



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Prime Minister.

PRIME MINISTER

Do you wish to consider in E(A) on Thursday whether and how to conduct a fundamental review of the Milk Marketing Board, as the Chancellor suggest?

MILK MARKETING ARRANGEMENTS AND THE THREATENED FEOPA
DISALLOWANCE

A.F.C. 18.1

The Minister of Agriculture sent me a copy of his minute of 13 January.

2. I agree with Michael Jopling that we must take urgent steps to minimise the risks of disallowance over the years since 1978 and to remove the possibility of building up further risks in future. Even if the threat of disallowance of 1978 and 1979 expenditure is averted, the sums potentially at risk for subsequent years are extremely large: the Intervention Board for Agricultural Produce has spent over £1 billion since 1980 in supporting the milk market.

3. We shall need to consider carefully, in the light of the Foreign and Commonwealth Secretary's advice, how best to proceed with the Commission in respect of disallowance of 1978 and 1979, on which, as Michael reports, there is a difference of opinion within the Commission.

4. As to how we should proceed in respect of the later years, I agree with Michael Jopling that:

- a. urgent discussions should be held with the milk industry to seek to persuade them to discontinue the pricing arrangements to which the Commission object;

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b. we should be ready to legislate if the industry are unwilling to make these changes voluntarily;

c. on that basis we should seek to do a deal with the Commission to avoid the infraction proceedings and the risk of disallowance for 1980 onwards;

d. we should take a fundamental look at the present organisation of the Milk Marketing Boards and the powers they exercise.

5. I regard the last point as of particular importance. Clearly, avoiding the threat of disallowance must be our immediate priority; but we must also consider whether we should continue to maintain any special arrangements, statutory or otherwise, for the organisation of the milk markets. The present complex of statutory controls and customary restrictions is quite at variance with the general thrust of our economic policies. So we need a fundamental review of the arrangements in which all options, including the abolition of the MMBs, are kept open; and we should avoid any suggestion that if the Boards drop the pricing practices to which the Commission has objected, the present system will continue in more or less its present form. You may wish to consider further in E(A), on Thursday, how and when such a review might proceed: the decisions about milk prices which we have to take at that meeting are of course another illustration of the difficulties to which market regulation gives rise.

6. I am sending copies of this minute to members of E(A), the Foreign and Commonwealth Secretary, the Attorney General and the Secretary to the Cabinet.

A handwritten signature in dark ink, appearing to be 'N.L.'.

(N.L.)

17 January 1984

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