

CONFIDENTIAL

Ref. A09861

MR. LANKESTER ✓

MBAM

2. 1.17

Milk Marketing

In his minute to you of 15th June Sir Kenneth Berrill recommends that any decision on a possible review of the milk marketing system should be deferred until the European Court has ruled on the legality of our milk hygiene import regulations.

2. There is little doubt that a wide-ranging review announced now would be widely criticised as undermining Mr. Silkin's "success" last year in securing Community agreement to the maintenance of the Milk Marketing Boards and hence daily doorstep deliveries. The situation might be different if the Court's ruling opened the door to liquid milk imports, in which case such an enquiry could be seen as a necessary consequence of factors outside the Government's control.

3. However, it is far from clear that the Court's judgment will have this effect. The Opinion of the Advocate General (the senior officer of the Court who investigates the case and proposes the terms of the eventual judgment), delivered since Sir Kenneth Berrill's minute, is that the United Kingdom is entitled to maintain its milk hygiene restrictions so long as no harmonised Community regulations exist. The Court is likely to give its own judgment in July. It is not obliged to follow this Opinion, but if it does the threat from liquid milk imports will be lifted until agreement is reached in Brussels on Community legislation in this field. There has been no progress on the relevant Directives since January and there is no reason yet to believe that the Irish will seek to give them a high priority during their forthcoming Presidency.

4. This points to Mr. Walker going ahead with his proposed internal study of the distributive margins for liquid milk, which should as he suggests include looking into "all the costing arrangements and the whole of the present system of milk pricing" (his letter of 16th May to the Chancellor of the Exchequer). A study of this kind ought anyway to be conducted before the next retail milk price review in the autumn. It would not have the same alarmist effect on public opinion as the more radical enquiry some Ministers want, yet it should throw up a good deal of

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information relevant to such an enquiry if in the light of the Court's judgment or for other reasons the Government were later to decide to go the whole hog.

5. If the Prime Minister agreed she might therefore suggest to her colleagues that Mr. Walker should proceed with an enquiry into the immediate issue of the distributors' margins, without prejudice to the possibility of a more fundamental study at a later stage if the circumstances made it necessary.

John
JOHN HUNT

25th June, 1979