

Report of the Committee on Milk Distribution / presented by the Minister of Food to Parliament by command of His Majesty, June 1948.

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MINISTRY OF FOOD

REPORT OF THE COMMITTEE ON MILK DISTRIBUTION

*Presented by the Minister of Food to Parliament
by Command of His Majesty
June 1948*

LONDON
HIS MAJESTY'S STATIONERY OFFICE

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Minute of Appointment.

I hereby appoint—

Major-Gen. W. D. A. Williams, C.B., C.B.E.

Mr. F. W. Charles, C.B.E., F.C.A.

Miss Ruth L. Cohen, M.A.

Mr. Alan Sainsbury.

Mr. George Wansbrough, M.A.

Mr. Hugh Weeks, C.M.G.

to be a Committee to examine the distribution of liquid milk from the point at which it leaves the farm to the point at which it is received by the consumer or the manufacturer and to advise on any changes which are necessary to ensure that clean safe milk is delivered as efficiently and cheaply as possible.

And I further appoint—

Major-Gen. W. D. A. Williams, C.B., C.B.E., to be Chairman, and

Mr. M. R. Metcalf, O.B.E., of the Ministry of Food, to be Secretary, and

Mr. J. W. Bannard and Mr. C. R. Fletcher, of the Ministry of Food, to be Assistant Secretaries to the said Committee.

JOHN STRACHEY,
Minister of Food.

14th October, 1946.

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From: Maj.-Gen. W. D. A. WILLIAMS, C.B., C.B.E.

To: The Rt. Hon. JOHN STRACHEY, M.P., Minister of Food.

SIR,

I have the honour to submit the report of the Committee appointed by you to examine the Distribution of Liquid Milk.

It will be seen that the report consists of a main body, unanimously supported by all the members of the Committee, which recommends the setting up of a Commission to exercise general control over the industry, and of two addenda which set out in greater detail certain views held by other members of the Committee.

I find myself in general agreement with most of the arguments contained in Addendum No. I which seem to me sound in theory, although the extent of the economy to be realised by putting these arguments into practice is more debateable. However, I feel unable to support them for one overriding reason, namely, that a Commission such as that proposed in the main body of the report could only hope to achieve the success which we trust is possible, with the full goodwill and co-operation of the Trade itself; and it would, I consider, be quite unreal to expect this essential goodwill and co-operation under a constant threat of impermanence. A Commission such as we propose, could, I suggest, only succeed if given a firm charter and a fair opportunity to achieve its object.

Addendum No. II seeks to limit the powers of the Commission. Here I feel that if the Commission is effectively to control the industry during the difficult period of transition from war to peacetime conditions it must possess every power necessary to ensure that its policy is effectively carried out. The extent to which it may find it necessary to use such powers should be for the Commission to decide.

I have, therefore, thought it proper personally to sign only the main body of the report which, as I have already stated, is unanimous and which appears most to fulfil our terms of reference in that it makes proposals which we believe to be both practicable and desirable to meet the problem as it exists to-day.

Mr. Hugh Weeks wishes to be associated with the views expressed in this letter.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. D. A. WILLIAMS.

21st January, 1948.

To The Rt. Hon. JOHN STRACHEY, M.P.,

INTRODUCTION

SIR,

I. We were appointed by you on 14th October, 1946, with the following terms of reference:

“to be a Committee to examine the distribution of liquid milk from the point at which it leaves the farm to the point at which it is received by the consumer or the manufacturer and to advise on any changes which are necessary to ensure that clean safe milk is delivered as efficiently and cheaply as possible.”

Mr. G. Wansbrough, who was appointed a member of the Committee resigned shortly after, because he could not spare time for the work.

II. We have held 47 meetings, at 30 of which we heard oral evidence from organisations and individual witnesses in amplification of written evidence. A list of those who submitted written or gave oral evidence will be found in Appendix XI. We should like to express our thanks to them for the very helpful way in which they set their views before us.

III. Milk distribution has been examined already by numerous Commissions and Committees between 1919 and 1940, some of which entered into great detail.* Between them these enquiries provide a fairly full picture of the sources of waste pre-war. We have consequently not re-examined this matter in detail ourselves, but have concentrated, in taking factual evidence, on the changes brought about during the war and on any new evidence on the pre-war situation which has become available as a result of war-time control.

IV. We have not attempted, either, to describe in detail the pre-war organization and control of milk distribution. Full accounts are available in the Reports to which we have already referred. But since no published material exists on the wartime system of control we include in Appendices accounts of how this was operated. In the text of our Report we merely summarize briefly the main facts about milk production and utilization and about marketing methods and control of marketing, both before the war and now, which are relevant to our subsequent recommendations.

V. We then turn to our recommendations. These differ in several ways from those put forward by any of the previous officially sponsored enquiries. For there have been important changes in Government policy and in the general economic situation since these enquiries were made before the war.

* Report of the Committee on the Production and Distribution of Milk under the Chairmanship of Viscount Astor, 1919. (Cmd. 483.)

Interim Report on Milk and Milk Products, of the Departmental Committee on Distribution and Prices of Agricultural Produce under the Chairmanship of the Marquess of Linlithgow, 1923. (Cmd. 1854.)

Report of the Re-organisation Commission for Milk under the Chairmanship of Sir Edward Grigg, 1932. (Economic Series No. 38.)

Report of the Committee of Investigation for England on Complaints made by the Central Milk Distributive Committee and the Parliamentary Committee of the Co-operative Congress as to the operation of the Milk Marketing Scheme, under the Chairmanship of Mr. James Whitehead, 1933.

Report of the Re-organisation Commission for Milk under the Chairmanship of Mr. A. E. Cutforth, 1935. (Economic Series No. 44.)

Report by the Food Council to the President of the Board of Trade on Costs and Profits of Retail Milk Distribution in Great Britain, 1937.

Report of the Committee appointed by the Minister of Food to examine the Cost of Milk Distribution under the Chairmanship of Lord Perry, 1940.

The most important of these changes are:—

(a) milk producers, under the Agriculture Act, 1947, are to receive a guaranteed price and an assured market;

(b) the Government has accepted responsibility for ensuring that adequate supplies of food necessary to health are available to all members of the public at reasonable prices, and for making available to certain classes of consumers at reduced prices, or free, a guaranteed supply of milk under the Welfare Foods Service (formerly the National Milk Scheme), and a free supply to school children under the Milk-in-Schools Scheme (Appendix VIII);

(c) milk is unlikely for a number of years to be available in sufficient quantity to meet all demands for liquid and manufacturing purposes;

(d) for some years ahead utilization of milk will have to be geared into the Government's plans to overcome balance of payments difficulties;

(e) it has become more than ever important to get milk distributed with the smallest possible use of manpower and other resources.

These changes, as we shall show in more detail later in our Report, necessitate, in our view, a rather different plan from any which seemed appropriate before.

VI. We deal separately with the two parts of our terms of reference, the delivery of clean safe milk, and its delivery as efficiently and cheaply as possible. These aspects, of course, are not entirely separate; as we show later, the measures necessary to make milk safe in some cases add to the costs of distribution, though in others they are an essential pre-requisite to efficient distribution. Again, measures designed to secure rapid and efficient distribution should help to ensure that the milk reaching the consumer is of good keeping quality.

VII. We deal relatively briefly with the problem of cleanliness and safety. Here the main controversial issue of the past, compulsory heat-treatment, is already settled, and the Government committed to a gradual policy of achieving this objective. As we shall show, we consider that it is desirable to go rather further and faster than has so far been decided.

VIII. We deal more fully with the question of cheapness and efficiency. In our Report we examine separately the three main stages in distribution:—

(a) the movement of milk from the farm gate to the processing dairy;

(b) the processing and bottling of milk;

(c) its delivery from the bottling plant to the consumer.

We also note the effect of our proposals on milk producers. Generally speaking we analyse at each stage the nature and causes of any wastes which appear to us to have existed pre-war or to exist now, and make our recommendations for improvement. Again, of course, as we shall emphasize frequently in the appropriate Chapters, the problem must be examined and dealt with not only stage by stage but as a whole.

IX. We propose detailed control by an independent Central Authority of the flow of milk from the farm until it reaches the processing dairy. The Central Authority should determine the volume of milk passing through each country depot, the quantities to be forwarded to consuming centres and the amount to be manufactured. Town processors should operate subject to maximum charges when they resell the milk to retailers. Our main weapon for securing efficiency in retailing is to create conditions more favourable to real competition than have existed since 1933; a subsidiary, but important, weapon is the continued imposition of maximum retail prices.

X. On balance we all believe that this solution is to be preferred for the immediate future to the alternative of public ownership and operation. The main Report recommends the continuance of private operation as a long term policy also. But two members of the committee, for reasons given in Addendum I to the Report, consider that public ownership and operation will ultimately secure greater economies. One other member has made certain reservations on the recommendations in the main Report (Addendum II).

XI. The success of our recommendations in achieving the aim set out in our terms of reference will depend largely on the skill of the Central Authority and of its expert staff. We hope that it will be possible to draw a large part of this staff from those who have had trade and technical experience in the work that the Authority must undertake.

XII. We should perhaps make it clear here that in recommending, as we do, the curtailment of the powers of the Milk Marketing Boards we are not criticising the efficiency of their management. It is the present framework of the industry, designed partly for conditions which no longer exist, that seems to us to need modification, and this modification cannot be achieved entirely through existing organizations.

XIII. We have proposed a number of functions for the Central Authority. Usually we have set out in general terms the lines on which we consider it should work. We have not attempted to work out the details. Moreover, on some questions not of major importance, we have merely set out alternative solutions, leaving it to the Central Authority to decide which is the best. We have done this deliberately; for the best policy can only be adopted in the light of the detailed information and the experience which the Central Authority will acquire as it embarks upon the tasks we propose for it.

XIV. The Report of the Committee of Enquiry into the Agricultural Marketing Acts, under the Chairmanship of Lord Lucas, was published after we had reached our Conclusions. We were in the last stages of completing the final draft of our Report and we have not therefore been able to comment on the implications of the Lucas Report on the structure and organization of the milk industry.

XV. We wish to express our thanks to our Secretary, Mr. M. R. Metcalf and to our Assistant Secretaries, Mr. J. W. Bannard, and Mr. C. R. Fletcher (who helped us only in the first part of our investigations), for the great assistance they have given us.

CHAPTER I

MILK PRODUCTION AND UTILIZATION

Production and Utilization.

1. While milk in this country is produced mainly for the liquid market, some will always be available for manufacture, owing largely to seasonality of production. The problem of liquid milk distribution cannot therefore be considered altogether apart from that of the demand for and the supply of milk products and the facilities for manufacturing them.

2. Immediately before the war two-thirds of the milk sold off farms went to the liquid market and one-third was manufactured. Since the collapse of the prices of imported manufactured milk products after 1929 it has not been profitable, except perhaps in some inaccessible areas, to produce milk for the manufacturing market only. While the seasonal demand for liquid milk varies only slightly, production is higher in spring and summer than in winter, so that if the winter requirements are met there will be a surplus in the summer for manufacture. In fact, before the war, farmers' returns for milk (determined, as they were, by the price policy of the Milk Marketing Boards) were high enough to produce a surplus above the full liquid demand at prevailing retail prices greater than could be accounted for by seasonal variations in production and by the need to provide a margin at the season of shortest production. This surplus was manufactured, so far as possible, into those milk products which yielded the highest financial return to the producers' Boards.

3. During and since the war this situation has changed materially. Sales of milk off farms in Great Britain rose by 137 million gallons or 11 per cent. between 1938/39 and 1946/47, but liquid demand increased by nearly 50 per cent. (See Table I.)

TABLE I
SALES OF MILK OFF FARMS* IN GREAT BRITAIN

		Winter Period October/March			Summer Period April/September			Year		
		Liquid	Man.	Total	Liquid	Man.	Total	Liquid	Man.	Total
1936/7	...	377	129	506	390	226	616	767	355	1,122
1937/8	...	415	109	524	424	248	672	839	357	1,196
1938/9	...	427	115	542	428	283	711	855	398	1,253
1939/40	...	421	112	533	460	213	673	881	325	1,206
1940/1	...	501	20	521	531	126	657	1,032	146	1,178
1941/2	...	496	14	510	580	118	698	1,076	132	1,208
1942/3	...	527	16	543	598	135	733	1,125	151	1,276
1943/4	...	552	29	581	610	123	733	1,162	152	1,314
1944/5	...	562	28	590	628	126	754	1,190	154	1,344
1945/6	...	598	29	627	660	118	778	1,258	147	1,405
1946/7	...	615	28	643	658	89	747	1,273	117	1,390

* Including sales by producer-retailers, and sales in the following areas since the dates indicated :—

Islay, Coll, Gigha	...	1st June, 1942
Moray	...	1st August, 1944
Banff	...	1st April, 1945
Argyll	...	1st May, 1945
Orkney	...	1st July, 1946

In 1946/7 sales in all these areas amounted only to 5 million gallons.

4. During and since the war higher incomes and the shortage of other food-stuffs have led to an increase in the demand for milk from the public and the introduction of the National Milk Scheme (now part of the Welfare Foods

Service) and the extension of the Milk-in-Schools Scheme (see Appendix VIII) greatly increased consumption by those who could not afford anything like their present scale before the war. The gallonage sold in 1938/39 under the Milk-in-Schools Scheme in Great Britain was 28 million gallons. In 1946/47 the gallonage of milk distributed free of charge to school children was 45 million gallons and 228 million gallons of milk were sold at a reduced price, or distributed free, under the Welfare Foods Service, compared with a relatively very small gallonage sold before the war under the Cheap Milk Schemes promoted by the Milk Marketing Boards in certain special areas. The Welfare Foods Service and the Milk-in-Schools Scheme are to continue so that this source of increased demand must be assumed to be permanent. During and since the war shortage of other foodstuffs and higher incomes also led to an increase in the demand for milk from the public generally. Part at any rate of this latter increase may be temporary.

5. Now, too, it is not possible to regard manufacture purely as a market for milk which consumers do not want to buy for liquid consumption. The supplies of milk used for manufacturing in Great Britain have been drastically reduced, from 398 million gallons in 1938/39 to 117 million in 1946/47. But the Ministry of Food decided that some home production of the products made from this milk (largely full cream milk powder, "National Dried Milk" under the National Milk Scheme, proprietary baby foods, condensed milk, cheese, and butter together with skim milk powder) was more important than the satisfaction of the full demand for liquid milk. Consequently, through limiting the weekly amounts to consumers, a ceiling has been placed on liquid consumption as well as on the amount used for manufacture.

TABLE II
UTILIZATION OF MILK FOR MANUFACTURE

Million Gallons

	England and Wales		Scotland		Great Britain	
	1938/9	1946/7	1938/9	1946/7	1938/9	1946/7
Butter	101	17	12	4	113	21
Cheese	67	31	7	7	74	38
Milk Powder	17	31	—	—	17	31
Condensed Milk ...	81	16	10	6	91	22
Cream :—						
Fresh	49	—	11	—	60	—
Tinned and bottled ...	11	—	1	—	12	—
Ice Cream	1	—	—	—	1	—
Other Goods	4	1	—	—	4	1
Total Factory ...	331	96	41	17	372	113
Farmhouse Cheese ...	21	2	5	2	26	4
TOTAL	352	98	46	19	398	117

6. The Ministry of Food estimates that if liquid consumption in Great Britain could be unrestricted it would be about 1,500 million gallons this year, including consumption under the Welfare Foods Service and the Milk-in-Schools Scheme (18 per cent. above the present level of total consumption). On the present scale of seasonal variation this would call for annual sales off farms of some 1,800 million gallons, or 29 per cent. more than now. Obviously no firm calculation can be made of how far milk production in this country can be expanded. But, so far as can be seen, even if the demand for liquid

milk falls as other foods become more plentiful, and even if no milk except the necessary surplus is used for manufacture, it is unlikely that all demands can be met without restriction for some years ahead.

7. Moreover, because of our balance of payments difficulties and of the world shortage of manufactured dairy products, some milk will probably have to be used for manufacture over and above the seasonal surplus. If manufacture were to be resumed at about the pre-war rate, using annually 400 million gallons of milk, total annual sales off farms would need to be about 1,900 million gallons, or 37 per cent. higher than at present.

8. It follows that our proposals must deal both with a period when supplies are unlikely to be adequate to meet all the potential demand for liquid milk, as well as with a more distant period when (we hope) supplies are more fully adequate. Our proposals must also include machinery suitable for fixing the allocation of milk between the liquid and the different manufacturing markets and capable of switching milk between these uses as the balance alters between demand and supply for the different products, both nationally and internationally.

Location of Production and Consumption.

9. Milk is produced throughout the country, but the main dairying areas in England and Wales are in Cheshire and the west, and in Scotland in the south-west, where milk can be produced more cheaply (relatively to other farm products) than in the east where the climate is more suited to arable production. While most of the great population concentrations are so placed that the bulk of their needs could in normal times be met from nearby supplies, London is dependent on supplies from more distant areas—before the war the west, South Wales, the Midlands and the north. Most manufacturing takes place in the west, though particularly in the season of flush production milk is manufactured in many other areas as well.

10. The war, again, has brought some changes. Most of the increase in sales from farms resulted from the reduction in the amount of milk used on the farms for stock rearing and for the manufacture of farmhouse butter, cheese, or clotted cream. Liquid consumption rose most in the areas, particularly the pre-war Special Areas, where poverty kept demand especially low before the war, and where consequently the introduction of the National Milk Scheme had the greatest effect. It has thus been necessary to divert to the northern towns milk that previously flowed to London and to supply part of London's needs from depots in the west which previously manufactured the bulk of their milk. The reduction in the amount of milk available for manufacture has also, of course, made it necessary to cease or greatly to reduce manufacture in many factories.

11. The location of demand for liquid milk is unlikely to return to the pre-war pattern, particularly if full employment is maintained. It is difficult to assess in what areas production is likely to expand most. Increases in supplies cannot come from further diversions from milk used on farms, but only from greater production. The scope for increased production in any area will depend upon the relative profitability there of milk and of other farm products for which the area is suited. It is, however, likely that there will be further changes in the direction of the flow of milk.

12. As we shall show later, the changes which have already taken place have had an important effect on the structure of milk distribution. From the point of view of our enquiry they are also important because the experience of the Ministry of Food in organising these changes throws light on the powers which are needed to secure the most economical flow under conditions of changing demand and supply.

CHAPTER II

MARKETING METHODS AND THE CONTROL OF MARKETING

Marketing Methods

13. The varying distance between producer and consumer largely accounts for the different ways in which milk is distributed. Most milk is delivered to the door by retailers. Few consumers, except in Glasgow, collect their milk from shops.

14. In rural areas and in the smaller towns milk is delivered to the door by producer-retailers, or by retailers who receive their milk from nearby farms. There are about 46,000 producer-retailers in England and Wales, but many, perhaps 28,000, are primarily wholesale producers who only undertake retail sales as a side line to accommodate local residents who have no other source of supply. Of the remainder, some have to supplement their own production by buying milk from other farms or from a wholesaler in order to meet their retail trade. Producer-retailers in England and Wales retail about 15 per cent. of the total liquid trade from milk produced on their own farms. In Scotland there are 2,900 producer-retailers who handle 20 per cent. of the total liquid sales.

15. The larger towns and cities get part of their supplies from producer-retailers, but are served mainly by purchasing dairymen, who, except in the case of London, receive much of their milk direct from farms. In addition there are wholesalers whose primary function before the war was to supply retailers with milk to cover deficiencies between their farm supplies and their customers' requirements. Many of these wholesalers and large retailers receive supplies through country depots, particularly in the winter months, to supplement their ex-farm milk.

16. London was, and is, in a special category, since it has to draw most of its milk from much longer distances than other towns. Some milk reaches dairymen on the outskirts of London through the same channels as are used in other large cities, but about 83 per cent. of the total supply to the liquid market in the London area comes from country depots. Depots in England and Wales bulk and brine-cool the milk and send it, usually in road or rail tanks, to retailers and to wholesalers in urban areas where a large proportion is heat-treated and bottled: some depots also act as wholesalers for the local trade and a number heat-treat milk. In Scotland considerable quantities of depot milk are heat-treated before despatch in churns because of the present shortage of insulated tank vehicles. This milk is heat-treated again in the towns. Depot milk generally takes longer to reach the consumer than milk which is distributed by the other methods described; some passes through more than one depot, with additional delay.

17. A large number of country depots is concentrated in the two great dairying areas of Somerset and Wiltshire and of Cheshire, but there are others scattered throughout England and Wales. In Scotland most of the depots are in the south-west.

18. Most of the country depots are equipped to manufacture milk products as well as to bulk and brine-cool and in some cases to heat-treat liquid milk. Some serve the liquid market throughout the year and manufacture any milk not required by that market. Others supply liquid milk in winter, and manufacture in the summer. Before the war, some depots only handled milk for manufacture. We discuss their functions in greater detail in paras. 96 to 103.

19. Summarising the methods of distribution discussed above we see that there are broadly four ways in which milk reaches the consumer from the farm:

(a) direct to the consumer, i.e. the farmer who produces the milk also retails the milk (the producer-retailer). Some producer-retailers may have to supplement their own production by obtaining milk from other farms or from a wholesaler;

(b) to the retailer and thence to the consumer;

(c) to the wholesaler, then to the retailer and finally to the consumer;

(d) to a country depot and thence through the retailer to the consumer or through both wholesaler and retailer to the consumer.

Some large firms may have a number of establishments which between them cover all the functions of collecting from the farm, bulking, cooling, processing and bottling, and delivering to consumers.

20. Table III below shows the proportion of total marketed production of milk in England and Wales flowing through these main channels of distribution in the years 1938/39 and 1946/47. (See also Milk Flow Charts, Appendix I.)

TABLE III

PROPORTION OF TOTAL MARKETED PRODUCTION OF MILK IN ENGLAND AND WALES FLOWING THROUGH THE MAIN CHANNELS OF DISTRIBUTION

		Million gallons (October to September)		
		1938/9		1946/7
Producer-Retailers		139		161
Farm to Wholesalers and Retailers :				
	Liquid ...		502	
	Manufacture	480	—	502
Farm to Depots :				
	Liquid ...		482	
	Manufacture	479	96	578
Farmhouse cheese		21		2
Total		1,119		1,243

We shall refer to the changes in flow through the different channels later (paras. 99 et seq.).

Control of Marketing Pre-war

21. Between 1933 and 1939 milk distribution was to some extent controlled by producer-elected Milk Marketing Boards. As the war developed the Ministry of Food assumed greater control over distribution than existed pre-war, and took over most of the Boards' marketing functions.

22. We do not propose to describe in detail any of the pre-war control schemes. A full account of the provisions of the four Milk Marketing Schemes in Great Britain, and of the operation of the Boards set up under them can be found in the Report of the Cutforth Commission.* The main features of the Ministry of Food control are given in the Appendices to our Report. In

* Report of Reorganisation Commission for Milk, 1935.

this Chapter we outline very briefly the purposes and methods of the control exercised pre-war and now. In later chapters we deal more fully with certain aspects of these control schemes when we analyse the sources of waste in distribution and make our proposals for remedying them.

The Milk Marketing Boards

23. There are four Milk Marketing Boards in Great Britain.

Name	Area Covered	Approximate Annual sales off farms (including sales by producer-retailers) <i>Million gallons</i>	
		1938/9	1946/7
(a) Milk Marketing Board ...	Whole of England and Wales	1,119	1,243
(b) Scottish Milk Marketing Board.	Scotland South of Grampians	123	127
(c) Aberdeen and District Milk Marketing Board.	Counties of Aberdeen and Kincardine.	9	12
(d) North of Scotland Milk Marketing Board.	Counties of Nairn, Inverness, Ross and Cromarty, and Sutherland.	2	3
(e) Other Scottish Schemes ...		—	5

24. The main purpose of these Boards before the war was to protect producers against the collapse of milk prices which seemed imminent when they were set up and to improve producers' average returns. Probably their most important activity was the prescription, after negotiation with distributors and manufacturers, of prices and conditions of sale for milk sold for liquid consumption or for different manufacturing purposes.

25. In essence, both the Milk Marketing Scheme in England and Wales and the three Scottish Schemes were pooling arrangements. Buyers paid to the Board the prices prescribed for any milk they bought. These prices were much greater for milk sold liquid than for milk used for manufacture and varied for milk manufactured according to the product made. Milk producers selling wholesale were free to find their own purchasers, but in England and Wales and in the area of the main Scottish Scheme they received the same pool price (roughly the average realisation value for all uses, less the Board's expenses) regardless of the use to which their milk was put. There was a regional variation in pool prices in England and Wales. Some producers received quality or "special service" premiums (see paras. 206 to 209); nearly all suffered reductions to cover transport charges, actual or notional (see paras. 210 and 211). In England and Wales producer-retailers and producers of T.T. (certified) milk paid a levy into the Board's funds designed mainly to make them bear a share of the loss on milk sold for manufacturing. In Scotland category producers (producer-retailers, producer-wholesalers, and producers of Certified milk, none of whom had to sell through the Board) also paid levies, though smaller ones.

26. Distributors buying milk from farms for use in the liquid market all paid the same price to the Boards. But the English Board made allowances to the proprietors of approved country depots on milk sent by road and rail to consuming areas and these allowances were deducted from the fixed price charged to the depots. The rate of these transport allowances was equal to the rate charged by the railway companies for small consignments of milk over the same distances, and in addition a "transit risk" allowance of $\frac{1}{4}$ d. per gallon was paid by the Board. The risk of loss in transit was small.

Depot proprietors received no specific remuneration for handling milk at depots but premiums were charged on milk sold to independent concerns. Their income, out of which they met the costs of operating their depots, came largely from the profits which they made on the transport allowances on large consignments which they were able to despatch by rail in tank vehicles at lower rates and from the transit risk allowance. The transport profits increased (up to 151 miles—the maximum railway scale distance) with the mileage over which the milk was sent. Larger profits were often made on milk carried in road tank vehicles. In Scotland the Boards paid handling allowances to depot proprietors and met the actual cost of transport from the depot.

27. These price and transport arrangements profoundly affected the incentives which determined where distributors wished to buy milk, or where producers desired to sell it. We discuss this question in paras. 87 and 88.

28. The two smaller Scottish Boards operated somewhat differently. Buyers paid the Boards in the same way as under the larger schemes; but the Boards paid producers two prices, the higher for a producer's "basic gallonage" related to his production in the previous winter, the lower for any excess quantity above this. Arrangements for transport deductions were also somewhat different, and in Aberdeen the Board themselves employed one haulier to collect all milk except isolated consignments.

29. In addition to fixing the price paid by buyers for milk, the Boards had other more direct powers over and influence upon distribution. First, they fixed margins after consultation with distributors. In England and Wales the Board fixed:—

(a) minimum (not maximum) retail prices, varying seasonally and according to the locality in which the milk was retailed;

(b) a scale of minimum wholesale prices, rising as the size of consignments diminished;

(c) a scale of minimum semi-retail prices for consignments of over one gallon to distributors, hospitals, caterers and similar consumers of milk, falling as the size of consignments increased until they became equal to the largest wholesale price prescribed.

In practice, therefore, a large number of retailers did not enjoy the full margin between the prices charged by the Boards and the retail price on all their trade. Any special premium paid to producers also had to be met from the margins and these had to be shared when milk passed through the hands of more than one distributor.

30. In the main Scottish area and in the north of Scotland, but not in Aberdeen, the retail prices prescribed were fixed and not minimum prices. Minimum prices at intermediate stages were fixed. In the main Scottish area, unlike England, the Board supplied the larger distributors (buying over 500 gallons daily) with all their requirements from the farm or from the depot at the same price. But smaller buyers had to buy any milk they required, over and above the supplies from any producers which might be allocated to them, at a premium payable to the supplier from the distributive margin. These extra supplies might be obtained from wholesalers or from producer-wholesalers (producers licensed by the Board to supply small retailers at a higher price than the ex-farm price). There are no wholesalers in the areas of the Aberdeen and North of Scotland Boards. Milk is supplied to distributors from the farm or from the Board's depots at the same price.

31. We discuss later the effect of these price arrangements on the cost of distribution (see para. 163).

32. Secondly, the Boards possessed and used the power to call up milk sold on contract to manufacturers if it was needed to meet an unsatisfied demand for the more remunerative liquid market or for a form of manufacture which realised a higher price to the Boards. Thus they had considerable control over utilization.

33. Thirdly, the Boards had formal power to determine, after consultation with wholesale buyers, the places to which milk should be sent. In England and Wales, particularly, they were never able to use this power fully to secure economy in distribution, partly because redirection of milk would have affected individual farmers' returns.

34. Fourthly, the Boards had the power to issue licences to depots enabling depot proprietors to obtain manufacturing rebates and forward transport allowances. They used this power, so far as they were able, to reduce the handling of milk by depots and encourage its despatch direct from farm to town dairy.

35. Fifthly, the Boards reduced fairly substantially the number of buyers buying on direct contracts.

36. Finally, the Boards were entitled to operate themselves at any stages of distribution. The Board in England and Wales used this power to set up or acquire about a dozen depots and a retail business. The depot concerns were important in providing the Board with direct information on operating costs. In Scotland the Boards have entered into distribution more widely. The main Board operates eleven out of the twenty-three country depots in the area and is a large manufacturer of butter and cheese. The Aberdeen Board operates a liquid milk depot in Aberdeen which is also equipped to manufacture butter and cheese. The North of Scotland Board owns not only liquid milk depots at Inverness and Wick (the latter also retailing) but also four retail premises in their area. Particularly since the war, it has operated a number of retail rounds in some towns and in rural areas which producer-retailers were unwilling to continue to serve.

37. To list in this way the activities of the Boards in the field of milk distribution may be misleading. It may appear that they should have had substantial power to improve the machinery of distribution. As we shall show later we believe this power to be largely illusory, generally through no fault of the Boards.

Wartime Control—Purposes

38. During the war it gradually became necessary for the Ministry of Food to take more and more control over the allocation, transport and distribution of milk, and substantial changes were made in the structure described in the previous paragraphs.

39. As shown in Chapter I, total supplies of milk were inadequate to meet the full demand both for liquid and for manufacturing purposes. The Ministry had, therefore, to plan the division of the total supplies between liquid and manufacturing purposes. The Ministry had further to provide milk for priority classes, i.e., beneficiaries under the Milk-in-Schools Scheme, and the National Milk Scheme, adolescents, invalids, hospitals, etc., and to make arrangements for fair distribution to non-priority consumers of the supplies that remained. All consumers had to register with retailers (there are 91,800 in England and Wales, and 7,200 in Scotland, including producer-retailers) and retailers had to be provided with daily quantities of milk sufficient for these purposes. This involved a fairly detailed control of the flow of milk.

40. The distribution of milk had to be so organized as to use the minimum amount of labour, petrol and transport generally, even at the sacrifice of some consumers' convenience. Some distributors themselves made substantial savings early in the war before detailed control began; but the Ministry of Food had to introduce such control in order to achieve yet further economies.

41. The Government had to prescribe maximum prices and distributive margins to prevent the shortage of milk from being exploited, to provide cheap or free milk to certain priority classes and to regulate the retail price to other consumers to the extent made necessary by the policy of stabilising the cost of living. In addition the farmer received a guaranteed price for his milk, and a guaranteed market. These arrangements involved heavy subsidy payments.

Wartime Control—Supplies.

42. It is unnecessary for our purposes to describe the stages by which control was introduced. By the end of 1942 it was substantially in its present form.

43. Milk is still handled by the pre-war distributors, but their activities are in many ways controlled by the Ministry. The Marketing Boards still operate as milk producers' organisations, but some of their functions have been taken over by the Ministry and others they undertake as agents of the Ministry and under the Ministry's instructions. Special schemes have also been introduced to cover those areas in Scotland which were outside the areas covered by the Boards. These schemes are administered by the three Scottish Marketing Boards as agents for the Ministry of Food and their terms are substantially the same as those operating in the area of the Board which administers them.

44. The English Board buys all milk sold off farms, except milk produced by producer-retailers and sold retail by them, and T.T. (certified) milk retailed by the producers or sold to dairymen. The Board sells the milk to the Ministry of Food at the point of first destination where it is simultaneously sold by the Ministry to distributors or to manufacturers of milk products. The prices paid to the Board by the Ministry are calculated to be sufficient to cover the prices paid to producers and the Board's net expenses less the profits from the Board creameries, net levies recovered from producer-retailers and a contribution by the Board towards the cost of transport outwards from country depots. In Scotland the pre-war contract conditions remain though no actual contracts are signed. The Ministry subsidises the Boards to the extent necessary to make up the deficiency between the receipts from the buyers and the Boards' payments to producers together with the Boards' net expenses.

