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EUROPEAN COUNCIL, LUXEMBOURG

1/2 DECEMBER 1980

NEW ZEALAND BUTTER: POST 1980 ACCESS

Brief by the Foreign and Commonwealth Office

OBJECTIVE

1. To pave the way for agreement at the 8/9 December Agriculture Council on terms acceptable to New Zealand.

POINTS TO MAKE

2. Decision long overdue.

3. New Zealand a friend to Europe, a Western ally and a factor for stability in South Pacific. Also good market for EC.

4. But in real terms less prosperous now than in 1973 (see Annex). Economy vulnerable. High level of net emigration. Economic problems due in large measure to difficulty of trading in dairy sector (accounts for 16% of total foreign exchange earnings). Access to traditional UK market already reduced to less than half 1973 level. Major effort of diversification already undertaken. But obvious alternative developed country markets such as US and Japan closed to New Zealand because of domestic agricultural policies of those countries.

5. Community has made commitments to New Zealand (Protocol 18 of Treaty of Accession; 1975 Dublin Declaration). We risk placing ourselves in breach of these commitments unless there is prompt agreement on acceptable arrangements.

6. Not appropriate for European Council to try to settle detailed provisions for post-1980 access. But interests of New Zealand cannot be brushed aside.

7. (If President Giscard tries to link New Zealand access with butter exports to Soviet Union.) These are separate issues.

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BACKGROUND

References: A: Protocol 18 of UK Treaty of Accession  
B: Extract from March 1975 Dublin Declaration

11. In July 1980 the Commission put forward a proposal for a new regulation which would have provided for New Zealand's quota to decline from 97,500 tonnes in 1981 to 90,000 for 1984; for the arrangement to run indefinitely thereafter; for a reduced levy and other improvements in the financial arrangements; and for access to be to the Community as a whole, instead of just the UK.

12. This proposal was discussed for the first time by the Agriculture Council at its meeting on 10/11 November. As expected, the main difficulty proved to be the question of duration. Only the UK supported the Commission's wish to provide for open-ended access. All other Member States wanted a limited term and all except France could accept three years. In order to increase French isolation Mr Walker indicated that the UK could reluctantly accept three years also.

13. At the Agriculture Council there was also some erosion of the Commission's proposals on quantities. A number of Member States said they could not accept the 2,500 tonne increase in 1981 over the figure of 95,000 tonnes already agreed for 1980. The Commission therefore indicated that it would reduce the quota levels it was proposing by 2,500 tonnes in each of 1981, 1982 and 1983, i.e., to levels of 95,000 tonnes in 1981, 92,500 in 1982 and 90,000 in 1983. We have not yet accepted this further cutback. Only France and Ireland are arguing for still lower figures. The Irish say they want a 1981 quota of 'less than 80,000 tonnes' and the French 65,000 tonnes.

14. The Agriculture Council agreed that in order to break the deadlock the key issues of quantities and duration should be referred to the 24/25 November Foreign Affairs Council. However France again held out for a one-year term and Germany (hitherto a strong supporter of New Zealand) unhelpfully suggested that under a 3-year arrangement quantities should be set for the first year only and that a decision on subsequent years should be taken only in the light of progress on restructuring.

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15. In the UK the parliamentary position is that in a Scrutiny debate in July the Government accepted an opposition amendment calling for 'permanent access' and 'a quota for 1984 of not less than 90,000 tonnes' (ie the arrangements originally proposed by the Commission). Mr Walker suggested, and colleagues agreed, that acceptance of a new arrangement with a limited initial term could be justified to the House of the following grounds:

'(a) The arrangement has a continuing commitment to import New Zealand butter after the three or four years for which specific quantities will be laid down;

(b) It would have been more damaging to New Zealand to have no arrangement at all and the deal is in the terms which were the most favourable that could be obtained for New Zealand at the time.'

In view of this, it is extremely important from our point of view that any limited term arrangement should be accompanied by an adequate commitment to renewal.

