

DOCUMENTS ON AUSTRALIAN FOREIGN POLICY

THE NEGOTIATION OF THE AUSTRALIA NEW ZEALAND
CLOSER ECONOMIC RELATIONS TRADE AGREEMENT 1983

The mission of the Historical Documents Project Section is to publish an accurate, comprehensive and impartial record of Australia's foreign and trade policy. Volumes in the series *Documents on Australian Foreign Policy* are produced and financed by the Department of Foreign Affairs and Trade. The editors of these volumes, whether permanent officers of the Department or consultants employed by the Department, operate in the Historical Documents Project Section of the Department with full editorial independence. An Editorial Advisory Board advises the Minister for Foreign Affairs with respect to the *Documents on Australian Foreign Policy* series. The Board is committed to upholding the editorial independence of the volumes' editors, to assisting the Historical Documents Project Section in gaining access to relevant documents including from other agencies and to assisting with the declassification process as necessary. A Committee of Final Review consisting of the Minister for Foreign Affairs and delegates of the Prime Minister and Leader of the Opposition examines each volume. Its approval signifies that material has been selected and edited according to appropriate scholarly and non-partisan practice.



NAFTA Ministerial Talks, April 1979. At the NAFTA Ministerial Talks in Wellington in April 1979 Doug Anthony, Australian Deputy Prime Minister and Minister for Trade and Resources, formally proposed looking beyond NAFTA to develop the trade and economic relationship. Seated 2nd from left is Brian Talboys, New Zealand Deputy Prime Minister and Minister of Foreign Affairs and Minister of Overseas Trade; 3rd from left is Lance Adams-Schneider, New Zealand Minister of Trade and Industry. They are flanked by H. Clark, Secretary of New Zealand Department of Trade and Industry, and E. Woodfield, Assistant Secretary of New Zealand Department of Trade and Industry. Opposite them are, from top, Lew Border, Australian High Commissioner in New Zealand; Neil Currie, Secretary of Australian Department of Trade and Industry; Wal Fife, Australian Minister Assisting the Prime Minister in Federal Affairs; Doug Anthony; and Jim Scully, Secretary of Australian Department of the Special Trade Representative.

[COURTESY OF THE DOMINION POST, WELLINGTON]

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AUSTRALIAN FOREIGN
POLICY

*The Negotiation of the
Australia New Zealand
Closer Economic Relations
Trade Agreement 1983*

Australian Editor

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New Zealand Editors

STEPHEN PAYTON and JOHN MILLS

AUSTRALIAN DEPARTMENT OF FOREIGN
AFFAIRS AND TRADE

and

NEW ZEALAND MINISTRY OF FOREIGN
AFFAIRS AND TRADE

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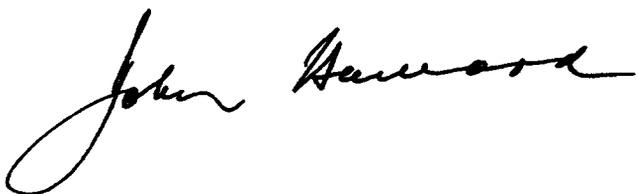
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*Foreword by the Hon John Howard MP
Prime Minister of Australia*

It gives me great pleasure to be associated with this joint Australia – New Zealand publication of government documents relating to the negotiation of our 1983 Closer Economic Relations Trade Agreement (CER). This is the first time that either country has undertaken a joint publication of historical documents.

On 28 March 2003, Australia and New Zealand commemorate the twentieth anniversary of the signing of the CER, an agreement that is the embodiment of our uniquely close and productive relationship. The success of the CER over the years provides clear proof that trade liberalisation delivers substantial concrete long-term benefits to both our peoples.

I commend this volume for the insights it provides into the challenges politicians and negotiators faced in crafting a fundamentally new basis for the expanding trans-Tasman trading relationship. The documents examine in some detail the problems that gave rise to the need for a new trade agreement and then trace the course of the negotiations and the development of the agreement. It is powerful testimony to the vision of both governments, and of their negotiators, that the CER remains one of the widest ranging and successful free trade agreements in the world even today. That enduring success, from which every Australian and New Zealander now directly benefits, reminds us in turn how important it is to continue pursuing the goal of further liberalisation of world trade.

A handwritten signature in black ink, reading "John Howard". The signature is written in a cursive style with a large, sweeping initial "J".

JOHN HOWARD
PRIME MINISTER

Foreword by New Zealand Prime Minister

I am delighted to be associated with the publication of this set of de-classified government documents charting the course of the negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement (CER).

These documents illustrate the process of negotiation between two close and competitive nations. They reveal some of the factors driving Ministers and officials on each side of the Tasman and how they dealt with the challenges they faced. Many of the documents were not intended for publication when they were first written and thus they provide glimpses of some of the real pressures on teams on each side. This story is relevant for anyone interested in the process of policy development and bilateral negotiation.

The trans-Tasman relationship has come a long way in the two decades since CER was signed. The freedom of movement of goods, services, capital and people that we enjoy with Australia has enabled the New Zealand business community, which was initially reticent about CER, to operate successfully across a single, trans-Tasman market.

Along with other events, the publication of this volume marks the 20th Anniversary of the signing of CER. It is important also to look ahead to the further development of CER and the future growth of the trade and economic relationship between Australia and New Zealand. I am pleased to see this being discussed in our Parliaments, and in our business and academic communities, as well as between our two governments. CER is a living agreement that we must continue to build upon in the years ahead.



RT HON HELEN CLARK
PRIME MINISTER OF NEW ZEALAND

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The Department of Foreign Affairs and Trade, the Department of Defence and the National Archives of Australia are entitled to be represented for purposes of consultation.

Abbreviations and Glossary

Abbreviations and Glossary

AAT	Australian Antarctic Territory
ACP	African, Caribbean and Pacific states
ACTU	Australian Council of Trade Unions
ADAB	Australian Development Assistance Bureau
ADC	Australian Dairy Corporation
ADFF	Australian Dairy Farmers Federation
ADIC	Australian Dairy Industry Conference
AHC	Australian High Commission/Commissioner
AMLC	Australian Meat and Livestock Corporation
ANL	Australian National Line
ANZ	Australia and New Zealand (Banking Group)
ANZAC Pact	Australian – New Zealand Agreement (1944). Also known as the Canberra Agreement or ANZAC Agreement
ANZAM	Australia, New Zealand and Malaya [strategic planning area]
ANZUS	Australia – New Zealand – United States (Security Treaty) (1951)
APEF	Association of Iron Exporting Countries
ASEAN	Association of South East Asian Nations
ASTP	Australia's system of tariff preferences
AWC	Australian Wool Corporation
BACA	Australian Department of Business and Consumer Affairs
BAE	Bureau of Agricultural Economics (Australia)
BHP	Broken Hill Pty Ltd
BNSW	Bank of New South Wales
BNZSB	Bank of NZ Savings Bank
BTE	Bureau of Transport Economics (Australia)
CAI	Confederation of Australian Industry
CAP	Common Agricultural Policy
CARICOM	Caribbean Commission
c.b.u.	completely built up (a term used in the motor vehicle industry to distinguish an assembled vehicle from one that is in kit form)
CEC	Cabinet Economic Committee (New Zealand)
c.e.t.	common external tariff

c.k.d.	completely knocked down (a term used in the motor vehicle industry referring to a kit for an unassembled vehicle)
CHOGM	Commonwealth Heads of Government Meeting.
CIPEC	Intergovernmental Council of Copper Exporting Countries
CVD	Countervailing Duties
CU	Customs Union
DFA	Department of Foreign Affairs (Australia)
DHOA	Draft Heads of Agreement
DIC	Department of Industry and Commerce (Australia)
DPI	Department of Primary Industries (Australia)
DPRK	Democratic People's Republic of Korea
DTI	Department of Trade and Industry (New Zealand)
DTR	Department of Trade and Resources (Australia)
EAD	External Aid Division, Ministry of Foreign Affairs, New Zealand
EAL	Exclusive Australian Licences
EC	European Community
ECOSOC	Economic and Social Council of the United Nations
EEC	European Economic Community
EEZ	exclusive economic zone
EFTA	European Free Trade Association
EP	Economic Policy Branch, Department of Foreign Affairs
EPTI	Export Performance Taxation Incentive (New Zealand)
FAS	First Assistant Secretary
FDL	Fruit Distributors Ltd (New Zealand)
FFNZ	Federated Farmers of New Zealand
FIC	Forum Island [member] Country
FIRB	Foreign Investment Review Board
FOL	Federation of Labour (New Zealand)
GATT	General Agreement on Tariffs and Trade
GNP	gross national product
GSP	Generalised System of Preferences (European Union)
IAC	Industries Assistance Commission
IBA	International Bauxite Association
IDC	Industries Development Commission
IDC	Inter-departmental committee

I&EA	Department of Immigration and Ethnic Affairs (Australia)
IEA	International Energy Agency
IMF	International Monetary Fund
JDICC	Joint Dairy Industry Consultative Committee
JWP	Joint Working Party
l.c.d.	lowest common denominator
LGPA	Livestock and Grain Producers' Association of NSW
LOD	Licence on Demand (New Zealand import licensing scheme)
LPG	liquefied petroleum gas
MAF	Ministry of Agriculture and Fisheries (New Zealand)
MANFED	Manufacturers' Federation (New Zealand)
MFA	Ministry of Foreign Affairs (New Zealand)
m.f.n.	most favoured nation
MTI	Minister of Trade and Industry (New Zealand)
MTIA	Metal Trades Industry Association
MTN	Multilateral trade negotiations
NAFTA	New Zealand – Australia Free Trade Agreement
NAM	Non-Aligned Movement
NFF	National Farmers' Federation
NIC	newly industrialised country
NZDB	New Zealand Dairy Board
NZCG	New Zealand Consulate-General
NZHC	New Zealand High Commission
NZI	New Zealand Insurance
NZIER	New Zealand Institute of Economic Research
NZMF	New Zealand Manufacturers' Federation (see also MANFED)
NZMPB	New Zealand Meat Producers' Board
NZWB	New Zealand Wool Board
OAPEC	Organisation of Arab Petroleum Exporting Countries
OEC	Officials' Economic Committee (New Zealand)
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
PATCRA	PNG Agreement on Trade and Commercial Relations
PM & C	Department of the Prime Minister and Cabinet (Australia)
PNG	Papua New Guinea

PSB	Public Service Board
QRs	Quantitative restrictions
R & D	research and development
ROK	Republic of Korea
RESLS	Rural Export Suspensory Loan Scheme (New Zealand)
SANZA	South Africa, New Zealand, Australia Apple and Pear Council
s.m.p.	supplementary minimum price
SAP	Special Assistance Programme (a New Zealand visitor programme)
SOVF	Special Overseas Visitors Fund
STR	Department of the Special Trade Representative (Australia)
TTTA	Trans-Tasman Travel Arrangement
UHT	ultra high temperature (pasteurisation process)
UNCLOS	United Nations Conference on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
USSC	Union Steamship Company of NZ Ltd
USSR	Union of Soviet Socialist Republics
VJP	Visiting Journalists' Programme (New Zealand)

Introduction

Introduction

When the New Zealand Deputy Prime Minister and Minister of Overseas Trade, Brian Talboys, visited Australia in March 1978 he explored with Australian Ministers, and with Prime Minister Malcolm Fraser, a wide range of proposals for strengthening economic cooperation between the two countries. Among these was the possibility of a customs union or other cooperative arrangement. His suggestions were warmly received by Australian Ministers and the idea of a customs union in particular fell upon fertile ground.

Less than a year previously, in May 1977, the Australian Government had published its *White Paper on Manufacturing Industry*.¹ Concerned about the changing international trade environment and aware of the need to improve international competitiveness, the Government was developing a new policy for the expansion of industry and long-term structural change in the economy. Although the focus of the White Paper was manufacturing, the Government made clear its belief that international competitiveness was possible in a wide range of activities where key attributes such as greater specialisation, innovation and management skills could be developed.² In the case of manufacturing, the Government's policy would be to reduce gradually the long-term protection enjoyed by many manufacturing industries,³ with a view to developing a stronger more specialised, export-oriented manufacturing sector which would be less reliant on Government assistance than in the past.⁴ An adjunct to this policy would be the development of a less complicated and more stable tariff structure.⁵ Following the White Paper, in September that year, the Government had established the Study Group on Structural Adjustment, chaired by Sir John Crawford, 'to examine the nature and extent of adjustment problems of Australian manufacturing industries and to advise on the essential elements of a long term policy to deal with these problems'. Thus, future prospects were much in the minds of Australian Ministers and officials when Talboys introduced the idea of a customs union. The Nareen Statement,⁶ issued after Talboys' talks with the Australian Prime Minister, Malcolm Fraser, noted that they had decided, among other things, 'to co-ordinate the activities of the two Governments in the field of development co-operation'.

1 *White Paper on Manufacturing Industry*, Canberra, 1977.

2 *White Paper*, pp. 17–18.

3 In particular, industries producing textiles, clothing, footwear, motor vehicles and food and beverages, many of which had assistance rates of 50% or more. See *Study Group on Structural Adjustment: Report March 1979*, 2 vols, Canberra, 1979; II, p. 4.1.3.

4 *White Paper*, p. 19.

5 *White Paper*, p. 36.

6 So named because the talks were held at Fraser's rural property, Nareen.

New Zealand was watching developments in Australia closely. Although New Zealand's trade imbalance with Australia was improving and trade volumes increasing, New Zealand had failed to persuade Australia to increase the number of goods traded freely under NAFTA. New Zealand felt it was facing a hardening attitude in Canberra towards its trade concerns and feared that its preferential position in the Australian market could be eroded. It was willing to consider a bolder approach, while realising the difficult adjustments this could involve. It was in this context that Talboys mentioned the possibility of a customs union option, a possibility that found a receptive audience alert to potential opportunities.

A year passed, however, while the Crawford Study Group carried out its work and completed its Report which was published in March 1979.⁷ The Report endorsed the Government's objective of fostering a more competitive outward-looking manufacturing sector.⁸ Significantly, one of the report's recommendations to Government was that it continue to negotiate reductions in barriers to imports provided reciprocal action was forthcoming from trading partners.⁹ The time was now ripe for a resumption of discussions with New Zealand. Doug Anthony, the Australian Deputy Prime Minister and Minister for Trade and Resources, took the opportunity while in New Zealand in April 1979 for the annual Ministerial review of the New Zealand Australia Free Trade Agreement (NAFTA), to broach the subject of a 'closer economic association' with New Zealand Ministers. In an informal discussion at a dinner given by Prime Minister Robert Muldoon, Anthony referred to the limited prospects for new trade growth for either country in the current multilateral trade negotiations, then spoke of the success achieved by other countries which co-operated economically to take advantage of the trading potential in areas such as China, the Middle East and South-East Asia. He suggested that it was time for Australia and New Zealand to take advantage of the new global circumstances to form a broadened basis and closer union of economic co-operation to achieve greater strength in dealing with the rest of the world (Documents 3 and 15). The positive reception by New Zealand Ministers of Anthony's proposal at this meeting marked the beginnings of the formal process which the documents in this volume chart.

The productive sectors of the two countries were at that time broadly similar, although Australia was expanding its minerals production in a way that New Zealand could not. Both employed measures to protect domestic industries by means of tariffs, import quotas and export incentives. Since the Second World War Australia's aim had been to encourage import replacement and to develop a diversified manufacturing sector. New Zealand too sought to limit its dependence

7 *Study Group on Structural Adjustment: Report March 1979*, 2 vols, Canberra, 1979.

8 *Study Group Report*, I, pp. 1.2-1.3.

9 *Study Group Report*, I, p. 59.

on foreign exchange and imports, but its efforts had only been partially successful. By the late 1970s New Zealand's terms of trade had deteriorated significantly. Greater access to the Australian market and greater competition from Australian companies offered opportunity and stimulus for New Zealand to become more competitive.

There was a difference in the degree and form of protection. Australia had instituted an across-the-board tariff cut of 25% in July 1973 designed to curb price inflation by increasing imports to meet pressing demand, and to support Government moves to liberalise international trade.¹⁰ In August 1979 there were further tariff reductions coupled with short-term assistance to manufacturing to encourage it to look 'beyond the limited environment of the Australian market and gradually come to rely less on Government support'.¹¹ In New Zealand the primary form of protection was quantitative import licensing, which had been in place since the Depression.

Formal trade relations between the two countries reached back to 1922 with what was, for both countries, the first trade agreement they had initiated with another country. In 1933 a new agreement, called the Australia New Zealand Trade Agreement was signed to regulate formal trade relations between the two countries. It gave preferences and some special rates of duty and operated for over thirty years during which time there developed an ever increasing imbalance of trade in Australia's favour. From 1960, for the next five years, joint committees of the two countries studied ways to increase trade between them and to submit proposals for a free trade area. The product of their work was the NAFTA which came into operation in 1966. The NAFTA worked reasonably well for some years but by the late 1970s its deficiencies were increasingly apparent and it had reached the extent of its capacity to expand trade. Both countries acknowledged that it did not promote the kind of co-operation that they needed to serve their interests in the changing international economic environment. This was the situation when Fraser and Muldoon released their communiqué on 21 March 1980 announcing that consultations would take place on prospects for establishing a closer economic relationship that would strengthen the ability of both partners to contribute to the development of the region (Document 93). The consultations would be carried out within a framework of studies appended to the communiqué. The objective of the studies would be to establish a gradual, progressive liberalisation of trans-Tasman trade on all goods produced in either country in a way that would benefit both countries.

10 See press statement by the Prime Minister, E.G. Whitlam, and the Minister for Overseas Trade and Minister for Secondary Industry, J. Cairns, 18 July 1973, published in Richard H. Snape (et al), *Australian Trade Policy 1965–1997: A Documentary History*, St Leonards, NSW, 1998; pp. 58–59.

11 See statement on the Study Group Report by the Minister for Industry and Commerce, P. Lynch, to the House of Representatives, 23 August 1979, published in Snape, *Australian Trade Policy 1965–1997*, pp. 79–81.

The approaches the two countries adopted to organise and manage the studies were rather different. Australia's approach was to let departments make the running, each department putting its own views which were then screened in an interdepartmental committee. The Department of the Special Trade Representative had responsibility for developing the departments' views into an Australian policy to take into discussions with New Zealand. However, it was always understood that nothing could be considered settled until Cabinet had seen and agreed on any proposals for trading arrangements with New Zealand. At times it was necessary to go to Cabinet before taking a next step in the negotiations. In New Zealand the situation was quite different. Departmental officials routinely embodied their agreed views and proposals, often in great detail, in papers submitted to the Cabinet Economic Committee (CEC). As the Prime Minister (who was also Minister of Finance), the Minister of Foreign Affairs and other principal economic Ministers sat on this committee, this practice meant that key Government members were fully informed and in almost day-to-day control of the CER process. There was rarely any need for CER matters to be discussed by the full Cabinet.

Another difference was in the process of consultation with domestic industry organisations and interest groups. Whereas New Zealand, a small state with a single parliament, was able to keep in close contact with the views of its interest groups and even, at times, gave the Manufacturers' Federation a voice in the Cabinet Economic Committee, Australia was a federation of States with a broad-based economy. Its domestic consultation process was complex having a large community to consult including six separate State governments, one territory authority (in respect of CER) and, periodically, Cabinet itself. Both countries needed final approval from Full Cabinet.

Though the negotiations were often complex and highly technical, on the whole they proceeded smoothly and methodically until March 1982, when only two major, and seemingly intractable, obstacles remained. These were, for New Zealand, the need for a satisfactory settlement on dairy products and, for Australia, the need to bring forward the termination dates offered by New Zealand for its import licensing and export incentive schemes. The dairy issue was settled in April, after the two governments pressed their respective dairy industries to come to an industry-to-industry agreement. Attitudes to terminal dates, however, were much less conducive to negotiation, and Australia's efforts were stubbornly resisted by New Zealand. (Indeed the New Zealand documents make it clear that New Zealand officials and ministers were well aware of the crucial need for Australia to obtain a concession in this area, but were determined not to play this card until they were fully satisfied with all other aspects of the CER deal.) Terminal dates became, for Australia, the fundamental issue which would 'make or break' the CER, as remarked by Frank Anderson, First Assistant Secretary of the Department of Trade and Resources, to his Minister, Anthony,

shortly before Anthony's departure for his final meeting with Muldoon on 28 October 1982 (Document 214).

As the negotiations moved towards the final stages and the fate of the CER proposals hung in the balance, Australian government departments differed in their concerns should the proposals collapse. The Department of the Prime Minister and Cabinet for example was concerned about the domestic implications in respect of relations with State governments while the Department of Foreign Affairs was concerned about the wider implications for future relations with New Zealand. The latter department tried to bring a calming tone to the debate especially in response to Industry and Commerce's view that it might not be a disadvantage to Australia if there were no CER or NAFTA (Document 217). Apart from this, Foreign Affairs took care not to argue for the agreement for foreign policy reasons alone 'if it does not meet Australia's specific trading interests' (Document 221). On 29 October Geoff Bentley, the Australian Deputy High Commissioner in New Zealand rang Foreign Affairs with the news that New Zealand had agreed to phase out export incentives over three years and to increase Australia's access to import licensing, if not by as much as sought initially, at least at a faster rate of increase in the earlier stages (Document 219). The success of the negotiations was confirmed the following week when Cabinet approved the agreement. This cleared the way for the Heads of Agreement to be signed on 14 December 1982 and for the Agreement to enter into operation on 1 January 1983. Formal signing of the Agreement took place on 28 March 1983.

Contemporary opinion about the success of CER in its first twenty years is commendatory. The World Trade Organisation has said that the Agreement is 'recognised as the world's most comprehensive, effective and multilaterally compatible free-trade agreement.' The objectives of CER are to expand free trade by eliminating barriers to trade and by promoting fair competition. It had achieved its specific objective of removing all tariffs and quantitative restrictions from trans-Tasman goods trade by 1990, five years ahead of its original schedule. Between 1983 and 1999 total trade in goods doubled in real (inflation-adjusted) terms to AUS\$11.3 billion. Two way investment between the two countries has also increased from \$1.5 billion in 1983 to \$25 billion in 1999.

CER, the set of agreements and arrangements that have developed under it and the trans-Tasman trade and economic relationship that has been built upon it, continues to evolve. It was extended from goods to encompass services in 1988. Current projects of note include a negotiation to establish a trans-Tasman therapeutics goods regulatory agency, a programme of business law coordination, and a formal review of the Trans-Tasman Mutual Recognition Arrangement. A series of new initiatives are planned to mark the 20th Anniversary of the signing of the Agreement.

Arrangement of the Volume

The volume has been divided into seven chronological sections corresponding to the seven major stages in the negotiations. This was thought to be the best solution to the somewhat confusing multitude of meetings between officials at various levels and the confusing similarity in the names of the meetings and the reports they generated. The selected documents are therefore arranged within the chronological sections, the Australian documents being placed first followed by the New Zealand documents. Where possible each section ends with a significant joint document. Apart from the final stage of ministerial considerations, joint documents were issued by the two countries as each stage in the negotiations was completed and agreement reached.

Although the volume is a joint publication of the Australian Department of Foreign Affairs and Trade and the New Zealand Ministry of Foreign Affairs and Trade, the documents were researched, selected and edited independently by the two Departments. The story of each country's participation in the negotiations is unfolded in the two separate sets of documents and there is no intent to represent them as a unified or complete record of events.

Editorial Practice

As is the practice for all volumes in the *Documents on Australian Foreign Policy* series, the material selected for publication has been examined by a Committee of Final Review, comprising the Minister for Foreign Affairs and representatives of the Prime Minister and Leader of the Opposition. The Committee's approval signifies their satisfaction that the material has been selected and edited according to appropriate scholarly and bipartisan practice, and that the volume is an appropriately representative selection of documents.

Every effort has been made to ensure that the text is faithfully reproduced and that documents are published as far as possible in their entirety. The words *matter omitted* indicate the omission of one or more paragraphs for reasons of relevance, comparative importance or length. Further omissions resulted following advice received from the Australian Department of the Prime Minister and Cabinet that material concerning Australian Cabinet matters should not be published.

The editor of the Australian documents has made minor changes in spelling in a few of the Australian documents where words were spelt inconsistently, ie sometimes with 's' and sometimes with 'z' within the same document. Similarly, the use or omission of hyphens in 'co-operation' and 'co-ordination' was inconsistent in many documents so it was decided to use a hyphen throughout. Another point to mention is the occurrence of a style of official writing called 'dot dash' which is evident in the papers of some Departments. In order to improve the readability of a very few of the extreme examples, the editor has made slight modifications in the format of those documents and has indicated the modification in a footnote.

The approach of the New Zealand editors has generally been to change as little as possible, as long as the meaning was clear. Thus spelling, grammar and punctuation errors have been left largely uncorrected, except in documents originally sent as telegrams. Given the technology in use at the time (manual typing and subsequent manual transcription to machine) telegrams tended to contain a large number of spelling and punctuation errors, and most of these have been quietly corrected.

Acknowledgements

The Australian documents, which are subject to the thirty year closure rule under the Archives Act, have been made available for publication in this volume by agreement with the controlling agencies. The New Zealand documents, however, are not subject to a uniform rule regarding access. Each government agency sets its own access restrictions and these conditions are administered by Archives New Zealand.

The editor of the Australian documents thanks Stuart Doran for editorial assistance, Elizabeth Nathan and Vivianne Johnson for assistance in identifying records, Roger Holdich for liaison with New Zealand authorities, David Lee for assistance with administrative tasks, Leith Douglas for guidance on archival matters and Alan Watson for advice concerning FOI legislation. The editor also thanks Rita Jay of the New Zealand Section of the Department and Rupert Holborow of the New Zealand High Commission, and acknowledges the National Archives of Australia for its assistance in locating records.

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Initiation of the CER Process

Australian Documents

1 NAREEN STATEMENT

[Canberra], 20 March 1978

Joint Statement

The Prime Minister of Australia, the Rt. Hon. Malcolm Fraser, and the Deputy Prime Minister of New Zealand, the Rt. Hon. Brian Talboys, issued the following Statement following discussions in Canberra, and over the week-end at 'Nareen', during which they were accompanied by the Australian Foreign Minister, the Hon. Andrew Peacock.

Mr Talboys has come to Australia on this occasion as a guest of the Australian Government. He is visiting all the Australian States, as well as Canberra and the Northern Territory. He is meeting the State Premiers and Ministers of the State Governments. Mr Fraser warmly welcomed his visit as a confirmation of the special relationship that exists between Australia and New Zealand.

Discussions in Canberra and at 'Nareen' covered a wide range of subjects, in particular international trade issues, Australia – New Zealand relations, the South Pacific and the Commonwealth.

International Trade

Mr Fraser and Mr Talboys discussed extensively current major issues in international trade. An expansion in world trade would facilitate more rapid progress in expanding trade between Australia and New Zealand.

Australia and New Zealand have important interests in common with developing countries, as exporters of primary commodities, in seeking improved conditions for international trade in commodities.

The Multilateral Trade Negotiations have yet to achieve a meaningful liberalisation of international trade in commodities. The benefits of the Multilateral Trade Negotiations have to date been unequally shared. They have tended to favour the major industrial producers and have done little for commodity producers.

Australia and New Zealand regard improved world trading conditions for agriculture as an essential ingredient of a satisfactory outcome to the Multilateral Trade Negotiations.

Mr Fraser and Mr Talboys agreed that there is a pressing need for substantially improved access for agricultural products into the markets of the major industrial countries.

Both countries continue to support multilateral arrangements for appropriate commodities involving both producers and consumers as a means of achieving more stable world trading conditions. They wish to see the UNCTAD Negotiating Conference on the Common Fund resumed at the earliest opportunity and are willing to participate actively and constructively in these negotiations to achieve an early successful outcome.

Mr Fraser and Mr Talboys agreed that it is essential for all trading countries to commit themselves to work towards an expansion of world trade and world markets. Only in this way can an economic climate be created in which a solution may be found to the problems of developed and developing countries alike. A failure in or a merely face-saving outcome to the forthcoming round of Multilateral Trade Negotiations would give a further impetus to the emerging protectionism in the major industrial trading blocs. This could have very damaging consequences for the world economy.

Mr Fraser and Mr Talboys agreed on the need to establish an international trading system that will assist the developing countries to realise their full economic and social potential. Not only is this essential to meet the aspirations of the developing countries, but it should also serve to promote soundly based and sustained world economic growth. To achieve more equitable arrangements for international trade, it is necessary for the major industrial countries to make a new commitment to work with the developing countries to this end.

It was agreed that officials in Australia and New Zealand should undertake as a matter of urgency a fundamental examination of these issues and of the prospects for achieving the twin objectives of an expanded and more equitable international trade system. There should be further discussions between Australian and New Zealand officials after consideration of these matters at the national level. The two countries should work together internationally to press for progress in these areas.

Australia – New Zealand Relations

Mr Fraser and Mr Talboys affirmed that Australia and New Zealand are linked by deep ties of common origin and shared ideals and institutions which give a sound basis for the closest co-operation. The future of the two countries are inextricably linked. By continuing to work closely together the two countries can strengthen each other and thereby make the best possible contribution to the peace and prosperity of the region in which they live.

Extensive consultations and co-ordination between the two Governments already exist in many fields.

Mr Fraser and Mr Talboys recognised that there is scope for further facilitating and encouraging relations by the exchange of people and ideas between Australia and New Zealand. To this end, they decided to take several concrete steps.

These include:

- Exchanges of Parliamentary Delegations on a regular and frequent basis;
- Exchanges of Australian and New Zealand Government officials from a variety of areas to work in each other's country;
- Regular consultations on international legal and related matters;
- Further steps to co-ordinate the activities of the two Governments in the field of development co-operation.

Mr Fraser warmly welcomed a proposal by the New Zealand Government that a New Zealand – Australian Foundation should be established to help strengthen relations between the two countries. Mr Fraser stated that the Australian Government wished to be closely associated with the proposal by means of a parallel body in Australia. Mr Fraser and Mr Talboys agreed that the functions of the respective bodies should include encouraging the study and discussion of issues of interest to both Australia and New Zealand and the promotion of increased cultural and other exchanges between the two countries. Close contact would be maintained between the two bodies.

Mr Fraser and Mr Talboys welcomed the initiative taken by leaders in the private sector of both countries to form a committee of businessmen to promote trade and to assist the development of close economic relations between the two countries.

Mr Fraser and Mr Talboys reaffirmed the significance which both countries attached to the maintenance and further development of bilateral economic ties. Since the New Zealand – Australia Free Trade Agreement (NAFTA) was signed in 1965, the value of trade between the two countries has increased more than four-fold, and has now reached a level of nearly \$A1 billion a year. Each country is the biggest market for the other's manufactured exports. Mr Fraser and Mr Talboys noted with satisfaction the recent commitment to the continuation of NAFTA until at least 1985 and the conclusion of a more enduring agreement of tariffs and tariff preferences. They looked forward to a further round of NAFTA discussions in April at which Ministers would assess current trade problems in detail and review progress in the trade field.

The intention of the two governments in entering the NAFTA was the progressive removal of barriers to trade between the two countries with a view to the continued expansion of the free trade coverage. Mr Fraser and Mr Talboys agreed on the desirability of the further opening of bilateral trade, as conditions permit, with the objective of encouraging in both Australia and New Zealand the development of efficient industries that can meet international competition and provide increasing employment opportunities.

To help achieve this objective and strengthen the two countries' economic on complementary lines, Mr Fraser and Mr Talboys agreed that in considering questions of assistance for the development of particular industries in which the other country would have an interest, each Government should take into account

the situations and prospects for the industries concerned in the other country. A consultative mechanism should be established to make possible full consultation between Governments before decisions are taken on these questions. Procedures should be elaborated at the NAFTA Ministerial meeting in April.

Mr Fraser and Mr Talboys emphasised the importance for regional stability and economic development of a healthy economy in both countries. They recalled that the 1977 ANZUS Council Communiqué stated that 'Ministers recognised that the health of the economy of the three capacity to play the responsive and responsible role that world and regional circumstances demand of them and which is their common desire. They therefore agreed that they would consider their economic relationships and mutual problems within this larger framework.'