45. The English Board has taken over from individual producers responsibility for arranging the physical transport of milk from farm to first destination (see Appendix I) although the cost still falls on producers. In 1943 the Board introduced new "Regional Transport Rates" which superseded the actual transport cost from farm to first destination previously payable by all producers, and the "Standard Freight Deductions" payable additionally by depot producers. These rates vary regionally and according to the class of buyer. The Regional Transport Rates on milk sent direct to consuming centres are now $\frac{1}{4}$ d. per gallon less than those for milk sent to country depots. The deduction at the "Regional Transport Rate" is made from the price paid by the Board for milk purchased by them from the producers. The new arrangements facilitated the re-direction of farm

supplies to meet the Ministry of Food's requirements and the introduction of farm rationalisation schemes. The latter were designed to reduce the distance over which milk has to be transported to first destination and the number of vehicles used.

46. The haulage arrangements for the collection of milk from the farms in the areas of the three Milk Marketing Boards in Scotland and the method of apportioning transport costs to producers gave the Boards greater flexibility in re-directing farm supplies than was the case in England and Wales. Consequently overlapping collections and cross-hauls were the exception rather than the rule before the war. Early in the war the main Scottish Board reviewed the collection arrangements and eliminated most irrational movements that still remained.

47. The direct responsibilities of the English Board are now limited to the purchase of milk from producers and its transport from farms to first destination (apart from their operation of their own depots, creameries and other distributive concerns). But they undertake for the Ministry a good deal of executive and accounting work relating to transactions at later stages of distribution.

48. The Ministry is responsible for directing the flow of milk to meet retailers' requirements and to implement its manufacturing programme. The depots, still operated by their pre-war owners, act under Ministry of Food instructions. They provide a valuable pool from which the Ministry can balance supplies in different parts of the country and a large part of the depot milk is, in fact, directed each day by the Milk Division of the Ministry to consuming centres. But the Ministry has faced considerable difficulties in re-directing some of this milk from farms direct to town processors. (See para. 106.)

49. In Scotland the Milk Marketing Boards, acting as the Ministry's agents, organise the flow of milk.

50. Consumers throughout Great Britain are registered with retailers and cannot, save in exceptional circumstances, change their retailer. Retail rationalisation schemes have been organised to save labour, petrol and materials. (See paras. 133 to 138.)

51. Retailers obtain their supplies from farms allocated to them by the Ministry and/or from depots or wholesalers whom they nominate to serve them. When retailers buy from farms they generally use wholesalers or depots to balance their requirements. It is the function of the Milk Division of the Ministry in England and Wales and of the Milk Marketing Boards in Scotland, as agents of the Ministry, to see that the retailers' requirements are met.

Wartime Control—Prices, Margins and Payments to Distributors.

52. The present financial arrangements are set out in Appendix IV. They are exceedingly complicated and are only dealt with in broad outline in the following paragraphs.

53. In England and Wales producers, as already stated, are paid by the Board out of money paid to the Board by the Ministry. Over the year producers receive far more than buyers pay to the Ministry and the loss is made good out of the Exchequer. Grants are also paid to producer-retailers to adjust their receipts by the sum of the adjustments since 1939 in producers' prices and in retail margins.

54. Buyers pay prices fixed by the Ministry of Food, varying, still, according to whether the milk is used for the liquid market or for manufacture. Milk for the liquid market is made available to all retailers at a uniform price irrespective of the source of supply, except that retailers obtaining milk

direct from farms receive an allowance of $\frac{1}{4}$ d. per gallon to cover the cost of providing churns and the extra work involved in receiving milk in small consignments.

55. It became necessary for a new price structure to be introduced in the milk distributive industry at the time when the Ministry of Food became first purchasers of milk and assumed the direction of supplies. Accordingly, as this position has continued, depot proprietors and wholesalers are now paid fixed allowances for their services by the Ministry of Food. Previously depots received transport and transit risk allowances from the Board and wholesalers obtained premiums from distributors on the re-sale of milk. A contributory scheme was introduced under which the proprietors of country depots which were closed as redundant received payment of sums to cover continuing overheads and the estimated loss of profit resulting from closure. Where the throughput of an operating depot was reduced similar payments were made to cover the higher overhead costs per gallon arising as a consequence, and the loss of profit. These arrangements were more recently extended into a comprehensive scheme, known as the "Milk and Milk Products—Combined Scheme" (see Appendix V), which came into operation for the year ended 30th September, 1945, and will operate for such subsequent years as may be agreed by the Ministry and the industry. Under this Scheme the remuneration of depot proprietors and manufacturers of milk products is adjusted according to level of throughput, and payments are also made in respect of the continuing overheads of closed depots on similar lines to those of the earlier scheme.

56. The Ministry also pays for the cost of transporting milk from depots to the towns.

57. The allowances to depot proprietors and wholesalers are greater if they heat-treat the milk, and greater still if they both heat-treat and bottle it on the same premises. The Ministry also makes a direct payment to retailers who heat-treat their milk, and a higher payment if they both heat-treat and bottle it on the same premises.

58. Retailers, however, get their main income from the difference between the retail price at which they sell to consumers and the price at which they buy. They also receive payments from the Ministry of Food for milk delivered under the Milk-in-Schools Scheme and the Welfare Foods Service. In the latter case the payments represent the difference between the maximum retail price and the amount (if any) paid by the beneficiaries to the dairyman.

59. Thus, unlike the pre-war position when the margin between the Board's price and the retail price was often shared by wholesalers and retailers, the retailer normally gets the same margin whether he buys milk from the farm or from a wholesaler, although in the latter case, if the milk is bottled by the wholesaler, the retailer has to pay for that service.

60. The Ministry fixes a maximum price for milk sold retail, which varies for the areas of the different Boards, but no longer varies in England and Wales according to the size of the town, whether the area is urban or rural, or with the season of the year. An allowance of $\frac{1}{2}$ d. per gallon is, however, paid by the Ministry on retail, semi-retail* and intermediate* sales in the

* A "Semi-retail Sale" is a sale by retail to an establishment, e.g. restaurant, canteen, etc. (excluding milk sold under the Milk-in-Schools Scheme), at less than the maximum retail price.

An "Intermediate Sale" is—

(a) a sale to a ships' stores dealer; and

(b) a sale to a retailer other than a ships' stores dealer during any week during which the total purchases of milk of all kinds (except sterilised milk) by the retailer from the seller does not exceed (i) 56 gallons in the case of sales to a retailer for the purposes of a business carried on by him in the London area or (ii) 84 gallons in any other case.

London area to cover higher wages. Minimum prices are no longer prescribed, but under existing conditions it is not to be expected that retailers will sell below the maximum, except in the case of semi-retail sales.

61. In Scotland producers' prices are fixed as in England and Wales. The pre-war distribution and price arrangements described in para. 30 have been continued and, subject to the Ministry's directions, the Boards continue to prescribe prices. In practice, therefore, the standard prices and the maximum retail prices are fixed by the Ministry of Food. The arrangement in England and Wales of paying separate allowances for the wholesaling function does not apply in Scotland, although, as explained in para. 30, the main Scottish Board supplies the larger distributors with all their requirements at the standard price. The Ministry of Food pays an allowance on milk which is heat-treated, and a higher allowance if it is also bottled on the same premises. Country depots receive a handling allowance varying between summer and winter, whilst the Ministry is ultimately responsible for paying the cost of transport from the country depots to the consuming centres.

CHAPTER III

THE CLEANLINESS AND SAFETY OF MILK

62. As we said in the Introduction to this Report we propose to deal only briefly with the questions of cleanliness and safety of milk. Informed persons now agree substantially on the policy that should be adopted in this field and the Government have already announced their intention to promote a Bill designed to implement this policy.

The Problem.

63. Cleanliness and safety in milk are two entirely different properties. Dirty milk is milk which contains extraneous matter, such as dust; it is not necessarily unsafe but it is usually less pleasant to drink and is liable to turn sour more quickly than clean milk. Unsafe milk is milk which contains disease-producing bacteria harmful to man; clean milk may be unsafe.

64. Milk may be contaminated on the farm or at any stage of the distributive process, from the udder of the cow, the cough spray or fingers of an infected milker or dairy worker, by dirt or bacteria in milking pails, churns, plant or bottles, by flies, or even from the water used for cooling the milk and washing the utensils. Our terms of reference deal with distribution from the farm gate, but our proposals affect inevitably the problem of providing, from the farm, milk that is or can be made clean and safe. Milk that leaves the farm dirty can never be made wholly clean; but milk that is contaminated when it leaves the farm can be made safe.

65. The greatest problem is to make milk safe. Tuberculosis is probably the most serious form of milk-borne disease. It originates most frequently from cows suffering from udder tuberculosis, and, since milk from a number of cows has to be bulked first on the farm and then, frequently, at the depot, the amount of milk infected with tubercle bacilli is out of all proportion to the number of cows infected. Infection may also originate during distribution from persons suffering from infectious diseases or who are carriers of disease. The problem is serious. While no close estimate for the country as a whole is possible, it has been demonstrated that of the raw milk in tanks and churns entering London, Birmingham, Manchester and Glasgow from 1930 to 1937, anything from 6 to 16 per cent. contained tubercle bacilli. Again it was stated in a report published in 1933 by the Health Committee of the London County Council that "milk arriving in London, for instance, in 3,000 gallon

tanks, representing the mixed milk of perhaps 50 farms or 'so, is almost invariably infected with tubercle bacilli". (Of course very little reaches consumers in this state, the bulk being rendered safe by heat-treatment.) Figures compiled by the Ministry of Health in 1945 showed that of 4,000 deaths notified in one year as occurring from non-pulmonary tuberculosis, 1,200 were due to bovine type infection. In addition, there are many cases of suffering and lifelong handicaps from this infection.

66. There are many other forms of milk-borne disease, such as undulant fever which comes from contagious abortion in the cow, septic sore throat and scarlet fever from one form of mastitis in the cow, acute gastro-enteritis from another form of mastitis, diphtheria, typhoid and paratyphoid fevers, dysentery, diarrhoea and rat-bite fever.

67. It is possible to reduce the risk of infection by many means, such as freeing herds from cows infected with tubercle organisms (a policy which is already under way), eliminating other sources of infection, and keeping the milk cool and distributing it speedily so as to prevent bacterial multiplication.

68. The evidence we have taken, however, notably from the British Medical Association and the Ministry of Health, convinces us that real protection can only be obtained if at some stage the milk is rendered safe and then sealed in sterile containers for delivery to consumers. This can be done only if milk is heat-treated to destroy the harmful living organisms and bottled in one continuous operation.

Objections to Heat-treatment.

69. We are also satisfied that the criticisms which have been made of heat-treatment or pasteurization are either ill-founded or of insufficient importance to outweigh its advantages. Some claim that it destroys the nutritive value of milk. The medical evidence we have received has convinced us that the slight loss in nutritive value caused by heat-treatment is of no consequence except when the milk is used for babies, who must in any case be protected against milk-borne infections by having heat-treated milk, and whose feed can easily be reinforced (e.g. by cod liver oil and orange juice) if there are any deficiencies in the milk they are given to drink.

70. Others maintain that heat-treatment spoils the taste of milk. We have received no evidence to show that the general run of consumers can distinguish heat-treated from non-heat-treated milk of roughly the same age. We recognise that since heat-treatment retards souring its introduction will permit greater delays in delivery, but our proposals regarding distribution should reduce this danger.

71. A further objection which has been raised to the heat-treatment of all milk is that this would greatly add to the cost of distribution. The costs of the heat-treatment process itself are not substantial if carried out in a reasonable sized plant. Where, however, thinly populated areas depend on scattered farms in such areas for their milk supplies, to enforce heat-treatment would either mean establishing many small and expensive plants or involve transporting raw milk considerable distances to a central plant and then transporting back bottled milk. We provide for this in our proposals (see para. 75). To distribute bottled milk is, of course, more expensive than to deliver loose milk. But few consumers would wish to receive milk which is as dangerous and dirty as is usually and almost inevitably the case with loose milk.

72. Yet there is no other way of rendering milk safe. It may take 20 years to free our herds of cows which re-act to the tuberculin test. To do this would not be enough. All dairy herds would have to be kept free from animals infected with other infectious diseases, such as contagious abortion,

and mastitis; all dairy farms would have to be supplied with water free from pathogenic organisms; all persons handling milk on the farm and throughout the process of distribution would have to be examined at frequent intervals for infections which can be milk-borne, and many other controls would have to be introduced to ensure against the contamination of milk from other sources. It would in our view be impracticable to introduce and maintain effective control over all these risks of infection at the source.

The Government's Safe Milk Policy.

73. In the light of these conclusions, we have examined the Government's safe milk proposals which concern the handling of milk after it has left the farm. These were announced in the House of Lords on 31st July, 1946, in the following words:

" It has been decided to press on with the heat-treatment of milk. Groups of large urban areas, each forming a homogeneous whole, will be specified as areas within which the only milk which will be permitted to be sold to the public will be heat-treated or T.T. milk sold as such. Each area will be specified on an appointed day which will be fixed by the Minister of Food in consultation with the other Ministers concerned having regard to the special circumstances of the area. Accredited milk (standard milk in Scotland) sold to the public as such and coming from a single herd will be exempted from the requirement to heat-treat it for a period of five years from the date when the new powers come into operation. To reduce the risk of contamination after heat-treatment, the heat-treatment and bottling of milk will be carried out in the same dairy premises, and all heat-treated milk, like T.T. milk, will be sold in closed containers. This policy will be applied gradually to urban areas throughout the whole country and then, so far as practicable, to rural areas. This will require legislation which it is proposed to introduce next session."

74. We regard these proposed measures as a substantial contribution to improving the cleanliness and safety of the nation's liquid milk supply. But we consider that they do not go far enough in two important respects to "ensure the delivery of safe clean milk": (a) they exempt from compulsory heat-treatment for five years, accredited milk from a single herd, and (b) they exempt altogether from compulsory heat-treatment T.T. milk. We have received no evidence to support the view that accredited milk is a safer, although it should be a cleaner, product than raw milk produced from an ordinary herd, while in the production of T.T. milk only one of many milk-borne diseases is eliminated. Such milk may leave the farm infected as a consequence of mastitis or contagious abortion in the cow, and can pick up as readily as any other raw milk other pathogenic organisms between milking and delivery to the consumer. The Brighton-Hove outbreak of septic sore throat in 1929, and the Chilgrove outbreak of scarlet fever in 1934 were both traced to milk produced under the high standards demanded in running a tuberculin tested herd but which had not been heat-treated. The outbreak of typhoid fever at Bournemouth, Poole and Christchurch in 1936 involving at least 718 persons and causing about 70 deaths was traced to contamination of water supply which was used for dairy purposes.

75. We have, therefore, felt bound to recommend that as an ultimate objective compulsory heat-treatment should be applied to all milk sold for liquid consumption, except milk consumed in remote and thinly populated areas where it might be impracticable to deliver a supply of heat-treated milk. In these areas consumers wishing to be protected against milk-borne diseases should be advised to boil their milk. We recognise, however, that this

objective cannot be reached for several years, particularly in the small towns and rural areas which will not be included in the scheduled areas in the early stages of applying the Government's safe milk policy. For the time being, therefore, we would exempt from compulsory heat-treatment the sale of raw T.T. milk, which largely protects the consumer from at least the most serious of the milk-borne diseases. Such milk should as far as possible be retained for consumption in small towns and rural districts; but we would not rule out its sale in scheduled areas until the time is reached when compulsory heat-treatment can be applied generally. We would, however, prohibit from the outset the sale of accredited milk (standard milk in Scotland) in any area scheduled for compulsory heat-treatment.

76. We would add the following additional safeguards to be applied in scheduled areas:—

(a) persons in depots and dairy premises handling milk until it is bottled should be regularly examined for infections which can be milk-borne;

(b) tests of milk passing through such premises should be taken at least once every two weeks;

(c) the practice of selling loose milk should be prohibited and milk that is heat-treated should be filled on the premises where it is heat-treated into the containers in which it is to be delivered to the consumer;

(d) milk containers and their sealing should conform to standards no less stringent than those laid down for T.T. milk.

77. We have recommended that heat-treated milk should be bottled at the processing plant to avoid subsequent infection. We have considered, but decided against recommending that T.T. milk should be bottled on the farm during the period when it remains exempt from heat-treatment. To require this would confine the risk of contamination to the farm itself and make it readily traceable. On the other hand facilities for adequate cleansing of bottles can never be as good on farms as in properly equipped town dairies; the cost of transporting bottled milk and the returned empties would be prohibitive except where the centre of consumption was near the point of production, and long distance haulage of large quantities in bottles to urban areas such as London would be unsatisfactory, particularly in warm weather, except in insulated or refrigerated vehicles.

78. We learn that a Bill to give effect to the announcement referred to in para. 73 will not be introduced in the present Parliamentary Session. We understand that the reasons for this postponement are (i) the pressure of other impending legislation and (ii) the shortage of processing plant. We gather that, owing to the need for increasing exports, the amount of dairy plant and machinery to be released to the home market will be sufficient only to replace and maintain existing processing establishments, so that there will be no immediate material increase in the present quantity of heat-treated milk, as shown in Table IV.

TABLE IV
PERCENTAGE OF TOTAL LIQUID SALES HEAT-TREATED, AND HEAT-TREATED AND BOTTLED ON THE SAME PREMISES

	Year ended March, 1947		
	England & Wales	Scotland	Great Britain
	Per cent.	Per cent.	Per cent.
(a) Heat-treated (including (b))...	72	62	71
(b) Heat-treated and bottled on the same premises...	54	54	54

Table V shows the percentage of T.T. milk to the total sales off-farm and the proportion of T.T. milk sold as such to consumers.

TABLE V
TUBERCULIN TESTED MILK

PERCENTAGE TO TOTAL SALES OFF FARMS, AND THE PERCENTAGE OF THE T.T. OFF FARM SALES DISTRIBUTED AS SUCH TO CONSUMERS.

	Year ended March, 1947		
	England & Wales	Scotland	Great Britain
	Per cent.	Per cent.	Per cent.
(a) Percentage T.T. to Total Sales off Farms	14	61	18
(b) Percentage (a) sold as such to consumers	36	17	30

79. At present two methods of pasteurisation are recognised in England and Wales for the purposes of the Milk (Special Designations) Regulations, 1936/46. These methods are generally known as the Holder process and the High Temperature Short Time (H.T.S.T.) process. In Scotland the Holder and H.T.S.T. processes for pasteurised milk are recognised by the Milk (Special Designations) Order, Scotland, 1936/44, and, in addition, "heat-treated" milk is also included. In England and Wales, "heat-treated" milk is only a statutory description under Defence Regulation 55G. Sterilised milk is also a statutory description under the same war time Regulation.

80. "Heat-treated" milk was introduced as a wartime measure to permit the use of plant and premises which, although they might not comply fully with the requirements of the Milk (Special Designations) Regulations for pasteurisation, would provide a milk safer than raw milk for consumers. The need for this war time measure is passing and we accordingly recommend that the description "heat-treated" be abolished, and that this milk be removed from the Milk (Special Designations) (Scotland) Order.

81. The National Institute for Research in Dairying and other research laboratories are doing much useful work into methods other than heat-treatment for the destruction of pathogenic organisms in milk and on other problems of handling and treatment of the milk. This work should be encouraged and we recommend that the Central Authority should provide or contribute towards the funds necessary for an extension of this work.

82. To secure that the Government's safe milk policy is operated successfully, as well as to achieve efficiency in distribution, many more well trained dairy technicians will be needed than before the war. But we have received evidence that there are likely to be fewer technicians available, partly because under the new arrangements for agricultural education it is proposed that the courses provided by the Agricultural Colleges and Institutes should be confined to dairy husbandry and no longer include dairy technology. We understand that plans are already being made to set up a Dairy Technological Institute at Reading University to fill this gap. We hope that all possible steps will be taken to get such a training scheme going rapidly. Without it the best results from the safe milk policy cannot be obtained.

83. Finally, we must emphasise that milk when it leaves the farm should be clean and cool and of good hygienic quality, if deterioration in transit is to be avoided and to ensure successful heat-treatment when it reaches the processing dairy.

Summary of Recommendations.

84.—(a) As an ultimate objective compulsory heat-treatment should be applied to all milk sold for liquid consumption, except milk sold in remote and thinly populated areas. (Para. 75.)

(b) Until compulsory heat-treatment can be applied generally raw T.T. milk should be permitted to be sold in any area. (Para. 75.)

(c) The sale of accredited milk (standard milk in Scotland) should be prohibited from the outset in any area scheduled for compulsory heat-treatment. (Para. 75.)

(d) In scheduled areas

(i) persons in depots and dairy premises handling milk until it is bottled should be regularly examined for infections which can be milk-borne;

(ii) tests of milk passing through such premises should be taken at least once every two weeks;

(iii) the practice of selling loose milk should be prohibited and milk that is heat-treated should be filled on the premises where it is heat-treated into the containers in which it is to be delivered to the consumer;

(iv) milk containers and their sealing should conform to standards no less stringent than those laid down for T.T. milk. (Para. 76.)

(e) The description "heat-treated" should be abolished. (Para. 80.)

(f) The Central Authority should provide or contribute towards funds for research into problems connected with the handling and treatment of milk. (Para. 81.)

(g) A training scheme for dairy technicians should be instituted. (Para. 82.)

CHAPTER IV

EFFICIENCY AND CHEAPNESS—FARM TO TOWN PROCESSOR

Introduction.

85. We now turn to the second part of our terms of reference—to advise on changes that may be necessary to make the delivery of milk as efficient and cheap as possible. We shall consider the problem in three stages:

(a) the collection of milk from the farm and its delivery to a town dairyman, whether the milk passes through a country depot (or wholesaler) or reaches the town dairyman direct from the farm;

(b) the processing and bottling of milk by the town dairyman, and its wholesaling (where it is wholesaled);

(c) the delivery of milk from the bottling plant to consumers.

(a) is dealt with in this Chapter and (b) and (c) in Chapter V.

86. It will be remembered that these three stages are by no means always divided up among different dairymen, and that not all of them are always used (see paras. 13 to 20). We propose to indicate for each stage the nature of any wastes which appear to us to have existed under pre-war arrangements or to exist at present, and make our proposals for improvement.

Wastes between the Farm and the Town Processor.

87. The Cutforth Commission* pointed out that milk often moved unnecessary distances at the first stage from farm to town dairy, particularly in England and Wales. Their view was confirmed by wartime experience in organising farm rationalisation schemes (the control of the allocation of farm supplies to depots and dairies to avoid overlapping), particularly in England and Wales. It was found that individual buyers drew supplies from farms over scattered areas, and that cross-haulage and overlapping of collection routes were widespread. Farm supplies were re-allocated between one buyer and another and haulage services reorganized and co-ordinated. The savings from these schemes are estimated by the Ministry of Food at 75,000 vehicle miles per day, with a consequent saving in petrol of about 2½ million gallons per year. About one-fifth of the transport needed for milk collection pre-war has been released.

88. The main reason why milk often travelled unnecessary distances before the war was that the price fixing arrangements removed the incentive to buyers and sellers to transport milk as short a distance as possible, while this incentive was not replaced by really effective powers given to any one body to organize the flow of milk. Buyers, under the Milk Marketing Schemes, paid the same delivered price for milk put to the same use from whatever place they bought it. Thus they had no incentive to get their liquid supplies from as short a distance as possible. Nor would they get milk cheaper for manufacturing purposes if they set up factories in areas distant from the liquid market, as they would have done in the days before the schemes were introduced. Producers, under the system of transport deductions in England and Wales, received lower transport deductions if they sold milk direct to a distributor for liquid consumption than if they delivered to a depot for consignment to a more distant liquid market or for manufacture. Thus many producers preferred to send their milk long distances to a direct market, and distributors would accept it in preference to nearby milk if they thought the quality better. At the same time it did not matter to producers whether they sent to a depot which would re-consign their milk to the liquid market or to one which manufactured it. The Boards were not able entirely to get over this lack of incentive to economical movement of milk. The situation was worse in England than in the main Scottish area, largely because the provisions for deducting transport charges under the English Milk Marketing Scheme made it more difficult for the English than for the Scottish Board to organise transport effectively; and also because of the greater complications in organising, with limited powers, transport of milk in a larger area. But even in Scotland improvements were possible.

89. Some of the changes in Government policy, listed in the Introduction to this Report (para. V), clearly rule out a return to the competitive relationship which existed to a fairly large extent before 1929. In general the economic inducements present in this system of competitive buying and selling caused milk required for liquid markets to be obtained from sources as near those markets as possible, and milk used for manufacture to be drawn from outlying areas, for manufactured products cost less to transport than does the liquid milk required to make them.

90. But this arrangement cannot work:

(a) if the price charged to buyers for liquid milk is higher compared to the price of manufactured products than it would be under competition; this has been the case since 1929;

* Report of the Reorganisation Commission for Milk, 1935. Chapter 9 (i) and (ii) and Chapter 19.

(b) if farmers' net returns are to be guaranteed and are not to vary from area to area with changing demand and supply conditions;

(c) if the wholesale or retail prices of liquid milk are to be constant throughout the country.

Under such circumstances, transport economy cannot be fully achieved by offering inducements to producer or distributor.

91. It follows that economy must be sought by means of an effective central control of the flow of milk. Not only must some central body determine the allocation of milk between liquid and manufacturing uses (see para. 8), but also it must arrange the flow of milk from individual farms up to individual dairymen or to individual factories or depots making milk products. It will only be able to do this effectively if any farmer obtains the same net return whatever use is made of his milk and wherever it is sent. This means that any deduction made for transport charges from a fixed gross price should be uniform for any area regardless of the distance to which an individual farmer's milk is sent.

92. At present, as we have already indicated, the flow of milk is centrally planned, in England and Wales by the Ministry of Food with the Milk Marketing Board arranging transport from farm to first destination only, in Scotland by the Milk Marketing Boards there, acting as the Ministry's agents (paras. 45 and 46). All the evidence we have received shows that the present control has not achieved the maximum economies in the movement of milk as a whole.

93. We deal first with what we consider the less important of the two main criticisms which can be made of the present arrangements. In some cases the securing of full loads for lorries has increased the length of time milk is left standing on exposed platforms on the roadside and has upset the regular arrival of milk at country depots and town distributors. Where this happens milk may be received in a poor condition and operatives are sometimes kept standing-by waiting for supplies. The defects are not inherent in farm rationalisation but they lie in the failure to organise the actual transport within the rationalised supply areas to meet the operational requirements of the receivers of the milk. This, in our view, is essentially a result of divided interests and divided control at the different stages. The flow of milk from farm to processor must be planned as a whole. Rationalisation of transport from farm to first destination should be organised with an eye to the efficient working of the receiving premises. This depends on a regular throughput of milk which may not always be consistent with the greatest economies viewed simply from the angle of collection and delivery. Conversely the savings to be gained in individual cases from the most economical handling at the depots or dairy may not justify the increased transport costs which would be incurred.

94. So far as wartime and present conditions are concerned this defect of the present arrangements has certainly been less serious than the second main defect with which we deal in the following paragraphs. But we believe that the difficulties resulting from divided control might well become more serious as time goes on.

95. The second, and more serious defect of the present arrangements is that the re-allocation of milk has been organised under what is commonly called the gallon-for-gallon rule. That is to say, the farm rationalisation schemes have been arranged so as to secure to each buyer the intake of milk from farms that he received before the introduction of the schemes.

This has had two main consequences:

- (a) the rationalisation of collection from farms could not be pushed as far as would have been possible in the absence of such a rule;
- (b) depots have retained milk which could more economically have been sent direct to town dairymen. Where efforts have been made to re-allocate milk against the gallon-for-gallon basis they have so far been unsuccessful.

The Use of Country Depots.

96. The extent to which milk needs to pass through country depots is a vexed question. The National Association of Creamery Proprietors and Wholesale Dairymen, in evidence before us, claimed that, except for very short collection routes into urban centres, all milk should be passed through a country depot, to ensure that at the earliest possible moment the milk would be tested, unmarketable milk rejected and the remainder properly cooled. They also pointed to the economy of bulk transport from the producing areas to the consuming centres, which can be arranged only if the milk passes through a depot. Further, they emphasised the important functions of the depot in keeping milk back for manufacture in the producing areas during the months when there is a surplus over liquid milk requirements, and in maintaining a reservoir of supplies which could easily be switched in bulk to areas where milk was in short supply during the months of low production.

97. The Milk Marketing Board, on the other hand, while agreeing that a substantial proportion of London's milk supply must pass through depots, urged that every encouragement should be given to those distributors who wish to buy milk direct from farms and who have the facilities for handling it. In the Board's view direct milk would be fresher, and transport and other costs as a whole would be reduced. They stated in their evidence to us that, as liquid consumption had risen by 50 per cent. since 1939, the quantity of ex-farm milk passing to direct buyers ought to have increased correspondingly. This would have meant an increase of about 600,000 gallons daily.

98. The Ministry of Food "as a first step" recently intended to re-direct about 80,000 gallons daily, mainly because, for quality reasons, milk required for processing should be handled as few times and as quickly as possible, and should not be passed through country depots unnecessarily. The Ministry feels, and we agree, that processing dairymen having adequate facilities for dealing with ex-farm milk should receive all their supplies direct during the peak production period (if direct milk is available within reasonable distances) and only obtain balancing supplies from country or town supply depots at other times of the year.

99. As Table III (para. 20) shows, while the quantity of milk sold ex-farm to wholesalers and retailers in 1946/47 was only 5 per cent. above the pre-war level, milk sold through depots for the liquid market rose by nearly 150 per cent. The total intake of depots in the liquid and manufacturing markets together increased by 20 per cent. As liquid consumption expanded and milk for the liquid market had to be drawn from longer distances some rise in the proportion going through depots was inevitable, particularly as the increase in sales off farms was greater in the areas distant from the main consuming centres. But the increase in the volume of milk passing through depots need not have been so great as it was. At the same time, we feel that the increase of 50 per cent. in direct milk, which the Board considers should have taken place, would have resulted in ex-farm milk in partially filled churns travelling over unreasonably long distances, while the total quantity would have exceeded that which the processing dairies can at present handle satisfactorily. Further, during the period of short production, it would have

depleted the supplies of milk in the country depots available for equalising supplies throughout the country and meeting seasonal changes in the location of population.

100. There can be no doubt that there will always be a need for a number of well-equipped depots beyond the areas from which liquid milk needs to be drawn in the flush season, to provide a margin of supplies in the low production months which can be directed to areas in short supply and to manufacture milk which is surplus to requirements in the months of high production. Again, London must continue to depend throughout the year mainly upon milk supplies through depots, as must a number of other large centres for balancing supplies during months of low production.

101. But we consider some redirection desirable. In our opinion, a reasonable estimate of the volume of milk reaching nearby towns through country depots which, under present circumstances, could more suitably and more economically be consigned direct from farms to processors in these towns, is about 10 per cent. of the total depot supplies, i.e., about 160,000 gallons per day.

102. Again, milk now not infrequently passes through more than one depot. This should not happen except under very exceptional circumstances. Further, town dairymen who before the war erected or acquired country depots to supply their retail premises still wish to draw milk from these depots although, because of the general increase in consumption, it would be an advantage if some at least of this milk could flow to nearer consuming centres and these town dairymen draw their milk from depots belonging to some other company.

103. One reason why too much milk now passes through depots is that the gallon-for-gallon basis of farm rationalisation has prevented the allocation of additional ex-farm milk to the towns. For instance, as the demand for liquid milk in the northern cities increased during the war, they required milk from nearby producers which had previously been sent through depots to London. There is no need for this milk to go through depots for the comparatively short distance which it has to travel under the changed conditions. Again, in some areas milk was used for manufacture before the war where it is now required for liquid consumption in districts near enough to be served direct from farms; but the depots which manufactured milk before the war now claim to handle it on its way to the liquid market.

104. We have no hesitation in saying that the gallon-for-gallon basis under which the direction of milk through depots is now determined should be abolished. Whether or not milk is sent through a depot or direct should depend entirely on which is the more economical method (in terms of current resources used) of getting the milk to the market in the best condition and not in the least, as hitherto, on equity to individual depot proprietors.

