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10 DOWNING STREET

From the Private Secretary

11 May 1983

Dear John,

Visit of New Zealand Prime Minister

Mr. Muldoon called on the Prime Minister at 1230 today for talks before lunch.

I enclose a record of the conversation.

I am copying this letter and enclosure to John Kerr (HM Treasury), Robert Lowson (MAFF) and Richard Hatfield (Cabinet Office).

Yours ever

John Coler

John Holmes, Esq.,
Foreign and Commonwealth Office.

SUBJECT
of Master

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RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE
PRIME MINISTER OF NEW ZEALAND AT 1230 HOURS ON WEDNESDAY,
11 MAY 1983 AT 10 DOWNING STREET

Present:

Prime Minister
Lord Belstead
Mr. Coles

Mr. Muldoon
Mr. Young
Mr. Galvin
Mr. Grosser

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In response to a question by the Prime Minister, Mr. Muldoon said that the participants in the OECD meeting in Paris which he had just attended had been concerned to avoid confrontation. The communiqué reflected this concern and thus, for example, did not deal with contentious US/European issues. This year for the first time the technique of discussing the communiqué over working lunches had been tried. It had not been very successful. The net result was that OECD had moved forward a year without achieving very much. But the OECD Secretariat had been given some useful work to do. There had been a feeling that it might have been better to hold this meeting after Williamsburg. Then OECD could have taken up the Williamsburg decisions and carried them forward. As it was, no-one wished to rock the Williamsburg boat.

The Americans had been very much on the defensive. They were concerned to answer the charge that US domestic policy did not take sufficient account of international repercussions.

The Prime Minister commented that there was truth in this allegation. Protectionist measures in the United States conflicted with the proclaimed free trade policies of the US Administration.

Mr. Muldoon said that the American Secretary of State had shown signs of considerable fatigue in Paris, following his visit to the Middle East.

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He admired the United States but the American system, which put amateurs into top jobs every four years, could not work in today's world. Political experience was needed for these appointments. It was worrying that the most powerful country in the world depended on such a system. Nevertheless, Mr. Shultz was an exception - he had considerable economic background which was very useful in handling foreign affairs nowadays.

The world was in a worrying state. Economic difficulties had political and strategic repercussions. This was evident in South and Central America. In Africa, practically all economies were in a state of chaos and South Africa faced major political problems. In South East and East Asia, there was a combination of good and bad economies but it was the good economies which were most dependent on international economic stability.

The Prime Minister said that she believed that the United States was right to say that its allies showed insufficient understanding for its problems in Central America. Mr. Muldoon commented that Venezuela, Argentina, Mexico and Brazil were in severe financial difficulty. He had read in The Economist that Brazil needed \$10.7 billion this year to meet interest payments. This was impossible. In Africa, Nigeria and Zaire were in severe difficulties. The American Administration was only just beginning to concentrate on these problems. Mauritius provided a striking example of how economic factors could have immediate political and strategic consequences. Lower sugar prices had led to the replacement of the previous Government by a coalition of two Marxist parties which, within a week, had demanded the return of Diego Garcia.

The Prime Minister said that she often felt that the United States was not given sufficient credit for its generosity towards the rest of the world. It was time to speak out against anti-Americanism and to help the United States because it was certain that if serious instability developed we should automatically rely on America.

In reply to a question by the Prime Minister, Mr. Muldoon said that New Zealand had two current problems with the European Community. First, the recent decision to increase export refunds meant that New Zealand would have to sell its butter at a lower price. This would cost \$100 million. It was worrying that the Commission should have taken such a decision and that it had apparently been taken at official level. He had been warned that the Commission might put forward a compromise proposal for New Zealand's butter quota in future years at a level of 85,000 or even 80,000 tonnes. But New Zealand had reached a point below which it could not support a butter trade. The Prime Minister said that her impression was that 90,000 tonnes was the critical level. Mr. Muldoon said that he had not discussed this matter recently with the European Commission but he had had a good talk on the previous evening with the new French Minister of Agriculture who understood the problem.

The second problem concerned New Zealand lamb. The French bureaucracy were now talking about the need for degressivity on New Zealand lamb exports. When the current regime had been adopted, New Zealand had received assurances that the figure for New Zealand exports would not decline. At present, New Zealand was selling to Iran some 114,000 tonnes of lamb above the existing EC quota of 245,500 tonnes. This trade with Iran contained considerable risks, given the unreliability of the Iranian regime. New Zealand therefore depended on the stability of the EC quota. At present New Zealand had 100,000 tonnes of lamb for which there was no market. He had no idea where it would be sold. Any suggestion that the current EC quota might be lowered in the future would strike at the confidence of the sheep industry.

The conversation ended at 1300 hours.

A.S.C.

11 May 1983