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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIQUID MILK PRICE CONTROLS

Note by the Central Policy Review Staff

1. E Committee have before them a long paper by officials setting out a number of options (E(81)30), and a memorandum by the Minister of Agriculture, Fisheries and Food and the Secretaries of State for Scotland, Wales and Northern Ireland arguing for the maintenance of the present system of maximum price controls for milk, with the addition of the refinements recommended by Binder Hamlyn. The CPRS believes that Ministers may find it useful to have a short note setting out the main arguments for and against more fundamental change.

The Main Considerations

2. The main objection to the present system is that it replaces market forces by bureaucratic regulations (likely cost over £½m. a year). Among the considerations which need to be taken into account are:

- (i) The effect of a change in the system on prices is uncertain. Price controls are designed to protect consumers from monopoly sellers (Milk Marketing Boards) and a few relatively large milk distributors. But in the retail sector decontrol could introduce greater competition to the benefit of consumers, e.g. through lower prices or wider consumer choice.

- (ii) If, because of monopolies, decontrol resulted in excessive price rises, this could depress consumption (and producers' returns) and put at risk the socially valuable doorstep delivery service. On the other hand the threat of such consequences would discourage excessive price rises. And Scottish experience suggests that an extensive doorstep delivery system can survive a substantial fall in delivered sales.

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(iii) Although Binder Hamlyn found that the present arrangements provide individual distributors with incentives to improve their efficiency, there is no stimulus to bring down the costs of the industry as a whole, e.g. in wage bargaining.

(iv) The present system involves the Government in deciding every six months by how much milk prices will rise. Normally this is an exercise which satisfied neither producers nor consumers.

(v) There is an obvious inconsistency in deciding to raise liquid milk prices sharply at home, while arguing strongly in Brussels for much smaller increases in CAP milk prices and for schemes to reduce production.

The European Court

3. The present system may not in fact survive the decisions of the European Court, expected in the next nine to twelve months, on whether we shall be able to continue to maintain barriers to the import of liquid milk from other members of the Community. In considering the present milk price system therefore, Ministers should also take into account the possibility that they may soon in any case have to change it. It is, of course, also possible that the Court may not find against the system, or that its findings may allow the construction of a modified system, which would in turn no doubt meet further challenge. Rearguard action of this kind would, however, probably give rise to considerable pressures on Ministers, both (from the rest of the Community) to make changes faster and (domestically) to retain the status quo. The Government's freedom of manoeuvre would be small, and there would be the risk of a sudden forced retreat. This could lead to large quantities of cheaper liquid milk coming from the Republic of Ireland into Northern Ireland, and from the Continent into Southern England. The effect of such a sudden change on the door-to-door delivery system might well be more harmful than a period of more gradual adaptation.

Conclusion

4. The CPRS believes therefore that Ministers, as well as considering the policy recommended by the Agricultural Ministers in paragraph 10 of E(81)31, may also wish to consider the alternative of modifying or dispensing with present arrangements on the basis of one of the options set out in

paragraph 44 of E(81)30. None of these options is assessed in either paper to the point where it can be simply compared with the status quo preferred by the Agricultural Ministers in E(81)31. If Ministers are not content immediately to accept the recommendations in E(81)31, officials could be asked to work out a preferred course of more fundamental change so that this can be judged against the status quo.

Cabinet Office
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