105. We do not, however, wish to exaggerate the financial savings to be made by following such a policy. The total annual payment made to depots for handling liquid milk is about £2½ million or slightly above 1d. per gallon, and the total savings in handling charges which might be achieved by the redirection we have recommended would, therefore, only be about £250,000. To this must be added the net savings, if any, in transport costs. The total cost of moving milk from depots is about £2½ million. Milk costs less per gallon to move in tank vehicles or in full churns by road or rail from the production areas (which can only be done if it passes through a depot) than if sent direct from farms to town dairymen in comparatively small quantities in partly filled churns. But some of it is moved over a longer total distance

if it goes through depots. The best estimate that we can make is that, if the depot gallonage were reduced by 10 per cent., there would be a net saving in transport costs of £100,000. The total savings through re-direction might thus be of the order of £350,000, unless depots were to receive a higher sum per gallon on the reduced throughput.

106. This policy may lead to the closure of certain depots, and certainly to changes in throughput in others, and in the case of some concerns which own both country depots and town processing plants, severance of supplies from their own premises in the country. Moreover, if the flow of milk is to be directed on the basis of maximum economies in handling and transport, the opportunity for depot proprietors to increase their trade through the normal competitive process will inevitably be destroyed. These are the difficulties which the Ministry of Food has encountered in its attempt to secure the agreement of the depot proprietors to its initial plan of re-direction. It is to be expected that the depot proprietors would oppose re-direction as we understand they have already done in their discussions with the Ministry of Food. It should be noted, however, that the representatives of the retail section of the trade, and many individual town processors, including Co-operative Societies, have welcomed the Ministry's proposals and are pressing for their implementation.

107. The Ministry has, of course, the necessary powers to over-ride trade objections and to secure whatever alterations in the flow of milk it may consider would be in the national interest. It is hampered, however, by certain understandings and arrangements that were made with the trade in the war years. No-one could foresee then the conditions which would prevail after the war and there was a general understanding that the Ministry's controls were operated as temporary expedients and that the pre-war position would ultimately be restored. It was in this atmosphere that arrangements such as the gallon-for-gallon basis were introduced, but as these arrangements have been fostered by the Ministry it is difficult now to persuade the industry to accept suggestions which run counter to them and which may damage sectional trade interests.

108. We do not, however, feel bound by impressions that may have been given that the pre-war position would be restored, or by any of the wartime arrangements entered into by the Ministry of Food, and we recommend that a Central Authority should be given powers to direct the flow of milk on the most economical basis.

109. We have given full consideration to the most effective method of exercising this control. Two alternatives have been discussed:—

(a) that the depots should be left in private hands and that the Central Authority should determine and vary as necessary the exact volume of liquid milk to be handled by each depot. At the discretion of the Central Authority, the milk might be sold to the depot, or the depot might be employed as the agent of the Central Authority, in which case the latter should continue to own the milk until it arrives at its destination;

(b) that the Central Authority should buy out and itself operate all liquid milk depots.

110. Since most depot proprietors in milk producing areas not only assemble milk for the liquid market, but also manufacture milk products in the same premises, and since for efficient working these processes cannot in most cases be separated, the Central Authority would, if it took over the depots, also have to take over a large part, at least, of the manufacture of milk products.

III. This would involve a large initial cost to the State in buying out depots, manufacturing facilities, the goodwill and trade marks associated therewith, and of meeting claims for severance where depots form an integral part of a large or small undertaking. All of us are agreed that the cost, work and dislocation of the trade involved should not be tackled in the immediate future while there are so many other urgent problems demanding attention, and the nation's manpower and resources are so severely strained. We, therefore, recommend that the Central Authority should regulate the flow of milk through the depot stage and control the operations of the depots on the lines indicated by the first method, set out in para. 109 (a).

II2. While we are all agreed that the method we have proposed is the most practicable in present circumstances, and that provided the Central Authority has adequate powers of direction over the flow of milk, it will go a long way to achieve the desired savings in cost, two members of the Committee are of opinion that ultimately the Central Authority should own and operate the depots itself. The reasons are set out in Addendum I to the main Report.

II3. One of the first tasks of the Central Authority would be to make a survey of existing depot capacity in the light of a policy to re-direct the flow of milk, where this would be an advantage, and of changes in production and consumption. The depots which exist now are, with the exception of four opened since 1939, the depots which were in existence before the war. Some depots, handling about 4 per cent. of the depot milk before the war and making mostly cheese, have been closed down. But they are still in existence and are receiving compensation from other depots whose intake has increased. It is probable that a survey on the lines proposed would disclose a surplus of depots in some areas and a shortage in others.

II4. In addition, the Committee recommends, therefore, that the Central Authority should have powers to buy out and close redundant depots; to take over the running of depots which are still needed but which the private owners, because of loss of throughput resulting from re-direction of milk, or for any other reason, no longer feel able to operate on the basis of remuneration offered by the Central Authority; to erect and operate new depots in areas where there is insufficient depot capacity; and to authorise the erection of depots by a distributor in any area where it considers that such a depot would perform a useful service, in accordance with its planned direction of the flow of milk.

II5. The Central Authority will have to pay the depots direct, whether they act as its agents or the milk is sold to the depots, just as it will have to bear the individual charges for transport between the farm and the town buyers, whether or not milk passes direct or through a depot. Its payments should, in our view, be only enough to cover the costs of efficient operation. These payments could, of course, be recovered out of the regional transport deductions made from the producers' guaranteed prices and out of the difference between the Central Authority's buying and selling prices, should public policy be against a general milk subsidy.

Town Supply Depots.

II6. On occasions the Central Authority may also need to use town supply depots between the farm or country depot and the town processing plant or retail premises, particularly to supply balancing quantities. We propose later (para. 176) that milk should be supplied to town processors at a fixed

delivered price, as it is at present. It follows that town supply depots, if required before the processing stage, must be paid, like country depots, direct by the Central Authority. And it follows from this that it should be for the Central Authority and not for the purchasing dairyman to decide whether their services are required in a particular case. The Central Authority would endeavour to dispense with this extra stage wherever possible; we envisage its being used only rarely once processing is general.

117. We deal in the next chapter (para. 157) with the functions and payment of wholesalers at later stages of distribution.

Control of Transport from the Farm.

118. There remains to consider, in this Chapter, the question of organizing transport from the farm to the first destination.

119. We consider that the farm rationalization schemes should go on and be improved upon, and that the gallon-for-gallon rule should be abandoned. The main question is whether the control of transport should remain with the producer boards, be transferred to the distributors, or be taken over by the Central Authority.

120. Before the recent war, although producers had to bear the cost of transport from the farm, control was very largely in the hands of milk buyers. The buyer, when selecting the producers from whom he would purchase supplies during the next contract period, paid much attention to the arrangements for collection and the time at which the milk would be delivered to his dairy or depot. The buyer often insisted upon the milk being collected by his own vehicle, or by a haulier of his own selection.

121. It may be that the buyer exercised too much power in this direction. The position has been completely reversed under the present system of control. The buyer now has to accept the supplies directed to him by the Ministry of Food and is largely in the hands of the Milk Marketing Board for the standard of service of delivery of milk to his premises.

122. It is essential for a balance to be preserved in the planning of lorry routes and times of collection from farms and delivery to destination between the relative advantages of full loads and quick collection with evenly spread deliveries as explained in para. 93. It is natural that a producer's board would give prominence to the former, and the buyer to the latter. It is, therefore, equally unsatisfactory for the control of transport to be exclusively in the hands of representatives of the producers or of the distributors.

123. It is very desirable, therefore, that the Central Authority should be directly responsible for the arrangements for the transport of milk from farms, as well as for the allocation of supplies.

124. Representatives of the English Board, however, (without prejudice to their view that the marketing of milk should be a producers' responsibility) have told us that if the producer (or his Board) is to be relieved of responsibility for the transport of milk to first destination, the buyer must necessarily accept the quality and quantity of the supply at the farm gate. This is clearly impossible under present conditions. The National Milk Testing and Advisory Scheme provides for the testing of the quality of the milk to be carried out by qualified staff at the receiving premises. It would be uneconomic for additional staff to be provided on the collection vehicle to check the condition and the quantity of the milk contained in the churns at the time they are collected at the farm.

125. In any case, it seems to us that the objection of the Boards is more apparent than real. Under existing arrangements the milk passes out of the physical possession of individual producers when it is collected. A large proportion of the lorries used are owned by milk distributors, and if the Central Authority become responsible for these transport arrangements, the producers would hand over their milk to the same haulier acting as agent or contractor to the Central Authority instead of to the Milk Marketing Board.

126. We see no reason to suppose that an impartial Central Authority charged with the responsibility for the collection arrangements, would take any steps which would prejudice the reasonable interests of producers.

127. The Central Authority should be given power to operate haulage itself, from the farm or at any subsequent stage, or to employ hauliers, as seems most suitable. The former would give it experience of the costs involved.

Summary of Recommendations.

128.—(a) A Central Authority should be responsible for controlling the flow of milk from farm to town buyer. (Para. 108.)

(b) Farm rationalisation should be continued. (Para. 119).

(c) Milk should not pass through country depots if it can be sent more economically direct to town dairies. (Paras. 99 to 101.)

(d) The gallon-for-gallon rule should be abolished. (Paras. 104 to 108.)

(e) Country depots should remain under private ownership. (Paras. 109 to 111.)

(f) They should be paid by the Central Authority. (Para. 115.)

(g) The Central Authority should make a survey of existing depot capacity. (Para. 113.)

(h) The Central Authority should have powers:

(i) to buy out and close redundant depots;

(ii) to take over the running of depots which are still needed but which the private owners no longer feel able to operate on the basis of remuneration offered by the Central Authority;

(iii) to erect and operate new depots in areas where there is insufficient depot capacity;

(iv) to authorise the erection of depots by a distributor in any area where it considers that such a depot would perform a useful service. (Para. 114.)

(i) The Central Authority should be responsible for deciding whether the services of town supply depots are needed, and for paying these depots. (Para. 116.)

(j) The Central Authority should control transport and be given the power to operate transport itself at any stage. (Paras. 123 to 127.)

CHAPTER V

EFFICIENCY AND CHEAPNESS—TOWN PROCESSOR TO CONSUMER

Wastes in Distribution.

129. The Reports we listed in the footnote to paragraph III of the Introduction, between them, examine in considerable detail the wastes in urban depots and in retail distribution pre-war. These cannot easily be considered separately. Before the war the larger dairy firms, particularly in London, established urban depots where milk could be received from the country by rail or road, and they re-distributed heat-treated milk in bottles to their own retail depots, and heat-treated milk in bottles or churns to independent retailers. Some large distributors or wholesalers received milk in bulk and

delivered it, in smaller quantities but unprocessed, to retailers. Or retailers, receiving the bulk of their milk direct from farms, bought balancing quantities from other town suppliers.

130. The functions of processing and bottling are relatively costly when done on a small scale and tend to become progressively cheaper as the throughput increases. But, after a point, depending to a considerable extent on the density of population, this reduction in the cost of processing and bottling is outweighed by the additional costs of carrying bottled milk from the processing depots to distant consumers or to retail sub-depots and, in the latter case, of administering a more elaborate organization.

131. One possible source of waste is therefore the uneconomic working of processing plants of the wrong size; another is bad siting. So long as retail rounds overlap and each firm does its own processing, some wastes of this sort are inevitable.

132. The most publicised and most serious form of waste in retail milk distribution was that associated with delivery to the consumer's door. The several Committees which have been appointed to examine milk distribution, from the Astor Committee in 1919 to the Perry Committee in 1940, reported that in their view the service of milk distribution was unnecessarily costly. They noted extended or overlapping delivery rounds caused by a number of dairymen operating in an area, and the delivery of milk twice daily in London and in many provincial towns. Most of these Committees did not estimate the possible reduction in costs, though the Perry Committee suggested a margin of 8d. per gallon. One independent investigator* put the saving that might have been achieved by blocked rounds and one delivery a day at $\frac{1}{2}$ d. per pint, or 4d. per gallon, at a time when the margin for retailing and processing was less than 1s. per gallon. We quote this purely to indicate the possible magnitude of the amount involved for we do not propose to reproduce the pre-war evidence in detail.

133. That economies were possible in the pre-war costs of distribution is substantiated by the savings achieved under the schemes of rationalisation of distribution which became effective during the war. At the outbreak of war the evacuation of population and labour shortage induced many dairymen to effect changes in their method of operation; the second daily delivery of milk to the consumer was discontinued; some outlying customers were exchanged by dairymen, or given up; and in other cases larger dairymen arranged exchanges of districts. Subsequently the Ministry of Food promoted, through local Dairymen's Wartime Associations which were formed for the purpose, retail rationalisation schemes and enforced them through the transfer of consumer registrations from one dairyman to another, except for customers registered with the Co-operative Societies, and through the freezing of consumer registrations.

134. The majority of these schemes provided for the blocked delivery of milk, that is to say, one private distributor and one Co-operative Society were allowed in each street or section of a street. Some schemes were less rigid and allowed several distributors to operate in the same zone which comprised a group of streets. In Carlisle a new and separate retailing company was formed comprising all the private dairymen in the area.

135. Economies in manpower, vehicles, etc., as reported to the Ministry of Food, are set out in Appendix III. We have been told that since the end of the war there has been some increase in the number of people employed,

* "The Distribution of Milk", John Cripps, page 91.

although the rationalisation arrangements have remained substantially unchanged. In any case, an effective comparison of numbers of persons employed cannot be made without knowledge of the hours worked (regular and overtime). For Carlisle, where a single company was formed to act as agent for the 46 retailers, including producer-retailers, we have been able to obtain these figures. There, the total number of man hours used in distribution was about halved. For other towns, less drastically rationalised, the comparative savings in man hours would be less.

136. The financial savings cannot be calculated directly from the savings in man hours. The Ministry of Food's Director of Costings attempted to estimate the savings due to the official rationalisation schemes. He calculated the savings on roundsmen's wages and cost of transport at something less than 1d. a gallon. This estimate does not include the savings due to the earlier cessation of second deliveries and exchange of customers. But it is based on the average experience of certain retailers who were able to reduce the number of rounds, and would be less if there were included an appropriate number of cases in which it was maintained that no saving occurred.

137. We have obtained no data enabling us to segregate the savings in costs due respectively to the discontinuance of the second delivery and to the blocking up or zoning of distributive rounds. The first mentioned economy had largely been accomplished by the voluntary action of dairymen before the introduction of the official rationalisation schemes.

138. The level of distributive margins at the present time as compared with pre-war provides further confirmation that substantial economies in distribution have been achieved from the arrangements already described. So far as we can judge the average payment for distributing a gallon of milk in England from depots or town dairies to the consumer's door is now about 1s. 1½d. as compared with 11½d. before the war. (This figure does not include the recent changes noted below.)⁽¹⁾ This increase, of the order of 15-20 per cent., is far less than the percentage of increase in wage rates, prices of materials, fuel, power and other services involved in distribution; for instance, roundsmen's wages (the largest single constituent item of cost, which accounts for one-third of the total) have risen by something in the neighbourhood of 70 per cent., which represents the increase in minimum wage rates prescribed by the Milk Distributive Wages Council for the Milk Distributive Trade. The fact that such increases have been accommodated without the total margin for the distributive service being correspondingly enlarged is in no way due to any reduction of the net profit available to distributors, but arises from causes to which we have already referred, such as the discontinuance of the second daily delivery of milk, the consolidation of milk rounds under the rationalisation schemes and earlier arrangements, to which might be added two further factors—a greater daily consumption of milk in certain areas and the saving in roundsman's time arising from the delivery of a pre-determined quantity fixed by availability of supply, instead of the customers' requirements being solicited.

139. We conclude that appreciable savings have been effected by the war-time schemes of blocking and zoning of milk rounds. No one could deny,

⁽¹⁾ The Ministry of Food has increased the basic margin of retailers in England and Wales, other than those selling milk purchased in bottles from wholesalers, by ½d. per gallon temporarily for four months from 1st December, 1947. The charge which wholesalers may make for bottling has been increased from 2d. to 2½d. for the same period. In the area of the main Scottish Board the overall margin has been increased by ½d. per gallon temporarily for the months of January, February and March, 1948.

moreover, that if rationalisation of retail deliveries were carried to its logical conclusion and all overlapping of rounds eliminated, further savings could be made.

140. This would only be possible under public ownership. To give one private distributor, or an amalgamation or union of such distributors, legal monopoly in any area seems to us out of the question. It would be impossible to control effectively the profits he made; it would be difficult to provide any incentive to efficient working.

Public Operation.

141. Public ownership, however, would cause a serious upheaval in a large number of concerns. These include the large milk combines, Co-operative Societies and small private dairymen, many of whom deal in a range of food products in addition to milk. Retailing of milk is an important if not an essential part of their economy, and if this were taken away in many cases the business would collapse. They include, also, many thousands of producer-retailers, whose livelihood depends partly on the money they get for distributing milk.

142. It would, in addition, involve enormous practical difficulties. The number of dairymen including producer-retailers to be bought out may be about 60,000. Local branches of the Central Authority would be required and the whole system of retail distribution would rapidly have to be reorganised. Further, traders would have to be bought out either at pre-war values which were inflated by the protection afforded by minimum margins, or at present values which are inflated by the freezing of customers and guaranteed margins, the level of which is for many traders apparently on the generous side.

143. Public ownership also would reduce consumer choice. Consumers would no longer be able to choose their dairymen according to their views on the apparent quality of milk each distributed, on the time of delivery and on their assessment of other services. They would still be able to choose between the types of milk provided.

144. Private operation here involves private operation of processing plant, which in many cases is on the same premises, as well as under the same ownership, as retail establishments.

145. We therefore recommend that processing and bottling establishments, wholesaling, and retail premises should remain under private ownership. But they should be subject to various measures of control, which we detail below, taking the three functions separately. And the existing price structure and financial arrangements should be somewhat modified, especially when all milk is processed and bottled on the same premises, so as to encourage the most efficient form of distribution (see paras. 176 and 177). Two members of the Committee, in Addendum I to the Report, favour public operation at these stages, as a long term policy. One member has given his additional reasons in Addendum II in favour of private ownership as long term policy.

Processing and Bottling—Registration and Licensing.

146. At present the registration of dairymen and the registration, inspection and the condition of dairy premises are the responsibility of Local Authorities in England and Wales under the Milk and Dairies Regulations and Section 22 of the Food and Drugs Act, 1938, and in Scotland under

corresponding legislation. Licensing of the use of special designations is dealt with under the Milk (Special Designations) Regulations in England and Wales, and licences are issued under these Regulations in London by the Metropolitan Borough Councils and the Common Council of the City of London. Outside London, licences (other than supplementary licences) authorising the use by producers of the special designations "Tuberculin Tested" and "Accredited" are granted by County and County Borough Councils, and all other licences by County Borough Councils, Borough Councils, Urban District and Rural District Councils. A licence granted to a Local Authority is granted by the Minister of Health. The position in Scotland is much the same under their separate regulations, except that the Licensing Authorities are fewer in number, and consist only of the Town Councils of the larger Burghs and County Councils.

147. There seem to be many differences between Local Authorities in the application of the conditions for holding a licence authorising the use of special designations in relation to milk. For example, one Local Authority requires a completely separate room and plant for the handling of Tuberculin Tested milk, whereas another Authority requires only that such milk should be separately treated in a sterile plant which may later be used for another grade of milk. Moreover the inspection of modern milk processing plant calls for scientific qualifications which it is not usual to find among the staff of Local Authorities. It is, in our view, most desirable that there should be uniformity in the application of the regulations and this is difficult to secure when the responsibility for such application is in the hands of hundreds of separate authorities. We have considered whether licensing might be transferred to the Central Authority which we are proposing should be set up. We appreciate, however, that there might be objections to handing over to a body, which would mainly be concerned with trading in milk and controlling and directing milk traders, the power to issue, withhold or suspend licences. We believe that Parliament would raise strong objections to this. The alternative would be to make the Ministry of Food centrally responsible for issuing licences. But there are obvious objections to over-centralisation of functions of this kind. The Ministry of Food should, however, in our view, draw up a code for the guidance of Local Authorities, on the basis of applying the regulations and strongly encouraging Local Authorities to follow it. (We understand that the Central Department's interest in these Regulations, except insofar as they concern producers of raw milk, is to be transferred from the Ministry of Health to the Ministry of Food on 1st March, 1948, under the Transfer of Functions (Food and Drugs) Order.) The Central Authority which will be controlling the milk industry could also assist in achieving uniformity if they brought to the notice of the Ministry of Food any inconsistency in the application of the regulations by Local Authorities. We should also welcome any move that might be made towards reducing the number of Local Authorities responsible for this work in England and Wales by transferring it from the smaller authorities to County Councils. This would, in our view, help towards uniform treatment without over-centralisation.

148. We have been informed that the technique of taking samples of designated milk and subsequent testing in laboratories varies in different areas. We feel that regular sampling of all milk should take place at intervals of not longer than a fortnight and for this reason the work should stay with the existing sampling authorities. But it is very desirable to have an over-riding control of the methods employed by sampling officers and laboratories and we recommend that this control should be exercised by a Central Department.

Allocation of new Plant and Equipment.

149. These registration and licensing arrangements do not provide any control over the erection of new premises, with the necessary plant and equipment, for the processing and bottling of milk, other than that they should conform to the required standards under the Milk and Dairies Regulations. While, however, there are restrictions on the expansion of building work and there is a shortage of plant and equipment, some system of priorities will be needed to ensure that new processing and bottling capacity is provided to permit the progressive scheduling of areas under the safe milk policy, and to prevent the erection of unnecessary capacity in areas where sufficient capacity already exists were it fully used. During this period the location of new premises will be controlled under the system of building licences operated by the Ministry of Works. The Central Authority should act as the sponsoring authority for applications for such licences.

150. In addition some control should be exercised over the allocation of plant and equipment in the short period. We are informed that there are difficulties about empowering the Central Authority to direct sales by manufacturers, but we understand that a system of voluntary co-operation in allocating bakery equipment has worked satisfactorily for some years. Only a limited number of firms is engaged in the manufacture of bakery machinery, and at regular intervals the Ministry of Food lists, according to importance and urgency, the larger orders for plant and equipment that the bakery engineers have received. The engineers follow this list in supplying the orders. Although the Ministry of Supply has the power to withhold raw materials from firms who disregard the Ministry of Food's advice, the relations between the engineering firms and the two Departments is such that no suspicion of compulsion has ever been necessary. An arrangement on these lines could perhaps be made with the very much larger number of manufacturers of plant and equipment for the milk industry.

151. We have considered whether when the present shortages of building materials, plant and equipment, are over, control should still be exercised over the siting and erection of new processing and bottling premises. We feel, however, that such control cannot be continued indefinitely if the industry is to remain under private ownership.

152. We propose various safeguards designed to reduce the danger of a misuse of the partial monopoly that will be conferred by licensing of the erection of new premises and the allocation of new plant and equipment in the short period, and that may also exist in the long period since heat-treatment and bottling plant should be operated as fairly large units.

153. First, as described in para. 177, a limit should be imposed on the charge to be made for processing and bottling milk for sale to other retailers.

154. Secondly, in areas where there is not already adequate processing and bottling capacity, small dairymen now dependent on supplies of raw milk or heat-treated milk in churns should be encouraged to amalgamate, and so be able to invest in and operate jointly an economic unit.

155. Thirdly, the Central Authority should have power to erect and operate processing and bottling plant. It should exercise this power in areas where suitable facilities do not exist and where the local dairymen are unable or unwilling to provide them on a satisfactory basis. If these circumstances should arise the Central Authority would, in addition to fulfilling a need, gain valuable experience of the cost of operating a processing depot. It

should also have the power to undertake, as an experiment and with monopoly powers, this function and the retailing function in one or more of the new satellite towns, in conjunction with the Special Governing Corporations. This would give the Central Authority a direct check on the cost of retailing.

Wholesaling

156. We recommend later (para. 189) that, until compulsory heat-treatment is introduced, the wholesale allowance in its present form should continue to be paid by the Central Authority. At present the Ministry of Food has the power to decide whether dairymen should obtain their milk direct from farms or from country depots and so to avoid paying the wholesale allowance. We have formed the impression that, for various reasons, this power has not been used as fully as it might have been.

157. We have already dealt, in para. 116, with the employment by the Central Authority of town supply depots for the supply of raw milk to processors where the Central Authority cannot provide processors with their requirements from farms or from country depots. The Central Authority will also require power to determine whether or not wholesalers should be used for the supply of processed milk so long as their services are paid for separately, and do not come out of the inclusive margin which we propose should ultimately be provided (see paras. 176 and 177). We would emphasise that the Central Authority will need to keep a very close watch on the operations of wholesalers while it pays them and to use its powers to eliminate this service whenever, in its view, it adds unnecessarily to the cost of distribution. Where employment of a wholesaler is decided to be essential the retailer should continue to have the right to select his wholesaler provided, but only provided, that his choice does not involve the Central Authority in additional expense.

158. We visualise that, in the long term, wholesalers as such will disappear, as their functions will be taken over by (1) town supply depots to supply, where essential, raw milk to processors, at the expense of the Central Authority (para. 116) and (2) processors for the supply of bottled processed milk to retailers, the latter giving up part of their inclusive margin to the processors (para. 177).

Retailing

159. We have already given our reasons for deciding against public ownership of retail distribution as an immediate policy. We have examined three main alternatives to the pre-war system of uncontrolled numbers and uncontrolled services, working under a system of minimum (not maximum) retail prices:

- (a) continuation in some form of the retail rationalisation schemes;
- (b) licensing of retail distributors;
- (c) the restoration so far as possible of free competition.

Each of these might be combined with a compulsory limitation of the services to be rendered and with the imposition of maximum retail prices.

160. We do not recommend the retention of retail rationalisation as a permanent policy. Its effect is to close the door to new entrants and to give one or more private traders and the local co-operative society a close preserve in each area. Consumers' choice is removed without substituting for it (as would happen under unified public ownership) standard conditions of service and quality. (We refer presently (paras. 195-203) to the continuation of rationalisation and the other existing controls over milk supplies in the period while demand exceeds the supply.)

161. Nor do we recommend the introduction of a licensing system designed to prevent an excessive number of retailers. To limit numbers without enforcing zoning would perpetuate many of the disadvantages of rationalisation without its undoubted economies. Without licensing anyone who can buy a supply of heat-treated, bottled milk will be able to start up a milk round. The fact, however, that the sale of raw milk will eventually be prohibited will prevent the multiplication of dairymen which took place between the wars. Usually, we expect that a dairyman who invests in a processing and bottling plant will wish to make his own arrangements for retailing the milk which he has processed himself.

162. Having rejected the alternatives, we propose, therefore, to seek economy in the retail field by creating conditions as favourable as possible for free competition. (To this we would add the imposition of maximum margins.)

163. The first necessity is to ensure that the pre-war system by which the Milk Marketing Boards enforced through their contracts a scale of minimum retail prices does not return. This substituted for competition in price, competition in services, so adding, in our view substantially, to the costs of distribution. Distributors, particularly in London, delivered twice a day and employed canvassers in an endeavour to increase their trade. Consumers could not choose cheaper milk in preference to a second delivery service, nor could they (as they do extensively in America) collect their milk themselves at a lower price in the cases where the milk could be supplied more cheaply from a shop.

164. We need not discuss whether or not this system was necessary before the war to protect producers, for it is clearly not necessary now when farmers' returns for milk are guaranteed.

165. To abolish minimum prices will of course remove the protection distributors obtained from this system. But we see no justification for protecting those whose costs are high against their more efficient competitors or for maintaining a system which permits an excessive number of retailers to persist.

166. It may not be enough to remove a centrally prescribed system of minimum retail prices. Distributors may agree among themselves on a minimum retail price, in one locality, or many; the danger of this happening must have been increased by the fact that the safe milk policy will reduce the number of distributors. We recommend the prohibition of agreements to charge not less than a specified retail price, should such a prohibition be in line with the Government's general policy on restrictive practices.

167. Unfortunately it is impossible to use competition in the ordinary way to cut margins on milk delivered under the Welfare Foods Service. This must be delivered to consumers either free or at the specified reduced price. Competition could be restored if the Central Authority were to give the task of supplying milk to any group of consumers receiving milk under this Service to the distributor who offered to undertake it for the smallest payment in addition to any received from the recipient of the milk. But this would leave the consumer with no choice of dairyman and would often mean two dairymen going to the same household. Conceivably competition to obtain the relatively lucrative Welfare Foods Service trade might lead distributors to cut the retail price of ordinary milk to members of families which included beneficiaries of this Service. But a fixed margin on milk under the Welfare Foods Service might equally lead distributors to regard such a margin as a target on other milk.

168. Our first and most important proposal for creating competitive conditions is thus to eliminate the fixing of minimum retail prices. Our other proposals are of very minor importance compared to it.

169. As a second measure we would try to facilitate changes in prices by smaller steps than are possible under present arrangements. Retail prices are rarely changed by less than $\frac{1}{2}$ d. a pint; this is 4d. a gallon—a big single cut. If it were to be provided that retail prices must be quoted per gallon we believe that cuts might be encouraged. Consumers would pay to the nearest $\frac{1}{2}$ d. above the amount they owe for any period. Those paying weekly or at longer intervals (and they are the great majority) could therefore be charged prices per gallon varying by much smaller amounts than at present. Only those buying isolated small quantities would fail to benefit.

170. Thirdly, we would give the Central Authority power to sell by retail itself in competition with existing retailers in any area should it consider that it can do so substantially more cheaply than existing distributors. (In para. 155 we have also recommended that the Central Authority should be given monopoly powers of retailing in one or two satellite towns so as to test the economies of monopoly operation.)

171. These are our proposals for restoring competition. We would combine them with the continued imposition of maximum retail prices.

172. But before we turn to the price structure and financial arrangements, there remains to consider whether any attempt should be made directly to limit the services retailers can offer consumers. We do not recommend this. The object of our previous proposals is to create a framework which gives the consumer the opportunity, which was denied before the war, to buy good milk without over-elaborate service at the cheapest possible price. If there is still a demand from some consumers for a second delivery of milk and this can be provided within the prescribed maximum retail price, we can see little objection to such a service, although an extravagant development of this or any other inessential service might be an indication to the Central Authority that the maximum retail price had been fixed at too high a level.

The Price Structure and Financial Arrangements.

173. We discuss only the principles on which the price structure should be determined. We have not attempted to examine the actual appropriate level of payments.

174. If our recommendations on safe milk made in Chapter III are implemented all milk (except in remote areas) will ultimately be heat-treated and bottled on the same premises. The industry will then consist of processors and bottlers of milk, who may, or may not, undertake delivery to consumers, and others who may deliver to consumers milk which they have purchased in bottles from the processors.

175. The price structure should be such as to encourage the most economical form of distribution. Milk should be processed by one firm and delivered by another only when this is no more expensive than having the two functions undertaken by a single firm.

176. It will still be necessary to pay separately for, and hence control in detail, the use of town supply depots before the processing stage (para. 116). But from the processing stage onwards all distributors should draw their incomes from a single inclusive permitted margin. The Central Authority would sell to town processors all the milk they require at a price uniform throughout the country, or varying by areas (see para. 180). A uniform

maximum retail price would be imposed, either for the country as a whole or for any area, for all milk except the special qualities still permitted (T.T. (pasteurised), homogenised, sterilized and Channel Island milk).

177. Distributors who perform the full service of processing and bottling and delivery to consumers would thus be entitled to the full margin between the price at which the Central Authority sells and the retail price determined by competition or by the imposed maximum retail price. Those whose operations are restricted to delivery would give up to the processors a part to cover processing and bottling. As proposed in para. 153 the charge for processing would be limited to a maximum figure, fixed by the Central Authority, which should be based on the costs of efficient operation of efficient plants.

178. Considerable difficulties are bound to be experienced in fixing the maximum margin permitted for distribution. The aim should be to allow a difference between the price at which the Central Authority sells and the maximum permitted retail price in any area only enough to cover the cost of efficient operation with a minimum necessary service and only the necessary number of retailers. Thus it should be based on costs with one delivery a day, not two or three, and ignore any costs of advertising and canvassing. It should not be increased if the number of distributors and hence (most probably) costs increase. We recognise that this will make it difficult to impose appropriate maximum prices, since these will no longer be able to be based on actual costs. But the task must be attempted. We would particularly emphasise one point. The end of retail rationalisation must not be used as an excuse or a reason for increasing margins.

179. A further difficulty arises because the costs of retail distribution vary considerably from area to area, partly because of differences in the density of the population to be served and whether or not the ground to be covered is hilly or otherwise. A uniform retail margin for the country, which would have to cover costs in the most expensive areas, would therefore have little effect in checking excessive prices in other areas. The retail price must therefore vary unless it is to be excessive for some areas.

