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E(81) 38th Meeting

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67

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at  
10 Downing Street on  
THURSDAY 10 DECEMBER 1981 at 11.30 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 Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP  
Secretary of State for  
Education and Science

The Rt Hon James Prior MP  
Secretary of State for  
Northern Ireland

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 Patrick Jenkin MP  
Secretary of State for Industry

The Rt Hon John Biffen MP  
Secretary of State for Trade

The Rt Hon David Howell MP  
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP  
Chief Secretary, Treasury

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy

The Rt Hon Norman Tebbit MP  
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP  
Paymaster General

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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP  
Secretary of State for Scotland

The Rt Hon Michael Jopling MP  
Parliamentary Secretary, Treasury

The Rt Hon Nicholas Edwards MP  
Secretary of State for Wales

Mr J R Ibbs  
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong  
Mr P L Gregson  
Mr D J L Moore

SUBJECT

LIQUID MILK PRICES

ii

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LIQUID MILK PRICES

Previous Reference: E(81) 11th Meeting

The Committee considered a memorandum by the Minister of Agriculture, Fisheries and Food (E(81) 128) on liquid milk prices.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he had announced in April that the Government had decided to continue the present system of controls of the retail and wholesale prices of liquid milk in England, Wales and Northern Ireland, subject to changes in the distributive costing system and in the dairy trade's target rate of profit which would be made in the light of recommendations by the independent firm of accountants Binder Hamlyn. After long and very difficult negotiations he had managed to persuade the Dairy Trade Federation to accept the implementation of virtually all Binder Hamlyn's recommendations as summarised in Annex B of E(81) 128. This was the first major change in the system for 25 years and the proposals represented a tough package which would substantially reduce the profits of the distributive trade. He was convinced that any attempt to go further would cause the trade to cease to co-operate in the present price control system with the result that the retail price of milk would increase sharply and the continuation of door-step delivery of milk would be at risk. He recommended that the retail price should be raised by 1½p to 20p per pint with effect from 3 January 1982, exactly one year after the last increase. This increase was the very least that would be acceptable to the milk producers who had suffered a steady decline in their incomes since the Government had taken office. He further proposed that the present premiums on Channel Islands and sterilised milk should be increased by ½p per pint also on 3 January. He wished to make an early announcement of these changes.

THE CHIEF SECRETARY, TREASURY said that the Binder Hamlyn report raised a number of complex and technical questions which the Treasury was still discussing with the Ministry of Agriculture, Fisheries and Food. He was not yet persuaded that the January 1982 price increase should be as high as 1.5p. It could be argued that there should be no increase in the distributors' margin and that the increase in producers' margins need not be as high as was now proposed. The recommendations for the revised system appeared to be unsatisfactory in that they would permit the trade to earn a higher rate of return than seemed justified and for this return to be fully indexed against inflation for the 3-year periods between reviews.

CONFIDENTIAL

1

198

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that the increase in the price of liquid milk should take effect after the school holidays but in time to be taken into account in the Retail Price Index for January, as had the corresponding increase in 1981. In view of the points raised by the Chief Secretary, Treasury the Committee were unable to take a decision on the amount of the January 1982 price increase or on whether the Binder Hamlyn recommendations should be implemented as proposed. The Minister of Agriculture, Fisheries and Food should discuss these questions further with the Chief Secretary, Treasury with the aim of ensuring that increases in milk prices were as low as possible but not such as to risk the break-up of the present system of controls.

The Committee -

Invited the Minister of Agriculture, Fisheries and Food, and the Chief Secretary, Treasury, in consultation with other Ministers as necessary, to discuss further the proposals in E(81) 128, with a view to reaching agreement; to be guided as to objectives, and to the timing of the price increase in January 1982, by the Prime Minister's summing up of their discussion; and to inform the Committee of the outcome.

Cabinet Office

11 December 1981