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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
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From the Minister

*Rmie Miller*

(2)

The Rt Hon Lord Carrington KCMG MC  
Foreign and Commonwealth Secretary  
Foreign and Commonwealth Office  
Downing Street  
London SW1A 2AL

23 January 1980

*I spoke to Brian Talboys about this  
when he was here. 90,000 tons in 1980  
little and we should fight for  
100,000. Even that involves*

*Oliver*

*very substantial reductions. We really  
must stick by New Zealand  
not*

NEW ZEALAND BUTTER: POST 1980 ACCESS

We can expect the EEC Commission to publish shortly its proposals for the importation of New Zealand butter into the Community after the end of 1980. Officials have already given preliminary consideration to some of the detailed implications of this question, based on the report the Commission published last autumn and on what we have learned informally of their intentions. I think it would be helpful, however, if we could now agree on our broad negotiating aims and tactics.

2. The background is that Protocol 18 of the Act of Accession authorised the United Kingdom to import certain quantities of butter and cheese from New Zealand under special arrangements for the years 1973-77, subject to the observance by New Zealand of a minimum c.i.f. price and payment of a special reduced levy. Access for cheese ended at the end of 1977 (though relatively small quantities can now come in again as a result of the recent MTN agreement in the GATT). For butter, the Council agreed in 1976 a Regulation authorising the importation into the United Kingdom of 125,000, 120,000 and 115,000 tonnes of New Zealand butter in 1978, 1979 and 1980 respectively.

3. It now seems that Commissioner Gundelach has in mind a proposal which will seek a voluntary reduction in New Zealand's entitlement for 1979 and 1980 by 10,000 tonnes in each year (though in practice of course this would all have to come out of the 1980 figure). Thereafter starting from a figure of 100,000 tonnes in

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1981, there would be reductions of 2,500 tonnes a year until 1985. From 1985 onwards, the entitlement would stabilise at 90,000 tonnes, unless butter consumption declined, in which case the arrangements would be reviewed. Thus, in terms of duration the arrangement would be virtually open-ended, and as such would probably fall outside the terms of Protocol 18, which is essentially a transitional measure. If, as the Commission have already suggested, access was to the Community rather than to the UK market, a new legal basis would be required for that reason as well.

4. The Commission are also likely to try and get away from the present system, which requires them to fix a 'take-home' (ie c.i.f.) price via the Council, and then to adjust New Zealand's special levy in the Management Committee so that her butter can sell up to entitlement without disrupting the Community market. Instead, their thinking is that a fair return for New Zealand from the market would be assessed as a percentage of the intervention price, and that the levy, to be fixed at intervals by the Council, should make up the difference between the two price levels. There would, however, be no minimum selling price as at present, so the New Zealanders would be free to balance their interest in selling their full quantity against selling at the highest obtainable price, subject only to certain restrictions on the quantities they could debond at any given time. In principle, this would be a distinct improvement on the present system where the Commission has been reluctant to propose adjustments to New Zealand's c.i.f. price and the Management Committee has for long periods set the levy so high that the New Zealanders have been prevented from selling on our market.

5. If these proposals can be got through the Commission and subsequently of course through the Council, it seems to me that they would represent a reasonable outcome for the New Zealanders. Although they stress the large reductions that they have already suffered in their entitlement since 1973 (when it was 165,000 tonnes), they have indicated that they could live with 90,000 tonnes as a 'rock bottom' figure at the end of the new period, and of course an open-ended arrangement would have considerable attractions to them. Also, their revenue position would be reasonably well protected if, as we understand Gundelach has in mind, the Commission proposed a c.i.f. price related to 75% of the intervention price, since in recent years this figure has varied from 50-60%. The New Zealanders do have some reservations on the principle of a restrictive control of their debondings and we have yet to assess fully all the implications of an arrangement that did not fall under Protocol 18 and gave access to the Community as a whole. However, I do not see these as major problems.

6. The difficulty is, of course, to ensure that the Commission's proposals survive in the Council. It would be hard to over-estimate the hostility to New Zealand access in many Member States, particularly France, Ireland and Denmark. Indeed, only Germany

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has shown any recognition that wider considerations should play a part in the decision on further access. Moreover, our task will not be made any easier by the fact that other Member States will see New Zealand butter as increasing the disposal problems of a market which is already heavily over-supplied or by the financial effects set out in the attached note. Thus, although the fact that New Zealand imports generate income as well as expenditure for the EEC means that the net budgetary implications for the Community are (on our figures) fairly small and hence the impact in terms of reaching the 1% VAT ceiling pretty marginal, other Member States will almost certainly seek to turn the point against us in discussion on the budget and on CAP economies.

7. Nevertheless, I firmly believe that for wider political, economic and strategic reasons, we must do everything we can to secure a satisfactory outcome for New Zealand. I therefore propose to press strongly in the Council that reasonable access on a lasting basis should be assured. In particular, whilst endorsing an open-ended arrangement of the sort now envisaged by Gundelach, I intend, at least initially, to argue that, since New Zealand has already had her entitlement cut substantially since 1973, and further reductions are insignificant in the context of the Community's surplus, there is no case for any subsequent reduction in her entitlement below the 115,000 tonnes provided for in 1980. In that way, we might, in the face of pressures from other Member States in the opposite direction, hope to end up at or near to the figures we expect the Commission to propose.

