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New Zealand

SUBJECT.

10 DOWNING STREET

From the Principal Private Secretary

2 June 1980

cc. Master set.

Euro Pol: CAP: Pt 5.

Sport: Olympics: Pt 3.

Dear George,

Visit by the Prime Minister of New Zealand

The Prime Minister of New Zealand, Mr. Muldoon, called upon the Prime Minister at Chequers on Saturday 31 May 1980. He was accompanied by the New Zealand High Commissioner, His Excellency The Honourable Mr. Gandar, Mr. Galvin and Mr. Woodfield. Sir Brian Hayes was also present.

New Zealand Economy

Mr. Muldoon said that agriculture generally in New Zealand was doing well this year. The last two years had been good seasons for feedstock, and this had led to a reduction in the killings of lamb and an increase in breeding. The size of the sheep flock was now at the record level of 66 million. As a result there would be an increase in wool production and a rise in the number of lamb killings next year. The farming community's confidence was strong and their spending correspondingly high. This had repercussions right through the New Zealand economy. The rate of inflation at the end of March had stood at 18.4%. He expected it to drop in the second half of 1980 and by next year it might be down to 15%. Increases in oil prices were a major cause of New Zealand's inflation. The deficit on the external current account was the same as the increase in oil prices since 1978. Last year bulk electricity prices had had to be raised by 60%. None the less, he was more relaxed about the economic and political scene in New Zealand than perhaps he should be. Sheepmeat, however, was a very real concern for him.

Sheepmeat

The Prime Minister said that the sheepmeat proposals which Mr. Walker had secured in Brussels on Thursday were much better than what had been on offer when she had last seen Mr. Talboys. Even so, New Zealand would have to conduct very tough negotiations with the Community, and Mr. Walker was ready to take part, if that

/ was the wish

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was the wish of the New Zealand Government. Sir Brian Hayes added that New Zealand in effect had a veto on the introduction of the sheepmeat régime. The Community regulation would provide that the timing of the introduction of the sheepmeat régime was linked to the entry into force of the Voluntary Restraint Arrangements. This meant that if New Zealand did not reach agreement on a VRA the régime would not come into effect.

Mr. Muldoon said that while he did not dispute what Sir Brian Hayes had said, the fact was that if New Zealand did not agree a VRA, there were other retaliatory measures which the Community could take such as the de-consolidation of the present GATT arrangement or the imposition of quotas. Another area where the Community could hit New Zealand's interests would be by being unsympathetic about access for butter after 1980. For these reasons he did not believe that the veto was quite the powerful tactical weapon that had been suggested.

Sir Brian Hayes said that it was always open to the Community to take action of the kind described by Mr. Muldoon, whether there was a sheepmeat regime or not. But, with the exception of butter, the agreement of the United Kingdom would be needed for any of these measures, and we would not go along with anything which harmed New Zealand. In fact, the sheepmeat proposals had put New Zealand in a strong negotiating position, not only on sheepmeat itself but, probably, also on butter. None the less, if they were to take advantage of what had been achieved so far, the New Zealanders would have to negotiate very toughly.

Sir Brian Hayes continued that the UK had not wanted to see export restitution as part of the sheepmeat regime. But this had been a sticking point for the French: they had made it absolutely clear that if there had been no export refunds, there would have been no agreement. None the less, the Commission had persuaded the Council that there must be a declaration that export refunds must be operated in conformity with international obligations and so as not to prejudice agreements being negotiated with third country suppliers. This meant that New Zealand was being virtually invited to ensure by their negotiations with the Commission that there were no effective export restitutions at all. But, again, the New Zealanders would have to take a tough position in the negotiations.

Mr. Muldoon said that what Sir Brian Hayes had said about the New Zealand position in the forthcoming butter negotiations and export restitutions for sheepmeat all chimed with his own analysis of the Brussels proposals. But he was concerned about the effect of export refunds on New Zealand's markets outside the Community. These markets - for example, New Zealand would be exporting 65,000 tonnes of lamb to Iran this year - were vital to New Zealand in terms of quantity and price. He was concerned that New Zealand's stake in these markets would be vulnerable once export refunds were introduced, and this was why New Zealand was opposed to such restitutions.

/ Sir Brian Hayes

Sir Brian Hayes repeated that it was up to New Zealand, with British help, to ensure in the course of the negotiations with the Commission that there were so many conditions attached to the export refunds that they never operated in practice in relation to any markets.

In reply to a question by Mr. Muldoon, Sir Brian Hayes continued that it was not true that Mr. Walker had not opposed those who wanted a higher price level for intervention. Mr. Walker had in fact argued for a lower price structure throughout, but the French had insisted on an intervention price at the same level as last year's market price. As against that, we had not only avoided intervention in the UK but our variable premium scheme would operate in such a way as to prevent UK lamb going into intervention in France and thus limit the danger of a lamb mountain. The guaranteed price to British farmers would be at the same level as the French intervention price. If our price went below, there would be a deficiency payment to British producers. But if British producers exported, whether to other Community countries or third countries, they would have to refund their deficiency payments. Thus, if a British producer sold lamb to France, he would lose his premium and, on top of that, would have to pay transport and marketing costs. These arrangements would be a strong incentive to British producers to keep their lamb in the UK and to pocket the deficiency payments. Moreover, our assessment was that the French market price was unlikely to get down to the intervention price, and we therefore did not expect to see significant quantities of sheepmeat in French intervention. Nor did we expect Irish lamb to have much effect because the quantities involved were small.

