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SUBJECT MASTER

10 DOWNING STREET

From the Private Secretary

21 April 1986

Dear Robert,

**PRIME MINISTER'S MEETING WITH
THE PRIME MINISTER OF AUSTRALIA**

I enclose a record of the plenary session of the Prime Minister's talks with Mr. Hawke which were held this afternoon.

I am copying this letter to Ivor Llewellyn (MAFF), Michael Gilbertson (Department of Trade and Industry) and Michael Stark (Cabinet Office).

Yours sincerely,
Charles Powell

(Charles Powell)

R. N. Culshaw, Esq.,
Foreign and Commonwealth Office.

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PRIME MINISTER'S MEETING WITH THE PRIME MINISTER OF AUSTRALIA
AT 1615 ON MONDAY 21 APRIL AT 10 DOWNING ST

Prime Minister	Mr. Hawke
Minister of Agriculture, Fisheries and Food	Australian High Commissioner
Secretary of State, Dept of Trade and Industry	Mr. M. Codd (Secretary, Dept of Prime Minister & Cabinet)
Baroness Young	Mr. G. Miller (Secretary, Dept of Primary Industry)
Mr. Williamson (Cabinet Office)	Mr. V. Fitzgerald (Secretary, Dept of Trade)
Dr. Wilson (FCO)	Mr. P. Flood (Deputy Secretary, Department of Foreign Affairs)
Mr. Titchener (DTI)	Mr. P. Barron (Prime Minister's Political Adviser)
Mr. Wentworth (MAFF)	Mr. G. Evans (Private Secretary to the Prime Minister)
Mr. Powell (Private Secretary to the Prime Minister)	

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The Common Agricultural Policy

Mr. Hawke said that he thought that Australia and the United Kingdom shared a good deal of common ground about the difficulties resulting from the application of the common agricultural policy. Australia exported about 80 per cent of its agricultural production, which represented about 40 per cent of its export earnings. It was clear, therefore, why better access to world markets and a reduction in subsidised competition was essential. Australia had suffered the loss of its markets in Europe as the European Community moved to self-sufficiency and was losing markets elsewhere as surpluses were disposed of with subsidy. Australia itself was not subsidising its agricultural exports. He had put to President Reagan that agriculture should be high on the agenda of the next GATT round and that this should be made clear at the Tokyo Economic Summit.

The Prime Minister said that there were world-wide agricultural problems. The incidence of protection and subsidy was just as high, if not higher, in the United States and Japan as it was in the European Community. The United Kingdom, however, did not like the way in which the common agricultural policy was being run. Prices of important products such as cereals were being held too high within the Community, in particular because of the needs of German farmers as seen by the German Government, which had to take this position in order to maintain the political coalition. This in turn tended to hold other price levels up. Now that the French were net contributors to the Community budget their position on agriculture was more reasonable. The United Kingdom was continuing to work for price restraint and for measures to limit all the year round intervention; and was seeking consideration of action to take some land out of production ("set aside"), possibly for replacement by woodland.

The Minister of Agriculture, Fisheries and Food said that the United Kingdom was trying very vigorously to bring the operation of the common agricultural policy back to reality.

The Commission had made clear the consequences if action were not taken, for example the potential growth in the cereals stock up to 80 million tonnes by the beginning of the next decade. There had been cuts in real terms in the level of price support in the Community in recent years and farmers' incomes were under pressure; in the United Kingdom, for example, as a result of this price pressure and bad weather, incomes had fallen by 43 per cent last year. We intended to press on with our search for a better balance in the common agricultural policy and this would be helped by the restraining effect of the financial guideline for agriculture, although this was already under pressure.

