

**ADDRESS TO THE PALMERSTON NORTH BRANCH OF THE
NEW ZEALAND INSTITUTE OF INTERNATIONAL AFFAIRS**

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**NEW ZEALAND AND THE UNITED STATES – STILL CRAZY AFTER ALL
THESE YEARS ?**

When the phone rang on Monday evening last week at the residence of the Foreign Minister Winston Peters, the person on the other end was none other than the Secretary of State of the United States, Condoleezza Rice.

The discussion that followed concerned the response that the United States and New Zealand should make to the reports of a nuclear test by North Korea.

That action, by a morally and financially bankrupt regime, puts North Korea at odds with its neighbours and with the international community, and is full of risk for regional and global security.

It's certainly not the first time a New Zealand Foreign Minister has received a call from a Secretary of State but what this call demonstrates is that the two countries at opposite ends of the Pacific are finding increasingly common cause.

That's something to be welcomed by the New Zealand United States Council, as a non partisan organisation funded by both business and government and committed to strengthening the relationship.

It would be easy to overstate the significance of a phone call, but I'm prepared to go out on a limb and say that this relationship has, over the last year, been on a pathway to continuing improvement.

Hopefully this pathway will lead us to the point where the relationship will be characterised less by a twenty year old dispute about nuclear weapons – although we should not be under any illusion that this has been forgotten - than about a shared sense of what both countries can achieve by working together to address today's challenges, especially in the Asia Pacific region.

Secretary Rice's phone call shows that even if we continue to disagree about the value of nuclear weapons there is nonetheless profound agreement that nuclear proliferation needs to be contained.

Today I'd like to explore with you why the relationship with the United States is vitally important for New Zealand, why things are getting better in the relationship and where it can be improved even further.

A substantial relationship

Some of you will be familiar with that Simon and Garfunkel song – “still crazy after all these years”.

It was over twenty years ago that a disagreement about nuclear weapons and port visits by US navy vessels led to the suspension of US military obligations to New Zealand under the ANZUS Treaty.

Since then the world has changed significantly with the eclipse of the former Soviet Union, the emergence of new Asian powers in China and India and the rise of global terrorism and nuclear proliferation as major threats to peace and security.

The nature of New Zealand's relationship with the United States has also changed as we have moved from being a military ally, to a “very, very, very good friend”, as former Secretary of State Colin Powell once said.

What has not changed in the last twenty years is the fundamental importance of the relationship for New Zealand.

If anything the US has become even more important to us.

We see this most clearly in the economic sphere.

New Zealand's two way trade with the US is valued at over \$8 billion.

The US is New Zealand's second export market overall and the largest export market for dairy products, beef, and seafood, the second largest purchaser of manufactured goods and among the top five markets for sheepmeat, forest products, fruit and vegetables.

The US is our second largest source of imports.

The US is our third largest source of foreign direct investment contributing with a stock of \$52.5 billion or around 11 percent of total.

The US is the third largest source of tourists who last year spent \$649 million here – that's over \$3600 per visit, more than double the average expenditure of Australian visitors.

And the US is an important source of technology, innovation and business ideas for New Zealand enterprises as they seek to add value to New Zealand's primary production, to diversify the economic base and to develop new internationally competitive industries.

The United States is equally important to us beyond trade and economics.

It's inevitable that a small country in the South Pacific is going to see the world rather differently from a large superpower in the North Western Hemisphere.

That leads Wellington from time to time to express rather different views from Washington.

But whether we like it or not, it is also inevitable that we need the support of the United States to make progress on those global issues we care most deeply about as New Zealanders.

Promoting peace and security, finding workable solutions to global poverty and fostering sustainable development are all things that concern New Zealanders.

They concern Americans too.

What's more we cannot hope to find effective solutions to these problems unless the world's remaining superpower is fully part of the picture.

We see this most particularly in the area of nuclear proliferation and the challenge presented by the North Korean nuclear test.

Climate change is a similar example

Washington and Wellington may differ over the effectiveness of the Kyoto Protocol but this has not prevented us from developing a range of useful projects under the New Zealand United States Climate Change Partnership.

The point is that if we in New Zealand are serious in wanting to do something about either the spread of nuclear weapons or climate change then we have to engage with the United States.

Addressing climate change, preventing the spread of bird flu, alleviating poverty, fighting crime and terrorism, promoting regional security – these are not things we can do on our own.

For a small country like ours to ensure that our voice is heard when and where it counts, we need the sort of leverage we can exert from larger more powerful partners.

A small country without influence is one which finds itself quickly marginalised in international affairs.

That's why New Zealand's relationship with the United States should be of enduring value and relevance to us.

A relationship that can deliver more

Let me go back to the economic relationship and to the US as a major economic partner for New Zealand whether in terms of trade, investment or innovation.

Some recent work by the New Zealand Institute puts this in its proper context.

