

**ADDRESS TO THE HAWKE'S BAY BRANCH OF THE NEW ZEALAND
INSTITUTE OF INTERNATIONAL AFFAIRS**

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“THE US NZ PARTNERSHIP FORUM”

Thank you for the opportunity to speak about the first ever US NZ Partnership Forum that was held last month in Washington DC.

First though I'd like to congratulate the Institute and Ken Aldred in particular for the outstanding success of the Hawke's Bay branch since its establishment.

The branch's growing membership reflects the importance of international issues for a region like Hawke's Bay with its strong export focus though world class tourism, agriculture, horticulture, forestry and manufacturing.

When former Prime Minister Jim Bolger opened the discussion in Washington on 21 April he quoted a former President, Jimmy Carter: “we must adjust to changing times and still hold to unchanging principles”.

Jimmy Carter's words sum up what was a key theme for the Forum – despite our obvious differences of size and scale, history and policy, New Zealand and the United States are bound together by an attachment to those unchanging principles and values which guide both our countries as we adapt to changing times and meet the challenges of today and tomorrow.

I am referring here to values such as democracy, human rights, the rule of law and the market economy.

In talking today about the outcome of the Forum there is another principle that I will need to respect.

To facilitate a frank discussion the Forum was held under the Chatham House rule.

This prevents me from describing the discussion too closely or from attributing to the Forum any particular consensus beyond the intention already made public to reconvene the event next year, this time in New Zealand.

But I can and will talk about the significance of the Forum and what it might mean for the forward agenda between New Zealand and the United States.

Before doing so I want to share some thoughts on the importance of New Zealand's international relations and on the dynamics of this critical relationship.

New Zealand's international relations

In a recent newspaper article I suggested that international affairs have a lot in common with reality TV.

I was thinking in particular of the show which my two teenage and near teenage children seem to love - "Survivor – Castaway Island".

It's the show where partners come together in an exotic location to show their wares and – if you'll pardon the expression - consummate a new relationship.

Similarly, in the global matchmaking game of international diplomacy, there are a lot of potential suitors, even for a small player like New Zealand.

The United Nations counts 191 members; the World Trade Organisation 149.

Our largest exporter, Fonterra, trades with 140 of them.

But not all potential partners are the same.

It's not just a matter of economic importance – New Zealand needs to develop positive external relations across the board and all of our international linkages should be important to us, from Brunei to Britain, Uzbekistan to the United States.

When it comes to those unchanging principles the picture is a little different.

New Zealand's core political alignment has always been with a small group of developed, market democracies.

Geographically we are firmly located in the South Pacific and play there, as we should, a significant "good neighbour" role which is respected and valued both in the region and beyond.

But our economic development distinguishes us from our Pacific Island neighbours.

We have for a number of years sought a closer engagement with countries of Asia, and have developed increasingly close relations with Japan, China, Korea and the countries of ASEAN.

Our invitation to attend last December's inaugural East Asia Summit was a welcome indicator of how far we have come in terms of gaining acceptance in Asia.

Even so we remain part of an outer circle in terms of Asian decision making and are likely to remain so.

The fact is that New Zealand's political "neighbourhood" is globally dispersed.

It is with Australia, the United States, Canada, the United Kingdom and most, although not all, countries of the European Union – with whom we compare and contrast ourselves in both economic and political terms.

It is also to this group to whom we turn for traction on pressing global issues like human rights, poverty alleviation or sustainable development.

I make this point simply to emphasise that seemingly New Zealand is faced with a lot of choices when it comes to international partnerships.

The reality is our choices are somewhat more constrained when we consider the political foundations of those relationships.

It's worth reminding ourselves of the importance of international relationships for our country's future.

First and foremost, New Zealand looks to the outside world as a source of economic advantage.

Trade is our lifeblood.

And so we pursue as we should closer trading relationships through the World Trade Organisation and also bilaterally through free trade agreements such as the landmark agreement we hope to negotiate with China.

Recent work by the New Zealand Institute suggests we are falling behind in terms of integration with the global economy.

The news is not good.

New Zealand's exports are low, heavily land-based and have been growing slowly relative to other small developed countries.

Outward investment is also low and has declined while global investment has grown very substantially.

It's not easy for a country with the population of a small Chinese city to build a commanding position in international markets.

I was dismayed to read that New Zealand counts only one entry in the Forbes Magazine Global 2000 index which ranks the world's 2000 biggest companies.