180. There are two possible ways of bringing this about:

(a) varying the maximum retail price from area to area, with a constant selling price by the Central Authority;

(b) varying the price which the Central Authority charges (and the subsidies to or levies from producer-retailers) and fixing a uniform maximum retail price. This presents difficulties. The Central Authority may sell to processors in one area milk which is to be retailed in several areas between which costs of delivery to consumers vary. If these difficulties can be overcome we favour this solution, since it permits of varying the margin by smaller jumps than would fixing variable retail prices. But if it is impracticable this particular difficulty could perhaps be got over by quoting prices per gallon as suggested in para. 169.

181. These variations could, at the best, only be made between fairly substantial areas. But, as we have already pointed out, costs vary substantially between one part of a town and another. The maximum price would have to cover costs of efficient operation in the generally more difficult districts, though not necessarily the most difficult, where special arrangements could perhaps be made. Competition would still remain the most important weapon for securing lower charges in the lowest cost districts.

182. The margin for milk sold under the Welfare Foods Service would be the same as for ordinary milk. But, as pointed out in para. 167, this margin would be a fixed one and not a maximum.

183. We do not, however, consider that the full margin need be allowed on school milk. Whilst we realise that some additional cost is involved in the supply of milk in third pint bottles with straws, we are of the opinion that, as the major portion of school milk is sold in comparatively large consignments in urban areas, the full retail margin is not usually justified. It was not paid before the war. A lower margin might be prescribed for urban areas and the Central Authority be authorised to increase it where milk is delivered to schools in rural areas with consequent high transport costs. Alternatively contracts for delivering school milk might be let out to the lowest bidder who could provide an acceptable quality and service, so maintaining competition, and this is what we propose.

184. A higher margin should be allowed for the special qualities of milk which would still be permitted to be sold, designed to cover the extra costs of distributing those special types, including T.T. (pasteurised). Since the ordinary milk would be heat-treated and bottled on the same premises, and so be safe, we consider that this additional cost should be borne by the consumers who want the special grades, and not by the Central Authority.

185. This simplified price structure cannot, however, be introduced while there remain the present wide variations in the service rendered by distributors. At the one extreme a distributor with no proper dairy sells raw milk handled by the can and dipper method. At the other a distributor with a modern dairy equipped with heat-treatment plant, bottling and capping machines and a cold store delivers bottled heat-treated milk to the public.

186. We consider, therefore, that the present functional system of payment in England and Wales must be continued until processing and bottling plant can be provided in larger quantities. A maximum margin should still be fixed for delivering raw milk, and additional allowances where the milk is heat-treated. We consider that, as at present, the same maximum retail price should be fixed for all ordinary milk, whether or not it is heat-treated or bottled, and that the margin for heat-treatment should be met either, as at present, by special payments to those undertaking this service, or by the Central Authority charging a higher price to those who do not. We prefer the latter method if the Central Authority finds it practicable. For then it could provide a maximum instead of a nominally fixed margin for processing and bottling, thus permitting an earlier return to competition and an easier transition to the long period structure we have proposed.

187. We would, however, emphasise one point. Although we consider a functional system of payment necessary at present, it should not be carried too far. Each time the margin is split a little extra creeps into the estimates of necessary costs and to their attendant profit. There is an undoubted danger of the total of all payments received by a distributor who performs the full service providing him with too big a profit.

188. There remains the question of the payment to be made for the wholesale service. At present a special allowance is paid in England and Wales so that when a retailer buys heat-treated, bottled milk from a wholesaler, their combined payments amount to $\frac{3}{4}$ d. a gallon more than when the whole service is provided by one distributor. This additional payment exists because it is generally more costly for milk to pass through two firms; for instance, if one firm bottles for delivery by another it often finds it more difficult to recover its bottles than would the bottling department of a unified concern.

189. Naturally we should wish to see the more efficient form of distribution expand at the expense of the less efficient and our long term proposals are designed to secure this. But often such changes are not possible now, since retailers cannot get processing and bottling plant and must depend upon other firms for supplies of bottled milk. Consequently such relatively expensive forms of distribution must be provided for in the price structure. We consider it best to continue for the time being the present practice of meeting these additional costs by a separate wholesaling allowance rather than to fix a larger total margin and so give distributors performing the whole function an unnecessarily high payment. But, as we said in para. 157, we propose that the Central Authority should eliminate the wholesale service where it thinks it can arrange for cheaper distribution.

190. In Scotland, too, we propose the continuance of the present system, which is different from that in England and Wales but more suited to existing Scottish conditions. That is to say, separate allowances for heat-treatment should continue, as we propose they should in England and Wales, but we would retain for the present the system under which the larger distributors are supplied with all their requirements at the standard price while small retailers obtaining milk from wholesalers have to share their margin with their suppliers. In Scotland, as in England and Wales, the ultimate objective should be the arrangements proposed in paras. 176 and 177.

191. These allowances, for processing, bottling and wholesaling, should also be paid on the category milks which may be sold, and higher maximum retail prices prescribed for these milks. In this period raw T.T. milk will also be on sale. If distributors are to segregate it they must be paid a higher price than on ordinary raw milk to cover their higher costs; but we do not think that the difference should be anything like 4d. a gallon, as it is at present; probably 2d. a gallon would be fully adequate. We consider that the additional margin should be borne by the consumer. Where heat-treated milk is available we would encourage the consumer to prefer it by charging more for T.T. Where it is not available we think it better, on balance, that it should be those consumers who are prepared to pay a higher price for T.T. milk who should get it.

192. The existing price structure should thus, in our view, continue for the present with only minor modifications. The Central Authority should, however, introduce as soon as possible the simplified price structure described in paras. 176 and 177. We cannot see any serious difficulty in the change-over. It should not be necessary to wait until facilities for heat-treating and bottling all milk are generally available. The Central Authority should consider adopting the inclusive margin in individual areas when the Ministry of Food schedules them for compulsory heat-treatment.

193. There are many loopholes under our proposals through which excessive costs may creep in. But we believe that, if public ownership and operation are ruled out for the reasons we have given, and since retail rationalisation in its present form is impossible as a long term policy, they offer the best prospect of cheaper retail distribution. Great vigilance will, however, be necessary in fixing maximum retail prices not to allow excessive costs to be taken into account.

Control of the Milk Flow

194. Under our proposals, once liquid milk is available in quantities sufficient to meet the full demand, there would be no control of the milk flow (other than on health grounds) after the Central Authority has sold milk to town processors or used wholesalers who would be paid separately.

Processors would deliver bottled milk to whom they pleased—other dairymen or ultimate consumers. Retail distributors if they do not process, would have to find their own sources of supply. Consumers would buy from whom they chose among those willing to supply. The Central Authority would step in (apart from the experimental areas) only if arrangements were unsatisfactory.

Retail Rationalisation in the Immediate Future

195. But registration of consumers must continue while milk supplies remain short and arrangements have to be made to supply retailers with enough milk—but no more than enough—to meet the demand consumers are entitled to make on them. We believe, however, that the time has come when consumers should be given the opportunity, at stated intervals, to choose the supplier with whom they register. This will put an end to retail rationalisation schemes and this is bound to result in some loss of economy in distribution. But there have been certain developments which, in our view, make it impracticable and undesirable to continue the present freezing of registrations any longer.

196. First, the prospect of an end to the shortage of milk for liquid consumption seems further away now than it was a few months ago. Apart from the setback in milk production during the past few months, the dollar shortage will delay recovery. It now seems unlikely that the country will be able to pay for additional imported feeding stuffs in sufficient volume to expand production at the rate which earlier seemed possible. At the same time, the Government will have to continue to divert a large volume of milk for manufacture in order to avoid spending dollars on imported milk products.

197. In our view it would be unreasonable to deny to the consumer indefinitely the choice of supplier. Only if we could see the end of the milk shortage within a comparatively short time and, therefore, the end of the need for registration, should we feel justified in recommending that re-registration with consumer choice should be delayed for a further period.

198. But there are also practical reasons why re-registration should now be permitted. There is a growing tendency on the part of dairymen to deliver milk on six days only in the week. One of the reasons they give is that they have lost sales because of the temporary reductions in certain priority allowances and are looking for ways to reduce their delivery costs. This practice, however, has serious consequences for the consumer, particularly in households where there are young children who need a supply of fresh milk on every day of the week. We believe that the most effective way of checking it would be to restore a measure of competition between dairymen by allowing the consumer again to choose her supplier.

199. The development of new building estates provides a further argument in favour of early re-registration, as it is a most unenviable task to select retailers to serve these districts in the knowledge that, while consumer choice is denied, the retailers selected will enjoy a monopoly.

200. We are well aware that the conditions which persuaded us to recommend in January, 1947 (see Appendix X) that retail rationalisation schemes should be continued for a further period have not, in the meantime, improved. It is, in fact, even more necessary now to conserve manpower and material resources. We feel, however, that if re-registration is permitted, these shortages will themselves be a deterrent against wasteful distribution; dairymen generally will not have the labour or vehicles to build up scattered rounds. But the most effective way of checking wasteful distribution would be to make it clear to the trade, when re-registration is announced, that no increase in their margins will be permitted to cover additional costs directly resulting from re-registration. We attach great importance to this.

201. We recommend that the first re-registration should take place in April or May, 1948, when supplies of milk are most plentiful, and should be repeated annually at the same period. This, we feel, would introduce enough competition among dairymen to encourage them to improve their services, while any more frequent re-registration would place too heavy a burden on the administrative machine.

202. Except at this annual re-registration, a consumer should only be allowed to change his retailer:—

(a) if the retailer fails to provide the service or the grade of milk (pasteurised or T.T.) which he delivered or undertook to deliver at the time of re-registration.

(b) if a retailer is convicted in a Court of Law for supplying unsatisfactory milk.

203. We can see no reason for excluding new entrants to the retail trade once milk is plentiful. But, in the meantime, it may be necessary to do so, except in areas where existing retail services are inadequate.

Recommendations.

204. Our recommendations, therefore, are:—

(a) Processing, bottling and retailing, should remain under private ownership and operation (para. 145) but be subject to various measures of control by the Central Authority.

(b) During the period of shortage the Central Authority should act as the sponsoring authority for applications for building permits and exercise control over the allocation of plant and equipment (para. 149).

(c) Local Authorities should receive guidance on the interpretation of the Milk (Special Designations) Regulations to secure uniformity of administration (para. 147).

(d) The Central Authority should be given power to operate itself:

(i) As processors, in areas where suitable facilities do not exist and where local dairymen are unable or unwilling to provide them on a satisfactory basis (para. 155).

(ii) As processors and retailers, as an experiment, with monopoly powers in one or more of the new satellite towns (para. 155).

(iii) As retailers, in competition with distributors, should it consider it can do so substantially more cheaply than existing retailers (para. 170).

(e) Small dairymen should be encouraged to amalgamate and operate jointly processing and bottling plant (para. 154).

(f) When supplies of milk are adequate to meet the demand, the registration of milk consumers with milk retailers and the central control of the flow of milk after it is sold by the Central Authority, should cease. In the meantime, re-registration should take place annually (paras. 194 to 203).

(g) The Central Authority should provide all town processors with the quantity of milk they require at prices not varying with the source of supply (para. 176).

(h) When areas have been scheduled for compulsory heat-treatment, an inclusive margin should be introduced to cover:—

(i) Processing and bottling.

(ii) Delivery to the consumer (para. 177).

(i) Dairymen who only perform the delivery service should give up to the processor a part of the margin to cover processing and bottling (para. 177).

(j) During the interim period the Central Authority should determine whether wholesalers should be employed for the supply of processed milk to retailers (para. 157).

(k) The present functional system of payment applicable in England and Wales should be continued until processing and bottling plant can be provided in larger quantities (para. 186).

(l) The arrangements in operation in Scotland should be continued until conditions permit the introduction of the arrangements referred to in (h) (para. 190).

(m) The higher margin necessary for the supply of special qualities of milk should be met by the consumer, but the present additional price payable by the public on T.T. milk is considered to be too large (paras. 184 and 191).

(n) The system of enforcing minimum retail prices should not be re-introduced (paras. 163 and 168).

(o) Agreements among distributors to charge not less than a specified minimum price should be prohibited (para. 166).

(p) Provision should be made for varying retail prices by smaller units than at present (para. 169).

(q) The supply of milk sold under the Milk-in-Schools Scheme should be allotted to the dairymen prepared to undertake it satisfactorily for the smallest payment (para. 183).

(r) Maximum retail prices should continue to be imposed (para. 171).

(s) The Central Authority's selling price should be uniform and the maximum retail price should vary from area to area, or alternatively the maximum retail price be fixed and the price charged by the Central Authority should vary (para. 180).

CHAPTER VI

EFFECT OF PROPOSALS ON FARMERS

205. Our terms of reference begin at the farm gate. But some of our recommendations, if put into force, will obviously affect farmers. We discuss in the next Chapter the position of the producers' Milk Marketing Boards under our proposals. It will probably be convenient if we list here the other more important consequences of our recommendations on farmers.

Premiums to Farmers

206. When the policy we recommend is in full operation, the eradication of tubercular cows will be justified because it reduces costs of production. At present farmers receive from the Government 4d. a gallon bonus for producing T.T. milk. In the interim period, before heat-treatment becomes universal, it will still be necessary in order to secure safer milk to encourage the production of T.T. milk. We have naturally not considered whether the bonus in this period should remain at 4d. per gallon. Ultimately, however, the T.T. premium to producers should disappear, since milk produced from tubercule-free cows should cost the farmer less, not more than milk from other cows.

207. We have also recommended that the designation "Accredited" should be abolished. It seems to us, therefore, that the premium which farmers at present receive for such milk must go as well.

208. At present farmers sometimes receive premiums from distributors for special milk such as Channel Island. If the marketing of such milk can economically be arranged by the Central Authority, we see no objection to this practice continuing, the Central Authority receiving the extra payment from the distributor and passing it on to the producer.

209. Before the war, many farmers received premiums from distributors for level delivery. There seems to be no case for such premiums where the milk passes to large town processing plants or to country depots. The Central Authority may, however, occasionally find it desirable to encourage and pay producers to give level deliveries to some small processors in inaccessible areas or (until such time as all milk is heat-treated) to small distributors of T.T. milk, rather than to have to supply balancing quantities from other sources to such buyers, or to dispose of part of the farm's supply to other buyers. It should have power to do this.

Transport Deductions

210. At present farmers have deducted from their payments regional transport rates in England and Wales, and transport charges in the main Scottish area. We propose that responsibility for the collection of milk should be transferred to the Central Authority (para. 123). It would, accordingly, be tidier if special transport deductions were abolished, and producers' prices reduced by an amount corresponding to the level of these charges. But this might produce claims for a uniform producers' price throughout the country or for producers' total receipts to be increased by merely wiping out the transport deduction. We must therefore make it clear that we are recommending neither of these things.

211. At present, also, in England and Wales, farmers sending to depots have deducted through the medium of the regional transport rates $\frac{1}{4}$ d. per gallon more than farmers sending direct to the liquid market. This deduction is partly a survival from the days when farmers sending to the liquid market needed to be encouraged to avoid the use of depots. This matter will now be outside their control. But it is also partly a payment to farmers to compensate them for larger risks of souring on milk usually sent over rather longer distances than to a depot and for taking greater precautions by more careful cooling, etc. Under the arrangements we propose farmers will still be responsible for the condition of their milk up to the point of first delivery. It may therefore be desirable to allow those sending their milk longer distances a small additional sum to cover these additional expenses. We make no definite recommendation but propose that the Central Authority should examine the subject when they have planned the most economical flow of milk.

The Position of Producer-Retailers

212. This is tied up with the payment to be made to or the levy to be obtained from producer-retailers. Before the war sales of surplus milk by producers in summer had a depressing effect on the producers' pool prices, and producer-retailers were encouraged to retain on their farms any milk which they were unable to sell by retail or on level delivery contracts.

Producer-retailers who also sold milk on wholesale contracts which did not provide for level deliveries throughout the year had to pay a much higher levy to the Board on their retail sales than those who kept their surplus milk off the market. During the war the higher rate of levy was discontinued and, so long as the demand for milk exceeds the supply, its restoration would be difficult to justify. Formerly producer-retailers (and other distributors) had to pay premiums on balancing quantities of milk which they bought from wholesalers. Producer-retailers no longer pay premiums to wholesalers for balancing their requirements, and there might be a case for the Central Authority paying the equivalent of a level delivery premium to those who do not call on balancing services of wholesalers paid for by the Central Authority.

213. Producer-retailers at present receive more than the combined remuneration of a wholesale producer and a retailer. We consider that the Central Authority, when it is set up, should examine whether or not this extra payment is justified. We should not consider it justified merely because the combined costs of production and retailing were heavier if the functions were combined than if they were split. The only justification would be that the Central Authority avoided expense when milk was distributed by a producer-retailer which it would have to incur if the functions were divided.

214. In any case the position of producer-retailers is bound to be affected. They will be unable to retain their status as producer-retailers unless they themselves (alone or with others) set up a plant or pay to have their milk heat-treated. The only alternative open to them will be to sell their milk to the Central Authority for delivery to a country depot or to a processing plant, in which case the milk will lose its identity, and, as retailers, they will no longer be in a position to sell milk of their own production. This is unavoidable. Although the White Paper (Cmd. 6454 of July 1943) contemplated that there would be no added cost to producer-retailers in having their milk heat-treated by other distributors, we feel that a wartime expedient of this kind is inappropriate as a permanent arrangement.

General

215. Our proposals as a whole are designed to reduce the costs of distributing milk. This is something the farmer has always wanted to see brought about. No doubt, while his prices and markets are guaranteed, he is not immediately interested in the price the consumer pays for milk or the amount he buys. But the price the farmer receives is to depend in part upon the quantity of milk which the Government wishes to see produced; and this will also depend in part upon the amount of liquid milk consumers wish to buy and hence upon its price. Cheaper distribution costs, it seems fairly certain, will ultimately help the farmer.

CHAPTER VII

FORM, FUNCTIONS AND POWERS OF THE CENTRAL AUTHORITY

216. In previous Chapters, we have referred repeatedly to a Central Authority for milk distribution and to the functions and powers of such an authority. We have left to this concluding chapter a discussion on whether one or more authorities should be employed and our proposals on the constitution of any new authority which may be set up.

217. Previous Committees of Enquiry on milk marketing have recommended the establishment of a Central Authority or Authorities to control all or part of the milk industry.* The economic situation and general Government policy, both as they affect the milk producer and the milk distributive and manufacturing industries have changed since these Reports were published. (See para. V of the Introduction.) And perhaps the most important change is the establishment of a permanent Government Department with wide responsibilities for procurement and distribution of food. Accordingly we have recommended in previous Chapters somewhat different functions and powers for a Central Authority than did our predecessors.

218. Now that there is a permanent Ministry of Food it would, of course, be possible to dispense with any outside controlling body. The Ministry has, for eight years, with the Milk Marketing Boards acting over a limited field mainly as its agents, exercised with some success direct control over the flow, utilization and price of milk. Given the necessary instructions and powers, the Ministry could undertake all the additional measures for securing efficiency and economy in distribution which we have proposed in our Report.

219. In our view, however, there are strong reasons for handing over the executive control of the industry to an outside authority. The organisation of a Government Department and Civil Service procedure generally are not adapted to the running of a complicated industry such as the milk industry. The chief executive officer, whom we propose later should be in charge of day-to-day operations, must have exceptional ability and long experience of the industry. It is doubtful whether the right man could be found to take on the job under Civil Service rates of pay. But apart from this, he could not be given enough freedom of action to carry out his work efficiently or to recruit administrative and technical staff with the necessary qualifications. He would have to report to the Minister through one or more senior officers of the Ministry whose responsibilities cover many other equally important subjects. They would not have the time or be in a position to perform the functions of an independent controlling body. Moreover they would be bound to judge the actions of the "Milk Director" to some degree from the political angle as the Minister would from day-to-day be directly responsible to Parliament for these actions.

220. We do not feel it is necessary to develop these arguments as there are already many precedents for transferring executive work of this kind to an independent authority.

221. Nevertheless we recommend that any statutory milk authority or authorities should work under the overall policy direction of the Government Departments concerned. In particular the Government would continue as now directly to

(a) negotiate and fix producers' prices;

(b) fix the general rate of subsidy (if any) and retail prices (actual or maximum), both to beneficiaries under the Welfare Foods Service and to the rest of the community;

(c) determine the global division of milk supplies between liquid consumption and manufacturing, and while milk is short to determine priority and non-priority allowances of liquid milk.

* For details see :

Report of the Reorganisation Commission for Milk 1933 (Grigg Commission)—Chapter IX.

Report of the Reorganisation Commission for Milk, 1935 (Cutforth Commission)—Chapters 26-28.

222. The Agricultural Departments would continue to be responsible for negotiating farmers' prices to implement the guaranteed price system which has now been embodied in the Agriculture Act, 1947. The Ministry of Food should, in our view, continue to be responsible for items (b) and (c) in the previous paragraph. This would not, however, call for the retention of an executive division in the Ministry of Food staffed on present lines, as the whole of the executive work now undertaken by the Milk Division would be transferred to a Central Authority. Moreover, the departments concerned with each of these items would rely largely on the Central Authority for the information on which policy is based and for information on the practical implications of any proposed change in policy.

223. The functions of this Authority would be:—

(a) to negotiate with producers seasonal variations of the producers' price within the global figure fixed by the Government and to pay producers;

(b) to control transport from farm to first destination and to negotiate with hauliers the terms of payment for this service;

(c) to control the flow of milk through country depots or direct from farm to town dairyman, and to sell milk at prices fixed by the Government subject to approval of the Ministry of Food if the global sum is affected;

(d) to negotiate margins and allowances for the different functions of distribution and processing within the global sum fixed by the Government;

(e) to operate a plan of utilization of milk between the liquid market and different forms of manufacture within the global directions of the Ministry of Food;

(f) to sponsor for a temporary period applications for building permits and to exercise control over the allocation of plant and equipment.

224. While the functions of the Central Authority, as described above, would mainly be regulatory, we feel strongly that it should be given powers directly to undertake any of the operations involved in handling and distributing milk in the circumstances described in Chapters IV and V.

225. Thus the Authority should have powers to:—

(i) own and operate transport;

(ii) buy out existing depots for closure if redundant, or to operate itself with any transport attached to the depot if the depot is still needed and the proprietor wishes to sell;

(iii) erect and operate new depots where needed and engage in manufacture of milk products;

(iv) own and operate town processing and bottling plants and engage in retailing in competition with existing dairymen.

226. These powers might not need to be widely used but the Authority should be given clearly to understand that they are included not merely as a sanction to be exercised in the last resort. Our intention is that the Central Authority should feel free to use these powers whenever it is satisfied that, by doing so, the distribution of milk could be undertaken more efficiently and economically.

227. We have considered at length the kind of Central Authority that should be set up; whether it should be composed of independent members appointed by a Minister, owing no allegiance to any sectional interest, or whether use should be made of the Milk Marketing Boards to control the first stages of distribution with the later stages covered by a statutory distributors' board, on the basis advocated by the Central Milk Distributive Committee.

228. We are unanimously of opinion that an independent authority is best suited to present circumstances and to exercise the kind of controls we have recommended.

229. In the first place, we attach great importance to unified control of the flow of milk from the farm to the consumer. The first stages of farm collection and distribution to the point of first delivery must be organised in a way that will preserve a balance between the interests of good management at the receiving end and those of the producer. The fact that these interests do not always coincide would be bound to result in a loss of efficiency and wasteful handling if responsibility were divided between two controlling authorities, one representing producers and the other distributors; while the consumer would not even have a protagonist in this day-to-day conflict.

230. The Milk Marketing Boards would like at least to have back their full pre-war powers. But if this were done, the field of dispute between them and a distributors' board would be widened and the loss of efficiency would be correspondingly greater. It would be necessary to provide for appeal to an independent body such as the Committee of Investigation before the war, or a more powerful Commission on the lines advocated by the Cutforth Report. There are many objections to this pyramidal structure. The Government which, as has already been pointed out, will have to be directly responsible for all the main policy decisions, would only have remote control over the executive machinery (the Boards) for implementing these decisions. Moreover, the Commission would be in a weak position. The producers' and distributors' boards would develop and control their independent regional organisations. The Milk Marketing Boards would continue to employ highly paid executive officers with a large staff at Headquarters and in the country and with substantial funds behind them. The distributors would no doubt aim at setting up an equally impressive organisation. Unless the Commission were financed on a scale to enable it to set up its own regional staff and employ at the centre executive officers of the same standing as those employed by the Boards (which would represent an absurd cost and duplication) it would have to rely on the advice and on the executive machinery of the statutory Boards representing their respective sectional interests. It is inconceivable that under such a set-up the Commission would be able to assert its authority. The need for compromise rather than the need for efficiency would be bound to prevail. And there would be likely to be many appeals over the Commission to the Minister.

231. But in any case we think it is wrong for control of the industry to be in the hands of sectional interests.

232. The Milk Marketing Boards have lost what, in the view of the previous Committees of Enquiry, was the main reason for promoting them and what in practice has been their main function, the negotiation and fixing of producers' prices. These are now fixed and guaranteed by the Government and the producers have less interest in the result than, say, consumers or taxpayers.

233. If the producers exercised their pre-war powers over distribution—and these were very extensive—it would be impossible to resist the distributors' claim for a statutory board and to have transferred to that board many of the powers which were exercised by the producers' boards. The reasons for giving producers these powers (to redress the balance of strength which was heavily weighted in favour of distributors in the days of *laissez-faire*) have gone.

234. But we do not think that it would be appropriate for an organisation representing only distributors' interests to be made responsible for many of the functions which we have proposed for our Central Authority. For example, the control of building licences and the allocation of plant and equipment

should be in the hands of an impartial authority and not one composed of existing operators. A distributors' board would inevitably put the interests of its members before those of newcomers and would be placed in a most invidious position if called upon to give preference to one of several applicants all of whom were already in the business. Nor would it be proper for the Government to look to a distributors' organisation for its main advice on the remuneration to be paid for the various distributive functions, including the retail margin; for all these items should be fixed low enough to drive the least efficient traders out of business.

235. But while we are opposed to placing in the hands of distributors or any sectional milk interest statutory powers of control over their own industry, we are in favour of the association of distributors in a strong voluntary organisation. Obviously by pooling their knowledge and by setting high standards of efficiency which all members could be encouraged and assisted to achieve through such an organisation, the trade could make, by their own efforts, an important contribution to the aims we have been set in our terms of reference. Moreover, the Government in its negotiations with the trade on prices and the Central Authority in its day-to-day controlling operations would, of course, be in a better position to carry out their functions if there was a strong distributors' organisation with which they could deal. One method of establishing the kind of organisation we have in mind would be for the distributors to make a request to the Minister of Food for the appointment of an Industrial Development Council under the Industrial Organisation Act. Failing this, provision might be made for the appointment of a Statutory Advisory Committee of distributors.

236. On the producers' side the National Farmers' Union, of course, provides the necessary representative machinery for negotiation with the Government of prices and other matters concerning the milk producer. Since the February Price Review was started the N.F.U. and not the Marketing Boards has been the leading negotiating body for the producer. It would not, therefore, be necessary to keep the Boards in being for this purpose. Nor, for the reasons we have given, should they retain any of their powers over the distribution of milk.

237. We have considered whether, if our recommendations are adopted, and producer boards are retained to exercise functions in the production field (this is not a matter on which we can express an opinion) they should be used to pay the producer. We have, however, rejected this on practical grounds and recommend that the Central Authority should pay producers. To arrange otherwise would mean duplicating some records, at least the records of farms supplying the various distributors.

Constitution of the Milk Commission.

238. We propose, therefore, the establishment of a Milk Commission to undertake all the functions listed in para. 223. The Commission should be independent and include no one who continues to have a business interest in milk distribution. We envisage a small body of not more than five members, only the Chairman and Vice-Chairman of whom would be full-time appointments. There would be one Commission for England, Wales and Scotland with a headquarters and regional offices. Many of the members of the executive and technical staff would, we hope, be drawn from the trade and from the staff of the Milk Marketing Boards.

239. There should be a General Manager who would not be a member of the Commission. He would be responsible for day-to-day operations and would have under him departmental heads who would report through him to the Commission. This, we feel, would be a more effective form of organisation in

this particular case than a functional board the members of whom were all full-time appointments. There would need to be a very close relationship between the Ministry of Food and the Commission and its General Manager on all major questions of policy. Otherwise the Commission should not be hampered in any way by departmental interference in its day-to-day operations. It should, however, be required to make public a full and detailed report of its activities and particularly of any distributive functions which it may, under the powers we have recommended, undertake direct, such as the running of depots, processing plants and retailing. The salaries and allowances of the members of the Commission and of the principal officers should also be published. We should favour the submission of its accounts to the Public Accounts Committee if this would be an appropriate procedure.

240. Adequate provision will have to be made for financing the cost of the Commission's operations. So long as the price of milk to the consumer is subsidised the Commission's expenses will form an item in the total milk subsidy, but if at some future date the subsidy is withdrawn we recommend that the Commission should be financed out of the difference between its buying and selling prices.

241. Finally, we would emphasise that the Commission's task should be fearlessly to strive at maximum economy and efficiency at all stages of distribution. No sectional producing or trade interest should be allowed to stand in the way of providing the consumer daily with a supply of safe milk at the cheapest possible price consistent with a reasonable standard of service.

242. *Summary of Recommendations*

(a) A single independent Milk Commission for England, Scotland and Wales should be established consisting of not more than five members of whom only the Chairman and Vice-Chairman should be full-time appointments and none of whom should have any business interest in milk distribution. (Para. 238.)

(b) A General Manager who is not a member of the Commission should be responsible for day-to-day operations. (Para. 239.)

(c) The Commission should work under the overall policy direction of the Government Departments concerned, but should not be hampered in its day-to-day operations by departmental interference. (Para. 221.)

(d) Besides a number of regulatory functions, the Commission should be given powers directly to undertake any of the operations involved in handling and distributing milk. (Paras. 223 to 235.)

(e) The Commission should be required to make public a full and detailed report of its finances and activities and in particular of any distributive functions it may undertake. (Para. 239.)

We have the honour to be,

Sir,

Your obedient servants,

W. D. A. WILLIAMS

(Chairman).

F. W. CHARLES.

RUTH COHEN.

ALAN SAINSBURY.

HUGH WEEKS.

M. R. METCALF (Secretary).

J. W. BANNARD (Assistant Secretary).

21st January, 1948.

SUMMARY OF RECOMMENDATIONS

- (1) As an ultimate objective compulsory heat-treatment should be applied to all milk sold for liquid consumption, except milk sold in remote and thinly populated areas. (Para. 75.)
- (2) Until compulsory heat-treatment can be applied generally raw T.T. milk should be permitted to be sold in any area. (Para. 75.)
- (3) The sale of accredited milk (standard milk in Scotland) should be prohibited from the outset in any area scheduled for compulsory heat-treatment. (Para. 75.)
- (4) In scheduled areas:
 - (i) persons in depots and dairy premises handling milk until it is bottled should be regularly examined for infections which can be milk-borne;
 - (ii) tests of milk passing through such premises should be taken at least once every two weeks;
 - (iii) the practice of selling loose milk should be prohibited and milk that is heat-treated should be filled on the premises where it is heat-treated into the containers in which it is to be delivered to the consumer;
 - (iv) milk containers and their sealing should conform to standards no less stringent than those laid down for T.T. milk. (Para. 76.)
- (5) The description "heat-treated" should be abolished. (Para. 80.)
- (6) The Central Authority should provide or contribute towards funds for research into problems connected with the handling and treatment of milk. (Para. 81.)
- (7) A training scheme for dairy technicians should be instituted. (Para. 82.)
- (8) A Central Authority should be responsible for controlling the flow of milk from farm to town buyer. (Para. 108.)
- (9) Farm rationalization should be continued. (Para. 119.)
- (10) Milk should not pass through country depots if it can be sent more economically direct to town dairies. (Paras. 99 to 101.)
- (11) The gallon-for-gallon rule should be abolished. (Paras. 104 and 108.)
- (12) Country depots should remain under private ownership. (Paras. 109 to 111.)
- (13) They should be paid by the Central Authority. (Para. 115.)
- (14) The Central Authority should make a survey of existing depot capacity. (Para. 113.)
- (15) The Central Authority should have powers;
 - (i) to buy out and close redundant depots;
 - (ii) to take over the running of depots which are still needed but which the private owners no longer feel able to operate on the basis of remuneration offered by the Central Authority;
 - (iii) to erect and operate new depots in areas where there is insufficient depot capacity;
 - (iv) to authorise the erection of depots by a distributor in any area where it considers that such a depot would perform a useful service. (Para. 114.)