The Institute points out that we are lagging behind other small developed countries in terms of exports and outward investment.

That's worrying because the small size of our economy means we need to look to overseas markets if we want to increase productivity and economic growth.

In its latest report "Developing Kiwi Global Champions" the Institute advocates the creation of a whole range of new companies and industries to lift New Zealand's level of international economic activity and offers some advice as to how this can be done.

If we apply the Institute's microscope to the economic relationship with the United States we find a similar picture.

While the numbers look good, in fact we are lagging behind others.

The share of GDP represented by exports to the United States is 7% for New Zealand, but 15% for Sweden, 10% for Denmark and 10% for Australia.

Similarly whereas our exports to the US have grown by 7% in the last ten years, the figure is 14% for Denmark and 10% for Australia.

New Zealand's exports are also fairly narrowly based with the top five export products – beef, casein, timber, lamb and dairy ingredients items representing over 40% of the total trade.

If we include other major products like wine, cheese, aluminium, fish, mussels and apples the figure rises to nearly 60%.

That's essentially why the NZ US Council is such a strong advocate for a free trade agreement (FTA) between our two countries and why we are disappointed that the prospect of an FTA seems as far off as ever.

An FTA with the United States could be expected to focus unprecedented commercial attention on New Zealand as a trade partner and lead to greater trade flows and investment in both directions.

It's not just that linking up with the world's largest consumer market, largest importer and largest exporter of capital and technology has to be good for us.

Unfortunately as things stand New Zealand risks overtime being excluded from the US market.

Already our two competitors, Australia and Chile, both have FTAs with the US and they will use these agreements to develop their economic relationship even further.

Thanks to the Australia US FTA, Australian beef exporters today enjoy a US\$10 million advantage over NZ exporters.

That's the value of the in quota tariff which still applies to NZ beef in the US market.

In dairy where the liberalisation achieved in the A-US FTA is not particularly ambitious there is the prospect of improvements being made progressively as the FTA is reviewed each year.

Australian and Chilean suppliers enjoy preferences in supplying the vast American government procurement market.

And there are also a number of low tariffs that continue to apply to NZ exports of wood, textiles and clothing, wine, avocados and processed foods which could also be targeted for removal under an FTA.

So, if it's so important to us, where are we with this FTA and why have we not achieved it ?

Let me say first of all that it's a lot more complicated than resolving a twenty year dispute over nuclear ships.

While that is sometimes cited as the main barrier, the reality is that there will be opposition to an FTA with New Zealand on the part of agricultural lobbies in the US which any Administration will need to overcome.

For reasons which are well known the Administration cannot cite New Zealand's "allied" status as a means of overcoming this opposition.

That pushes us down the priority list.

And there, the overriding factor is that the small New Zealand market is only of limited interest to US business.

We are the 47th largest market for US exporters and our market is already relatively open.

That is not to say there is no interest in Washington.

The Chamber of Commerce and the National Association of Manufacturers continue to advocate strongly for an FTA with New Zealand and we have good support in Congress too.

But the Administration is now negotiating trade agreements with other important partners like Korea and Malaysia.

Their dance card, for the present, is full.

We are not about to give up on the FTA: far from it, the FTA is of such significance that we will continue to work with the Government to press our case as the opportunities arise.

But there's another problem facing us: the Trade Promotion Authority under which Congress gives the President the authority to conclude free trade deals runs out in June 2007 and may not easily be renewed.

That remains a significant handicap because even with a country like New Zealand it is hard to see a trade negotiation being concluded in less than a year.

An unknown factor in all of this is the "suspension" – not quite yet the complete collapse – of the World Trade Organisation negotiations known as the Doha Development Agenda.

Doha's demise would be a severe blow to New Zealand export business and risks making more complicated the steps required to lift our international economic performance.

How will this play into the politics around the renewal of Trade Promotion Authority (which covers both the Doha negotiations as well as bilateral free trade deals)?

I don't think anyone really knows the answer to this yet and so it is probably pointless to speculate.

The take-home message in regard to a possible FTA with the US is simply this: this negotiation will be unlocked only when the Administration decides to lift New Zealand in the priority queue.

The Administration will do that only when it judges the overall relationship with New Zealand to be of such significance, of such relevance to US interests, that it is willing to override the opposition of the agricultural lobby and the small size of our market.

It is the relationship which is the key that unlocks the FTA.

That's why that phone call from Condoleezza Rice was so important and why the Council welcomes the signs of improvement in the relationship evident over the last year.

An improving relationship

It's a rather curious feature of the way we talk about international affairs that we tend to personalise the linkages we have with other countries.

Speaking about "improving the relationship with the United States" implies that exists as a single entity able to be managed as part of a conscious strategy.

In fact, every hour of every day New Zealanders come into contact with Americans and with their country in some way, whether as consumers, tourists, workers, students, researchers, officials or peacekeepers.

