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Top Copy on: New Zealand, May 79, Visit of Muldoon

SUMMARY RECORD OF DISCUSSION DURING A LUNCH GIVEN BY THE PRIME MINISTER FOR THE PRIME MINISTER OF NEW ZEALAND, THE RT. HON. ROBERT MULDOON, AT 10 DOWNING STREET on 11 JUNE 1979 AT 1315 HOURS

Present:-

Prime Minister

Rt. Hon. William Whitelaw, MP

Rt. Hon. Lord Carrington

Rt. Hon. Peter Walker, MP

Sir Harold Smedley (High Commssioner, Wellington)

Mr. B.G. Cartledge

Rt. Hon. R.D. Muldoon, CH, MP

HE the New Zealand High Commissioner

Mr. Alistair Bisley (Foreign Affairs Adviser to the Prime Minister)

Mr. B.J. Lynch (Deputy High Commissioner

Butter

When the conversation turned to political matters, the Prime Minister asked Mr. Muldoon how he saw the prospects for New Zealand butter. Mr. Muldoon said that the Prime Minister had only to remember one figure: 100,000 tonnes. This was the quota figure which New Zealand wished to agree with the EEC. The proposals put forward by Commissioner Gundelach were in general satisfactory, subject to the insertion in them of the right basic quota figure. The Commissioner's proposals met New Zealand's requirement for a long term agreement with the Community, instead of annual arguments. Mr. Muldoon said that Commissioner Gundelach had told him that he spent more time on the affairs of New Zealand than on those of any other country outside the Community. Mr. Muldoon went on to explain that unless New Zealand could achieve economic growth, she would never be able to overcome the problems created by the world increase in oil prices.

Mr. Walker said that, when he had himself met Commissioner Gundelach a few days before, the Commissioner had mentioned the figure of 90,000 tonnes as a possible target. Mr. Muldoon expressed considerable interest in this and commented that if a compromise were eventually to be reached on a figure of 90,000 tonnes, New Zealand could probably live with this: but in order to achieve it, they would have to put in an opening bid of 100,000 tonnes.

/Mr. Walker

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Mr. Walker said that Mr. Gundelach's visit to New Zealand had produced a very good and positive effect. There was, however, a problem in the proposal that supplies of New Zealand butter should be limited to a specified percentage of the British market. Mr. Muldoon confirmed that this would not be acceptable to New Zealand. The Prime Minister said that she could well understand this, since the UK market depended on the fluctuating price relationship between butter and margarine. Mr. Walker pointed out that the other Members of the Community believed that the market for butter would decline; they consequently preferred to establish the New Zealand quota on a percentage basis rather than commit themselves to a fixed quantity. He thought that the Community might be prepared to offer, for example, a figure of 110,000 tonnes, tied to a percentage of the UK market, or alternatively a quota of 80,000 tonnes with no percentage link. The British Government would need advice from the New Zealand Government on the optimum figure between these extremes for which New Zealand could settle. Mr. Muldoon said that New Zealand definitely wished to avoid a percentage link but might be able to settle for a quota of 90,000 tonnes with no such link.

Mr. Walker said that he thought that the New Zealand Government had achieved considerable success in their careful cultivation of EEC Members; they had created an atmosphere in which the Community would feel acutely guilty about any measures which could be represented as ill-treatment of New Zealand. New Zealanders should maintain their diplomatic efforts. Mr. Muldoon commented that he was trying to moderate his public comment on the EEC. Mr. Walker added that the UK would have to work very hard on the Irish.

Sheep Meat

Mr. Walker said that the sheep meat problem would come before the Council of Ministers in July. The kind of sheep meat regime on which the UK was at present insisting would, he was sure, prove unacceptable to the French. The Prime Minister made it clear that

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she had strong reservations about a sheep meat regime in any form. Mr. Walker said that he thought that the UK should be prepared to accept a regime provided that New Zealand's interests were adequately safeguarded and that the regime allowed for the free export of UK lamb to France. If the French were prepared to accept these conditions, well and good; if not, there would be no regime.

