Agriculture

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

From the Minister

CONFIDENTIAL

PRIME MINISTER

MT

29 October 1982

it was at the specific request of Mr Walker's office that I held back the earlier papers until his minute of 27/10 arrived. MCS

Dear Prime Minister

I am sorry that just before you went to Bonn you were confronted with the papers on milk for the first time.

I am in considerable difficulty over this. Last year we introduced revised Binder Hamlyn arrangements following tough negotiations with the Dairy Trade Federation in which the Treasury view, shared by ourselves, was imposed upon them. We can boast as a result of imposing Binder Hamlyn that a very substantial saving, probably something like £25 million, will be taken from the profit margins of the dairy trade.

Having set up the enquiry and announced our acceptance of its recommendations I am very anxious that on its first application I am not accused of incompetence.

Theoretically we should have announced our changes at the beginning of October but there was a delay that the dairy trade accepted as a result of the negotiations that were taking place. Understandably the trade are now very impatient having had our views imposed upon them and are insisting that the adjustments that we should have made on 1 October are now made.

The Dairy Trade Federation have a meeting next Wednesday and I am sure that it is essential that my decision is made before then. I am therefore very grateful to you for agreeing to meet me on Monday.

The amount to be paid to the Dairy Trade Federation is totally fixed by the Binder Hamlyn agreement imposed by the Treasury and ourselves

/upon the Dairy Trade ...

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upon the Dairy Trade Federation. If we give the Dairy Trade Federation the money due to them but put the retail price up by only 1p/pint in January, then the price paid to milk producers would have to be reduced. This would mean that the milk producer would be getting less for liquid milk in the period January - March 1983 than in the same period of 1982. This would be indifensible. Taking the index of milk producers' real incomes in 1977/78 as 100, they came down to 89 the following year; for each year since we have been in office they have been 65, 63, 62, and this year, with very good weather conditions, we currently anticipate that they will be 72. The proposals I originally put of a 1½p/pint increase in January reducing to a 1p/pint in June will mean, according to our estimates, that in 1983/84 they would be in the 66 - 72 range.

Leon Brittan thought that this was unacceptable because he would prefer to have a smaller increase earlier, and considered that the 12 month comparison was of no great importance, the important factor being the actual percentage increase. He preferred having a 5% increase sooner rather than 7½% later, reducing to 5%. I met Leon and I agreed to accept the Treasury view and go for a 5% increase from 7 November. The result of this would have been a slight deterioration in our income forecast, with our estimate for producer incomes in the coming year probably in the 64 - 70 range.

Due to the fact that I am now unable to announce our decision today it will not now be possible for any increase that we do agree to come into effect on 7 November. The earliest date would now be 14 November, leading to another small reduction in our projection of dairy producers' incomes.

We need either to use the Treasury solution and swiftly increase the retail price by 1p/pint, or the solution that I originally offered which will result in an actual reduction in the retail price next June and a very favourable record compared with the inflation rate by that time.

I am grateful to you for agreeing to a meeting at 6.30 pm on Monday and I am sorry that you should be troubled with such a matter.

I am sending copies of this letter to Leon Brittan, Jim Prior, George Younger, Nicholas Edwards and John Biffen.

Yours sincerely

R. Lavar

for PETER WALKER
(Dictated by the Minister
and signed in his absence)