16. The New Zealanders' position is that they would reluctantly be prepared to accept a decision which involves 'a term of at least three years with scope for renewal beyond 1983 and the other elements [of the original Commission proposal] remaining substantially unchanged'. They have confirmed to us that, as the last phrase suggests, they would accept the revised Commission proposals on quantity (starting at 95,000 tonnes in 1981). They have said that they are not ready to accept a term of less than three years. In the very last resort (ie towards the end of December) they would consider accepting a temporary roll-forward of the existing arrangements with no set time limit.

17. There have been hints that the French may in fact be prepared to move to two years, but they have as yet given no clear signal that they are definitely willing to do so. They are no doubt trying to get themselves into a position where they can link post 1981/82 access for New Zealand with restructuring.

18. Officials are urgently considering the tactical options against the possibility that the European Council is unable to reach agreement.

ANNEX

## NEW ZEALAND ECONOMY

(a) Extracts from conclusions of March 1980 OECD survey.

'... The present outlook is for little growth in real GDP linked to a persistent current external deficit of about 3 1/2 per cent of GDP, relatively strong inflation and a high but stable level of unemployment ... In the short run the first priority of policy must be to reduce inflation while at the same time - especially in view of the expected deterioration in the terms of trade - ensuring steadier management of the economy than in the past. A major constraint on policy and structural adjustment is the widespread trade restrictions applying to New Zealand's agricultural exports which are inhibiting the growth of the farm sector. As argued in the last survey other countries could thus facilitate adjustment in New Zealand by improving market access and in this regard it is to be noted that some important decisions affecting products vital to New Zealand are expected in 1980 ...'.

(b) Change in real income per capita adjusted for terms of trade in selected OECD countries.

Percentage change from 1973 to 1977 (source OECD) and 1980 (source New Zealand Government statistics)

	<u>1973/1977</u>	<u>1973/1980</u>
New Zealand	-11.5%	-4.7%
France	+11%	N/A
Germany	+ 6.1%	N/A
Italy	+ 7.2%	N/A
UK	- 2.4%	N/A

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(c) New Zealand Government Statistics

	Growth of real GNP per head (1) per cent	Balance of payments (1) (worldwide) NZ \$	Balance of payments (2) with EC NZ \$	Terms of trade (2) 1957=100
1973	2.1	+ 142	+134.5	113
1974	5.1	- 99	-123.6	112
1975	2.2	-1,364	-426.0	78
1976	-1.0	-1,016	-338.3	72
1977	-0.6	- 844	- 93.9	79
1978	-2.3	- 716	-118.2	78
1979	N/A	- 483	- 74.4	85

NOTES: (1) Years ending June

(2) Years ending March

NZ \$1 = US \$0.9783 (average 1979 rate)

PROTOCOL No. 18 — ON THE IMPORT OF NEW ZEALAND  
BUTTER AND CHEESE INTO THE UNITED KINGDOM

The following is the text of Protocol 18 to the Treaty concerning the Accession of the Kingdom of Denmark, Ireland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland to the European Economic Community ... Brussels, 22 January 1972.

[See especially Article 5.2]

ARTICLE 1

1. The United Kingdom is authorised, as a transitional arrangement, to import from New Zealand certain quantities of butter and cheese on the following terms.

2. The quantities referred to in paragraph 1 shall be:

(a) in respect of butter for the first five years:

1973,	165,811 metric tons
1974,	158,902 metric tons
1975,	151,994 metric tons
1976,	145,085 metric tons
1977,	138,176 metric tons.

(b) in respect of cheese:

1973,	68,580 metric tons
1974,	60,960 metric tons
1975,	45,720 metric tons
1976,	30,480 metric tons
1977,	15,240 metric tons.

The Council, acting by a qualified majority on a proposal from the Commission, may make adjustments between those quantities of butter and cheese, provided that the tonnage expressed as milk equivalent corresponding to the total quantities laid down for those two products for the year in question remains unaltered.