(16) The Central Authority should be responsible for deciding whether the services of town supply depots are needed, and for paying these depots. (Para. 116.)

(17) The Central Authority should control transport and be given the power to operate transport itself at any stage. (Paras. 123 and 127.)

(18) Processing, bottling and retailing should remain under private ownership and operation (para. 145) but be subject to various measures of control by the Central Authority.

(19) During the period of shortage the Central Authority should act as the sponsoring authority for applications for building permits and exercise control over the allocation of plant and equipment. (Para. 149.)

(20) Local Authorities should receive guidance on the interpretation of the Milk (Special Designations) Regulations to secure uniformity of administration. (Para. 147.)

(21) The Central Authority should be given power to operate itself:

(i) As processors, in areas where suitable facilities do not exist and where local dairymen are unable or unwilling to provide them on a satisfactory basis. (Para. 155.)

(ii) As processors and retailers, as an experiment, with monopoly powers in one or more of the new satellite towns. (Para. 155.)

(iii) As retailers, in competition with distributors, should it consider it can do so substantially more cheaply than existing retailers. (Para. 170.)

(22) Small dairymen should be encouraged to amalgamate and operate jointly processing and bottling plant. (Para. 154.)

(23) When supplies of milk are adequate to meet the demand, the registration of milk consumers with milk retailers and the central control of the flow of milk after it is sold by the Central Authority, should cease. In the meantime, re-registration should take place annually. (Paras. 194 to 203.)

(24) The Central Authority should provide all town processors with the quantity of milk they require at prices not varying with the source of supply. (Para. 176.)

(25) When areas have been scheduled for compulsory heat-treatment, an inclusive margin should be introduced to cover:—

(i) Processing and bottling;

(ii) Delivery to the consumer. (Para. 177.)

(26) Dairymen who only perform the delivery service should give up to the processor a part of the margin to cover processing and bottling. (Para. 177.)

(27) During the interim period the Central Authority should determine whether wholesalers should be employed for the supply of processed milk to retailers. (Para. 157.)

(28) The present functional system of payment applicable in England and Wales should be continued until processing and bottling plant can be provided in larger quantities. (Para. 186.)

(29) The arrangements in operation in Scotland should be continued until conditions permit the introduction of the arrangements referred to in (25). (Para. 190.)

(30) The higher margin necessary for the supply of special qualities of milk should be met by the consumer, but the present additional price payable by the public on T.T. milk is considered to be too large. (Paras. 184 and 191.)

(31) The system of enforcing minimum retail prices should not be re-introduced. (Paras. 163 and 168.)

(32) Agreements among distributors to charge not less than a specified minimum price should be prohibited. (Para. 166.)

(33) Provision should be made for varying retail prices by smaller units than at present. (Para. 169.)

(34) The supply of milk sold under the Milk-in-Schools Scheme should be allotted to the dairymen prepared to undertake it satisfactorily for the smallest payment. (Para. 183.)

(35) Maximum retail prices should continue to be imposed. (Para. 171.)

(36) The Central Authority's selling price should be uniform and the maximum retail price should vary from area to area, or alternatively the maximum retail price be fixed and the price charged by the Central Authority should vary. (Para. 180.)

(37) A single independent Milk Commission for England, Scotland and Wales should be established consisting of not more than five members of whom only the Chairman and Vice-Chairman should be full-time appointments and none of whom should have any business interest in milk distribution. (Para. 238.)

(38) A General Manager who is not a member of the Commission should be responsible for day-to-day operations. (Para. 239.)

(39) The Commission should work under the overall policy direction of the Government Departments concerned, but should not be hampered in its day-to-day operations by departmental interference. (Para. 221.)

(40) Besides a number of regulatory functions, the Commission should be given powers directly to undertake any of the operations involved in handling and distributing milk. (Paras. 223-5.)

(41) The Commission should be required to make public a full and detailed report of its finances and activities and in particular of any distributive functions it may undertake. (Para. 239.)

ADDENDUM I TO THE REPORT

1. We have signed the main report because we believe that its proposals, if implemented, are likely to provide for the immediate future a cheaper and more efficient way of distributing milk than any practical alternative. But we consider that further substantial economies in distribution should later be possible if retailing in any area is made a local monopoly and the earlier stages in distribution put under unified operation and not only under unified control as proposed in the main report.

2. This, in our view, necessarily involves public ownership and operation. As is stated in the main Report (para. 140) there is no effective and fair way either of selecting or of controlling the prices charged by a single private distributor in any area. But, as we indicate in greater detail in paras. 21 to 24, we believe that there are peculiar difficulties in introducing public ownership at present, and that consequently it is better for an interim period to rely, as proposed in the main Report, on public control exercised with the sole aim of securing more efficient distribution, and on the measures there suggested for partially restoring competition.

3. We differ from the majority of the Committee on the best long term form of organisation because we attach different weight to some of the arguments presented in the main Report. We must, therefore, indicate briefly in this Addendum our principal points of disagreement and our reasons for them.

4. It is at the retail stage, where about two-thirds of the total costs of distribution are incurred, that the greatest economies should be possible. We consider that retail distribution can be undertaken far more economically if only one dairyman serves a suitable block of households, and that the majority attach undue weight to the objections to such a policy and undue hope to the ultimate economies possible under the alternative policy recommended in the main Report.

5. We need not repeat the evidence on the possible savings from blocked delivery given in paras. 132 to 139 of the main Report. Public operation of retailing was there rejected, however, on the grounds of the upheaval likely to be caused and of the removal of public choice. We agree that there will be difficulties in the process of taking over milk distribution which should not be risked now; but the upheaval would be once and for all, and the economies from unification continuing. And we consider that milk is not a commodity for which the consumer can have well-founded preferences of a type which a publicly-owned body could not meet. It could, for instance, supply different types of milk. No doubt the consumer is interested in other things, such as the amiability and conversational powers of the milkman, and the special services which some retailers normally provide. It is, however, in our view, easy to exaggerate the importance which the consumer attaches to being able to choose between alternative roundsmen. There are few if any complaints at having no choice of postman; we believe the same attitude would develop to milkmen, once the quality of milk is more standardized. Moreover, if monopoly retailing could save, as conceivably it might, an amount equivalent to 1d. per quart of the total cost of milk distribution, we believe that the bulk of consumers would prefer this reduction to the possibility of obtaining better services. There is no mechanism under a competitive system by which the majority of consumers can make such a preference effective. Even if all consumers in a district were to prefer cheaper milk delivered by any dairyman to dearer milk from the dairyman who would be their first choice were there no price difference, they have

no way of showing this. For the full economies would only be obtained if all went to the same retailer, and the price reduction only secured after they had done so.

6. We are not, moreover, sanguine on the extent of the economies that will be achieved by restoring competition and imposing maximum prices, though we agree that these measures provide the best immediate policy. A fixed margin will have to be paid for milk delivered under the Welfare Foods Service; this (as is shown in para. 167 of the main Report) reduces seriously the scope for competition. And it seems to us likely that competition in service will still be used to an undesirable extent instead of competition in price, and that tacit understandings on minimum prices to be charged are unlikely to be eliminated. The limits to the effectiveness of maximum prices are given in paras. 178 to 181 of the main Report, where it is shown that the imposition of maximum prices cannot enforce the most economical form of distribution.

7. The advantages of public ownership and operation at the earlier stages of distribution are of a somewhat different nature. The alternative, proposed in the main Report, involved control of the action of private companies where it was impossible to devise financial arrangements which would induce the dairymen concerned to distribute milk in the most economical way. We believe that such control must inevitably involve lengthy discussion and arguments with distributors whose profits will be adversely affected by the Commission's actions; and that the final arrangements made are not likely to be those most appropriate to securing the most efficient flow of milk. These difficulties are likely to be particularly acute at three points.

8. First, the main Report recommends the allocation of new processing plants so long as plant and equipment are short, so as to prevent haphazard development, even though this involves some degree of local private monopoly. This we agree to be the best short period policy. It will, however, be difficult, if not impossible, for the Commission to insist that processing capacity shall be adjusted to the needs of the region as a whole and not to the requirements of each firm, estimated by that firm in the light of its proposed expansion. For instance, a Co-operative Society may be gaining and a private firm losing business. Their joint processing and bottling capacity may be ample for both their requirements. But the Co-operative Society may not be able and certainly will not wish to use the private firm's processing plant. We doubt if the Commission could force them to do so, or if the results would be satisfactory if they did. Unnecessary processing plant will therefore be erected.

9. Once the shortage of plant and equipment is over the main Report proposes to rely on competition and the imposition of maximum margins to secure the most economical development. We do not see how this can secure the most economical development. For, even more than in the immediate future, each firm will want its own plant. Either, therefore, too many plants will be set up, or each plant will have to serve a wide area of its own retail customers, thus adding to the costs of transport and distribution.

10. Secondly, the main Report proposes, as a long term policy when heat-treatment becomes universal, that the Commission should sell ordinary milk to all town processing plants at a uniform price, bearing itself the costs of transport and of country depots (a point to which we return shortly) and of any town depots whose services it requires to get the milk to individual processing plants. Moreover, until heat-treatment becomes universal in any area, the Commission is also to pay, in England and Wales, an

additional charge when milk passes through two firms rather than one between the farm or country depot and the consumer, this addition being designed to cover the additional costs of this form of distribution. This is the existing arrangement and we agree that it is best to retain it for the moment. The long period arrangement proposed also seems to us the only feasible one if private operation is to be retained.

11. We do not, however, consider that such a system will make possible the most economical arrangement of distribution as a whole. Private dairymen will wish to set up processing plants solely with a view to minimising costs of distribution to consumers from that point onwards, without taking into account also the costs of getting milk to their plants, since they will not bear these costs. And it will be difficult for the Commission to insist, against the wishes of the firms concerned, on the best siting from the point of view of total costs.

12. In the short period, moreover, the Commission will have to control all wholesaling activities, since these are to be paid for separately and there can consequently be no effective competition. This will not be an easy task and will involve, as it does at present, considerable friction between the controlling body and the dairymen concerned. There is no way of avoiding these difficulties under a privately-owned industry when prices to farmers are guaranteed.

13. Thirdly, the same sort of difficulties, though in a more acute form, arises if country depots are left in private hands. The Committee unanimously proposed (para. 108) that the Commission should be given powers to direct the flow of milk on the most economical basis; and the whole Committee accepted that, given guaranteed returns to farmers, this would involve a detailed central intervention whenever re-direction of milk was required at this stage. For the depots, again, would be paid a fixed scale of payments, while transport costs would be borne by the Commission.

14. We consider that the desirable re-direction of milk through depots cannot be a once and for all operation and that frequent changes in the volume of milk passing through individual depots will be necessary if maximum economies are to be secured. Milk production is now short compared with the demand and will so remain for a number of years ahead; when it increases substantial re-direction will be required. Again, we may expect long term shifts in the human and dairy populations.

15. To secure the best flow of milk some depots would need to lose milk, others to gain it. Some town dairymen ought to get their milk from a depot now owned by a different firm. The Commission would constantly be arguing with firms whose business was to be reduced, unless the financial arrangements were such as fully to compensate them for the loss of their business. It would require staff to duplicate knowledge already possessed by the depot owners and to argue appeals. It would constantly, we fear, fail to divert milk to the most economical channels because of the inevitable arguments involved in doing so. And if depots were to be compensated for loss of business their profits would be guaranteed and the spur to efficiency lost.

16. We cannot recommend as a long term policy a form of organisation which requires detailed supervision by one body of the activities of privately-owned businesses. It seems to us likely to lead to waste of manpower and to constant friction and undesirable compromises.

17. To nationalise the depots will mean nationalising a large part at least of the manufacture of milk products. We see no overwhelming objection to this. It might be possible to leave out the manufacture of proprietary baby foods and of some other products if their manufacture could be largely undertaken in separate premises from those handling liquid milk. We have not examined this point in detail, as we are not proposing the immediate nationalisation of milk distribution and as the manufacture of milk products is outside our terms of reference. The Milk Commission, if it is set up to undertake the tasks proposed in the main Report, will obtain more information than is at present available on the possibilities of divorcing some manufactures from liquid milk depots. It should examine this question in detail, particularly for milk products for which the process of manufacture is long and complicated.

18. These, in broad outline, are our reasons for believing that milk will only be delivered as cheaply and efficiently as possible when it is handled by a publicly owned and operated body. And it seems indefensible to tolerate indefinitely an unnecessarily costly distributive system, especially perhaps for a product as heavily subsidised as milk. It remains for us to indicate the general lines of development that we envisage and why we do not propose that it should be begun at once.

19. We are not recommending that the door to door delivery of milk should be organised from Whitehall. Some central organisation would be required (and could be provided in the Commission proposed by the main Report) to organise the general flow of milk from producing to consuming areas. This central organisation would require regional offices, as well as local depot managers. We would emphasise that we contemplate very considerable local autonomy in the organisation of urban processing and retailing. The country would be divided into areas of whatever size appears best to the Commission. Medium sized towns might be a single area; large cities would probably be divided up; and small towns and rural areas grouped into regions. The local controlling body might be either a local branch of the Commission or, possibly, in some areas, the Commission in conjunction with the municipal authorities.

20. Development could be gradual. The country depots would have to be taken over at the first stage because of their focal position. And, to avoid compensation for severance, this would involve taking over at this stage the whole of concerns owning depots. But the Commission could probably acquire gradually, area by area, the whole of town processing and retail distribution, beginning with the areas where it expected to obtain the greatest economies. This might involve it in owning and operating town processing and retail concerns in competition with private distributors in some areas where it was not yet ready to take over the whole industry. This would present difficulties, but not, we feel, insuperable ones.

21. We are not recommending that this process should start at once. Clearly there would have been some advantages in buying out private distributors before retail rationalisation had stopped and before the speeding up of the establishment of processing and bottling plants to meet the Committee's proposed safe milk policy. But we think the disadvantages outweigh the advantages.

22. First, there does not exist at present any body or bodies with sufficient experience to control effectively the whole of milk distribution. The main Report proposes the establishment of a supervising Commission. This will

build up its staff and acquire experience in the problems of distribution and information on the requirements of different areas. After some years it should provide a useful nucleus for the development of an operating Commission.

23. Secondly, the compensation which would have to be paid if private dairy companies were to be bought out is probably inflated by the protection given by the prevention of competition. The main Report proposes some return to competition.

24. Finally, the process of taking over milk distribution would be difficult and would absorb much Parliamentary and administrative time. We have therefore assumed that it would not be practicable to introduce soon a Milk Nationalisation Bill. But we consider that the proposals in the main Report are far easier to implement quickly and represent a substantial improvement on the existing position. Consequently, we accept them for the immediate future.

RUTH COHEN.
ALAN SAINSBURY.

ADDENDUM II

1. I wish to add a note in regard to certain aspects of the powers which it is suggested should be vested in a Central Authority constituted in accordance with the recommendations of the Committee, and as regards other matters where some further comment seems necessary.

Powers of Central Authority.

2. The primary functions of the Central Authority are the direction of supplies of milk and the regulation of its distribution to consumers. It would seem wrong in principle for a body so empowered to engage in competitive trade, and accordingly I must express the doubts which I feel as to the wisdom of certain recommendations to this effect contained in the main report.

3. No effective limitation is proposed as to the extent to which the Central Authority may operate in the distributive trade if in its own judgment it thinks it may be able to do so more economically than existing distributors in any area. If such a course be adopted it follows that the Central Authority will be entitled to allocate to its own use processing and other plant and equipment in priority to the needs of other distributors and possibly obtain other advantages through the powers vested in it. Its entrance as an additional competitor in any particular area may involve all concerned in loss which in its own case will be borne by public funds.

4. It is further proposed that the Central Authority should be granted monopoly rights in certain new satellite towns in order to gain experience of the costs of liquid milk distribution. It is not to be expected that costs ascertained under these conditions will be a true reflection of the average and reasonable costs of distribution throughout the country. It would be far better for the Central Authority to rely for this knowledge upon costings such as have been periodically obtained by the Ministry of Food and it should be provided with the requisite power to enable it to obtain this information. The growth of a satellite town will be gradual and initially the consumer demand will be met by local distributors. As the demand increases the business of these distributors will expand and probably new distributors will come into the area. It is difficult to see at what period of time the Central Authority could intervene and exercise its monopoly right without buying out distributors already operating, and how the boundaries of its monopoly could be satisfactorily determined. Furthermore, the inhabitants of a satellite town should not be precluded from exercising the right of freedom of choice of source of supply when such freedom is enjoyed elsewhere.

5. The alterations in the pre-war course of the flow of milk to consumer areas made necessary by changes in volume and location of consumer demand have been substantially accomplished. This is evident from the fact that in general both priority and other consumers have obtained the quantity of milk to which they are entitled within the limits imposed by the volume of supplies available. These major changes, together with a number of transport rationalisation arrangements, were successfully carried into effect by the Ministry of Food under the difficult conditions of the war period, and a contributory factor in this achievement was the wide measure of co-operation which the Ministry received from the distributive trade and the Milk Marketing Board. If an Authority is to be created to take over and develop many of the functions at present exercised by the Ministry the continuance of the co-operation of the distributive and producer interests is essential to the success of its work.

6. Whilst it may be necessary for the Central Authority to control the movement of milk from farm to first destination it is obviously important that decisions should be taken in conjunction with both the producers and the distributors concerned. As the producer remains liable for the condition of the milk on arrival at its first destination it would be inequitable to require him to accept this responsibility if he is allowed no part in the decision as to the means of transport and the distance over which the milk is to be carried. The distributor is also concerned, as the time of arrival and freshness of the milk are important factors in the economical operation of the delivery service and the receipt by the consumer of milk in good keeping condition.

7. It is recommended that payment to producers for milk supplied should be made by the Central Authority instead of the Milk Marketing Board as heretofore, but this procedure may give rise to administrative and other difficulties in connection with the work of the Milk Marketing Board. Although unnecessary duplication of staff between the Ministry of Food, the Central Authority and the Milk Marketing Board must be avoided, it would be better for detailed matters such as the manner and means of payment to producers to be left for discussion and determination between the parties concerned and not prescribed in advance.

Public Operation.

8. There is no recommendation by the Committee that the milk distributive service should be a national monopoly, but two members have advocated this as a long term objective chiefly on the grounds that they anticipate some saving in cost might result, although they recognise such a step would also mean nationalising a large part at least of the manufacture of milk products.

9. In so far as representatives of the consuming public have given evidence to the Committee, none have welcomed the abolition of the consumers' right of choice in favour of a national service, and representatives of the Co-operative Milk Trade Association were emphatic that this right should be maintained. In my view a contrary course can only be recommended if it is clearly established that the economies and benefits likely to accrue from national ownership of the milk distributive service are sufficiently great as to compensate for the abandonment of the control of services enjoyed by the consumers in normal times by selection of source of supply, as well as co-operative trading.

10. Whilst much has been said in regard to the various forms of uneconomical arrangement which it is alleged have existed, and continue to exist, in the distribution of milk, these criticisms are rarely reduced to estimates of cost per gallon of milk handled. It is stated in Addendum 1 that monopoly retailing might save 1d. per quart, or about one-third of the present total cost of liquid milk distribution. It is not clear whether this is to be a saving in the present-day costs or a saving in what it is anticipated the costs might be in competitive trading at some future time when supply equals demand and the priority allocations and consumer registrations are abolished. This estimate of saving in costs seems to be purely imaginary in that no indication is given as to the source from which it would arise, such as roundsmen's wages, bottling, pasteurising, etc., nor is any reference made to any capital expenditure involved in any removal and re-siting of plants and depots which might be contemplated in order to achieve maximum economical working.

11. The total costs of retail milk distribution in individual cases shows considerable variation for reasons which are referred to elsewhere, but if 1s. is taken as the maximum cost per gallon it can be approximately analysed as follows:—

	Per gallon. s. d.
Handling, processing and bottling, including distributing dairies and transport costs thereto where applicable ...	5½
Roundsmen's remuneration	3
Transport costs on rounds	2
Supervision and administrative expenses	1½
Total maximum cost	1 0

Although the cost of handling, processing and bottling might be subject to some change according to the size of the plants used, the amount involved is not likely to be very material so that the bulk of the estimated saving of 4d. per gallon would need to be the outcome of economies on the round by way of reduction in the costs of roundsmen's remuneration and transport costs. As these items together total no more than 5d. per gallon it seems unrealistic to assume that by a further blocking up of rounds under a national organisation they can be reduced by at least one-half.

12. Alternatively, if the anticipated saving of 4d. per gallon mainly represents an estimate of the amount by which it is assumed future costs will rise above current costs on the return from the existing monopolistic arrangement to competitive distribution, it seems desirable for some further comment to be made in relation to evidence before the Committee which has a bearing on this matter, and to which some reference has been made in the main report, notably Chapter IV, paragraphs 101 and 105, and Chapter V, paragraphs 136, 137 and 138.

13. A comparison of the pre-war costs of milk distribution with the more accurate figures produced by the Ministry of Food applicable to the war and post-war period, indicates that after making allowances for increased rates of wages and higher costs of materials used, the reduction in total costs of distribution may be assessed as being of the order of 4d. per gallon. In other words, although the cost is now higher than before the war it is, to the extent indicated, less than it might have been had the service of distribution been maintained on its pre-war basis and if milk was in full supply. Accordingly the notional saving thus calculated embraces reductions in costs attributable to various causes, including the following:—

(a) The simplification of the delivery service as the result of the allocation to each consumer of a pre-determined quantity fixed by availability of supply, instead of the customer's requirements being solicited.

(b) The acquiescence of the consumer in the acceptance of milk at such times as the distributor is able to deliver it irrespective of any consequential loss due to sourage before total consumption.

(c) The discontinuance of the second daily delivery of milk.

(d) The effect of change in volume of sales.

(e) The consolidation or blocking up of milk rounds so that customers served by a distributor are as far as possible contiguous, with a consequential increase in the volume of milk distributed in a given distance travelled by roundsmen.

14. In most instances the above factors involve curtailment of service to the consumer and, with the exception of the last mentioned, are not essentially the outcome of monopoly conditions. The main advantage to be derived from unification of distribution would be the maintenance of whatever gain is attributable to the consolidation or blocking up of rounds. It must therefore be considered as to whether the amount involved is such as to warrant the consumer being deprived of his or her right of choice of supply, particularly when it is conceivable that monopoly rights may cause loss of efficiency.

15. It is difficult to assess what proportion of the total estimated saving of 4d. per gallon is attributable to the actual restriction of the consumers' freedom of choice of supplier, but it would seem that by far the greater proportion thereof arises from the abandonment of two deliveries a day and the other causes enumerated, including the increase in the total gallonage of liquid milk distributed, although in some instances rationing may have an opposite effect on costs.

16. It appears from evidence given at an enquiry before the war that the first delivery or morning round in London and S.E. England (which in its operation was analagous to the present delivery arrangements of a pre-determined quantity of milk) occupied about $2\frac{1}{2}$ hours, and that the second delivery or afternoon round, when the customers' requirements were solicited, took some five hours or more. It also seems that a substantial part of the roundsman's time must be occupied in journeying from his vehicle to the consumer's doorway, which time is not materially affected by the procedure of consolidation or blocking up of rounds. The conclusion that the greater part of the estimated economies is due to the discontinuance of the second delivery, curtailment of service to the consumer and other causes, is also supported by the fact that the Director of Costings of the Ministry of Food in 1945 estimated the savings due to the introduction of official rationalisation schemes as being somewhere about 1d. per gallon (or $\frac{1}{4}$ d. per quart), as mentioned in paragraph 136 of the main report.

17. The annual enquiry conducted by the Ministry of Food in recent years into the costs of liquid milk distribution has of necessity been restricted to a numerically small proportion of the undertakings engaged in the industry, exclusive of producer-retailers, but the gallonage handled by these undertakings represents almost one-fourth of the total gallonage of liquid milk distributed. The costs produced show a degree of fluctuation which at first sight suggests that an equation of costs possible under one unified organisation might be productive of saving in that the margin required for the distributive service might be less than that at present necessary in circumstances where the work is performed by a number of separately owned and operated businesses. The disparity in costs shown is not necessarily an indication of relative efficiency, but more probably the outcome of various causes which would remain irrespective of the form of ownership of the service.

18. It is conceivable that unification of the delivery service might afford other opportunities for effecting reductions in costs additional to those already mentioned. On the other hand, such an organisation might encounter increased costs arising from such causes as the severance of the milk distributive service from other services with which in many instances it is associated at the present time, and the establishment of a standard service throughout the country, involving the abandonment of certain convenient and economical practices at present possible in some localities. It is also questionable whether any apparent theoretical saving could be achieved in practice by one centrally controlled undertaking possessing a complete monopoly of distributive service and which, unlike the distributors, would be uninfluenced by the necessity for keeping costs within a prescribed margin and, at the same time, providing a

satisfactory service to the consumer in order to maintain or expand the volume of trade. Whilst prospective economies must be fully explored, it is possible to exaggerate their importance. For instance, there has been much controversy and discussion respecting the course of the flow of milk between farm depot and town processor, yet the savings estimated to arise from the major changes proposed, even if they are not offset by increases in other costs or new expenditure, could only affect the price of milk to the consumer by about .02d. per quart.

19. The presence of several distributors of milk in one locality seems to have excited more adverse comment in the past than any corresponding multiplicity of suppliers of other foodstuffs, all of whom may have operated separate delivery services. The criticism referred to was often prominent in the public disputations in regard to prices and margins between producers and distributors of milk which took place before the war. It received much publicity and probably an emphasis beyond that justified if the cost involved had been quantified and expressed in terms of cost per gallon of total sales. Before the war when supplies of milk exceeded the demand, it was part of the function of the distributor to provide a service of such a nature as would induce sales of milk, to which objective the producers at times contributed by advertising directed towards encouragement of consumption. These circumstances no longer exist as foodstuffs are in short supply, but it would seem unwise to found a long term policy on the assumption of perpetual shortage.

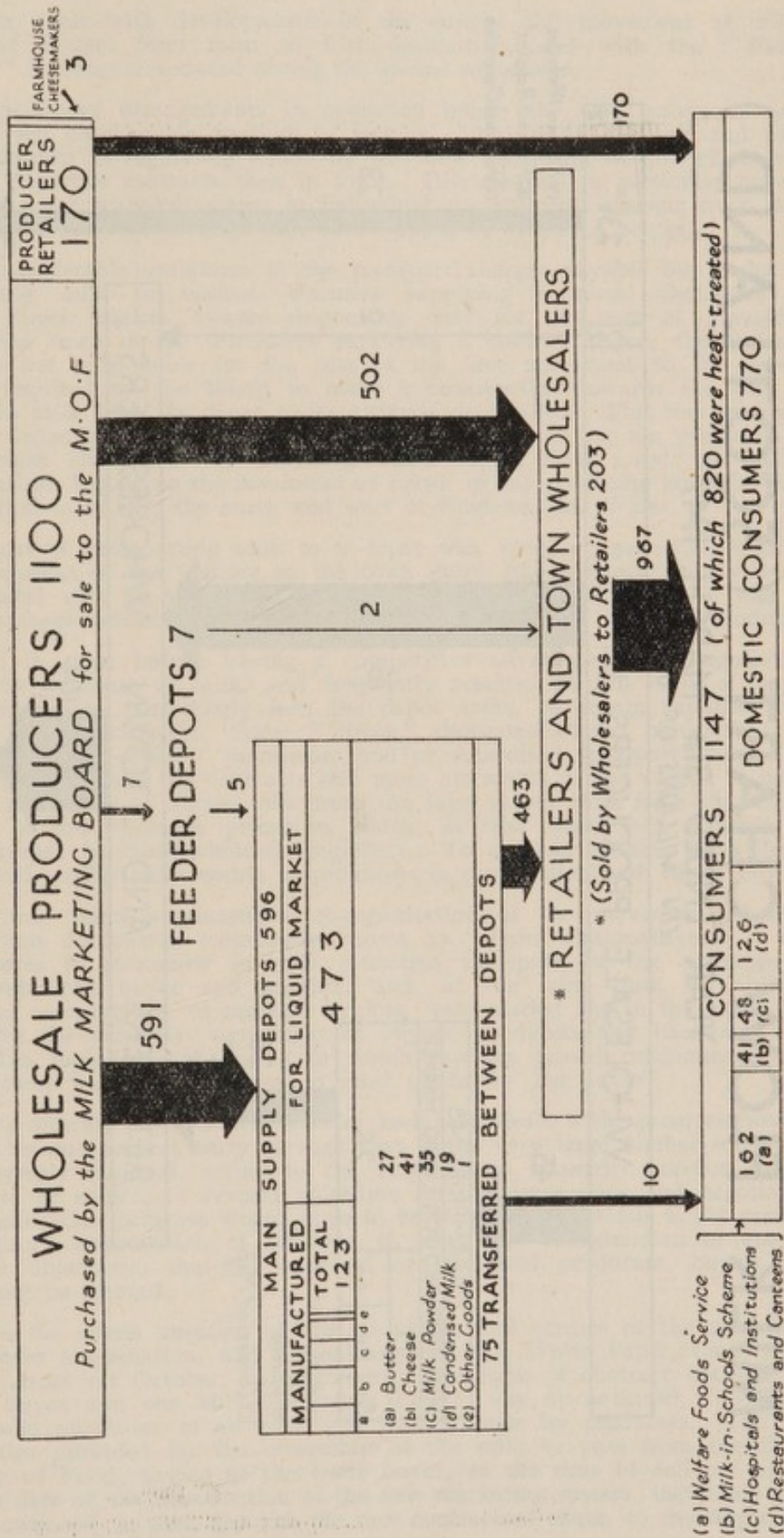
20. The distribution of milk is not a pipe line service, nor is there any need for its segregation from other foodstuffs if, with the development of domestic refrigeration facilities, a combination of delivery services is likely to lead to economies particularly in less densely populated areas.

21. The extent to which the theoretical saving in distribution costs could be increased or diminished is a matter upon which there is obviously room for difference of opinion, but on the whole it would seem that the amount involved either in money or national resources, is not likely to be of such magnitude as to warrant the abolition of a system which affords the consumer a freedom of choice of source of supply, more especially as it is doubtful whether the day-to-day distribution of milk is a service which can be performed to the satisfaction of consumers under conditions where the only redress to complaint would be the remote supervision of the Central Authority and the control exercised by Parliament. The maintenance of the consumer's right of choice and the degree of distributive service made available are factors in the standard of living even though they may be of less importance than the existence of an adequacy of foodstuffs.