The South Pacific

Mr Fraser and Mr Talboys welcomed the close co-operation that characterises relations between countries in the South Pacific, particularly within the framework of the South Pacific Forum. Australia and New Zealand have a special responsibility to assist the economic development of the region. Mr Fraser and Mr Talboys affirmed that their governments will continue to consult closely with the leaders of South Pacific countries on matters that affect the region.

The Commonwealth

Mr Fraser and Mr Talboys reaffirmed their Governments' continuing support for the Commonwealth. They looked forward to working closely together in that context, especially in preparation for the next Commonwealth Heads of Government Meeting to be held in Lusaka in 1979. They welcomed the initiatives agreed upon at the Commonwealth Heads of Government Regional Meeting in Sydney on a number of important international issues.

[NAA: A1313/116, 84/2288, i]

2 REPORT ON TALBOYS' VISIT

Canberra, [April 1978]¹

Customs Union with New Zealand: General Briefing to Ministers and Possible Press Presentation

During his discussions with Australian Ministers, Mr Talboys outlined the economic problems facing New Zealand, especially on the trading front. He informed Ministers that New Zealand was having to consider various options for development of its economic relations overseas including those with Australia.

¹ The document is undated. Talboys visited Australia during March 1978.

2. Mr Talboys mentioned that these options might at some future stage, include a customs union with Australia. There was no suggestion, however, that New Zealand was proposing such a union at this time, rather that this was one of a number of options which might merit some consideration.

3. Australia has traditionally had and continues to maintain very close relations with New Zealand, including important, specific economic ties. The trade and investment flows between the two countries are considerable and have significance especially for particular sectors of Australian and New Zealand manufacturing and rural industry. The major institutional link between the two countries is the New Zealand – Australia Free Trade Agreement. This differs from the concept of a customs union in that the latter, as exemplified in such agreements between other countries, would presumably aim at a complete freeing of trade within the union and at creating a common external tariff system.

4. Ministers agreed with Mr Talboys that consideration of such a new departure in relations either now or in the future would need to take the most careful account of almost the entire range of economic and social interests on both sides of the Tasman including the different sizes and natures of the Australian and New Zealand economies. The present international environment was a factor limiting both countries' freedom to manoeuvre in trade matters. Trade matters would, however, be discussed in detail at the forthcoming annual NAFTA Ministerial meeting in the context of the important gains in the economic relationship achieved recently through agreement on extension of the NAFTA to the end of 1985 and negotiation of a more enduring Agreement on Tariffs and Tariff Preferences. Both Australia and New Zealand declared their commitment to the long-term development of the trade relationship.

[NAA: A1838, 370/1/19/18, i]

3 CABLEGRAM FROM BORDER TO PARKINSON

Wellington, 12 April 1979

O.WL1730 CONFIDENTIAL PERSONAL

Closer Australia – New Zealand Economic Co-operation

You will no doubt wish to have a detailed briefing from Scully and Currie on a very interesting meeting between Mr Anthony and Mr Muldoon in Wellington on 11th April, but the following is a broad outline. The meeting had not been arranged as part of the program but developed from a discussion between the two men at Muldoon's dinner the night before. Also in attendance were Talboys, Adams-Schneider, Galvin, Clark (Secretary Trade and Industry) and Francis on the New Zealand side, and Scully, Currie and myself on our side.

2. The thrust of Mr Anthony's presentation was that given the limited new growth inherent for both of us in the MTN arrangements; the tremendous potential in other areas particularly China, the Middle East and South-East Asia; the successful combination of other (less similar) countries into units for economic and political purposes despite inherent political and other difficulties; uncertainty about the ability of the United States to continue to provide leadership; and the fact that NAFTA under present arrangements has gone just about as far as it can go—given all this, was this not the time for Australia and New Zealand to give hard and basic thought to a closer economic association, to take mutual advantage of new global circumstances and opportunities to promote the welfare and security of our people?

3. I should add that a draft paper on these lines had been prepared for Mr Anthony, originally with the idea that he might clear it with Mr Talboys and possibly use it as a basis for a statement at the press conference after the NAFTA Ministerial meeting. In the event it was decided not to follow this course, especially in the light of the discussion with Mr Muldoon, but I am sending a copy of the paper to you by bag leaving here today.

4. Mr Anthony made it clear to Mr Muldoon that he had no specific ideas to suggest about a closer association nor was this required at this stage. He simply wanted to open up thinking about the possibility of what the draft paper described variously as 'new, expanded and, hopefully, more rewarding forms of economic co-operation'; 'a broadened basis of economic co-operation'; 'possibilities of closer union as far as economic ties are concerned'; and 'avenues of closer co-operation for their mutual benefit and to achieve greater strength in dealing with the rest of the world'. Mr Anthony foresaw the debate being carried forward in government, business and media circles.

5. The New Zealand reaction was naturally cautious and the subsequent discussion was essentially devoted to canvassing the sort of questions which would have to be faced, for example, what is proposed or what would be possible; what would be involved; how would we go about it; would a specific time frame for action be required or contemplated; would a political union be implicit; are we thinking about a free trade area, customs union etc? There was reference, of course, to political difficulties, to fear and resistance by sector groups, and to other inherent problems.

6. The interesting thing, however, was that Mr Muldoon—while clearly having to be careful in his reaction—said that he agreed with Mr Anthony's general proposition in principle; with his presentation and analysis of economic conditions and prospects; with his general statement that New Zealand would have to take the lead in any initiative; and with the need to get the consideration process under way now. He said that the first step he would have to take would be to put the general issue to his Cabinet (it would be neither appropriate nor wise for the debate to begin first in the non-governmental area) and that he would do this 'forthwith'. Mr Muldoon brusquely overruled a plea for 'a bit of time'

from Adams-Schneider (who incidentally seemed to be having difficulty in getting hold of the overall concept and kept referring to the need for solutions to whiteware and carpet problems—reflecting what Talboys referred to as a ‘trenches mentality’ by officials in their perennial discussions on certain commodities in the NAFTA trade), and we learned subsequently that he gave directions to Galvin immediately after the meeting to set the think-tank in his Department to work on the subject straight away. I understand that Mr Anthony’s intention is that the STR Department is to be given the job on our side. We have also learned that the first reaction of New Zealand officials is positive, and this is a good sign.

7. At the Ministerial discussions on the previous afternoon Mr Anthony had in fact opened up his subject but the penny seemed not to have dropped on the New Zealand side. He said that NAFTA had been good to both of us, that a plateau had now been reached and NAFTA no longer afforded scope for expanded trade and economic ties between us. He was worried that we were grinding to a halt. Were we facing up to the facts, given what was happening in other areas? Where do we go from here? If our (underline one) two countries cannot get together, which countries can? We should look at the options ahead, work out how to handle developing situations, and co-operate to find the answers. The new Businessmen’s Council¹ could be the vanguard in this process. But both Talboys and Adams-Schneider seemed to interpret Mr Anthony’s remarks as having reference essentially to matters such as import licences, so that in his final intervention Mr Anthony had to refer again to his interest in New Zealand’s long term thinking, especially on where we both go from here. Were we content just to go on having the yearly NAFTA talks with only very limited progress possible?

8. It is interesting, but not surprising, that broad references to our future economic association by Mr Anthony at his press conference yesterday afternoon were not picked up by the press, and media reporting has tended to concentrate on the statements by the two Ministers that no breakthrough had been achieved at these talks and that they were now looking to the Businessmen’s Council to see what further could be done in expanding the trade.

9. The net result is that the New Zealanders are putting on their thinking caps. In essence they are being asked to consider their economic future with Australia in terms which are broader than the technical confines of the NAFTA machinery. It is clearly a challenge to them, as indeed it will be to us.

10. Mr Anthony has seen this report. In view of its sensitivity he thinks its distribution should be limited to the Prime Minister, the Foreign Minister and the two Permanent Heads involved.

[NAA: A1838, 370/1/19/18, i]

1 Australia – New Zealand Businessmen’s Council.

4 LETTER FROM BORDER TO PARKINSON

Wellington, 12 April 1979

CONFIDENTIAL

Further to my telegram¹ of today's date, attached is a copy of the draft paper which Jim Scully prepared for possible use by Mr Anthony, in public, while he was here. I had no prior notice, of course, that the moves made by Mr Anthony would in fact be made, and I gather from a remark Jim made to me that their thinking on this approach, while not new, had been consolidated on the trip down from Hong Kong.² Essentially their conclusion was that the time had come to say, in the NAFTA Ministerial context, that NAFTA in its present form has reached the end of the line (given basic attitudes on both sides), and that if the two countries want to make progress—bilaterally and jointly vis-a-vis others—then some fundamental decisions will have to be made on forms of closer economic co-operation. Both Jim and Neil Currie see a customs union as being the first step, and probably the main target in the immediate future if the relationship is going to expand. The alternative is just to go on making small, niggling steps under NAFTA, year by year. There is no doubt that the Australian officials are thoroughly fed up with the same old annual exercise in haggling which produces progressively less and less in the way of positive achievement. So, virtually out of the blue, a challenge has been made and it is up to the New Zealanders to determine how far they want to go. There are some tremendously difficult problems, political and economic, for them to face, and certainly some big ones for us—as Mr Anthony himself made plain to Mr Muldoon. And equally, there are some exciting opportunities in the economic world opening up before us. Do we both bite on the bullet or don't we?

It had to come to this, of course. When New Zealand decided a couple of years ago that we were going up and out and New Zealand was standing still, and that this was not in New Zealand's interest, and when this was followed by the Talboys initiatives and visits, we all were aware that—whatever the strength and value of the political links—it was the nature of the *economic* connection which was basic to our future together, and that unless we were both prepared to work closely in harness economically then all the goodwill in the world would not prevent the gradual drifting apart of the two countries.

It is trite to say that 'it will be interesting to see what happens' as a result of Mr Anthony's initiative; we could indeed be entering into the period of the crunch point.

[NAA: A1838, 370/1/19/18, i]

1 Document 3.

2 Anthony had a short stopover in Hong Kong on his way from ministerial talks in Japan to New Zealand for the annual ministerial review of NAFTA.

5 MINISTERIAL SUBMISSION TO PEACOCK BY HENDERSON

Canberra, 24 April 1979

CONFIDENTIAL

Subject—Australia – New Zealand Relations

PURPOSE: To send you a copy of an internal minute of 20 April of the STR Department.

ISSUES: The minute illustrates the issue raised in my telex of 23 April. It records firm opposition to the proposal that the review of relations with New Zealand should be undertaken interdepartmentally and suggests that an 'in house' STR/Trade and Resources study should be undertaken for possible consideration by Ministers.

- As suggested in my telex we have strong reservations about anything less than full interdepartmental conduct of the review. In addition we have some doubts about whether the New Zealand Government would think it appropriate for us to have STR co-ordinating/controlling Australian examination of the bilateral relationship.
- We have no objection to STR carrying out a study of the matters referred to in para. 6 of the minute (viz. tariffs, the possibility of a customs union, and the likely difficulties in any trans Tasman restructuring exercise) which would form part of the overall study envisaged. However there are broader matters with important implications for the total relationship for consideration which will require inputs from many departments and close co-ordination.
- You will note (para. 1 of STR minute) that the Prime Minister will be writing to Mr Muldoon to advise that work has begun.

RECOMMENDATIONS: It is recommended that you direct us urgently on how you wish us to proceed and in particular whether you wish to write to the Prime Minister and Mr Anthony on this matter.¹

[NAA: A1838, 370/1/19/18, i]

¹ Peacock annotated the submission with his decision:

'1) I share your concerns & have indicated this verbally to Scully—last Mon. night in Perth.
2) We should write to PM and Dep. PM urgently. A. S. P. 27/4.'

6 LETTER FROM FRASER TO MULDOON

Canberra, 30 April 1979

I was pleased to get a report from Doug Anthony on his visit to New Zealand and in particular on the interesting discussion he had with you on the nature of longer term relations between our two countries. In many ways I see this as a continuing development of the positive discussions which I had with Brian Talboys in March of last year. I was very pleased to learn that the subject of our longer term relationship had been broached in your discussions, albeit in a very preliminary way, because it is only too easy to promote debate on the New Zealand – Australian relationship in contemporary, often sterile terms.

I share Doug Anthony's general perceptions of the circumstances which will probably confront our two countries in the 1980s and it therefore makes good sense to me that we should start to think about the options now. In this regard I fully endorse the proposition that the lead in any initiative should come from your side of the Tasman.

I understand that you have already put the matter of our longer term relationship to study and we propose taking complementary action here. I will be following developments with considerable interest. In the meantime, I wanted you to know of my attitude towards what I see as a mutually beneficial initiative that should not be allowed to wither on the vine, but, rather, taken forward with due speed.

[NAA: A1838, 370/1/19/18, i]

7 LETTER FROM PEACOCK TO FRASER

Canberra, 7 May 1979

CONFIDENTIAL

My dear Prime Minister,

I write concerning an important proposal discussed at the meeting between the Deputy Prime Minister¹ and Mr Muldoon in Wellington on 11 April which was also attended by New Zealand senior Cabinet Ministers Talboys and Adams-Schneider and senior officials from both sides.

As you noted in your letter of 30 April to Mr Muldoon, Mr Anthony proposed, and Mr Muldoon agreed in principle, that it was time for Australia and New Zealand to give serious thought to a closer economic association and, against the background of new global circumstances, to seek opportunities to promote the welfare and security of both countries. Mr Muldoon undertook to put the general

1 J.D. Anthony.

issue to his Cabinet and has issued instructions for officials to start working on the subject. Although we understand that little progress has yet been made there, recent public comments by Muldoon suggest that we could receive a relatively early response from New Zealand indicating how the proposal might be implemented and initiatives that might be explored. It is also possible that Templeton, the New Zealand Deputy Minister of Finance, could raise the matter with you in general terms when you see him in Manila.² You said in your letter to Muldoon that we should take this matter forward at due speed. I agree and this prompts me to raise with you the question of how we should handle at official level ongoing discussion and co-ordination of what promises to be a most important and complex exercise, involving our total relationship with New Zealand.

I strongly support the objective of moving towards a closer economic relationship with New Zealand. Moreover, I see it as a natural corollary of our overall relationship that problem areas should be faced squarely so that both countries can adapt appropriately and quickly to changes in their external environments. As you said in your letter to Muldoon, movement of this kind flows from the talks we had with Brian Talboys last year. Indeed, much of what Talboys has been saying in recent years can be seen as preparing the ground for an in-depth study of the prospects for closer economic association and it is in the interests of both of us to do this now rather than later. However, while the first objective in seeking a closer relationship and to resolve present and future difficulties might be economic, it is clear that there are much broader implications involved. The whole range of our relations with New Zealand will need to be examined in a study in which a number of Federal Ministers and their Departments will have strong and legitimate interests, as will State Governments and the non-governmental sector.

There is inevitably much inter-connection in the formal and informal links between the two countries. In addition there are some fundamental assumptions about the closeness of the relationship which suggest that it would be unwise to give an impression that the future of the relationship was being reappraised in any narrow sense such as the economic interest of one country to the other. This would contravene the spirit of the Nareen declaration which emphasized the continuing relevance of the special bilateral relationship with its many facets as the basis for increased co-operation.

There is at present a proposal that the Department of the Special Trade Representative should undertake a special study of the existing economic relationship including prospects for a customs union. I do not wish to question the competence of that Department or the Department of Trade, to do such a study. But this is a matter which has far reaching implications for the overall relationship with New Zealand (and indirectly with other countries as well) and

² Fraser and Templeton were to attend the UNCTAD meeting in Manila.

I am concerned to ensure that proper arrangements are established from the beginning for the carriage of the review.

The unfortunate fact is that past attempts to have a hard look at the development of the relationship have really gone no further than discussion of the technical aspects of the existing trading relationship. What is needed if we are to move into a new phase is a broader perspective. As international matters (especially of a bilateral nature) requiring such broad perspective come within the co-ordinating responsibility of my portfolio, I propose that our examination of this issue should proceed on the basis of a report to be prepared by an inter-departmental committee chaired by my Department at Deputy Secretary level. I would add that it was in recognition of the broad nature of the relationship that it was decided to establish the Australia – New Zealand Foundation under my authority. (I would also note that my Department has had co-ordinating responsibility for, and provided the Chairman at, the Australia – New Zealand officials' consultations on international economic matters held recently in Canberra in accordance with the agreement between yourself and Brian Talboys at Nareen.)

An IDC on this matter would need to include representatives from the following Departments (in addition to my own) with major interests in our relations with New Zealand:

- Prime Minister and Cabinet
- Trade and Resources and STR
- Treasury
- Industry and Commerce
- Business and Consumer Affairs
- National Development
- Defence
- Productivity
- Immigration and Ethnic Affairs
- Primary Industry
- Transport
- Employment and Youth Affairs
- Department of Administrative Services

The interest of several of the above Departments is a relatively specialized one and they would not all need to be included at all stages. But I believe all would need to be involved. I would envisage that the Departments with the stronger interest in the exercise (Prime Minister and Cabinet, Trade and Resources, Industry and Commerce and Treasury) would constitute a task force chaired and serviced by my Department which would address itself to drafting the Cabinet submission.

An important implication of any decision which might be taken on the future of Australia – New Zealand economic and political relations is the likely reaction of third countries, e.g. Papua New Guinea and especially the South Pacific and the ASEAN countries. The United States' reaction would also need to be

considered given the references which have been made in the ANZUS context at New Zealand's initiative to the nexus between the economies and regional and global roles of the treaty partners. The reaction of third countries is an additional element in our preference for the matter to be handled by an IDC chaired by this Department.

I envisage the first task of the IDC would be the preparation of a basic paper for Cabinet stating the objectives and possibilities so that Cabinet can issue a directive to the IDC in terms of a framework for further detailed examination. Presentation and comprehensiveness will, I believe, be of some importance in this exercise. The New Zealand Government will no doubt maintain a close interest not only in what we come up with but how we go about it. I hope therefore that I could discuss my proposals for the handling of this matter with yourself and Mr Anthony at an early stage. It may be in fact that the question of how to handle this subject in future could usefully be given a first airing in Cabinet without papers and before any IDC is set up.

I have sent a copy of this letter to Mr Anthony.

[NAA: A1838, 370/1/19/18, i]

8 LETTER FROM FRASER TO SINCLAIR¹

Canberra, 7 June 1979

The Minister for Foreign Affairs wrote to me on 7 May² concerning the involvement of the Department of Foreign Affairs in the study of a possible closer association between Australia and New Zealand.

I discussed the question of the relationship between Australia and New Zealand with Mr Templeton, New Zealand Minister for Customs and Minister Assisting the Minister for Finance, in Manila recently. In the light of these discussions and given the earlier background, I think we could await the New Zealand preliminary study of this matter before setting up any formal interdepartmental machinery. As you know, it has been agreed on both sides of the Tasman that any initiative for a closer association with Australia should come, and be seen to be coming, from New Zealand.

I would rather not set up any interdepartmental machinery at this stage but I have discussed what work might be done in the meantime with Mr Anthony and I have asked that some preliminary work of a technical nature be put in hand by

¹ Sinclair was Acting Minister for Foreign Affairs while Peacock attended talks in Peking and Paris.

² Document 7.

the Department of the Special Trade Representative in consultation with other Departments.

When the New Zealand preliminary study has been received I propose that we review how our overall examination can best be progressed and what machinery would be most appropriate for that purpose.

I am sending a copy of this letter to the Minister for Trade and Resources.

[NAA: A1838, 370/1/19/18, i]

New Zealand Documents

**9 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 2 September 1977

NO 2169. CONFIDENTIAL (NZEO) PRIORITY

Economic Relations with Australia

Herewith first draft of a CEC paper for your information and reaction. We would appreciate your comments by 6 September in order that final draft can be cleared for consideration by Committee on 13 September.

'1 This paper discusses in general terms the position reached in our economic relations with Australia and suggests that a work programme be adopted to identify the scope for furthering these relations in the longer term.

Australian Economic Developments

2 The pressing need for detailed consideration to be given to the direction of trans-Tasman relations is the critical position that has been reached in the formulation of Australian economic policies and the real danger that without a considerable effort on our part these policies could develop further against our interests.

3 In recent years there has been a structural shift in the Australian economy contributed to by the increasing importance of rapidly growing mineral exports. A high inflation rate and forces which have brought about a fluctuating but generally strong exchange rate. The consequence has been a loss of competitiveness by Australian industry leading to high unemployment (about 6 per cent but up to 14 per cent in some areas).

4 A White Paper on manufacturing industry presented in May of this year in the face of these difficulties has identified a need to restructure industrial development, has affirmed that it is not the intention to provide blanket protection for Australian industry but has acknowledged that emphasis will be required on short-term policies which will enable employment opportunities to be maintained until more sustainable growth can be restored. In brief, the White Paper envisages pragmatic use of temporary assistance for immediate problems during which policies are implemented to effect a movement into manufacturing developments which make best use of Australia's natural advantages and consequently have a high degree of natural protection.

5 At the same time, Australia is [in] the process of re-defining its trading relations internationally. In particular, it is adjusting to the ASEAN relationship which it conceives as of importance both in a political and economic sense. In doing so it has been asked to respond to ASEAN pressures for the removal of existing trade restrictions and a preferred position on the Australian market. The further development of ASEAN/Australian relations will undoubtedly receive even more attention in the years ahead.

6 The influences affecting the Australian economic environment have already been felt in our trading relations with Australia. In part this has been occasioned also by a new found realisation by Australia that New Zealand industry has acquired a strength sufficient to create competitive problems in a growing number of areas and has to be treated as an equal, rather than a junior partner as formerly.

7 This harder Australian attitude has found expression in

- the Australian Cabinet direction to include New Zealand goods within global quota restriction in the absence of any special NAFTA arrangement being negotiated
- a tendency to look for a 1:1 basis in any such arrangements rather than the 1:4 basis (broadly reflecting market sizes) which were traditional previously
- criticism of the effects of New Zealand's import licensing system on Australian trade and an insistence on special licensing provision for Australian goods as a prerequisite to the maintenance of any preferred provision on the Australian market
- an apparent reluctance to progress the NAFTA by the addition of further goods of export interest to New Zealand to Schedule A¹
- a harder line attitude on the balance of advantage in Article 3:7 and Schedule B arrangements
- a hard negotiation on a more enduring preference agreement and insistence that the present imbalance in the interim arrangement (whereby Australia gave New Zealand a margin of 15 per cent in the protected sector in exchange for a reciprocal 10 per cent) be abandoned.

8 This policy derives from the immediate sectoral difficulties with which Australia is faced. However in the light of the general movement in Australian policies reluctance to find special accommodation for New Zealand could have longer term implications which are more important and which underscore the need for a fundamental reappraisal of the direction of the trans-Tasman relationship.

9 Indeed, the overall pattern of trade with Australia at present gives some cause for satisfaction. Provisional statistics indicate that exports to that country grew by

1 Schedule A listed items to be traded duty free between the two countries.

35 per cent during the past year, from \$264 million to \$355 million. The trade imbalance in Australia's favour has declined to below 2:1 the difference being reflected in raw materials and semi-finished products. Trade is virtually balanced in the area of sophisticated manufactures and it is in this area that New Zealand has made its greatest gains in recent years.

Comment

10 In 1975 a comprehensive review was made of the NAFTA which culminated in the decision to extend the agreement for a further ten years. Although the NAFTA had since 1966 provided an umbrella for the development of trade, the review highlighted a number of deficiencies. These included the very little progress that had been achieved since 1966 in adding additional goods to Schedule A and the inconsiderable impact which the NAFTA has had on the structure of industry in the member states. Officials concluded that a positive effort would be required by Government if the NAFTA was to optimise its benefits and this led in early 1976 to the New Zealand offer to place all goods on Schedule A except for a limited number of particularly sensitive items. Unfortunately, this offer was untimely relative to Australia's position.

11 New Zealand's trade objectives are to maintain, and if possible extend, our preferential position in the Australian market which for the foreseeable future will remain critical to expansion in forest products and manufactured exports. It now seems, however, that realisation of this objective will require focus on wider economic issues.

12 Much is already known of Australian concerns relating to present New Zealand policies. The major stumbling block to liberalisation in Australian eyes is New Zealand's import licensing system. Others include concern at the position of advantage enjoyed by New Zealand exports through export tax incentives and our ability to acquire some raw materials and other industrial inputs from third countries at more advantageous terms than Australian counterparts. This is because of protection accorded to Australian producers of such inputs.

13 Interestingly, it is in this latter context that some thoughts have been voiced informally as to the long term possibility of a customs union. Such a union would envisage not only a free trade area between the two countries but common protective policies against third country imports. Conceivably, a form of customs union could be achieved by adjusting differences in tariff structures thus placing industry on an equal basis as regards imported costs. However, a full customs union having the widest economic consequence would also envisage similar policies of quantitative restrictions. Both these adjustments could cause New Zealand difficulties.

14 The wider economic advantages that might be gained by a customs union or some other form of relationship are less clear than in respect of trade. At best, closer economic integration might assist with the process of restructuring the

economy and enable New Zealand to draw on Australia's balance of payment strength. At worst, it would mean a closer link with a country which is not internationally competitive in a number of important sectors and the prospect of being affected by a spill over of Australia's unemployment difficulties. However, it is important to point out that in the long term both countries are looking to develop efficient manufacturing sectors and points to scope for closer cooperation.

Work Programme

15 Any substantial adjustment to our economic links with Australia will be at some consequence and subject to a degree of uncertainty. The reason why the NAFTA has not fulfilled all of its expectations is because it has operated on a micro rather than a macro basis. Officials consider that any work programme on the shape of the long term trans-Tasman relationship should be relatively broad brush, looking for a balance of advantage within the widest possible framework.

16 It is considered that present policies being developed to cope with immediate trade concerns are adequate. In cooperation with industry, arrangements are being negotiated on an individual basis but officials are looking to devising principles that can be discussed with Australia which might hopefully minimise the need for protracted consultation in each case. One of these principles is a readiness on New Zealand's part to make meaningful reciprocal access available to Australian exporters.

17 Looking to the longer term, a work programme on the following basis is suggested:

- (a) An assessment of the present and likely future competitive position of New Zealand and Australian industry. This will be assisted in part by the results obtained from the deliberations of the Tariff Review Committee and recent experience in the NAFTA context eg on apparel. It will, however, also require an analysis of the cost structures of a representative range of products of trade interests.
- (b) A closer identification of Australian concerns relating to New Zealand policies to meet Australian concerns in the context of a wider relationship might also be evaluated.
- (c) A more comprehensive study of elements in our economic relationship which fall outside the trade area. This would include, for example, investment, joint ventures, Defence spending, Tourism, Defence expenditure, exchange rate adjustments, shipping, travel and migration etc. Assistance will be sought from the departments involved in these questions. The intention will, however, be to see whether there is scope for policies in these areas to be developed within a wider economic relationship.
- (d) Complementary to the above exercises, an analysis could be undertaken as to which option (eg customs union, further development of the free trade

area etc) best meets our objectives and what modifications might be necessary to any such option to secure optimum benefits.

18 Since this work programme necessarily requires some assistance from Australian officials and since its success depends upon a willingness by Australia to conceive some possibility of a wider relationship an opportunity should be taken to acquaint the Australian government with our intentions and, if possible, to secure a commitment to their participation on a similar basis. It is preferable, however, that at this stage any publicity be on a low key basis.

Recommendation

19 It is recommended that the Committee:

- (a) *Agree* that the question of developing a wider economic relationship with Australia be explored.
- (b) *Concur* with the outline of a work programme in this respect set out in paragraph 17.
- (c) *Note* that this will involve a number of departments with functions touching on elements that might be influenced by such a relationship and *direct* that such departments participate in the study.
- (d) *Approve* that the Minister of Overseas Trade send a suitable low keyed letter to (Senator Cotton/Mr Anthony) expressing New Zealand's concern to optimise possible scope for development of the area market. And suggesting that officials cooperate where desirable.²

[ABHS 950/Boxes1221-1226, 40/4/1 Part 12

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² Francis's reply indicated strong support for studies along the lines indicated, but expressed some reservations about the likelihood that Australian officials would be willing to focus on such an exercise at that particular economic juncture.

**10 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 17 March 1978

NO 624. CONFIDENTIAL (NZE0) PRIORITY

Australia – New Zealand Trade: Mr Talboys' Visit

Following is text of note prepared by Lough after his call on Carmody today, on those parts of the discussion which related to ANZ trade and Mr Talboys' visit:

Begins

1 Sir Alan Carmody recalled the ideals and intentions of the initial NAFTA negotiations in which he led the Australian delegation, in particular the expectation that over time there would be a rationalisation of industrial development between the two countries to their mutual benefit.

2 Since then we had drifted away from these ideas. This was not only the fault of governments and manufacturers, officials also had to take some responsibility. They had become bogged down in trade-offs and minor detail.

3 With the problems ahead faced by both countries and structural changes needed in industry in both countries it was desirable that the original concepts of NAFTA be revived and development proceed in knowledge that the barriers to trade between Australia and New Zealand will be lowered.

4 His view was that we should move in the direction of the customs union concept although a complete coverage might be a long way off.

5 The Prime Minister had been briefed to respond favourably to any suggestion by Mr Talboys that it be the intention to move to freer trade between the two countries.

6 Plimmer said Mr Talboys was likely to make such suggestions at Nareen. One option was to work towards liberalisation and free trade for most goods traded between the two countries in a fixed period of say one decade or more. Carmody said that his Prime Minister was briefed and would certainly be prepared to respond favourably. Plimmer asked about a reference to this in the joint statement. Carmody said it should be stated publicly. But officials in the Prime Minister's Department had not been briefed about such a reference in the draft statement as the subject had not yet been discussed in these terms between the two Ministers.

7 He asked whether Mr Talboys would have authority to commit his Government without Cabinet approval to work with Australia towards freeing up trade between the two countries within a finite period. Plimmer said that this had been the subject of discussion with Mr Talboys and his delegation before he left Canberra and it had been agreed that we should seek a reference in the draft statement. From this he thought that Mr Talboys would not have to refer such a

reference back to Cabinet. Carmody thought that provided the statement was not too specific, he thought his Prime Minister could buy them.

8 Plimner suggested that it might be helpful if the thoughts which Carmody expressed could be conveyed to whoever from the Prime Minister's Department was to be around near 'Nareen' who might be called on to tidy up or amend the draft statement after the talks.

9 Carmody later made a further reference to the possible need (on both sides) to refer the question to Cabinets before it could be announced in specific terms. Plimner said that if that were so any reference in the draft statement might be made more specific at the forthcoming NAFTA Ministerial Consultations. This would give time for any approvals necessary by Cabinet in both countries. Carmody agreed.

Carmody's attitude throughout took the longer term view and was helpful and encouraging. He made it quite clear that the nature of the advice from his Department was that Australia and New Zealand should work together into the future more closely so that the directions taken by industrial development on both sides of the Tasman should be in the knowledge that the markets of both countries would eventually be available to industry.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 13

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11 REPORT TO CABINET BY TALBOYS

30 March 1978

CP (78)310. CONFIDENTIAL

Visit of Deputy Prime Minister to Australia

The current economic recession has put new strains on relations between Australia and New Zealand. NAFTA has virtually been put on ice: in each country there are those who blame the other for the closing of plants and resulting unemployment. The purpose of my three-week tour of Australia was to ease the strains, by reminding the Australians, and New Zealanders too, how much both countries get out of the relationship. As neither the Australian Government nor ours at present has much room for manoeuvre on economic questions, I was not seeking the immediate removal of barriers to trade. My aim was to forestall any suggestion that additional restrictions might be imposed in the short term, and to prepare the way for closer cooperation, including renewed expansion of NAFTA, as circumstances improve.

2 *The Message.* The message I tried to put across, not only in Canberra but in all the State Capitals as well, was that Australia and New Zealand have a lot to

gain by working together, and we need to do so more and more. The three points I made everywhere were:

- Australians and New Zealand[ers] have more in common with each other than they have with any other people.
- We take far more of each other's manufactured products than any other country, and so provide a lot of jobs for each other.
- By working together in NAFTA we can make our industries more efficient and put ourselves in a better position to open our markets to developing countries, in South East Asia as well as in the South Pacific.

The second point is the one I laid most stress on: not enough Australians seemed to be aware that New Zealand is the biggest market for their manufacturing industries.

