



10 DOWNING STREET

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From the Private Secretary

8 September 1980

Dear Godfrey

As you know, the Prime Minister's visit to Orkney and Shetland included a meeting with a delegation from the Orkney NFU. The team of three - Messrs. Wood, Bain and Burgher - were augmented by the Chairman of the North of Scotland Milk Marketing Board.

The Prime Minister talked to the delegation for half an hour. She listened carefully to their presentations, and came away with the message that their prime concerns were the level of interest rates, the collapse of the market for their main products, and ever increasing costs, especially in labour, fuel, and transport.

I enclose notes left with the Prime Minister by the NFU team and by the North of Scotland Milk Marketing Board Chairman. I am sure that most of the representations set out here were entirely predictable. The Prime Minister was particularly asked to put her personal authority behind the farmers' efforts to secure maximum assistance for the modernisation of the Claymore creamery. I understand that both Scottish Office and FEOGA assistance is being sought. It would be helpful to have a note about prospects for this project.

The Prime Minister was also much interested in the discussion about the milk price. The producers were arguing that the recent $\frac{1}{2}$ p increase had put too much of a squeeze on them. The Prime Minister countered that this was a price sensitive product, but that she was also much concerned about distribution costs. The farmers agreed, and argued that the gap between producers' incomes and retail prices was what might tempt continental suppliers to try to break into the UK market. They asked about the possibility of changing to a system whereby the wholesale price would be guaranteed to the farmers, whilst the distributors would be left to compete amongst themselves. They recognised that this would be a challenge to doorstep delivery, but claimed that recent experience in Scotland had shown that growing shop sales had actually helped to boost doorstep sales.

On sheepmeat, the farmers were concerned about delay in implementation of the European Community Regime, and asked whether the Government would be prepared to operate this scheme unilaterally in this country in the event of Community negotiations not being completed this month. The Prime Minister responded that this was not likely to be possible in Community law, but she firmly believed that we would be successful in formalising arrangements at the September Agriculture Council in view of the pressure from other countries to get the scheme under way. She noted that the Orkney sheep farmers would be in real difficulty if this was not achieved.

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I am sending a copy of this letter and enclosures to Garth Waters (Ministry of Agriculture, Fisheries and Food). In addition to the note which I have requested on the Claymore creamery modernisation, it would be helpful to have a joint MAFF/Scottish Office note on the possibility of changing the base of the guaranteed milk price. Perhaps we could have something by 22 September.

I also enclose (to you only) a copy of a telegram addressed to the Prime Minister by Caithness NFU whilst she was in Orkney. Could you please arrange for a suitable reply to be sent on her behalf, with a copy to us for our records.

M. A. PATTISON

Godfrey Robson, Esq.,
Scottish Office.

Farming in OrkneyCurrent Position

Due to low prices for cattle, sheep and milk and high costs of feed, fertiliser, machinery repairs and fuel coupled with high interest rates, farming in Orkney is in a precarious position. Many farmers do not know how they are to exist over the next winter. There is no doubt that the Banks would be forcing many to sell their farms now if these farms could be sold at a realistic price.

With inflation running at about 20% and prices remaining static the position would be serious. However, prices have decreased considerably. Some farmers have suffered a decrease of about £70 per head on 8-cwt store cattle but the local auctioneers estimate that the average decrease is in the region of £40 per head. This is disastrous.

Agriculture is the basic industry of Orkney with the whole population being more or less dependent on farming. Already several firms have had to reduce staff and, unless quick remedial action is taken, the whole economy of Orkney will be in ruins.

Action Required

1. Interest Rates must be reduced considerably at the earliest possible date.
2. Beef Prices: The Target Price of beef should be raised substantially and the maximum Variable Premium payable should be increased. Intervention Buying of beef should not be restricted in the UK more than in any other country.
3. Hill Livestock Compensatory Allowances should be raised to their maximum as a matter of urgency (for cows from £35 to £59.83, for upland ewes from £4.25 to £8.97 and for hill ewes from £5.50 to £8.97).
4. Sheepmeat: The EEC Sheepmeat Regime should start on 1st October but, if it does not, the UK Government must introduce a scheme of its own to give prices equivalent to those already announced by the Minister of Agriculture for the EEC regime (rising to a peak of 199.6p/kg).
5. Suckler Cow Premium Scheme: This premium, while it is welcomed, is at too low a rate. The rules of the scheme are not suitable for island farmers. Fresh milk will no longer be available in the remoter islands, and the 50% working and earning rule means that smaller part-time farmers do not qualify.
6. Milk: Prices must be increased. The whole industry agreed some time ago that 1½p per pint from 1st August was needed but an award of only ½p per pint was given. Farmers are going out of milk at an alarming rate and the future of our Creamery is in jeopardy. Assistance is required to update the Orkney Creamery.
7. Road Equivalent Tariff: A full RET system of charging for sea transport should be introduced at the earliest possible opportunity.
8. Agricultural Development Programme for the Highlands and Islands: It has been proposed that the West of Ireland be given £167.8m, Italy £282.9m and the Western Islands of Scotland £11.2m by the EEC for agricultural development. The proposals for the Western Isles should be extended to include the whole of the Highlands and Islands of Scotland and assistance from the EEC should be increased.

