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Foreign and Commonwealth Office

London SW1A 2AH

30 May 1980

Dear Mike,

Mr Muldoon's call on the Prime Minister

/ I enclose briefs on EC/New Zealand (prepared in collaboration with the MAFF) and on The New Hebrides for the Prime Minister's talks with Mr Muldoon on 31 May.

Mr Muldoon leaves London on 1 June for Paris, where he will attend the annual Ministerial Council meeting of the OECD. He is also due to preside over an IMF/IBRD meeting which will consider the PLO's request for observer status at meetings of those bodies. (On this, we share the general western view that, unlike specialist economic/financial bodies, the PLO is not an appropriate organisation for observer status.) Mr Muldoon also hopes to call on President Giscard d'Estaing. He will pay an official visit to Switzerland before returning to New Zealand on 11 June.

We expect Mr Muldoon to concentrate on lamb/butter issues and to stress, as he has before, that New Zealand's sheepmeat industry, including wool, accounts for 40% of New Zealand's export earnings. If he raises bilateral trade more generally, he may mention the New Zealand Government's decision on 28 April that Rolls Royce rather than American engines should be ordered for Air New Zealand's new Boeing 747 fleet. The order is reported to be worth £50m. The New Zealand Government have let us know that while the decision was taken on technical merit, an important consideration was a desire to show us that British support for New Zealand was worth our while. Mr Muldoon has publicly denied reports that the order was won by British political pressure, and that the Prime Minister had been in touch with him about it. (We believe that Mr Whitelaw's intervention with Mr Muldoon in Wellington was instrumental in getting Rolls Royce the opportunity to present their proposals effectively to New Zealand Ministers.)

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2

In case the talks range wider, the Prime Minister may wish to bear the following in mind:

Iran: The New Zealanders are actually ^{actually} conscious of their trade interests, particularly a valuable lamb contract.

Afghanistan: New Zealand will be represented at the Regional Commonwealth Heads of Government Meeting in New Delhi in September, which offers an opportunity to gain support for the proposal for a neutral and non-aligned status for Afghanistan.

Olympics: New Zealand's Olympic Association voted on 8 May to attend the Moscow Games. Following Government and Opposition pressure the Association reviewed their decision on 29 May and, after long debate, confirmed it. But some individual sports have withdrawn.

I am sending copies of this letter and enclosures to Garth Waters (MAFF), John Chilcot (Home Office) and David Wright (Cabinet Office).

Yours etc

Paul

(P Lever)
Private Secretary

Mike Pattison Esq
10 Downing Street

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CALL BY THE RT HON R D MULDOON, CH, MP,
PRIME MINISTER OF NEW ZEALAND AT 1500 ON 31 MAY

EC-NEW ZEALAND: BUTTER

POINTS TO MAKE

1. We are firmly committed to securing acceptable terms for post-1980 access.
2. Since his visit to New Zealand in April Haferkamp has told us he intends to put EC/New Zealand relations on the agenda of the Foreign Affairs Council in the near future. This will enable Foreign Ministers as well as Agriculture Ministers to discuss post-1980 access for butter.
3. (If necessary). Understand why New Zealand is anxious to have a decision before the Community's summer break. We shall give all possible support to achieve a satisfactory outcome. But it has been essential to avoid butter being linked to the budget in the same way as sheepmeat.

ESSENTIAL FACTS

(i) Present position

1. The quota for UK imports of butter from New Zealand has been reduced progressively from 165,000 tonnes in 1973 to 115,000 tonnes in 1980. It is possible 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, the Commission is likely soon to propose to the Council that the 1980 quota should be cut by 20,000 tonnes. New Zealand would probably be prepared, albeit reluctantly, to accept this in return for satisfactory arrangements for post-1980 access.

(ii) Post-1980 position

2. Gundelach has told Mr Walker and the New Zealanders that he intends to propose to the Council that the Community should set a quota of 100,000 tonnes in 1981 declining progressively to 90,000 tonnes in 1985 (though this might be subject to review in the light of developments in the butter market). These arrangements would, however, be coupled with provision for continuing access at the same level thereafter and with an improvement in the operation of the levy system which would allow a higher return to New Zealand. The New Zealanders have said this is the minimum acceptable to them. We have told them that in order to secure a satisfactory outcome we shall need to pursue this matter in the Foreign Affairs Council as well as in the Agriculture Council. They now accept this (Haferkamp has said that he does too). However they remain anxious for technical reasons of dairy herd management to have a decision before the Community's summer break. They have therefore been pressing the

/Commission

Commission to table formal proposals at the earliest possible moment. The Commission however have not yet done so even though they are reported formally to have endorsed Gundelach's ideas in outline. They are no doubt conscious of the risk of yet another issue being linked with our budget problem.