3 Australians in general do not take much notice of New Zealand. When they think of this country at all, they seem to think of it as beautiful and hospitable, but quiet, dull and increasingly hard up. They are inclined to suggest that economically the two countries are, or should be, complementary—often meaning that New Zealand should stick to agriculture and tourism and let Australia do the manufacturing. I therefore emphasised that we export manufactured products, as well as importing them, and that complementarity must be sought within the industrial field. New Zealand is not just a big farm, or a playground for tourists. I tried to make clear this is an industrial country too.

4 *The Reception.* In Canberra I was well received. The Australian Prime Minister took an active interest in my visit and gave me a good deal of his time. The speech he made when I presented the McCahon painting was very warm, and the warmth was reflected in our private talks, both in Canberra and at 'Nareen', his country home in Victoria. He made it clear from the outset that, in view of the high level of unemployment in Australia, relaxation of any trade restraints would be difficult at the present time. He also made it clear, however, that he wanted to extend the cooperation between Australia and New Zealand in the economic field. He made two specific suggestions:

- (a) New Zealand officials should join Australian officials in making a new study of the possibilities for getting world trade growing again by increasing the purchasing power of developing countries;
- (b) In considering requests for assistance in industrial development (which, it was agreed, should be interpreted broadly) each Government should take into account the interests of industries in the other country, as well as its own.

These suggestions struck me and my advisers as constructive and useful from New Zealand's point of view. If the second one limited our freedom of action at all, it would also limit the Australian Government's: on balance it might well favour New Zealand. So I welcomed both ideas.

5 *The Joint Statement.* Mr Fraser proposed that after our talks were over we should issue a joint statement setting out the practical steps we had agreed on for strengthening relations between Australia and New Zealand. Originally these were to be just the establishment of the Australia – New Zealand Foundation and increased exchanges at various levels. We suggested that a section on trade be included as well, making it clear that both Governments are still committed to the progressive liberalisation of bilateral trade. Mr Fraser accepted this without argument. Rather to our surprise, he also proposed the inclusion in the public statement of the two ideas he had put to us privately. After consulting the Prime Minister by telephone, I agreed. The Joint Statement was issued just after I left ‘Nareen’ on Sunday 19 March. The text is attached.¹

6 The key sentence in the Statement from New Zealand’s point of view at least, is the one (second para, page 4) recording our agreement ‘on the desirability of the further opening of bilateral trade, as conditions permit’. This obviously does not mean that NAFTA is to come off the ice straight away. What it does mean is that this will happen as soon as circumstances allow. It makes clear what direction we are moving in, and gives businessmen some basis on which to plan their investment. This is a modest achievement, but it has its value.

7 The Joint Statement received fairly wide publicity in Australia—almost as wide as the painting I presented. But the Australian press generally concentrated on the foundation and the exchanges agreed upon: the significance of the section on trade for the most part escaped notice. One imaginative report claimed that I had failed to achieve my main objective in the trade field—allegedly to get more New Zealand dairy products into Australia. This report originated in the *Sydney Morning Herald*, which frequently criticises Mr Fraser for protectionism. It is not necessarily harmful to New Zealand.

[matter omitted]²

8 *Dairy Products.* In trying to increase our exports to Australia, we have hitherto not put much emphasis on agricultural products. There have been good reasons for this, but I think we should now have another look at the question. For dairy products in particular, I think the time may be coming when greater opportunities will begin to open up for us in the Australian market. Milk production in Australia is declining steadily. Unfortunately consumption, of butter at least, is also falling. This problem must worry the distributors and the retailers, if not the farmers, in Australia, and it gives us an opportunity to make common cause with them. My feeling is that officials in the departments concerned should be asked to discuss with the Dairy Board whether there is a way in which we can help to arrest the decline of butter consumption in Australia and in due course increase sales to the market.

1 See Document 1.

2 Material on visits to Australian States omitted.

9 *Third Markets.* There would also be value for us in talking to the Australians more about our problems in getting access to markets in other countries. A number of people I met, in State capitals as well as in Canberra, suggested that we should work together more in approaching other markets. I explained the difficulties involved, and the advantages in some cases of pursuing different approaches. But I am inclined to feel that it would be useful to exchange views with Australian Ministers at regular intervals on a problem that is of great importance to both countries. It would be good for us to have to explain our policies, as well as to hear the explanations for Australia's. It would also help to bring out the things we have in common in the economic fields, and provide a wider setting for negotiations on strictly bilateral trade questions. For this latter reason, I think the exchange of views should take place in conjunction with NAFTA Ministerial Meetings, and we should propose this as the next meeting in April.

10 *Forest Products.* Although I did not go to Australia to try to resolve current trade problems, I did talk to a number of people there about the proposed establishment of another newsprint mill at Albury in New South Wales. I raised with Mr Fraser and a number of his Ministers in Canberra the question of the 1969 Memorandum of Understanding and its bearing on the Albury project. The reply I got from all of them was that, if the companies concerned decide to go ahead with the project, the Australian Government cannot stop them. The Memorandum of Understanding itself acknowledges this, so I could not contest it. I did, however, point out clearly to Mr Fraser, shortly before I left Australia, that if the Albury project went ahead, without any step being taken to mitigate the effect on Tasman's sales to Australia, there would be a strong public reaction in New Zealand. I suggested that the Australian Government might bear this point in mind in preparing for the NAFTA Meeting next month. I have also discussed the problem with the Chairman of the Tasman Executive Committee, Mr Trotter, and ascertained that he is already exploring possibilities for making arrangements with one group of Australian newspaper proprietors or another to offset the impact that Albury would have on Tasman.

11 *Conclusion.* The main conclusion I reached during my visit to Australia was that, despite the difficulties we are at present going through, Australia offers good prospects for the expansion of New Zealand's exports—certainly for manufactured products, probably for engineering and other services, and quite likely for agricultural products too. Trade between Australia and New Zealand has multiplied six times (on our figures) since 1965. The ratio has moved from 3.76:1 in Australia's favour to 1.79:1. New Zealand's exports have grown from \$34 million to \$365 million. We have done well out of NAFTA. We can do better yet, if we cultivate our relations with Australia carefully and keep our current problems in perspective.

12 *Proposals*. The main suggestions I have made in this report are:

- (a) we should make a special effort to exploit the opportunities that are opening up for [us] in Western Australia;
- (b) we should look again at the possibility of getting our dairy products into Australia, by working with the Australian dairy industry;
- (c) we should talk to the Australian government regularly at Ministerial level about the problem both of us have in getting access to other markets;
- (d) we should bear in mind the opportunities Australia offers us for increasing our exports and keep current problems in perspective.

[AAFD 807 W3738, Box 391, CM (78) 11

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12 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 7 April 1978

CONFIDENTIAL

New Zealand/Australia Trading Relationship Proposed Initiative by New Zealand Delegation to 1978 NAFTA Consultations

Cabinet Decision

On 3 April 1978 Cabinet considered the report by the Deputy Prime Minister and Minister of Overseas Trade on his visit to Australia and discussed preparations for the 1978 NAFTA Ministerial meeting which he and the Minister of Trade and Industry will attend on 17 and 18 April. (This will be preceded by officials' discussions on 13 and 14 April.) As a consequence Cabinet:

- '(a) *declined* to accept the recommendation from the Officials Economic Committee in E (78) 58 that the Government should propose at this month's NAFTA consultations an inter-governmental agreement whereby there should be a substantial shift of all products into Schedule A of the NAFTA over a ten year period, and that there should be prior advice to the New Zealand Manufacturers' Federation of the Government's intention in this regard;
- (b) *directed* that E (78) 58 be withdrawn from the agenda of the Cabinet Economic Committee on 4 April; and
- (c) *invited* the Minister of Trade and Industry to instruct officials to prepare a revised paper in time for the meeting of the Cabinet Economic Committee on 11 April.' (CM78/11/28 refers).

Background

2 The earlier paper (E (78) 58) which officials had prepared on this topic was not considered by the Cabinet Economic Committee at its last meeting, in accordance with the above decision. It is understood that Ministers endorsed the general approach to the issues (re-stated in the next section) but considered that a more restricted policy objective for this month's NAFTA talks would be more likely to gain the acceptance of both the Australian Government and the New Zealand producers who would be affected.

Re-Statement of Issues

3 In the 12 years or so since NAFTA was signed, it has proved extremely difficult to achieve any significant expansion of the coverage of Schedule A. This has largely been because the procedures involved have tipped the balance in favour of manufacturers in either country who objected to the inclusion of their products in Schedule A, rather than in favour of those who sought by this means to protect their export markets. It led to a seri[e]s of negotiating impasses, in which progress has seemed possible only by a seri[e]s of trade-offs, which in the final analysis were of little benefit to either country.

4 Officials on both sides of the Tasman had concluded by 1976 that in the absence of some agreed procedure for the addition of items to Schedule A, little progress was likely. They therefore proposed that all items save only a minimum of exceptions should be added to Schedule A and that duty phase out (which could be over eight years) should begin at once. Eventually the deteriorating Australian economic situation led to opposition by Australian Ministers to such an initiative, and since then variants on this approach have not proved acceptable to them. At present Australia's economic difficulties appear to rule out any large scale additions to Schedule A over the next year or so, and our import licensing on Schedule A items is viewed by the Australians as a second major hurdle to be overcome. From New Zealand's viewpoint, as Australian protectionism has increased, the security of Schedule A has assumed greater importance to New Zealand manufacturers.

5 During Mr Talboys' recent visit it appeared that the Australian Government was now more likely to seriously consider an inter-governmental agreement to liberalise trans-Tasman trade within a defined period, say 10 to 15 years. As noted above, no major moves were likely to take place immediately because of their economic situation. Also, New Zealand will need to raise the subject of our policy on access for Schedule A items at this month's NAFTA talks, particularly to ensure that Australian Ministers and senior officials give adequate recognition to the extent to which their requests have been met and to obtain a clearer picture of their current concerns.

Proposal

6 It is proposed that the New Zealand delegation to the 1978 NAFTA consultations be authorised to seek a positive expression of the intention of the

two governments to substantially liberalise trans-Tasman trade within a period of 10 to 15 years, by expanding the coverage of the NAFTA.

Comment

7 Officials have reviewed the issues in the light of the Cabinet decision and subsequent discussions with Ministers, and have reaffirmed the desirability of New Zealand pursuing:

- (a) faster process on the liberalisation of trans-Tasman trade; and
- (b) a commitment now to such action within a finite period, eg 10 or 15 years.

It is proposed that after the NAFTA discussions this month a further report should be made to the Government and if the Australian response is favourable, officials could begin formulating recommendations in consultation with their Australian counterparts on such issues as the procedures for liberalising trade, the time period involved overall and for each stage, safeguard provisions, provisions for consultation with industry, etc.

8 The significance of the above distinction between (a) action and (b) commitment is that firstly, it is in New Zealand's interest that at the earliest opportunity NAFTA should 'come off the ice' in order that we might advance our present position on the Australian market, particularly for those products which we are having difficulty in getting admitted to Schedule A. Secondly, even if conditions do not permit us to make major progress in trade liberalisation over the next year or so, a joint statement of intention made now would guide future policy making by both governments and the investment decisions by industry in each country. This would ensure that as each country restructures its economy in response to depressed international and domestic trading conditions, its decisions on industrial development strategies would be made in the knowledge that the markets of both countries would eventually be open to industry in each country. It would also provide guidance to businessmen in relation to existing or new activities if they were aware that international competitiveness was to be an increasingly significant test for the New Zealand market.

9 As well as these direct effects, New Zealand's success (or failure) in achieving some significant movement at these NAFTA talks has wider implications. Some major new initiative, ie which goes well beyond expressions of mutual goodwill, is needed to support our efforts to gain greater recognition from the Australians that in such matters as the Albury paper-mill the spirit of NAFTA undertakings should not be frustrated. Within New Zealand, the proposed commitment and prospect of movement on the addition of products to Schedule A would give some momentum to Export Year, and to the Government's policy on restructuring the economy to export more and survive better the current difficult world trade situation. New Zealand producers generally accept that the Australian market is particularly critical to our strategy for increases in manufactured exports, and that the NAFTA is a well-established

mechanism for advancing and securing our trading interests in that market. However the safeguard provisions in the NAFTA may be inadequately appreciated in some quarters (see attached Appendix).

Recommendations

10 It is recommended that the Cabinet Economic Committee:

(a) *authorise* the delegation to the 1978 NAFTA Ministerial meeting to seek a positive expression of the intention of the two governments to substantially expand the free trade coverage of the NAFTA within a period of 10 to 15 years in order to advance the trading interests of each country and to ensure that the development of industries on both sides of the Tasman takes place in the knowledge that the markets of both countries will eventually be available to industry in each country;

(b) *note* that after the NAFTA discussions a further report will be made to the Committee on the outcome, after which officials could begin to formulate more detailed recommendations, in consultation with their Australian counterparts.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 14

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13 SUBMISSION TO TALBOYS FROM CORNER

Wellington, 16 October 1978

Economic Relations with Australia Integration of Markets

You will recall that at Auckland Airport last month Mr Fraser indicated that he regarded a successful outcome of the current market integration studies as most important.¹ Mr Fraser seemed to regard New Zealand's ability to respond positively as a touchstone of our willingness to make a realistic contribution to the development of a mutually satisfactory economic relationship. He at least implied that progress with NAFTA in the conventional way, through additions to Schedule A, was not on. You will recall that he discounted, mentioning the problem of 'credibility', Sir Frank Holmes' suggestion of a commitment by both governments to free all trade within a specified time.

2 Clearly we have to take notice of Mr Fraser's attitude. There are indications that many influential Australians see the NAFTA relationship as being of decreasing importance. Simply to maintain our present access to the Australian market will very likely require increased effort on our part. The attitude of

¹ Fraser stopped briefly in Auckland on 18 and 20 September 1978 while en route to and from the South Pacific Forum meeting in Niue.

Australian politicians, particularly Mr Fraser, will be critical. Moreover, the overall relationship seems at present to be viewed by Mr Fraser in terms of New Zealand's credibility in the trade field. It follows that the foreign policy arguments very strongly favour a positive response to the Australians on the market integration question.

3 I am copying this note to the Secretary of Trade and Industry.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 16

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14 EXTRACT FROM DRAFT DISCUSSION PAPER BY DEPARTMENT OF TRADE AND INDUSTRY

Wellington, October 1978

Relations with Australia¹

Should New Zealand Embark on a New Initiative?

Whether or not it is determined that the relationship is in a critical phase, we need to consider whether a new initiative should be proposed to Australia within the next few months.

In deciding this question, a number of associated questions need to be considered—whether or not we wish to continue to advance NAFTA; whether the price to be paid for that advancement is commensurate with the advantages to be gained; whether any initiative we might propose is likely to find favour with the Australians; and whether it would tie in with our longer term policy objectives.

There is no doubting the value of the Australian market to New Zealand's manufacturing industry nor the benefits which NAFTA has provided in developing the trade we currently enjoy. It should however be remembered that much of the growth in NAFTA coverage in products of interest to New Zealand occurred at a time when the arrangements were agreed to by Australia without the necessity of special access within our import licensing policy. If we are now considering a return to the degree of movement previously enjoyed then we must recognise that Australia expects a quid pro quo. We should also realise that the Australian market is showing signs of obvious limitations. Similarly we should recognise that Schedule A addition is a commitment in terms of duty free access which will remain beyond the termination of our import licensing system, whenever that may be. Because we have added products to Schedule A while maintaining protection by way of import licensing we have in effect removed the transitional phasing of duty reductions. If licensing is removed many

¹ This draft appears to have been prepared as a contribution to interdepartmental discussion in preparation for the 1978 NAFTA Ministerial Meeting.

New Zealand industries are going to face the immediate shock of complete free trade with Australia. We should therefore be considering whether a particular industry can survive against duty free competition from Australia without import licensing protection. In this context Schedule A might not be the attractive goal it was previously considered. The concept of 'advancing' NAFTA simply by greater additions to its schedules while maintaining other forms of protection may present us ultimately with a considerable problem.

To be acceptable to Australia any initiative suggested must overcome concerns held by Australian officials and through them Australian industry. The integrated market profile studies, commissioned by the Permanent Heads were an attempt to do this. On present indications it appears that the benefits deriving to either country will be outweighed by the disadvantages.

Whether such an approach would be compatible with our longer term objectives is doubtful. If to meet with Australian approval the initiative involves sacrificing many of the benefits our industry now enjoys vis-a-vis its Australian counterparts and, in effect, competing on Australian terms its benefits seem very dubious in terms of trade development. To tie ourselves to Australia could prejudice our efforts to diversify our exports of manufactured products to other markets. At the same time it seems that at the political level the integrated market approach is seen as very important by Australia. Whether Australian officials agree with this is not yet clear.

What Form Might an Initiative Take?

As already mentioned, any approach we might suggest, to be successful, must meet the concerns currently held by Australia. To meet the major concerns would involve the granting of access to the New Zealand market on terms which enable Australia at least to have the chance to sell here successfully. By definition this will result in greater competition on the New Zealand market, perhaps to the detriment of our own industry. Such an approach would seem to fit in with the concept of restructuring of New Zealand industries into more competitive areas, and with the ultimate effects of Schedule A. Other less painful approaches could be considered but it seems unlikely that these would remove or ameliorate the basic concerns of Australian politicians, officials or manufacturers.

In this regard it is pertinent to note that [at] his recent meeting with Ministers the President of the New Zealand Manufacturers' Federation commented that the Federation did not support any major initiatives being suggested to Australia. Rather the Federation favours a 'holding operation for the next three to four years while manufacturers diversify into other markets and Australia assumes a less important role in their export activities'. This approach is no doubt based on the fact that manufacturers are currently exploring other markets to the utmost, recognising the limitations on their future growth in Australia. It does not however seem to recognise that it is highly unlikely that some of our major manufactured exports could find a market elsewhere.

In the circumstances it seems appropriate to approach the forthcoming NAFTA meetings with an open mind. It should subsequently be possible to assess more accurately the extent of official Australian concerns and formulate our future policy accordingly.

There are however some basic issues we have to face concerning the role of NAFTA itself. While not mutually exclusive we have to decide whether NAFTA is primarily—

- (a) a device that we should use to gain the maximum trade advantage;
- (b) has a much wider significance in foreign affairs terms;
- (c) has a role in basic economic development.

In trade terms it is apparent that we can no longer expect to obtain benefits without at least granting much greater access. We are in fact fighting a rearguard action to maintain the place of some of our major exports to Australia. The usefulness of the preferences agreement in anything but the short term seem[s] doubtful. The attitude of Australian officials and manufacturers appears to be turning more against us.

To regain some goodwill and to try to show Australia that we have significance as a market in the future would seem to involve a drastic change of policies to meet the basic Australian complaint—access to the New Zealand market. To adopt such a policy could well fit in with our own economic and foreign policy objectives as well as facing up to the ultimate responsibility of adding items to NAFTA schedules. We have to date been rather like the ostrich. There is little point in fooling ourselves with ideas that Australia will regard initiatives such as 'all the way with Schedule A' as commendable in themselves, and from our point of view it could ultimately prove foolhardy.

The alternative is to continue our current 'ad hoc' approach and try to achieve what we can, while minimising the future risks, at as little cost to ourselves as possible. It seems highly likely that such an approach will make almost certain the steady diminution in the trading relationship and might have some effects on our hopes for a more successful broader relationship.

Regardless of which approach is adopted it would obviously be to our benefit to pay greater attention to the 'promotion' of New Zealand and the Australian/New Zealand relationship in its broadest sense. In such an exercise it is essential that we try to re-establish the importance of New Zealand as an Australian market in Australian eyes.

Whether a more forthcoming and realistic approach to NAFTA itself would achieve a great deal is open to doubt given the other Australian concerns mentioned in this paper. It would however be a realistic attempt to maintain and improve our relationship should that be judged to be in our best interests.

15 NOTE FROM SHALLCRASS TO LOUGH

Wellington, 11 April 1979

Australia/New Zealand: Economic Relationship

Attached is a copy of a note that Mr Corner submitted to Mr Talboys after the first day of NAFTA Ministerial discussions. You will see from the account of the remarks made by Mr Anthony at those discussions that the Australian side offered a fairly clear invitation to the New Zealand side to talk in broad-ranging terms about the place of New Zealand and Australia in the world at large, and following on from that, about the direction of movement of the economic relationship between the two countries. At the time Mr Talboys did not take up Mr Anthony's offer, and the discussion concluded with the Australian Deputy Prime Minister saying that he would pursue the subject further. The attached Foreign Affairs note was put to Mr Talboys, with the knowledge of Treasury and the Department of Trade and Industry in the hope that the New Zealand side would, at today's meeting, seek to explore the thinking that lay behind Mr Anthony's offer.

Although Mr Talboys gave the impression that he did not appreciate the significance of the Australian offer, he raised the subject with Mr Galvin after the meeting. As a consequence, at dinner at Vogel House last night Mr Anthony, Mr Talboys, Mr Adams-Schneider, and Mr Muldoon, aided and abetted by Mr Galvin and Mr Clark, did together or separately discuss Australia's apparent interest in exploring ways in which the economic relationship between the two countries could be placed on a more satisfactory basis.¹ (The implication of Mr Anthony's remarks is that the Australians do not regard NAFTA as a satisfactory basis.)

The upshot of these discussions was that this morning Mr Muldoon, Mr Talboys and Mr Adams-Schneider, in the presence of Mr Galvin, Mr Clark and Mr Francis (New Zealand High Commissioner, Canberra), agreed that the Prime Minister's Department should undertake a study of the A/NZ economic relationship with a view to preparing for Ministers a report outlining ideas that could subsequently be explored with the Australians. For his part, Mr Anthony noted at this morning's NAFTA meeting that with regard to future cooperation between the two countries, he had tested the water, found it less than icy cold, and would therefore follow up the subject in Canberra. On the two occasions when he spoke across the table to New Zealand Ministers about the future of the economic relationship between the two countries, Mr Anthony revealed a very deep Australian concern at what is seen to be New Zealand's continuing failure to face up to economic realities and adopt policies designed to protect its own, and by implication, Australia's interests. As directly as decency allowed, he pointed to the need for New Zealand to adopt policies designed to reduce

¹ See Document 3.

inflation, remove distortions from the economy and set the scene for economic growth. He implied that New Zealand is increasingly becoming an economic backwater, and that unless the Government introduces policies designed to take advantage of the resources we have (people and energy were mentioned) New Zealand will continue to stagnate. He alluded to devaluation, implying that it was about time the New Zealand Government appreciated the long-term value of temporarily unpalatable medicines.

While it does not appear that the Australians have any clearly thought-out ideas on what should be done about the A/NZ relationship, or how we should go about doing it, discussion with officials on the Australian side suggest a considerable degree of scepticism about the value of NAFTA. The implication of their reservation about the piecemeal sectoral discussions that have been going on recently within NAFTA, and their negative attitude to a *customs-union*, suggests that from their point of view, a *common-market approach* to the promotion of trade between the two countries could represent the most satisfactory avenue for exploration.

It is not clear just where it is that Ministers on either side envisage that we are now headed. Mr Muldoon has agreed to officials studying A/NZ economic cooperation and Mr Anthony is going to pursue his ideas in Canberra. How and when the two sides come together again is unclear. It is also not clear just what the New Zealand Prime Minister's Department is going to study, who is going to do the work, and how the other OEC departments fit into the picture. There is clearly advantage in having the Think Tank involved in this work, but it should not be carried out in isolation.

You might like to talk to Mr Galvin at some stage on these issues. I understand that similar advice is being put to Mr Corner by the Ministry of Foreign Affairs.

Attachment

Wellington, 11 April 1979

Australia: The Economic Relationship

I understand that yesterday afternoon Mr Anthony spoke in general terms about the future of the Australia/New Zealand economic relationship, saying that NAFTA had reached a plateau, pointing to the economic cooperation achieved in Europe, and suggesting that the time had come 'to do some really heavy thinking' about the future of the Australia/New Zealand relationship. (I have been given a note of this part of his remarks, which I attach.)

2 Mr Anthony was clearly asking whether New Zealand wished to consider the possibility for the future of a much closer economic relationship with Australia. No doubt you will be considering what response should be made to these comments.

In terms of our political as well as economic interests regarding Australia I suggest that some form of positive response would be desirable. One possibility

would be to say that you propose to instruct New Zealand officials to meet together at Permanent Head level with a view to reporting to Ministers as soon as possible on the possible options for the long-term development of the economic relationship with Australia. After consideration of such a report, discussions could take place with Australia at Ministerial level.

3 In the short time available before this morning's meeting I have not been able to discuss this suggestion with other interested Permanent Heads. I will, however, ensure that the Secretary of Trade and Industry and the Secretary to the Treasury have this note in time to put to you any views which they might have before this morning's meeting.

Attachment

11 April 1979

NAFTA Ministerial Meeting: The Future Economic Relationship

At the end of the meeting on 10 April, Mr Anthony spoke in general terms about the overall economic relationship between Australia and New Zealand. The following is a note of some of his remarks:

'Having been overseas for some time I am naturally influenced by the world scene. I am convinced that there is not going to be much opportunity in the future for growth in temperate agricultural trade. And on NAFTA we have reached a plateau. Is it good enough for us just to nibble away at making progress? Are we facing up to facts? I get worried when it seems that we might be grinding to a halt. Where do we go from here?

If Australia and New Zealand can't move together, what hope is there? If the Europeans can do so, why can't we? I am naturally concerned about your economic situation. I hate reading the OECD reports and so forth. What can we work out?

Let's be frank—temperate agricultural producers are in for a rough time. We've got to hold hands. Certainly our industries have got to interlock with each other. The creation of Businessmen's Councils is one of the best recent developments. They can do things governments can't. Responsible leaders in both countries have got to ask where we go from here.

... What about your balance of payments problems? ... It's time for us both to do some really heavy thinking. Yet every year it's so much harder to make progress.

In Australia, we think we're getting on top of our problems. We're certainly going to look after our country. What about yours in the year 2000? We are after all both isolated countries in the South Pacific.'

[ABHS 950/Boxes1221-1226, 40/4/1 Part 17

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

16 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND EMBASSY IN MANILA

Wellington, 10 May 1979

No 433. CONFIDENTIAL PRIORITY

Australia/New Zealand Relations

Please bring to Mr Templeton's attention before his meeting with Mr Fraser the following recent exchange of correspondence between Mr Fraser¹ and Mr Muldoon:

Mr Muldoon's letter

Thank you very much for your letter of [30 April] 1979. I was very glad of the opportunity to hear Doug Anthony's thoughts when he was over here, on the economic and political environment which is likely to face both our countries in the 1980s, and to discuss with him in a general way the future of the Australia – New Zealand relationship. I found it a stimulating exchange.

Since the talks you and Brian Talboys had just over a year ago a number of arrangements have been made to open up dialogue and strengthen cooperation between us. I agree that the time has now come to make a broad reassessment of the longer term relationship between the two countries. I think that it is essential that we begin now to do some solid work on the options, so that we can make our choices in the light of the best information that is available.

This does not, of course, mean that we can shelve the immediate problems we have in the sensitive trade area. We must continue to work out specific solutions to ensure that the relationship does not go backwards while we are considering how best to move it ahead. The difficulties our delegation found in the last round of the NAFTA talks are themselves a clear sign that we must have a long and careful look at where we go from here. For all these reasons, I was pleased to hear that you are undertaking a study parallel to our own. The subject will certainly not be allowed to wither on the vine here. I do not wish to prejudge the conclusions of our studies nor of course the decisions that we may want to consider as a result. A good deal of thorough work will be needed but once we have had a chance to consider the results I will write to you about how we might continue our dialogue on this issue.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 17

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

1 For Fraser's letter see Document 6.

17 MESSAGE FROM MULDOON TO FRASER¹

Wellington, 10 May 1979

RESTRICTED

Begins:

Thank you very much for your letter of 1 May 1979.² I was very glad of the opportunity to hear Doug Anthony's thoughts when he was over here, on the economic and political environment which is likely to face both our countries in the 1980s, and to discuss with him in a general way the future of the Australia – New Zealand relationship. I found it a stimulating exchange.

Since the talks you and Brian Talboys had just over a year ago a number of arrangements have been made to open up dialogue and strengthen co-operation between us. I agree that the time has now come to make a broad reassessment of the longer term relationship between the two countries. I think that it is essential that we begin now to do some solid work on the options, so that we can make our choices in the light of the best information that is available.

This does not, of course, mean that we can shelve the immediate problems we have in the sensitive trade area. We must continue to work out specific solutions to ensure that the relationship does not go backwards while we are considering how best to move it ahead. The difficulties our delegations found in the last round of the NAFTA talks are themselves a clear sign that we must have a long and careful look at where we go from here.

For all these reasons, I was pleased to hear that you are undertaking a study parallel to our own. The subject will certainly not be allowed to wither on the vine here. I do not wish to prejudge the conclusions of our studies nor of course the decisions that we may want to consider as a result. A good deal of thorough work will be needed but once we have had a chance to consider the results I will write to you about how we might continue our dialogue on this issue.

Ends.

ORIGINAL FOLLOWS BY BAG.

[NAA: A1838, 370/1/19/18, i]

1 Conveyed through the Office of the High Commissioner for New Zealand in Canberra.

2 Document 6. It was usual to send the text of a Prime Ministerial letter by cablegram to the Office of the High Commissioner with the request that it be passed to the Prime Minister. This sometimes resulted in a slight disparity in the dating of the letter. A signed copy of the letter was sent by bag.

18 DRAFT MINUTES OF OFFICIALS' MEETING

Wellington, 18 June 1979

Officials Economic Committee¹ Meeting with John Stone, on 28 May 1979

After introductory remarks by Mr Lough and Mr Stone, Mr Clark opened up with a review of the trade relationship and pointed out that a special trade relationship had developed mainly since World War II. It was no secret that the relationship in 1965/66, when NAFTA came into being, was not a very happy one. The trading imbalance was then seen as a particular problem. In the 1960s there was a belief that growth would continue indefinitely; the attitude taken then was that we should build on industries which were already in existence. On the Nareen meeting last year, Mr Clark commented that nothing very specific had come out of it. It really consisted only of an exchange of platitudes. This illustrated the state of NAFTA today. Mr Stone disagreed with this interpretation. Mr Clark continued however suggesting that the recent Ministerial meeting was very similar in that respect. Ministers spent a lot of time talking about horseshoes and 700 tonnes of peas or whatever. He accepted that in general individual trading imbalances should not be seen as a problem but he believed that our trading imbalance with Australia was of a particular kind, and a matter for concern. Both Messrs Stone and Clark agreed that trade restrictions rather than trade imbalances were the underlying cause for concern.

Mr Lough suggested that our main problem was to make ourselves more internationally competitive.

Mr Scott then went on to talk about the current Anthony invitation to look beyond NAFTA. There were two major issues involved: the economic problems that would arise in a real free trade area and the effect of a free trade area on the restructuring of our economies. He thought that restructuring was very slowly beginning to be accepted in New Zealand. He then went on to talk about the concept of comparative advantage and asked the question, comparative to who? New Zealand's importation of Holdens and Australia's importation of New Zealand textiles illustrated the point that free trade could have the effect of encouraging industries which do not have a comparative advantage internationally. He suggested however that although a free trade area would lock us into high cost markets in some sectors, this might nevertheless be a best alternative to complete international free trade. Mr Scott then outlined some of the different types of economic cooperation which would be possible. He asked what would happen if there really was economic integration. In the 1960s it was

¹ The Officials' Economic Committee was a semi-formal body of senior officials who met as necessary to coordinate views and discuss drafts on economic issues. Papers for the important Cabinet Economic Committee were formally submitted by the Chairman of the OEC, usually the Secretary to the Treasury or his representative.

believed that one result would be that New Zealand would become Australia's farming district and tourist playground but it appears now that some industries have emerged which are internationally competitive.

Mr Stone said that he did not know specifically what Mr Anthony had in mind but he said Australians were increasingly questioning where their economy was going and any discussion of the Australia/New Zealand relationship had to be seen in that light. Neither country would solve its economic problems through a closer economic relationship, although it could help. The first thing was to get the domestic economies right, and then look at the position of Australia and New Zealand in the world in the 1980s and 1990s.

