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NOTE OF A MEETING HELD AT 10 DOWNING STREET ON  
MONDAY 21 DECEMBER 1981 AT 10:30AM TO  
DISCUSS LIQUID MILK PRICES.

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PRESENT

The Prime Minister

Minister of Agriculture,  
Fisheries and Food.

Secretary of State for Trade.

Chief Secretary, Treasury.

Minister of State, Scottish Office.

Mr P L Gregson

Mr D J L Moore

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The Meeting discussed a minute of 14 December and a letter of 16 December to the Prime Minister from the Minister of Agriculture, and a minute of 16 December from the Chief Secretary, Treasury about the amount by which the maximum retail price of milk should be increased in January and the method of calculating target rates of profit for the dairy trade in the light of the recommendations in Binder Hamlyn's report of November 1981.

The Minister of Agriculture said that, following the meeting of the Ministerial Committee on Economic Strategy on 10 December (E(81)38th Meeting), he had agreed with the Chief Secretary that there should be a full re-assessment of the target rate of profit annually rather than every three years. He had not, however, been able to reach agreement on the other outstanding issues. He remained firmly of the view that there should be an increase of 1½p in the price of liquid milk to give a maximum of 20p a pint from 10 January 1982 and that the costings and target system should be based on approximate calculations of Current Cost Accounting (CCA) depreciation, as discussed in Binder Hamlyn's report, until such time as the trade could produce their own proper CCA





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calculations. To attempt to impose a lower price increase in January, or a system which squeezed the dairy trade's margins still further, would risk the breakup of the present system of controls on milk prices and the loss of door-step deliveries. As it was, his proposals were tough and had been accepted by the trade only after long, protracted and difficult negotiations.

The Chief Secretary, Treasury said that CCA approximations on the lines proposed would give the trade an unwarranted bonus in 1981-82 and an unquantifiable though certain gain thereafter. When ~~the~~ Binder Hamlyn's report of November 1981 was made public it could be used to expose the deficiencies of a system based on CCA approximations. He recommended a price increase of only 1p from January 1982 and that, until such time as the trade could produce their own CCA calculations, the system should be based on historic cost depreciation.

The Prime Minister, summing up a short discussion, said that the meeting agreed that the increase in the maximum price of liquid milk should be of 1½p a pint from 10 January 1982 and that the dairy trade should be told that for one year the calculations would be on an approximate CCA basis, as set out in Binder Hamlyn's report of November 1981, but that thereafter they would be either on the basis of proper CCA calculations made by the dairy trade themselves or, pending such calculations, on the basis of historic costs. The aim was to give the dairy trade an incentive to put their accounts as quickly as possible on a CCA basis.

The Meeting -

1. Took note with approval of the Prime Minister's summing up of their discussion.
2. Invited the Minister of Agriculture, Fisheries and Food to agree with the Chief Secretary, Treasury the terms of his announcement to the House of Commons of their decision.

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