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CALL BY THE RT HON R D MULDOON, CH, MP,
PRIME MINISTER OF NEW ZEALAND AT 1500 ON 31 MAY
EC/NEW ZEALAND: SHEEPMEAT

POINTS TO MAKE

1. Grateful for Mr Muldoon's message of support after the European Council. Glad to have had an opportunity to discuss subsequent developments with Mr Talboys on 16 May.
2. We have had a hard fight against the objectionable features of the regime proposed at Luxembourg. Our interests and New Zealand's coincide. But sheepmeat has not been the only issue in play.
3. Mr Talboys' lobbying, and ours, seems in some cases at least to have produced a better understanding of the problem. Denmark, Belgium, Germany and the Netherlands all gave us some support in the end.
4. We have avoided intervention in the UK. But it would have been impossible to satisfy the French without some element of intervention.
5. Our variable premium scheme should prevent any UK lamb going into intervention even in France and limit the danger of a lamb mountain. At the same time it will maintain market prices in the UK at reasonable levels and thereby ensure adequate outlets for New Zealand supplies. (If necessary). We must wait and see what impact the new reference price (293 ECU) has on UK production. It is far better than intervention which would have depressed demand as well.
6. Export refunds a major difficulty. The French have insisted on provision for them. We and the Dutch still have a reserve. But the Commission and all other member states have agreed. The Commission have, however, insisted on a Council Declaration that export refunds must be operated in conformity with international obligations and so as not to prejudice agreements being negotiated

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with third country suppliers. In other words, it is open to New Zealand to negotiate, as part of the Voluntary Restraint Arrangement (VRA), adequate safeguards on how they should operate.

7. Timing of introduction of the regime is now linked to entry into force of VRAs. This means effectively that New Zealand could veto the whole package. But we hope you will use your strong negotiating position to achieve an acceptable agreement.

/ESSENTIAL FACTS

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EC/NEW ZEALAND: SHEEPMATE

ESSENTIAL FACTS

1. The New Zealanders were badly shaken to learn that at the European Council the UK had been isolated in opposition to the sort of heavy regime which the French are seeking. Mr Talboys has been touring Community capitals and lobbying hard against the objectionable features. He has indicated that their inclusion could jeopardise New Zealand's willingness to negotiate a Voluntary Restraint Arrangement (VRA) with the Community. This would make nonsense of the External Regime agreed last December. The aspects of the Luxembourg proposals regime which the New Zealanders disliked were:

- (i) A price and premium structure pitched at too high a level. They were afraid that this would depress demand;
- (ii) intervention. They believed that even on a seasonal basis and with individual Member States able to opt out, this would have produced a "lamb mountain" the disposal of which would further have restricted their marketing opportunities in the Community, and
- (iii) export restitutions which threatened to damage their sales to third markets as well.

We shared these concerns and have ourselves been lobbying Member States (apart from France and Ireland) in parallel with the New Zealanders arguing (as we have argued in the Agriculture Council) that the Luxembourg proposals represented an unnecessarily expensive way of supporting Community producers' incomes.

2. Despite this the Commission persisted with a revised formal proposal incorporating intervention arrangements on the lines broadly agreed by other Member States in Luxembourg. However at the Agriculture Council on 28/29 May the following major new elements emerged:

- (i) There was agreement on Mr Walker's proposal that in the UK a variable premium system should operate instead of intervention. There was also agreement on claw back of premium payments on all exports whether intra-Community or to third countries.

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(ii) There was agreement on a new reference price for the UK at the same level as the French intervention price (293 ECU/100kg instead of 268 ECU/100kg) and agreement on ^{a mechanism for} convergence of reference prices over four years instead of five.