Mr Galvin indicated that New Zealand officials were trying to find out more exactly what Mr Anthony had meant. Mr Stone replied that he believed that we should not try to analyse Mr Anthony's remarks too closely in textual terms—Mr Anthony was expressing general concern from a very general brief, ie that we must do better than we have so far. Similarly, Fraser's letter said in effect that there should be no barriers to thought and that we should generally look more closely at our international economic relationships. Mr Stone then went on to say that restructuring was also being looked at in Australia. It was often said that protection was required to maintain employment, but Mr Stone believed that protection was the very thing that maintained unemployment. Mr Corner then mentioned political and other aspects of our relationship and made some general remarks about our cyclical bouts of concern about the Australia/New Zealand relationship which have gradually become more frequent and more intense as our awareness of each other has increased over the last 35 years. Mr Clark suggested that Fraser's letter in a sense farmed the problem out to the Businessmen's Council. Mr Stone said that the commercial community in Australia has come a long way since the beginnings of NAFTA and that there is now a growing body of opinion in Australia that if they cannot take competition from New Zealand, they will be unable to open up their economy to the rest of the world.

Mr Keane commented on the need to use the trading relationship between Australia and New Zealand as a step towards becoming more competitive, but not as a half way house in which we would yield to the temptation to go no further.

Mr Jackson then made some remarks about migration across the Tasman and some of the problems associated with this. Apparently about 600,000 people cross the Tasman each way every year. Mr Stone said that from Australia's point of view the increased inflow of New Zealanders had one good aspect in that it provided more competition in the Australian labour market. He then turned to more general problems in Australia's economy and suggested that one thing a business community cannot live with is uncertainty. The biggest single factor which leads to risk for a business is to get too mixed up with government. The Australian Government was continually changing its mind in the field of tariffs

and taxation in particular. Mr Galvin suggested that in New Zealand farmers in particular would agree with this point of view.

Mr Lough and Mr Stone both expressed their appreciation of the opportunity to have these informal discussions.

[AALR 873, W4446/Boxes 312-313, 61/Aus/2/2/1 Part 1
Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

19 INTERNAL NOTE FROM POWLES TO SENIOR MINISTRY OF FOREIGN AFFAIRS OFFICERS

Wellington, 18 July 1979

CONFIDENTIAL

Australia/New Zealand: Economic Options: Progress?

Several months have elapsed since Mr Anthony invited consideration of the future options for the economic relationship¹. Since then several Australian Ministers (Fraser, Peacock, Garland and Anthony himself) have underlined the seriousness of Mr Anthony's suggestion. They have made it clear both that they would expect any initiative to come from New Zealand and that from the Australian viewpoint nothing should be ruled out at this stage. While Australian Ministers have accepted that it will obviously take time for our Government to decide what if any initiative it wishes to propose, there have been indications that they definitely expect a response of some kind this year. Delay will lead not only to a waning interest on the Australian side but also very likely to a growing sense of exasperation with New Zealand.

2 The Prime Minister is himself concerned to move ahead with the exercise. The attached note was prepared for him by the Prime Minister's Department on the assumption that he would raise the subject with Mr Anthony at Honiara. (We were consulted, rapidly, in the preparation of the note, paragraph 14 of which omits reference to the Minister of Foreign Affairs simply in error.) In the event, the Prime Minister did not consider that the note took the subject significantly further than he had gone in his earlier discussion with Mr Anthony and he decided not to raise the subject. Mr Anthony did, however, raise the subject with Mr Woodfield who indicated that officials were pressing ahead with studies as a matter of priority.

3 Mr Muldoon has indicated that he needs something more specific to use in talking to Australian Ministers and that he wants this for Lusaka, where he will be seeing Messrs Fraser and Peacock.

1 See Document 15.

4 We are now in a very tricky situation. The Prime Minister is clearly not expecting any delay in the production of concrete proposals and, on the Australian side, delay would very likely kill Ministers' interest in the subject. On the other hand, there is probably a year's fulltime work involved for several officers if the subject were to be approached in a proper analytical way resulting, at the end, in the formulation of precise propositions blessed by economic departments before being put to our Ministers for their consideration before being put to Australian Ministers. This approach is clearly not on politically.

5 The situation is not helped by the difficulties the bureaucracy is having in grappling with the subject. The Prime Minister has, of course, directed that the work is to be done or organised by his Department. Following Mr Corner's discussion with Mr Galvin early on, I have continued to emphasise our readiness to cooperate and assist Dr Graham Scott of the Prime Minister's Department. I have given Scott some of the early pieces of paper (addressing the questions to be answered) we had produced and have agreed with him on specific topics which we and the High Commission in Canberra should work on. Progress on this has been quite good—Canberra in particular has worked quickly to produce papers on the state of Australian agriculture and on Australian motivations: we will have drafts for discussion on other aspects of the subject shortly. But it turns out that Scott is not getting much from other Departments at all and that DTI in particular is being unforthcoming. The net result is that 'official studies' of the subject are hardly being given the priority by Departments generally which our and Australian Ministers might expect. I have suggested to Scott that he call a meeting of officials, say one from each Department, within the next few days at which he might lay down the law on the basis of the Prime Minister's expectations. This will probably take place next Monday.

6 But in the meantime the Lusaka conference draws nearer and there is no consensus at all as to what the Prime Minister might say to Mr Fraser. Dr Scott's preliminary inclination has been that the Prime Minister should have a brief which would set out a 'bare minimum' proposition which Mr Muldoon might put to Mr Fraser. This would be a 'package' involving several of the elements which would have to be dealt with before any movement to complete free trade would be possible but the proposition would not affect the basic NAFTA framework. It would be a step in the direction of economic integration—no more.

7 I have suggested to Dr Scott that there are very real dangers in this approach. First, it would be inappropriate for a detailed discussion on the future of Australia/New Zealand economic relations to take place in the heart of Africa and at a conference at which the Prime Ministers will be preoccupied by other issues, on some of which they could have differences. But secondly, and more important, it seems to me that a 'bare minimum' step-by-step proposal could kill the whole exercise just as readily as would excessive delay.

8 Dr Scott in response has asked what would be necessary by way of a substantive New Zealand proposition to maintain Australian political interest in

the subject. I believe strongly that something more than a reaffirmation of NAFTA is necessary. It was implicit in Mr Anthony's initial comments on the subject and in Mr Fraser's letter to Mr Muldoon that there must be a *better way* of conducting the economic relationship. This can only mean that the Australian expectation is that a better framework must be found. It would emphatically not be sufficient for us to propose that both Governments put more effort into making NAFTA work. Also, Mr Anthony has indicated that he would not be interested in the NAFTA step-by-step approach. My view is that the bare minimum in terms of Australian expectations would be a ringing political commitment to achieve complete free trade within x years, including willingness on the New Zealand side to remove import licensing for all Australian imports and to discuss issues such as comparability of export incentives.

9 Needless to say, Departments would be unable to decide whether such a proposition was in New Zealand's best interests in the time available between now and Lusaka. And despite the Prime Minister's desire to have something concrete it is surely a question whether other Ministers would wish to move so rapidly.

10 I have suggested to Dr Scott that the brief on this subject for Lusaka might take a different line. It could be suggested to the Prime Minister that he tell Mr Fraser that he definitely favours the proposition that there should be closer economic cooperation with Australia and would like to pursue the subject in discussions with Mr Fraser or his colleagues later in the year. Mr Muldoon could indicate that the two options being looked at closely are complete free trade and a customs union/common market. He might go on to invite Mr Fraser (or, if Mr Fraser, wished, one of his colleagues) to come to New Zealand in October or November for more detailed discussions of these possibilities. Issuing such an invitation would make up for lack of substantive comment in indicating New Zealand's serious interest in the subject. (Although Mr Fraser suggested to Mr Templeton at Manila that the two Prime Ministers and their deputies might meet at Nareen later in the year, it would seem to be more politically acceptable for our Government to issue the invitation and avoid any impression of going to Australia on bended knee.)

11 If this suggestion were accepted by the Prime Minister there would be the added advantage that officials and Ministers here would be forced to concentrate on the subject as a matter of urgency with the deadline in mind. Otherwise, present indications are that the bureaucracy may never grapple effectively with the topic. The one danger of this course is that we may still be unable to deliver in October/November. I don't believe, however, that it would be very difficult to devise a way of talking through the subject with Australian Ministers at that stage which would convince them at the very least of New Zealand's desire to cooperate closely with Australia, whether within a specific framework or not.

Joint Document

20 LUSAKA AGREEMENT

Conference Post [Lusaka],¹ 6 August 1979

O.XX0165 CONFIDENTIAL

Prime Minister's Meeting with Mr Muldoon

From Lusaka.

Prime Minister met today with Mr Muldoon. Mr Peacock and Mr Garland were also present. Meeting focused exclusively on possible closer economic association between Australia and New Zealand.

2. Mr Muldoon said that since the April discussions with Mr Anthony New Zealand officials have been pressing ahead with detailed preparatory work. However, he felt that for the exercise to have real impetus there would have to be a Prime Ministerial meeting.

3. Mr Muldoon said that unfortunately what were hitherto confidential studies had now been publicised in the media. It began with Templeton's speech to the Wellington Chamber of Commerce on 19 July. Templeton had checked with Muldoon about a proposed reference in the speech to a closer economic relationship.² Muldoon had replied that the reference should be withdrawn but the message was misinterpreted and it was inadvertently left in. This reference

1 The cablegram was sent from the temporary post set up at the Commonwealth Heads of Government Meeting, held in Lusaka from 1-7 August 1979.

2 Templeton had said '... a wider ranging free trade area with Australia is critical to our future economic well being...the idea of a customs union has some attractions, despite some difficulties for our part, which we will have to overcome. Such a development will involve some sacrifices and further rationalisation of our industrial development ... without some radical moves in this direction our efforts on the economic front will be in vain'.

was followed by Mr Anthony's statement³ in Sydney and then Mr Muldoon's own statement.⁴

4. Now that the studies were public knowledge Mr Muldoon said they must be presented properly. They must be publicly perceived as a lengthy, exploratory project. He did not want 'pressure groups to be on his back all the time'.

5. There had been a fundamental change of thinking by the New Zealand Manufacturers Federation. After years of intransigence and the advocacy of high protection they now accept the need for industry to be structurally re-adjusted to promote those internationally competitive and phase out the least efficient. Mr Muldoon felt this changed philosophy was an important background to studies for a closer economic relationship with Australia.

6. Mr Muldoon also said that Sir Max Dillon of CAI had been quite forthcoming on the concept of moving well beyond NAFTA in the economic relationship. All were in basic agreement that NAFTA had reached a plateau.

7. The possible options for wider economic co-operation must be identified and explored. In the near future Muldoon said both governments must refine the options so as to focus attention on agreed areas. The main options would range from:

- an extension of the present limited free trade area,
- full free trade area,
- customs union,
- economic community,
- monetary union.

3 In an address to the Australia – New Zealand Businessmen's Council on 26 July 1979, Anthony commented on the limitations of NAFTA and the diminishing opportunities to expand trade with Europe now that the multilateral trade negotiations had been settled. He suggested that Australia and New Zealand 'need to consider together where they go from here, and how they can best arrange their affairs to achieve the greatest mutual benefit and the greatest combined strength.' He added 'we need to get down to some really thorough thinking about this matter—and I would hope that this Council might become very deeply involved in the process ... I see it as a forum in which there can be a real effort to look seriously at the whole future of our association'.

4 Addressing the Annual Conference of the National Party on 27 July 1979, Muldoon said that both the Australian and New Zealand Governments were investigating 'the wider area of economic co-operation and development and a combined market'. In the three months since Anthony's visit 'a study had been made of ways of broadening economic co-operation and development between the two countries'. He predicted that 'twenty years from now the New Zealand dairy farmer will be supplying a good slice of the Australian market because their dairy industry is in decline. Another advantage would be the combined market and economic strength of the two countries'.

8. Economic co-operation could also encompass many other matters such as the free flow of people, consultation on industrial strategy and energy policies together with investment co-ordination. The question of banking would also have to be looked at. Whilst Australian banks operate in New Zealand there are great difficulties in getting New Zealand banks into Australia. Employment and income policy could be another area for study but Mr Muldoon considered, and the Prime Minister agreed, that this would be a very long-term exercise.

9. The Prime Minister said that Australia was prepared to examine constructively and forthrightly respond to the concept. There did not seem to be much rationale in having two adjacent yet isolated industrial communities in the South Pacific. NAFTA had in fact run its course. Whilst it should not be dismantled it must be built upon. The question was the direction in which we should go and how it should be handled. One sensitive matter was the question of presentation. Australia would not want the impression created in New Zealand that it was an Australian initiative with related innuendos of 'big brother takeover'. He would prefer the initiative to be clearly a New Zealand one to which Australia could respond.

10. Mr Muldoon said there were no presentational problems in New Zealand. He had clearly stated the question had arisen spontaneously out of a review of difficulties under NAFTA. He agreed with a request by the Prime Minister to provide him with a brief on public presentation which both Prime Ministers could employ so as to ensure consistency.

11. The Prime Minister suggested that the most expeditious way of proceeding would be for officials to exchange notes on areas under study and progress achieved by say the end of September. Officials should then meet together to compile a report to the two Governments identifying areas for consideration. This report would then be considered by a Prime Ministerial meeting before the end of this year.

12. Mr Muldoon agreed with these procedures with the proviso that commitments at the end of the year may mean he would not be available until early next year. But in any event the meeting would take place no later than February 1980.

13. Both Prime Ministers agreed that in contacts with the media they would say that they had had discussions on the question of future Australia/New Zealand association. Officials are studying the issues involved. The study is a long-term one with all options being considered. Officials are to meet September/October and there will be a Prime Ministerial meeting not later than February 1980.

Joint Permanent Heads Meeting

From August to November 1979 those Australian Government Departments responsible for trade, agriculture, industry and foreign relations were engaged in preparations for a joint meeting of Permanent Heads. Accordingly Departmental officers charged with the task met in Interdepartmental Committees to work out the details of what needed to be done. They wrote a number of policy papers and these were circulated among Departments for comment. The first meeting of Australian and New Zealand Permanent Heads took place in Wellington on 1-2 November 1979. At the meeting the Permanent Heads produced a Statement of Understanding (Document 52) setting out the requirements for study groups to be established and report by the end of January 1980.

Australian Documents

21 LETTER FROM SCULLY TO YEEND

Canberra, 8 August 1979

CONFIDENTIAL

In response to the Prime Minister's direction, the attached initial draft of a report¹ on Australia – New Zealand economic relations has been prepared.

I suggest that, in the light of the Prime Minister's discussion in Lusaka this week with Mr Muldoon, this draft should now be looked at by a wider group of Departments and I assume your Department² will be convening a meeting for this purpose. It is clear that much more detailed work will have to be undertaken to prepare for the meeting between the two Prime Ministers early next year. This draft is a limited first study and does not seek to go into wider questions of whether there are trade-offs between concessions to one side which may arise from creation of a customs union and concessions in other areas, such as monetary, resource development or energy issues.

I should emphasise that this is an initial draft only and it is not envisaged that in its present form it could be made available publicly or to New Zealand authorities or to Australian businessmen.

[NAA: A1838, 370/1/19/18, iii]

1 Document 2.

2 Prime Minister and Cabinet.

**22 EXTRACT FROM DRAFT REPORT BY DEPARTMENT OF THE
SPECIAL TRADE REPRESENTATIVE**

Canberra, [8 August 1979]

CONFIDENTIAL

**Australia – New Zealand Economic Relations
Summary of Conclusions¹**

1.1 The initiative for closer economic co-operation must come from New Zealand and this report provides a framework within which to consider an Australian response.

1.2 At the present time policy-makers and opinion-leaders in New Zealand are far more concerned about New Zealand's economic future than at any previous time and appear to be taking a more open and positive attitude towards closer economic co-operation with Australia. At the wider community level attitudes are less clear and considerable effort would be required to assuage deeply held reservations about closer links with Australia.

1.3 The New Zealand economy has suffered external shocks similar to those experienced by other OECD economies during the 1970s, but their impact has been more severe, and their consequences deeper rooted.

1.4 Without further progress in implementing policies for structural change, it seems probable that living standards in New Zealand will continue to be severely constrained, inflation rates comparatively high and labour market conditions weak. A key requirement for a return to reasonable and sustainable growth in the medium term is to reverse the long term trends towards the erosion of profitability in the export sector.

1.5 There is little in the international trade and economic outlook for the 1980s to suggest that the difficult experiences of the 1970s are past and that there will be a return to the steady growth and trade expansion witnessed in the two previous decades. Although the uncertainties should not be overlooked, it is likely that Australia, with its broad resource base, will fare better than New Zealand in the 1980s through its capacity to play an increasingly important role as a supplier of energy and mineral based products.

1.6 It is important that the potential benefits arising from closer co-operation between Australia and New Zealand should be viewed in a wide perspective. New Zealand could not expect to solve its economic problems simply by forging closer economic links with Australia. To deny this risks creating a situation of disappointed expectations analogous to that we now face with ASEAN. Nor should expanded trans-Tasman trade be seen as an alternative to the further

¹ The report contains 95 pages divided into twelve chapters and six annexes. Only the Summary of Conclusions is published here.

opening of the Australian and New Zealand markets to competition from the rest of the world.

1.7 On the other hand, Australia and New Zealand cannot expect to withstand wider international competition if they are not even prepared to contemplate a more open trading situation across the Tasman.

1.8 There is an obvious need to do something about NAFTA, the full expectations of which have not been realised. The reasons why experience with NAFTA has not been completely successful relate to the nature of the agreement itself (especially the virtual provision that no existing industry in either country should be damaged), the economic and trade environment in which it has operated and to industry developments and the attitudes of the two governments.

1.9 Unless there is some substantial change in the way in which both sides interpret NAFTA it seems unlikely that there will be any further significant increase in the free trade coverage or that arrangements under Article 3:7² will continue to expand. The prospect then is for a continuation into the foreseeable future of the present situation with minor additions being made to Schedule A³ from time to time and the general level of NAFTA activity remaining roughly at present levels.

1.10 The broad options examined in this report are threefold:

- increased co-operation in international consultations and negotiations
- co-operation on sectoral issues
- extended forms of trade and economic integration.

The emphasis is on the last. This would involve a political commitment to 'leapfrog' the present difficulties and adopt a plan and schedule for the implementation of measures directed towards the establishment of a complete free trade area or, more dramatically, a customs union.

1.11 From the viewpoint of establishing a more efficient allocation of resources within an open trans-Tasman trading environment it would be more appropriate to opt for a full customs union with a suitable common external tariff. As will be seen below, this has serious consequences for New Zealand and the only politically practical course may be a phased approach to a near complete free trade area.

1.12 The New Zealand customs tariff and import licensing system are administered in such a way as to ensure, (a) a high level of protection for goods produced in New Zealand, and (b) that essential imports of producer goods and raw materials for further manufacture enter free or at minimal rates of duty.

1.13 If a common external tariff (CET) were to be set at current Australian tariff levels it would have the general effect of reducing the level of New Zealand

2 Article 3:7 allowed for the remission or reduction of duties on goods that were not duty free.

3 Schedule A listed items to be traded duty free between the two countries.

protection on finished goods produced in that country and increasing the cost of essential producer goods and raw materials, thus adding to the cost of New Zealand manufacturers.

1.14 Secondary industry in New Zealand enjoys a number of advantages over similar industry in Australia, viz. lower raw material costs, even though they may be sourced from Australia, lower labour costs and an extensive range of incentives. On the other hand, Australian industry has the advantages of economies of scale and generally speaking a higher level of technology.

1.15 A full customs union without provision to secure New Zealand lower raw materials costs would jeopardise many existing New Zealand industries and affect future industrial development.

1.16 Furthermore, Australian exports of producer goods and raw materials would become more competitive with third country suppliers in the New Zealand market and, in addition, receive increased prices for existing exports to New Zealand. This would create an unbalanced situation and to be acceptable to New Zealand the consequent industry restructuring would need to occur over an orderly time scale and there would have to be offsetting gains in other areas.

1.17 A CET which gave the equivalent protection of the current New Zealand tariff and import licensing systems would be much higher than the present Australian tariff. It would have the effect of severely disadvantaging New Zealand's secondary industry if applied to producer goods and raw materials. From Australia's view point a CET of this kind would be contrary to the White Paper⁴ thrust and cause massive structural, price and resource allocation effects. Such a price for a customs union would be too high for Australia and New Zealand to pay.

1.18 There are, however, more complex intermediate options including some form of phasing arrangement whereby New Zealand would progressively reduce its tariff barriers to Australia's level. The potential benefits to be derived from eliminating tariffs on a wider range of products would not be maximised unless other impediments to trade, such as import licensing, were substantially removed.

1.19 In any closer trading arrangements between Australia and New Zealand it would seem essential for New Zealand to continue to be able to obtain its producer goods and raw materials at minimal or free rates of duty. An extension to a full free trade area with no exceptions would achieve this purpose. A full free trade area could have some disadvantages for Australian secondary industry because of the higher costs of producer goods and raw materials in Australia and the competition of third country suppliers in the New Zealand market for producer goods and raw materials. A compromise providing for a minimum margin of preference rather than a CET might be an acceptable solution.

4 White Paper on Manufacturing Industry, 1977.

1.20 In the short term the effects of removing internal trade barriers would be felt by industries producing goods in four trade categories: those on NAFTA schedules; those subject to Article 3:7 arrangements; those bilaterally traded outside of NAFTA; and those not currently traded because of import barriers. For the first category the effect could only increase the flow of trade because of the imposition of a CET and the elimination of import licensing and quotas. Goods subject to Article 3:7 arrangements could be affected to a greater degree. As a general observation, due to the weighted advantage that the current 3:7 formula has for New Zealand, Australian manufacturers could stand to make reasonable gains in this area. For goods currently traded outside NAFTA, or not currently traded because of import barriers, the introduction of free internal trade could be significant. Trade not covered by arrangements under NAFTA was approximately \$240m or 25% of total trade in 1977/78.

1.21 Given the lower wage rates in New Zealand it can be expected that in such labour intensive areas as textiles and apparel the effect of a full free trade area or customs union would be to redirect industry concentration to that country with consequent extensive industry adjustment in Australia. The total effect, however, would be one of overall diversion of trade from cheaper third country sources, including ASEAN. It would therefore be necessary to review any policy for the restructured industries in the light of overall trade and industry policy objectives.

1.22 In the agricultural industries, a customs union would bring clear benefits to New Zealand in the dairy sector with some gain in minor industries such as vegetables and berry fruits. Australia would gain advantage in a range of important industries, including sugar, grains, wine and canned fruit as well as in a number of smaller industries such as citrus and tropical fruit. These judgements need qualifying because of the determining influence of factors such as single institutional buying and selling organisations, stabilisation and support programmes, etc. which need not necessarily be influenced by conventional rules applicable to a customs union.

1.23 In the major rural industries where there are already no barriers to trade between Australia and New Zealand, i.e. wool, beef and sheepmeat, the establishment of a full free trade area or a customs union between the two countries would be unlikely to entail significant costs or benefits for either country.

1.24 In the case of dairy products there could be both significant benefits to the New Zealand industry and costs to the Australian industry in a full free trade area or customs union. Removal of the barriers that limit New Zealand exports to Australia or even their significant relaxation in the short or medium term could lead to an increase in imports from New Zealand that could undermine the current domestic pricing arrangements (especially for butter and cheese) in Australia and force a further significant contraction in an industry which has already undergone substantial restructuring over the past decade.

1.25 In the case of wheat the export orientation of the Australian industry requires significantly different marketing/stabilisation arrangements to the New Zealand industry which is oriented towards imports and increasing self-sufficiency. Absorption of New Zealand into existing Australian stabilisation arrangements could result in greater fluctuations of returns to New Zealand producers with possibly some reduction in New Zealand production given Australia's comparative advantage in wheat production.

1.26 Similarly, New Zealand's complete dependence on imports of sugar poses the question of how trade between the two countries would be fitted into a full free trade area or customs union arrangement given the administered domestic price system in Australia and the embargo on imports. There would be benefits to the Australian industry if New Zealand was absorbed into the Australian domestic stabilisation arrangements and the Australian domestic price applied to that market. Under circumstances of depressed world prices, however, this could result in New Zealand paying higher prices for its sugar and would create problems for New Zealand (and Australia) in its relations with Fiji.

1.27 Other smaller agricultural industries which could be sensitive from Australia's point of view are frozen peas and beans, potatoes, mushrooms and berry fruits, but the gains to New Zealand and the losses to Australia would not be appreciable.

1.28 The broad conclusion which emerges from the preliminary analysis in this report of industry issues—rural and secondary—is that there are benefits in moving towards a full free trade area. It is possible to envisage a range of options which in toto would be more beneficial than present NAFTA arrangements but all involve governments being prepared to recognise that 'losses' in particular industry sectors would be involved.

1.29 In respect of energy, creation of a full free trade area or customs union would not have any direct effect on New Zealand's situation in respect of petroleum imports but clearly the closer co-operation implied by such a development would indirectly strengthen Australia's obligations.

1.30 In the short term there may be scope for co-ordination in petroleum product imports from the Middle East, etc. to reduce New Zealand's supply vulnerability and/or scope for assuring New Zealand of some basic level of our domestic production at world parity prices in the event of any supply crisis. If New Zealand's vulnerability to interruption of supply could somehow be mitigated, this would provide more time in which to formulate and execute a more comprehensive energy programme.

1.31 There are, however, many other areas of policy which would need to be harmonised in a customs union, including industries assistance policy, customs valuation, by-law policy, anti-dumping and countervailing, etc. To a lesser extent this would also be true of a full free trade area. From a preliminary examination it is apparent that significant differences exist between all the essential policies

and practices of Australia and New Zealand required to be harmonised in a customs union.

1.32 In some areas events are taking place internationally and domestically which could smooth the way for harmonisation. These are the GATT Codes with respect to customs valuation and subsidies and countervailing practices, action in the Customs Co-operation Council with respect to tariff nomenclature harmonisation and the reference to the IAC on tariff simplification.

1.33 A full free trade area or a customs union between Australia and New Zealand would be substantially conditioned by the cost of shipping—the higher the freight rates, the higher the common external tariff which would be needed. In a situation of fast rising freight rates, the potential benefits of a union could be lost. In the favourable situation where shipping costs between third countries and Australia and New Zealand rise faster than those across the Tasman, trans-Tasman trade could be stimulated beyond what a customs union might generate by itself. At either extreme, the trends could be self-reinforcing.

1.34 Transport costs, in some cases as much as 27% of the cost of the goods, may therefore be a 'make or break' item. The existing service with its eight component parts is demonstrably below an optimal shipping service. Movement towards closer economic integration would provide a unique opportunity to negotiate rationalisation in a context of real prospects for increased cargo flows.

1.35 In approaching the foreign policy implications of closer economic integration between Australia and New Zealand it is assumed that the foreign policy of each partner will continue to be formally independent and distinctive in development, elaboration and performance. For convenience the analysis is conducted in terms of a full customs union. The experience of, for example, the Benelux⁵ partners and the members of the European Community has been that creation of a customs union has not lessened the scope for independent development and pursuit of foreign policy.

1.36 The effect of a customs union on bilateral relationships with third countries will depend on whether the common external tariff is perceived by third countries as lowering, maintaining or increasing the overall effective level of protection or not and, more generally, whether the union is perceived as conferring any benefits on third countries.

1.37 With regard to the Generalised System of Preferences (GSP) for Developing Countries, under a customs union the two systems would desirably be merged. Assuming the merger led to a net gain for developing countries, i.e. included all products on both lists at the most favourable rate of preference in an ANZ GSP, then this should be a helpful influence in the partners' economic and foreign relations with developing countries.

⁵ Belgium, the Netherlands and Luxembourg.

1.38 The risk that ASEAN may perceive a customs union as a partial withdrawal from the region, a shoring up of a Western enclave and a symbolic retreat into the past of the two English speaking and wealthy countries in the South East Asian region seems slight and should be able to be minimised by well prepared and sensitive explanation of the rationale behind the move.

1.39 To the extent that a customs union strengthens the capacity of the partners to develop their market, then union should be welcomed by ASEAN and by the members of the South Pacific Forum. In respect of the latter, it may be desirable to head off misunderstandings in advance by envisaging an option of ultimate association, perhaps as a development of the proposed trade arrangements, and analogous to association status enjoyed by many developing countries with the European Community.

1.40 To the extent that a customs union strengthens the capabilities of Australia and New Zealand, then it may be expected that Japan, the United States and the European Communities would welcome such a move, but they may be expected to critically assess the implications for their economic interests, vigorously defend threatened interests and take full advantage of new opportunities.

[NAA: A1838, 370/1/19/18, iii]

23 MINUTE FROM DORAN TO ASHWIN

Canberra, 10 August 1979

CONFIDENTIAL

Subject—Australia – New Zealand Closer Association Exercise

As the STR task force report¹ will be available this week, it may be opportune to give further consideration to the role we think our Minister and this Department should have in the closer association exercise.

[*matter omitted*]²

3. ...The Prime Minister also proposed that once the New Zealand study was received 'we review how our overall examination can be best progressed and what machinery would be most appropriate for that purpose'. Unless this last point has been superseded by discussions between Messrs Fraser, Peacock and Garland at Lusaka, it probably still stands and would seem to override the Prime Minister's earlier apparent view that PM&C should chair an IDC.

1 Document 22.

2 The omitted matter reviews the proposed arrangements for handling the exercise as set out in Documents 7 and 8.

4. [If]³ we are back to a tabula rasa situation on interdepartmental machinery do we wish to reassert our earlier bid for an IDC chaired by DFA? I personally think we should if the Minister agrees. However, if we do so, we must be prepared to provide the resources to service the IDC.

5. This brings me to the related question of how we approach consideration of the issue internally. You will be aware of my views conveyed in another note that a special unit (of two officers) should be set up within the Department immediately to co-ordinate our input into the closer association exercise. I believe this is warranted because of the importance attached to the issue by the Government and its manifold foreign policy implications. I also fear that not much 'imaginative thinking' about a range of options (which appears to have been requested by the Prime Minister) is going to be done unless we do it and this will require resources to be set aside. The STR study will, I understand, concentrate almost exclusively on a customs union which is but one of the options.

6. If we renew our bid for IDC chairmanship any internal unit set [up] could be given the added task of servicing the IDC in much the same way as the successful ASEAN exercise has proceeded. The unit could be located either in EP⁴ or Western Division although the latter probably would make more sense in the light of the fuss we have made of the need for wider questions to be addressed and not just the trade relationship in isolation; [and] because of our relationship with the ANZ Foundation and the Businessmen's Council. It would also parallel the ASEAN arrangements.

7. Another consideration is that as the closer association exercise is a 'new function' the Department's hand would be strengthened in negotiating [with the PSB] for more staff to perform that function if we could point to our role in serving an IDC on the question.

8. We should also give some consideration to how the exercise should be conducted at the Ministerial level. Should it be through the normal Cabinet system [or] by a special task force or subcommittee of ministers? Do we want a joint Australia - New Zealand Ministerial task force? Which Minister(s) should conduct negotiations with the New Zealand Government? According to the *Financial Review* of 9 August Mr Fraser and Mr Anthony agreed earlier this year that Mr Garland should handle the discussions and negotiations. I have seen no official confirmation of such a decision and if there is none I think that we should work against any suggestion that Mr Garland should have exclusive carriage of negotiations for the following reasons:

- (a) There would probably be a repetition of the difficulties which occurred during the STR European exercise. (See the attached note [(D)] from

3 Material in square brackets was added by Doran in handwriting.

4 Economic Policy Branch.

Sir James Plimsoll.) There have already been hints of this with Mr Flood dealing with the Senior Trade Commissioner in Wellington rather than through DFA channels.

(b) Mr Border feels strongly that the exercise must continue to be handled at the highest political level if it is to get anywhere. Mr Garland is No. 24 out of 27 in the Ministry and is not in Cabinet.

(c) If Mr Garland and his [Department] are running the exercise drawing on the old NAFTA hands, it will probably degenerate into another item by item trade negotiation without wider considerations in mind, which is doomed to failure.

