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10 DOWNING STREET

From the Private Secretary

20 February 1984

Visit of the Prime Minister of New Zealand

Sir Robert Muldoon called on the Prime Minister this morning. I enclose a record of the conversation.

I am copying this letter and enclosure to John Kerr (HM Treasury), Ivor Llewelyn (MAFF), Richard Mottram (Ministry of Defence) and Richard Hatfield (Cabinet Office).

A. J. COLES

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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RECORD OF CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME
MINISTER OF NEW ZEALAND AT 1000 HOURS ON MONDAY 20 FEBRUARY 1984
AT 10 DOWNING STREET

Present:

Prime Minister	Sir Robert Muldoon
Sir Crispin Tickell	New Zealand High Commissioner
Mr. Coles	Mr. G.C. Hensley
	Mr. E.A. Woodfield
	Mr. D.S.S. Kerr

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In response to an enquiry by the Prime Minister about the prospects for elections in New Zealand, Sir Robert Muldoon said that a poll published today showed that the Government was still ahead. The ratings of the new Leader of the Opposition had fallen from 35% to 13% in twelve months. Sir Robert Muldoon's rating remained at about 35% which was satisfactory. This would not be a bad year in New Zealand and the economy was expected to improve a little. So he expected to survive the elections though he recalled that he had said this in 1972 and then lost by a landslide.

With regard to European Community issues, Sir Robert Muldoon said that the Commission had put forward over a week ago a tough proposal on butter and sheepmeat. But after consideration, New Zealand had felt that they should go along with it, principally because the proposal on butter, which envisaged a quota of 83,000 tonnes declining to 75,000 tonnes five years later offered valuable certainty over a five year period. With regard to sheepmeat, the Commission had envisaged that there would be no change in the existing quota. This was very important for New Zealand. It had not in the last year taken up its full quota of 245,000 tonnes. This was largely because 144,000 tonnes had been exported to Iran. But that was a very uncertain market which could be destroyed by a single public comment to which the Iranians took exception.

With regard to those countries within the EC for whom sheepmeat imports were sensitive, it was envisaged that France would

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take 3,500 tonnes, with a 10% increase per annum; and Ireland 50 tonnes. Ireland did not like this proposal but appeared ready to accept it. On the other hand, they were adamantly opposed to the Community's proposal on butter. Dr. Fitzgerald said that he would agree to nothing unless Ireland was exempted from any super-levy on milk. President Mitterrand had appeared more receptive. In a private conversation he had said that he thought the Commission's proposal reasonable and that he would discuss it with M. Rocard.

The Prime Minister asked whether Ireland would permit a roll-over arrangement. Sir Robert Muldoon said that he thought they would but this would mean continuing uncertainty for New Zealand.

Mr. Woodfield said that other elements of the dairy package at present under consideration by EC Agriculture Ministers would cause New Zealand \$28 million this year. The Prime Minister commented that she was doubtful whether the Community would sort out its internal problems at the March European Council.

Sir Robert Muldoon said that the 80,000 tonnes or so of New Zealand butter seemed unimportant when the Community had a surplus of 800,000 tonnes. But it was good to note that American farmers were now being given incentives to slaughter cattle. At least the United States appeared to recognise that agricultural surpluses on the present scale could not continue. For New Zealand, butter remained very important. It sold some to Iran, about 20,000 tonnes to the Soviet Union, a little to the United States and quantities to other small markets. He was currently worried about the Philippines which was a big market for reconstituted New Zealand milk. This market was under threat at present. He was also concerned that United States aid might destroy various small markets, for example Jamaica. He hoped to secure American confirmation later this week that they would continue to show restraint.

With regard to the European Community, the level of New Zealand butter exports was now 50% of the level of 10 years ago. New Zealand producers were now having to duplicate plants so that they could switch from product to product as necessary.

The Prime Minister said that she thought that Ireland would be the main difficulty. The European Community was trying to cut

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milk production. But Dr. Fitzgerald was maintaining that he could not do this, that he wished to expand Irish production and that he could not accept a super-levy.

