cc P.C.

Foreign and Commonwealth Office

London SW1A 2AH

15 May, 1984

WR 15/5.

Dear John,

Call by New Zealand Prime Minister

Sir Robert Muldoon, who will be calling on the Prime Minister today (Tuesday) at 5.30 pm, addressed the Overseas Development Institute earlier today on international economic problems. The Prime Minister may care to glance at / the enclosed summary of Sir Robert's speech.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's
Private Office

John Coles Esq
10 Downing Street
London SW1

14 May 1984

Dear John

... I understand that the Prime Minister is to see Sir Robert Muldoon tomorrow. My Minister saw Sir Robert this afternoon, and I enclose a note of their meeting, together with a copy of the brief provided for the occasion.

Yours sincerely

Ivor Llewelyn

C I LLEWELYN
Private Secretary

NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE PRIME MINISTER OF NEW ZEALAND: 14 MAY 1984

Present:	Minister of Agriculture, Fisheries and Food	Sir Robert Muldoon - Prime Minister
	Mr Andrews	Mr Hensley) Prime Minister's Dept
		Mr Groser)
		NZ High Commissioner
		Mr Brown (NZ High Commission)

Sir Robert Muldoon said that he had been very disappointed by the line taken by Ireland at the last Agriculture Council on the question of access to the Community of New Zealand butter. This had not accorded with an assurance he had been given by Mr Fitzgerald in February, that once a settlement had been reached on the supplementary levy Ireland would not block agreement. He had written to Mr Fitzgerald on this point, but had yet to receive a reply. The Minister commented that assurances from the Irish always had to be treated with a certain caution.

Sir Robert went on to say that the Commission proposal on access for New Zealand butter was just acceptable. The quantities proposed were unsatisfactory, but the suggested duration of five years would at least enable the industry to plan ahead with some confidence. Any proposal to reduce the duration of the agreement was, therefore, unwelcome. Nor would he be happy with a five year agreement that left the quantities for the last two years open for a subsequent decision, particularly if such an agreement could be presented as being a final one, for five years and no more. Despite these reservations, Warren Cooper (the New Zealand Minister for External Trade) believed that if Ireland would not move, New Zealand would have to be ready to look for some compromise proposal.

The Minister said that at the last Council it had been left that the Commission would hold discussions with New Zealand. He asked whether they had yet approached New Zealand. Mr Groser replied that the Commission had been in touch informally and at a relatively low level; they had explained what the position was, but had not yet started discussions on any possible compromise. The Minister commented that he would be inclined to let the Commission make the first move (Sir Robert indicated assent); in his view the Commission would take the French and German proposals to fix quantities for a three year period, possibly with a commitment for a further two years, as a starting point and then seek to establish what Ireland on the one hand and New Zealand on the other would settle for. Any compromise was likely to involve either reduced quantities or a shorter duration.

The Minister went on to say that at the Council the question of voting had arisen, and he had also heard the idea of voting suggested when he was in New Zealand. He did not feel that it would be at all wise to move away from Protocol 18 (which required unanimity) as the legal basis for continued access of New Zealand butter, even if by doing so the matter could be subject to majority voting. Sir Robert agreed.

Sir Robert asked whether France had been showing any anxiety about the voluntary restraint arrangements for sheepmeat. He added that Rocard had told him that it would be politically important to obtain an extension of the New Zealand VRA before the European elections. However, since it would now be clear to France that New Zealand was unlikely to sign the VRA before the elections, this issue had lost some of it's value as a negotiating counter. Nevertheless, this was a point which continued to concern the Irish as well. The Minister pointed out that the French Presidency had altered the date of the next Council, which would now take place after the elections. They were clearly resigned to the fact that there was no possibility of agreement on the VRA before the elections. Mr Andrews agreed that this issue seemed now to have less significance for France, although in the longer term they remained concerned. For the June Council, we would have to make a judgement nearer the time whether it would be wise to seek to discuss New Zealand butter, given that the current roll-over did not expire until the end of July.

Sir Robert then went on to discuss the situation on the world market for dairy products. He hoped that the Community would keep disposals on the world market under strict control this year; any repetition of last year's excessive increases in export refunds would be most unfortunate. It was important for both New Zealand and the Community to keep the prices high on the world market. The Minister commented that co-operation with New Zealand in the dairy sector was a key point in favour of continued access for New Zealand butter for many member states, in particular the Dtuch and the Danes. He reminded Sir Robert that the Community was now making serious efforts to cut back its own level of production; preliminary indications, in the UK at least, were that this was succeeding.