(d) Mr Talboys seems to have reacted fairly coolly to the suggestion that Mr Garland visit New Zealand in mid September (see attachment E). Note also NZMFA Dep Secretary Stewart's comment to Mr Henderson when discussing on 3 August the possibility of a visit by Mr Garland. 'Mr Stewart emphasised that discussion should proceed on the broad principles involved rather than on a case by case basis. The latter approach he said had been tried with NAFTA and had produced only limited progress.' Note also Mr Henderson's subsequent comment 'The Minister for Foreign Affairs was determined that the exercise be conducted on a broad basis and not just as another trade negotiation'.

(e) As far as we know, the time-table agreed upon at Lusaka makes no provision for any Ministerial negotiations or discussions before the Prime Ministerial meeting to be held not later than February 1980.

9. Finally, I would just like to flag the question of the need for a bipartisan political approach to the question of a closer association with New Zealand. I think we should advise the Minister that there is a need to consult and involve the Oppositions in both countries at any early stage, so that if a decision is made to proceed we can all be assured that it will not be frustrated at a later stage.

[NAA: A1838, 370/1/19/18, ii]

24 REPORT BY DEPARTMENT OF FOREIGN AFFAIRS ON INTERDEPARTMENTAL MEETING

[Canberra], 22 August 1979

CONFIDENTIAL

Meeting to Discuss STR Study on Closer Economic Association with New Zealand, 22 August, 1979

Mr Flood said that the purpose of the meeting was to receive reactions to the STR task force's preliminary study; to define areas for further work and to discuss procedural arrangements.

2. He advised that discussions with Australian businessmen had revealed:
 - a positive inclination to the idea of closer association
 - a preference for the initiative to remain with the Government for the time being
 - caution against expecting any quick results
 - mixed views on the merits of a customs union as opposed to other forms of co-operation
 - mixed views on the competitiveness of New Zealand industry under freer trade arrangements
 - caution about distracting Australian exporters from the larger Asian market
 - a view that non-economic factors would complicate any technical economic assessment of the results of freer trade
 - some were convinced that there was little in it economically for Australia and it was really a political exercise to help New Zealand.
3. There was no substantive discussion of the task force report, although several Departments indicated they would be submitting comments in writing. Flood said the report would be issued in a revised form in about two weeks but emphasised that it was only a first attempt which would lead on to further reports.
4. Treasury, DFA, PM&C and DIC felt that more attention needed to be given to developing the options other than that of a customs union. It was agreed that political union was ruled out. DFA said that all the possibilities discussed in Lusaka should be included in any report to Ministers.
5. Industry and Commerce took the view that we needed a clearer statement of our national interests in pursuing closer integration in order to define the degree of co-operation which is relevant to the totality of the relationship. Industry and Commerce said in their view strategic/foreign policy/defence considerations may have the crucial weighting in the Government's decision on this issue.
6. Treasury did not disagree with the analysis in the preliminary STR report but suggested that a wider range of options should be explored. The Treasury view is that we should concentrate on the forms of co-operation that are less ambitious than a customs union.
7. PM&C also adopted a cautious attitude and suggested that the preparatory work should cover the possibility that Ministers may not be prepared to accept a free trade area or customs union by pursuing areas of subsidiary co-operation such as energy, shipping and banking.
8. Flood agreed with the need to develop other options and said that the objective should be to ascertain whether there is any option for closer economic co-operation which provides benefits to both New Zealand and Australia. He did

not rule out the possibility, however, that we may be involved in a 'zero sum game' with benefits to one side being at cost to the other.

9. It was agreed that there was a need for more quantitative analysis of the options. DTR had already done some preliminary work with the (informal) co-operation of the IAC to apply the IAC 'Impact' model. There are, however, substantial problems involved in a quantitative approach relating to data deficiencies (particularly in regard to the New Zealand licensing regime) and conceptual difficulties with the model itself. PM&C mentioned the possibility of engaging academic specialists for a short period as consultants. Drysdale¹ and Lloyd² were mentioned.

10. There was no substantive discussion of the possible effects of closer integration. Industry and Commerce commented (without elaboration) that a full free trade area would probably not be in Australia's interests but a customs union might bring benefits to us. DTR said that the initial quantitative studies indicated that a customs union would result in trade diversion of very large proportions in favour of Australia. The preliminary analysis also indicated that the amount of trade creation would not be large. DTR emphasised, however, that these were very tentative results.

11. In regard to future work, Departments endorsed the attached list of additional reports to supplement the STR study. In response to a [D]FA query Flood gave an assurance that all Departments would have the opportunity to see and comment on all papers. DFA registered its interest in three particular papers A(a), A(d) and B(d).

12. Arising out of the question of whether there should be some joint exchange of papers between the two sides, there was discussion of whether any ANZ report would be put to the two Prime Ministers in February. STR reported that Mr Garland had said that the Lusaka meeting had fudged this question, although it was possible that New Zealand might ask for such an approach. STR did not favour the idea of an agreed joint report as it could only lead to a lowest common denominator document similar to the Trans-Tasman Market Integration Study. STR did not object however to the idea of a document containing the independent views of each side going to the Prime Ministers or perhaps a joint agreed technical study by the two industry assistance authorities.

13. There was inconclusive discussion on when we should put something to Cabinet. [D]PI, DIC and DFA favoured an early paper not making firm recommendations but alerting Ministers to the issues and to possible advantages and disadvantages of various options. [D]PI was concerned about the publicity that was being generated. The reaction of the dairy lobby was mentioned and the sensitivity of the exercise underlined. STR and Treasury saw advantage in not

1 Not identified.

2 Not identified.

going to Cabinet until after officials' discussions. It was recognised that New Zealand officials would probably have been to Cabinet before the discussions.

14. Foreign Affairs expressed some doubt about the need to maintain any longer that the initiative had to come from New Zealand. The situation had now changed somewhat. In Mr Muldoon's letter to Mr Fraser of [16] August about the public line to be taken he said that he would continue to follow the line that the idea emerged naturally from discussions following a NAFTA meeting. It was felt it was now more accepted by both sides that there could be movement in parallel and that it was not necessary to wait for the New Zealanders to make each move. Flood said that personally he saw advantage in the initiative still being seen to come from New Zealand. He thought that there should be no exchange of papers in the foreseeable future but we should wait until the New Zealanders to make each move. Flood said that personally he saw advantage in the initiative still being seen to come from New Zealand. He thought that there should be no exchange of papers in the foreseeable future but we should wait until the New Zealand side presented us with a paper or proposals to which we could react. Flood said that, based on a list that he had received of papers commissioned by Dr Scott, he believed that New Zealand may be more advanced than we are in their preparatory work.

15. The meeting did not specifically address the question of inter-Department responsibilities for the future work. STR will finalise the task force report and co-ordinate the preparation of the further papers. Flood indicated that this work would be done by individual departments but he did not rule out the possibility of a task force being convened at some later stage. In concluding the meeting, Flood said that it would be up to PM&C to give a lead to other Departments in regard to the next stages.

16. Flood proposed the following course of action:

- (a) distributing an amended version of the initial study in two weeks
- (b) preparation of a number of additional papers (see list attached) on topics requiring more detailed attention. To be cleared and finalised by 21 September
- (c) discussions with New Zealand officials at the end of September (Flood was thinking of 2-3 on each side)
- (d) meeting of ANZ Permanent heads in mid-October (Henderson, Scully, Currie mentioned as possibilities)
- (e) possibly a Cabinet Submission at the end of October.

Attachment

DRAFT—22 August 1979
Australia – New Zealand Economic Co-operation

Subject of Report to be completed by 30 September	Responsible Department	Departments to be consulted in addition to STR
<i>Group A</i>		
Implications of (1) a free trade area and (2) a customs union for:		
(a) Manufacturing—trade in manufactures, the local industry, and Australian industry policies (protection policy, export incentives, etc)	DIC/T&R	BACA
(b) Rural products—trade, local production and rural policies	PI/T&R	
(c) Overall economic effects, e.g. effects on resource allocation and national income, balance of payments	Treasury	
(d) Trade policy <ul style="list-style-type: none"> • implications for all existing trade arrangements • possible future expansion of trading block to include other countries 	Trade & Resources	
(e) Foreign Policy	Foreign Affairs	
<i>Group B</i>		
(a) Scope for co-operation in monetary and banking areas	Treasury	Reserve Bank
(b) Compatibility of Australian and New Zealand policies for foreign investment	Treasury	FIRB
(c) Invisibles flows between Australia and New Zealand	Treasury	Reserve Bank
(d) Scope for co-operation in energy and raw materials trade	Trade & Resources	National Development
(e) Enhance co-operation in energy R&D and conservation	National Development	T&R, Science and the Environment
(f) Outlook and scope for improvement in trans-Tasman freight services	Transport	Trade & Resources, BTE

(g) Scope for harmonisation of A/NZ policies with respect to tariff nomenclature, valuation, anti-dumping, countervailing, non-tariff barriers, import subsidies, etc.	BACA	Trade & Resources
(h) Long term prospects for Aust. and New Zealand exports of temperate agricultural products	Primary Industry/ BAE	Trade & Resources
(i) Movements of people between Australia and New Zealand—what is happening and why?	Immigration	DIC
Compatibility of Australian and New Zealand policies and practices in Government procurement	Admin. Services	

Group C

Summary paper comparing the advantages and disadvantages of a customs union and a full free trade area	Trade & Resources/ STR
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[NAA: A1838, 370/1/19/18, iv]

25 LETTER FROM GODFREY TO SCULLY AND FLOOD

Canberra, 27 August 1979

CONFIDENTIAL

Australia – New Zealand Economic Relations

Following the interdepartmental meeting last Wednesday 22 August to discuss the draft report on Australia – New Zealand Economic Relations¹ and the future work programme and associated procedural arrangements I thought it would be helpful to set down on paper this Department's views, both in the broad and in relation specifically to the draft report.

As I mentioned at the meeting, we are concerned about the clarity of the basic objectives of the exercise which we see reflected in the report as it stands. We see a need to give much greater precision to what are envisaged as the options. Such precision is needed, in particular, to define better the scope of Australia's national interest especially since consideration of closer economic co-operation with New Zealand goes beyond economic matters and embraces the totality of the relationship. It could well be that those other aspects of the relationship could assume a greater importance in Ministers' minds. In short, we need to develop

¹ Document 22.

some yardsticks against which benefit to Australia of the various options can be measured.

It is in our view most important that Ministers should be alerted as soon as possible to the nature of the political decisions which may lie ahead and, at the same time, (which the redrafted work programme is to reflect) a series of scenarios should be developed by departments relating to each option viz: Free Trade Area, Customs Union, Common Market, Economic Union, in order to clarify their relative advantages and disadvantages in terms of costs and benefits. We feel that an initial approach to Ministers could well be in the nature of an information paper. However, guidance on the question of the national interest should also be sought at an early date. This may have to await conclusion of the preliminary exploratory exchanges between senior officials, but in any event it is essential that Cabinet become involved well before the Christmas recess.

As far as the text of the draft paper is concerned we have confined our comments to the conclusions rather than the detail of the text particularly in view of this Department's earlier contributions and comments on manufacturing industry policy aspects. Apart from our general reservations about the scope and balance of the paper as discussed above, including the need for greater precision of definitions we feel that the paper might well be too pessimistic (see paras 1.11, 1.15/16/17, 1.28) on the prospects for NZ manufacturing industry. The New Zealand national interest is a matter which we should not presume to judge at least at this stage, since we do not know what alternative future NZ might see for itself in the absence of closer association with Australia. Nevertheless it is conceivable that NZ might come to see such alternatives as offering worse prospects than some risk of Australia gaining more than NZ in some sectors in a closer association.

Paragraph 1.19 of the paper we feel should be deleted from the text. The point at issue is that currently under NAFTA it is these kinds of advantages (identified earlier in 1.14) for NZ industry, in addition to import licensing, that have constrained growth in freely traded goods under the Schedules. The problems therefore already exist under NAFTA and would be compounded by the introduction of (vaguely defined) full free trade conditions. We also find the reference to minimum margins of preference somewhat confusing as these exist already under the Preferences Agreement.

On the question of establishment of an appropriate quantitative analytical framework we believe it is desirable that the skills and expertise of the Bureau of Industry Economics should be drawn on in this exercise..²

I am forwarding copies of my letter to the other Departments who attended your inaugural interdepartmental meeting for their information.

[NAA: A1838, 370/1/19/18, iv]

2 A small portion of text concerning contact names and telephone numbers omitted.

26 CABLEGRAM FROM DEPARTMENT OF FOREIGN AFFAIRS TO AUSTRALIAN HIGH COMMISSION IN WELLINGTON

Canberra, 13 September 1979

O.CH845922

Visit of the Minister for Special Trade Representations

Following is text of statement released in Canberra this afternoon.

Quote.

Trading relationship between Australia and New Zealand (underlined)

The Minister for Special Trade Representations and Minister Assisting the Minister for Trade and Resources, Mr R. E. V. Garland, announced that he would be departing for New Zealand at the weekend to undertake a visit at the invitation of the New Zealand Government.

Mr Garland stated that the purpose of his visit would be to obtain a deeper understanding of New Zealand views as background to the examination of possibilities for a closer trading relationship between Australia and New Zealand.

Mr Garland recalled that the Australian and New Zealand Prime Ministers had agreed that studies should be made of options for a closer trading relationship between the two countries, following discussions which took place in Wellington, in April this year, between the Deputy Prime Minister, Mr Anthony, and New Zealand Prime Minister, Mr Muldoon, and earlier in Australia during the visit of New Zealand's Deputy Prime Minister, Mr Talboys.

Mr Garland said that the contacts which he would have with political leaders and heads of organisations representing commerce, industry, agriculture and labour, would be of considerable value to him in assessing the main issues and New Zealand attitudes towards possible forms of closer economic co-operation between the two countries. Mr Garland emphasised, however, that he would not be negotiating or discussing details of the various options whilst in New Zealand. Under the timetable established on the basis of discussion between the two Prime Ministers when they met in Lusaka last month, the first formal exchange of views will take place when senior government officials meet in Wellington in October. Those discussions will prepare the way for a meeting of the Prime Ministers before the end of February 1980.

Mr Garland stated that Australia was approaching the exercise with an open mind and in a constructive spirit. It was recognised that the issues were complex and potentially sensitive and neither Government would be prepared to act precipitately. Indeed there was not even a commitment to making any change in the status quo. However, both Governments had agreed that the international trade and economic outlook for the 1980s and slow progress in further expanding the coverage of the free trade area under NAFTA pointed to the need for a closer examination of the bilateral trading relationship.

Mr Garland said that while NAFTA had been a valuable instrument in promoting significantly trade across the Tasman—currently in excess of dollars 1 billion—there was reason to doubt whether the agreement was capable of providing sufficient impetus for greater expansion of trade. If both countries were unable to obtain greater overall benefits from further liberalisation of trade or other forms of economic co-operation, it would not be because the Governments had neglected to consider the opportunities.

[NAA: A1838, 370/1/19/18, v]

27 MESSAGE FROM FRASER TO MULDOON¹

Canberra, 14 September 1979

CONFIDENTIAL

I was pleased to receive your letter of 16 August² concerning closer economic association between Australia and New Zealand, following on from our recent talks on this matter in Lusaka.

I agree entirely with the approach to the question of closer economic co-operation you have outlined in your letter and which you have adopted in your public statements on this matter. We are agreed that NAFTA has been a valuable instrument in expanding the trans-Tasman trading relationship but we acknowledge that in a practical sense, the scope for further substantial trade growth within the framework of the agreement is limited. A more contemporary form of co-operation is now called for.

As you know, my colleague, Mr Garland will be visiting New Zealand shortly, at your Government's invitation. I welcome the opportunities presented by this visit and am sure that it will help foster increased appreciation of the issues involved.

I look with interest to the meeting of senior New Zealand and Australian officials later in the year and anticipate that they will be able to identify priority areas for consideration by our two Governments. Beyond that, I look forward to our further discussions early in the New Year.

[NAA: A1838, 370/1/19/18, v]

1 Conveyed through Border in Cablegram O.CE55948.

2 Document 43.

28 BRIEF BY ASHWIN FOR HENDERSON

Canberra, 18 September 1979

CONFIDENTIAL

Subject—Call on Mr Scully

You are to call on Mr Scully at 3.00pm this afternoon to discuss matters relevant to the current exercise on closer economic co-operation with New Zealand.

[*matter omitted*]

Interdepartmental Consideration

[*matter omitted*]

7. On 7 June in reply to an earlier letter from the Minister for Foreign Affairs about interdepartmental arrangements for handling the closer co-operation exercise, the Prime Minister said that he did not wish to set up any formal interdepartmental machinery until after the New Zealand preliminary study had been received.¹ As the New Zealand study has still not been completed and there is less than month left before senior officials discussions and only several months in which to submit a report to Ministers before the Christmas break, Foreign Affairs would see merit in the establishment of formal interdepartmental machinery now. We could expect that, in view of the close interest of the Prime Minister and the broad policy implications of the exercise, similar arrangements should be established to those set up in Wellington—i.e. a broad based IDC chaired by the Prime Minister's Department.

8. Despite the close interest of our Minister and this Department in the exercise, we were not consulted by PM&C on the terms of the Prime Minister's reply² to Mr Muldoon's letter of 16 August, about public presentation. We feel this would not have happened if there were some formal framework for interdepartmental consultation. Although we had no difficulties with the reply we believe the implications of the exercise for your and the Department's responsibilities mean that we should be fully consulted on all future correspondence and other developments.

Co-ordination in Wellington

9. You are aware of Mr Border's strong views about STR's using the Trade Commissioner in Wellington as the channel of communication with the New Zealand Government on closer economic co-operation. Apart from co-ordination difficulties to which this practice gave rise (compounded by the fact that most of the contact is by telephone so leaving most Departments in Canberra as well as the High Commissioner in the dark), Mr Border was concerned that this could

1 Document 8.

2 Document 27.

give rise to misunderstandings in the New Zealand Government about the focus of the exercise. Border believes the matter should be handled at the highest political level so as not to leave the impression that it is simply another trade negotiation by trade officials. This means keeping Ministers, particularly the two Prime Ministers, in contact and ensuring that the regular channel of communication is the Australian Government's senior representative in Wellington. We share Mr Border's views on this matter. In a telephone conversation last week, he indicated that he was fairly well satisfied with the latest arrangements; he was being telephoned regularly by Mr Flood and Mr Gates, the Trade Commissioner, was being telephoned by Mr Anderson, an FAS in STR. No doubt Mr Border and Mr Flood will establish a close rapport during the latter's present visit to Wellington but we need to ensure that Mr Border continues to be the main channel of communication.

10. You might also wish to flag with Mr Scully the desirability of conducting business through the Diplomatic Communications network so that interested Departments are consulted and informed of all developments.

11. As we need to prepare urgently a brief for possible discussions between the Minister and Mr Talboys³ in New York on closer association, we would appreciate early advice of the results of your discussion with Mr Scully.⁴

[NAA: A1838, 370/1/19/18, v]

29 LETTER FROM BORDER TO HENDERSON

Wellington, 27 September 1979

CONFIDENTIAL

Mr Garland's visit seems to have been quite successful, given its very limited objectives. He was careful to say that he was here to look and learn, that we had no proposals to advance and that we had an open mind on the subject, and that any scheme ultimately agreed upon must be clearly seen to embody benefits for both countries. While his presence was an earnest of our interest in a closer economic association he was careful to emphasise, nevertheless, our own determination to develop our links with the growth areas to our north and to come to grips with the difficulties and challenges of the changing international economic environment. If we could do this together, as would seem natural, so much the better; we should, at least, study the options and see what is in them for both of us.

³ Peacock was to attend sittings of the General Assembly.

⁴ Henderson replied the following day that Scully had agreed 'Border should be the regular channel of communication'. In regard to interdepartmental machinery, Henderson advised that it would be looked at 'in the light of what comes out of the Wellington meeting'.

Mr Garland was listened to with interest wherever he went—and with some relief that he and his team did not try to foist ideas on the New Zealanders nor extract from them details of the course of their current investigations...¹

New Zealand officials were very careful not to give any indication of the direction of their thinking on the available options, no doubt because they themselves have not moved towards any conclusions. They are still heavily engaged in their homework, and did not want to commit themselves or the Government in any way whatsoever. The manufacturers, on the other hand, seem to be much more advanced in their thinking, and the clear impression they left was that no new and adventurous schemes are wanted; rather, they contend that there is scope for modification and extension of the present NAFTA machinery to improve and expand our trade, and that while we have this machinery our first effort should be to try to make it work better. They do not seem to go as far as to say that 'a free trade area' is in fact their objective, although their endorsement of the NAFTA presumably implies this. They do not want, in short, to upset their comfortable apple cart.

I had the impression even from Hugh Templeton, who is far and away the greatest enthusiast for the concept, that he might be thinking on somewhat similar but more positive lines, i.e. that we should make it our business so to remove or modify the limitations within NAFTA that free trade is in effect achieved, and I think he would be more forthright than the manufacturers and say that the objective clearly must be 'a free trade area'. How far he can carry the officials with him, and indeed other Ministers, remains to be seen. Certainly he will have Mr Adams-Schneider against him; he will have Mr Talboys' general support, but without a great deal of drive pending Cabinet decisions. I cannot recall anybody talking about other options, such as the merits of a customs union, and I suspect that a free trade area—in due course—would be the most that the majority of interested parties would be prepared to contemplate at this point.

Within the bureaucracy, Foreign Affairs and Treasury are in the vanguard of a more enterprising arrangement but their dilemma is whether they should get out and lead or merely push from behind. The latter is the present course, as far as Foreign Affairs is concerned. But people like Ian Stewart believe that New Zealand will have to jump out of the NAFTA parameters if a really effective and forward looking association is to be formed, and I suspect that Terry in the Treasury feels the same way. They are up against those in Trade and Industry who are out to protect the comfort and relative security of the manufacturers, and hence the political prospects of some Ministers. They feel that it is pointless to try to revitalise the NAFTA, both as a matter of principle and having in mind the real practical difficulties of doing this. Like Hugh Templeton they see the advantage, indeed the necessity, of linking in with the Australian engine economy both bilaterally and in dealing with others. Stewart, too, would like us

¹ A comment concerning television programmes is omitted.

to work much more closely in preparations for international meetings and negotiations.

So things are rather fluid at the moment. What is certain is that there is a genuine *interest* in all sectors of the country in the possibility of a closer economic association. The public opinion polls are extremely interesting in this regard. And there are clear divisions as to what can and should be done within the bureaucracy and even within the ranks of the manufacturers and the business world generally. Even in the Businessmen's Council I detect caution, which reflects itself in a feeling in the Council that the NAFTA should be made to work, without limitations, in a specific period of time, e.g. in five years of the remaining eight years of the Arrangement.

We will try to keep Jim Scully and yourself and others up to date with developments in New Zealand thinking and in their preparations, although clearly the New Zealanders are playing their cards very close to their chests. I did not get far in a chat today, for example, with Ian Stewart who is presumably following instructions 'not to talk too much' to us in detail. He thought that Mr Garland was generally satisfied with his visit, and had gained some insight into New Zealand thinking on the concept. Stewart himself felt that New Zealand officials and some Ministers had been less forthcoming than they might have been, and that Mr Garland might have expected something more positive from them. He was inclined to think that the somewhat negative line of the manufacturers was partly tactical, i.e. they want to be wooed, and he emphasised that the manufacturers were only one element in the complex of New Zealand thinking which must be applied to the issue. He also thought that the public generally in New Zealand was well ahead of both politicians and business circles on the desirability of a closer economic link with Australia.

Stewart has also emphasised to me that the Prime Minister *does* want a positive result from his meeting in February with Mr Fraser, and that he has instructed officials that they must come up with constructive ideas for that meeting. Stewart feels, as I do, that if the Prime Ministers can only say after their meeting that they have had a good discussion and they have sent the officials off to do some further work, then the impetus behind the concept will largely have been lost. He took my point that the Permanent Heads meeting is a highly important one in this respect, and that their chances of agreeing on a positive course will be increased if they can focus on one or more particular options rather than traverse the field in a general and unstructured way. He thus sees the need for New Zealand to have one or more propositions ready before this meeting, which our officials can at least think about before the Permanent Heads meet.²

[NAA: A1838, 370/1/19/18, vii]

2 Henderson sent copies of the letter to Yeend, Scully, Currie, and to R. Daniel, Acting Secretary, Treasury.

30 MEMORANDUM FROM WEBB TO DEPARTMENT OF FOREIGN AFFAIRS

Wellington, 11 October 1979

M.WL3032 CONFIDENTIAL

Closer Economic Association between Australia and New Zealand

Attached is a copy of the joint paper of the New Zealand Manufacturers' Federation and the Confederation of Australian Industry which is to be presented at the 6th Quadrilateral NAFTA talks to be held in Christchurch on 15–16 October 1979. Apart from a useful summary of trans-Tasman trade statistics, the document contains a joint discussion paper on 'Issues and Options for Trans-Tasman Trade'. This appears to contain large slabs of Mr Coffey's paper, a copy of which was attached to our refmemo. We have already commented that the New Zealand Manufacturers' Federation document could not be construed as representing the official opinion of its members. Similarly, the joint paper is described as not being intended to be a policy document but rather aims to provide the basis for a discussion of policy. The writers go on to caution that 'the views given in this paper do not necessarily represent the policies of either the CAI or the NZMF, although it is to be hoped that discussion of the paper will permit some joint policy to be formulated'. The main points outlined by the paper are:

- The Australian and New Zealand trade relationship has reached a watershed situation. NAFTA no longer provides a satisfactory framework for further substantial trade developments between the two countries.
- The major constraints to expanded trade under NAFTA have been: i) the use of NAFTA as a tool to defend the industries' position in the event of threatened trade restrictions; ii) the aim of manufacturers and commitment by Government to maintain the firm size, no matter how small it may be, as opposed to maintaining profitability; iii) Governments have been extremely sensitive towards any harm likely to be caused to employers or employees.
- The prospects for further development of trade under the present NAFTA structure 'do not appear bright ... if matters continue as they are there can only be a growth of suspicion and deterioration in mutual trade advantage. Policy will continue to be determined by the lowest common denominator'.
- This dissolution of the formal economic relationship is not advocated. It is pointed out that many of the reciprocal trade concessions might not have occurred without the framework of NAFTA being in existence. There are 'compelling reasons' why the trading partners should endeavour to build on the strong bonds which already exist. There are good political and strategic reasons why this economic co-operation should continue.
- On the basis of static analysis NAFTA can be seen as having fostered trade diversion rather than trade creation. Trade creation has occurred under Schedule A but growth has been limited. 'The main thrust has been to the

development of trade and complementary areas at the expense of third countries ...' However, current levels of protection in both countries, particularly New Zealand, give great potential for dynamic benefits (economies of scale, free movement of factors of production etc).

- Both Australian and New Zealand manufacturing sectors can offer each other a 'laboratory situation' [in] which they can test the international competitiveness. Industrial development polic[y] in both countries is at the crossroads.
2. The joint paper then goes on to make some specific recommendations:
- There would be need for continuing political independence in decision-making on external protective tariff barriers and internal economic policies.
 - A firm's profitability should be more important than its size. Quantitative Restrictions [QR] should be regarded as objectionable and it was essential that no further increases should be allowed.
 - Adjustment assistance should be available for industries where injury is incurred as a result of expanding trade between the two countries.
 - NAFTA as a document should provide an existing framework for achieving the common objective of freer trade. One option would be to establish an interim schedule similar to Schedule B¹ onto which transferral was compulsory and which provided for a phased program of dismantling tariffs and reducing QRs, so that after a pre-determined period of time the item could be transferred to Schedule A (re-defined as a Schedule covering items with unrestricted duty free trade). The paper notes that a careful use of area content would be needed to minimize trade deflection and trade diversion. Reductions in QRs would be applied across-the-board as a fixed percentage of the domestic market. Levels above that would need to be negotiated.
 - A limited free trade area, full free trade area, customs union, common market, economic union, political union are all briefly discussed.
3. *Comment:* The writers of the above paper do not make any specific recommendation about which option should be chosen. As well, in contrast to Mr Coffey's paper there are no time frames specified nor are any specific recommendations made about area content. It would seem that given comments preceding the final analysis of various options that neither organization is particularly inclined to entertain a full customs union.
- Nevertheless the overall tenor of the paper appears to be more progressive than the stated views of the powerful Auckland manufacturing group (see refmemo).
4. The Senior Trade Commissioner, Mr Gates, has seen a copy of this memo.

[NAA: A1838, 370/1/19/18, viii]

¹ Schedule B of the NAFTA was established in 1973 as an intermediate arrangement to provide for partial participation in free trade provisions 'by way of quotes or duty free schedules on the basis of partial reciprocity'. No obligation to transfer to Schedule A was implied. By 1979 the furniture industry was the only industry operating a Schedule B agreement.

31 MINISTERIAL SUBMISSION TO PEACOCK BY ASHWIN

Canberra, 22 October 1979

CONFIDENTIAL

**Cabinet Submission:
Subject—Future Trade and Economic Relations between
Australia and New Zealand**

PURPOSE: To provide you with Departmental comment on the above submission for possible use during Cabinet discussion.

ISSUES: Ministers are asked to note the progress so far and, in particular, that no decision on options for closer association is required at this stage.

As explained to Departments by the Department of the Special Trade Representative on 25 September, this was to have been a report on the reaction to the concept of closer economic co-operation as perceived by Mr Garland during his recent familiarisation visit to New Zealand. However the submission goes beyond this, and, rather, constitutes a progress report on planning for the Permanent Heads Talks and beyond. It may also be taken to imply that Mr Garland has been given the carriage of this matter. In a letter to you in June,¹ the Prime Minister said that he did not want to set up any interdepartmental machinery at that stage, but would review later what machinery would be most appropriate.

RECOMMENDATIONS: We are not aware of any specific review, but we understand from the Department of the Prime Minister and Cabinet that at this stage it still wishes the Department of the Special Trade Representative to have carriage of the exercise. As you know, this is not the arrangement we proposed some months ago (when you suggested to the Prime Minister that this Department should chair any IDC dealing with the matter), but we do not see any point at this stage in pressing for any change in the de facto situation.

We are broadly in agreement with the terms of the Submission, but have the following comments:

(a) discussion may eventually centre not only on any one of the five formal economic co-operation options mentioned in para 2, but also on possibilities for co-operation in such fields as joint marketing in third countries and industrial policy;

(b) the submission does not refer to Mr Garland's discussions with senior members of the New Zealand Labour Party. (Some members, whom Mr Garland saw, were fairly positive, but he did not see Mr Rowling);

(c) with reference to the last sentence of para 12, it is of course not only our relations with ASEAN and the South Pacific which may be affected. Account

¹ Document 8.

will have to be taken of any implications closer association with New Zealand may have for our relations with other important States and groups of States, e.g. the United States, Japan and the European Community;

(d) para 11 fails to mention that an exchange of papers is to take place later this month in preparation for the Senior Officials Talks. These papers, still under preparation on both sides of the Tasman, will be in three parts—broad trade and economic restructuring strategies and objectives; consideration of how the trans-Tasman initiative relates to them; and a catalogue of issues, questions and conclusions arising from preliminary studies.

Should the question arise of whether the meeting between the two Prime Ministers no later than February 1980 should take place in Canberra or Wellington, you may care to say that we see political and psychological advantages in the Prime Minister visiting Wellington.

You may wish to inform Cabinet that you see advantage in wide public debate about the issues involved and that you would be willing to ask the Australia New Zealand Foundation to undertake some work in this regard. The possibility of Parliamentary Committees also debating the matter could be explored.

This might be a useful occasion on which to raise for consideration whether to inform the Opposition leadership on developments so far. We do not know if the New Zealand Government has yet briefed the New Zealand Opposition.

You may also wish to raise the question of the desirability of briefing State Governments on developments to allay any apprehension and to enlist co-operation in view of recent mischievous publicity in New Zealand that the Australian States would 'make or break' the current trans-Tasman exercise.