F. W. CHARLES.

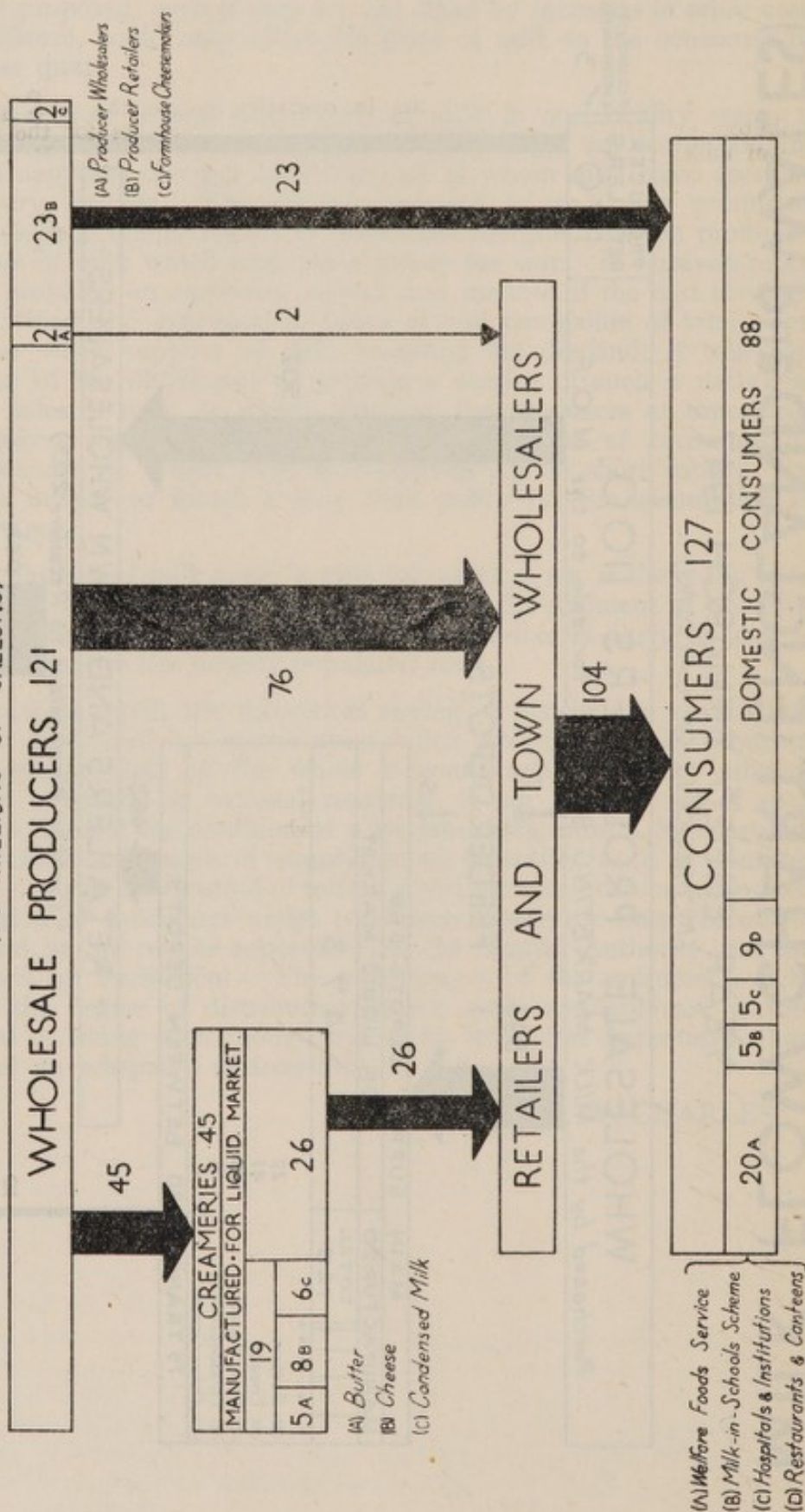
MILK FLOW CHART (ENGLAND and WALES)

YEAR ENDED 31ST MARCH 1947
(IN MILLIONS OF GALLONS)



MILK FLOW CHART (SCOTLAND)

YEAR ENDED 31st MARCH, 1947
(IN MILLIONS OF GALLONS)



APPENDIX II

MILK MARKETING AND TRANSPORT IN ENGLAND AND WALES:

FARM TO FIRST DESTINATION

This appendix deals with developments in the supply and movement of milk, in England and Wales, from farm to first destination, and with the "Farm Rationalisation" Schemes introduced during the second world war.

Under the marketing arrangements in operation before the war, producers and distributors enjoyed considerable freedom in making contracts for the sale and purchase of milk, subject to regulating action by the Milk Marketing Board, which was a party to the tripartite contracts then in force. This resulted in particular buyers drawing supplies over scattered areas; in individual consignments passing over long distances, also in much cross-haulage and over-lapping of collection routes.

There were considerable variations in the transport charges payable by producers for getting their milk to market. Farmers supplying a town wholesaler or retailer—the "direct market"—were responsible only for the cost of conveying their milk to the town dairy. Producers supplying a country depot, the "depot market", were not only liable for the cost of the first movement to the depot, but were also required by the Board to make a contribution towards the cost of re-forwarding the milk from the depot to its ultimate destination. This was arranged by the Board deducting from the price payable for the milk to the producers a "Standard Freight Deduction" ("S.F.D.") which varied from 1.10d. per gallon in the South Eastern Region to the maximum of 1.65d. in the producing areas furthest from London, that is to say, the north and west of England, and Wales.

Whilst the cost of transporting milk to a depot was, speaking generally, slightly less than the expense of the journey to the town dairy (the distance usually being shorter), the total cost to the "depot" producer, including "S.F.D.", was in virtually all instances greater than the transport liability of the "direct" producer.

This resulted in town buyers having a competitive advantage when negotiating contracts for the purchase of milk, and frequently resulted in this class of buyer covering long distances, particularly into the depot areas, to secure supplies from the larger and better producers. Some "direct" dairymen offered inducements in the form of "Special Service" premiums, and/or subsidised transport charges to suitable producers, to make the contracts still more attractive to the sellers, it being to the buyers' advantage to obtain milk from the farm rather than from the wholesaler, in view of the wholesale premiums which, at that time, were payable by purchasing dairymen to their wholesale suppliers. To a lesser extent, some depot proprietors offered similar inducements to producers in competition with direct buyers.

During the war years an extensive re-organisation of the movement of milk from farm to first destination (commonly known as "Farm Rationalisation") was effected. Measures to economise in milk collection transport by the exchange of contracts between one buyer and another, and, at the same time, by the re-organisation and co-ordination of haulage services, were carried out in the early part of the war with the voluntary agreement of buyers, producers and hauliers. This action was taken mainly in the areas in which supplies passed predominantly to depots, where there was little variation in most producers' net prices.

After the less difficult parts of the country had been dealt with, progress became very slow. It became evident early in 1942 that if the very large further economies which were urgently required, owing to the very serious transport position in the country, were to be secured, a revised procedure for the preparation and negotiation of Farm Rationalisation Schemes would have to be inaugurated, which would provide for the compulsory introduction of schemes, if, after due consideration of amendments to meet objections, the full approval of interested producers, buyers and hauliers could not be secured.

At that time the whole question of the marketing and control of the movement of milk was under examination, and (as envisaged in the White Paper, Cmd. 6362, May, 1942), as from 1st October, 1942, the tripartite form of contract between the producer, the buyer and the Milk Marketing Board, was discontinued, the Board becoming the sole purchaser of all milk sold by wholesale by producers. The new arrangements also provided for the ownership of the milk to pass from the Board to the Ministry of Food, thence to the trade buyer, at the time of delivery to the latter. On the date of the introduction of the new marketing system, individual farm consignments continued to pass, through the new contractual chain, to the buyer who

purchased them on the previous day under the old arrangements. This had the effect of emphasising the "freezing" of producers' contracts which had been introduced previously as a war-time measure. Subsequent changes in the destination of supplies have been made for purposes of farm rationalisation, directing T.T. producers to markets where the milk will be sold as such, etc.

The responsibility for arranging the physical transport of milk from farm to first destination, to meet the supply requirements of the Ministry, was transferred from individual producers to the Board for the period of control. The Board introduced a Milk Haulage Agreement, approved by the Ministry, which laid down the terms and conditions applicable to the haulage of milk from farm to first destination, and which provided for disputes with hauliers to be considered by a Haulage Committee, consisting of representatives of the Board, the National Conference of Milk Carriers ("A" and "B" Carriers' Licence holders) and the Central Milk Distributive Committee (operators of "C" licensed vehicles). The Board have since acquired a number of milk haulage businesses in various parts of the country.

The cost of transport to first destination remained the liability of producers, and the fact that the Board had no longer to meet the cost of subsequent journeys from depots to consumer centres was taken into account in fixing prices payable by the Ministry to the Board.

The transport deductions of individual producers were "frozen" at their former level until 1st October, 1943, when the Board introduced "Regional Transport Rates" varying, for producers sending to a direct market, from $\frac{1}{2}$ d. per gallon in the South Eastern Region, to 1d. in the Regions most distant from London; and, for milk passing to a depot, from 1d. to $1\frac{1}{2}$ d. per gallon. The consequent differential of $\frac{1}{2}$ d. per gallon against "depot" suppliers is considerably less than their former liability for "S.F.D." It was reduced to $\frac{1}{4}$ d. per gallon on 1st July, 1947.

A revised procedure for the preparation, negotiation and introduction of Farm Rationalisation Schemes was drafted by the Ministries of Food, War Transport and Agriculture, after consultation with representatives of all sections of the milk industry, and this was introduced on 1st October, 1942, when the new marketing arrangements began.

It provided for Farm Rationalisation Schemes to be prepared jointly by Regional Officers of the Ministry of Food and of the Milk Marketing Board, and submitted to a Headquarters' "Joint Rationalisation Committee" composed of Officers of the Ministry and of the Board, with a Ministry Chairman. Interested parties were consulted during the preparation of the schemes, and objections which could not be met by the Regional Officers were referred to "Regional Milk Transport Advisory Committees", upon which producers, buyers and hauliers were represented, in addition to local officers of the Ministries of Food and War Transport. The final approval of, and responsibility for, the schemes rested with the Minister of Food.

The construction of the schemes varied to some extent according to the circumstances of the areas to be rationalised, but, in the main, the plans provided for separate block collection areas from which particular buyers would receive their farm supplies, the transport arrangements being reorganised accordingly. Sometimes small dairymen buying their supplies from farms within a reasonable distance of their premises were permitted to continue to collect their milk outside the schemes, and producers continued to use their own cars and trailers or lorries where the journeys were short, and particularly where the vehicles were required for carrying other traffic, such as agricultural produce.

The general effect of farm rationalisation was to restrict the supply areas of the various consumer centres, but in a number of cases there were major changes in the flow of milk, particularly in connection with supplies to Liverpool, Manchester and London.

Before the reorganisation was carried out, certain Liverpool and Manchester dairymen drew a considerable gallonage from farms north of these cities, particularly from the Fylde area and from the Trough of Bowland. This milk was diverted to direct or depot buyers nearer the producers, and the Liverpool and Manchester dairymen given instead direct milk from Cheshire.

Milk previously passed to the London area over very long distances. These supplies were re-directed under Farm Rationalisation Schemes to local direct and depot buyers, and, in the main, the gallonage lost was replaced, either at depots owned by the same purchasers, or by milk direct from farms much nearer London.

Objections to the Schemes came primarily from town dairymen who had previously traversed considerable distances to select the better-class producers, and who were required, under farm rationalisation, to take all the supplies produced within a confined area. Objections were also received from hauliers whose vehicles were scheduled to become redundant. Every effort was made to spread unavoidable hardship as equally as possible amongst all the contractors involved in particular schemes. Producers objected mainly when they lost "direct" markets, and when old-established connections with buyers were severed.

The majority of the schemes introduced in the earlier period of the new procedure provided each buyer with the same gallonage as before, but in a few cases, direct buyers who were short of farm supplies were allocated additional direct milk at the expense of depot purchasers. From the middle of the year 1943 onwards the schemes were "gallon-for-gallon", that is to say, the intakes of milk of all buyers were maintained.

Some changes in the flow of milk were also brought about by the closing of a number of milk depots. In north Lancashire, producers' supplies were withdrawn from two main supply and fourteen feeder depots—mainly Lancashire cheesemakers' premises—and re-allocated to other depots and to town dairymen situated near the production areas.

In Cheshire, Staffordshire and Derbyshire, two main supply and twelve feeder depots were closed, and the milk they had received from farms transferred to direct buyers in Liverpool, Manchester, Birmingham and Walsall. A further main supply depot had its milk intake substantially reduced. In north-east Leicestershire a group consisting of one main supply and ten feeder depots (the Stilton cheesemakers) had their milk re-directed to local town buyers. There were other odd redundancies in other parts of the country.

It is estimated that farm rationalisation saved 75,000 vehicle miles daily, of which about 45,000 miles was saved since the revised procedure was introduced on 1st October, 1942. About 2½ million gallons of petrol were saved annually. The Ministry of Food estimate that approximately 20 per cent. of the pre-war milk collection transport has been eliminated.

Farm rationalisation caused the disappearance of the chaotic conditions which existed before the war, in the purchase and conveyance of farm supplies, and brought about an orderly system of allocation of milk to buyers with centrally organised transport services. It also, speaking generally, had the effect of improving the quality of the milk on delivery to the buyer, owing to the shorter journeys from the farms.

At the end of the war, the movement of milk from farm to first destination was fully reorganised in all parts of England and Wales, with the exception of the north-eastern portion of the West Riding of Yorkshire, and north Derbyshire; Leeds, Bradford and Sheffield were the only sizeable consumer centres then drawing supplies from production areas only partially rationalised.

APPENDIX III

RATIONALISATION OF THE RETAIL DISTRIBUTION OF MILK

At the outbreak of war many dairymen were faced with the problem of reorganising their businesses because of the evacuation of their customers and the loss of staff to the Forces. In many instances this reorganisation was accompanied by or led to the first voluntary attempt at rationalisation of retail deliveries. Sometimes outlying customers were exchanged with other dairymen or given up altogether and in other cases areas were roughly zoned and the larger dairymen arranged large scale exchanges of districts. This trend was accelerated by the knowledge that rationalisation was being discussed by the Ministry of Food so that many more dairymen took the initiative and voluntary schemes were improved in scope and character.

The result of this was that when the Ministry of Food launched its scheme for the rationalisation of retail deliveries many dairymen were reluctant to co-operate on the grounds that they had already rationalised their deliveries as far as possible. Notwithstanding these early voluntary efforts, further considerable economies were achieved as will be seen from paragraph 9.

Rationalisation of the retail distribution of milk in Great Britain was officially introduced in order to secure the daily delivery of milk to households under war-time conditions with the utmost economy in the use of labour and transport. The Ministry's policy was decided after discussions with various sections of the trade—the Co-operative Movement, large scale distributors and small dairymen. Unanimous

agreement was reached that certain conditions would have to be observed by the Ministry and the trade if the latter were to accept responsibility for preparing and introducing rationalisation schemes in urban areas with a population of 10,000 or over.

Among the conditions on which rationalisation proceeded were the following:

- (a) All dairymen distributing milk by retail in an urban area with a population of 10,000 or more were required to form a wartime association.
- (b) All dairymen were to remain in business but if anyone declared himself unable or unwilling to carry on his post-rationalisation business, compensation would be arranged by wartime associations.
- (c) All dairymen were to receive the same gallonage under the Scheme as that to which they were entitled before the Scheme.
- (d) The Ministry would not require wartime associations to exchange registrations between the co-operative society and the private trade.
- (e) All registrations were frozen with existing dairymen.
- (f) Schemes were to be for the duration of the war.

Where, subsequent to the introduction of a rationalisation scheme, a business changed hands the retail registrations were automatically transferred to the purchaser. Where, however, the purchaser was a co-operative society consumers who were not members of any co-operative society at the date of purchase were allowed, on application, to transfer to a private dairyman within the rationalisation scheme. If the purchaser was a private trader consumers who were members of a co-operative society at the date of the purchase, were permitted, on application, to transfer to a co-operative society supplying the area.

While the initial responsibility for the preparation of schemes was placed upon the dairymen concerned, the Ministry continued to take an active interest and facilitated the work by the issue of circulars to Dairymen's Wartime Associations containing suggestions for the preparation of schemes and for the formation of associations and by the issue of other such circulars dealing with different aspects of the work as they arose.

The majority of schemes provided for the "block" delivery of milk, i.e., one private distributor and one co-operative society in any street or section of a street, but some were less rigid and allowed several distributors to deliver in the same "zone" which comprised a group of streets; in Carlisle a new and separate retailing company was formed comprising all the private dairymen including producer-retailers in the area. In some areas in which the "blocked" delivery system was in operation, arrangements were made to secure the delivery of T.T. and other special milk to such consumers as were purchasing them when the schemes were introduced, with the result that a third distributor was allowed. In all but two areas the schemes excluded the co-operative society, and registrations were therefore not transferred between the co-operative society and the private trade. Where, however, as in Manchester and Glasgow, there were several co-operative societies delivering milk in the same area, they were required to rationalise between themselves and eliminate any overlapping of delivery rounds.

When an association had prepared and approved a scheme, it was submitted to the Food Executive Officer who passed it to the Divisional Food Officer; at that stage it was examined by a panel of experts and, when approved by the Divisional Food Officer on the advice of the panel, it was passed back to the Food Executive Officer and was put into operation by the transfer of consumer registrations from one dairyman to another as required by the scheme, so that individual retailers were restricted to particular streets. The Emergency Powers of the Minister were used to provide for the transfer of consumer registrations.

In Great Britain there are 580 schemes in operation covering 680 areas (the apparent discrepancy in areas arises from joint schemes, including London, where one scheme covers 94 boroughs). Included in this number are 11 voluntary schemes covering 11 areas. Nearly 80 per cent. of the total population of Great Britain receive their milk under a rationalisation scheme. The Dairymen's Wartime Associations in six areas failed to produce schemes which were acceptable to either their members or the Ministry, and official schemes were, therefore, never put into operation.

It is estimated that over two million gallons of petrol per annum have been saved and over 7,000 vehicles of all types taken off the road. Nearly 11,000 men and women of all ages engaged in distribution of milk were made available for other

work. These estimates of the total savings which are based on the relative positions immediately before and immediately following the introduction of official schemes are summarised in Appendix IIIa. No account is taken of the earlier economies.

It is extremely difficult to assess the financial saving effected by the rationalisation of retail milk distribution. In March, 1945, the Ministry's Director of Costings estimated that, on the basis of a reduction of 25 per cent. in the number of rounds, the savings attributable to rationalisation, taking the trade as a whole, were something less than 1d. per gallon in roundsmen's wages and cost of transport on rounds.

Since the end of the war, Rationalisation Schemes have had to be modified in some instances to meet the following conditions:—

(a) Returning ex-servicemen who had previously been dairymen were, in certain circumstances, entitled to a licence to sell milk by retail and wartime associations have arranged for such persons to be allocated a share of the business in rationalised areas.

(b) New housing estates in, or adjacent to, a rationalised area have had to be provided for.

(c) The Minister accepted an interim recommendation of the Committee on Milk Distribution in April, 1947, that consumers being supplied with raw milk should on application be provided with heat-treated or Tuberculin Tested milk wherever possible.

APPENDIX IIIA

RATIONALISATION OF RETAIL DISTRIBUTION OF MILK

Summary of Manpower and Transport, before and after Rationalisation

GREAT BRITAIN (EXCLUDING LONDON)

Description	Actual figures for 401 Schemes			Estimated Total Reductions for all Areas	
	Pre-scheme	Scheme	Reduction		Per cent. of Pre-scheme
	No.	No.	No.	No.	
MANPOWER					
<i>Full Time</i>					
Men over 18 years	14,033	11,597	2,436	3,500	17
Men under 18 years	6,275	5,284	991	1,400	16
Women (all ages)	8,411	7,537	874	1,250	10
<i>Part Time</i>					
Men & Women (all ages) ...	12,797	11,471	1,326	1,900	10
TRANSPORT VEHICLES					
Hand Prams	7,807	6,528	1,279	1,850	16
Horse	8,128	7,434	694	1,000	9
Petrol	10,119	8,480	1,639	2,400	16
Electric	1,115	1,131	plus	—	—
MILEAGE (Per week)					
ALL VEHICLES	1,727,100	1,153,600	573,500	824,400	33
PETROL USED (Gallons per week)					
... ..	81,300	55,800	25,500	36,700	31

LONDON AREA

Description	Actual figures for 69 Schemes			Estimated Total Reductions for all Areas	
	Pre-scheme	Scheme	Reduction		Per cent. of Pre-scheme
	No.	No.	No.	No.	
MANPOWER					
Full Time					
Men over 18 years	5,609	4,637	972	1,400	17
Men under 18 years	907	600	307	400	34
Women (all ages)	2,644	1,998	646	900	24
Part Time					
Men & Women (all ages) ...	302	363	plus	—	—
TRANSPORT VEHICLES					
Hand Prams	2,071	1,641	430	600	21
Horse	2,572	1,949	623	900	24
Petrol	367	225	142	200	39
Electric	374	328	46	65	12
Cycles	520	302	218	300	42
MILEAGE (Per week)					
ALL VEHICLES	NOT AVAILABLE				
PETROL USED (Gallons per week)					
... ..	4,100	2,400	1,700	2,400	41

APPENDIX IV

FINANCIAL ARRANGEMENTS

The Period before Marketing Boards

Before the establishment of the Milk Marketing Boards, the level of producers' prices was determined by rough and ready agreements between representatives of producers, distributors and manufacturers, but prices and conditions of sale varied considerably from producer to producer. The trend of producers' prices did not necessarily follow closely that of retail prices because large quantities of the milk produced, particularly during the summer, were surplus to liquid requirements, and were manufactured into condensed milk, dried milk, butter and cheese, which had to be sold in competition with low priced milk products from overseas.

The margins for distribution during the decade before the introduction of the Boards remained fairly stable because the larger retailing concerns were able to "squeeze" the producers rather than permit any reduction in their own income. The functions and costs of milk retailing increased considerably. In most districts milk was then bottled and much was heat-treated, and these improvements, together with compliance with new Ministry of Health regulations added to the cost of distribution. Generally speaking, the public obtained a better service than previously but paid more for it. There was some undercutting, particularly by producer-retailers who were dissatisfied with wholesale contracts offered to them by the larger dairy companies, but it seems fairly certain that there were private agreements within the trade to deal with price cutting. Competition was based on offers of better service rather than lower prices. During the latter part of this period, prices of all food-stuffs were falling, and the trend of milk prices, both retail and wholesale, followed the same direction, but not to such a marked degree. World prices for milk products were at a particularly low level, and affected the prices paid for milk used for manufacturing purposes in Great Britain. In the winter of 1931/2 the lower producers' prices brought about a shortage of milk, and prices had to be raised by increasing the London retail price by 4d. per gallon in December, January and February. The annual negotiations between producers and distributors in England and Wales in 1932 ended in a deadlock, and the producers threatened a complete withdrawal of supplies.

Milk Marketing Boards Control

With the introduction of the Milk Marketing Schemes in 1933, the advantage in bargaining power passed from distributors to producers. The Boards had power to determine the prices at which milk may be sold by wholesale producers and producer-retailers. For the first two contract periods the English Board was unable to agree with the purchasers' representatives on prices and they were accordingly fixed by three "Appointed Persons". For the third contract period, covering the year October, 1934, to September, 1935, the Board was able to reach agreement with the buyers, but on terms which included a rise in the price payable to the Board for liquid consumption, also an increase in the distributors' margin. Thus, both parties to the agreement made gains at the expense of the consumer.

The Milk Marketing Schemes were essentially pooling arrangements. In England and Wales there were eleven regional pools. The Scottish Milk Marketing Board had a single pool. In both the Aberdeen and North of Scotland areas there were two pools, the higher level of price being applied to the producer's "basic" gallonage calculated according to his previous production during certain winter months, and a lower price to the remaining gallonage according to the average return obtained for surplus milk. (This differential price system was dropped during the war.)

The promise of greater stability of prices and the certainty of a market (the Boards were compelled to accept all milk offered by producers) caused more milk to be sent from the farms. This had a depressing effect on producers' prices generally, but there can be no doubt that on average the return to the farmer was higher than it would have been without the Scheme. The returns of producers located close to the main consuming centres, who had established themselves as suppliers of the direct liquid market, were, however, in many cases, lower, whereas the returns of farmers in the remoter areas, who previously had to be satisfied with a "manufacturing" price, were increased substantially.

The Boards were mainly interested in producers' prices, but at the request of distributors the English Board prescribed minimum retail prices (in four groups according to population—the lowest being in rural areas, and the highest in Greater London) which could be undercut only by an agreement between the majority of retailers in any particular district, confirmed by the Board. Before inserting the prescribed retail prices in the contract for each period the Board consulted the Consumers' Committee for England and Wales (which represents the interest of consumers generally), but this failed to prevent considerable criticism, from time to time, of the high cost of milk to the public. In Scotland the Boards also prescribed retail prices which were either fixed or minima. After the commencement of the Milk Marketing Schemes retail prices of milk rose to a far greater extent than other food prices.

In practice a large number of retailers did not enjoy the full margin, represented by the difference between the Regional (England and Wales) and Standard (Scotland) price and the minimum retail selling price, on all their trade, whilst others charged prices higher than the minimum prescribed by the Boards. Where milk passed through the hands of more than one distributor the margins had to be shared, while many distributors paid premiums to producers out of their margin, for quality, level delivery or other special services. Level delivery premiums were paid to some producers for meeting the dairyman's day-to-day requirements. A scale of minimum wholesale prices was also prescribed by the English and main Scottish Boards. The figures were highest in the case of small consignments, and in time of shortage the prices charged were frequently above the prescribed minima. Minimum semi-retail prices were prescribed for sales to caterers and other large consumers of milk. Some distributors paid premiums to producers for special kinds of milk, such as Channel Island, Tuberculin Tested, etc., which they sold to consumers at prices higher than the retail price of ordinary milk. Producers who retailed milk of their own production normally paid a levy to their Board, but their remuneration, on the basis of the retail prices less levy, was higher than the combined remuneration of a wholesale producer and a retailer. The main Scottish Board supplied the larger distributors (over 500 gallons daily) with all their requirements ex-farm or ex-depot at the same price. Milk required by smaller buyers over any ex-farm supplies which were allocated to them by the Boards, was purchased from wholesalers or producer-wholesalers (producers licensed by the Board to supply small retailers at a higher price than the ex-farm price), at a premium payable to the supplier from the distributive margin. There were no wholesalers in the areas of the Aberdeen and North of Scotland Boards, and milk was supplied to distributors ex-farm or from the Board's depots at the same price. The English and main Scottish Boards made allowances to owners of approved country depots for the transport of milk to consumer areas, which in most cases provided a margin of profit which was set against the costs of operating the depots, a function which was not then separately

remunerated. Subsidies were paid by the Agricultural Departments in respect of quality premiums allowed to producers of T.T. accredited and attested milk and towards the cost of the Milk-in-Schools Scheme.

The Early War Years

At the beginning of 1940 the system of price pools which had been operated by the Boards since 1933 was discontinued and replaced by one of guaranteed producers' prices. From then onwards there ceased to be any direct relationship between the prices paid to producers and the sums realised from the sale of their milk to distributors and manufacturers. In Appendix IVa, details are given for England and Wales of the weighted average prices which were paid to producers from 1938/39 onwards, the estimated overall cost of liquid milk distribution and retail prices. Appendix IVb shows the seasonal variations in average monthly prices paid to wholesale producers, and the monthly prices charged to first purchasers of non-designated milk for the liquid market in England and Wales for the years 1938/39 and 1946/47. During the period from 1st July, 1940, to 30th September, 1942, the margins of distributors were maintained at 1d. per gallon above those for the year 1939 except in the case of milk supplied under the Welfare Schemes. A margin of 10d. per gallon (9d. in Scotland until 31st March, 1941), was fixed for the National Milk Scheme when it was introduced in July, 1940, and the margin on milk supplied under the Milk-in-Schools Scheme was raised from 7d. to 8d. per gallon on 1st January, 1940, and then to 10d. per gallon on 1st May, 1941. Retail prices were increased by 4d. per gallon on 1st July, 1940, and by a further 4d. per gallon on 1st December, 1940, above the retail prices prevailing in the corresponding months of 1939. As from 1st October, 1943, the premiums paid by the Government to producers of Tuberculin Tested Milk were increased from 2½d. per gallon (1½d. in the case of producer-retailers) to 4d. per gallon, but at the same time the payment of premiums by distributors for Tuberculin Tested milk purchased "as such" was discontinued.

As a result of population movements and changes in the requirements of various consumer classes, particularly in England and Wales, many retailers who had in the past obtained most of their milk direct from producers found it necessary, during 1941, to pay premiums to wholesalers on large quantities of "accommodation" milk. The wholesalers in turn had insufficient supplies from their producers to meet the increased demand and had to pay premiums to depot proprietors and manufacturers in order to obtain milk from other areas. It soon became evident that special financial arrangements would have to be made in order to meet the position of retailers and wholesalers who were paying premiums on an increasingly large proportion of their intake, and to enable supplies to be moved more freely to areas in which the demand greatly exceeded the normal supply. For the year to 30th September, 1942, the Ministry held the position by fixing a maximum premium for sales of milk by one distributor to another, and making allowances to wholesalers on milk purchased by them at a premium for sale to other distributors.

From October 1942, new arrangements were introduced in England and Wales coincident with the revised marketing system, and with certain modifications they have continued to the present time. The changes in Scotland were not so extensive.

The Present Arrangements.

(a) England and Wales.

All milk sold off the farms in England and Wales (with the exception of retail sales by producer-retailers of milk of their own production and sales of T.T. (Certified) Milk) is purchased by the Milk Marketing Board at prices previously agreed by the Ministry of Agriculture in consultation with the Ministry of Food. In order to encourage winter production, these producers' prices are heavily weighted in favour of the winter months, the current prices in the South Eastern Region ranging from 1s 8½d. per gallon in June to 3s. 2½d. per gallon in December. In addition to these prices a temporary production bonus of 1½d. per gallon is payable on the first 400 gallons in each month produced and sold by each dairy farmer during the winter, and ½d. per gallon on the first 500 gallons in each month in the summer. The Board is responsible for carriage to the point of first destination and makes standard haulage deductions from the prices paid to producers. At the first destination the property in the milk passes instantaneously from the producer through the Board and the Ministry to the purchasing dairyman. The prices paid by the Ministry to the Board are calculated to be sufficient to cover the prices paid to producers, and the Boards' expenses, less profits from the Board's creameries, net levies of producer-retailers, and a contribution towards the cost of transport outwards from country depots.

All distributors, whether country depot proprietors, wholesalers or retailers, pay the same price for their milk (at present 2s. 5½d. per gallon) but wholesalers and retailers buying direct from the Ministry are paid an "ex-farm" allowance of ¼d. per gallon unless they fail to provide churns. The maximum retail price for non-designated milk is 3s. 4d. per gallon throughout the year, so the margin for the purely retailing function is 10½d. per gallon. Retailers in the London area are paid an additional ¼d. per gallon by means of a separate allowance, to cover the higher costs of retail distribution there. (These figures do not include the temporary ¼d. referred to in the footnote to para. 138.)

The following allowances are paid by the Ministry to the proprietors of country depots on consignments of milk despatched to consuming areas or diverted to factories for manufacture.

		<i>Rate of Remuneration in pence per gallon</i>	
First 1½ million gallons in each year	...	1.45	} Plus ex-depot transport allowances.
Remainder of milk ...	...	1.10	

On small consignments the depot proprietor has the option of claiming from the Ministry 1.60d. per gallon plus a transport allowance or 2¼d. per gallon without any payment for transport. In certain circumstances lower rates are paid to feeder depots.

Where milk is heat-treated by a depot proprietor a further allowance is paid of ¼d. per gallon, or ½d. per gallon if the milk is also bottled in the depot.

Except in the case of sales of small quantities of milk to shops wholesalers are remunerated by direct payment from the Ministry, the rate of remuneration depending on the operations performed, as follows:—

(a) on milk, other than milk sold as "Milk for heat-treatment," which is heat-treated and bottled by the wholesaler in the same premises: 2½d. per gallon.

(b) on milk, other than milk sold as "Milk for heat-treatment" which is heat-treated by the wholesaler, but sold unbottled, or bottled in separate premises: 2¼d. per gallon.

(c) on milk which is not covered by categories (a) and (b) above, but is handled in the claimant's dairy which is fully equipped with brine-cooling or other mechanical cooling plant: 2d. per gallon.

(d) on milk which is not covered by categories (a), (b) and (c) above: 1¼d. per gallon.

In certain cases where it is necessary for wholesalers to send milk for distances over 12 miles, exceptional transport allowances are also paid by the Ministry.

Wholesalers and depot proprietors may charge 2d. per gallon to retailers for supplying milk in bottles. (See footnote to para. 138.)

Allowances are also paid by the Ministry to retailers for the heat-treatment and bottling of milk. Where milk is heat-treated and bottled by retailers in the same premises, the heat-treatment allowance is 1¼d. per gallon. Where the milk is heat-treated by the retailer, but is sold unbottled, or is bottled in different premises, the allowance is ½d. per gallon. The Ministry does not pay more than one heat-treatment allowance on the same milk.

Allowances (varying from ¼d. to ½d. per gallon, according to the size of the consignment) are paid to wholesalers and retailers who have to collect milk from a railway station.

Where the Ministry authorises the use of milk for manufacturing purposes, rebates are allowed to the purchasers, which have the effect of reducing the cost of the milk so utilised to the appropriate price for milk manufactured into each class of product.

Premiums continue to be paid by the Boards (which receive reimbursement in full from the Ministry of Food) to dairy farmers who produce Tuberculin Tested, accredited or attested milk. No additional charge is made to the distributor for Tuberculin Tested milk but as the maximum retail price is 3s. 8d. per gallon he may enjoy an additional margin of 4d. per gallon unless he obtains the milk from a wholesaler when the extra 4d. is divided equally between the wholesaler and the retailer. Distributors may also contract with the producers from whom they receive their milk to pay premiums for special services rendered by the farmer for milk of special quality (e.g. Channel Island Milk).

Grants are paid to producer-retailers in order to give them the same increases in remuneration as other producers and retailers.

