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E(80) 30th Meeting COPY NO 56

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held in the Prime Minister's Room, House of Commons on WEDNESDAY 6 AUGUST 1980 at 4.00 pm

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
(Items 2 and 3)

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

The Rt Hon James Prior MP
Secretary of State for Employment

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

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmore MP
Lord Privy Seal

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Items 1 and 2)

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland
(Item 2)

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

Sir Ian Percival QC MP
Solicitor General
(Item 3)

Lord Strathcona
Minister of State, Ministry of Defence
(Item 1)

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore (Items 1 and 3)
Mr D R Instone (Item 2)

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RESTRICTED

1. COMMITTEE OF INQUIRY INTO THE ENGINEERING PROFESSION (FINNISTON REPORT).
Previous Reference E(80) 10th Meeting, Item 2.

THE COMMITTEE considered a memorandum by the Secretary of State for Industry (E(80) 87) on the Government's response to the recommendations in the Report of the Committee of Inquiry into the Engineering Profession (the Finniston Committee).

THE SECRETARY OF STATE FOR INDUSTRY said that the main proposal affecting the Government was for a new Engineering Authority established by statute, with all the members appointed by the Government. He was not persuaded that it was necessary to set up a new Government body to deal with the problems identified in the report, and he proposed instead that the Government should facilitate the early granting of a Royal Charter to a new body which would provide a focal point where engineers, academics, employers and the Engineering Institutions could come together to remedy the deficiencies identified. For the first three years, but for no longer, the Government should nominate the members of the Chartered body, after full consultation with the profession, educationalists and employers. To help the new body get under way he would wish to guarantee a private sector loan to them of not more than £1 million a year for no more than three years. If a private sector loan could not be negotiated, he would wish to consult the Chancellor of the Exchequer on the possibility of a Government loan for the same amount.

THE PRIME MINISTER, summing up a short discussion, said that the Committee approved the proposals by the Secretary of State for Industry, and agreed that he should announce the Government's decision in a Written Answer before the Recess. It would be important to ensure that the members appointed to the new body were of high calibre and of the right experience.

The Committee -

1. Approved the recommendations in paragraph 15 of E(80) 87.

2. Invited the Secretary of State for Industry to announce the Government's decision before the summer Recess as in the draft statement at Annex B to E(80) 87.

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2. LIQUID MILK PRICES

The Committee considered memoranda by the Minister of Agriculture, Fisheries and Food (E(80) 88), and by the Chief Secretary, Treasury (E(80) 89), about increases in the price of liquid milk.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said the two sides of the dairy industry had made a joint request for an increase of 1½p per pint in the retail price of liquid milk from 3 August, with the resulting additional revenue being divided equally between the producers and distributors. There was a strong case for accepting this request. If no action were taken on prices, producer's margins would be substantially lower in real terms than at any time during the previous decade. The viability of the distribution system would also be at risk without an increase, and this could lead to the elimination of doorstep deliveries of milk in some areas, especially London. It did not seem practicable to delay a decision on an increase until the forthcoming further report from Binder Hamlyn on milk distribution costs had been received, as this would rule out any increase for some months. There was room for argument, however, about the timing of any increase. It would be possible to delay part of the increase until later in the year; but, if this were not to lead to a short-fall in revenue for distributors and producers over the marketing year as a whole, the second increase would need to be larger than if an immediate increase were granted. He recognised that there were difficulties about introducing a substantial increase at once; but in order to preserve the confidence of the dairy industry some increase was needed now, together with an assurance about the level of future increases. He favoured an increase of ½p now, to be accompanied by an announcement that there would be a further increase of 2p in January.

THE CHIEF SECRETARY, TREASURY, said there were strong arguments against any increase now. First, it would come just before the beginning of the new wage round, and as the third increase in milk prices since the Government came into office would be a conspicuous reminder of the level of price increases, which would thus encourage high wage claims. Second, an increase now would preempt the Binder Hamlyn report due later in the year. Third, it would generate pressure for a further increase towards the spring, which would be awkward in relation to the 1981 European Community price fixing. Finally, to concede the dairy industry's claim implied accepting a privileged status for the industry, protecting it from the effects of inflation in a way which had been denied to most other industries.

In discussion the following main points were made -

a. It was of overriding importance that any increase in milk prices should not aggravate the problems of the next wage round. This pointed strongly against a substantial increase at once. The timing of any increase should be considered in relation to the forecast pattern of monthly changes in the Retail Price Index (RPI), so as to avoid increases falling in a month when the RPI was due to increase substantially for other reasons. Increases could prove doubly unfortunate in November, the month when Social Security benefits were uprated, and could increase pressure for Social Security benefits to be increased beyond the levels already proposed.

b. It was unlikely that the Binder Hamlyn report would indicate substantial scope for cost savings in milk distribution, but the fact that the report was still outstanding would provide an argument which could be used with the dairy industry to justify a delay in any price increase.