Sir Brian Hayes added that in all member countries of the Community reference prices would be set which would act as a guarantee of average producer returns. These prices were to be aligned over a four year period. The UK would be departing from a low starting point, and as reference prices converged, the cost to the Community of paying British producers would be very large. We estimated at the end of the four year period the payment to the UK might be £100 million a year. There was therefore every incentive for the Community to hold down prices.

Mr. Muldoon said that he was surprised that the French Government had accepted the proposed sheepmeat regime, since it appeared to contain many disadvantages for French farmers. He wondered what the impact of the movement of reference prices over four years would be on the UK's production of lamb. Would the British producer not increase his production in order to get higher prices? If there was more lamb on the British market, the price to the British housewife would go down. That in turn would mean that the price of New Zealand lamb in Britain would drop, and that would then pull down the price of New Zealand lamb in third countries such as Iran. New Zealand might be able to accept this, provided the Community was ready, in view of these difficulties, to abolish the 20% tariff against New Zealand lamb.

/ The Prime Minister

The Prime Minister said that New Zealand should argue very strongly in the course of the negotiations for a nil tariff. Sir Brian Hayes added that during the main marketing season for fresh lamb from New Zealand, there was likely to be an incentive for British producers to sell in France because the French market price would be higher then. This would mean that prices for British lamb in the UK would go up too, and this in turn would give New Zealand a price advantage in the UK. The fact was that the British Government wanted the UK to remain a market for New Zealand lamb.

Mr. Woodfield confirmed that if the 20% tariff was dealt with generously by the Community, New Zealand could probably live with downward pressure on the market from increased British production.

Sir Brian Hayes said that the British and New Zealand Governments should consult quickly to decide what New Zealand should go for in the forthcoming negotiations with the Community. We should need to marshal the arguments for a nil tariff. We should pitch the VRA quantity as high as possible by taking a long period for the New Zealand average. (Mr. Muldoon interjected that he thought New Zealand could substantiate a figure of 240,000 tonnes, though this would need to be increased by 15,000 when Greece acceded to the Community.) It might be difficult to get the Commission to agree to the New Zealand requirement that there should be no differentiation in quotas between fresh and frozen lamb. It would be much better to conduct the negotiation with the Commission rather than go for a Council declaration or regulation which would require nine signatures. New Zealand would get a better deal out of the Commission, though the eventual exchange of letters would need to be as water-tight as possible.

Mr. Muldoon said that he agreed that negotiations with the Community should be opened very soon. He thought that New Zealand would be able to live with price variations from year to year, but the regime as a whole went to the heart of the New Zealand lamb industry. The lamb industry was far more important to New Zealand than the milk products industry, and if lamb went the same way as milk products had gone, this would be disastrous for New Zealand. He would arrange for the sheepmeat proposals to be considered by the New Zealand Cabinet on the following Tuesday.

The Prime Minister emphasised the need for New Zealand to negotiate a precise and water-tight agreement with the Community. Mr. Walker and Sir Brian Hayes would be ready to give whatever further help the New Zealanders required.

<u>Butter</u>

Mr. Muldoon asked what the British view was on how the butter negotiations should be handled in the light of the developments on sheepmeat. 10,000 tonnes of butter was neither here nor there to the Community but it was vital for New Zealand.

/ The present

The present quota of UK imports of New Zealand butter had already been reduced from 165,000 tonnes in 1973 to 115,000 tonnes in 1980. Mr. Gundelach intended to propose to the Council that the quota for 1981 should be 100,000 tonnes, declining progressively to 90,000 tonnes in 1985. This was absolutely rock bottom as far as New Zealand was concerned. He wondered whether he should seek to deal with butter at the same time as sheepmeat or whether it would antagonise the Community to link the two negotiations.

Sir Brian Hayes said that the sheepmeat proposals strengthened New Zealand's hand on butter and they should press the Commission to deal with butter at the same time as lamb.

Palestine Liberation Organisation

Mr. Muldoon said that he was due to take part in an IMF/IBRD meeting the following week which would consider the PLO's request for observer status at meetings of these bodies. There was pressure from the Americans against the PLO request and pressure in the other direction from the Arab world. He saw no prospect of the meeting reaching agreement, but they would have to devise some formula to deal with the problem.

Olympic Games

Mr. Muldoon said that individual New Zealand sports bodies were pulling out of the Olympic Games one by one, and he thought that in the end only about one half of them were likely to attend. Although the New Zealand Olympic Committee had refused to bow to pressure from his Government, public opinion was now substantially against participation in the Games. All three political parties in New Zealand were also opposed to New Zealand sportsmen taking part.

The Prime Minister said that the British Government had faced the same problem. We had no effective lever we could use against the British Olympics Association. Unlike the Germans, for example, we could not withdraw financial support, since British sports bodies relied entirely on voluntary financial assistance.

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

Yours ever,

Michael Whitmore.

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

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.)

/In case