Under the National Milk Scheme (since renamed the Welfare Foods Service) which was introduced in July, 1940, every child under 5 and every expectant mother in England and Wales and Scotland is normally entitled to a pint of milk a day at a reduced price of 1½d. per pint (free where the income of the parents is below a certain figure). The dairyman obtains the full retail price for milk supplied under the scheme by making a claim upon the Ministry of Food for the difference between this and the amount paid to him by the beneficiary.

The Milk-in-Schools Scheme provides one or two one-third pints of milk per day (according to supplies available) for every child at school, free of charge. As in the case of the Welfare Foods Service, the retailer receives the full retail price.

(b) *Scotland.*

In Scotland producers' prices are fixed in much the same way as in England and Wales. The milk (other than that retailed by producer-retailers from their own production) is sold to, or through the agency of, the three Boards, and is not purchased by the Ministry of Food. Producer-retailers, as in England and Wales, receive grants to give them approximately the same increases in remuneration as other producers and retailers. Producer-wholesalers are licensed by the main Board to supply restricted quantities of milk to buyers, other than domestic consumers, at prices prescribed by the Boards subject to the directions of the Ministry.

The Boards normally arrange for the collection of milk from farms, the producers providing the churns. The Boards make transport deductions from producers at rates based on the distances between the farms and certain recognised centres, but no deduction is made if the producer delivers his milk. The Board employ hauliers to collect the milk. Rates for the haulage, in the area of the main Board, are fixed by agreement between the Scottish Hauliers' Association and the Ministry of Food. Milk which is sent by rail is charged by the railway companies at a flat rate per gallon within the area of each Board.

Creameries in the area of the Scottish Milk Marketing Board are paid handling allowances fixed by the Ministry of Food, of 1½d. per gallon in the winter months and 1¼d. per gallon in the summer months on milk forwarded to the consuming areas. The cost of transport from the creameries to the liquid market is paid for by the Board.

Maximum retail prices are prescribed by the Ministry of Food. They are not uniform throughout Scotland, or throughout the year.

The overall margin of wholesalers and retailers in the area of each of the Boards (i.e., the difference between the "first hand" or standard price at which milk is purchased by distributors, and the maximum retail price in force in the area at the time of the sale) is determined by the Ministry of Food. It is uniform throughout the year. In the area of the main Board the margin is 11d. per gallon, and in the other two Boards' areas it is 10½d. per gallon, exclusive of the temporary increase of ½d. referred to in the footnote to para. 138.

The minimum prices which wholesalers may charge to retailers are fixed after negotiation with the Ministry of Food. Within the area of each Board they vary according to the average daily quantity purchased by the retailer, and whether the milk is sold in bulk or in bottles.

The Boards pay a heat-treatment allowance, on behalf of the Ministry, to distributors who are licensed to heat-treat milk, at the rate of 1d. per gallon if the milk is both heat-treated and bottled on the same premises, or at ½d. per gallon if it is heat-treated but not bottled or is bottled in separate premises. An allowance at the rate of ¾d. per gallon is made to distributors in the area of the main Board who have to collect their milk from a railway station.

The deficiencies on the accounts of the Boards are met by the Ministry of Food.

There were certain special areas in Scotland which prior to the war were outside the scope of the Milk Marketing Schemes, but which have since been brought under control by orders issued by the Minister of Food under his Emergency Powers. These Emergency Schemes are administered by the Boards as agents of the Ministry of Food. For example Morayshire and certain of the Orkney Islands are administered by the North of Scotland Board, Banffshire by the Aberdeen and District Board and mid and north Argyll by the Scottish Milk Marketing Board. The prices in such areas, and the conditions of the Schemes, are those ruling in the area of the Board which administers them.

The benefits of the Welfare Foods Service and the Milk-in-Schools Scheme also apply to Scotland.

APPENDIX IVa

PRODUCERS' PRICES, THE ESTIMATED OVERALL COST OF LIQUID MILK DISTRIBUTION AND RETAIL PRICES FROM 1938/39 ONWARDS
(Non-designated milk)
England and Wales

Year (October/ September)	Average Prices Received by Wholesale Milk Producers				Estimated Overall Cost of† Liquid Milk Distribution		Retail Prices	
	Weighted average producers' price	Approx. average deduction for transport	Average net return to producers	Per cent. increase over 1938/39	Estimated overall cost	Per cent. increase over 1938/39	Estimated average Retail Prices	Per cent. increase over 1938/39
1938/39	Pence per gallon 12.95	Pence per gallon 1.43	Pence per gallon 11.52	—	Pence per gallon 11.5	—	Pence per gallon 27.5	—
1939/40	15.36	1.45	13.91	21	12.1	5	28.5	4
1940/41	18.98	1.52	17.46	52	12.4	8	34.8	27
1941/42	21.42	1.60	19.82	72	12.6	10	35.5	30
1942/43	22.31	1.63	20.68	80	12.6	10	35.7	30
1943/44	23.01*	1.15†	21.86	90	12.5	9	36.0	31
1944/45	23.37*	1.06†	22.31	94	12.7	10	36.0	31
1945/46	24.53*	1.05†	23.48	104	12.9	12	36.0	31
1946/47	26.24*	1.01†	25.23	119	13.2	15	36.6	33
Current Rates	28.72*	.90†	27.82	142	13.3§	16	40.0	45

Notes :—* In addition a temporary wartime production bonus has been paid as from 1st January, 1944. The bonus is equivalent to an average increase in price of approximately ½d. per gallon.

† Reduction due to use of part of extra penny per gallon paid by Ministry of Food for purpose of removing transport anomalies.

‡ Including all allowances made by the Ministry of Food or the Milk Marketing Board to milk distributors.

§ This does not include the temporary ½d. referred to in the footnote to para. 138.

APPENDIX IVb

MONTHLY AVERAGE PRICES PAID TO WHOLESALE PRODUCERS AND MONTHLY PRICES CHARGED TO PURCHASERS FOR THE LIQUID MARKET FOR THE YEARS 1938/39 AND 1946/47 SHOWING SEASONAL VARIATIONS (NON-DESIGNATED MILK)

England and Wales

Month	1938/39		1946/47	
	Weighted average* prices received by wholesale producers	Prices charged to first purchasers of milk for liquid market	Weighted average* prices received by† wholesale producers	Prices charged to first purchasers of milk for liquid market
October ...	pence per gallon 13.99	pence per gallon 17.00	pence per gallon 28.95	pence per gallon 25.25
November ...	15.10	17.50	35.10	25.25
December ...	15.47	17.50	36.49	25.25
January ...	15.30	17.50	36.11	25.25
February ...	15.11	17.50	33.61	25.25
March ...	14.08	17.00	29.84	25.25
April ...	12.86	16.00	23.26	25.25
May ...	10.31	13.50	17.83	25.25
June ...	10.35	13.50	17.78	25.25
July ...	11.82	16.00	19.46	29.25†
August ...	11.99	16.00	22.95	29.25
September ...	12.30	16.00	27.52	29.25

* Subject to deduction for transport.

† In addition producers received a special bonus averaging 1d. per gallon.

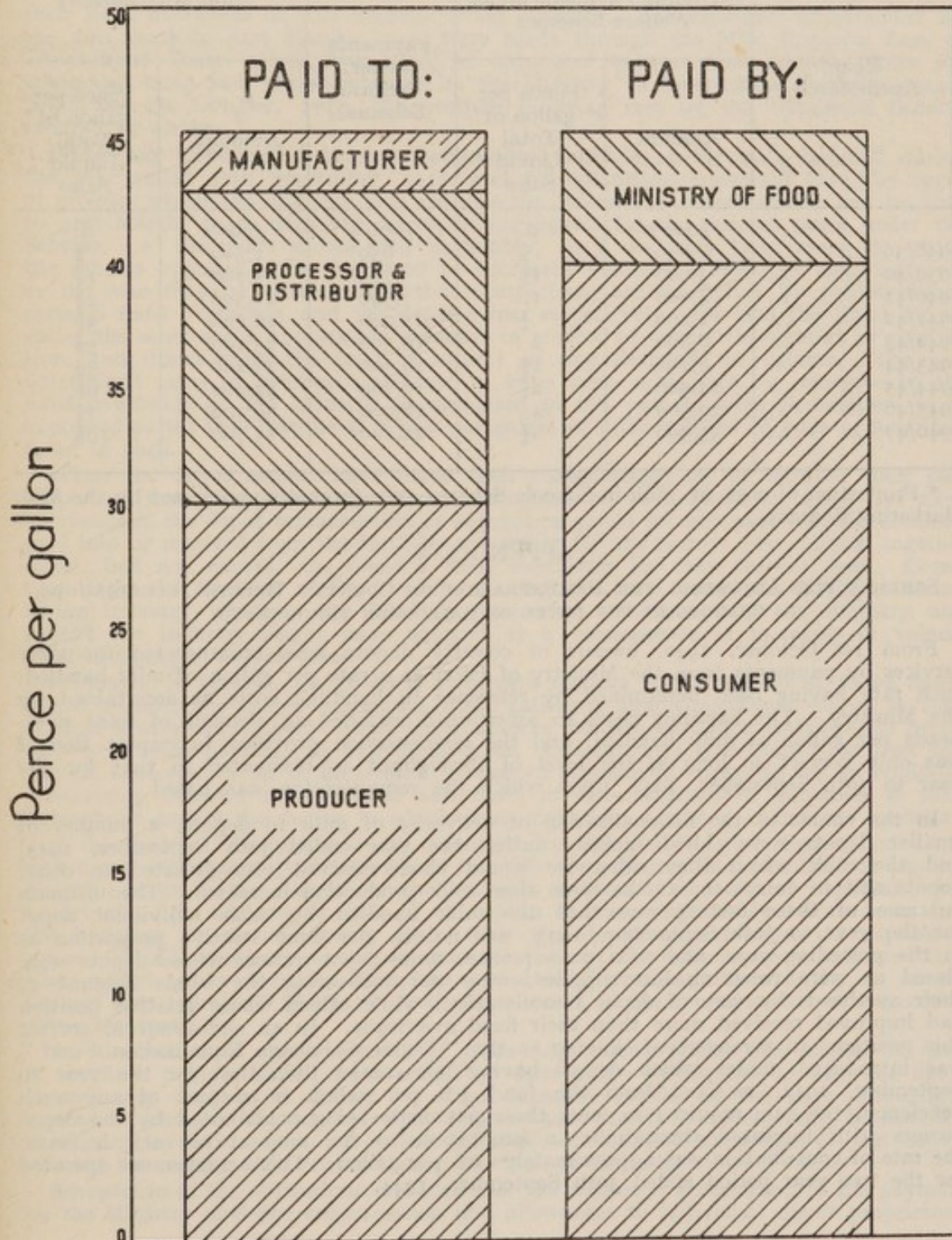
‡ Retail price increased by 4d. per gallon.

APPENDIX IVc

Relationship between the price of a gallon of milk to the domestic consumer in Great Britain, the Ministry of Food subsidy, and the remuneration of milk producers and distributors.

At the present time the ordinary domestic consumer pays approximately 40d. per gallon (the price is slightly less in Scotland) for his milk. The Ministry of Food subsidy is equivalent to a further 5½d. per gallon of which 2½d. is in respect of rebates to manufacturers of butter, cheese, condensed milk and milk powder. Milk producers and distributors between them obtain sums approximately equal to 43d. per gallon of which 30d. represents the producers' price while the balance of 13d. per gallon is shared between processors and other distributors. The position is illustrated in the two sketches below.

These figures do not include payments by the Ministry under the Milk-in-Schools Scheme or Welfare Foods Service, which, on the basis of the difference between the retail price and the sum payable (if any) by the beneficiary, amount to approximately 6d. per gallon of the total liquid sales throughout Great Britain.



During the financial year ended 31st March, 1947, the milk subsidy (excluding the overheads of the Ministry of Food) in Great Britain amounted to £33,500,000. The savings brought about by the 4d. per gallon rise in retail and wholesale prices from 1st July, 1947, have been offset to a large extent by increases in producers' prices after 31st March. In addition, payments by the Ministry of Food to suppliers of milk under the Welfare Foods Service and Milk-in-Schools Scheme now amount to about £30,000,000 a year, and would be considerably higher if the supply position permitted school children to receive 2/3rd pints per head per day. A statement giving the annual cost of Government subsidies on milk from 1938/39 onwards is given in Appendix IVd.

APPENDIX IVd

ANNUAL COST OF GOVERNMENT SUBSIDIES ON MILK PRODUCED IN GREAT BRITAIN
FROM 1938/39 ONWARDS

Year April/March	Subsidy excluding Payments under Welfare Schemes		Payments under Welfare Schemes	Total Milk Subsidy	
	Amount	Pence per gallon of Total " Liquid " Sales		Amount	Pence per gallon of Total " Liquid " Sales
	£000's	d.	£000's	£000's	d.
1938/39	850	$\frac{1}{2}$	650*	1,500	$\frac{1}{2}$
1939/40	5,000	$1\frac{3}{4}$	700*	5,700	$1\frac{3}{4}$
1940/41	4,000	1	7,500	11,500	$2\frac{7}{8}$
1941/42	1,100	$\frac{1}{4}$	15,000	16,100	$3\frac{3}{4}$
1942/43	8,800	2	16,300	25,100	$5\frac{1}{2}$
1943/44	8,100	$1\frac{5}{8}$	19,300	27,400	$5\frac{3}{4}$
1944/45	13,500	$2\frac{3}{4}$	18,700	32,200	$6\frac{5}{8}$
1945/46	20,500	4	18,900	39,400	$7\frac{3}{4}$
1946/47	33,500	$6\frac{1}{4}$	22,200	55,700	$10\frac{1}{2}$

* Proportion of cost of Milk-in-Schools Scheme only (excluding part met by the Milk Marketing Boards).

APPENDIX V

SCHEMES FOR ADJUSTING THE REMUNERATION OF COUNTRY DEPOTS ACCORDING TO
CHANGES IN THE LEVEL OF GALLONAGE THROUGHPUT

From 1st October, 1942, owners of country depots were remunerated for their services by payments from the Ministry of Food at a rate per gallon of milk handled, such rate having been determined by reference to handling costs as ascertained by the Ministry. The handling costs so ascertained included an element of fixed overheads per gallon of milk handled, and the remuneration provided in respect thereof was only correct so long as the level of throughput approximated to that for the year to 30th September, 1942, upon which the remuneration was based.

In the course of the rationalisation of deliveries of milk to depots, a number of smaller depots were closed (mainly during the year ended 30th September, 1943) and the milk which they otherwise would have received was diverted to other depots and to dairymen; at the same time milk production increased. The ultimate outcome of these factors was that the milk handled by each individual depot for the year to 30th September, 1943, was not in the same relative proportion as in the preceding year, and as a consequence, some depot owners whose depots were closed or were receiving less supplies, were not recovering the whole amount of their overheads by way of depot remuneration, while others whose relative position had improved received more than their fixed overheads. In an endeavour to correct this position, an arrangement, known as the " Depot Gallonage Equalisation Fund " was introduced, under which depots having less intake than that for the year to September, 1942, received from the fund $\frac{1}{2}$ d. per gallon in respect of any such deficiency, the sum required to meet these payments being contributed by the depot owners with increased throughput in proportion to the amount of such increase; the rate of contribution was approximately .1d. per gallon. This arrangement operated for the two year period ended 30th September, 1944.

Certain defects were brought to light in the operation of the scheme while, in addition, the rate of contribution by depots, whose throughput had increased, was something less than the estimated excess recovery of overheads by these depots. Further, where these depots were linked with manufacturing plants, they were also receiving in the acquisition price of milk products, or from the compensation schemes associated therewith, payments in respect of the overheads on idle operating capacity. In regard to this latter point, it is necessary to make some reference to the Products Schemes, since these Schemes and the liquid milk arrangement already referred to were combined into one scheme, which has operated for the year to 30th September, 1945, and which will operate for such subsequent years as may be agreed between the Ministry and the milk industry.

Since September, 1940, many milk products have been acquired by the Ministry at fixed acquisition prices which have been based on various costings carried out from time to time for the Ministry. In the main the element included in these prices to cover fixed overheads has assumed production at a level corresponding to that for the year to 31st March, 1940, but as production has at no time since reached that level, the acquisition prices have been insufficient to recover to manufacturers their fixed overheads on idle manufacturing capacity. The necessary adjustments for the two years to 31st March, 1944, were made through the Milk Products Loss of Throughput Trust, which was used to apportion between the manufacturers the additional lump sum made available by the Ministry to cover these short recoveries. From the 1st October, 1944, the position is being met by the Combined Scheme referred to above.

Under the Combined Scheme a comparison is made of the milk handled during the year ended 30th September, 1942, and the quantities converted into the types of product which the Ministry now requires the industry to manufacture for the year to 31st March, 1940, with the corresponding figures for the current years under the Scheme, i.e. the years ended 30th September, 1945, and any later years for which the scheme operates. The increased or decreased volumes handled or manufactured, as the case may be, disclosed by that comparison, are multiplied by predetermined rates of fixed overheads, and the depot owner respectively pays into the Fund set up under the scheme the appropriate amounts in respect of excess throughput or production, and draws from the fund in respect of any shortfalls in volume. The predetermined rates of overheads referred to have been calculated by reference to the fixed overheads of the industry as organised in the year to 30th September, 1943, expressed as the case may be at a cost per gallon of milk handled in 1942 or manufactured in 1940.

When the depot owners have made their contributions to, or received their participations from, the Fund, the amounts received by each owner in respect of fixed overheads in the depot remuneration or acquisition prices for any year and the amounts paid into or received from the fund by the owner for the current year, should together equal, but not exceed, the owner's fixed overheads for that current year. Correspondingly the Ministry of Food, while meeting the fixed overheads of the manufacturing industry whatever the level of production, recovers from the industry any benefit the industry might have enjoyed as a consequence of increases in volume handled acting to reduce costs.

Although, in general, the position of owners relative to the scheme is to be determined by reference to the comparison of the gallonage figures mentioned above, revision of such figures can be made where circumstances indicate that such revisions are necessary to prevent hardship in individual cases. Consequently it is considered that this scheme achieves, so far as an overall scheme of adjustment could do so, an equitable relationship between remuneration and costs in circumstances of variation in total throughput and in the degree to which those variations apply to individual operators.

If the costs of the industry are examined for the year to 30th September, 1945, or for any subsequent period in which the scheme operates, the contributions payable by the owners to the scheme, or the amounts derived by the owners therefrom, will be brought into account as costs or reductions in costs respectively before comparing the handling or manufacturing costs with the depot remuneration or acquisition prices. This is necessary as the adjustments through the scheme are so designed that when added to, or deducted from, the actual fixed overheads incurred by an owner, the net sum represents the fixed overheads element in the remuneration or acquisition prices received.

An alternative to the treatment of these adjustments under the scheme as part of the fixed charges of the depot would be that in any subsequent costings the figure of gallonage used as a divisor for fixed expenses should be the 1942 throughput instead of that for the current year; this method would, however, only be accurate if all depots were costed, or if the gallonage throughput variations of the depots selected for costing were representative of those of the industry as a whole.

Acceptance of the obligations or benefits of the scheme is a condition of the payment by the Ministry of depot remuneration and allowances to individual depot proprietors.

APPENDIX VI

COMPARATIVE STATEMENT OF GROSS AND NET MILK DISTRIBUTIVE MARGINS

The reports made by the several Committees appointed to investigate various matters relating to the milk industry from the time of the inception of the Milk Marketing Board in 1933, provided little information as to the net profits earned in distribution of liquid milk.

Committee of Investigation (Whitehead Committee), 1936.

The Whitehead Committee, which reported under date 2nd April, 1936, considered among other matters a contention of the distributors at that time that certain reductions proposed in the margin for the year to 30th September, 1936, should not be made, and in support of this contention the Central Milk Distributive Committee produced the accounts of 48 businesses prepared, in most cases, by accountants who gave evidence before the Committee. Of these 48 businesses 10 were situated in London and its suburbs, 20 in large industrial towns, 11 in smaller provincial towns and 7 in seaside towns. In the aggregate these distributive businesses dealt with 125,000,000 gallons of milk per annum for liquid sale, and it was submitted to the Committee that these businesses were a representative sample of efficiently managed distributive organisations.

In regard to the results shown by these accounts, the Committee stated that owing to the wide variation in conditions, and to difficult methods adopted in presenting the accounts, it was not possible to generalise with any certainty as to the profits or losses shown by the accounts, but quoted that businesses in London were shown to be making profits ranging from $\frac{1}{2}$ d. to 1d. per gallon, and those in Birmingham, Liverpool and Manchester to be making small losses, with the notable exception of two Birmingham businesses whose profits exceeded $1\frac{1}{2}$ d. per gallon.

It must be borne in mind that the evidence submitted by the distributors as to profits was directed to show that the industry could not afford to bear the reduction in the distributive margin proposed by the Milk Marketing Board.

In connection with the examination of the accounts considerable argument arose as to the basis of apportionment of expenses between the sale of liquid milk and other products in cases where this occurred, and while the Committee commended the detailed attempt at accuracy which had been made in certain cases, it stated that it did not feel an equal confidence in regard to the method of apportionment in some other cases.

The accounts submitted to the Committee were not published so that the only guide to the profit shown was the observation of the Committee, to which reference has already been made, that in certain instances the net profit margin varied from $\frac{1}{2}$ d. to $1\frac{1}{2}$ d. per gallon, while in other cases losses were shown. The Committee reported, on page 9, that the average distributive margin prescribed by the Milk Marketing Board for 1934/35 ranged from 8.25d. per gallon to 11.58d. per gallon according to the locality in which the distributive service was performed. The largest margin of 11.58d. per gallon applied to districts in the South Eastern Region where the population was in excess of 25,000. The margin applicable to areas in other parts of the country similarly populated was 10.92d. per gallon. The smallest margin of 8.25d. per gallon related to rural districts.

Report by Food Council on Costs and Profits of Retail Milk Distribution in Great Britain—1937.

Appended to the Report made by the Food Council to the President of the Board of Trade in 1937 is a tabular statement showing the net profits or losses per gallon on retail milk distribution, for accounting periods ending in 1937, of 33 businesses of varying types and sizes operating in London and the provinces. The gallonage distributed in each individual case is not given and, therefore, only simple average figures can be calculated, which are as follows:—

Area			No. of Distributors	Costs d.	Margin d.	Net Profit d.
London	...	...	9	10.498	11.410	.912
Provinces	...	...	24	9.531	11.110	1.579

Whilst the net profit shown appears to have been calculated according to the prevailing nominal margin for the year to 30th September, 1937, it is stated in the report that in order to give proper weight to the fact that for various reasons distributors did not realise the full margin available, the costs actually incurred by individual distributors whose figures were quoted had been adjusted, where necessary,

in order to make them comparable with what would have been shown if the distributor had bought on a "whole dairy" contract and sold it entirely in the ordinary retail market. It is also to be noted that in arriving at costs of distribution whatever profit had been made upon the sale of goods was applied in reduction of costs of liquid milk distribution, and presumably in any cases where this activity resulted in a loss the treatment was opposite in effect.

No information is given as to whether account has also been taken of the payment by distributors of premiums paid to producers for level delivery or special services, which would have to be discharged out of the gross realisable margin. No reference is made to freight rebates or transit risk allowances received by depot-owning distributors, but it is possible that these have been excluded, together with the costs of operation of the depot.

Committee appointed by Minister of Food—1940.

No detailed information in regard to pre-war costs and profit margins were published by the Committee appointed by the Minister of Food in 1940, but reference was made to the reports of earlier Committees and also to an investigation by the Director of Costings of the Ministry of Food, as well as information provided by certain Co-operative Societies. The investigation by the Ministry of Food's Director of Costings related to a claim made by distributors for an increase in margin on account of additional costs arising from wartime circumstances. The enquiry was very limited in its scope, its primary object being to ascertain the amount of any increased costs arising from the before-mentioned causes and the extent to which this position had been counter-balanced by wartime economies in delivery services. The information obtained in regard to profit margins could not be considered to be representative of the industry, although it included two of the largest London distributors. In their report to the Minister, the investigating Committee computed a notional cost and concluded that an adequate margin for milk distribution, including an allowance of 1d. per gallon for interest on capital and profit, would be 8d. per gallon.

Cost Investigations by the Ministry of Food for each of the 4 years to 30th September, 1946.

At the time of the inception of Ministerial control of direction of milk, and also by virtue of its being in short supply, a change in the price structure became necessary. In place of the overall margin, freight rebates and other allowances, the remuneration of distributors was placed on a more functional basis. The margin between the buying price and the retail selling price was reduced in most instances below what had previously existed, but made applicable to the retailing function only. Wholesalers of milk obtained their remuneration from the Ministry by way of allowance on the buying price in respect of milk re-sold to other distributors, and in the earlier years of control retailers whose daily purchases of milk were in excess of a prescribed gallonage also received an allowance (known as the "self-wholesaling allowance") somewhat less in amount than the wholesale allowance. Country depot proprietors were also remunerated by the Ministry at a rate per gallon of milk handled in substitution for the transit risk and rail rebates hitherto received by them.

A. Retail Distribution

The scope of the enquiry which the Ministry of Food has conducted into costs and margins earned in respect of liquid milk distribution for each of the 4 years to 30th September, 1946 has been on a far greater scale than any of the pre-war investigations conducted by the various Committees appointed. The gallonage of milk distributed by retailers whose operations were examined was approximately equivalent to one-fourth of the total distribution in the whole of England and Wales. The information obtained as to realised margins, costs and net profits, can be briefly summarised as follows:—

<i>Year to 30th Sept.</i>	<i>No. of Distributors</i>	<i>Realised Margin d.</i>	<i>Average Costs d.</i>	<i>Net Profit d.</i>
1943	156	10.443	8.582	1.861
1944	150	10.244	8.509	1.735
1945	130	10.525	8.807	1.718
1946	120	10.789	8.878	1.911

The above figures are simple average calculations obtained by aggregating the average figures per gallon for each business and dividing the total by the number of businesses concerned.

The realised margin shown above is that applicable to the retailing service, as distinct from the wholesaling service and the country depot service, but includes the self-wholesaling allowance up to the time of its discontinuance, the heat-treatment allowance, the ex-farm allowance in respect of direct milk and the additional margin allowed to London distributors. The realised margin falls short of the maximum retail margins on account of the sale of relatively small quantities of milk, usually to institutions and catering establishments, at less than the prescribed retail price; but where this type of trade represents a considerable proportion of the distributor's total trade, it has been customary for such a business to be excluded from the costing summary as unrepresentative. No deduction is made from the margin, nor is any sum included in the costs, in respect of dividend payments to members of co-operative societies in respect of milk purchased.

Premiums received and paid in respect of special milk are excluded, as also are any additional costs associated with the handling of these milks in so far as they can be separately ascertained. Any profits arising from the sale of goods have been excluded, which matter is of less importance than hitherto as the volume of goods handled by distributors has diminished considerably by comparison with the pre-war position.

While simple average figures calculated in the manner described may provide an indication of the overall position in the industry, it is necessary also to have regard to the individual figures of which the average is composed.

The disparity shown in the operating costs of the undertakings examined, as reflected in the net profits, is not necessarily an indication of relative efficiency, but possibly, to a considerable extent, is the outcome of external causes. For instance, in densely populated areas it is possible to deliver a greater gallonage of milk for a given outlay than is the case where the area is sparsely populated, a position which has been accentuated by the rationing of supplies; also, if the terrain of the delivery area is hilly higher costs are likely to result. Another cause of high costs is the acceptance of bulk supplies of milk at main line railway sidings, involving additional expense in its transportation onwards to points from which delivery can be economically conducted by roundsmen. The volume of semi-retail or wholesale trade undertaken in association with the retail business also affects both costs and margins.

B. Wholesale Distribution

No attempt has been made in reports of earlier Committees to deal with the costs and profits arising from the wholesaling of liquid milk, presumably because at that time this function was not separately remunerated, and whatever was received therefor was obtained from other distributors out of the overall margin. As already mentioned, since the inception of Ministerial control, wholesalers in England and Wales have been remunerated in respect of the wholesaling function by an allowance, and the following statement shows the margins, costs and net profits per gallon, as arrived at by means of a simple average calculation in respect of the businesses examined for each of the 4 years to 30th September, 1946 by the Ministry of Food. The figures relate to wholesalers in two categories, namely, those whose business is primarily that of wholesaling and those where the business is combined with retailing, but in this latter case the figures given relate only to the wholesaling activity of the business.

Wholesalers				No. of Distributors	Realised Margin d.	Cost d.	Net Profit d.
1943	...	...	...	15	2.305	1.861	.444
1944	...	...	...	18	2.267	1.893	.374
1945	...	...	...	18	2.438	1.952	.486
1946	...	...	...	12	2.525	2.054	.471
Combined Wholesaler and Retailer					d.	d.	d.
1943	...	...	...	18	2.437	1.768	.669
1944	...	...	...	17	2.345	1.773	.572
1945	...	...	...	18	2.576	1.962	.614
1946	...	...	...	15	2.722	1.977	.745

The realised margins include, in addition to the wholesalers' allowances from the Ministry of Food, any proceeds in respect of semi-retail sales of milk to parties other than distributors such as catering establishments and institutions. It also includes the heat-treatment allowance where the milk has been so treated, but it does not include receipts from distributors for bottling milk nor the costs applicable thereto.

C. Country Depots

The following is a summary of the income, costs and net margins calculated on a simple average basis for country depots in England and Wales:—

Year to 30th Sept.	Income d.	Costs d.	Margin d.
1943	1·314	·903	·411
1944	1·223	·994	·229
1945	1·419	1·076	·343
1946	1·403	1·084	·319

The income shown comprises depot remuneration, including additional sums received in respect of sales of small consignments and heat-treatment allowances where claimed. The figures do not include income from the operation of transport nor the costs applicable thereto.

APPENDIX VII

THE NATIONAL MILK TESTING AND ADVISORY SCHEME

The National Milk Testing and Advisory Scheme was introduced in England and Wales in June 1942, under the auspices of the Ministry of Agriculture and Fisheries, mainly for the purpose of improving the standard of quality of milk produced on farms. The Scheme provides for the testing of ex-farm milk by the Resazurin test and the rejection of milk below market grade by the first buyer. The advisory service is extended to dairy farmers generally, but special machinery exists for advice and help to dairy farmers whose milk has been rejected.

The Scheme falls into three parts. The first part deals with the testing of ex-farm milk and the bacteriological examination of churns returned to producers. For the purpose of testing ex-farm milk dairies are divided into two categories, over-datum dairies with an intake of over 2,000 gallons a day, or receiving milk from more than a hundred producers, and under-datum dairies below these minima. Over-datum dairies are expected to set up their own laboratories for the sampling and testing of ex-farm milk. Two tests are used, the Standard Routine Test carried out twice monthly on every producer's milk, reports of failures being sent to the County Agricultural Executive Committees and the producers concerned, and the Platform Rejection Test which is a 10 minute Resazurin test on milk suspected by the platform examiner, or which has failed in the Standard Routine Test. Failures are reported as in the Standard Routine Test, and milk not of marketable quality is returned to the producers. The laboratories and the milk testers are certificated by the Provincial Supervisor working under the general technical guidance of the Provincial Advisory Bacteriologist. In the case of under-datum dairies, the sampling is carried out by certificated samplers on the Provincial Supervisors' staff.

Dairies with licensed laboratories are also encouraged to make routine bacteriological examinations of churns returned to producers. Check testing of the cleanliness of all churns, whether washed mechanically or by hand, is carried out by Provincial Supervisors' staff, who advise the dairies of the results.

The second part of the Scheme is concerned with advisory work among producers. Responsibility for this advisory work among milk producers following reports of rejected milk lies with the County Agricultural Executive Committees, the supervision of the work being entrusted to a Sub-Committee. All the interests concerned are represented on the Sub-Committee: National Farmers' Union, Milk Marketing Board, Distributors, County Councils, Health Authorities, Provincial Advisory Bacteriologist and the Ministry of Agriculture. If a producer persists in sending unsatisfactory milk, notwithstanding the advice and assistance rendered under the National Milk Testing and Advisory Scheme he may be reported to the local Sanitary Authority for action under the Milk and Dairies Regulations or he may be warned by the Milk Marketing Board that they will consider terminating their contract to purchase his supplies and, in particularly bad cases, they may do this.

The third part of the Scheme is concerned with dairies. Apart from the improvement in the cleanliness and keeping quality of ex-farm milk arising from the testing of the milk, and the advisory work on farms, the Scheme also provides an advisory service on the efficiency, from a bacteriological standpoint, of the handling of supplies in dairies. At the invitation of a dairyman the Provincial Supervisors' staff will undertake the sampling of pasteurised milk, the bacteriological examination of washed bottles, plant, and milk tankers, and give general advice on the bacteriological control of dairies.

