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CABINET

LIQUID MILK PRICES AND THE FUTURE OF MILK MARKETING

Memorandum by the Minister of Agriculture, Fisheries and Food

I am in disagreement with some of my colleagues over the handling of milk prices.

2. For a long time, Governments have controlled the price of milk to protect consumers, to stabilise prices so as to encourage consumption of liquid milk, protect the doorstep delivery system and reduce the amount of butter and skimmed milk powder going into intervention. Now that we are admitting imports of ultra heat treated milk, the need for price control to protect consumers will become less. I would like to get away from this piece of Government intervention, as has already happened in Scotland. But such a decision needs careful preparation and staging if we are not to destabilise the whole market. Nevertheless, I am prepared to enter now into consultation with the interests concerned with a view to bringing milk price control to an end within a reasonable period of time.

3. However, such a move is bound to raise wider questions about our milk marketing arrangements. In spite of derogations negotiated some years ago, the Milk Marketing Board (MMB) has never fitted easily into the Community milk regime. Its activities are now coming under intense legal and other pressure from the Commission, egged on by other member states who are greedy for a larger share of the historically open United Kingdom market. Changes in the Board's pricing arrangements will have to be made. This is in hand. These will be controversial enough but anything which appears to undermine the existence of the Board is bound to arouse immense opposition in the agricultural industry and Parliament. The MMBs have long been regarded as the jewel in the crown of agricultural marketing. At risk is milk production in remote and hill areas; the availability of cheap fresh milk in the inner cities; and the whole regional balance of agriculture. I am willing to look at the issues involved but I am sure that we must proceed with the utmost circumspection if we are to avoid a major political row.

4. In the meantime, we must be ready to operate the present system. The retail price of milk last went up in November 1982. We avoided any increase last autumn. The latest review of the situation shows a sharp fall in producers' net margins to about half the level in the last two years

of the Labour Government and an even more gloomy outlook for 1984-85. My proposal is to raise the retail price by a further 1p and then to hold it at that level until at least March 1985.

Against this proposal, colleagues have argued that:

a. A retail price increase is not yet justified, particularly as the distributors have been overpaid to date and will only move into deficit in the summer. I believe that the results of the latest review fully justify an early increase in the retail price and that what I have proposed is modest especially given the fall in producers' incomes. However, in order to meet my colleagues I am prepared to put it off until 3 June: though the cost of this delay will fall entirely on milk producers. My revised proposals are annexed.

b. The proposed milk price increases would weaken our Common Agricultural Policy (CAP) negotiating position. I do not accept this. Liquid milk prices have been going up faster in most other member states than in the United Kingdom and the average returns to our producers from milk sales are already lower than in most other member states, reflecting our low butter and cheese prices. Although we must continue to fight hard in Brussels to get the CAP milk surplus down, I see no justification for unilateral action against our producers.

6. Our agriculture industry faces some tough prospects, especially on milk with the likelihood of a superlevy, as we wrestle with the problems of the CAP. They are sufficiently realistic to accept this. But there is no point in alienating them unnecessarily. Nor do we want to bring the whole pack of cards down on our heads. I therefore invite colleagues to agree:

a. with my revised proposals for adjusting prices as set out in the Annex with the retail price increase effective from 3 June;

b. that I should indicate, in announcing the changes, that the Government now intends to consult interested parties with a view to decontrol of milk prices by the end of 1985 at the latest;

c. that I should examine the future marketing arrangements for milk in consultation with other Departments and bring forward my recommendations for discussion with colleagues by the summer.

M J

Ministry of Agriculture, Fisheries and Food

26 January 1984

Detailed proposals

- (i) a liquid milk retail price increase of 1p per pint from 3 June 1984. This would represent an annualised increase of only 3.1% compared with the Treasury estimate of a year-on-year inflation rate of around 5.5% in the first half of 1984: and I would not plan any further increase until March 1985;
- (ii) a maximum wholesale price increase of 0.58p per litre (0.33p per pint) from 1 March - this would give producers a little over half of the proceeds of the retail price increase and should leave the distributors neither overpaid nor underpaid at the end of March 1985 (but with an agreement that if there is then an amount owing to or owed by the distributors it should be written off);
- (iii) an increase in the dairy trade's target rate of profit, as established under the arrangements agreed with the Treasury in 1982, from 0.9048 ppl to 0.9860 ppl;

Financial Implications

The effects on production and consumption will be very small. I expect them to add about £13m to the estimated cost of intervention in 1984/85 of £479m. This cost will of course be recouped when the produce is eventually sold.

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