That was Telecom at position 1470 (and before the events of last week!).

Australia had 38 entries and even Chile had two.

The Government can't do the work of business but it can negotiate international arrangements which provide better market access and encourage greater inward investment.

And it can have the greatest effect when it does this with the larger, wealthier economies whose consumers want to buy the products we have to sell and whose companies want to invest in the sectors in which we have competitive advantage.

So clearly I am strongly in favour of comprehensive free trade agreements and even more in favour when these are with major players like China or even the United States.

(Incidentally I think the Government can also do a lot to improve the business environment in New Zealand, to enhance the country's competitiveness and to increase the size of our domestic market through immigration but that's the stuff of another speech !)

Beyond trade and investment, New Zealanders also look to international partners to make progress on the global issues we are most passionate about.

Saving whales, 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 allies and friends.

As it happens this small group of friends with whom we share these core values and principles are also among the most powerful.

Put another way, whether we like it or not, finding solutions to today's global issues is almost impossible without the major players in the Northern Hemisphere.

That's why New Zealand's traditional relationships should remain of enduring value and relevance to us.

And why New Zealand, even as we pursue an 'independent' foreign policy and court a multitude of partners, needs to continue to pay close attention to these critical relationships.

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

New Zealand and the United States

This brings me to the relationship with the United States, second only to Australia in terms of importance to New Zealand.

I say "second", only because New Zealand is much further on in terms of its integration with Australia even if we are still some way off from the single market as this week's Australia New Zealand Leadership Forum has reminded us.

I have no doubt that the United States, as the world's largest consumer market and remaining super power can only increase in importance to New Zealand in years to come – if we want it to.

A recent editorial suggested that a generation of New Zealanders had been brought up with the knowledge that the US and New Zealand are not "very, very, very good friends", despite what former Secretary of State Colin Powell might have said.

It is true of course that New Zealand and the US are no longer allies in the strict treaty sense, although we remain closely aligned on many fronts.

New Zealanders seem quite happy with that as are our major political parties.

There is no appetite for a return to ANZUS or a rethink of the legislation banning the entry of nuclear powered or armed vessels even if many would welcome a closer economic relationship with the US.

We would be mistaken indeed if we thought that these old nuclear differences no longer matter.

They matter very much indeed to the United States Navy for whom port access, especially in North Asia, remains a constant preoccupation.

This significant difference of view has not prevented us from developing a close and profitable relationship with the US.

We see this most clearly in the economic sphere.

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 contributes around 12 percent of all foreign direct investment.

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

At the Partnership Forum we had representatives from both our traditional dairy, meat and tourism sectors as well as newer sectors like software, publishing, wine and manufacturing.

In the last few weeks there have been newspaper reports of companies entering the US market from Methven shower fittings to Anna Trelise Cooper's high fashion.

I need not remind this audience how significant and profitable US investment has been in Hawke's Bay's tourism and wine industries.

Even where our difference in world view appears most acute, New Zealand and the US are collaborating actively and positively.

We have different views on the conflict in Iraq but New Zealand has been unswerving in its support for the war on terror and for the reconstruction in Afghanistan.

The recent visit of Assistant Secretary of State Chris Hill highlighted US appreciation for New Zealand's continuing contribution to peacekeeping and security in Afghanistan and closer to home in the Pacific.

Chris Hill spoke to the Partnership Forum and we welcome very much his comments quoted in this morning's Dominion Post advocating closer relations with New Zealand.

We have different views on the merits of the Kyoto Protocol but there are over 30 co-operative projects underway through the US/NZ Bilateral Climate Change Partnership.

I hope too that before long New Zealand will associate itself with the Asia Pacific Climate Change initiative in which the US, Australia and both Kyoto and non-Kyoto parties are involved.

Of course shared values and a busy agenda don't necessarily lead to unanimity of view or even to economic advantage.

New Zealand and the US continue to differ on important aspects of policy and we have been spectacularly unsuccessful in interesting the Administration in a free trade agreement.

When it comes to the free trade agreement, there are several major sticking points.

First, New Zealand's market is small and relatively open for US exporters.

Second, there would be opposition to a deal with New Zealand on the part of protectionist forces in the US, especially farmers.

Third, the US Trade Representative's Office has limited negotiating resources and is heavily committed to other negotiations with Thailand, Korea and Malaysia.

