



Foreign and Commonwealth Office

London SW1A 2AH

1 October 1980

Dear Michael,

Mr Talboys Call on the Prime Minister

I enclose a brief on EC/New Zealand relations (cleared with the MAFF) for the Prime Minister's talks with Mr Talboys on 2 October.

Mr Talboys arrives in London on 2 October. Apart from his call on the Prime Minister he will also see Mr Walker (on 2 October) and Lord Carrington on 3 October. Lord Carrington will also host a lunch for Mr Talboys on 3 October. Following his visit to London Mr Talboys will visit Dublin on 6 October before going on to other EC capitals.

The Iran/Iraq conflict caused Mr Talboys to cancel a planned visit to the Baghdad Trade Fair, and his visit to London is therefore a little sooner than expected.

New Zealand House here told us that Mr Talboys will concentrate on EC/New Zealand relations in his talks with the Prime Minister and on foreign affairs when he sees Lord Carrington. Nevertheless the situation in Iran/Iraq will be at the forefront of his mind, especially as the New Zealanders have considerable commercial interests in both countries. They signed a lamb contract with Iran in October 1979 worth about NZ\$100m (£41.6m) in 1980 and increasing in the following three years. They have contracted to supply 70,000 tonnes of lamb to Iran in 1981, and 30,000 tonnes to Iraq. Together these total over 25% of New Zealand's lamb production.

In case the talks range wider the Prime Minister may wish to bear the following in mind:

Vanuatu

The New Zealanders were helpful and understanding on our handling of Vanuatu Independence. We enjoyed close and regular contact at all levels.

Sporting Contacts with South Africa

Despite strong opposition from the NZ Government, the trade unions, churches etc, the New Zealand Rugby Football Union has invited the Springboks to New Zealand in 1981. Mr Talboys has strongly condemned this invitation, in accordance with the Gleneagles Agreement.

New Zealand Politics

The Social Credit Party captured their second seat at a recent by-election, reducing the New Zealand Government's

/overall



overall majority to six. The next General Election is due in November 1981.

yours ever
Rodric Lyne

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VISIT BY MR TALBOYS: 2/3 OCTOBER
EC/NEW ZEALAND RELATIONS

POINTS TO MAKE

1. Satisfactory that Voluntary Restraint Arrangement (VRA) for sheepmeat and revised arrangements for 1980 butter imports have finally been settled. Sheepmeat regime will now come into effect on 20 October.
2. Obstructionism by the French tiresome but their position was becoming untenable.
3. Satisfactory outcome due in large measure to negotiating skill of New Zealand Government.
4. UK will now press hard for rapid and satisfactory settlement of outstanding issue of post-1980 access for butter. Rest of Community must be brought to recognise vital importance of this for future relationship with New Zealand. Germans already taking a helpful line. But worrying that so many other Member States seem prepared to support French-led attack on Commission proposals.
5. We shall be raising this at Foreign Affairs Council on 7 October as well as arguing the New Zealand case hard in the Agriculture Council. Important UK and New Zealand officials should maintain close contact.
6. (If Mr Talboys expresses anxiety about the possibility that exports of butter from New Zealand will have to stop on 1 January 1981 in the absence of an agreement). Even the French have not suggested this. Such an outcome would be unacceptable to the UK as well as to New Zealand.

BACKGROUND

Sheepmeat

7. The Agriculture Council on 30 September finally agreed a Voluntary Restraint Arrangement (VRA) with New Zealand the terms of which were virtually unchanged from those negotiated by

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Gundelach with Mr Muldoon in July. The New Zealanders had already indicated that they would probably accept the Commission's offer of a 10% tariff instead of the 8% which Mr Muldoon originally insisted on. In addition they agreed during the Council itself (after consulting Mr Talboys) to accept an extension to 31 March 1984 of the period during which the French market would be protected against imports of sheepmeat from New Zealand. This paved the way for the French to drop their objections on other aspects of the VRA and in addition for the French reserve on revised arrangements for 1980 butter to be lifted.

Butter: 1980

8. The 30 September Agriculture Council also endorsed a "gentlemen's agreement" between New Zealand and the Commission under which New Zealand is to be allowed a substantial increase in the price she receives for butter in return for a reduction in access from 115,000 tonnes to 95,000 tonnes. The French had earlier appeared to accept this at the July Agriculture Council (on condition that it did not constitute a precedent for post-1980) but subsequently blocked for three months the necessary reduction in the Community levy.

Butter: post-1980

9. The Commission have proposed a further progressive reduction in quantities to 90,000 tonnes in 1984. But this would be coupled with provision for ongoing access at the same level thereafter, the right to market throughout the Community (instead of just in the UK), and the replacement of the present variable levy system by a fixed levy, a change which we estimate would be worth £15 million to New Zealand in a full year. The French have concentrated their attack on the principle of open-ended access and on over-
generosity to New Zealand. On both points they have attracted varying degrees of support from Ireland, Belgium, Denmark, the Netherlands and Italy. The French are more extreme in arguing that no decision can be taken beyond 1981 at this juncture. They have suggested as a fall-back that in the absence of agreement this year the present arrangements should simply be rolled forward into 1981. The UK together with the FRG has argued that it is clear a long
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term arrangement is needed and that, if total consumption falls, the EC position would be adequately protected by the review clause in the Commission's proposed regulation. On the price arrangements we have pointed out that the present variable levy has caused instability in the UK butter market with the New Zealand share fluctuating widely from month to month, that this instability is detrimental to the interests of Community producers, and that it would be perpetuated by the minimum selling price which the French and their allies want instead of the fixed levy.

10. In a scrutiny debate on 25 July the Government accepted an opposition amendment calling for "permanent access" and "a quota for 1984 of not less than 90,000 tonnes", as proposed by the Commission.

11. The New Zealand Government are becoming increasingly anxious that there should be an early as well as a satisfactory decision. The subject has not as yet been discussed in the Agriculture Council though it is likely to be on the agenda for 20-21 October. Meanwhile at the Foreign Affairs Council on 7 October we intend to take the opportunity provided by the Marlia Report (the periodic report by the Presidency on work in the other specialist Councils) to emphasise the need for fair treatment for New Zealand.

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