Sir Robert Muldoon observed that Dr. Fitzgerald claimed that Ireland, when it entered the EC, had deliberately sacrificed its secondary industries in order to expand its farming industry. The Prime Minister said that that was not true, though the effect of Ireland's entry had been to achieve what Dr. Fitzgerald claimed was a matter of deliberate intention. Ireland would tie New Zealand's demands to its own. Sir Robert Muldoon said that New Zealand argued that it should not be involved in internal EC matters. But both Ireland and France stated openly that New Zealand was one of the few weapons they possessed.

The Prime Minister enquired about the nature of the link between butter and sheepmeat. Sir Robert Muldoon said that the Commission had made a link in their proposal in the sense that both problems would be dealt with together. Originally, he had not been in favour of a link but now that France and Ireland appeared to be willing to envisage a settlement, the fact of a link did not worry him. He did not mind giving up 50 tonnes of sheepmeat exports to Ireland if this would bring them round. But it was very important that New Zealand should not be asked to accept a less favourable arrangement on butter. The Prime Minister said that she well understood that point. Dietary habits were changing and this might lead people to eat less butter. Sir Robert Muldoon commented that the French made much of this point and argued that one should talk in terms of market percentages. But he believed that price was more important than dietary factors in affecting butter consumption. He also observed that the income from butter of New Zealand farmers was under 50% of that of their European counter-parts.

He also wished to mention in passing the problem of factory farming. Europe was importing feedstuffs and putting them through cows in order to produce "sanctified" European milk. All this entered into the surplus stocks. It was an extraordinary arrangement.

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Turning to Commonwealth matters, the Prime Minister said that she had not been surprised to see that the Commonwealth Secretary General had been unable to make progress with his ideas for Commonwealth assistance to Grenada. Agreeing, Sir Robert Muldoon said that New Zealand had offered to help initially but had since taken a back seat.

As regards the Commonwealth Study on International Trade and Payments Problems, he had had meetings in London over the weekend, including one with Mr. Gemayel of Tanzania who was a member of a non-aligned committee dealing with the subject; and another with a representative of a committee of 11 which was meeting in New York and which included representatives of non-G77 countries such as the United States, Canada and France. He had found that the approach of these people was not too distant from that of the Commonwealth group. But the two committees to which he had referred had concluded that further work should be done by a body roughly the size of the Interim Committee of the IMF. This would give adequate weight to the big countries. The thinking was that this committee would be charged with looking at the various problems, that where it could agree it would put forward a proposal, and that where it could not agree it would put forward options. Then a wider conference would look both at the proposals and the options.

However, Mr. Gemayel had said that the non-aligned were not prepared to accept a process which did not begin with a major conference. It seemed, however, that the non-aligned might eventually drop this demand.

The Prime Minister said that all this concerned a system - but what was the thinking about content? She hoped that the non-aligned committee included countries like Saudi Arabia and Kuwait and was not exclusively limited to countries who were seeking aid. She had recently seen an interesting paper by Sir Alan Walters who had pointed to the anomaly whereby banks included in their assets sums lent to developing countries, however unreliable these debts were. Sir Robert Muldoon commented that he did not believe that the countries with the biggest debts would be able to get out of their difficulties simply by trading. For example, he thought

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that Mexico would not escape its current problems for at least a decade. Sir Crispin Tickell drew attention to the entry of some British merchant banks into "viabilities" markets. Sir Robert Muldoon further observed that he did not believe that the problems of many countries, including most of Latin America, could be solved simply by rescheduling debts. And their problems were being exacerbated by a massive flight of private capital. This had gone largely unremarked. The world community had to take some steps. Ad hoc methods of dealing with these problems would not work. The Prime Minister said that she did not believe that there was a universal formula for dealing with these problems. We were now having to take the lead with regard to Nigeria's massive debt. Sir Robert Muldoon suggested that this was another case of a country which could not get out of its difficulties by trade. The Prime Minister said that that would much depend on the state of the oil market. An escalation of the situation in the Gulf could be very relevant. But she did not wish to make it easy for countries to be badly managed and to be profligate. Sir Robert Muldoon stated that the remedy for this was IMF disciplines. He believed that the manpower resources of the IMF would have to be extended; it had been reported to him that the staff were under considerable strain.

The absurdity of the present situation could be demonstrated by the case of the Maldives. The Soviet Union had made a straight financial offer for the facilities at Gan. President Gayoom had refused this offer on the grounds that he was a member of the Commonwealth. But the United States had recently reduced the quota of woollen sweaters exported by the Maldives to the United States. What would it cost the US in defence terms if the Soviet Union acquired the Gan facilities?