Recommendation: It is recommended that you refer to the abovementioned matters in Cabinet.²

[NAA: A1838, 370/1/19/18, ix]

2 Peacock indicated his agreement on the document.

32 AUSTRALIA'S OBJECTIVES FOR THE PERMANENT HEADS MEETING

Canberra, 22 October 1979

CONFIDENTIAL

Permanent Heads Meeting in Wellington 1–2 November 1979

Australia's Objectives and the Framework of the Meeting

DRAFT—22 October, 1979¹

Australian objectives at the meeting in Wellington on 1 and 2 November 1979 are to:

- (1) Identify the areas of common ground in the economic strategies and objectives of Australia and New Zealand.
- (2) Identify the areas of conflict of interests and the broad ways in which it may be possible to reconcile them.
- (3) Review the broad parameters of the type of arrangements which would maximise the economic benefits for both countries from 1 and 2 above.
- (4) Agree upon the issues which need to be submitted to the Ministers of both countries before the meeting of the two Prime Ministers in February 1980.
- (5) Agree upon the issues requiring further examination by officials and future meetings or exchanges of papers that may be necessary.

[*matter omitted*]²

6. Since Mr Garland's visit the annual joint meeting of the New Zealand Manufacturers' Federation and the Confederation of Australian Industry (CAI) has taken place followed by the annual quadrilateral meeting of the two governments and the industry associations. At their meeting the two industry associations adopted the following statement which includes an agreed section and separate sections by the respective federations:

'TOWARDS A MORE POSITIVE NAFTA

Objective

The creation of a larger and more effective economic unit through an extension of the principles of NAFTA.

1 The document was prepared by the Special Trade Representative for discussion at an interdepartmental meeting on 24 October 1979. Prior to that, on 22 October, Flood sent the draft to Departments along with (i) a discussion paper on conclusions and questions arising from the Australian studies and (ii) a draft agenda for the Permanent Heads meeting in Wellington.

2 The omitted material reviewed developments from March 1978 to September 1979 when Garland visited New Zealand.

Benefits

- complementary development and utilisation of resources
- increased investment from overseas
- increased employment opportunities
- a fuller utilisation of a well educated, highly skilled work force
- the provision of greater leverage when negotiating with third countries
- joint marketing schemes in third countries
- improvement in quality and maturity of manufacturing and technology within industries.

Such an economic unit should enable the progressive elimination of all barriers, including non-tariff barriers such as technical standards, to total trade between New Zealand and Australia provided that a higher area content provision is established for those industries where such a provision appears necessary.

The New Zealand delegation believes that the move towards free trade in the economic unit could eventually lead to the adoption of one of the following options:

- full free trade area
- customs union
- economic union.

As an initiative towards the achievement of the objective of a larger and more effective economic unit it is recommended that consideration be given to placing all products which are not currently on Schedule A on to Schedule B. Where duties are applicable to these products such duties should be progressively reduced to nil within the next eight years with equitable access to each market.

As regards Schedule A, it is recommended that all items which could be placed on Schedule A should be placed thereon immediately without the limitation of quantitative controls, both ways.

Meanwhile the working party should continue its efforts to eliminate quantitative controls in respect of items already in Schedule A.

It is also recommended that the joint working party establish, within the next twelve months, mechanisms for this initiative taking full account of industry discussions. Such mechanisms should take into consideration that:

- (a) Duty reductions for some industries may not be possible or as rapid as those for the majority.
- (b) There will be a continuing need to protect some New Zealand and Australian industries by restricting access by each country and third countries.

Finally it is recommended that at the end of the eight year period, those industries for which duties have not been eliminated should be reviewed and a new time scale established over which duties could be eliminated.

The Australian delegation believes that it would be in the interests of both New Zealand and Australia to join together in creating a larger economic unit and agrees the benefits of such a unit would be those stated by the New Zealand delegation.

In considering how these benefits might best be attained the Australian delegation unanimously resolved that:

A Customs Union between New Zealand and Australia be established within the next eight years to coincide with the expiration of the present NAFTA.

That in the interim negotiations aimed at developing a more equitable two way trade situation under the auspices of NAFTA should be continued.

That the joint working party be given firm guidelines which will enable it to frame mechanisms aimed at achieving both these objectives.'

Current Trans-Tasman Trade Situation

7. Analysis of the latest estimates shows that there was a significant increase in total trans-Tasman trade in 1978–79 compared with 1977–78. A summary table comparing trans-Tasman trade in 1978–79 and 1977–78 is attached.

- Australian exports to New Zealand increased by 28.2% to \$750.3m.
 - Imports from New Zealand increased by 18.0% to \$424.9m
 - the ratio of exports to imports in Australia's favour increased from 1.6:1 to 1.8:1.
8. Summarising trends in trade in total manufactures:
- Exports to New Zealand were valued at \$621.8m, and increase of 31.9%.
 - Imports from New Zealand were valued at \$288.3m, an increase of 18.4%
 - the ratio of exports to imports in total manufactures increased in Australia's favour from 1.9:1 to 2.2:1.
9. There was an increase in the exchange of non-resource based manufactures:
- Australia's exports to New Zealand increased by 34.7% to a value of \$362.4m.
 - Australia's imports from New Zealand increased by 17.2% to a value of \$281.3m
 - the ratio of exports to imports in this category increased in Australia's favour from 1.1:1 to 1.3:1.
10. There was an increase in trade in resource based semi-manufactures across the Tasman:
- Exports to New Zealand increased by an estimated 28.2% to a figure of \$259.4m.
 - Imports from New Zealand (although insignificant in terms of total trade) increased from an estimated \$3.5m to \$7.0m.

33 AUSTRALIAN DISCUSSION PAPER FOR OFFICIALS MEETING Canberra, [25 October 1979]¹

CONFIDENTIAL

Future Trade and Economic Relations between Australia and New Zealand Australian Discussion Paper for Officials Meeting, Wellington 1-2 November 1979

AUSTRALIA - NEW ZEALAND ECONOMIC RELATIONS

This paper is in two parts. The first deals with Australia's broad trade and economic restructuring objectives and strategies while the second considers how the trans-Tasman initiative relates to them. It does not seek to prejudge in any way Australia's response to New Zealand proposals at the meeting on 1-2 November.

A. AUSTRALIA'S TRADE AND ECONOMIC RESTRUCTURING STRATEGIES AND OBJECTIVES

1. Situation and Outlook for the World Economy and International Trade

Although many of Australia's recent economic problems can be traced to domestic factors, developments in the world economy and the international trading environment can have a significant impact on Australia and, coupled with the outlook for the 1980s, underline the need for appropriate internal as well as external policies and objectives.

It is a matter of record that the world economy has experienced substantial instability and structural problems due to slow adjustments in response to changes in comparative advantage and imbalances in factor shares during the course of the 1970s. There was a marked deterioration in rates of growth as well as a marked increase in inflation in the latter part of the decade.

Approaching the 1980s, the key underlying economic problem is that of persistently high inflation and its adverse effects on growth, unemployment, exchange rates and international trade. As in 1974, these difficulties have been compounded by significant increases in OPEC crude oil prices, giving further weight to the world energy problem. More importantly in some respects is the prospect that any disruption to supply in a finely balanced market could act as a physical constraint on growth, at least in the next few years. The re-emergence of double digit inflation in the major industrial countries and the associated failure to adopt longer-term policies to overcome inflation and to deal with deeply

¹ The paper was drafted and co-ordinated by the Special Trade Representative. Flood circulated it to Departments on 15 October 1979 and finalised it on 19 October. An arrangement had been made with New Zealand authorities to exchange one paper each before the Permanent Heads meeting. Accordingly, this paper was handed to New Zealand officials about 25 October.

imbedded structural problems suggests poor medium term growth prospects for the world economy.

The economic instability and structural problems experienced during the 1970s contributed to significant and growing strains in the international trading system. The rate of growth of world trade declined from an annual average increase of 8% in the period 1953–1973 to some 5% between 1973 and 1978. The adverse effects of high inflation on economic activity and employment and the emergence of significant sectoral pressures led governments to take defensive trade measures. In several cases such measures were, in part, a reaction to the emergence of the newly-industrialising developing countries (NICs) as competitive suppliers of light manufactures and labour intensive products. Rising protectionist pressures and the deteriorating trading environment added to the significance of the Multilateral Trade Negotiations and highlighted an increasing need for governments to adopt positively oriented policies of adjustment in both industry and agriculture.

The MTN negotiations probably contributed to holding the line against protectionist pressures and were reasonably successful in securing modest liberalisation of trade. However, the focus of the negotiations has been largely on industrial products. While agricultural exporters obtained some valuable concessions in the MTN, overall conditions of access to major world markets have been improved only marginally.

A major element in the final MTN package is a series of multilateral agreements and understandings on trade rules, including codes governing the use of a range of non-tariff measures. However, most of these have been geared to industrial trade and reflect the interests of the major industrialised countries. An important shortcoming from Australia's viewpoint is the absence of effective disciplines covering agricultural export subsidies. This is a significant issue which was not effectively addressed in the negotiations.

The selective nature of certain trade measures adopted since the mid-1970s, in particular the increasing resort to voluntary export restraints, has contributed to the uncertainty surrounding the means by which governments might act to safeguard domestic industries against injurious competition from imports. Continuing agricultural protectionism, particularly for temperate zone products and action to restrict the growth of manufactured imports from the NICs are major problems that need to be resolved. Against this background, effective implementation of the MTN package will be vital if the role of the GATT and the rule of law in international trade are to be reaffirmed.

In summary, there is little in the present outlook for international trade and the global economy to suggest that the difficult experiences of the 1970s are past and that there will be a return to the rates of economic growth and international trade witnessed in the two previous decades. Indeed all signs point to an international trading environment which will become increasingly competitive in the years ahead. Nevertheless, it is in Australia's interests to continue to push

for liberalisation of world trade conditions on a multilateral non-discriminatory basis.

2. Situation and Outlook for the Australian Economy and Trade

International economic developments have had an important influence on the Australian economy throughout the 1970s as they have in the past. The period from mid-1972 to late 1973 was characterised by a high level of economic activity, a large surplus in the balance of payments on current account, an excessive inflow of private capital and an accelerating rate of inflation. During this period there was a significant appreciation of the Australian dollar and an across the board tariff reduction. A wage explosion in 1974 and associated squeeze on profits contributed importantly to the sharp downturn in 1974 and rapid rises in prices, wages and interest rates resulted in unemployment and liquidity problems for producers which, together with a changing external environment and the earlier measures impacting on the balance of payments, contributed to a turn-around in the current account. In Australia, as in other industrial countries, high unemployment and the intensification of import competition in domestic markets generated a strong response in the manufacturing sector for increased protection.

The process of recovery in Australia since 1974 has been gradual though uneven. Slower growth has been accentuated by certain relatively short-term imbalances which had their origins in wage and price inflation. The subdued growth has also uncovered in a very stark way the most uncompetitive areas in the economy.

Between 1972-73 and 1974-75 real wages increased at a rate significantly above that of productivity and the share of wages, salaries and supplements in GDP (at factor cost) increased from 59.8% in 1972-73 to 65.9% in 1974-75. The corollary of this was a decline in the profits share of GDP (at factor cost) from 16.1% to 13.3% over the same period. There has been little change in profits share to 1978-79 but the wages share has fallen somewhat. In 1974 Australia's balance of payments returned from surplus to its more normal deficit position consistent with Australia's position as a net importer of foreign capital. The current account deficit in 1978-79 comprised an estimated 3.1% of GDP compared with the long run average of 2.5% but the relative size of the deficit declined significantly during the course of the year and may be around the long run average in 1979-80. The increase in Australia's current account deficit between 1974-75 and 1978-79 was symptomatic, primarily, of the economic problems arising from the imbalances which occurred in the 1970s. International competitiveness was markedly eroded in the middle years of the decade as a result of wage and price pressures. This was exacerbated by the decline in world trade generally and a weakening in prices for many primary products led to a decline in export growth and a significant deterioration in Australia's terms of trade. Following the excessive inflow of private capital in the early 1970s, investment funds entering Australia in the middle of the decade declined significantly in the face of falling profitability, a belief that the exchange rate was

overvalued and a view among many foreign businessmen and financiers that Australia had become a less favourable place in which to invest.

Recent policy has been directed to reducing inflation, restoring external balance and reducing real unit labour costs to provide a climate for balanced growth. The main elements of policy have been: reduction in the budget deficit, monetary restraint, wage restraint and, following the 17½% devaluation in November 1976, an exchange rate policy that has involved much smaller but more frequent adjustments in the rate. Modest success has been achieved in the pursuit of these policies, which has enabled the economy to achieve some real growth whilst reducing the rate of inflation. Australia's average competitiveness has been returned to a position similar to that before the deterioration in 1974, and the current account deficit relative to GDP has returned to a more normal level.

Australia's trade and economic prospects will continue to be heavily influenced by international developments and its ability to adjust to domestic structural pressures. In a difficult international trading environment, Australia will be particularly dependent on effective domestic economic policies to strengthen our competitive position. Among the external factors which could constrain the growth of Australia's trade much will depend on the extent to which governments are able to preserve a relatively open international trading system. It is evident that in addition to the direct constraints which market access limitations impose, particularly on exports of agricultural commodities, much will also depend on the access enjoyed elsewhere by Australia's major trading partners. The link between Australian exports of coal and iron ore and the export performance of Japanese industry illustrates this clearly.

It is apparent that Australia is well placed to benefit from the considerable trade potential offered by the rapidly developing economies of the Asia/Pacific region, particularly South Korea, Hong Kong, Taiwan and the countries in the ASEAN group. Efforts to expand trade with countries in the region will be influenced by the extent of their further development as well as by the general climate of Australia's trade relations with these countries, including the conditions of access which they in turn enjoy in the Australian market.

In spite of the uncertainties, there is reason to expect that some Australian industries may encounter more favourable conditions for growth than in the recent past, although the importance of continued world growth in determining the demand for many raw materials should not be overlooked. In a world where energy problems are becoming acute, Australia is rich in resources and will be a net energy exporter for the foreseeable future. Australia is presently 70% self-sufficient in oil, has extensive resources of coking coal, steaming coal, uranium and natural gas, and is a major producer and exporter of iron ore, bauxite/alumina, mineral sands as well as being an important exporter of other mineral commodities. On the rural side, Australia has the physical capacity for the expansion of output of agricultural products. However, actual growth will depend on market conditions and our ability to produce at competitive prices.

Australia's stable environment, highly skilled labour force and the diversification and extent of its resource endowment provide a basis upon which to build a competitive manufacturing sector, but that will only be achieved by significant adjustments to the existing industrial structure and greater emphasis on the development of more efficient industries.

3. Strategies and Objectives

For Australia, the experience of the 1970s and the outlook for the coming decade have highlighted the need for continued or intensified application of a number of existing policies, such as rigorous adherence to an anti-inflationary strategy, the further development of exports to embrace a greater number of markets and a wider range of products, and the pursuit of more stable and predictable conditions in international commodity trade. In other areas, such as manufacturing industry and energy, changing circumstances have pointed up the need for new or modified policies.

Following the Second World War Australia's economic development followed a particularly stable path. The strategy of import replacement then being followed saw substantial diversification of the manufacturing sector, development and export of our natural resources quickened and the tertiary sector of the economy expanded strongly. The prolonged period of growth provided a plentiful supply of jobs for a growing workforce. During the early 1970s, however, the slowing in population growth, the energy crisis, rapid inflation, a wages explosion, increased import competition from newly-industrialising countries, particularly in Asia, and the world recession all contributed to substantial changes in the domestic economic environment. The more sluggish growth and the more competitive trading environment that accompanied these changes saw a relatively severe fall in manufacturing activity and employment, highlighting in part the difficulty of a fragmented and inward-looking manufacturing sector competing successfully in the new and tougher environment and the inappropriateness of continuation of the strategy of import replacement.

Taking account of these changing circumstances the White Paper on Manufacturing Industry (May 1977) set out a policy for Australian industry, the basic thrust of which is to achieve the development of a stronger more specialised, export oriented manufacturing sector which is less reliant on Government assistance than in the past.

Against this background of inevitable change in the manufacturing sector, the Government established, in September 1977, a Study Group under Sir John Crawford to examine the nature and extent of adjustment problems of Australian manufacturing industries and to advise on the essential elements of a long term policy to deal with these problems. The Study Group's Report (March 1979) endorsed the Government's objective of fostering a more competitive outward-looking manufacturing sector.

Following its consideration of the Report the Government reaffirmed that objective. The main policy instruments for achieving this objective will include:

- the pursuit of general economic policies aimed at controlling inflation, fostering more buoyant economic growth and improving the international competitiveness of industry
- direct assistance to manufacturers to become increasingly innovative, specialised and export oriented, including
- Export Expansion and Market Development Scheme, expenditure on which will increase from around \$70 million in 1978–79 to over \$100 million in 1979–80
- grants to encourage private research and development
- productivity improvement programmes
- recognition that tariff reductions have a role to play in the process of encouraging a more efficient manufacturing sector
- the Government has thus recently sent references to the Industries Assistance Commission (IAC) covering the remaining items to be considered in the tariff review programme begun in 1971
- it has also announced that a reference covering methods of implementing further general reductions in long-term protection will be sent to the IAC following the completion of the review
- individual tariff references will continue to be sent to the IAC in the normal way
- while recognising the efficiency and other costs associated with resisting structural change the Government believes, when economic and social disruption is threatened and employment opportunities endangered, that it is proper to be prepared to take special measures, of a recognised temporary nature, to support employment and provide time for resolution of problems or the generation of new employment opportunities
- while stressing that such cases are likely to be few rather than many it is also recognised that specific policies may be needed to meet the specialised problems of certain industry sectors. These currently apply to the automotive, whitegoods, textiles, clothing and footwear industries.

Domestic policies aimed at restructuring industry and achieving a more efficient export oriented economy also require the support of appropriate trade policies. Arising from and consistent with its continuing participation in the GATT and the IMF, Australia considers that a strong multilateral non-discriminatory trade and payments system provides the soundest basis for expanding world trade. The focus of Australia's recent efforts within these fora and other international trade and economic organisations such as the OECD and UNCTAD has been upon the need to establish new and sustained economic growth through a stimulation of

international trade. Australia can be expected to continue to play an active role in such bodies in the post-MTN environment.

Within its overall multilateral trade approach Australia has over the years negotiated a number of bilateral trade agreements which have been important factors in its trade relations and trade development. These formal bilateral trade relations and marketing objectives have been adapted to meet changes in the direction and composition of Australia's trade and recent international trade and economic developments. While traditional markets remain important to Australia (the USA, Japan and the EEC together account for over 55% of exports) the greater diversification of its trading interests is reflected in the increasing number of formal bilateral contacts with countries in Asia and the Middle East in recent years.

With more than 80% of export earnings being derived from processed and unprocessed agricultural and mineral commodities Australia is heavily dependent on commodity exports. Australia's declared objective is to seek reasonable and predictable conditions of access to foreign markets and to obtain stable and remunerative prices. To this end, Australia has traditionally been a strong advocate of international commodity agreements and has participated in a wide range of multilateral commodity discussions and negotiations. Australia is a signatory to all major international commodity agreements and is also a member of bodies such as the Inter-governmental Council of Copper Exporting Countries (CIPEC), the International Bauxite Association (IBA) and the Association of Iron Ore Exporting Countries (APEF). Commodity trading problems have also been at the focus of bilateral dialogue with a number of Australia's important trading partners.

The development of a more export-oriented manufacturing sector will depend on gaining access to overseas markets and on competitive ability to hold such gains. This may depend in turn on allowing overseas producers greater access to Australian markets. If Australia is to take advantage of export opportunities in the rapidly developing economies of Asia, it may therefore be necessary to lower protection levels for some highly protected industries producing goods of export interest to those economies.

The Government is conscious of the interest and concern shown by developing countries, particularly those within the Asia/Pacific region, in seeking to further develop their exports to the Australian market. While the relatively small size of the market imposes limits on the export growth expectations which Asian countries could reasonably hold in Australia, the overall picture is such that their share of Australian imports is growing. Imports from ASEAN, for example, have increased from 2.4% (\$97 million) in 1971-72 to 4.7% (\$642 million) in 1978-79. The average annual rate of increase in total imports from ASEAN at 31% is significantly above the 19% increase from all sources.

Recent initiatives taken by Australia in September 1979 to improve trading opportunities for developing countries include a decision to accelerate the removal of British Preferences on 500 items of direct interest to developing countries; modification of Australia's System of Tariff Preferences (ASTP) to allow for some margin of preference to be accorded even where imports from developing countries are causing or threatening injury; and the granting of new or increased margins of preference on 66 items under the ASTP.

Australia recognises that it cannot stand apart from the world-wide concern about the energy situation, oil shortages and escalating oil prices. Although Australia is a net exporter of energy, it has to import about 30% of crude oil requirements and is dependent on imports of heavier grades to meet fuel oil requirements. Australia is also reliant on some imports of aviation gasoline and other products.

Australia's energy policy is aimed at ensuring secure and stable supplies of energy, reducing dependence on imported oil and, in the longer term, developing a diversified energy base which minimises dependence on scarce liquid fuels. Government decisions on pricing and tax policy to encourage the most efficient use of fuels, exploration and development and support major energy development projects have been directed towards the foregoing objectives. Toward the same ends, the Government has also increased its support for energy R & D, has promoted energy conservation and has been active in the area of international co-operation.

In the 1978 Budget the Government decided that all Australian produced crude oil would in future be priced to refineries at import parity levels and that consumers of petroleum products would pay prices based on world prices. This policy was aimed at encouraging conservation of scarce energy sources; promoting the use of existing alternatives such as natural gas, LPG and coal-based electricity; bringing new alternatives such as shale oil, coal liquefaction, ethanol and methanol closer to commercial viability; and providing incentive to increased oil exploration activity and maximised development of existing fields.

There is evidence that some of these objectives are being achieved. Oil search and development has been revived and there has been a significant increase in economically recoverable reserves.

In a statement by the Prime Minister on 27 June 1979, the Government announced further decisions directed towards its energy policy objectives. These included certain assurances on pricing; conservation-directed decisions on motor spirit octane ratings; suspension of blanket approvals for exports of petroleum products; increased monitoring of the domestic oil market; a review of the adequacy of existing oil storage arrangements; further increases in energy R & D allocations; and various taxation incentives to encourage the use of oil substitutes.

B. RELATIONSHIP OF THE TRANS-TASMAN INITIATIVE TO AUSTRALIA'S BROAD TRADE AND ECONOMIC STRATEGIES AND OBJECTIVES

Study of the nature and extent of the current trade and economic relationship between Australia and New Zealand and their dealings with the rest of the world provides a starting point for consideration of the relationship of the trans-Tasman initiative to the broad strategies and objectives outlined in the previous section.

Bilateral trade between Australia and New Zealand was valued in excess of \$1 100 million in 1978-79. New Zealand's exports to Australia have increased nine-fold from \$47 million in 1964-65 to \$424 million in 1978-79. Australia's exports to New Zealand have grown from \$158 million to \$750 million over the same period.

There has been some decline in the share of Australia's total exports going to New Zealand compared with the period before NAFTA. This reflects to some extent the increasing importance of minerals in Australia's total exports. Australia has, in fact, secured a slightly greater share of the New Zealand import market in recent years.

While New Zealand is Australia's third largest export market, it represents the major market for manufactured goods. However, Australian exports of several non-resource based categories of manufactures have declined in real terms over the last three years. Such items include textiles, apparel, motor vehicles and parts, pigments, paints and varnishes, cutlery, insulated wire and cable, communications equipment, earthenware, cement, china and glassware. The trend has thus been for a greater proportion of Australia's exports to New Zealand to be made up of petroleum products and other inputs for New Zealand industry.

Imports from New Zealand in recent years have shown steady growth in value terms for all but a few items such as medicinal and pharmaceutical goods. There has been significant growth in the value of imports of food preparations, paper products, textile yarn, fabrics and made-up articles, furniture, non-electric machinery and other miscellaneous manufactures.

Some two-thirds of trans-Tasman trade is currently covered by NAFTA schedules. Until 1974-75 equal growth had occurred in Schedule A and non-Schedule A trade and the proportion of Schedule A goods in trans-Tasman trade was around 50%. In 1974-75 the percentage of Schedule A trade rose strongly to about 60% and has remained at between 60% and 70% since.

Interpretation of this increase needs to have regard for the significant influence of increased prices for petroleum products included on Schedule A and be balanced by the movement in exports outside the Schedule, e.g. motor vehicles and wheat.

Since Schedule A was initially introduced in 1966 the movement of goods into the Schedule has been slow. Of the estimated A\$623m of total trade in both directions under the Schedule in 1977-78 some A\$500m (about 80%) consisted

of goods which were in the original schedule. From 1974 to 1977 very few goods were added.

In spite of the importance of bilateral trade and the fact that Australia and New Zealand represent each other's major market for manufactured goods, analysis of the pattern and composition of trade by the two countries reveals that, in most respects, they are each more dependent on trade with the rest of the world.

The economies of Australia and New Zealand, whilst obviously of considerable importance to each other, are not closely integrated. Rather they are broadly parallel. This can be attributed to the fact that Australia and New Zealand are both distant from the major markets of the EEC, US and Japan, exporting a broadly similar basket of commodities, being influenced in much the same ways by trends in world commodity markets, and having a broadly similar country distribution of their export markets and sources of imports.

The economic futures of both Australia and New Zealand are thus closely bound up with the health of the world economy, related developments in the international trading environment and, more importantly in many ways, their domestic policies. The export and import competing sectors of both economies can be expected to face increasing international competition in the 1980s. This, along with the shared interests of Australia and New Zealand as exporters of temperate agricultural products, the fact that only modest improvements in access have been achieved in the MTN and the trend towards increased bilateralism in international trade, has served to sharpen the focus on the trans-Tasman relationship.

Against this background, a question to be considered is how Australia's objective of developing a stronger, more specialised export-oriented manufacturing sector which is less reliant on government assistance aligns with the possibilities for closer trade and economic co-operation with New Zealand.

Increased trade between Australia and New Zealand based on a more competitive environment could provide incentive for industry restructuring and may possibly contribute to increased efficiency beneficial to both countries in the wider field of international trade. The possible benefits and costs would depend on the specific arrangements to increase trade. In any case, the scope for increased efficiency based on greater competition and market enlargement needs to be seen in perspective. A move to unite the two markets means a joint market of 17 million, growing to say 22 million by the turn of the century. In terms of potential increase in economies of scale of production and compared with the growth in the ASEAN countries, this of itself would not be sufficient to ensure that Australian and New Zealand industries could become competitive in international terms.

As will be known, potential liberalisation of trans-Tasman trade, and the instruments by which this might be achieved, directs attention towards problems arising from differing levels of tariffs and other forms of industry assistance,

customs procedures, lack of harmonisation of standards, trade practices, and the nature of export incentive schemes.

Given the need for industry to become more competitive internationally and in view of the limited size of the trans-Tasman market, it follows that a closer trade and economic relationship between Australia and New Zealand cannot be based on an inward-looking approach. A cosy relationship which saw imports from efficient third country producers diverted at the expense of high cost or less efficient imports from the Tasman partner under conditions of preferred access could serve to perpetuate the structural problems which long-term industry policy is seeking to resolve. Certain options for closer co-operation may even contribute to a situation where industries which are less efficient in world terms could expand contrary to the objectives of long-term industry policy.

Relations with third countries, in particular the developing countries of East and South East Asia, and the Pacific, provide a further reason why, in terms of Australia's overall strategies and objectives, any future trade and economic relationship with New Zealand cannot afford to be inward-looking. It will be necessary to take careful account of developing countries' legitimate trading interests and development aspirations in considering options for closer trans-Tasman co-operation. This would apply especially to Papua New Guinea and other South Pacific Forum countries with whom existing special trading links are already being expanded. Such considerations should not, however, be seen as an impediment to closer trade and economic co-operation between Australia and New Zealand. Indeed, it could be claimed that by assisting each other to make positive adjustments within their economies, Australia and New Zealand will be better placed to accommodate the interests and aspirations of neighbouring developing countries.

The emphasis which the foregoing places on the industry policy implications of closer economic association between Australia and New Zealand is not to suggest that Australia views the 'trans-Tasman initiative' in a narrow sense. There are other potential areas of increased co-operation including such aspects as agriculture, raw material processing, energy, transport, technology and investment.

In agriculture, the direct effects of closer economic co-operation on the Australian industry are for the most part likely to be small. The major rural industries in Australia and New Zealand are oriented to export markets and contribute significantly to total export receipts. For some important agricultural products there is strong competition between the two countries in third country markets.

Trade in agricultural commodities between Australia and New Zealand has been minimal and this situation is unlikely to alter significantly with closer economic integration. An important exception could be the dairy industry and some vegetable producing industries where the principal question will be how to accommodate the New Zealand desire for free trade while at the same time

safeguarding the Australian producer from substantial economic damage. Such issues already have the attention of government and industry.

The large degree of common interest between Australia and New Zealand in the export of agricultural commodities adds a further dimension to the possibilities for closer co-operation. Among issues which might be explored in this regard are the scope for co-operation or co-ordination of commercial policies towards third countries, both bilaterally and in multilateral fora, and in trade promotion and marketing. Such aspects of co-operation need not be confined to agricultural commodities. This is already evidenced in the Nareen Statement² of March 1978 which listed some eleven suggested areas where closer co-operation could take place between Australia and New Zealand. That list reflected the importance which both countries attach to issues affecting agricultural trade and protectionism, adjustment policies, the emergence of NICs and regional trade and economic questions.

The increased attention which both countries are giving to energy questions and the need to consider options for future energy resource development highlight another area where co-operation between Australia and New Zealand might be extended. There is at present an informal arrangement between the two countries to co-operate in exchanging information and views on energy policies and activities, particularly those related to research and development and conservation. Emphasis is being placed on research into the production of liquid fuels from coal and natural gas, reflecting the common objectives of Australia and New Zealand to increase energy self-sufficiency and reduce reliance on imported oil, particularly in the transport sector.

The tertiary sector covers important elements of the trade and economic relationship between Australia and New Zealand and will have a significant bearing on the extent to which both countries are able to benefit from closer association. Transport is a case in point. The two governments have for some time been concerned about the cost and adequacy of trans-Tasman shipping services which, as confirmed by recent studies, are seen by industry on both sides as major factors inhibiting two-way trade. It is clear that if the potential for further development of trade between Australia and New Zealand is to be fully realised, this area will need to be kept under constant review and opportunities to secure improvements in shipping services fully explored.

It would be possible to develop and describe in greater detail the relationship of the trans-Tasman initiative to Australia's basic trade and economic strategies and objectives. However, the broad issues canvassed in this section illustrate both the importance which Australia attaches to bilateral links with New Zealand and their relevance in the light of the thought being given to options for the future direction of the Australian economy.

[NAA: A1838, 370/1/19/18, ANNEX 5]

In preparation for the Permanent Heads meeting, which would be held in Wellington on 1–2 November 1979, Australian Government Departments had agreed to prepare detailed reports (see Document 24). The reports became part of the brief for members of the delegation and were collected in three volumes containing some fifteen Departmental papers in all. The volumes were passed to the delegation on 26 October. A selection of six of those papers follows in Documents 34 to 39.

34 PAPER BY DEPARTMENT OF THE TREASURY

Canberra, October 1979

CONFIDENTIAL

Closer Economic Integration between Australia and New Zealand Possible Impact on the Australian Economy

A. Introduction

This paper attempts to provide a broad analysis of the possible impact on the Australian economy of closer economic co-operation with New Zealand. In particular it canvasses the possible impact on resource allocation, domestic economic activity and the external economic position.

Five broad types of co-operation were identified in discussions on this topic between Mr Fraser and Mr Muldoon at Lusaka. These options were defined as follows:—

- an extension of NAFTA, i.e. continued operation within the NAFTA framework, although some relaxation of the present ‘no-injury’ criterion may be necessary if Schedule A coverage is to be significantly expanded;
- a full free trade area, i.e. the elimination of all trade barriers between the two countries;
- a customs union, i.e. elimination of all trade barriers and adoption of a common external tariff and commercial policy towards third countries;
- a common market, i.e. the extension of a customs union to remove all impediments to factor movements; and
- an economic community, i.e. the extension of a common market by the harmonization of commercial laws and industry policies.

This paper concentrates on the first three options. Given the relatively few impediments to Australia – New Zealand factor movements the difference between a customs union and a common market may not be great. The final option—economic community—is considerably more ambitious, involving a far wider range of issues. There would seem to be little real prospect at this stage of either country contemplating a movement directly to an economic community.

