

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80)89

COPY NO 55

4 August 1980

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIQUID MILK PRICES

Memorandum by the Chief Secretary, Treasury

Introduction

1. The paper by the Minister of Agriculture (E(80)88) sets out the background and the case for an increase in liquid milk prices.
2. I do not dispute the general factual picture set out in the Minister's paper. Although the projections are subject to substantial margins of error, I accept the implied broad orders of magnitude.
3. I agree it will be necessary to increase retail prices within the next six months. But I believe the case has to be judged in relation both to timing and to the amount of assistance injected into the industry.

Timing

4. The main factors are:

- (a) The RPI and related effects. An early increase of, say, 1½p would be the second in 6 months and the third since we entered office. In the 14 months since June 1979 we would have implemented a cumulative increase of 33%. In technical terms the RPI and food price effects of a further 1½p are relatively moderate, albeit equal to the estimated impact of the full 1980 CAP price fixing. But in perceived terms milk prices are of much greater psychological importance, and an early rise could be particularly damaging following recent nationalised industry announcements and at the beginning of the new wage round.

1.

CONFIDENTIAL

CONFIDENTIAL

- (b) Binder Hamlyn. It would be desirable to take a decision after the accountants' report is available.
- (c) Relation to the 1981 EC price fixing. We must seek to avoid the period of maximum pressure for an increase in liquid milk prices coinciding with next year's price fixing when we shall be arguing for restraint in Community determined prices.

5. I believe all these main elements in the timing decisions point to an increase at the turn of the year rather than in the near future.

Amount of assistance

6. The Minister of Agriculture's paper offers no options on this aspect. The range of possibilities in his paper are all geared to provide the same amount of extra income to the industry before March 1981. They are variants of the same basic option, to provide the industry with the extra resources it has demanded.

7. This is a generous approach, and I do not believe we can limit our options in this way. It is not critical to achieve a particular return by any given moment of time.

8. In current circumstances we must be able to reconcile the position of milk producers with the situation faced by industry and small businessmen generally. We have not accepted that past rates of return are an automatic benchmark. Nor is indexation for inflation. What matters is how sectors can cope with, and adapt to, the present economic climate. The dairy industry, both producers and distributors, has no right to privileged treatment.

9. Against this background, I do not consider that we should allow an extra £96 million to the industry by March. I see no signs of imminent collapse. Indeed yields if not numbers of cows are increasing and I consider that a lesser figure would suffice.

Alternative approach

10. How much assistance is a matter of judgement. But at the turn of the year an increase of rather more than 1½p could be defended in terms of price movements over the period of close to 12 months since the previous milk price rise. And a somewhat larger increase at this time would still give a substantial boost during the remainder of the current marketing year, while also giving the industry a better base to face the following year.

11. It would be consistent with our general policy approach to argue that, for a commodity in chronic Community structural surplus, any price increase should be below the general rate of inflation. This

2.

CONFIDENTIAL

CONFIDENTIAL

suggests that the maximum figure at the turn of the year might be some 15%, equivalent to 2½p per pint and generating perhaps £60 million extra resources for the industry by end-March. A 2p increase would be some 12% and give £45-50 million to the industry.

Conclusion

12. I recommend that:

- (a) We agree to implement a retail milk price increase at the turn of the year.
- (b) We should defer a decision on the amount until the autumn when, inter alia, the first indications of the conclusions to be drawn from Binder Hamlyn's work will be available.

W.J.B.

H.M. Treasury Chambers  
Parliament Street

4 August 1980

CONFIDENTIAL

6