The Prime Minister said that she was much concerned by protectionist tendencies in the United States. 1984 might be the worst year with regard to protectionism for some time. Sir Robert Muldoon said that a heartening feature was that President Reagan and his immediate associates were taking courageous steps against protectionism. He instanced again the incentives to American farmers to slaughter cattle. New Zealand was very fortunate to

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have as the American Ambassador a Californian associate of President Reagan.

Turning to defence matters, the Prime Minister asked whether New Zealand was still planning to purchase the Australian Sky Hawk. We were able to make an interesting offer involving refurbished Jaguars. She understood that people in the New Zealand defence establishment were interested in this. Sir Robert Muldoon said that he did not know the technical details but he had not heard for some time of the British interest. There had earlier been difficulties with Australia which had offered Sky Hawk at nearly twice its actual value. But there was now a 90% likelihood of the Australian Sky Hawk being purchased. A private American company was also advocating the merits of the F20. He noted what the Prime Minister had said about possible New Zealand interest in the Jaguar and would look into it.

Sir Robert Muldoon said that he had recently discussed with Mr. Feldstein the prospects for US recovery. Feldstein had not been prepared to dispute his view that US recovery could be jeopardised next year by the level of the deficit. Mr. Sprinkel, who was present, had expressed unconvincing optimism.

It was not certain whether the dollar would fall, though he (Muldoon) tended to believe it would. The Prime Minister commented that if there were another international political crisis, the money would probably again go to the United States. She was disconcerted to see America in so much difficulty in the Lebanon.

Sir Robert Muldoon said that New Zealand was worried about the Gulf situation. It was on good terms with Iran but only because it took great care with every word uttered. New Zealand sold Iran a lot of lamb, some butter and quite a lot of wool. With regard to the Gulf war, Khomeini's stopping point might be the fall of Saddam Hussein. The Prime Minister commented that she did not believe that fanatics had a stopping point. A combination of fundamentalism and nationalism was very disturbing.

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She hoped that Sir Robert Muldoon would let us know the results of his talks with President Reagan. Sir Robert Muldoon replied that the principal problem which he would be discussing with the President was American pressure upon New Zealand to remove by the end of next year its incentives for exports to the United States. He recognised that the President was under domestic pressure in this respect. There would also be discussion of certain defence issues.

The Prime Minister recalled that she had warned the US Government that a collapse in domestic opinion might cause a crisis for them in the Lebanon. Within 10 days this had come to pass. Sir Robert Muldoon said that such events had an important effect on public opinion even in New Zealand. People tended to ask what the value of ANZUS was. And of course the opponents of the United States had a field day. The Prime Minister concluded by saying that the activities of such groups did immense harm to international relations.

The discussion ended at 1104.

A.J.C.

20 February 1984

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JAGUARS FOR NEW ZEALAND

Notwithstanding the statement in the recent New Zealand Defence White Paper that the Australian A4 Skyhawks would continue to be the preferred solution for New Zealand's fighter attack aircraft, British Aerospace believe that they might still be able to persuade New Zealand to purchase a fleet (16 aircraft) of refurbished Jaguar aircraft. These Jaguar aircraft would be bought back from BAe by the RAF when the RAF no longer have a requirement for them and would then be refurbished and resold to New Zealand. Under these circumstances, they would have a further life of up to 18 years; the contract follow-up for 16 such aircraft would be approximately £100M.

2. During recent weeks, British Aerospace has been attempting to interest New Zealand in this possibility. They believe they have now established a bridgehead - in particular with their suggestion that it may be possible to put together a very attractive offset package in the tourism field. In their approaches to the New Zealand Government, they have been advised that it would be very helpful if the Prime Minister could mention the Jaguar possibility to Mr Muldoon and ask him to have it examined.

3. Line to Take.

May I ask you to consider refurbished Jaguars from the UK to meet your follow-up fighter attack requirements. They are excellent aircraft, with considerable life left in them. British Aerospace have now put together a most attractive offset package in the tourism field; I believe your relevant Ministers have been informed. British Aerospace would now be grateful for a chance to present the total Jaguar package to your staffs.