

Subject

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cc Master

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Sir P.C.

10 DOWNING STREET

From the Private Secretary

15 May 1985+

Dear Sir,

VISIT OF THE NEW ZEALAND PRIME MINISTER

Sir Robert Muldoon called on the Prime Minister at 1700 hours this afternoon. He was accompanied by the New Zealand High Commissioner, Mr. Hensley and Mr. Groser. Sir Crispin Tickell was also present.

The Prime Minister said that she understood that the Irish were still blocking the arrangements for exports of New Zealand butter to the European Community. It was unlike Dr. Fitzgerald to be ungenerous in a situation of this kind where he had already obtained a satisfactory settlement on milk. Sir Robert Muldoon said that he had believed that he had an understanding with the Taoiseach to the effect that if the Irish obtained their requirements on milk he would not obstruct a solution for New Zealand butter. He had written to Dr. Fitzgerald but had received no reply. He was inclined now to remind the Irish that a reply was awaited. Meanwhile, the Commission were inviting New Zealand to say what its minimum requirements were. It was important that New Zealand should secure an arrangement lasting for five years. But he was chary of a recent suggestion that he should accept a five year arrangement with no quantities being allocated for the later years. This might lead the Irish and others to argue later that, on completion of the five year period, there should be no special arrangement for New Zealand. There was no logical case for a five year system unless quantities for each year were specified. The Prime Minister agreed. As she recalled, New Zealand had only accepted reduced quantities in order to secure a five year arrangement. There was no point in including years for which no specific quantities were laid down. Nor should New Zealand put it into the minds of others that the fifth year might mark the end of special arrangements for New Zealand. Despite the recent agreement to limit milk production, there would still be substantial surpluses in future years.

/ Sir Crispin

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Sir Crispin Tickell asked whether France had made any suggestion as to solving the present problem. Sir Robert Muldoon said that it had not. New Zealand was receiving more cooperation from M. Rocard than any previous French Minister of Agriculture. Although he was going to Paris tomorrow for the OECD meeting he was not at present planning to raise this matter with the French Government because it was not clear that they could do anything at the moment. The Prime Minister suggested, however, that President Mitterrand might be able to persuade the Taoiseach to move. Sir Robert Muldoon said that he would consider this idea.

With regard to sheepmeat, both France and Ireland still wanted the "sensitive area" provisions. But apparently Ireland did not regard these as sufficiently valuable to make a move on butter. The French wanted to get the sheepmeat problem out of the way before the European elections because of political problems in sheep-farming areas in France.

New Zealand was sending 160,000 tonnes of lamb this year to Iran which was also taking New Zealand butter and wool. Clearly, this was a very vulnerable market, so he was careful to avoid any public criticism of Iran.

Turning to the world economic situation, Sir Robert Muldoon said that he had attended last week an interesting and valuable meeting in Washington. Mr. Brock of the US Administration had invited Ministers from 12 major trading nations to discuss the problems of GATT. They had been virtually unanimous (Japan excepted) that GATT needed more political input. It was desirable that there should be an annual Ministerial meeting with a political mandate to seek progress. GATT had accepted its mandate on manufactured goods but had done nothing on, for example, agricultural products or services.

With regard to the international debt problem, he was convinced that a major collapse would occur unless more effective action was taken by the international community. The arithmetic showed that in the next two or three years when, as it inevitably would, the US economy went into a period of down-turn, the principal debtor countries would be forced to seek fresh loans. He recalled a period earlier this year when Argentina was within 24 hours of default and had been bailed out by four Latin American countries. Sir Crispin Tickell pointed out that the US had guaranteed this loan.

/ Sir Robert

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Sir Robert Muldoon said that in Argentina Alfonsin was now questioning his obligation to pay the debts incurred by the military regime. It was difficult to point out to him, when he was under such pressures, that if he defaulted Argentina's credit would be completely exhausted.

Lord Lever, with whom he had discussed these matters, was a far greater pessimist than he himself. The fact was that the main debtor countries could only meet their commitments if they reduced their deficits. But it was not clear which countries would go into deficit when the debtor countries moved into surplus.

The Prime Minister stated that if Argentina were to default, the domino effect would be very serious. Sir Robert Muldoon said that there would be a major loss of confidence in leading US banks. Even Mr. Regan began talking recently about an international monetary conference but he (Muldoon) now did not think that such a conference would be effective. Something smaller was needed.

If major US international banks got into difficulties, the US system would not be able to handle the situation. Some \$4.5 billion had had to be raised recently in an attempt to salvage Continental Illinois. In 1984 the private banks would have to contribute an extra \$20 billion to get the main debtor countries through their difficulties. This was all a question of confidence. He recalled the day in 1929 when confidence finally collapsed. This could occur again now. The Prime Minister said that the US inevitably had to play the major role. She believed that the US Administration would ensure that the leading American banks remained liquid. It was not clear what action Sir Robert Muldoon envisaged as an alternative to the action taken in the last year or two. Sir Robert Muldoon said that there was a need for the international community to do more. The Prime Minister said that the international community frequently took action through the IMF.

Sir Robert Muldoon then said that he hoped this issue would be on the agenda of the Economic Summit. It was necessary for Western leaders to realise that the deficit countries could not move into surplus because other countries would not go into deficit. The Prime Minister said that we must take care not to finance the debtors in ways which encouraged them to repeat the mistakes of the past. Sir Robert Muldoon said that last year Mexico had reduced the standard of living of its poor by some 25%. He believed that they could do this only because of the oppressive nature of the regime. But Mexico would not

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surmount the next crisis. The measures it had taken were not sufficient to move it back into balance let alone surplus. The Prime Minister commented that Brazil had done rather better than we had expected. There was no one formula which would solve these problems.

Sir Robert Muldoon observed that Saudi Arabia was, like most of the oil rich Arab states, now in deficit. The "band-aid" operations of the last two years were inadequate. More effective international action was necessary.

The discussion ended at 1815.

I am copying this letter to David Peretz (HM Treasury), Ivor Llewelyn (MAFF) and to Richard Hatfield (Cabinet Office).

Jan eve

JL Cole.

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

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