

ADDRESS TO THE ROTARY CLUB OF MOUNT MAUNGANUI

TUESDAY 29 AUGUST 2006

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ARE THINGS GETTING BETTER WITH THE UNITED STATES ?

It's good to be with you today.

I am grateful to Peter Butler and to Brian Houston for this opportunity to speak about my favourite subject - New Zealand's relationship with the United States.

The New Zealand United States Council is a non partisan organisation funded by both business and government and committed to strengthening the relationship between the two countries.

Of course I'm paid to be optimistic about this relationship but I am here to tell you today that things **are** getting better with the United States.

This has been the result of a conscious effort on the part of both governments over the last year and was shown most graphically in two events last month – the Prime Minister's attendance at the US Embassy's 4th July function in Wellington and Foreign Minister Winston Peters' meeting with Secretary of State Condoleeza Rice a few weeks later.

I'd like to explore with you today why I think why this relationship is vitally important for the Bay of Plenty as it is for New Zealand, where it can be improved further and why this is now happening.

A substantial relationship

Some of you will be familiar with the old saying – “the more things change, the more they stay the same”.

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 the scourge of global terrorism as a major threat 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.

Many of these products – especially dairy products, meat, timber and apples - are shipped to and from the US through the Port of Tauranga.

A new shipping service carrying goods from the US started just this month.

I am looking forward to visiting the Port tomorrow to find out more about the business with the United States.

The US contributes around 12 percent of all foreign direct investment.

It is the third largest source of tourists who spend over \$3600 per visit, more than double the average expenditure of Australian visitors.

And it 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 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.

Take climate change for example, an area where Washington and Wellington have differing views, most particularly over the effectiveness of the Kyoto Protocol.

That has not prevented us from developing a range of useful projects under the New Zealand United States Climate Change Partnership.

In fact, a meeting of New Zealand and American senior officials to discuss climate change issues is being held in Washington today and tomorrow.

One of the issues they will be discussing is the work of another body, the Asia Pacific Partnership on Clean Development and Climate, to which the US belongs along with Australia, Japan, China, Korea and India.

There are many, including members of my Council, who advocate New Zealand should seek membership of this body which focuses on governments and industry working together to find practical, technology-based solutions to address climate change.

I use this example of climate change to illustrate the significance of the NZ/US relationship in the global context.

There can be no effective solution to climate change without the United States given that the America produces over 30% of the world's carbon emissions.

If we in New Zealand are serious in wanting to do something about climate change then we have to engage with the United States and use to the best possible effect whatever leverage we, along with other likeminded countries, might be able to exert.

Addressing climate change, alleviating poverty, fighting crime and terrorism are not things we can do on our own – not even in our immediate region, much less globally.

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

I'm conscious I've painted a rather glowing picture of the relationship.

As I said before I'm paid to be an optimist !

My point is that whereas various commentators frequently talk about a relationship in crisis – precisely because we do have different views on pretty big issues – in fact there is much to celebrate in a relationship which, to quote the Prime Minister, “is healthy and works well”.

Let me change tone for a moment and consider the glass as being half empty rather than half full.

I mentioned the significance of the economic relationship.

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.

Last month the Independent Financial Review questioned whether an FTA with the US was really necessary.

Here are some quite specific reasons why achieving an FTA with the United States remains a key concern for New Zealand business.

The overriding reason is 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.

This very week for example an article making the case once again will appear in the "New Zealand Magazine" which is distributed in the US.

The article is co-authored by my Chairman Jim Bolger and by John Mullen, the President of our counterpart organisation in Washington, the US NZ Council.

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 we are pleased to see 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 two Councils – the NZ US Council and 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 !

We were very happy with the attention the Forum commanded in Washington – not an easy thing to do, especially with a visit by President Hu Jintao of China the day before and a World Bank meeting the day after.

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.

They 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.

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 the FTA.

Conclusion

I opened this address with that old saying “the more things change, the more they stay the same”.

I hope I have described how some things are changing with the United States, and changing for the better.

After the Partnership Forum my good friend Charles Finny, CEO of the Wellington Chamber of Commerce wrote in the Dominion Post:

”I have come away with the firm view that our second most important relationship (after that with Australia) is in a better state than it was before the Forum. I also see the way forward to building a new relationship, one that will be different to that which existed prior to 1985, but one which will be no less close”

We still have a lot to do to deliver on that promise.

In particular we have to organise the 2007 Partnership Forum which will be held in Auckland in the second half of 2007.

Both Governments need to continue the work they have started and not be deterred by any bumps in the road along the way.

There will inevitably be ups and downs because the relationship with the United States is so complex, because it touches on global issues about which we care deeply and because it is so enmeshed with our own domestic issues and policies.

What is important however is that we stay on the road together and continue to work to build a relationship which reflects the interests, values and aspirations of both Americans and New Zealanders.