CIL

C I LLEWELYN
Private Secretary
14 May 1984

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Mr Dixon
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PS/Foreign Secretary
Mr Coles, No.10
Mr Williamson, Cabinet Office

MINISTER'S MEETING WITH THE PRIME MINISTER OF NEW ZEALAND : 14 MAY 1984

POST 1983 ACCESS FOR NEW ZEALAND BUTTER

BACKGROUND

1. Definitive arrangements for EC access for New Zealand butter expired on 31 December 1983. In October 1983 the Commission proposed new arrangements for 1984-88, the main elements of which were:-

a) Imports for 1984 would be set at 83,000 tonnes, declining by 2,000 tonnes annually to reach 75,000 tonnes in 1988;

b) These quantities could be temporarily reduced by the Council, acting by qualified majority, to prevent serious disturbance of the UK market, in particular in the event of a substantial drop in direct UK butter consumption;

c) The special levy would be fixed at 25 per cent of the intervention price;

d) New Zealand butter would be brought within the framework of arrangements for the consumer butter subsidy on Community butter and in consequence there would be no bar to the sale of New Zealand butter for use other than direct consumption.

2. Since it proved impossible to reach agreement on this proposal before the end of 1983 the Council adopted an interim arrangement which took on board the provisions at 1b, c and d above but provided for the import of only 13,833 tonnes of butter (ie two-twelfths of the quantity proposed for 1984) in the first two months of 1984.

3. The Commission has maintained its original proposal but it has been impossible so far to agree more than short-term extensions. At the Agriculture Council on 7/8 May Ireland continued to oppose any agreement which fixed quantities for a five year period. While the principle of a five year agreement might be agreed quantities would have to be negotiated annually or, at the most be set for the first

two years. While recognising the risk of repercussions of this in the sheepmeat sector (where New Zealand is withholding agreement to voluntary restraint arrangements until satisfied on butter) the Irish Minister said that since Ireland had "nothing but goodwill for New Zealand" common sense would prevail and there would be no reprisals by New Zealand.

4. The Minister strongly criticised the Irish position arguing that the Commission's proposal was the only approach to follow. The Netherlands also have unqualified support and all other Member States were ready to accept the Commission's five year proposal.

5. France and Germany came forward with compromise proposals. France suggested a three year agreement based on the Commission tonnages to end 1986. Germany suggested a similar arrangement to end 1986 with a firm political commitment by 9 Member States to accept the Commission tonnages for the remaining 2 years of a five year agreement. Ireland, however, would be able to question the tonnages for 1987 and 1988. The sheepmeat arrangements would apply to France for the full five years, but for Ireland only to end 1986 in the first instance. Ireland continued to resist both the French and German ideas. Under pressure Ireland was prepared to agree figures for New Zealand imports up to March 1986 at the latest.

6. A number of other Member States were unhappy with the German proposal on legal grounds (it was not clear how it could be given binding expression since Council declarations have no legal force) and on political grounds since it would not constitute an agreement by the whole Council. The Minister strongly opposed it and resisted a Presidency attempt to vote on it receiving strong support from the

Dutch. The only proposal he was prepared to accept was the Commission's original one. Any informal discussions the Commission cared to have with New Zealand in the light of the debate was for the Commission to decide and they could report back accordingly.

7. The Commission throughout maintained their original proposal and pointed to the difficulties in negotiating anything else with New Zealand. They resisted pressure from the Chair to seek to negotiate a shorter term arrangement. They reserved their right, however, to hold further discussions with New Zealand under their own authority and to report back to the Council with such new proposals as might be appropriate.

8. A two month extension of the temporary arrangements to 31 July was agreed to give the Commission time for further talks. The interim arrangement therefore now provides for the import of 48,416 tonnes during the first seven months of 1984 (ie seven-twelfths of the 83,000 tonnes proposed by the Commission for 1984).

NEW ZEALAND'S VIEWS

9. When Mr Warren Cooper met Mr Jopling on 1 May he indicated that anything less than a five year arrangement would be disappointing to New Zealand. In particular a three year scheme would expire at an electorally difficult moment for New Zealand. He hoped that Ireland and France would grasp that milk was at least as important to the New Zealand economy as to the Irish economy.