Fourth, time is running out as the authority the Congress gives the President to negotiate trade agreements expires in June next year and may not be renewed.

Perhaps surprisingly given these difficulties New Zealand's case continues to receive consideration in Washington in both business and government circles.

That case is centred around our impeccable free trade credentials, our close co-operation in the WTO, the support we have in both the business community and Congress and the economic interests we can bring to the table.

New Zealand offers US investors a highly skilled labour market, a range of highly competitive natural resource-based industries - agriculture, food processing, biotechnology, forestry and fishing - as well as leading edge software, telecommunications and creative industries.

It is sometimes alleged that New Zealand's nuclear policies are what is holding up the FTA.

I think that is too narrow a view - the bigger issue to my mind is whether the Administration sees the overall relationship with New Zealand as being of such significance, of such relevance to US interests, that these sticking points to initiating an FTA need to be overcome.

Frankly, that is where we have we have more work to do.

The Partnership Forum

It was against this background that the NZ US Council, together with our US counterpart, took on the task of organising the first ever US NZ Partnership Forum.

I want to pay tribute to the vision and leadership of the Boards of both Councils in taking this significant step forward.

From a New Zealand perspective, the key issue was one of relevance.

The challenge was to demonstrate 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, National MPs, the heads of five government agencies, along with the major business and union organisations, educational foundations and academics completed the team.

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

Hawke's Bay was represented by Mike Petersen, Deputy Chairman of Meat and Wool NZ, who lives in Waipukurau, as well as by me.

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.

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.

The agenda of the Forum itself was structured as a conversation.

There were a number of key note addresses, including from Phil Goff and Under Secretary of Commerce Frank Lavin which are available on the Council's website – www.nzuscouncil.com.

The larger part of the programme was given over to a discussion around a number of themes: the changing political and economic dynamics of Asia Pacific region, the future opportunities for business in the region, the future direction for agriculture, how to meet new security requirements for the shipment of goods, the future direction of the WTO negotiations and the forward agenda for free trade agreements, how business in both countries can meet future demands for energy.

As you can see the agenda was broad reflecting the nature of the relationship between the two countries and the many areas of actual or potential co-operation.

The discussion was active and engaged, helped by a few people on each side who had been asked to give some thought-provoking discussion starters.

We did not shy away from the hard issues, including around the nuclear and alliance questions which came up pretty early on.

I invite you to take a closer look at Frank Lavin's public remarks on our website in which he called for a new "architecture or mechanisms" for the relationship going forward – a new means of ensuring that New Zealand could effectively register on the US radar screen those issues we cared most deeply about.

Let me quote some others on the significance of the Forum.

First John Palmer, Chairman of Air New Zealand: "The immediate benefit (was) the quality of the interaction between business and political leaders. The chemistry was great and is probably the best reflection of the real strength of the relationship between the two countries"

Second, Charles Finny, Chief Executive of the Wellington Regional Chamber of Commerce, writing in the Dominion Post last week: "I have come away with the firm view that (the) relationship ... 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".

Third, former Under Secretary of State Richard Armitage writing in the Asian edition of the Wall St Journal: “Fighting for freedom and promoting free trade is no small task, but America's job is made much easier with the support of like-minded allies. New Zealand would be just such a partner. Unfortunately, decades-old U.S. policy may be inhibiting this bilateral relationship from reaching its full potential”.

And last US Ambassador Bill McCormick, in a letter which I received on Friday: “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”.

Conclusion

Of course the New Zealand United States Council stands unashamedly on the side of those who want the closest possible relationship with the United States, consistent with the values and interests of both countries.

Ambassador McCormick has hit the nail on the head when he says that it is the relationship which matters.

My view coming away from the Forum is that the outcomes and deliverables we seek can only come if we continue to work on the relationship at the broadest level.

These outcomes including eventually a free trade agreement will arise from an even stronger sense of mutual value and from an appreciation on both sides that we matter to each other.

The Partnership Forum took us a step forward in this direction but marks only a beginning.

It may yet become part of that new architecture that Frank Lavin talked about.

The United States prides itself on being the “indispensable nation”.

When it comes to advancing New Zealand’s fundamental political and economic interests, the United States is an indispensable partner.

It is one of that small group which forms part of our political neighbourhood.

Just as President Carter said our relationship needs to “adapt to changing times but hold to unchanging principles”.

If we want this relationship to be all it can be, we need it to seem not like reality TV but sustained, respectful and predictable.