending copies of this letter to colleagues on E Committee and to Sir Robert Armstrong. I am also copying it to George Younger and Nickolas Edwards.

A large, stylized handwritten signature in blue ink, consisting of a large 'P' and 'W' intertwined, with a small 'S' above the 'W' and 'see' written below it.

PETER WALKER

6 DEC 1981