Analysis of this type can only be indicative, giving a very general assessment of the possible economic impact of closer co-operation. Apart from the general uncertainty associated with analysing the future impact of policy changes (and data limitations), the impact of any arrangement will depend critically on the precise nature of the arrangement and the manner and timing of its implementation. The options identified above can all potentially encompass a wide variety of arrangements. In addition they can all be introduced over varying time horizons and subject to a diversity of conditions. The bilateral removal of tariffs and quantitative restraints is only one factor determining trade flows and structural change. The impact of closer association may be insignificant compared with say developments in the broader international economy or significant changes in transport costs.

Economic links between Australia and New Zealand are already close. Approximately 75 per cent of trans-Tasman trade is covered by NAFTA while both labour and capital flows are subject to relatively few restrictions.

Before proceeding with any analysis it is important to place the proposals for closer economic relations in perspective. New Zealand is a relatively minor trading partner for Australia, buying only about 5 per cent of our exports. This places it fifth behind Japan, US, the EEC and the ASEAN block in relative importance. Although New Zealand has managed to increase its share of Australia's imports from about 1.3 per cent in 1961-62 to 3.2 per cent in 1977-78, the growth in market penetration has slowed significantly in recent years and Australia still maintains a *sizable bilateral trade surplus*. Available statistics suggest that Australia runs a *small net bilateral surplus on invisibles*¹ and a *bilateral deficit on capital account* with New Zealand. None of these net flows however have any significant impact on Australia's *overall balance of payments* position. In any case a significant change in the trade balance of one or both countries would need to be accompanied by appropriate policy adjustments (particularly in exchange rates).

The main significance from a longer viewpoint of any reduction in trade barriers for the respective economies will be the impact on the industrial structure and whether it contributes to a more efficient allocation of resources.

B. General analysis

The gains to be had from closer economic co-operation of the type envisaged in the current exercise arise from the possible beneficial structural changes and the larger domestic market induced by the removal of trade barriers. Both static and dynamic gains are possible. The static gains are the net result of trade creation (a measure of the gains resulting from the replacement of a protected higher cost domestic product by a lower cost import from the partner country) and trade diversion (a measure of the losses resulting from the replacement of a lower cost

1 i.e. items such as financial services and insurance.

source of supply in a third country to a higher cost source of supply in the partner country). The dynamic gains are those associated with a larger domestic market, for example, producers can move to more efficient levels of production thereby reaping economies of scale; the level of competition could be expected to increase (including the possible breaking down of national monopolies or the promotion of the aggregation of small inefficient producers); and, some stimulus to both domestic and foreign investment might be expected in response to new trading opportunities. A customs union may also have stronger bargaining power in international negotiations than its individual constituents.

Under a static analysis a customs union or free trade area is more likely to have net welfare gains:

- if participating economies are such that it is appropriate to specialize in different activities. If the most economically efficient industries are broadly the same in both countries (assuming relatively similar cost structures and productivity levels) or if both countries are already closely integrated, the scope for trade creation is more limited. This is not to deny, of course, the scope for intra-industry specialization;
- the higher the initial levels of protection in participating countries. This implies the existence of relatively inefficient industries. A country with low levels of protection is already largely exploiting the gains from trade and has less to gain from a customs union;
- the lower the external tariff after economic integration. This minimizes trade diversion;
- the fewer industries excluded from the arrangement (eg especially sensitive industries, or industries exempted for security or regional employment considerations); and
- the larger the union. This maximizes the scope for trade creation and reduces the possibility of trade diversion. (A large union would also seem to provide greater opportunities for the realization of the dynamic gains of integration).

In light of these considerations a few general observations can be made.

- New Zealand is a relatively small country (with GDP of \$US14.3 billion and population of 3.1 million in 1977 in comparison with \$US95.7 billion and 14.1 million respectively for Australia). While integration would represent a significant percentage increase in the size of the domestic market available to each country the combined market would still be one of only 17 million. The smallness of the resulting market has clear implications for the likelihood and magnitude of any gains from integration.
- As approximately 75 per cent of trans-Tasman trade is already duty free and labour and capital movements relatively unrestricted, it must be acknowledged that there is already a considerable degree of integration between the two economies. The potential for trade creation gains in the

future lies mainly with those industries whose output currently face tariffs or quantitative restrictions.

- The economic structures of the two countries suggest that the scope for efficient rationalization of production between Australia and New Zealand lies principally in the manufacturing sector and possibly in some areas of rural industry (eg, dairying).
- Both countries have certain industries which receive a high degree of assistance, for example, the textile, clothing and footwear, motor vehicle and household appliance industries. Some of the restructuring flowing from closer integration might simply represent the substitution of an inefficient domestic industry by a partner country industry which is slightly more efficient but still inefficient by world standards. While this is trade creation it is not in the longer term interests of either country to foster the development of industries in which they do not have an international comparative advantage.
- There might be considerable resistance from the highly protected industries to any form of association which would threaten their existing position. Clearly such resistance needs to be overcome if integration is to generate benefits.
- Care would need to be taken to ensure that the structural adjustment and trade flows resulting from a removal of trade barriers were not seriously distorted by domestic subsidies and export incentives.
- While the adjustments required in both economies suggest that any new co-operative arrangements should be phased in carefully, those considerations would need to be weighed against the fact that the longer the transition period the longer any benefits would be in coming.
- Given the greater importance of quantitative import restraints in New Zealand, Australia would have less to gain in terms of increased trade from a form of integration which did not involve the removal of such restrictions.
- Since 1973 the New Zealand economy has suffered from quite subdued global demand for its important agricultural exports, a situation that has been exacerbated by limited access to major markets, especially the United Kingdom. New Zealand has also felt the full impact of oil price rises being almost totally dependent of imported oil. Domestic economic policies have not been appropriate for a resolution of these difficulties. Consequently, New Zealand's economic performance in recent years has been dismal. There has been no significant increase in real GDP since 1975–76 and since 1973 real income per capita has declined alarmingly, by far the worst performance of any of the OECD countries. There has been a steady net emigration, mainly to Australia. Economic policies have been directed at the establishment of an advanced form of welfare state, allowed excessive wage rises, maintained stringent import controls, paid large export subsidies and (until recently)

imposed widespread price control. Fiscal and monetary policies have been of a 'stop-go' nature with policies being eased whenever their short-term costs became apparent. Although recent policy decisions, including the implementation of an adjustable exchange rate, display some turning towards a more market-oriented approach for New Zealand, they are inadequate to correct the fundamental deficiencies which beset the economy. In the medium term, therefore, to the extent that these deficiencies remain, New Zealand is likely to be a sluggish market for Australian exports. The New Zealanders on the other hand could be expected to see economic integration mainly as an opportunity to increase their penetration of the Australian market with manufactured exports.

C. Economic adjustment

Economic growth is facilitated by countries developing and maintaining the economic flexibility needed to take up new opportunities and to phase down activity in those areas which become least efficient. One aspect of this process is the continual change in the areas of comparative advantage open to industries on international markets. Within a framework that allows the exchange rate to be set at an appropriate level given the overall balance of payments position, the competitiveness of some industries engaged in international trade can be expected to decline over time, while there will be increases in the competitiveness of other trading or non-trading industries. The desire to slow down the process of change in order to reduce the adjustment costs involved in the movements of labour and capital resources into new activities can impose substantial net costs on the community in terms of the opportunities for growth forgone. Failure to permit economic change can only diminish the future wealth of the community and its capacity to sustain high levels of employment in the longer run. A closer relationship with New Zealand should not be considered as an option that will obviate the need to adopt more broadly based trade liberalisation policies or domestic policy actions designed to improve economic flexibility and efficiency.

The long-term objectives of industry policy in Australia, and, in particular, protection policy, were expressed by the Government in the White Paper on Manufacturing Industry and were reiterated by the Minister for Industry and Commerce in his statement on the Crawford Report of 23 Aug 1979. Mr Lynch noted that the Government had made clear,

'that tariff reductions to induce changes in industry structure and encourage greater specialisation in industry have a role to play in the process of encouraging a more efficient manufacturing industry in Australia. As a long-term objective the community will be best served by a manufacturing sector with a structure requiring minimum levels of Government support'.

In view of the substantial long-term benefits to the Australian (and New Zealand) economy of the move to a less protected industrial structure, it is essential that

any program for closer economic integration between Australia and New Zealand does not inhibit progress toward the White Paper objective. The costs of adjustment to change that could be faced by some sections of particular industries already comprise a significant barrier to reductions in protection levels generally. There is no economic case for measures which achieve closer links with New Zealand only at the cost of increasing resistance to measures designed to encourage international competitiveness and a more efficient trading relationship *with the world as a whole*. It would not be in Australia's interest, for instance, if obligations to New Zealand prevented us from implementing desirable reductions in protection afforded against imports from third countries. Such a constraint would reduce the potential for economic growth in both countries. These considerations mean that:

- Australia should not be prepared to accept any form of closer economic association with New Zealand which would involve a raising of Australian trade barriers against imports from third countries. Since New Zealand's effective protection levels for a wide range of goods are currently higher than those applying in Australia, New Zealand would face a larger adjustment burden than Australia in any movement to a customs union with a common external tariff set at or near Australian levels. (It would also of course have more to gain in terms of allocative efficiency.)
- In the case of a customs union, where a common external tariff was implemented, it would be necessary to devise arrangements for the conduct and implementation of tariff reviews involving the two countries. Necessarily this would reduce the autonomy both countries now have in determining protection policy.
- Any decrease in the tariffs (and other trade restrictions) applying to goods moving between Australia and New Zealand would induce adjustment by Australian industry as production of some goods increases to take advantage of freer access to the New Zealand market and production of other goods decreases in the face of New Zealand competition. Where the shift to freer trade with New Zealand would impose adjustment costs on particular Australian industries, it must be asked whether that adjustment cost would be significantly less than the adjustment costs involved in permitting freer trade with all countries. If the adjustment costs are similar, a general freeing of trade would be preferable as the efficiency costs of trade diversion from third countries to less efficient New Zealand producers would be avoided while the benefits of trade creation would be retained.

Of the options for closer economic co-operation currently under consideration, the establishment of a full free trade area, with the removal of quantitative restrictions could be expected to encourage more widespread structural change than an expansion of NAFTA, as currently operated.

In the case of a customs union, the initial Task Force report² on the possibilities of closer co-operation suggests that the industries most likely to require significant readjustment as a result of a general freeing of trade with New Zealand would be dairying (with the exception of fresh whole milk suppliers), certain horticultural industries and production of wool carpets. In the longer term it is possible that a number of labour intensive industries including textiles, clothing and footwear and printing could develop or expand in New Zealand if their lower labour costs (relative to Australia) are maintained. (Assuming differences in wage levels are not offset by higher productivity in Australian industry.)

These adjustments would be offset by growth in a wide range of Australian industries. The Task Force report identifies transport equipment, man-made fibre carpets, sugar, certain fresh and canned fruits and wine as areas which might benefit especially. However, the major benefits would be widespread across these and other industries, their users and suppliers. As is often the case with proposals for the reduction of trade barriers, the potential short-term 'losers' (the people in the industries adversely affected) may be more concentrated than the potential 'winners' (expanding industries and consumers in general). In the longer term both groups could benefit if the resources displaced moved into more productive uses.

[*matter omitted*]³

F. Economic Union or Common Market

The more ambitious forms of economic integration—economic union and common market—clearly involve the consideration of a far broader range of issues and would presumably have a more wide ranging impact on the Australian economy. As noted at the beginning of this paper, any comments on the likely effect of these options can only be expressed in very broad terms.

The removal of all restrictions on factor movements and the further significant step of co-ordinating commercial and industrial policies would remove some of the barriers to the attainment of a more economically efficient structure in the two countries. Factors would be free to move to those areas where they could be most efficiently used with fewer distortions arising from differences in government policies in each country.

To the extent that these further options did permit a more complete integration of the two economies and the more efficient allocation of resources within them, trade creation and the dynamic gains of integration should be more fully achieved. The possible effects of integration on domestic and external economic activity outlined earlier in the paper could, therefore, be expected to be more

2 Document 22.

3 Two sections have been omitted: D. 'Domestic economic activity'; and 'E. External economic activity'.

marked under these options. Possible impacts on foreign investment and on banking issues are considered in separate papers.

As noted earlier there is nothing to suggest that Australia and New Zealand would share equally in any benefits generated by economic integration. If these more comprehensive forms of integration were ultimately adopted and if one country were to benefit disproportionately, pressure might be expected from the other for some form of income redistribution, perhaps among the lines of the EC's Regional Fund. A further consideration is that co-ordination of economic policies would impose restrictions on the flexibility of domestic economic policy makers. Any change in a common policy would need the approval of two governments. To take a very simple example, the establishment of a common external tariff reduces the ability of an individual country to use tariff adjustment as an economic policy measure.

G. Conclusions

While the impact on Australia of closer association with New Zealand would depend on the precise arrangements entered into, there are a number of general observations which can usefully be made.

Firstly there is little doubt that removal of inter-Tasman barriers must be part of a broader multilateral tariff reduction program if Australia is to gain really significant benefits from trade liberalisation. Nothing done in the Australia – New Zealand context should be such as to inhibit Australia's freedom to reduce tariffs and other trade barriers with third countries.

Secondly, while any freeing of trade can be expected to increase both exports and imports between the two countries, any resultant effects on the overall trade *balance* of either country are likely to be very small because either

(i) there will be a diversion away from trade with other countries, with offsetting effects on the overall trade balance; or

(ii) offsetting policy action will be taken eg an adjustment to the exchange rate.

In these circumstances, the major impact of any freeing of trade on overall levels of income and output is likely to come as a result of changes in the structure of Australian industry i.e. from the relative expansion of some industries and the relative contraction of others.

Thirdly, given the small size of the two economies and the degree to which trade is already free, the overall impact of any freeing of trade with New Zealand would be likely to be small.

Fourthly, whether the relative expansion and contraction of industries as a result of freer trade with New Zealand will result in higher overall levels of income and output than would otherwise be the case is far from clear cut. If the Australian industries that expand are, although more efficient than their New Zealand counterparts, not efficient by international standards, income and output would

tend to be lower than would otherwise be the case (unless those industries that contract relatively are even less efficient).

Fifthly, it is clear that some forms of closer association would have an overall adverse impact on Australia. For example, a customs union with a common external tariff above the current Australian level would encourage the expansion of industries which are inefficient by world standards, with clear adverse implications for Australia's economic structure and future growth potential.

[NAA: A1838, 370/1/19/18, ANNEX 5]

35 EXTRACT FROM PAPER BY DEPARTMENT OF INDUSTRY AND COMMERCE

Canberra, [October 1979]¹

CONFIDENTIAL

Australia – New Zealand Economic Co-operation

Implications for Australian Manufacturing Industry of

- (i) Expanded NAFTA (ii) Full Free Trade Area (iii) Customs Union
(iv) Common Market (v) Economic Community**

INTRODUCTION—AUSTRALIAN AND NZ MANUFACTURING INDUSTRY POLICY
*[matter omitted]*²

In August 1979 the Government announced that it accepted that the general policy direction advocated by the Crawford Report was in line with the Government's policy objectives relating to future development of manufacturing industry. Significant progress has already been made in implementing a number of the Report's proposals and the Government is responding positively to other recommendations.

New Zealand on the other hand has not developed a similar comprehensive long term strategy for the future development of its manufacturing sector. For many years policies in New Zealand were aimed at encouraging import replacement industries, however more recently specific policies have been introduced to encourage industry in New Zealand to adopt a more export-oriented attitude. The 1979–80 New Zealand Budget expanded on this new approach by increasing export incentives to the manufacturing sector. At the same time import licensing was liberalised for raw materials and components used in export production, for firms which undertake rationalisation to free resources for export production and

1 The document is undated.

2 Omitted material reviews the White Paper on Manufacturing Industry and the Crawford Report.

more recently, for imports of *cbu* vehicles and motor vehicle components in return for exports of such components.

Inherent in this new approach is a growing realisation in NZ of a need for policy changes and economic restructuring with a view to improving the efficiency of its domestic manufacturing industry. The recent draft report by the New Zealand Industries Development Commission on the NZ textiles and clothing industries illustrates the direction in which manufacturing industry policy in New Zealand is developing. For example, the Commission notes that a reappraisal of resource use is inescapable and that the concept of 'net contribution to the balance of payments' should carry the greatest weight among criteria for development through to 1986. The industry should be encouraged to transfer resources into growth areas which would receive 'special' encouragement (including most of apparel, wool textiles and carpets, synthetic yarns and knitted fabric). Other sectors including man-made fibre carpet production would be actively discouraged. By mid-1981 a re-oriented apparel sector should be in a position to use more New Zealand yarns and fabrics in its exports and be in a better position to export selected products to selected segments of overseas markets.

GENERAL INDUSTRY POLICY CONSIDERATIONS

Australia and New Zealand share many of the same problems in the development of an efficient long term industry structure. We have in common the problems of a limited market place, a high wage labour force, the distance of overseas markets, the need for foreign investment and technical expertise, vulnerability to world economic fluctuations and inflation. In addition we both face an ever growing challenge in our own market place from the low cost efficient developing countries, especially in Asia (although this is diminished for New Zealand by the existence of closer Government control, especially through the operation of import licensing).

Under existing trading conditions Australian industry faces limited access to the New Zealand market through the NZ import licensing system (and tariffs), while at the same time NZ has open access (in most cases) to the Australian market at lower tariff rates and NZ exporters enjoy export incentives which are far more generous than those available to Australian producers. A move to unite the two markets means for Australian producers an increase from around 14 million people to 17.5 million people—in other words about a 25% increase in market size and this in terms of potential increase in economies of scale of production, while helpful, is by no means of the order we are seeking to make our industries competitive in international terms. Further, it should be borne in mind that Australia already has substantial trade in manufactures with NZ, so it would only be an increment on the existing established trade that would be the benefit, and not the apparent increase of 25%.

For New Zealand the increase would be 400% and this, even allowing for existing trade, does offer significant growth prospects for NZ producers which,

when coupled with their generous export incentives scheme, could provide a springboard for further penetration in other export markets. Of course the fact that New Zealand would achieve greater gains in economies of scale in a freer trade situation will not of itself provide New Zealand industries with a competitive advantage over Australian manufacturers, who already have the benefits of producing for the larger Australian market. The significantly less developed industry infrastructure in NZ compared with Australia (in technology, manpower skills, diversity of products manufactured) could also substantially inhibit NZ from realising the apparent advantage. The pace of development of NZ industry is also likely to be influenced to a greater extent by corporate policies of major industrial interests including multinationals in Australia rather than by vested interests in NZ. These considerations could have a major influence on the extent to which NZ is able to benefit from a united market.

There has been some tendency under NAFTA for both sides to adopt a defensive attitude towards expansion of freely traded goods. This derives very largely from divergent industry development objectives, and the fact that the Australian and New Zealand manufacturing sectors are becoming increasingly competitive rather than complementary. That is not to say however that the existence of complementary industry structures is necessarily a pre-requisite for benefits to be derived from freer trade, as significant growth in intra-industry trade may be generated between industrial structures which are basically competitive. Nevertheless there would be inevitably a need for a balance to be achieved through trans-Tasman industry rationalisation.

Closer economic ties with New Zealand would however require that the two Governments achieve greater co-ordination or harmonisation of industry policies (the extent would depend on what option is being considered) so as to achieve the maximum mutual advantage. The more short term, ad hoc nature of New Zealand's industry policy, and the lack of clearly articulated long term measures create considerable uncertainty, and the course of future NZ policies could pose problems for Australia. There is the implicit risk that the restructuring process in Australia could open the door, not so much to the efficient developing country exporters, but to further high cost, less efficient investment by NZ industry to take advantage, under preferred conditions, of the Australian market, perpetuating the structural problems that long term industry policies aim to resolve.

By the same token there is the possibility that, under one or more of the options for economic co-operation, Australian industry which is less efficient in world terms, might be encouraged to expand contrary to the objectives of long-term industry policy. In these circumstances the presence of New Zealand could complicate and retard the achievement of long term reductions in tariffs relative to third countries. This question is discussed further in the section following on a customs union.

A further important general consideration is the possibility that closer economic ties through development of one or more of the options could exacerbate irritants in trade relations that exist already between Australia and developing countries of the region. The Crawford Report emphasised the significant opportunities for Australian exports offered by the developing countries of East and South-East Asia. In fact the Crawford study group recommended that Australia examine the possibilities for strengthened bilateral trade agreements with these countries, because of their importance as markets for Australian industry. Adoption of some of the possible forms of economic co-operation between Australia and New Zealand, and in particular the option of a customs union with a common external tariff, could be seen by other countries in the region as a potentially provocative act. Obviously close account would need to be taken of developing countries' legitimate interests in considering closer trans-Tasman co-operation. This would apply especially to Papua New Guinea and other [South Pacific] Forum island members with whom close trading links exist already.

The remainder of this paper examines the implications for Australian manufacturing industry structure and policy of the options for closer economic association, viz: an expanded NAFTA, a full free trade area, a customs union and a common market. For purposes of illustration, reference is also made to the likely implications for specific sectors of Australian industry, with emphasis on those for which sectoral policies are in place. (Background papers on each of these sectors have been prepared for detailed reference.) An attempt has been made also to view each option not in isolation but as integral steps in a dynamic process towards full market integration.

THE OPTIONS

(i) *Expanded NAFTA*

The first option of an expanded NAFTA reflects the existing situation which was described by the Minister for Trade and Resources following the NAFTA meeting of 11 April 1979 in terms of 'Australia and New Zealand have reached a plateau in our relations under NAFTA and we have got to try to find ways and means of opening up our trade'.

The difficulties of any significant increase in trade under NAFTA result from three key factors which disadvantage Australian industry. These are the access to material inputs (generally, components and semi finished products) at world prices which NZ manufacturers enjoy; the hitherto severe constraints on market access to New Zealand through the imposition of import licensing; the very generous export and related investment incentives by the NZ Government. NZ competitiveness is further heightened by the significantly lower wage rates in NZ.

A further constraint, as far as Australian industry is concerned, is the exclusive trading practices which operate in New Zealand. Such practices are only classified as 'examinable' under NZ legislation. The franchise-tied relationships

between manufacturers, wholesalers and retailers in NZ represent a significant barrier to access into the NZ market for Australian manufacturers.

There are also the broader constraints on expansion of NAFTA trade resulting from implementation of industry specific development policies in each country, (including State Governments) for example whitegoods, automotive products, carpets and forest products. On the other hand it should be noted that the development of Australia's sectoral policy for the apparel industry has in fact allowed for the controlled development of trans-Tasman trade in apparel. Imports from New Zealand increase rapidly while New Zealand was exempt from the global quota system. Recently, following negotiation of special apparel arrangements, Australian exports to New Zealand have in turn increased rapidly over previous low levels.

In the case of whitegoods, Australia's sectoral policy calls for an increase in throughput of Australian production plant through rationalisation and reduced imports, thus increasing the local industry's ability to compete with imports in the local market. An increase in concessional imports from NZ could mean loss of market share and net reduction in production output for Australian manufacturers. There would have to be visible reciprocal gain for Australian manufacturers in the NZ market for expansion of whitegoods trade under NAFTA to be more compatible with the sectoral policy. Even so, expansion of white goods trade under 3:7³ arrangements could still be in conflict with the trade policy insofar as the imports from NZ would tend to benefit certain manufacturers at the expense of others. 3:7 arrangements in whitegoods could be seen as an additional concession that could distort normal market forces and production decisions and as such would be inconsistent with the policy.

There are fundamental differences between the automotive industries of Australia and New Zealand which derive essentially from the different sizes of the two domestic markets, the different stages and emphasis of technological and general engineering development in the two countries and different government policy environments. Australia is and intends to remain a vehicle builder while New Zealand has concentrated on a motor vehicle assembly and component manufacture. New Zealand is therefore unlikely ever to build other than speciality cars but has potential to further expand its component manufacture, including exports to Australia which are carried out already under various 3:7 arrangements.

Wool rich carpet (containing more than 80% wool) was added to Schedule A in 1975. This addition, however, was subject to quantitative limitations in both directions and was made especially to protect New Zealand exports to Australia. NZ is limited to exporting 2.1 million square metres to Australia and Australia 0.2 million square metres to New Zealand. New Zealand, as a producer of the

3 On Article 3:7 see note 2 to Document 22.

coarser type wools used in carpet manufacture, as distinct from Australia which produces finer wools and imports coarser wool and carpet yarn, also discourages the marketing of man-made fibre carpet in New Zealand, an area where Australia is relatively efficient. To give effect to this policy New Zealand does not issue import licenses for man-made fibre carpet.

Most forest products are already traded duty free under NAFTA although NZ limits the level of access of some goods under import licensing. It is considered that, for forest products, closer economic co-operation would be better achieved by a more broadly-based scheme than an expanded NAFTA as the latter method has reached the stage where scope for increased trade and economic co-operation is limited.

It could be observed fairly that NAFTA has tended to 'drift' and that both sides have tended to lose sight of the objectives of some of the facilities within NAFTA. This is especially the case with 3:7s which manufacturers do not see as a transitional measure towards eventual product rationalisation and free trade. Invariably the central motive for proposing a 3:7 is to overcome the NZ licensing barrier. Probably very few 3:7 proposals would be initiated if they had to meet the requirement of the goods being eventually included in Schedule A.

There are perhaps opportunities, especially as economic recovery continues and is sustained, for limited initiatives within the existing NAFTA framework. One general approach could be a conscious policy of greater use of Schedule B⁴ arrangements with area content requirements modified according to specific industry needs. Schedule B was designed to encourage industries to work together to develop arrangements which facilitated the move towards free trade by giving them experience of partial free trade, with safeguards against disruption. It is indicative of the slow progress of NAFTA that there have been only two agreements under Schedule B since its inception in 1973, one of which has subsequently lapsed.

However, this type of arrangement could be a means of phasing into a broader free trade relationship on a sector by sector basis. Within each sector specific industry problems could be identified and resolved (e.g. removal of export incentives) to the degree and pace acceptable to both industries. The significance of 'Area Content' or 'Rules of Origin' in providing a means of equalising competitive opportunity in the respective markets, suggests that the introduction of special (higher) 'content rules' to OPTION (i) and particularly to OPTION (ii) could enhance the potential of these options for expanding trade and the regional industrial structure on an equitable and efficient basis. This could be so particularly where both countries already have in place significant manufacturing resources. However, there remains still the serious obstacles posed by the existence of divergent sectoral policies in key areas of manufacturing.

4 On Schedule B see note to Document 30.

There could also be opportunities for specific limited initiatives through existing Article 3:7 arrangements in the apparel and footwear industry sectors. In the case of apparel a viable option in the short-term (to mid 1981) could be the continuation of an arrangement similar to that currently existing. Adoption of any longer term or more radical proposal before decisions by the Australian Government on the IAC's long term report or by the New Zealand Government on the NZ Industries Development Commission's report would seem premature. Over the longer term consideration could be given to arrangements under Article 3:7 which preserve mutually beneficial two-way trade without making long-term commitments to remove duties. Such arrangements would be basically a development of current arrangements. Where footwear is concerned, the existing 3:7 arrangement offers scope for extension. This form of arrangement provides for mutual gains from trade (which can be escalated in the light of appropriate circumstances) while retaining adequate options for control over import levels.

(ii) *Full Free Trade*

The option of Full Free Trade, in theory at least, should have substantial beneficial implications for trans-Tasman trade. It would offer Australian industry unrestricted access to the NZ market and disallow the existing generous NZ export incentives (and vice versa) where the Australian market is concerned. However, there would remain the problem of fair competition, because of the continued advantage for NZ industry of free access to imported inputs, which would almost certainly cause major difficulties for areas of Australian industry, especially for Australia's sectoral policies. It is therefore unlikely that an extension of NAFTA to a Full Free Trade Area would be an acceptable alternative to the present position reached under NAFTA for Australian industry as a whole. On the other hand this is the option most likely to be supported by New Zealand. If preliminary assessments suggest that Australia in the primary sector could stand to benefit more than New Zealand, the latter could in fact propose a partial free trade area, along EFTA lines, for manufactured goods.

The fact that a Full Free Trade Area covers only the elimination of tariffs or quantitative restrictions (and measures having equivalent effect) without necessarily movement towards harmonisation of industry and related policies raises a problem of some magnitude. That is the threat of third country investment in New Zealand to gain access to the Australian market under preferred conditions.

From both countries' point of view it is hard to see how in practice full free trade conditions could be achieved without long periods of phasing and tight controls, in view of the policy problems discussed earlier in the option of an expansion of NAFTA. It could be envisaged that a form of partial free trade beyond the present position under NAFTA could form a phase leading towards closer market integration under a Customs Union.

However, forest products, which is of basic importance as a 'corner stone' of NAFTA could be seen as one industry sector offering possible immediate prospects for Australian industry under a full free trade situation. With forest products, the problem of external tariffs is of much less significance. Under current conditions trade between the two countries in forest products is strongly in NZ's favour. Establishment of a full free trade area would give Australian forest product manufacturers significant access to the NZ market previously denied them because of import licensing, e.g. stationery, cartons, containers, [but]⁵ could equally create problems for certain currently sensitive Australian manufacturers such as particle board, plywood and similar products.

To illustrate further some of the problems of free trans-Tasman trade attention is drawn to the clothing, footwear and carpet industries. Generally, the implementation of a free trade area would involve real difficulties in the absence of harmonisation of Government policies towards those industries in terms of external tariffs and other forms of protection, rationalization and restructuring, export market development, distribution, trade practices law and so on. The difficulties in this area would be heightened by the sensitivity of these industries to changes in cost structure and their dependence on high levels of assistance.

Where apparel is concerned, the New Zealand industry has access in the main to imported raw materials at world prices because of the absence of domestic production of such goods. On the other hand in Australia the bulk of the textiles industry is heavily protected. To this extent the Australian clothing industry is disadvantaged.

There is also the question of assistance policy. As both industries are under review and the nature of longer term assistance policy is yet to be decided by respective Governments the implications of free trade would vary depending on the policies adopted particularly toward third country supplies. Given that there would almost certainly be different means of implementing policy objectives in Australia and New Zealand in granting protection to their clothing industries, it could be expected that the establishment of a free trade area would lead to structural imbalances and possible disruption to industries.

New Zealand has a much more liberal licensing policy in respect of imports of footwear parts and therefore the Australian industry could be seriously disadvantaged in a cost competitive context vis-a-vis New Zealand footwear incorporating imported parts.

Given the labour intensive nature of footwear manufacture and the current sensitivity of the employment problem, total free trade could impose limitations on the Government's options in respect of industry and employment policies. It could be expected that the net effects of a total free trade proposal on the industry's structure would be a reduction in the number of leather footwear

5 Text reads 'however'.

producers in Australia, or at least a reduction in the volume of production and/or a reduction in prices with a downward thrust on profits and reduced employment. It may be that a marginal increase in the volume of non-leather footwear produced in Australia could occur.

As regards carpets, it is considered that New Zealand would make significant gains in the Australian market if total free trade in wool carpet was decided upon, whilst Australian producers would stand to make only small gains in the NZ market. However in a full free trade situation it could be expected that trade coverage in carpet would include man-made fibre carpet (presently excluded from Schedule A), and in this respect Australia could be expected to benefit substantially. On the other side of the coin it should be remarked that the New Zealand industry has installed a number of sophisticated carpet printers with capacity well in excess of local market requirements with possible significant implications for future trade in man-made fibre carpets.

[matter omitted]

[NAA: 1838, 370/1/19/18, ANNEX 5]

36 PAPER BY DEPARTMENT OF FOREIGN AFFAIRS

Canberra, [October 1979]¹

CONFIDENTIAL

Australia – New Zealand Economic Association

The Foreign Policy Implications of Certain Options

INTRODUCTION

This paper examines the foreign policy implications closer economic association with New Zealand. It is not possible at this stage, however, to attempt a definitive study of the impact of such association. Although we know that other governments are taking a close interest in the possibility, there has been little reaction so far. Judgements made in this paper could therefore be subject to substantial revision. A further limitation is that, because of the existing common ground in foreign policy and the practice of close consultation between the two countries, it is difficult to identify precisely the different effects on foreign policy of the various possible forms of closer association. The paper therefore for the most part does not attempt to differentiate the effects of customs union, full free trade area, economic community or common market.'

