



CONFIDENTIAL

Ref. A02817

PRIME MINISTER

Liquid Milk Prices

(E(80) 88 and 89)

BACKGROUND

The Minister of Agriculture proposes in his paper E(80) 88 to accept in its entirety a joint claim by the milk producers and distributors for 1½p on a pint of milk from now (i. e. giving a 9 per cent increase from 16½p to 18p for ordinary pasteurised milk). This follows increases of 1½p in May 1979 and again in February this year. He justifies this proposal by pointing to what would otherwise be very low producers' and distributors' margins (see the table on the first page of his paper). On his proposal the extra revenue to next March of £96 million would be split equally between producers and distributors. This would bring producers' and distributors' margins closer to last year's level, although still below it in real terms.

2. The Chief Secretary in his paper proposes instead that no increase should be awarded until the end of the year, on the grounds (a) that it would impinge on the coming wage round: the RPI effect is only 0.16 per cent, but he thinks that in terms of perceptions the effect could be much greater; (b) it would prejudice the second Binder Hamlyn report, on milk distribution, due in the autumn; (c) if it means a further increase in the spring it could make it harder for us to resist CAP milk price increases next spring; (d) there is no sign yet of any collapse in the dairy industry, and even if there were they have no more right to automatic protection from inflation than other industries.

3. The Minister of Agriculture proposes a uniform increase for the United Kingdom, and the other Agricultural Departments agree with this. But the industry's position is reported to be rather better than average in Scotland and rather worse in Northern Ireland. The Secretary of State for Northern Ireland was considering earlier a separate milk aid scheme for Northern Ireland but under public expenditure constraints has decided to drop it.



CONFIDENTIAL

HANDLING

4. After asking the Minister of Agriculture and the Chief Secretary to introduce their papers, you might suggest the main issues are -

Binder Hamlyn
(a) Timing in relation to the wage round. Would an August increase have a more damaging effect than a possibly bigger increase in (say) January? (It probably would, if only because by January the general level of wage increases would already have been set).

Ant. 1962
(b) The seriousness of the milk producers' problems. Could they not wait till January, or at least (say) November, since their costs are lower in the summer? If there is a risk of slaughterings in the meantime, could the Government, in rejecting a price increase now, encourage the producers by referring now to the likelihood of an increase by January?

(c) Binder Hamlyn - Monopolies etc. The Minister of Agriculture implies that one reason for not waiting for the Binder Hamlyn report (as suggested in Mr. Lankester's letter of 31st July) is that it will not propose anything very radical.

You might ask for views on a more far-reaching enquiry into the milk pricing system. The Select Committee on Agriculture called for this last week; and the Director General of Fair Trading has spent some months considering a reference to the Monopolies Commission. Does the Secretary of State for Trade think an announcement of the next price increase could be tied in with an announcement of a reference to the MMC?

(d) European implications. Do colleagues accept the Chief Secretary's argument that a December/January increase is preferable in order to head off pressure for a further increase during the price-fixing negotiations? Whenever the increase is made, the Government should make clear to the producers that it expects them to accept its tough line on the CAP price in return for its consent to an increase in the liquid price.

CONFIDENTIAL



CONFIDENTIAL

CONCLUSIONS

5. You will want to reach conclusions on:-
- (i) Whether to allow a price increase now, or wait till the turn of the year: if the latter should anything be said now about a later price rise to encourage the producers?
 - (ii) If an increase now, how much? $1\frac{1}{2}p$, as the Minister of Agriculture proposes, or a smaller amount? There is no need to decide now on the size of any winter increase.
 - (iii) Whether the Minister of Agriculture should be asked to bring forward proposals in the autumn on milk costings in the light of the Binder Hamlyn report, and the Secretary of State for Trade to bring forward proposals on the possibility of a reference to the Monopolies Commission.

RA

(Robert Armstrong)

5th August, 1980

CONFIDENTIAL