10. New Zealand have pointed out that the reduction in the intervention price for butter agreed for 1984/85 milk year will result in a significa fall in their net returns from the UK market. To preserve the net return at its current level it would be necessary to change the basis

of the calculation of the levy from its current level of 25 per cent of the intervention price to about 15 per cent. However other Member States would almost certainly argue that if Community producers' returns on butter are falling there is no justification for maintaining the returns to New Zealand. Nor is the Commission particularly sympathetic, arguing that New Zealand has been quite ready to accept increases in her return resulting from past increases in the intervention price. She should now be prepared to accept the consequences of a reduction in the intervention price. We have pointed out that the position of the New Zealand producer is different from that of the EC producer in that, for the latter, the reduction in the butter price is compensated for by an increase in the price of skimmed milk powder; no such compensatory effects apply to New Zealand. Nevertheless we would agree with the Commission's view that negotiations on access can only be made more complicated and more acrimonious by introducing this issue. Both we and the Commission would prefer to see the access question settled first and take up later the question of the New Zealand levy.

LINE TO TAKE

11. The Minister will wish to assure Mr Muldoon that we have continued to urge upon our European Partners the need to stand by the Community's commitment to New Zealand. We recognise that New Zealand is clearly dependent on her butter exports to the UK and will continue to resist any weakening of the Commission's proposal. It is encouraging that in the most recent discussions there has been no pressure to reduce the proposed quantities. It is simply the duration which is under attack by the Irish. The Minister might point out that the patience of the Agriculture Council may begin to weaken and further extension of the arrangements beyond July could become difficult if there is no sign

of an agreement. Given the Irish position and the reactions of the Council to the French and German ideas it is probably now doubtful whether the Commission's original proposal can be adopted unchanged, although we shall certainly maintain our support for it if Mr Muldoon judges that the Irish (who will be in the Presidency in the latter part of the year) can be eventually made to back down.

12. In discussion of any possible modification to the Commission proposal the Minister may wish to point out that the readiness of the Germans to go for a shorter definitive agreement and the acquiescence of many in the Council in the idea of a three year measure will make it more difficult to see a full five year agreement being adopted. If anything less than the present proposal has to be agreed eventually it is essential that the scope for any review of the figures should be strictly limited so that the Irish cannot effectively question them every year. It is also highly desirable to keep to a calendar year basis. To go to a marketing year basis (April/March) as sought by the Irish would make unhelpful linkage with the annual price fixing virtually inevitable.

13. If Mr Muldoon raises the question of returns for butter from the UK market the Minister can tell him that we have raised the matter with the Commission. We have in the past argued that discussion of this issue should be kept separate from that on definitive access arrangements. ~~But~~ New Zealand may wish to consider whether to press for some improvement in the levy rate in any new proposal the Commission might make. But it has to be recognised that some members of the Agriculture Council might react adversely

to a new element being introduced into the negotiations.

Milk and Milk Products
Division I
11 May 1984

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

14 May 1984

Dear John,

Visit of the New Zealand Prime Minister

/ I enclose briefing for the Prime Minister's talk with
/ Sir Robert Muldoon on 15 May at 1730, together with a personality note.

Sir Robert, who was last here and saw the Prime Minister in February, will be coming to London prior to attending the OECD Ministerial meeting in Paris as in previous years.

During his visit, Sir Robert will address the Overseas Development Institute and attend a meeting of the Commonwealth Consultative Group on international trade and payments problems. A bilateral meeting with the Secretary of State has been arranged for Thursday 17 May in the margins of the OECD meeting.

Sir Robert has not indicated the topics he wishes to raise; but the latest developments on access to EC markets for New Zealand butter (Brief No 1) must be near the top of his agenda. Other items on it are probably the progress of the Commonwealth Consultative Group on international trade and payments problems (Brief No 2), and prospects for the London Summit in June (also in Brief No 2). He may refer to the question of the Olympics (Brief No 5) and to sporting contacts with South Africa (Brief No 6).

Sir Robert may touch on the security of small states (Brief No 3) a topic which Sir Geoffrey Howe raised with the New Zealand Foreign Minister on 1 May. In a South Pacific context Sir Robert could also mention the proposed Single Regional Organisation for the South Pacific (in Brief No 4). The Prime Minister might mention our commitment to the area. A background note on bilateral relations is at Brief No 7.

Sir Robert's National Party Government will be facing a general election this year (the New Zealand Parliament's three-year term expires in November). Although he remains the dominant figure on the political scene, at the end of April the Labour Opposition edged their way to a 3% lead over the

/Government

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Government in a major opinion poll. Parliamentary debates in Wellington have been generally without interest and there is little sign as yet of the parties moving, in an election year, to identify the main issues that divide them.

As on previous occasions, Sir Robert may talk freely to the press about his conversations with the Prime Minister. He will, however, respect confidentiality where he sees the need, or when specifically asked.