Each aspect of the Scheme's activities is supervised by Sub-Committees of the Advisory Committee on Milk (Keeping Quality) Control, which is the central Committee supervising the work of the Scheme generally. The Milk Distribution Sub-Committee is responsible for the advisory work in dairies, and for dealing with reports from Provincial Advisory Bacteriologists and County Agricultural Executive Committees about unsatisfactory condition of churns returned to producers.

The National Milk Testing and Advisory Scheme is complementary to the work undertaken by Local Authorities in the enforcement of Milk and Dairies Regulations. It seeks to improve by encouragement and advice. Some Local Authorities, through the Medical Officer of Health or Sanitary Inspector may also be in a position to advise dairy farmers and dairymen, and in such cases co-operation between the interests concerned avoids unnecessary overlapping. The fundamental difference between Local Authorities and the Scheme is, however, that the former are concerned with the enforcement of regulations, whereas the latter are advisory and educative.

In Scotland an experimental scheme was introduced in 1946 by the Department of Health for Scotland.

APPENDIX VIII

MILK WELFARE SCHEMES

National Milk Scheme (Welfare Foods Service).

Before the 1939/45 war, special milk welfare schemes were operated by the Milk Marketing Board in certain depressed areas, under the provisions of which the families of unemployed men could obtain milk at the reduced price of 2d. per pint. In 1939, by arrangement between the Departments concerned and the Milk Marketing Board, the schemes were put on a national footing, local authorities being invited to submit schemes within an agreed framework. Progress was slow, however, and in June, 1940, it was announced by the Government that coinciding with an increase in the retail price of milk by $\frac{1}{2}$ d. per pint, a National Milk Scheme would be introduced as soon as possible permitting every child under five and every expectant mother to buy one pint of milk a day at 2d. per pint, or free of charge in certain cases. Dairymen were asked to give priority of supplies to beneficiaries under the scheme and in the autumn of 1941, the Milk (Scheme of Supply) Order gave them statutory priority entitlement.

Consumption of milk under the scheme in England and Wales has risen from under 93 million gallons during the first twelve months of its operation to approximately 162 million gallons during the year ended 31st March, 1947.

The success of the scheme and other nutritional measures, influenced the Government in 1945 to include it (and the Milk-in-Schools Scheme) in the permanent social services. In the spring of 1946 it was decided that the two welfare milk schemes should be regarded, as benefits-in-kind, as forming part of the Family Allowances.

As from 21st July, 1946, the National Milk Scheme was renamed the Welfare Foods Service, in association with other benefits-in-kind such as vitamins for children, and the price chargeable to beneficiaries was reduced from 2d. to $1\frac{1}{2}$ d. per pint, except where on the grounds of low income the milk is provided free of charge.

Milk-in-Schools Scheme.

Under the provisions of the Milk Acts 1934/39, pupils attending schools and certain other centres of instruction recognised for grants by the Board of Education were entitled to receive milk at a price of $\frac{1}{2}$ d. per one-third pint. The cost of the Scheme was borne partly by the Milk Marketing Board and partly by the Ministry of Agriculture. No maximum quantity was stipulated but in practice most schools served only one-third of a pint per pupil per day although in some cases two-thirds of a pint was provided. Where the children could be assembled it was permissible for milk to be given during week-ends and holiday periods but, according to evidence available, little use was made of this arrangement.

The provisions of the Milk Industry Act 1939 expired on 30th September, 1940, but the Scheme was continued under the direction of the Ministry of Food, and as from August 1942, the benefits were extended to private schools. During the war years there was a considerable increase in the number of participants under the Scheme and the quantity of milk consumed in England and Wales rose from just under 27 million gallons in 1938/39 to nearly 41 million gallons in the year ended March, 1947.

As from 6th August, 1946, the Milk-in-Schools Scheme became identified with the arrangements for payment of family allowances and milk is now available free of charge to all school children whether attending grant-aided or independent schools. Owing to the supply position, the permitted quantity per child is limited to one-third of a pint per day at the present time except in the case of pupils attending Nursery Schools and Special Schools for delicate children. When conditions allow the permitted quantity will be increased to two-thirds of a pint for all school children.

The Scheme provides for the milk to be supplied to the schools in one-third pint bottles, with straws.

Prices and Margins.

When the Milk-in-Schools Scheme was introduced the dairy trade agreed to distribute the milk for 6d. per gallon, but this was raised to 7d. per gallon on 1st October, 1938, and to 8d. per gallon on 1st January, 1940. The distributive margin under the Milk Marketing Board's special pre-war welfare schemes in depressed areas was 8d. per gallon. When the National Milk Scheme was introduced in July, 1940 it was agreed that a distributive margin of 10d. per gallon should be allowed and on 1st May, 1941, the Milk-in-Schools margin was raised to this figure. As from 1st October, 1942, distributors received the full retail price for milk supplied under the two schemes, together with any allowances to which they were entitled from time to time under the other arrangements described elsewhere.

Cost of Schemes.

The total payments made to dairymen in England and Wales under the two schemes are as follows:—

Year (April/March)				Milk-in-Schools Scheme	National Milk Scheme
				£,000's	£,000's
1938/39	...	...	...	1,200	—
1939/40	...	...	...	900	—
1940/41	...	...	...	1,500	5,100
1941/42	...	...	...	2,900	10,600
1942/43	...	...	...	3,900	10,600
1943/44	...	...	...	4,400	13,100
1944/45	...	...	...	4,300	12,500
1945/46	...	...	...	4,200	12,800
1946/47	...	...	...	5,200	14,800

The cost of the Milk-in-Schools Scheme will be considerably higher when the total milk supply warrants school children being allowed two-third pints per head per day.

Scotland.

Similar arrangements to those outlined above also apply to Scotland, where milk consumption under the Milk-in-Schools Scheme has risen from 2,481,000 gallons in 1938/39 to 5,065,000 in 1946/47.

The total payments made to dairymen in Scotland are:—

Year (April/March)				Milk-in-Schools Scheme	National Milk Scheme
				£,000's	£,000's
1942/43	...	...	...	420	1,270
1943/44	...	...	...	410	1,490
1944/45	...	...	...	400	1,490
1945/46	...	...	...	380	1,430
1946/47	...	...	...	610	1,600

APPENDIX IX
LIST OF COUNTRY DEPOTS

Summary

	England and Wales	Scotland	Great Britain
<i>Depots Operating—</i>			
With Manufacturing Facilities ...	152	22	174
Without Manufacturing Facilities ...	53	2	55
Total	205	24	229
<i>Depots Closed—</i>			
With Manufacturing Facilities ...	42	4	46
Without Manufacturing Facilities ...	11	—	11
Total	53	4	57

DEPOTS OPERATING

WITH MANUFACTURING FACILITIES

England and Wales

Allen & Hanburys Ltd.	Ware
Ambrosia Ltd.	Lapford
" " " " " " " " " " " "	Lifton
Anglesey & Caernarvonshire Farmers Dairies Ltd.	Bangor
Aplin & Barrett Ltd.	Crewkerne
" " " " " " " " " " " "	Frome
" " " " " " " " " " " "	Sparkford
" " " " " " " " " " " "	Wellington
" " " " " " " " " " " "	Yeovil
Bee Bros. Ltd.	Bay Horse
Bladen Dairies Ltd.	Milborne St. Andrew
Border Dairy Co. Ltd.	Carlisle
Cadbury Bros. Ltd.	Bangor-on-Dee
" " " " " " " " " " " "	Frampton
" " " " " " " " " " " "	Knighton
" " " " " " " " " " " "	Marlbrook
Cannington Dairies Ltd.	Cannington
Catchall Dairy Co. Ltd.	Sancreed
Cheddar Valley Dairy Co. Ltd.	Axbridge
Clover Dairies Ltd.	Willoughby
Colston Bassett & Dist. Dairy Co. Ltd.	Colston Bassett
Cooke Bros. (Tattenhall) Ltd.	Tattenhall
Co-operative Wholesale Society Ltd. ...	Basford Bridge
" " " " " " " " " " " "	Chaigley
" " " " " " " " " " " "	Congleton
" " " " " " " " " " " "	Cricklade
" " " " " " " " " " " "	Ffairfach
" " " " " " " " " " " "	Fole
" " " " " " " " " " " "	Gloucester
" " " " " " " " " " " "	Hanley Castle
" " " " " " " " " " " "	Llanharan
" " " " " " " " " " " "	Louth
" " " " " " " " " " " "	Macclesfield
" " " " " " " " " " " "	Melksham
" " " " " " " " " " " "	Rhyl
" " " " " " " " " " " "	Stocksfield
" " " " " " " " " " " "	Stowmarket
" " " " " " " " " " " "	Whitby

DEPOTS OPERATING—WITH MANUFACTURING FACILITIES—(cont.)

Daws Creameries (Saltash) Ltd.	...	Saltash
" " " "	" "	Totnes
Dinsdale J. & Sons	... ..	Dent
Dobson's Dairies Ltd.	... ..	Barnoldswick
Dried Milk Products Ltd.	... ..	Aller, Nr. Langport
" " " "	" "	Beaminster
" " " "	" "	Carmarthen
" " " "	" "	Haverfordwest
" " " "	" "	Newcastle Emlyn
" " " "	" "	Northallerton
" " " "	" "	Wincanton
Duchess of Devonshire Dairy Ltd.	... ..	Tiverton
Edwards H. & Son Ltd.	... ..	Pipe Gate
Express Dairy Co. Ltd.	... ..	Brailsford
" " " "	" "	Earl Sterndale
" " " "	" "	Faringdon
" " " "	" "	Frome
" " " "	" "	Great Rowsley
" " " "	" "	Reapsmoor
Express Dairy (Northern) Ltd.	... ..	Dewsbury
Four Crosses Creamery Ltd.	... ..	Llanymynech
Garstang Creameries Ltd.	... ..	Garstang
Glaxo Laboratories Ltd.	... ..	Driffeld
Gleave, H. J.	... ..	Macclesfield
Goodwin, T. H.	... ..	Whitchurch
Graingers Dairies Ltd.	... ..	Bridlington
Grimshaw & Culshaw Ltd.	... ..	Scorton
Hanson, J. & Sons Ltd.	... ..	Sandycroft
Hanwood Dairies Ltd.	... ..	Bicton Heath
Horlicks Farms & Dairies Ltd.	... ..	Ilminster
" " " "	" "	Taunton
" " " "	" "	Walronds Park
Horners Wm. Creameries Ltd.	... ..	West Cuddington
Isle of Wight Creameries Ltd.	... ..	Newport, I. of W.
Jones, Exors. of T. W.	... ..	Market Drayton
Kirkby Malzeard Dairy Co. Ltd.	... ..	Kirkby Malzeard
Kraft Dairies Ltd.	... ..	Middlewich
" " " "	" "	Ruyton
" " " "	" "	Whittington
Lancashire Cheesemakers Ltd.	... ..	Fleetwood
Libby, McNeill & Libby Ltd.	... ..	Milnthorpe
London Co-operative Society Ltd.	... ..	Fen Ditton
" " " "	" "	Worle (Puxton)
Long Clawson Dairy Ltd.	... ..	Long Clawson
Lunesdale Farmers Ltd.	... ..	Barbon
Mapstone, R. G.	... ..	Glastonbury
Masham Farmers Dairy Co-op. Society Ltd.	... ..	Masham
Mendips Purity Milk Co. Ltd.	... ..	Chew Stoke
Midland Counties Dairy Ltd.	... ..	Kilkewydd
Milk Marketing Board	... ..	Aspatia
" " " "	" "	Bamber Bridge
" " " "	" "	Camborne
" " " "	" "	Crudgington
" " " "	" "	Newbury
" " " "	" "	Norwich
" " " "	" "	Pont Llanio
" " " "	" "	Sturminster Newton
" " " "	" "	Wem
Nestles Milk Products Ltd.	... ..	Ashbourne
" " " "	" "	Carlisle
" " " "	" "	Chippenham
" " " "	" "	Salisbury
" " " "	" "	Staverton
" " " "	" "	Tutbury
Newhall Dairies Ltd.	... ..	Aston
Nuttall, J. M. & Co. Ltd.	... ..	Hartington
Palmer, E.	... ..	Darley
Phillips, E. & Son	... ..	Okeford Fitzpaine

DEPOTS OPERATING—WITH MANUFACTURING FACILITIES—(cont.)

Prideaux, C. & G. Ltd.	Castle Cary
" " " "	Evercreech
" " " "	Lydlinch
" " " "	Shillingstone
" " " "	Stalbridge
Primrose Dairy (Cornwall) Ltd. ...	St. Erth
Proctor, Mark Ltd.	Longridge
Pye James Ltd.	Kirkham
Rawles Parkhouse Dairies Ltd. ...	Minehead
Rileys Dairies Ltd.	Hull
Rowntree, A. & Sons Ltd.	Middleham
Saundby Dairy Co. Ltd.	Saundby
Somerset Farm Institute	Cannington
South Western Dairies Ltd.	Henstridge
" " " "	Sherborne
Southwicks Wholesale Dairies Ltd. ...	Holme-on-Spalding Moor
Torridge Vale Dairies (Devon) Ltd. ...	Torrington
Towy Valley Dairy Co. Ltd.	St. Clears
Trehear Dairy Co. Ltd.	Helston
Trufood Ltd.	Wrenbury
United Dairies Wholesale Ltd.	Bailey Gate
" " " "	Cockett, Glam.
" " " "	Whitchurch
" " " "	Wootton Bassett
" " " "	Wrexham
Vale of Clwyd Creamery Ltd.	Corwen
" " " "	Llandyrnog
Wathes, Cattell & Gurden Ltd. ...	Minsterley
Watson, Mrs. M. G.	Waltham-on-Wold
Wensleydale Dairy Products (Askrigg) Ltd.	Askrigg
" " " "	Hawes
West Marton Dairies Ltd.	West Marton
West of England Creamery	Highbridge
Wilts. United Dairies Ltd.	Bason Bridge
" " " "	Bourton
" " " "	Buckingham
" " " "	Carmarthen
" " " "	Chard
" " " "	Eggington
" " " "	Ellesmere
" " " "	Hemyock
" " " "	Melksham
" " " "	Sweptstone
" " " "	Uttoxeter
" " " "	Whitland
Yatton & Wrington Vale Co-op. Society Ltd.	Yatton

Scotland

General Milk Products Ltd. ...	...	Dumfries
Nestles Milk Products Ltd. ...	...	Dunragit
Northern Wholesale Dairies Ltd. ...	...	Sanquhar
Scottish Co-op. Wholesale Society Ltd.		Bladnock
" " " " "		Stranraer
" " " " "		Whithorn
Scottish Milk Marketing Board ...	...	Benniecarrigan
" " " "		Dalbeattie
" " " "		Galloway
" " " "		Hogganfield
" " " "		Kirkcudbright
" " " "		Mauchline
" " " "		Port William
" " " "		Sandhead
" " " "		Stewarton
Scottish Milk Powder Co. Ltd. ...	...	Kirkcudbright
" " " "		Mauchline

DEPOTS OPERATING—WITH MANUFACTURING FACILITIES—(cont.)

United Creameries Ltd.	Campbeltown
" " "	Colfin
" " "	Kirkmichael
" " "	Sorbie
United Dairies (Scotland) Ltd.	Dumfries

WITHOUT MANUFACTURING FACILITIES

England and Wales

Bladen Dairies Ltd.	Crediton
" " "	Dorrington
" " "	Swindon
Co-operative Wholesale Society Ltd. ...	Chepstow
" " " " "	Llanrwst
" " " " "	Somerby
" " " " "	Trecynon
" " " " "	Wallingford
" " " " "	Witham
Craven Dairies Ltd.	Birstwith
Dried Milk Products Ltd.	Lostwithiel
Express Dairy Co. Ltd.	Appleby
" " " " "	Billingshurst
" " " " "	Horam
" " " " "	Leyburn
" " " " "	Seaton Junction
Express Dairy (Northern) Ltd.	Tarvin
London Co-operative Society Ltd. ...	Bridgnorth
" " " " "	Buckingham
" " " " "	Bulkington
Meirion Creameries Ltd.	Rhydymain
Mid-Norfolk Dairies Ltd.	Wymondham
Milk Marketing Board	Capel Dewi
" " " " "	Egremont
" " " " "	Llangefni
" " " " "	Nesscliffe
Nestles Milk Products Ltd.	Aylesbury
" " " " "	Congleton
" " " " "	Thorney
South Caernarvonshire Creameries Ltd.	Pwllheli
South Eastern Farmers Ltd.	Etchingham
" " " " "	Glynde
" " " " "	Headcorn
" " " " "	Mayfield
" " " " "	Petersfield
Tuxford & Tebbutt Ltd.	Melton Mowbray
United Dairies Wholesale Ltd.	Banbury
" " " " "	Calveley
" " " " "	Chippenham
" " " " "	Corfe Castle
" " " " "	Dunchurch
" " " " "	Halesworth
" " " " "	Maiden Newton
" " " " "	Moreton-in-Marsh
" " " " "	North Elmham
" " " " "	North Kilworth
" " " " "	Pontypool
" " " " "	Salisbury
" " " " "	Semley
" " " " "	Yetminster
Wilts. United Dairies Ltd.	Ellastone
" " " " "	Harby
Wright, Keith, Ltd.	Fenstanton

Scotland

Northern Wholesale Dairies Ltd. ...	Lockerbie
Scottish Milk Marketing Board ...	Restalrig

DEPOTS CLOSED

WITH MANUFACTURING FACILITIES

England and Wales

Ann's Farmhouse Ltd.	...	Cropwell Bishop
Ball, J. H. & Son Ltd.	...	Ellel
Bamber, T. & Sons	...	Balderton
Bee Bros.	...	Goosnargh
Bee Bros. Ltd.	...	Condor Mill
" "	"	Gt. Eccleston
" "	"	Wyresdale
Birchall, S.	...	Audlem
Birmingham Dairy Co. Ltd.	...	"
Bostock, B. S. Ltd.	...	Merifield
Broughton, J. F. Ltd.	...	South Petherton
Colton, S. & Sons	...	Nottingham
Cooksons (Minshull) Ltd.	...	Church Minshull
Cowpe, J.	...	Goosnargh
Cowpe, J.	...	Inglewhite
Darnhall Dairy Ltd.	...	Winsford
Emberlin & Co.	...	Wymeswold
Fylde Creamery Ltd.	...	Garstang
Hockenhull, R.	...	Shavington
Hoyle, J. E.	...	Inskip
Knight, H.	...	Seagrave
Morrey, S. Ltd.	...	Hill Chorlton
Melton Mowbray Dairy Farmers Ltd.	...	Melton Mowbray
Metcalfe, W.	...	Alston
Miller, Ball & Toulmin Ltd.	...	Chipping
Milk Marketing Board	...	Saighton
Newton Dairy Ltd.	...	Newton
Norrish, R. S. & Sons Ltd.	...	Sampford Peverell
Prideaux, C. & G. Ltd.	...	Mere
" "	"	Motcombe
Rowe, Thos. (Model Dairies) Ltd.	...	Inskip
Sandham, J. J.	...	Myerscough
Scalford Dairy Ltd.	...	Scalford
Singleton, Mrs.	...	White Chapel
Staffordshire Dairies Ltd.	...	Madeley
Summers Dairies Ltd.	...	Wrenbury
Thornhill, H. F.	...	Betley
Tonking, J. H. Ltd.	...	Crowlas
Webbington Dairies Ltd.	...	Webbington
Webster's Dairies	...	Saxelby
West Country Creamery	...	Warminster
Wolfen Mill Dairy Co. Ltd.	...	Chipping

Scotland

Scottish Milk Marketing Board	...	Dalry
" " " "		Galston
" " " "		Strathern
United Creameries Ltd.	... ..	Tarff

WITHOUT MANUFACTURING FACILITIES

England and Wales

Birchall, Mrs. H.	Whitchurch
Co-operative Wholesale Society Ltd. ...	Longford
Devon & Dorset Dairies Ltd.	Bridport
Emberlin & Co.	Dalby
Harby Farmers Dairies Ltd.	Harby
Long Clawson Dairy Co. Ltd.	Hose
Milk Marketing Board	Land's End
South Eastern Farmers Ltd.	Kirdford
Stathern & District Dairy Ltd.	Stathern
United Dairies (Wholesale) Ltd.	Bromley Hayes
West Country Creamery	Horsington

Scotland

NONE

APPENDIX X

INTERIM RECOMMENDATIONS

To the Right Hon. JOHN STRACHEY, M.P.,
Minister of Food.

24th January, 1947.

SIR,

1. We were asked by your Parliamentary Secretary to make interim recommendations on the following matters, namely:

(a) whether or not the present system of rationalisation of retail deliveries of milk should be retained for a further limited period;

(b) if retail rationalisation is continued for the time being, whether any relaxation can be introduced, and particularly whether consumers can be given the right to change from a dairyman supplying only raw milk to a dairyman who can supply either heat-treated or T.T. milk.

2. We understand retail rationalisation to mean the blocking or zoning of milk delivery rounds; that is to say, the exchange of dairymen's consumer registrations undertaken during the war to reduce overlapping of deliveries, to increase the number of customers served per delivery round, and to reduce mileage. There were no exchanges of consumers between co-operative and private dairymen.

Rationalisation schemes are in operation, with six exceptions, in all towns in Great Britain having a population of over 10,000, and nearly 80 per cent. of the total consumers draw milk in rationalised areas.

The most effective schemes (approximately one-half of the total) are those in which only two dairymen—a co-operative society and a private dairyman—are permitted per street, or section of street. In about one-sixth, more than two dairymen, usually three, are allowed per street. These are termed "block" schemes.

The remaining one third are "zonal" schemes; they are less rigid and permit several distributors to deliver in a defined zone or group of streets.

3. We are not yet able to assess the value of the economies effected by rationalisation, or the further savings brought about by the discontinuance of twice-daily deliveries and the restriction of other services. Further, we are not yet clear to what extent the discontinuance of rationalisation alone, that is the blocking or zoning of deliveries, would lead to the more expensive pre-war services.

4. In regard to the first matter remitted for our consideration—the retention or discontinuance of retail rationalisation—we are not ready to make final recommendations on the future structure of the milk industry, and the nature and extent of the control which should be exercised over the distribution of milk. We must, therefore, defer an opinion on the question of retail rationalisation in relation to future distribution policy, but there are certain immediate considerations which lead us to recommend that rationalisation should be maintained as a short term policy.

5. The main purpose of withdrawing rationalisation would be to give the consumer freedom to change his dairyman as frequently as he wished, and to restore competition between retailers. We are however convinced that if the Government is to fulfil its obligation to priority consumers, and maintain fair shares for other consumers, control of consumption through the registration of consumers with dairymen will be necessary while milk for liquid consumption remains in short supply.

While we do not accept the view that retail rationalisation must necessarily remain in force until supplies of milk are unrestricted, we realise that if it were abandoned there would be a strong temptation to retailers to supply, or offer to supply, consumers with more than their permitted allowances in order to retain existing customers or to attract new ones.

We are satisfied that re-registration could not be permitted more often than twice a year, for administrative reasons, and to avoid a breakdown in the control of milk supplies. Thus, in any case, we could only recommend the withdrawal of rationalisation on conditions under which a choice of dairymen could not be exercised by consumers except at fairly long intervals.

6. We are informed that it is very desirable that de-rationalisation, if agreed, should coincide with the beginning of the new rationing year, and with the season of maximum production. We have also been told that at least six months' notice should be given

to distributors in order that they may provide for changes in manpower and vehicle requirements, and to allow the trade in general to make the necessary adjustments to operate under a system of free competition. Moreover, we should not feel justified in recommending any non-essential use of resources for distribution while there is an acute national need for the maximum use of manpower in the production field.

7. We therefore cannot recommend that retail rationalisation should end next July. We do not feel able to judge how long the foregoing immediate considerations, which have led us to this conclusion, will apply but we shall present our final recommendations before a decision must be taken to end or retain rationalisation in July, 1948, which would be the next most convenient opportunity to make a change.

8. We have given considerable thought to the possibility of permitting some relaxation of rationalisation while retaining the general framework, but we have reached the conclusion that there is no immediate practical alternative to keeping the schemes more or less as they are at present, or discontinuing them.

Where more than two dairymen are now operating in a block area or zone, it might be possible to allow restricted re-registration, but in areas where rationalisation has been more thoroughly carried out by the trade, that is where deliveries are restricted to one co-operative and one private dairyman, there is no scope for permitting satisfactory relaxation, for so limited a choice would not be regarded by the public as adequate.

Thus, no appreciable advantage would accrue to the consumer in half the scheme areas, which cover much the larger proportion of the total "rationalised" consumers, and we cannot suggest any satisfactory expedient by which greater benefit could be given.

9. Notwithstanding what we have already said, we are of opinion that special consideration should be given to the case of consumers who are prevented by retail rationalisation from obtaining other than raw milk, particularly in view of the Government's announced intention to introduce legislation to implement its safe milk policy. We feel strongly that such consumers should no longer be prevented from changing from a dairyman whose milk is by definition unsatisfactory to one who will supply a more satisfactory article.

RECOMMENDATIONS.

10. We therefore recommend:

(1) that any consumer whose dairyman is unable or unwilling to supply heat-treated or T.T. milk, should be given the right to re-register with another dairyman who will undertake to supply heat-treated (or T.T. milk if it can reasonably be made available).

In rationalisation areas, the appropriate class of milk should, where possible, be supplied by a dairyman already delivering in the block area or zone, and the consumer should be free, but not obliged, to change from a private dairyman to a co-operative society or vice versa. If essential, the consumer should be able to choose a dairyman in a nearby block area or zone, subject to the approval of the Food Executive Officer, and such dairyman should be permitted to deliver outside his present rationalised area for this purpose.

(2) that in all other respects the rationalisation schemes be maintained in their present form.

I have the honour to be, Sir,

Your obedient Servant,

(Signed) W. D. A. WILLIAMS (Chairman).

APPENDIX XI

The following organisations and individuals submitted written memoranda of evidence and also gave supplementary oral evidence to the Committee:—

The Ministry of Health

W. A. Lethem, Esq., M.C., M.D.

The Ministry of Agriculture and Fisheries

F. Grant, Esq., O.B.E.,
J. A. McGilvray, Esq., C.B.E.,
A. D. J. Brennan, Esq.,
J. Holmes, Esq.

The Ministry of Food

E. C. U. Wilson, Esq.
and officers of
Milk and Milk Products Divisions

Department of Agriculture for Scotland

L. G. Davidson, Esq.,
E. E. Hunter, Esq.

Department of Health for Scotland

R. Howat, Esq.,
T. Bell, Esq.

The Milk Marketing Board

Sir Thomas Baxter,
S. Foster, Esq.,
R. F. Daly, Esq.,
H. Ebdon, Esq.,
Ben Hinds, Esq., J.P.

Scottish Milk Marketing Board

Sir George Wilson,
T. G. Henderson, Esq.,
A. M. Farquharson, Esq.

Aberdeen Milk Marketing Board

J. Wilson, Esq.

North of Scotland Milk Marketing Board

W. O. Monro, Esq.,
H. G. Johnston, Esq.,
M. M. Bryan, Esq.

The British Medical Association

J. Fenton, Esq., C.B.E., M.D., Ch.B., M.R.C.P., D.P.H.,
A. L. Abel, Esq., F.R.C.S.,
N. England, Esq., M.D., D.P.H.,
Miss A. V. Kelynack, M.D.

The People's League of Health

Sir William Savage, B.Sc., M.B., M.R.C.S., L.R.C.P., D.P.H., M.D.,
Sir E. Graham Little, B.A., M.D., F.R.C.P., M.R.C.S., M.P.,
Professor H. D. Kay, C.B.E., D.Sc., Ph.D., F.R.S.,
R. J. Maule Horne, Esq., M.D., M.A., Ch.B., B.Sc., D.P.H.,
Miss Olga Nethersole, C.B.E., A.R.R.C.,
Miss Gladys Kitchener (Secretary).

The Central Milk Distributive Committee

S. Clifford, Esq., O.B.E.,
W. Bird, Esq.,
J. Corina, Esq.,
C. Evans, Esq.,
J. Morgan Evans, Esq.,
Lt.-Col. W. B. V. H. P. Gates, M.B.E.,
F. N. Gingell, Esq., O.B.E., J.P.,
C. M. Jacques, Esq.,

The Central Milk Distributive Committee—(continued)

J. S. McQuillin, Esq.,
 A. H. Mould, Esq.,
 W. A. Nell, Esq.,
 Tudor H. Price, Esq.,
 R. S. Worth, Esq., C.B.E.,
 V. O'Neill, Esq.,
 P. O'Neill, Esq.,
 Miss J. McNally.

N.F.U./M.M.B. Joint Producer-Retailer Committee

Sir Thomas Baxter.
 R. F. Daly, Esq.,
 J. L. Davies, C.B.E., M.Sc.,
 G. Garner, Esq.,
 A. Greig, Esq.,
 R. J. Humphries, Esq.,
 W. L. Keen, Esq.,
 A. B. Quinney, Esq.,
 Capt. C. G. Y. Skipwith.

Co-operative Milk Trade Association

J. Corina, Esq.,
 C. Evans, Esq.,
 C. W. Fulker, Esq.,
 C. Jacques, Esq.,
 A. G. Peddie, Esq.,
 G. Rex, Esq.,
 G. Walworth, Esq., M.A.,
 N. Wood, Esq.

National Association of Creamery Proprietors and Wholesale Dairymen

H. W. Clements, Esq.,
 N. B. Ashworth, Esq.,
 E. Dobson, Esq.,
 Lt.-Col. W. B. V. H. P. Gates, M.B.E.,
 V. Holman, Esq.,
 J. S. McQuillin, Esq.,
 G. J. Parr, Esq.,
 Tudor H. Price, Esq.,
 I. C. Robertson, Esq.,
 R. S. Worth, Esq., C.B.E.,
 S. Clifford, Esq., O.B.E.,
 Miss J. McNally.

Scottish Milk Trade Federation

George P. Ross, Esq.,
 R. T. Armour, Esq.,
 F. J. Burns Reid, Esq., B.L.,
 Arthur Pitman, Esq.,
 William D. Smith, Esq.,
 John Stevenson, Esq.,
 John Walker, Esq.

Scottish Association of Milk Product Manufacturers

D. B. Rogers, Esq.,
 W. D. Barbour, Esq.,
 H. F. Bond, Esq.,
 F. J. Burns Reid, Esq., B.L.,
 H. Pegge, Esq.,
 A. Pitman, Esq.,
 George P. Ross, Esq.,
 W. D. Smith, Esq.,
 W. H. Weston, Esq.

Trades Union Congress

J. Benstead, Esq.,
 J. A. Birch, Esq.,
 F. Cousins, Esq.,
 A. C. Dann, Esq.,

Trades Union Congress—(continued)

E. Fletcher, Esq.,
J. D. Hiscock, Esq.,
A. Holmes, Esq.,
S. Pengilly, Esq.

The Corporation of Glasgow

Baillie William Reid,
Baillie E. Hunter,
Dr. Stuart Laidlaw, B.Sc., M.D., D.P.H., B.L., D.P.A.,
Councillor McLachlan,
Dr. A. Millar, M.D., D.P.H.,
A. M. Stewart, Esq.

Dairy Appliance Manufacturers and Distributors Association

Trevor Atkinson, Esq.,
B. L. Proctor, Esq.,
E. J. Shearer, Esq.

Dairy Engineers' Association

J. S. Clayton Marshall, Esq.,
J. Matthews, Esq.,
P. K. MacKenzie, Esq.

The Society of Dairy Technology

Professor H. D. Kay, C.B.E., D.Sc., Ph.D., F.R.S.,
A. G. Enock, Esq.,
F. Procter, Esq., M.A.

Individuals

A. S. Horsley, Esq.,
J. K. Murdoch, Esq., O.B.E.,
F. Procter, Esq., M.A.,
Professor G. S. Wilson, M.D., F.R.C.P., D.P.H.,
Mrs. D. Brown,
Mrs. E. M. Draisey,
Mrs. L. E. Jones,
Mrs. E. Marriott,
Mrs. E. L. Watson,
Mrs. M. Yates.

Organisations who submitted written evidence only

The Railway Executive Committee,
National Federation of Milk Producer Retailers
The Association of Municipal Corporations.





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appointed by
the Minister of Food
to examine
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