For E Cttee

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PL

CONFIDENTIAL

Prime Minister

LIQUID MILK PRICES

I have seen a copy of Peter Walker's minute of 27 November to you, and I understand that his proposal is to be discussed at E Committee on Thursday of this week.

He argues for a 1½p/pint increase in the maximum retail price from 21 December, and justifies this by referring to low and declining dairy incomes and significant under-recoupment of distributors' costs. I support him because the position, particularly for producers, is even worse in Scotland.

Production of milk is down over the year as a whole, and this decline has accelerated as autumn has progressed: in the last two months, the fall in output in Scotland was over 5 per cent. Our dairy herd was in June 4 per cent smaller than in June 1979. But perhaps more worrying is the longer term trend - heifers in calf for the first time were 8 per cent down in June 1980 as against June 1979. As in England and Wales, net margins are half what they were last year - even in money terms - and unless we take action on prices now, there could well be a flight from dairying. Indeed, there are signs that in the north and north-east of Scotland, this may already have begun.

Distributors are also considerably under-recouped. Even on a target rate of profit which has not been raised since 1978/9, I estimate that Scottish distributors will be owed some £3 million in the year ending 31 March 1981 unless we increase their return.

The arithmetic points inexorably to an increase in the maximum retail price, and I believe that 1½p/pint from 21 December is the least which we could reasonably offer to producers and distributors. There is a real risk of an exodus from dairy farming in Scotland if we do not curtail the fall in incomes.

I am copying this to the members of E Committee, to the other Agriculture Ministers and to Sir Robert Armstrong.

G.Y.

2 December 1980