PRIME MINISTER

LIQUID MILK PRICES

The arrangements for pricing and distributing milk are bizarrely different from those applying to any other industry; they involve uniform farm gate prices, unrelated to transport costs; monopoly boards, a distributors' cartel with assured profit margins. It is no surprise that milk is expensive in this country.

The case for dismantling this system is made stronger by three considerations:

i. our approach to competition policy (and indeed, to economic policy generally) which the Policy Unit has suggested should be developed with emphasis on major items of the household budget - housing, travel and food;

ii. the overriding need to reduce the community milk surplus, by drastic means if necessary (freeze on intervention prices, a super levy). We shall soon be in surplus ourselves, but in any case, we are part of the Community market: additional UK milk has contributed to the CAP's financial problems;

iii. the admission of imported milk.

It is important that the statement prepares the industry for these changes. As drafted, it conveys exactly the opposite impression: that the Government will see the industry right, in cosy discussions with "the interests concerned", without even mentioning the CAP. Whether a price increase is granted or not, we think that the penultimate paragraph might be redrafted as follows, taking in the Chancellor's suggestion:

"I do not intend to make further changes to these maximum milk prices until the early part of 1985. I have taken a longer perspective than usual in making these price determinations [or: "this decision"] because I am aware of the impending changes in the circumstances of the dairy industry, arising from the admission of imports and the need to take important

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decisions about the future of the CAP. I shall be reviewing the position thoroughly next summer and autumn with a view to deciding on whether and if so in what form statutory controls over milk prices should apply from the spring of 1985."

The Chancellor does not agree to any increase in the retail milk price. Since it was part of our negotiating position in Athens that the levy should be accompanied by a three-year freeze of the intervention price, it seems odd to contemplate increases in the liquid milk premium. The "potential difficulty" which the Chancellor mentions in relation to distributors' margins is that if, under the Binder Hamlyn arrangements, these are increased, while the retail price is not, this will imply a reduced nominal wholesale price. If the retail price is not increased, it might be necessary (and fair as between distributor and supplier) to suspend the Binder Hamlyn arrangements.

We cannot be seen to be encouraging our own dairy farmers to produce more while we are still trying to reduce the Community's milk surplus. We recommend no immediate increase in the retail price of milk.

NICHOLAS OWEN
20 December 1983