(iii) There was agreement that the date of implementation of the external regime should be linked to the date of application of VRA's with third country suppliers and,

(iv) there was acceptance by seven member states (UK and Dutch reserves) of the French text providing for export refunds. This however would be subject to a Council declaration that export refunds should operate in conformity with international obligations and without prejudice to ^{the negotiation of} VRA's with third countries.

3. The most important effects will be:

(i) to avoid intervention buying and the accumulation of an intervention stock in the UK (the largest Community producer);

(ii) to make it financially unattractive to UK producers to export into intervention elsewhere;

(iii) consequently to reduce the potential size of the overall Community intervention stock and the corresponding threat to New Zealand exports;

(iv) to avoid distortion of the market in the UK. There will be no need to impose an artificially high price which would depress demand. Prices to consumers will continue to be determined by market forces;

(v) to increase the return to UK producers. But the industry is in difficulty at present and there can be no certainty that the differential between the new reference price (which is in any case seasonalised) and the existing fat sheep guarantee will even in time call forth a commensurate increase in production;

(vi) to leave it open to the New Zealanders to decide whether they can accept the proposed regime and negotiate a VRA on this basis;

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(viii) to make it likely that if the regime is implemented there will have to be some provision for export refunds. But the effect will probably be limited given the restrictions on the extent of intervention.

4. Mr Muldoon is nonetheless likely to express concern about points (v), (vi) and (vii) above, in particular the last. He may need encouragement to pursue negotiations with the Community. Gundelach suggested when he saw Mr Talboys on 23 May that the importance of sheepmeat to New Zealand was such that the Community should offer something more in the nature of a formal bilateral agreement rather than a VRA. He claimed negotiation of such an agreement would not require modification of the existing Community negotiating mandate. Mr Muldoon has described this as a "promising advance". But it must now be up to the New Zealanders to maintain pressure on the Commission. Failure on their part ultimately to agree a VRA would be serious. Not only would it jeopardise the laboriously put together agreement on the internal regime. It would also make it more likely that other member states would be prepared to give in to French demands (which we have successfully resisted so far) to unbind (ie increase) the Community's existing GATT-bound 20 per cent tariff on sheepmeat.

European Community
Department (External)
30 May 1980

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THE NEW HEBRIDES: REBELLION ON SANTO ISLAND

POINTS TO MAKE (DEFENSIVE)

1. We are monitoring the situation in Santo very closely and are in continuous touch with the French Government. We shall be holding talks at ministerial level in Paris on Monday, 2 June.

2. (If asked.) We have received a formal request for assistance from the New Hebrides Government through our Resident Commissioner. This will be considered at the meeting of ministers on Monday.

SOUTH PACIFIC DEPARTMENT

30 May 1980

ESSENTIAL FACTS

1. Britain and France remain responsible for internal security in the New Hebrides until independence. On 8 January, British and French ministers reaffirmed to the New Hebrides Government their intention to do everything possible to counter all threats to the unity of the country.
2. An attempted secession by the extremist Na Griamel movement occurred on the island of Santo on 28 May. The extremists have taken control of all key points in the capital of Santo including the airfield, the port, radio stations and police stations.
3. On 30 May, the New Hebrides Government formally requested the assistance of Britain and France to quell the rebellion.
4. We are monitoring events closely, and have been in close touch with the French Government. Mr Blaker will be meeting the responsible French Minister (M. Dijoud) in Paris on Monday (2 June). The meeting has been called to review the recent events and to consider how we should respond to the request from the New Hebrides Government for assistance.
5. The New Zealand and Australian High Commissions will be making a joint démarche to the FCO during the afternoon of Friday, 30 May. They are expected to express their concern at the events in Santo and their implications for stability in the Pacific.

SOUTH PACIFIC DEPARTMENT

30 MAY 1980



JAH
cc MAFF
CO

BF 30.5.80

10 DOWNING STREET

From the Private Secretary

28 May 1980

We spoke about Mr. Muldoon's visit. He is scheduled to see the Prime Minister at Chequers at 1500 hours on Saturday 31 May.

You have set in hand the preparation of suitable briefing on the outstanding EEC issues relating to New Zealand. The outcome of today's Agriculture Council will presumably provide the main new element in the briefing.

|| Could you please ensure that the brief reaches us by mid-afternoon on Friday.

I am sending copies of this letter to Garth Waters (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. A. PATTISON

Malcolm Adams, Esq.,
Foreign and Commonwealth Office.

DSS