Subject on New Zealand: May 1979. Visit to Britain by Mr Muldoon.

RECORD OF THE PRIME MINISTER'S TALK WITH THE PRIME MINISTER OF NEW ZEALAND AT A WORKING LUNCH AT 10 DOWNING STREET ON 21 SEPTEMBER 1979 AT 1300

Euro Pol.

Present: Prime Minister
The Foreign and Commonwealth Secretary
The Minister of Agriculture
Mr. Timothy Raison, M.P. Minister of State, Home Office
Sir Michael Palliser
Mr. Michael Franklin
Mr. Clive Whitmore
Mr. Michael Alexander

The Rt. Hon. R.D. Muldoon
H.E. The Hon. L.W. Gandar
Mr. B.J. Lynch

Sheep Meat Regime

Mr. Muldoon said that New Zealand did not want a sheep meat regime. They wanted total access to the EEC market and did not see why they should accept regressivity in the trade at which they were best. The problem should in any case be regarded as a bilateral one between the United Kingdom and New Zealand. New Zealand lamb was produced for the UK market. To adapt their product to a different market would involve changing breeding and agricultural practices in New Zealand. It would take New Zealand up to thirty years to adapt. If New Zealand were to lose the lamb trade, it would take the heart out of the New Zealand sheep raising industry. The industry was the largest single element in New Zealand's export trade. The British market for lamb was, literally, vital.

The Prime Minister asked why New Zealand could not sell lamb to the UK without a sheep meat regime. The issue was of real concern to only three members of the Community. The Minister of Agriculture said that there would have to be a sheep meat regime. The terms of the Treaty of Rome made it impossible to argue that there should not be such a regime. Its introduction might be delayed but it would come. But it would of course be possible to call a non-regime a regime. There was already a 20% tariff on sheep meat imports as a result of the GATT agreement to which New Zealand was a party. This would have to be retained. But for the rest, the UK requirement was for free movement of sheep meat within the EEC. Since demand far exceeded supply there was no need for intervention to take place. The French and Irish had a transitional problem: the United Kingdom position was that producers in those countries could be paid a premium for three years at the expense of their own Governments. Since this approach was totally unacceptable to those Governments, there would be no agreement on the question.

Mr. Muldoon said that what was required was an amendment to the Treaty of Rome in the light of intelligent reconsideration. Treaties were not written on tablets of stone. They could be changed if the signatories of the Treaty had the will to do so. The Community would not necessarily last for ever. If it were to break down it might well be over the Common Agricultural Policy (CAP). Economic lunacy could not go on indefinitely.

The Foreign and Commonwealth Secretary said that the CAP was being used to finance the solution to the social problems of some Member States. Sir Michael Palliser pointed out that while it had in the past been used for essentially social purposes, this was no longer the case. But the CAP was politically very popular in a number of countries. It had become part of the political mythology in France and other Member countries. It would have to be retained. But of course a less extravagant way of financing it would have to be found. Mr. Muldoon asked what price the British public was paying for the CAP. The reasoning underlying it was untenable. Sir Michael Palliser suggested that this was not the right way to put the question. The basic problem was to ensure that we extracted the maximum benefit from our membership of the EEC. The other members of the EEC had to be brought to realise the need to take more notice of British concerns. It had been very difficult for the last Government because they were suspected of trying to undermine the Treaty. The present British Government were much better placed to ensure that their interests were taken into account.

The Prime Minister said that member countries should pay for their own social problems. She agreed with Mr. Muldoon that the reasoning underlying the CAP was untenable. Food prices were an important element in inflation and had to be contained. Moreover, the CAP was having a damaging effect on agriculture in non-member countries. There was no overall view of its consequences. The Minister of Agriculture said that the burden of the CAP was excessive. The British contribution was monstrous. But it was important that we should not, in doing a deal to reduce our net contribution to the Budget, commit ourselves to the continuation of the CAP in its present form. The Foreign and Commonwealth Secretary said that one reason why the UK imported food from outside the EEC, thereby pushing up our contribution to the Budget, was that the British consumer wanted products eg hardwheat, not produced within the Community. The Prime Minister said that the CAP had come to such a pass that changes would have to be made. Agreeing with Sir Michael Palliser that the 1% VAT ceiling would in any case precipitate a crunch, the Prime Minister said that there was a risk that because of our requirement for change on the Budget, we should be blamed. It would be wise, therefore, for us to clear our minds about reform of the CAP before the 1% VAT ceiling was reached.

Reverting to the sheep meat question, Mr. Muldoon asked why the French were always able to call the tune. They seemed to have the other members perpetually on the wrong foot. They invariably got their way despite being in a minority of one. The Minister of Agriculture said that this was an over-simplified view. On many occasions the Community did line up against the French. But frequently the French were not in a minority of one. It was not realistic to suppose that the sheep meat regime could be avoided. The Foreign and Commonwealth Secretary said that the previous British Government had frequently been the one that was out of step but that the policy had not paid many dividends. Mr. Muldoon repeated his view that the sheep meat issue should be a bilateral one. Every round in the argument that was lost was a further nail in New Zealand's coffin. If a regime was agreed - and even if it was a non-regime - someone else would built on it at a later stage. The Minister of Agriculture said that the realities of the situation were that there was no problem about New Zealand lamb coming in. The only barrier was the GATT tariff. This would not be deconsolidated. The EEC would not go to GATT and ask for a lower tariff. The only possibility was that the Commission would propose the offer of a fixed volume of imports of New Zealand lamb in exchange for a lowering of the tariff. Mr. Muldoon said that this approach was not acceptable. The Minister of Agriculture said that this was for Mr. Muldoon to decide. But it was important to remember that New Zealand's bargaining position was not strong. The UK would get the best quotas it could in 1981 but New Zealand had no other allies within the EEC.

Rhodesia

On Rhodesia, Mr. Muldoon asked whether there was anything he could do to help with the Rhodesia Constitutional Conference. He would be very happy to tell Mr. Smith that the end of the road had been reached. The Foreign and Commonwealth Secretary took note of Mr. Muldoon's offer.

The discussion ended at 1430.

21 September 1979