GATT round

Mr Hawke said that he was concerned to know what view those Community member states present at the Tokyo Economic Summit would take about the place of agriculture in the next GATT round. The Secretary of State for Trade and Industry explained that the Community's position, as determined in the declaration of 19 March 1985, was that the Community was ready to work towards improvements within the existing framework of the rules and disciplines in GATT covering all aspects of trade in agricultural products but that this same resolution reiterated the determination not to place in question the fundamental objectives and mechanisms of the common agricultural policy. There would no doubt be considerable hedging among the member states. The United Kingdom thought it inevitable that agriculture would be discussed in the next GATT round. It was relevant that the United Kingdom would have the Presidency of the Council of Ministers during the latter part of this year when the Community's position on the GATT round might be further developed. The present formula would remain unless and until a new position were established. The Prime Minister said that the objections raised by President Mitterrand at the last Economic Summit had indicated already the difficulty of handling agriculture in the new GATT round. Because both President Mitterrand and Monsieur Chirac would be present at the Tokyo Economic Summit it was even more difficult to foresee the French position this time. The

Community formula, however, did not preclude the United Kingdom from supporting at Tokyo the view that agriculture must be reasonably dealt with in the next GATT round.

Relations with the United States

Mr Hawke said that he had sought from the United States two conditions on the latest United States' export subsidisation of agricultural products; first, that this should be targetted away from Australian markets; and, secondly, that in targetted markets supplies from non-subsidising exporters, such as Australia, should be maintained. He thought, however, that there would be nonetheless some effect on Australian exports. The Minister of Agriculture, Fisheries and Food said that the United States export enhancement programme was a bad policy which would reduce prices by putting an additional \$1 billion of subsidy into world markets and would damage all exporters. On the current trade dispute between the United States and the European Community about United States exports to Portugal and Spain it seemed now that the United States would delay any aggressive action beyond 1 May. The United States had been completely unreasonable on this point. It must have been clear for a long time that the mechanisms of the common agricultural policy would be applied to Spain and Portugal. In any event, the changes in Portugal were not affecting United States' trade in the immediate future.

Community's 1986 price package and immediate issues

The Minister of Agriculture, Fisheries and Food said that there were tough measures in the current price package. The effective support price for cereals would fall and a further 3 per cent cut in milk production was being proposed. The Australian Government should be aware that there were also pressures in the other direction, in particular because of the greater strength of Southern member states seeking more support for Mediterranean products. There was also pressure to put restrictions on imports of non-grain feeding stuffs, of which the Community was a major importer. The United Kingdom would continue to press for a tough price package but had also to ensure that certain elements which discriminated against

larger farmers had to be removed. There would also be serious difficulties later this year about access for New Zealand butter, since Monsieur Guillaume, the new French Minister of Agriculture, had taken a strong line in public about these imports. Mr Hawke said that, in view of these difficulties and the possibility of further disposals by the Community of its agricultural stocks, his conclusion was that he was optimistic about the United Kingdom attitude but pessimistic about early and significant changes in the operation of the common agricultural policy. The Prime Minister said that we had faced similar difficulties in past years and we would remain persistent in seeking improvements in the operation of Community agricultural support.

East/West relations and Arms Control

The Prime Minister said that she thought British and Australian views on East/West relations and arms control were not far apart. It was important to register progress on arms control at the next US/Soviet Summit.

Mr. Hawke believed that the United States was taking a positive approach. Much of the Gorbachev proposals was propaganda. But they also indicated areas where progress should be possible, for instance on INF and Chemical weapons. He hoped that the Alliance would not forget the implications for Asia of the INF negotiations.

Trade with Japan

The Prime Minister enquired whether the Australian government had registered any progress in opening up the Japanese market. Mr. Hawke said that he had conducted negotiations with the Japanese in 1984 but these had yielded only sparse results.

Australian Bicentennial

Mr. Hawke expressed disappointment at the United Kingdom's inability to allow Australia to have one of the two originals of the Constitution of Australia Act. The Prime Minister acknowledged the disappointment but pointed to the difficult precedent which would be created.

Australian Economy

The Prime Minister congratulated Mr. Hawke on the success of the Australian economy. Mr. Hawke doubted whether the same high rate of expansion could be maintained as in the past two years, but expected continuing steady growth.

The meeting ended at 1730.

C. D. P.

C. D. Powell
21 April 1986

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