Conclusion

The whole future of Orkney is in jeopardy. Speedy and effective government action is required to prevent irreparable damage to our economy.

Prime Minister,

The North of Scotland Milk Marketing Board operates from the Spey to Orkney. Mainland production goes largely to the high priced liquid doorstep market. 87% of Orkney's milk goes into cheese and butter at low prices, made lower by the cost of crossing the Pentland Firth and the long haul to the southern markets.

Oil has brought additional revenue to Orkney and some well paid jobs, but the basis of the Islands economy was and will be agriculture. Unusually for an Island, milk has played a large part in the Islands farm output. Milk brought in £1,800,000 last year and our creamery employs 46.

Our hand filled cheesemaking demands labour to make it and buttermaking leaves skim milk which demands oil to dry it. Both labour and oil used to be cheap in Orkney, but as a side effect of the world oil situation and the competition from local oil jobs both are now expensive and the creamery upon which Orkney milk production depends has therefore become uneconomic.

If Orkney milk producers stood alone that would be the end of the story and the creamery would have to close to the detriment of Orkney. But they did not - they voted in the E.E.C. referendum along with their Mainland colleagues to remain part of the North of Scotland Milk Marketing Board. I might add it is the only case I know of any organisation this side of the Iron Curtain where 100% of the members voted and everyone voted in support.

As a result their fellow dairy farmers on the Mainland not only help to carry these creamery losses but also - through the pooling of milk prices - ensure that Island producers get the same price as the Mainland - considerably above the price earned by Orkney cheese and butter (1.8p/litre).

Such pooling is, of course, within the principles of our Milk Marketing Boards and so long as our Mainland price is not dragged down too far will continue. Meanwhile we are submitting plans to Government and F.E.O.G.A. to modernise with a mechanised cheese line to cut labour costs extended to take all Orkney milk and thus stop butter and powder making and oil hungry skim milk drying.

For Orkney I ask two things:

1. To ask the Scottish Office to accept that subsidisation of Orkney milk prices should not be a permanent burden on the small number of Mainland producers.
2. Would you support the present willingness of Mainland farmers to help the Islands with investment in their creamery. Support from you would ensure that Scottish Office and H.I.D.B. officials, who we always find helpful, bend the rules to allow the maximum permissible grant aid.

On the wider milk front, I would ask that when you and your Cabinet again consider milk prices in the Autumn, you remember Orkney and the North of Scotland where self-interested pleading is unnecessary for our figures demonstrate the milk price to have been inadequate.

In the last year producers have dropped out dramatically, 5% in our Mainland area and 17% in Orkney. In July 1980 production in Orkney fell by 13% and now we find that surviving milk producers no longer take over the cows of outgoing producers. We have 13% fewer cows in Orkney than last year. 22% down on two years ago.

In the North Board we are not given to gloom and are proud of our record. Almost thirty years ago we were 500 producers, today we number 140. Two years ago our then 170 producers milked 15% more cows than the 500 and produced 92% more milk and even now when down to 140, they are producing 68% more milk from the same number of cows as the original 500. If British industry could tell the same story your problems would be solved.

But our success story has faltered over the last 2 years - largely as a result of an over-valued Green £ working against us. You have corrected that, but restricting the doorstep rise to only a ½p was squeezing us too hard. We know what you are trying to do in the country, many of us admire your courage, but please use the wealth creation of agriculture to help us all.

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RT HON MARGARET THATCHER PRIME MINISTER
KIRKWALL HOTEL
KIRKWALL

CAITHNESS NFU WELCOMES YOU TO THE LESS FAVOURED AREAS
AND URGES YOU 1 TO INTRODUCE THE NEW SHEEP REGULATIONS WITHOUT
FURTHER DELAY 2 TO URGENTLY REVIEW MANY OF THE DISTURBING
FEATURES IN THE SMALL PRINT OF THE NEW SUCKLER COW PREMIUM
REGULATIONS . A DECLINING AGRICULTURAL AND CROFTING
ECONOMY DEMANDS NO LESS

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