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E(81) 11th Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 19 MARCH 1981 at 10.15 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon John Nott MP
Secretary of State for Defence

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries
and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

Mr Wyn Roberts MP
Parliamentary Under-Secretary of
State, Welsh Office

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

SUBJECT
LIQUID MILK PRICE CONTROLS

LIQUID MILK PRICE CONTROLS

Previous Reference: E(80) 43rd Meeting, Item 3

The Committee considered memoranda by the Minister of Agriculture, Fisheries and Food and the Secretaries of State for Scotland, Wales and Northern Ireland (E(81) 31), the Minister of Agriculture, Fisheries and Food (E(81) 30) covering a report by an interdepartmental group of officials, and the Central Policy Review Staff (CPRS) (E(81) 32) on liquid milk price controls.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the four Agriculture Ministers agreed in recommending that the present system of liquid milk price controls, whereby the Government set the maximum wholesale and retail prices, should be continued subject to implementation where practicable of the recommendations in Binder Hamlyn's report on the milk costing system and to certain changes to adapt the system to special conditions in Scotland. The system had proved to be effective over many years in striking a balance between the needs of the producers, of the processors and distributors, and of the consumers. As was clear from experience in Scotland, it did not prevent substantial sales of milk in shops at prices significantly below the maximum retail price. Shop sales were now increasing in England and Wales, and Sainsbury's were selling milk in cartons at up to 1½p per pint below the maximum price. This welcome change had significantly influenced the Director General of the Office of Fair Trading in deciding, after detailed examination of the situation, not to propose a reference to the Monopolies Commission of retail milk distribution arrangements in England and Wales. A further important consideration was that, outside Scotland, the present system of controls had provided a stable framework which had helped to sustain the doorstep delivery service. While the CPRS had fairly pointed out that there were some doubts over the present system, he was convinced that to dismantle controls, and so bring about a free-for-all, would lead to major difficulties and to severe criticism from the producers, the trade and consumers. Subject to the outcome of further discussions with the dairy trade, the main changes following Binder Hamlyn's recommendations would be in the method of calculating the dairy trade's margin and in setting the target rate of profit. It would be very difficult to secure a return from the liquid milk market to assure producers in

Northern Ireland of a level of income comparable to that obtained elsewhere in the United Kingdom, and he and the Secretary of State for Northern Ireland would wish to consult the Chancellor of the Exchequer on the steps necessary to ensure that Northern Ireland milk producers were treated equitably.

In discussion the following main points were made -

a. It was generally agreed that, while the system would probably need to be revised in due course to take account of changes in circumstances, it should stand for the time being, subject to implementation where practicable of Binder Hamlyn's recommendations. Subject to discussion of the details between the Ministers concerned, there was no objection in principle to adapting the system in Scotland to reflect the special features of milk distribution there, and probably to basing the controls on ex-dairy prices.

b. It was likely that the main impetus for change would come from imported milk. This might follow a ruling, due in early 1982, by the European Court upholding the Commission's challenge to the United Kingdom's present practice of using domestic health and hygiene legislation to exclude imports of liquid milk, or alternatively from agreement in the Community on the harmonisation of hygiene regulations. It would not, however, inevitably follow that domestic markets would be damaged. 'Long-life' milk from France would not necessarily make substantial inroads in this country, and the British industry could compete with exports of British higher quality liquid milk to France. If the European Commission sought to harmonise milk distribution arrangements, the French would be at a disadvantage if hygiene regulations up to United Kingdom standards were to be introduced throughout the Community. Officials should, however, keep under review the possibility of changes opening the way to imports of liquid milk, and be ready to advise on measures which might be necessary in response to such changes.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the present system of liquid milk controls should continue, subject to implementation where practicable of the recommendations in Binder Hamlyn's report on the milk costing system. The Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland, in consultation with the Secretary of State for Trade, should reach agreement on the modifications of the existing retail price control in Scotland necessary to take account of the special conditions there. The Minister of Agriculture, Fisheries and Food and the Secretary of State for Northern Ireland should consult the Chancellor of the Exchequer on the possibilities for dealing with the problems of milk producers in Northern Ireland, but they should do so on the clear understanding that the Committee had not endorsed any commitment to additional public expenditure for this purpose.

The Committee -

Approved the recommendations in paragraph 10 of E(81) 31.

Cabinet Office

20 March 1981