Mr. Muldoon said that sheep were New Zealand's single most important product and an integrated industry, for wool as well as meat, had been built around it. If New Zealand could not secure a growth area in her exports, her economy would inevitably go downhill. In answer to a question from Lord Carrington, Mr. Muldoon confirmed that New Zealand had developed a breed of lamb for the UK market and that this type of lamb was unsaleable elsewhere. Mr. Walker said that the UK should be able to make more room in our domestic market for New Zealand lamb if we could export more to the Continent. Lord Carrington said that the French would either have to disregard the European Court's latest ruling or agree to take in UK lamb; he thought that they would, in the end, accept a regime of the sort we had in mind. The Prime Minister said that the trouble with any regime was that its terms might be acceptable initially, but that these could subsequently be modified. Mr. Walker pointed out that this could only be done with the agreement of all concerned, including the UK.

Mr. Muldoon told the Prime Minister that New Zealand had at present a deficit of $250 million on her invisibles account with the UK, although New Zealand had an overall trade surplus. If New Zealand was pledged to accept a sheep meat regime, this would amount to a loss of ground since, as the Prime Minister had said, the terms of a regime could always be tightened. A Bill on beef imports, which would allow the import of beef into the United States only when this was necessary to make up for a domestic shortfall, was currently under consideration by the US Congress and, although modifications might be made to it, the "counter-cyclical" formula had evidently been accepted. Mr. Muldoon went

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on to say that, in his view, the entire Common Agriculture Policy was a nonsense so far as the UK was concerned: not only did it have the effect of raising prices for the UK consumer but it pledged the British Government to pay for this as well. The Prime Minister agreed and mentioned a possible French proposal under which the countries which produced agricultural surpluses would become responsible for paying for them. Mr. Walker said that he thought the French were talking only about future surpluses: their purpose was to freeze British agriculture at its present level of production, while safeguarding French agriculture which had reached its ceiling. France was using the CAP to defend her social structure. Unfortunately, it was not in the UK's power to achieve a substantial reform of the structure of the CAP. Mr. Muldoon said that he was inclined to question this, in view of the fact that the CAP had already been subjected to significant amendment.

Mr. Muldoon went on to say that he regarded the OECD trade pledge as an exercise in diplomatic hypocrisy. Every year one of the nations which had signed the trade pledge tightened up its restrictions against New Zealand's agricultural exports. He thought there was so wide an understanding of the basic weaknesses of the CAP that change should surely be possible. The Prime Minister commented that Chancellor Schmidt had a clear understanding of these weaknesses but was unable to do anything about it because his Agriculture Minister, Herr Ertl, belonged to the other coalition party. Mr. Walker suggested that the UK and New Zealand should keep in close touch on the tactics to be pursued with the EEC; they clearly shared the same objectives.

Lord Carrington asked Mr. Muldoon whether Australia was holding back from New Zealand's markets. Mr. Muldoon said that there were informal agreements which had this effect; Australia and New Zealand were co-operating in third markets. Negotiations were in train which could result in a run down of Australia's dairy industry. Mr. Muldoon repeated that the 15 per cent gap

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in New Zealand's terms of trade could only be made up by achieving growth. The New Zealand fruit industry, for example, was growing fast but not sufficiently fast to pay for increased oil costs; New Zealand's oil imports had cost $193 million in 1973, had risen to $630 million in 1979 and would amount to $730 million in 1980. The New Zealand Government were making slow progress with the Japanese on fish. The Japanese hated to give ground but they had agreed to use New Zealand's agricultural products for their food aid programme, in return for some access to New Zealand's fishing grounds. He had been advised not to embarrass the Japanese in public but he had also been told that he would not make progress unless he did so; in his experience, the second line of advice was the right one. Japan's access to New Zealand's waters would be strictly controlled; New Zealand had already arrested two Japanese fishing vessels, as well as ships from Korea and the Soviet Union. So far as New Zealand's wool industry was concerned, exports were increasing satisfactorily, especially to the West Coast of the United States.

[The discussion concluded with some exchanges on the forthcoming Commonwealth Heads of Government Meeting in Lusaka, which have been recorded separately.]

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11 June 1979