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Secretary of State for Trade and Industry

11 January 1984

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries & Food
Ministry of Agriculture, Fisheries & Food
Whitehall Place
London SW1

Prime Minister

To note. A paper on this will come to E(A) next week

AT 11/11

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Dear Minister,

LIQUID MILK PRICES

I have seen copies of the correspondence resting with Geoffrey Howe's minute to you of 29 December.

2 I strongly support the view that we should examine very carefully whether the existing system of control over liquid milk pricing, and the Milk Marketing Board's monopoly, is any longer right or necessary. Milk is a sector in which, on the face of it, our system of regulation is plainly at odds with our wider policy of achieving economic efficiency through competition and the mechanism of free market forces. What is more, there is evidence that it has provided a sheltered environment within which restrictive agreements between the dairies have flourished. Some seventy of these have recently been uncovered by the Director General of Fair Trading, who will be taking them before the Restrictive Practices Court. I understand that they involve most of the major dairies, cover different parts of the country, and provide for restrictions of competition in such fields as pricing and tendering for milk supplies to local authorities and hospitals. Against this background, and while acknowledging the popularity of the doorstep delivery system, I think it essential for us to have a searching look at the merits of our system of regulation, before conceding the need for any milk price increase.

3 More generally, the trend in the retail price of fresh milk compared with food retail prices as a whole seems to me to underline very clearly the impressive - and depressing - lesson of uncompetitive pricing in an over-regulated and over-subsidised sector. Over the ten years since January 1974, the retail price of fresh milk has risen by 278.4 per cent, compared with a rise of 214.5 per cent for food generally; and although the differential is less marked in the last five years, it has



remained, with fresh milk retail prices rising by 56.6 per cent, compared with 51.3 per cent for food generally. These figures speak for themselves. I see the regular need to increase milk prices as a clear consequence of the continuing subsidy to producers.

4 I am sending copies of this letter to the Prime Minister, Nigel Lawson, Geoffrey Howe, George Younger, Jim Prior, Nicholas Edwards and Sir Robert Armstrong.

Yours sincerely

M McCarthy

*(approved by the Secretary of State,
and signed in his absence)*

NORMAN TEBBIT

AGNC Milk Pt 2

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71 JAN 1984