From the Minister's Private Office

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

15 May 1980

Dear Michael,

PRIME MINISTER'S MEETING WITH MR TALBOYS - 16 MAY 1980

In preparation for the Prime Minister's meeting with Mr Talboys at 12.30 tomorrow I attach briefing that has been approved by my Minister. The briefing on mutton has been prepared in consultation with the Foreign Office who are content with it. The contingency brief on butter does no more than rehearse the factual situation and take the line that Ministers have been taking with the New Zealanders about negotiations for the continuation of access for New Zealand butter after the end of this year.

I am copying my letter and its enclosures to Paul Lever (FCO), John Wiggins (Treasury), Godfrey Robson (Scottish Office), John Craig (Welsh Office), R Harrington (Northern Ireland Office) and David Wright (Cabinet Office).

Yours sincerely
Garth Waters

G R WATERS
Principal Private Secretary

BRIEF FOR THE PRIME MINISTER'S MEETING WITH MR TALBOYS: 16 MAY 1980

POINTS TO MAKE

SHEEPMEAT

1. Share your concern about revised Commission proposals. I know you have been discussing these in detail with Peter Walker.

2. Intervention not necessary for sheepmeat and at level proposed could create serious disruption especially in the longer term. Even if mainly in autumn with possibility of Member States deciding not to intervene problems will arise. Will continue to expose shortcomings of proposals and in particular of intervention price proposed.

3. Share your opposition to export refunds. These are not included in the proposals and we are determined to resist them.

4. You have security of GATT binding if choose not to conclude Voluntary Restraint Arrangements (VRAs). But I favour VRAs in the right context because they could provide a basis on which the Community and third country suppliers could work together with greater certainty as well as giving New Zealand producers the benefit of a tarriff cut.

5. Gundelach understands that New Zealand's agreement to a voluntary restraint arrangement depends on the nature of the Community's internal regime. New Zealand should keep him up to the mark.

BACKGROUND NOTE

SHEEPMEAT

1. Mr Talboys has been touring European capitals expressing concern about the Commission's revised proposals for an intervention based regime and the possibility that export restitutions might be proposed to facilitate the disposal of intervention stocks either now or in the future. He has indicated that these could jeopardise the conclusion of voluntary restraint agreements.

2. As a result of these talks Mr Talboys knows that the other Member States see it as a political issue which must be solved in the context of the Budget and are prepared in that context to agree to high priced intervention arrangements which several of them would certainly not accept in isolation. Gundelach made it clear to him that intervention cannot be avoided if the French are to be satisfied. He has, however, tried to soothe Mr Talboys by arguing that the intervention proposed is limited and that he would not be proposing export refunds. They will be meeting again on 23 May before Mr Talboys returns to New Zealand and before the next Agriculture Council on 28/29 May. The first session of the voluntary restraint negotiations has however been deferred until after the Council.

3. The Commission has now circulated a revised formal proposal incorporating intervention arrangements on the lines broadly agreed by other Member States in Luxembourg. The basic price and the Continental intervention price would be at the levels (345 ECU/100kg and 293 ECU/100kg) favoured by the French. The UK and Irish intervention price would be 25 ECU lower, which is much more than the export cost from those countries to the Continent and could result in large quantities going over to France to increase intervention there. It has been accepted at technical level that intervention could be optional (when the price conditions occurred) but this does not remove the risk of exports into intervention. Premium proposals remain

unchanged and do not offer the UK a fair share of maximum receipts in either the first year or the longer term. Export refunds are not proposed, but the Commission do not seem prepared to make a firm commitment on this point for the future. Anyway under the present proposals the Commission could, with the approval of the Management Committee (which operates on majority voting) dispose of intervention stocks at low prices on world markets. Since the Commission's proposals offer no advantages at all to the UK (the major producer and consumer) the Minister of Agriculture is considering the possibility of seeking a variable premium (FEOGA-financed) in the UK as part of a package involving intervention and will be consulting his Ministerial colleagues.

4. Mr Gundelach visited the Minister of Agriculture on 13 May and confirmed that he was not proposing export refunds. Mr Gundelach said he would not finalise the sheepmeat regulations until he was assured of the agreement of the New Zealand authorities. The Minister of Agriculture is proposing to write to Mr Gundelach seeking assurances about the New Zealand interest and about export refunds in particular.

5. New Zealand sends over half the sheepmeat she produces to the UK (some 200,000 tonnes worth about £170m) and about 7% to other Member States. She supplies about half of UK consumption. Sheepmeat and wool account for nearly a third of New Zealand's export earnings.

MR TALBOYS' MEETING WITH THE PRIME MINISTER - 16 MAY 1980

CONTINGENCY BRIEF ON ACCESS FOR NEW ZEALAND BUTTER TO THE EEC

1. <u>1980 position</u>

New Zealand has the right to export 115,000 tonnes of butter to the UK in 1980. 40,000 tonnes have been imported in the first four months of the year, and, earlier in the year, sales held up well at about 2,000 tonnes a week but have recently declined to about 1,500 tonnes. It is possible therefore that New Zealand will have difficulty in selling her full entitlement this year. Because of this, and because the New Zealanders are already holding stocks of about 70,000 tonnes in the UK, some carried forward from last year, with an entitlement to bring in a further 75,000 tonnes, the Commission is likely to propose to the Council that New Zealand's quota for 1980 should be cut by 20,000 tonnes. New Zealand is naturally opposed to this reduction but might be prepared to accept it if accompanied by satisfactory longer term arrangements for access.

2. <u>Post-1980 position</u>

The Commission are reported to have agreed on proposals which would give New Zealand an entitlement of 100,000 tonnes in 1981, declining to 90,000 tonnes in 1985, and subsequent years. The proposals would also allow a higher take-home price through improved levy arrangements. With New Zealand's agreement we are pressing for early consideration of post-1980 arrangements in both the Foreign Affairs and Agriculture Councils.

3. Although the Commission's proposals are not generous in terms of quantities, the higher price resulting from the improved

levy arrangements, and the proposal to continue access arrangements after 1985 make a package which New Zealand Ministers have said they could live with.

4. There has so far been no attempt to link access for New Zealand butter with the price package or the budget problem.

5. Line to take

If the subject is raised, the Prime Minister is advised to agree that early consideration should be given in both Foreign Affairs and Agriculture Councils, and say that we shall keep the New Zealanders closely in touch with progress.