That makes for a very complex web of interactions which is difficult enough to describe let alone manage.

Nevertheless I think it is possible to see an event which took place in Washington DC last April as an important milestone in New Zealand's multifaceted relationship with the United States.

And it is an event which has been used successfully by both governments to develop some important new momentum in official contacts between the two countries.

I am referring to the first ever US NZ Partnership Forum organised by the NZ US Council and our Washington based counterpart, the US NZ Council.

The Partnership Forum brought together senior politicians, business leaders and academics from both sides for a two day discussion of strategic business issues facing both countries.

Issues like the changing political and economic dynamics of Asia Pacific region, how to meet new security requirements for the shipment of goods, the future direction of the WTO negotiations, how business in both countries can meet future demands for energy.

From a New Zealand perspective, the challenge was to demonstrate to our American friends New Zealand's enduring relevance to the US – a relevance which goes beyond the small size of our domestic market and takes in those opportunities for both countries both globally and in the Asia Pacific region.

Led by former Prime Ministers Jim Bolger and Mike Moore, the 37-strong New Zealand delegation included some of the country's leading export interests including Air New Zealand, ANZCO, Fonterra, NZ Post, PPCS, Meat and Wool New Zealand and Solid Energy.

Two Ministers, Phil Goff and David Cunliffe, two National MPs, the heads of five government agencies, along with Chairs and CEOs from major export companies and the major business and union organisations and educational foundations completed the team.

National party leader Don Brash who was visiting Washington also addressed the Forum.

The American delegation, put together by the US NZ Council, included senior Bush Administration officials from the Commerce and State Departments, the Trade Representative's Office and the US Customs Service, as well as representatives of US corporates with interests in New Zealand like Boeing, Caterpillar, EDS and Weyerhaeuser.

A number of influential former members of Congress and heads of Washington-based think tanks were also involved.

Surprisingly for some, the Forum actually worked !

It was clear also that the Administration recognised the significance of the event and our participating Ministers were able to have very good meetings with their counterparts.

An indication of the success of the Forum was indicated in a letter I received after the event from the US Ambassador in Wellington, Bill McCormick

"The Partnership Forum was an opportunity to examine the filters through which we see one another ... it was a chance for our two countries to begin to discover what kind of relationship we want going forward – competitive or co-operative, tactical or strategic, transactional or kindred, active or inactive. Your conference sent a timely reminder to both governments that it is not just the deliverables that matter, it is the relationship".

It's worth asking ourselves why the Forum might have made such a difference and why the two governments have chosen to take deliberate steps, both before and since, to strengthen the relationship.

For New Zealand the answer lies in the significance of the US for New Zealand interests, both economic and political, which I outlined at the beginning of this address.

For the United States the answer is a little more subtle.

Faced with an increasingly unsecure world, the United States is in need of friends, particularly those who share its values.

It was the former President Jimmy Carter who once said "we must adjust to changing times and still hold to unchanging principles".

New Zealand, despite our differences in world view, is one of the countries which shares the American attachment to those "unchanging principles".

Those "unchanging principles" are democracy, human rights, the rule of law and the market economy.

These principles are more important than policy, size and geographical location.

They lead us to send peacekeepers to Afghanistan as well as Timor Leste and the Solomons; to provide funding to a US project to decommission a nuclear power plant in the former Soviet Union; to work closely with the US to find a solution to the impasse on Doha; to develop joint approaches on climate change and to work together to address the challenge to security posed by the North Korean nuclear test.

In a world where the solutions to insecurity rely less on sophisticated high tech weapons systems or platforms but peacebuilders, police, border control, intelligence, finance, health and quarantine agencies, New Zealand assumes a greater importance to US interests.

That is precisely the sort of message the Partnership Forum sought to impart.

With the help of Labour and National politicians working together, it was able to do so in a non partisan way which was recognised by the US Administration.

That can only be positive for our interests and for the goal of strengthening the relationship which is a pre-requisite for unlocking that free trade agreement.

The thought that we might have a free trade agreement with China before we have one with the United States – however much we think an agreement with

China is in our interest – simply reinforces the Council’s view that we need to keep working on the relationship with Washington.

Conclusion

I opened this address by referring to the Simon and Garfunkel song “still crazy after all these years”

It would be quite incorrect to suggest that the differences which arose between us in 1980s are simply crazy.

On both sides these policies represent deeply held views.

When Condoleezza Rice met Winston Peters in Washington a few months ago and expressed the hope that the United States could move forward with New Zealand she was not suggesting that the past had been forgotten or that these issues no longer mattered.

But her phone call this month indicated clearly that these past differences need not be a barrier to both countries working closely together where it makes sense to do so.

Our two countries not only share those “unchanging principles” that President Carter once talked about but, as the North Korean nuclear test reminds us only too graphically, we face common challenges.

It would indeed be crazy if we were to allow past differences to overshadow a relationship which has the potential to advance both our countries interests.