Sir Robert will be accompanied by the High Commissioner (Mr Young), the Permanent Head of the Prime Minsiter's Department (Mr Hensley) and the Advisory Officer in the Prime Minister's Department (Mr Groser). We agreed that Sir Crispin Tickell will also attend.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

A J Coles Esq
10 Downing Street

Overseas Development Institute

10-11 Percy Street London W1P 0JB
Telephone: 01-580 7683

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PRESS RELEASE: For immediate release 15 May 1984

WORLD'S MAJOR COUNTRIES LACK IMAGINATION ABOUT INTERNATIONAL ECONOMIC PROBLEMS

Sir Robert Muldoon, Prime Minister of New Zealand, told an Overseas Development Institute meeting today that the world's major industrial countries lack imagination in their approach to the problems of the interdependent world economy. Speaking about the problems of trade and finance to be discussed at the London summit of the seven major industrial countries in June, the Prime Minister said he was acutely aware of the practical difficulties of getting agreement to take action. 'However, the plain fact is that every time a Summit is held, one or other of the members is facing an election'. But a new examination of the structures of the international monetary system was overdue. 'What we need to do', he said, 'is to construct quite deliberately a mechanism for looking at these issues that will not get out of control; that will take account of political and economic realities'.

This could not be achieved by global negotiations based on a one-country, one-vote system. 'The complex issues involved must be examined by a manageable number of countries. Large countries such as the United States need to have a seat of their own. Smaller countries like New Zealand would need to organise themselves into constituencies where one representative speaks on behalf of all the countries in the group'. The basic work would be done by people of the highest technical ability, and then submitted to governments for their consideration. On the agenda, in the context of the theme of economic interdependence, would be issues such as trade, financial flows and problems of external debt, the role and policies of the major international institutions and structural adjustment.

On the linkage between trade and debt, Sir Robert Muldoon stressed the need to arrest the drift away from commitment to an open international trading system, which is fundamental to the process of development. He set out a two-fold strategy, in the short term to maintain a reasonable net flow of capital into these countries and in the longer term to begin the difficult task of trade liberalisation.

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The problem of lack of confidence in developing country prospects, crucial to the resolution of the finance issue, might be resolved, he believed, if the international community were to commit itself to a long term programme of genuine trade liberalisation.

Echoing one of the conclusions of a recent ODI study of the IMF and developing country balance of payments policies, the Prime Minister reaffirmed the need for IMF conditionality but called for the process of economic adjustment to be spread out: 'Once the speed of the adjustment threatens the political stability of the country, then matters are moving too fast'.

On another issue, a way had to be found to put aid on a more assured political footing, perhaps by issuing special drawing rights to countries in greatest need - what is called the SDR link proposal.

'What I am looking for in the London summit', Sir Robert concluded, 'is a sign that the world's political leaders have grasped the need to set in train a comprehensive examination of the closely linked structural difficulties facing the world's trade and payments system'. 'If these underlying structural difficulties were not tackled soon, we might be forced to do so in much less propitious circumstances'.

Ends

<u>Note to Editors</u>

Further details, including the full text of the speech, are available from

Peter Gee,
Publications and Press Officer,
Overseas Development Institute,
10-11 Percy Street,
London W1P OJB

tel: 580 7683

file
da

bc Caroline

10 DOWNING STREET

From the Private Secretary 1 May 1984

Visit of New Zealand Prime Minister

Thank you for your letter of 27 April. The Prime Minister could see Sir Robert Muldoon at 1730 on Tuesday 15 May.

A J COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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Prime Minister.

Agree to see Sir Robert Muldoon at 17.30 on Tuesday, 15 May?

A. J. C. 1/5.

Foreign and Commonwealth Office

London SW1A 2AH

27 April 1984

Yes mt

Dear John

Visit of New Zealand Prime Minister

Sir Robert Muldoon, the New Zealand Prime Minister, who will be visiting the United Kingdom from Sunday 13 May to Wednesday 16 May, prior to attending the OECD Ministerial meeting in Paris, has asked to see the Prime Minister.

His other principal engagement is to attend a meeting of the Commonwealth Consultative Group on International Economic Issues on 16 May. Sir R Muldoon leaves London later that day by air for Paris.

New Zealand House are not yet able to say what topics Sir R Muldoon might wish to discuss, but we may safely assume that butter and sheepmeat will be on his agenda. He may wish to speak further about the international economic situation, which will be discussed at the Commonwealth Consultative Group meeting.

Would you let me know whether the Prime Minister would like to see Sir Robert, and if so when the most convenient time - if possible on 15 May - might be?

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

RESTRICTED

27 APR 1984