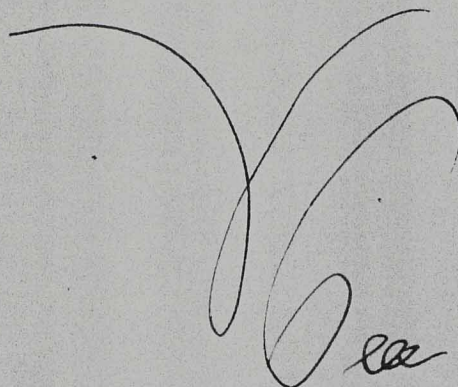
8. Irrespective of the eventual outcome, we do of course face a difficult timing problem. The New Zealanders are naturally anxious to know as soon as possible where they will stand after the end of the year. However - even assuming the Commission's proposals are received in time -- if we press for an immediate decision in the Council, we then run the very real risk that discussions of this issue will become linked with those on the Community Budget. On the other hand, there are also clear advantages in avoiding a link being made with the 1980-81 CAP price fixing. Ideally, therefore, we should look for a settlement on New Zealand some time between these two events. In practice, of course, it will be virtually impossible to avoid one or other of these links being drawn, in which case I think the less damaging one would be with the price fixing. I am inclined, therefore, to let discussion run its course in the Agriculture Council, with the proviso that we should be ready if necessary to bring the issue to a head at the European Council scheduled for June in Venice. Certainly, if a decision is delayed beyond then, there would be a risk that nothing would be decided until the following year, by which time New Zealand's present access will have lapsed and our negotiating position correspondingly weakened.

9. We have, of course, maintained close touch with the New Zealanders both through the recent visits by Mr Muldoon and

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Mr Talboys and our regular contacts with the High Commission. However, if you and our other colleagues are content with the approach I have suggested, I would propose that my officials should have a further word with the High Commission, particularly as regards the latest prospects on timing.

10. I am sending copies of this letter to the Prime Minister, to the other members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland, and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'Peter Walker', with a large, stylized initial 'P' and 'W'.

PETER WALKER

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## BALANCE OF PAYMENTS AND PUBLIC EXPENDITURE IMPLICATIONS OF REDUCING NEW ZEALAND BUTTER IMPORTS TO UK MARKET

(All calculations per thousand tonnes change in quota)

1. <u>EEC budgetary implications</u>	<u>EUA</u>
(i) reduction in export restitutions	- 1,921,000
(ii) increase in MCA expenditure with UK on 600 tonnes with MCA at 3.5%	+ 86,000
(iii) loss of 90% of New Zealand levy net of MCA	+ 675,000
(iv) increase cost of butter subsidies 1000 tonnes	+ 438,000
Total EEC budget <u>reduction</u>	- <u>722,000</u>
2. <u>UK saving in gross budgetary contribution</u>	£
(i) VAT element at 17%	+ 80,000
(ii) levy element (100%)	+ 487,000
Total <u>reduction</u> in UK gross contributions	+ <u>567,000</u>
3. <u>UK balance of payments implications</u>	£
(i) loss on balance of trade	- 394,000
(ii) loss of 10% refund on New Zealand levy	- 49,000
(iii) loss of export restitution on UK exports of 400 tonnes	- 457,000
(iv) total reduction in UK gross contributions	+ 567,000
(v) butter subsidy receipts on 1000 tonnes	+ 284,000
Total <u>loss</u> to UK balance of payments per 1000 tonnes reduction	- <u>49,000</u>
4. <u>Public sector borrowing requirement</u>	£
(i) saving in VAT contribution	+ 80,000
(ii) loss on 10% refund on New Zealand levy	- 49,000
	<u>31,000</u>

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5. Public expenditure

£

Programme 2.7 (contribution to EEC Budget)	
(i) saving in UK gross contribution	- 567,000
(ii) loss of 10% refund on New Zealand levy	+ 49,000
(iii) receipts from EEC budget in respect of butter subsidy	- 284,000
Programme 3 (IBAP expenditure)	
(iv) expenditure in UK on butter subsidy	+ 284,000
Fall in public expenditure	<u><u>- 518,000</u></u>

Assumptions

For the purposes of these estimates it is assumed that:-

- (i) any reduction in NZ butter sendings is replaced on the UK market by butter which would have received export refunds.
- (ii) that the various EEC countries, including the UK, retain their respective shares of the UK butter market;
- (iii) that savings on 1,000 tonnes of NZ butter are outweighed in balance of payments terms by losses from 600 tonnes of higher cost EEC butter and a 400 tonne reduction in UK exports;
- (iv) that the reduction in NZ butter sendings will have little effect on retail prices and thus on demand for butter;
- (v) that NZ butter will replace EEC butter on third country markets where EEC supplies are withdrawn, but the increased availability of NZ butter will not reduce world prices and thus require greater EEC refunds.

These assumptions appear reasonable within a range of possible reductions from 10,000-30,000 tonnes. The balance of payments figures reflect current arrangements which make it easier to export surplus butter than to dispose of it internally.

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287,000	(i) savings in UK Gross contribution
49,000	(ii) loss of UK retained on New Zealand levy
284,000	(iii) receipts from EEC budget in respect of butter subsidy
284,000	Programme 2 (LBP expenditure)
284,000	(iv) expenditure in UK on butter subsidy
218,000	Net in public expenditure

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For the purpose of these estimates it is assumed that the UK market for butter which would have received export refunds...

(i) any reduction in UK butter sales is restricted to the UK market by factor which would have received export refunds...

(ii) that the various EEC countries, including the UK, remain at their respective shares of the UK butter market...

(iii) that savings on 7,000 tonnes of butter are offset by a balance of payments terms by 400 tonnes of butter and a 400 tonnes of butter in UK...

(iv) that the reduction in UK butter sales will have little effect on retail prices and thus on demand...

(v) that UK butter will replace EEC butter in the UK market and that the increase in demand for UK butter will not reduce world prices and thus reduce EEC receipts...

These assumptions appear reasonable with a view to possible... The balance of payments... which will have to be taken into account...

23 JAN 1980

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