c. There was room for argument about how severely dairy producers were being affected. Milk production and yields were higher than last year, partly as a result of favourable climatic factors, but there was some evidence that their financial returns were being restricted and that their bank indebtedness was increasing.

d. The financial position of the milk distributors was almost certainly healthier than they had implied in making their claim, and the risk that they would withdraw deliveries in some areas was probably exaggerated: they would not want to encourage the development of milk sales in retail shops and supermarkets. The present system of payments was highly beneficial to their cash flow.

e. In principle any increase in the retail price should be arranged so that the producers benefited disproportionately compared with the distributors; but this could be very difficult to ensure, since the distributors had the right to arbitration and might well be awarded a larger proportionate increase than the producers.

f. The Director General of Fair Trading was likely to recommend shortly that milk distribution should be referred to the Monopolies and Mergers Commission (MMC). It was unlikely that Ministers would wish to be seen to veto such a recommendation. One possibility might therefore be to delay any milk price increase until such time as the Government could announce at the same time a referral of milk distribution to the Monopolies Commission. This could help to blunt the edge of any adverse political reaction.

THE PRIME MINISTER, summing up the discussion, said the Committee agreed to an increase in the liquid milk retail price of ½p per pint as soon as practicable. Any further increase should be decided upon only when the Binder Hamlyn report was available and in the light of any action proposed by the MMC. The Minister of Agriculture, Fisheries and Food, should attempt to ensure that the ½p a pint increase benefited the producers rather than the distributors within the limits set by the risk of arbitration. He could indicate to the dairy industry that the Government were considering further increases after the Binder Hamlyn report had been received, but he should not give any commitment to either the timing or the level of any further increases.

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The Committee -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Agreed that the retail price of milk should be increased by ½p a pint as soon as possible, and that further increases should be considered after the forthcoming Binder Hamlyn report had been received.

3. DISPOSAL OF BGC OIL ASSETS

The Committee considered a memorandum by the Secretary of State for Energy (E(80)81) on the disposal of the oil assets of the British Gas Corporation (BGC).

THE SECRETARY OF STATE FOR ENERGY said that he recommended against pressing BGC to sell their 50 per cent holding in the Wytch Farm oil field in Dorset. They were strongly opposed to this sale, and to force them into it would prejudice the Government's whole relationship with the Corporation. Under the Gas Act 1972 he could probably direct them to dispose of Wytch Farm, provided that he first consulted them about his intention and satisfied himself that the disposal would not impede or prevent the proper discharge of the Corporation's duties. Even if he could issue a direction it would have to be laid before Parliament for 40 sitting days before taking effect, and BGC would then have to seek bids and to enter into negotiations with their partner, British Petroleum, who would have to be given up to 30 days to match any price. It was therefore unlikely that the sale, which might yield around £100 million, could be achieved in 1980-81. He recommended instead that he should press BGC to agree to group their oil interests into a separate company and then to sell the majority of the shares in it on the market. This could be done either with or without the Wytch Farm holding but in such a way that the sale raised around £200 million, again after 1980-81. Although BGC were currently opposed to this proposal, he believed that they might be persuaded to agree to it, in which case new legislation would not be required. If however, they would not agree, he would wish to include the necessary powers with other legislation on the gas industry which he had in mind for the next Session of Parliament.

THE CHANCELLOR OF THE EXCHEQUER said that in his view the Secretary of State for Energy should now press BGC to sell their holding in Wytch Farm before the end of the financial year, and the statutory consultations should be completed in time for a direction to be laid as soon as possible after the Recess. Unless the sale was made, it was highly unlikely that the Government could achieve its target of £630 million receipts from disposals in 1980-81. So far only £450 million was fairly firmly in prospect. Failure to meet this target would add to the Public Sector Borrowing Requirement and would call in question the Government's ability and determination to carry through its strategy on disposals of public assets. The possibility of a sale of some of BGC's oil assets had been under discussion for far too long already, and to pursue the Secretary of State for Energy's present proposal would lead to yet further delay. Wytch Farm was not central to BGC's main interests, and there was no reason why it should remain within the public sector.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Energy should discuss the alternatives further with BGC, with the aim of securing agreement as soon as possible either to the sale of their holding in Wytch Farm in 1980-81 or to grouping their oil interests into a separate company and then selling the majority of their shares in it. The Government could not be committed to an outcome which would be likely to require new legislation, though the Secretary of State for Energy was free to deploy the prospect of legislation if this helped him to achieve a voluntary agreement. He should conclude the discussions in time to ensure that, if a direction was required for the sale of Wytch Farm, it could be laid immediately after the summer Recess.

The Committee -

Invited the Secretary of State for Energy to consult the British Gas Corporation urgently with a view to securing their agreement either to the sale of their holding in the Wytch Farm oil field in 1980-81, or to his proposals, in paragraph 8 of E(80) 81, for the disposal of a majority holding in their oil assets, and to report the outcome in September.

Cabinet Office

7 August 1980