



Ref.A084/358

PRIME MINISTER

Liquid Milk Prices and the Future of Milk Marketing

C(84) 2

BACKGROUND

On 19 January the Minister of Agriculture, Fisheries and Food put proposals to the Ministerial Sub-Committee on Economic Affairs (E(A)) for increases in the maximum wholesale and retail prices of liquid milk in England, Wales and Northern Ireland (there is no control of milk prices in Scotland). Most members of E(A) took the view that a decision should be delayed until the likely outcome of discussions of milk prices and production within the European Community was clearer, and preferably when the results of a review of milk price control, which the Minister had already set in hand, were available. Since, however, the Minister had indicated that he might wish to refer the matter to the Cabinet, final decisions were not taken (E(A)(84) 1st Meeting, Item 2).

2. In C(84) 2, the Minister of Agriculture, Fisheries and Food puts forward his latest proposals. They have the following main features:

(i) As previously proposed, the maximum retail price of milk would be increased by 1p a pint. But the operative date would be 3 June 1984, not 4 March 1984.

(ii) The maximum wholesale price of milk would be increased by 0.58p per litre (0.33p per pint) from 1 March 1984, compared with the previous proposal of 0.91p per litre (0.52p per pint) from 1 February 1984.

(iii) These decisions would be announced immediately. The announcement would indicate that the Government intended to consult interested parties with a view to ending the control of milk prices by the end of 1985 at latest.



(iv) In accordance with the conclusions of E(A)(84) 1st Meeting, the Minister proposes to undertake an examination of the future marketing arrangements for milk and to bring forward recommendations for discussion by the summer.

3. These proposals compare as follows with those put to E(A):

(i) The 1p increase in the maximum retail price is deferred for three months. The increase in the maximum wholesale price is deferred for one month and is somewhat smaller.

(ii) So far as the distributors are concerned the combined effect by the end of March 1985 is the same as that under the Minister of Agriculture's earlier proposals, ie, they will be neither overpaid nor underpaid by that date. The fact that the increase in the wholesale price will now come three months earlier than the increase in the retail price means that their margin will actually fall during the period March to June, but they will still be in a position of overpayment during that period. And the smaller increase in the wholesale price means that they will do rather better than under the earlier proposals from early June onwards, so that the cumulative position is much the same by end March 1985.

(iii) The milk producers are somewhat worse off than under the earlier proposals because of the one month deferment of the wholesale price increase and the fact that it will be smaller (0.33p rather than 0.52p per pint).

(iv) The consumer benefits from the three month deferment in the retail price increase. On an annual basis the increase is 3.1 per cent rather than 3.7 per cent.

(v) Announcements would still be made forthwith, ie, before the likely result of negotiations within the Community was known.



(vi) The announcement would however now include an indication that the Government intended, after consultation, to abolish control of milk prices by the end of 1985 at the latest.

(vii) The need to review the existing arrangements, including the role of the Milk Marketing Boards (MMBs), and to involve other Departments in the review, is now accepted, but would not be referred to in the announcement.

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4. The factual background was set out in the brief submitted by Mr Gregson for the discussion in E(A): for convenience, I attach a copy. The basic information in that brief remains accurate, except that the later operative date of the retail price increase which is now proposed reduces the cost to public funds in 1984-85 (ie, the additional cost of intervention) from £20 million to £13 million.

MAIN ISSUES

5. The main issues are:

(i) The future of price control.

(ii) The size and timing of any price increases during 1984.

Price Control

6. It is probably common ground now that there is little justification for continued price control of milk. It is clearly out of line with the Government's general philosophy and, with the admission of milk imports and increased sales of milk in supermarkets, is no longer necessary to protect the consumer.

7. The remaining question is whether price control should be abandoned forthwith or whether, as the Minister of Agriculture now proposes, he should announce consultations with a view to abolition by the end of 1985. Most Ministers will probably take the view that it would be undesirable to abandon the system without preparation. The Minister of Agriculture presumably now feels less concern than he expressed earlier about the effect on



the future of doorstep deliveries. It may be that an early announcement, followed by a period of consultation, will meet his objective of gradual rather than drastic change.

Issues Relating to the Milk Marketing Boards

8. As you know, the Commission is pressing for changes in the pricing arrangements of MMBs; and it has been suggested that agricultural expenditure in 1978 and 1979 should be disallowed. The question of disallowance is entirely unrelated to the issues discussed in C(84) 2; and the Commission's objections to the pricing policies of the MMBs are directed at products other than milk for consumption in liquid form. However, the dispute is likely to arouse concern in the industry about the future of the MMBs, and generate public interest in their operation. The relationship between any announcement on the future of price control of liquid milk and the dispute with the Commission will need to be handled carefully.

9. In view of the discussion in E(A) it is unlikely that any member of the Cabinet will dissent from the proposed review of milk marketing arrangements. But some Ministers may wish to stake a claim to be consulted, or to register particular points that the review should take into account.

Size and Timing of Increases in 1984

10. If it is agreed that price control of liquid milk is to continue, albeit only until the end of 1985 at the latest, there is then the question of the size and timing of any increases in 1984. Most members of E(A) favoured delay in announcing any price increase for two main reasons. It seemed wrong to give further encouragement to the over-production of liquid milk; and for the United Kingdom to be seen to do so would weaken our position in the negotiations on the Common Agricultural Policy.

11. The Minister of Agriculture's revised proposals are still open to these objections. There are two main difficulties:

- (a) The announcement of the Government's decisions would still be made at once.



(b) The price increase to producers, though smaller than proposed in E(A) (84) 2, would still be effective from an early date; it is, of course, the price paid to producers which is most relevant to discussions in the Community.

12. Against that, the Minister of Agriculture can be expected to argue that returns to milk producers have fallen sharply; that the Government should not use its exceptional powers to control milk prices in order to discriminate against milk producers; that under his proposals, liquid milk prices will still go up by less than in virtually any other Community country; and that the consequences of delay on morale in the industry, already apprehensive about the effect of imports and proposals, such as the "super levy", within the Community, would be serious.

Announcement

13. The content and timing of any announcement will depend on the decisions reached on the issues of substance. If it is decided to delay any announcement of price increases, the Cabinet will wish to consider whether the announcement of consultations about ending price control should also be delayed. You will no doubt wish the Minister of Agriculture to circulate the text of any public announcement to the Cabinet for clearance in correspondence.

HANDLING

14. You will wish to invite the Minister of Agriculture, Fisheries and Food to introduce his memorandum. The Secretaries of State for Northern Ireland and Wales could add any points affecting their countries. The Chancellor of the Exchequer could then be invited to reply. The Foreign and Commonwealth Secretary will have comments from the standpoint of negotiations in the Community.

CONCLUSIONS

15. You will wish the Cabinet to reach conclusions on the following:

- (i) Should the maximum retail and wholesale prices of milk in England, Wales and Northern Ireland be increased as proposed in C(84) 2; or should decisions be delayed?



(ii) If prices are to be increased, should the announcement of that decision include an indication that the Government intends to consult interested parties with a view to removing the control of milk prices in England, Wales and Northern Ireland by the end of 1985 at latest?

(iii) Any points relevant to the proposed review of marketing arrangements for milk.

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ROBERT ARMSTRONG

1 February 1984