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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIQUID MILK PRICE CONTROLS

Memorandum by the Minister of Agriculture, Fisheries
and Food and the Secretaries of State for Scotland, Wales
and Northern Ireland

1. In accordance with the remit from E Committee Officials have reviewed the recommendations of Binder Hamlyn and the suggestions made by a number of Ministers in relation to the future of liquid milk price controls and a copy of their report, (E(81)30), has been circulated separately. The current note sets out the conclusions of the Agricultural Ministers in the light of this review.
2. Our general conclusion is that the present system of maximum price controls has for many years served the producer, consumer and the trade well and should be continued, subject to implementing the Binder Hamlyn recommendations wherever practicable and to certain changes to adapt the system to the special conditions in Scotland.
3. Binder Hamlyn have recommended certain improvements (set out in the Appendix to the Official Paper) in the way in which the distributive trade's costs are measured, but they have not suggested any fundamental changes in the overall basis on which we set price controls over liquid milk. In particular, they concluded that the present arrangements contain effective incentives to dairies to improve their efficiency.
4. In addition, it has to be recognised that the existing system, while not excluding competition, has provided a stable framework which has helped to sustain the doorstep delivery service and with it a volume of liquid sales in the UK substantially higher than in any other country in the Community. The advantage this has brought to our milk producers are self-evident - to which must be added, not only the social benefits of the delivery service to the sick and the elderly but also the jobs of some 45,000 people employed in distribution of liquid milk, which would otherwise be at risk.

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5. At the same time, it is also clear from the experience in Scotland that the system does not prevent substantial sales taking place through shops at prices which (even without allowing for the additional costs of non-returnable containers) are significantly below the maximum retail price. Moreover, this trend is increasingly being observed in England and Wales, as evidenced by the sale of cartonned milk in Sainsbury's at prices up to 1½p per pint below the maximum; and it is likely to be maintained given the growing ability of retailers to negotiate larger discounts. This trend was we understand an important element in the recent decision (referred to in paragraph 6 of the paper by officials) by the Director-General of the Office of Fair Trading not to pursue the possibility, which he has had under consideration for some months, of making a reference of retail milk distribution arrangements in England and Wales to the Monopolies Commission.

6. We do of course face considerable problems in generating sufficient income from the liquid market to meet both the increases in distribution costs and the needs of producers, whose average returns are currently severely depressed by the weak market for milk products. But, despite this, it would be political and economic folly to dismantle the control system and thus bring about a free-for-all.

7. The consequences of such a step would be unknown and might very well be irreversible. Moreover, we should not assume they would be limited to the distributive sector: the dismantling of price control could also call into question the whole position of the Milk Marketing Boards. In view of the risks set out in paragraph 31 of the paper by Officials and of the current difficulties facing UK milk producers, the Secretary of State for Northern Ireland now accepts the need for continuation of the present price control system.

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8. In review of these questions we have given particular attention to the variation of conditions in different parts of the UK. There are marked differences in milk distribution in Scotland from the rest of the UK which in our view would make it unsound to extrapolate too much from one to the other; but which may call for some special adaptations to the system in Scotland. In particular the full application of the Binder Hamlyn recommendations on non-doorstep sales would, as explained in paragraph 10 of the report by officials cause difficulty in Scotland and it will be necessary to make some modifications of the way retail price control operates there. We propose that this latter question should be the subject of further discussions between the Minister of Agriculture and the Secretary of State for Scotland in consultation with the Secretary of State for Trade.

9. In Northern Ireland there is a different problem which arises basically because the lower population-to-milk production ratio makes it difficult if not impossible to secure a return from the liquid market sufficient to assure milk producers there a level of income comparable to that obtained elsewhere in the UK. In the past this difficulty was covered by the payment of a special aid on milk for which the Minister of Agriculture had obtained sanction in Brussels. However, financial constraints in Northern Ireland forced the Secretary of State to discontinue these payments. We believe that steps must be taken to ensure that Northern Ireland producers are treated equitably in future and any necessary European Community cover for such arrangements will be negotiated by the Minister of Agriculture in Brussels. We propose that this question should be the subject of further discussions between the Minister of Agriculture and the Secretary of State for Northern Ireland in consultation with the Chancellor of the Exchequer.

Conclusion

10. We seek the agreement of our colleagues that:

- (i) the present system of liquid milk price controls should be continued subject (a) to the implementation

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of the recommendations of the second Binder Hamlyn report as detailed in the Appendix to the paper by Officials and (b) modifications of the existing retail price control in Scotland to take account of the special conditions there agreed between the Minister of Agriculture and the Secretary of State for Scotland in consultation with the Secretary of State for Trade; and

- (ii) further discussions should take place between the Minister of Agriculture and the Secretary of State for Northern Ireland in consultation with the Chancellor of the Exchequer with a view to ensuring that Northern Ireland Milk Producers are treated equitably.

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