3. The quantities of butter and cheese specified in paragraph 2 shall be imported into the United Kingdom at a price, the observance of which must be guaranteed at the CIF stage by New Zealand. That price shall be fixed at a level which enables New Zealand to realise a price representing the average price obtained by that country on the United Kingdom market during 1969, 1970, 1971 and 1972.

4. The products imported into the United Kingdom in accordance with the provisions of this Protocol may not become the subject of intra-Community trade or of re-exportation to third countries.

ARTICLE 2

1. Special levies shall be applied to imports into the United Kingdom of the quantities of butter and cheese specified in Article 1. Article 55 (1) (b) of the Act of Accession shall not be applicable.

2. The special levies shall be fixed on the basis of the CIF price referred to in Article 1 (3) and of the market price of the products in question within the United Kingdom, at a level such as to allow the quantities of butter and cheese to be effectively marketed without prejudicing the marketing of Community butter and cheese.

ARTICLE 3

The Council, acting by a qualified majority on a proposal from the Commission, shall adopt the measures necessary for implementing Articles 1 and 2.

ARTICLE 4

The Community shall continue its efforts to promote the conclusion of an international agreement on milk products so that, as soon as possible, conditions on the world market may be improved.

ARTICLE 5

1. The Council shall, during 1975, review the situation as regards butter in the light of prevailing conditions and of supply and demand developments in the major producing and consuming countries of the world, particularly in the Community and in New Zealand. During that review, among the considerations to be taken into account shall be the following:

- (a) progress towards an effective world agreement on milk products, to which the Community and other important producing and consuming countries would be parties;
- (b) the extent of New Zealand's progress towards diversification of its economy and exports, it being understood that the Community will strive to pursue a commercial policy which does not run counter to this progress.

2. Appropriate measures to ensure the maintenance, after 31 December 1977, of exceptional arrangements in respect of imports of butter from New Zealand, including the details of such arrangements, shall be determined by the Council, acting unanimously on a proposal from the Commission, in the light of that review.

3. After 31 December 1977, the exceptional arrangements laid down for imports of cheese may no longer be retained.

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N.Z. Butter  
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DUBLIN DECLARATION 1975

The Heads of Government meeting in Council in Dublin on 10 March [1975] underline the importance which they attach to Protocol 18 of the Act of Accession, as regards the relations of the Community with New Zealand, a traditional supplier of dairy products to a substantial part of the enlarged Community.

They invite the Commission to present a report in order to prepare the review provided for in Article 5 of the Protocol and to submit as soon as practicable a proposal for the maintenance after 31 December 1977 of special import arrangements as referred to in that Article. They observe that the institutions of the Community have already carried out certain price adjustments in the framework of the Protocol. In the same spirit the Community, which remains attached to a fair implementation of the Protocol, is ready to review periodically and as necessary to adjust the prices having regard to the supply and demand developments in the major producing and consuming countries of the world and also to the level and evolution of prices in the Community, including intervention prices, and in New Zealand taking moreover into account cost developments in New Zealand and trends in freight charges. As regards the annual quantities to be established by the Community institutions in the framework of the special arrangements after 1977 these should not deprive New Zealand of outlets which are essential for it. Thus for the period up to 1980 these annual quantities depending upon future market developments could remain close to effective deliveries under Protocol 18 in 1974 and the quantities currently envisaged by New Zealand for 1975. They note that Protocol 18 provides that the exceptional arrangements for the import of cheese cannot be maintained after 31 December 1977 and that this situation and the problems which may arise from it will be given due attention with appropriate urgency taking into account also the considerations in the following paragraph.

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The Heads of Government note moreover that New Zealand and the Community together provide the major part of world exports of dairy products. They therefore express the wish that in the same spirit with which the Community approaches the application of Protocol 18, an ever closer cooperation be developed between the institutions of the Community and the New Zealand authorities with the objective of promoting in their mutual interest an orderly operation of world markets. Such a cooperation apart from its intrinsic value should provide a basis from which to achieve in a wider framework the conclusion of an effective world agreement such as is envisaged in Protocol 18.