

Co. - say this 'U' here
about - Cont
CF.

CONFIDENTIAL

mm m.

Qa 04145

To: MR LANKESTER
From: SIR KENNETH BERRILL

R
Does C.S. aim?

Milk Marketing

1. The Prime Minister has received copies of the correspondence between the Minister of Agriculture, the Chancellor of the Exchequer, the Secretary of State for Trade, and the Secretary of State for Scotland on a possible review of the system of marketing milk in this country. Broadly, Mr Walker is in favour of a study confined to the narrow issue of the method of calculating the distribution margin for liquid milk. Some of his colleagues argue for a much wider (though unspecified) review.

2. How wide the review should be depends on whether one takes the system as it now is and looks only at one obvious abuse (the cost-plus system of calculating the distributors' margin which means that they can pass any wage increase straight through to the consumer - this is Mr Walker's approach) or whether one takes a more wide-ranging review, in part because increases in imported milk threaten to undermine existing arrangements. The European Court may give judgement next month on the legality of the United Kingdom Milk Hygiene Import Regulations. If the decision is adverse there may be little alternative but to have a look at the system as a whole. In the view of the CPRS there is much to be said for waiting until that judgement is received before taking decisions on the scope of any review.

The Present Milk Marketing Board System

3. The Milk Marketing Board (MMB) operates in the United Kingdom as a monopoly with sole rights over the sale of milk both to distributors and to the manufacturers of dairy products. This Government supplements this with an effective control (through hygiene regulations) over milk imports. UK dairy farmers regard the MMB as having provided countervailing 'producer power' to match the power of the large distributors and manufacturers. They view



CONFIDENTIAL

the MMB as an essential mechanism to provide them with adequate and stable returns. UK Governments have also found it useful as a machinery for importing low cost produce (particularly Commonwealth dairy products).

4. Membership of the EEC poses a potential threat to the traditional role of the MMB. EEC membership means that we cannot import large quantities of cheap dairy produce and the European Court may limit control over liquid milk imports from the EEC. Such imports, together with increased UK liquid milk production, could well present the Board with much bigger problems over liquid milk sales than it has had to face in the past.

5. There is a contrast between the position on liquid milk and that of dairy products. The range of dairy products available to the UK consumer is continuously increasing and this, together with rising incomes, means rising consumption of most dairy products. In contrast the range of choice of liquid milk is very limited (e. g. low fat milk is hard to get) and the consumption of liquid milk is falling, at a time when total UK production is rising. Substantial imports of fresh milk could complicate the picture, with large food chains in the UK negotiating direct contracts with EEC suppliers quite outside the MMB system. This would undermine the door-step delivery now universal in England and Wales.

6. In such a situation a wide review would be needed. The Treasury and the Department of Trade want a wide review though they have not indicated the terms of reference they have in mind. One obvious area for study would be the effect of increased milk imports on our institutions and attitudes. The case for allowing UK milk producers to sell liquid milk directly to food stores to be sold alongside imported milk; the case for allowing UK milk producers to sell a wider range of 'standardised milk' and 'as it comes from the cow' to compete with the range of imported milk; how the MMB would adapt to all this.



CONFIDENTIAL

7. Quite apart from the scope of the review there is the issue of who should conduct it. The Treasury and the Department of Trade believe that on all past experience an internal review would be heavily producer orientated and not provide an impartial consideration of the options.

8. In the view of the CPRS the best course would be to postpone a decision on the form of the review until we have the judgement of the European Court and can see more clearly the problem of increased import of liquid milk. If the problem appears a major one then there is a strong case for an external and wide-ranging review of the system for distributing liquid milk in the United Kingdom. If the Prime Minister agreed, she might put this view to her colleagues.

9. I am sending a copy of this minute to Sir John Hunt.

KR

15 June 1979