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PRIME MINISTER

POLICY UNIT
1 February 1984

LIQUID MILK PRICES AND THE FUTURE OF MILK MARKETING

I suggest two additional arguments against raising maximum milk prices at this time.

The dairy industry has behaved in an anti-competitive fashion, and risks court action as a result. An Office of Fair Trading investigation has unearthed 54 restrictive agreements, involving 56 dairies (including most of the major ones). The agreements involve prices, discounts, restrictions on supply and the allocation of milk rounds. These have not been registered with the Registrar of Restrictive Practices and are now void. It would be odd to grant a price increase to an industry while proceedings are being considered against a number of members of it.

The dairy farmers are not, contrary to the impression given by farming Ministers, expecting an increase. In the Autumn of last year they were expecting a substantial decrease. News of a standstill would be a relief for many of them.

The decontrol of milk prices raises a tactical consideration. Controls protect the consumer from the monopoly power of the marketing boards. Just to illustrate what this power means, a farmer wishing to supply milk directly to a dairy has to pay a levy to the MMB of 1½-4p per litre. This largely removes the incentive to offer cheaper milk, from locations close to centres of milk consumption. If decontrol precedes the dismantling of the marketing monopolies, consumers may be exploited. We can therefore expect (and welcome) increased pressure from consumers organisations for fundamental changes in the milk marketing arrangements. For this reason, it is important that Michael Jopling's examination of these arrangements must be a fundamental one with full involvement of interested departments.

NICHOLAS OWEN

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