¹ The document is undated. An earlier draft was sent to thirteen Departments on 25 September 1979 for comments. On 3 October the 'latest draft' was sent to all Foreign Affairs Assistant Secretaries for further comments. That document is identical to the one published here.

The paper is divided into two parts. The first part describes some general implications for the conduct of both countries' foreign policy in the event of closer association.

The second part examines the effects of closer association on our relations with important countries, on our position in multilateral organisations and in regard to defence and certain other, including international economic, issues. Some tentative comments are offered on the topical Pacific Community proposal.

PART I. GENERAL IMPLICATIONS FOR THE CONDUCT OF FOREIGN POLICY IN THE EVENT OF CLOSER ASSOCIATION

It is already assumed internationally, and in the main correctly, that there is a close identity of views on foreign policy matters between Australia and New Zealand. Third countries would indeed have difficulty enumerating differences in our foreign policies. The formation of a customs union, common market or an economic union would change this perception by degree only. In the course of time, Australia and New Zealand would be expected to speak more and more with one voice in international fora, particularly in those concerned with international economic issues. While we would not wish to give New Zealand a veto on our foreign policies, the considerations in the next section of this paper show that in many cases our policies would be affected by closer association. Both for appearances' sake and for reasons of substance, it would be incumbent upon us to try to achieve a harmonisation of views over a range of subjects. The similarity in attitudes, which is now reached in many instances without going through any formal channels of consultation, might need to be attained more systematically.

A number of implications are apparent. First, the rate of decision-making could be slowed down, even were we both to try to maintain a degree of independence in our policy. Second, the consultative process might require the creation of a new bureaucratic unit, probably located within an existing department, or the expansion of the missions in both capitals, or both. In the former case, it could be assumed that both Governments would wish to avoid establishing a secretariat with a Brussels-EEC flavour and with its propensity for growth. In the latter case, the attachment of additional specialist officers to the two High Commissions might become necessary. Looking even further ahead, common representation at some conferences and in third countries might prove to be acceptable and practical, or one delegation might speak for both. We might expect third countries to accredit, even more than they do now, one Ambassador to both countries and, as he would probably reside in Canberra, such a procedure would be resented by New Zealand.

In economic dealings with areas of the world in which New Zealand already has an established interest—Europe, the USSR, South East Asia, Japan, the United States and the Middle East—and in international economic fora, co-operation might be hard won, but it would at least rest on the foundation of a mutual

interest in maximising access and minimising external protectionism. Such co-operation would inevitably have some impact on Australia – New Zealand rivalry in markets in which we both compete. In the political sphere, and in developing relations with countries in which Australia has much greater interests than New Zealand, the justification for a co-operative effort would be less obvious and, such effort, at least in the short run, not always desirable.

The complete convergence of our foreign policies would not be regarded as mandatory or desirable in either country and would be complicated by several considerations. Australia's perception of itself as a middle-ranking power would present New Zealand, which has a different view of its and our role in the world, with a dilemma. New Zealand would naturally hope to extend its political and economic reach in some geographical and policy areas by virtue of its closer association with Australia. At the same time, it would not want to be seen to be grasping Australia's coat-tails, both for reasons of national pride and because the Government and the bureaucracy would want to retain the freedom to take independent positions based on their own assessments.

The formulation of New Zealand's foreign policy in a customs union era could become very much a matter of resolving the difficulties inherent in these two contradictory forces: on the one hand the need to be seen to be acting in close accord with Australia and the recognition of the benefits joint policies would bring which a unilateral diplomatic effort might not; and on the other, the wish to preserve some independence of action and an image befitting a small power.

It is thus conceivable that domestic pressures in New Zealand could compel the Government to demonstrate the strength of its own muscle more vigorously (and unhelpfully, from Australia's point of view) than it would in the context of the present bilateral relationship. The 'big brother takeover' bogey is likely to persist long after the dust of the economic negotiations with Australia has settled. If the New Zealand domestic economy picks up and the national mood becomes more buoyant, anti-Australian sentiment unleashed by closer co-operation could become more strident in its expression. A visible argument with Australia on a question which was as far as possible unrelated to economic issues (domestic or global), and which did not have a direct bearing on the union, could be orchestrated with little domestic cost, and would satisfy a demand for New Zealand to prove it was still a sovereign and independent power.

One policy area in which co-operation between New Zealand and Australia could come adrift is the South Pacific. New Zealand's sense of uniqueness in a global context resides principally in its perception of itself as a developed South Pacific country with unique expertise and experience in dealing with other Pacific Island countries and their peoples. Disagreement could be over a minor matter and hence no more than irritating. On the other hand, if a future New Zealand Government felt the need to distance itself from Australia and to bolster its Pacific identity, it could promote more radical policies on environmental and security issues and create real difficulties for Australia, and for the ANZUS

alliance. (The indications are clear already that the Labour Party would not slide easily out of its commitment to work towards a nuclear-free zone if it won office at the next elections.)

The strength of the forces which argued against containment of disagreements or even in favour of a head-on collision with Australia on a foreign policy issue, would depend on how bruised the New Zealanders felt at the end of the negotiating road. Even supposing the existence of a commitment in New Zealand to the cause of promoting convergent rather than divergent foreign policies, it seems very possible that, once the form of bilateral economic association has been worked out, conducting diplomatic relations with New Zealand could become more, and certainly not less, difficult.

There are likely as well to be occasions when Australia will adopt policies different from those of New Zealand, either because there was no time to consult or because New Zealand was unable to accept a particular policy Australia wished to espouse. Australia would not want New Zealand to have a veto over its foreign policy as a result of closer association; New Zealand would have a similar point of view. The attitude of both countries towards entering into any form of closer association should be

- (i) closer association (in all forms) would have implications for the overall foreign policy of both parties
- (ii) closer association would require both parties to consult over foreign policy and to seek to harmonise policies in many respects
- (iii) closer association would not require or necessarily lead to common bilateral overall policies.

PART II. DETAILED CONSIDERATION OF THE EFFECTS OF CLOSER ASSOCIATION IN AREAS OF FOREIGN POLICY

Japan

Although trade with Japan is important to both countries, it is a more important trading partner for Australia and New Zealand has shown less sensitivity than Australia in linking greater access for its primary products with Japanese access for its products. Little distinction is made by Japan between Australia and New Zealand in terms of its general foreign policy outlook. There is evidence, however, that Japan regards New Zealand as being in serious economic difficulties and deserving therefore of special treatment (which New Zealand would naturally be reluctant to jeopardise).

There is not likely to be much effect on Australia's relations with Japan as a result of closer economic association between Australia and New Zealand. Japan will assess carefully the implications for its trading and related interests of any closer association between Australia and New Zealand. However, if this could be presented as resulting in a stronger trading potential, Japan could perceive closer association as being in its overall interests and could be expected to seek to take

full advantage of any new opportunities it presented. Closer association between Australia and New Zealand could also prompt Japan into taking greater account of Australian and New Zealand concerns when shaping its own regional policies. Closer association with New Zealand would require us to take New Zealand preoccupations into account in shaping our policies towards Japan.

European Community

New Zealand places more importance than Australia on maintaining cordial and undisturbed relations with the EC. Perhaps because it has more to lose, New Zealand has shown itself reluctant to be as critical as Australia has been on EC trade access questions.

Australia is looking to establish with the EC a mutually advantageous partnership based on a degree of interdependence. Unlike New Zealand, Australia is able to offer the EC such a partnership particularly through encouraging investment and the use of Australian resources.

Closer ties with New Zealand could in theory strengthen our negotiating position with the EC through the development of a joint approach. It is not yet apparent, however, that both countries could easily arrive at a joint negotiating position because we both compete in the EC for similar markets. Moreover, New Zealand may expect Australia to argue its case for continued access to Europe. If so, our position could be made more difficult if the EC were to interpret closer union as relieving it of some of the burden of assisting New Zealand.

A closer relationship with New Zealand seems unlikely to affect the Community's attitude to our desire for closer access to the Community's political co-operation machinery.

USA

Superficially, in the major areas of foreign policy, economic, defence and security, in which the United States is of the greatest importance to both Australia and New Zealand, it might be expected that we would have similar interests to New Zealand. In practice this is not always the case. Because of our shared interest in the United States market, for example, the Australian and New Zealand positions in the MTN have been competitive to some extent. Civil aviation is another area involving the United States where our views have been at variance with New Zealand.

Publicly, the United States would probably feel obliged to endorse moves towards closer and more comprehensive co-operative arrangements between its two ANZUS allies. Privately, however, the United States may have reservations based on the following considerations:

- the prospect that we may be seeking to create another trading bloc, designed to extract concessions from major trading partners including the Americans; this would further erode the open and free trading system to which the United States remains committed;

- the likelihood that Australia and New Zealand, bargaining together, might be able to exert greater leverage (on, most obviously, meat) than we can do separately;
- the suspicion that closer economic association might mean that both Australia and New Zealand will turn to each other rather than adjust their economies in response to requirements/demands from other regional countries (we would have to refute this point which could be taken by ASEAN and others also).

In the event that we entered into closer relations with New Zealand, these suspicions would remain and would require careful handling in our relations with the United States.

The United States position might, however, depend on its assessment of New Zealand's economic prospects. If the United States regards closer economic association as a prelude to a customs union, etc., and if it considers that option to be a means of bolstering the New Zealand economy, the Americans might endorse the idea. They could also think that an associated Australia and New Zealand could play a more effective and responsible role in Asia and the Pacific, including (inter alia) a role as a proxy for United States interest.

Closer association, particularly a customs union or economic community would affect Australia's relations with the United States in certain important areas such as tariffs and possibly civil aviation.

The increasing attention being given in the United States, by Presidential candidates and Congress alike, to the notion of a North American common market (with Canada and Mexico) should be noted in this context. The scheme suggests that the United States may be prepared to qualify its opposition to regional trade (and energy) blocs, but only where its vital national interests are directly engaged.

Canada

Australia, New Zealand and Canada have similar political and social heritages and therefore tend to have similar views on international issues, although the regions of priority interest are obviously different for each. Closer economic co-operation between Australia and New Zealand is unlikely to change significantly the core of understanding among the three countries. In fact it is likely that the Canadians would encourage closer association if it were clear that there would be benefits for both Australia and New Zealand.

Closer economic association may have some implications for Australian and New Zealand trade with Canada (e.g. meat) but such matters as allocation of quotas could presumably be worked out between Australia and New Zealand without the overall relationship of both countries with Canada being affected.

East Europe

Closer economic association with New Zealand raises the possibility of co-ordinating some aspects of our policies and practices in dealing with the USSR and East Europeans. Generally, we and the New Zealanders encounter similar differences and difficulties in our economic dealings with the centrally-planned economies of Eastern Europe, and it would seem sensible if we did more to exchange notes and to co-operate within reason in some of our activities in this regard. Closer co-operation in our trade promotion and assessment activities is perhaps one area for consideration. Another may be in the area of the control and surveillance of the USSR and East European presences in our countries (which increasingly will become a problem as our respective economic relations with them grow). On their part, the USSR and the East Europeans would probably welcome more co-ordination between Canberra and Wellington. They already find it convenient, for planning purposes, ministerial and delegation visits, to draw a loose association between us.

ASEAN

Australia's relations with ASEAN and with the individual ASEAN countries are far more substantive than those of New Zealand (e.g. levels of trade, aid, diplomatic representation etc). in addition Australia is a more extensive market for ASEAN products than New Zealand. Accordingly the potential for friction in relations with ASEAN are much less for New Zealand. The limitations of the New Zealand market are implicitly acknowledged by ASEAN which does not press as hard for greater market access there.

Central to ASEAN countries' reaction would be the impact on their trade prospects. Should Australian – New Zealand economic co-operation make it more difficult for ASEAN products to enter Australia – New Zealand (e.g. by way of higher or more selective common tariffs), we could expect a negative reaction which could adversely affect not only Australia's trade relations with the ASEAN countries but also our overall political relations. ASEAN countries could perceive such a move as a partial withdrawal by us from the region, a shoring up of a Western enclave and a symbolic retreat into the past by the region's two developed countries. (It would not in any case be in either Australia's or New Zealand's economic interest to retreat into greater protectionism against ASEAN. To do so would be economically inefficient and would slow ASEAN economic development which ASEAN, Australia and New Zealand all agree is essential for political stability in the region.)

It can therefore be expected that the ASEAN countries will closely examine the nature of any increased economic co-operation with New Zealand and its likely implications for them.

In recent talks between New Zealand and ASEAN officials, the latter expressed a keen interest in the effects on ASEAN of any economic association between

Australia and New Zealand; they were assured by New Zealand that any notion of high protective barriers should be rejected.

There are grounds for believing that, if economic satisfaction for ASEAN were guaranteed, ASEAN countries such as Indonesia would welcome closer association for regional security reasons. In presenting to ASEAN the case for Australia – New Zealand closer economic co-operation, we should not overlook the political benefits for ASEAN.

We should be sensitive to ASEAN concerns and will need, with New Zealand, to keep them informed at appropriate stages of developments so as to minimise the risk of misunderstandings. We should not let any new relationship with New Zealand lessen our interest in ASEAN.

South Pacific

The South Pacific is an area of special importance for both countries. However, New Zealand continues to regard itself as having a greater knowledge of, and influence in, the region and sees Australia's efforts there as inexperienced. Differences of opinion on regional matters are not unusual. Australia's pattern of representation is growing and our aid program—even excluding PNG, now exceeds that of New Zealand. We should pay special attention to New Zealand sensitivities on South Pacific matters.

Any measures which led to increased and sustained prosperity in Australia and New Zealand, which did not worsen the relative position of Pacific Island countries, should be to the latter's advantage, since it could increase Australia – New Zealand's capacity to provide a wide range of assistance for the Island countries. It could, of course, reduce the capacity of the Island countries to play off Australia and New Zealand against each other, as they sometimes seek to do.

Closer trans-Tasman economic co-operation could cause some pressures for equal treatment from Papua New Guinea and other South Pacific Island countries. Australia and New Zealand are currently negotiating a common trade agreement to give [South Pacific] Forum island states comprehensive, progressive duty-free access to their markets. This will include both processed and semi-processed manufactured goods. The Islanders (or their spokesmen) will want to be satisfied that Australian – New Zealand co-operation does not deprive them of actual or potential markets. There could be problems for Australia in particular in respect of certain agricultural products for which New Zealand now provides a significant market for the smaller Central Pacific States (e.g. pineapples, tomatoes, bananas, taro, sugar, citrus, passion fruit, avocado). There could be pressures for us to ease our quarantine and other barriers for such products.

There is some evidence that the Island countries are suspicious of what they consider to be collusion between Australia and New Zealand as regards the South Pacific generally. Such suspicions could increase with progress towards closer

Australian – New Zealand economic association. We doubt, however, if the Islands will suffer or will believe that they have suffered as a consequence.

The degree to which New Zealand is prepared to co-operate with Australia on political issues could also be affected by closer economic association. New Zealanders may feel that with closer economic association they would need to demonstrate more clearly their political independence from Australia; they might consider the Pacific area as a most advantageous region for such demonstrations. More ‘radical’ New Zealand attitudes towards French Pacific territories, for example, might exacerbate our present difficulties.

China and the Koreas

We would expect China to react favourably to a closer economic relationship between Australia and New Zealand, with its concomitant of a closer political relationship. China could be expected to interpret a closer ANZ partnership as strengthening anti-Soviet alignments and therefore supporting its own interests in the region. A strengthened ANZ relationship would, we expect, prompt the Chinese to take somewhat greater account of our joint views in shaping its own regional policies. Closer association would not, however, necessitate any changes in our own China policy to accommodate New Zealand.

The ROK tends to take account of its political relations with other countries in terms of their attitude towards the DPRK, and may fear that a closer association between New Zealand and Australia could influence New Zealand to adopt a position nearer Australia’s on Korea. A closer association between Australia and New Zealand would limit opportunities for the ROK to play one against the other economically, and to a lesser extent politically.

China and the ROK would be displeased if the closer association led to an increase in the level of protection for certain manufactures, through a revision of external tariffs and/or quotas.

It is unlikely that Taiwan or Hong Kong would feel that their relations with Australia and New Zealand would be affected by a partnership between the two.

Indo China

In general terms, both Governments have pursued similar policies towards Indo China. The principal difference is New Zealand’s softer line on Vietnam and on Kampuchea. New Zealand has also shown itself less concerned about the Indo Chinese refugee problem and has adopted a lower profile than Australia in criticising Vietnam’s responsibility for the outflow. These differences are not in themselves of great significance. Closer economic association between Australia and New Zealand is unlikely to have any important effect on foreign policy towards Indo China.

Middle East

On Middle East matters New Zealand has been prepared to take a marginally more pro-Arab stance (mainly in United Nations voting) than Australia. This

does not seem to have had demonstrable effect so far, but it could have eventual trade repercussions in the event of closer economic association, particularly as we are in some respects trade competitors in the region.

Latin America

New Zealand's relations with Latin America are, like Australia's, limited. Politically there is no reason to suppose that closer association with New Zealand would have any appreciable effect on Australia's relations with Latin American countries which in any case tend to associate New Zealand with Australia.

New Zealand and Australian trade interests in Latin America do not overlap to any great degree, although in the case of dairy products (e.g. dried milk, butter products) there is potential for some competition for sales to such countries as Peru and Venezuela.

Africa

Neither country has important interests in Black Africa itself. The significance of the region for both lies mainly in the wider foreign policy implications of respective attitudes to Rhodesia and apartheid in South Africa. Australia's position on Southern African questions has been more popular in the third world. New Zealand has had difficulties in its relations with black African countries over sporting ties with South Africa. Closer economic association is unlikely to affect either side's relations with Africa, but we would need to ensure that we did not inherit the odium of some of New Zealand's African policies.

Defence

In defence, the ANZUS Treaty forms the fundamental basis for co-operation in such matters as defence procurement and joint exercises. There are of course differences which occur between Australia and New Zealand from time to time over intelligence interpretations, doctrine and harmonisation but policies remain essentially very close. In spite, however, of a strong mutuality of strategic and defence interest, New Zealand faces a lesser spectrum of contingencies than that which Australia faces—and faces them generally in the confidence that its military response would be likely to occur in association with Australia rather than independently. New Zealand force structure planning and levels of defence expenditure are shaped accordingly.

Closer economic association would not (except in the event of total economic integration) have very immediate or very great effects in the defence area. If a closer economic relationship were to improve New Zealand's economic health and rate of economic growth, the restraints on New Zealand's defence expenditures in recent years (New Zealand's defence outlays have fallen by about 18 per cent in the last five years) might be eased. This may in turn lead to a gradual improvement in New Zealand's force capabilities, and would be advantageous to Australia in that it would enhance New Zealand's capacity to

contribute effectively to the realisation of shared Australia – New Zealand defence policy objectives.

A further consideration is that if New Zealand industries were able to gain, through a reduction in tariffs on items imported by Australia from New Zealand, a more competitive position in tendering for Australian defence equipment, cost savings might result to Australia in the purchase of some of these items.

The effect on Australia's defence policy of total integration of the Australian and New Zealand economies would be increased interdependence between Australia and New Zealand and therefore New Zealand would be more strategically significant to Australia. This would be a development which would have to be taken into account by Australian defence planners.

Immigration and Refugees

There are some differences in the immigration and refugee policies of the two countries. They stem in part from New Zealand's special relationship with the Polynesian Islands—including special work permit schemes for citizens of Tonga, Cook Islands, Niue and Western Samoa—but also from New Zealand's low-level migration policy and its visa abolition agreements. Australia tends to give more attention to entry from South East Asia than does New Zealand. Australia gives greater emphasis to Indo Chinese refugee resettlement.

Progress towards closer economic association would not necessarily affect Australian or New Zealand immigration policies. It could, however, affect the resolution of some of the existing problems on trans-Tasman travel policy. It might also give rise in the South Pacific to expectations of closer association in other fields and could thus generate pressures from the Island States for wider admission of their nationals to Australia. Some of these countries have already sought special entry concessions to Australia for their nationals and this trend could be expected to increase. There could be pressure for admission criteria similar to New Zealand's. Conversely, closer association might appear to countries of South East Asia as a regrouping and possible reaffirmation of white European identity. It might become necessary to give greater emphasis to the non-discriminatory basis of our immigration policy.

In the context of closer association there would be a need for both Governments to study the need for harmonisation of immigration policies.

It is unlikely that increased co-operation with New Zealand would greatly affect either country's policy towards refugees. It is possible that any increase in economic strength would lead to some increase in pressures from UNHCR and the international community for a greater resettlement effort. This would pose greater difficulties for New Zealand than for Australia and any additional burden—or the onus for resisting it—would most likely fall on Australia.

Energy

In a customs union arrangement, or some closer form of economic integration, New Zealand could perhaps seek to have Australia undertake more direct or indirect oil supply obligations towards New Zealand in the event of any major future supply crisis. This seems unlikely, however. Both countries are members of the IEA and therefore have access to the IEA Emergency Oil Sharing Systems. Beyond this, a fuel supply crisis would generate considerable domestic concerns and as a consequence the Australian Government would probably not wish to be seen to be diverting scarce supplies from Australia at such a time.

Increased economic co-operation could lead to calls for co-ordination of energy policies. Co-ordination of coal utilisation and energy research and development policies could have potentially favourable implications. So too, of course, would co-ordination of policies regarding natural gas exports and the attraction of energy-intensive processing industries. We doubt, however, whether satisfactory co-ordination of these policies could be achieved, especially as there is an international surplus of natural gas and a limited number of potential energy-intensive processing projects available. Australia and New Zealand are likely to be competitors in these areas and although a customs union would not necessitate any changes in either country's policies, any attempt to establish an economic community or a common market would create interest in developing similar energy policies.

Development Assistance

If there were to be a larger degree of economic co-operation between Australia and New Zealand, it might be argued that a corollary of such association would be greater co-operation on development assistance matters. For a number of reasons, however, it is felt that this may not be the case in the short term.

Significant contact already exists between Australia and New Zealand in relation to official development assistance matters. Consultations on overseas development assistance issues, endorsed in the Nareen declaration,² have been held annually since 1977. The declaration also makes provision for short-term exchanges of aid officials between the two countries.

In addition, both ADAB and the External Aid Division (EAD) of the New Zealand Ministry of Foreign Affairs have agreed to designate an officer to keep an eye on co-operation between Australia and New Zealand. Both countries agree that informal contact should be encouraged. On the multilateral aid side, New Zealand is a member of the Australian constituency at the World Bank.

However, apart from a possible increase in staff exchanges, the current level of co-operation is probably an optimal one for the time being. An economic union would have to be made and truly established as a fact of life before a greater

2 Document 1.

degree of co-operation would be possible in the South Pacific at least without raising the suspicions of countries in the region.

If ultimately Australia and New Zealand were to move to an EEC-type arrangement, it is doubtful that initially there should be a concentrated effort to run a joint aid program, in addition to separate programs, as is currently done by the EEC. Such an exercise would require significant funds to have any real effect. However, most funds currently going to multilateral bodies could not be diverted to subsidise the activities of such an EEC-type commission. Furthermore, nearly 80 per cent of both donors' programs is disbursed on a bilateral basis. Each seeks to include an identifiable association with most of the aid provided. In addition, with both Australia's and New Zealand's aid declining in real terms there would be a reluctance to place scarce resources into a common pool. The probability of additional funds being made available by either government for an EEC-type aid program is remote in the short term.

In the long term, however, as Pacific nations develop relations with whatever form of closer economic co-operation between Australia and New Zealand evolves, we will need to look closely at our respective aid programs. It may well be that new forms of aid will be required to match the status of the economic association (e.g. Lome-type arrangements³).

Civil Aviation

Australia and New Zealand have considerable common civil aviation interests in relation to the trans-Tasman route, but in relation to other countries there are significant differences based essentially on both countries having their own national carriers with competing commercial interests.

Leaving aside commercial competition, both countries have basically the same overall international civil aviation aims, i.e., to enable the public and freight to move by air as easily, efficiently and cheaply as possible. However, it cannot be assumed that moves to closer economic association would lessen the wish of each country to retain the separate identity of its own national carrier. Thus unless the moves to closer economic association were to lead to a decision to amalgamate both countries' national carriers (which at this stage seems unlikely), it is possible that both countries would continue their differing (and often competitive) activities in relation to international civil aviation.

Antarctica

There is some difference of emphasis on Antarctic resource issues. New Zealand had tended to be wary of any approach that, in its estimation, might create tensions detrimental to the Antarctic Treaty. It has therefore tended to be less

3 The Lome Convention was an agreement, first signed in 1975, between the European Union and African, Caribbean and Pacific (ACP) countries to provide development assistance to the ACP states.

assertive than Australia about protection of claimants' sovereignty positions in discussions of Antarctic resource regimes. Closer association might be expected to broaden the already considerable degree of co-operation and co-ordination of our Antarctic policies with New Zealand. It could for example open up prospects for closer co-operation in regard to respective Antarctic expedition activities in the Ross Dependency and that part of the AAT which adjoins it (which part is not presently the subject of any Australian expedition activity). Opportunities might also open up for shared utilisation of shipping resources and more extensive co-ordination of the air transportation arrangement we each presently have with the Americans (including the possibility of re-appraising the extent to which we each need rely on United States for transport facilities). Closer Australia – New Zealand economic co-operation might also have implications for any potential Antarctic mineral and oil exploration in our respective claimed areas. In this respect indications that the Ross Sea area could be prospective for oil are significant.

Law of the Sea

In Law of the Sea matters there are different emphases between Australia and New Zealand on the rights of coastal states to control passage through territorial seas, revenue sharing in respect of the continental shelf beyond 200 miles, the financing of the 'Enterprise'⁴ and the control of the production of the seabed minerals.

UNCLOS is likely to have concluded before the effects of closer economic association are felt, and the different emphases which currently exist are likely to have been subsumed in the convention that emerges from the Conference. There will be scope for harmonisation of policies on the control and development of our respective continental shelves and exclusive resources zones, for example oil exploration and exploitation activity, surveillance and relations with distant water fishing nations. There will also be scope for a co-ordinated approach to the maritime policies of the countries of the South West Pacific. There will be similar scope with respect to co-ordination of policies towards the International Sea-Bed Authority to be established under a Law of the Sea Convention. None of the options canvassed would require the adoption of identical policies on Law of the Sea matters.

Fisheries

Australia and New Zealand are to some extent competitors in attracting foreign fishing access and in their potential as stepping-off points for southern ocean fisheries. Both countries however have recognised that other nations with distant water fishing interests will seek to play off one against the other, and for this reason we have kept each other informed on how we are handling foreign fisheries requests.

4 Not identified.

The fisheries policies of both countries, although not formally affected by closer association, would certainly require some co-ordination in the event of the establishment of a common market or economic community.

NIEO Issues

Both countries perceive that their interests sometimes suffer as a result of being lumped in with the developed world in the familiar North/South dichotomy, although the degree of disadvantage varies between the two countries, and according to the issue. At the most recent UNCTAD V meeting in Manila, New Zealand kept closer to the general Group B⁵ position than did Australia, but on the other occasions, the reverse has been the case and New Zealand has been more ready than Australia to consider joining G77.⁶

This follows from an increasing New Zealand inclination to carve out for itself within Group B a distinctive position as one of the 'least developed of the developed countries', seeking special arrangements because of this position (e.g. on assessed contributions to the Common Fund). Although Australia cannot claim such a position (because of GNP per capita income, growth rates, etc.) it too has become increasingly concerned to identify opportunities where it can pursue its own particular interests on NIEO issues. Because of the Group system of negotiations on North/South issues, however, there seems little alternative now to continue membership by both countries of the 'developed country' negotiating group in international fora.

The implications of some form of closer economic relationship between Australia and New Zealand on the two countries' approach to NIEO are not substantial. Our impression from talks with New Zealand officials is that they would welcome closer collaboration between our two countries in developing our attitudes on NIEO issues in any event.

Closer economic association would further strengthen the overall leverage that could be exerted to project Australian and New Zealand interests in North/South negotiations over the NIEO, and in approaching particular issues (such as reduction in agricultural protectionism) in developed country forums like the OECD. The greater the degree of economic union the less the likelihood of tension over competing and conflicting market interests, although our positions in NIEO negotiations do not always coincide.

It follows from the above that we see no major difficulty with an intensification of co-operation with New Zealand on NIEO issues. Indeed we can see some positive advantages in such intensification by:

- promoting consistency of position on NIEO issues in international bodies in which we traditionally alternate membership with New Zealand

5 i.e. the developed countries.

6 The Group of 77 at the United Nations (G77) assists developing countries to negotiate on economic issues in the United Nations.

(e.g. ECOSOC, UNDP) thus noticeably reinforcing particular interests in these forums;

- strengthening our ties with Pacific developing nations on those NIEO issues of particular concern to them, e.g. in relation to special provisions for island developing countries;
- encouraging the development of arrangements where we can benefit from leverage exerted in common with New Zealand and other middle-level countries, including others in the 'South', who depend heavily on the export of primary commodities such as minerals, energy, foodstuffs—in relation to trading arrangements, investment and access to technology.

Closer co-operation on NIEO issues would necessarily develop over time and need to take account of New Zealand's perception of advantages for its own position. Possible steps which could be considered to give further substance to such co-operation might include continuation of regular consultation with New Zealand (at both Ministerial and officials' level) on NIEO matters with the objective of identifying issues on which a joint definition of approach would be desirable and opportunities existed for initiatives in support of this approach.

Pacific Community

The Pacific Community proposals are tentative and exploratory at this stage and neither Australia nor New Zealand has developed a detailed policy position. However, it can be said that closer economic association with New Zealand would increase the need for a harmonisation of our respective policies towards the Pacific Community proposals. The development of closer economic association with New Zealand and substantive development of the Pacific community could overlap and, in time, heighten the need for our joint consideration of the implications of the one for the other. It would seem most unlikely that potential members would view increased Australia – New Zealand co-operation as incompatible with the aims of any wider regional community. Indeed, Australia and New Zealand could be expected, through their own experience of economic co-operation, to play a more significant role in the Pacific community than might otherwise have been the case.

Multilateral Organisations

One element which would require detailed consideration would be the effect on Australia's position in rotation for membership of United Nations bodies. However, the close relationship among the Nordic countries does not seem to have affected their ability to serve individual terms on multilateral bodies.

One advantage of a closer association might be the usefulness to us of formal 'load-sharing' arrangements—i.e. single delegations representing both countries at certain conferences. (Equally, load-sharing could be a development which, for political reasons, we—and sometimes New Zealand—would want to avoid in some cases).

A number of Commonwealth countries are involved in economic or political associations and in no case has this markedly affected their capacity to be effective contributors to the Commonwealth. Examples are the United Kingdom's EC membership, and the Caribbean members of CARICOM.

As to Australia's membership of international organisations, and perceptions of Australia in political forums of which it is not a member (e.g. the NAM), we see relatively few implications arising from a closer economic association with New Zealand. Indeed, many countries already assume that Australia and New Zealand consult closely on political matters. From the multilateral *political* point of view, our most important concern is how the Third World perceives Australian policies on key issues, such as southern Africa, the Middle East and so on. We would want to ensure that closer association did not lead to us being associated with some of New Zealand's unpopular policies.

[NAA: A1838, 370/1/19/18, vii]

37 NOTES BY BUREAU OF AGRICULTURAL ECONOMICS

Canberra, October 1979

CONFIDENTIAL

Australia – New Zealand Economic Relations

Implications for Agriculture

REVISED PRELIMINARY NOTES

15. Summary¹

The direct effects on the agricultural industries of closer economic co-operation with New Zealand are likely to be relatively small overall. The production and marketing arrangements for major rural industries in both countries tend to be competitively organised. For both countries, the major rural industries are export market orientated and in both countries rural industries contribute significantly to total export receipts (44 per cent of the total in Australia and 66 per cent in New Zealand).

Australia and New Zealand compete strongly for third country markets in many agricultural products. The export orientation and competitive nature of the rural industries ensure that indirectly there has been a high degree of economic interdependence between the industries in both countries. Trade in agricultural commodities between Australia and New Zealand has been minimal. (One per cent of Australian rural exports are sold to New Zealand and 3 per cent of New Zealand's rural exports are sold to Australia.) Closer economic integration is unlikely to significantly alter the overall situation.

¹ The paper contains 46 pages. Only the summary is published here.

In contrast to agricultural commodities, trans-Tasman trade has been an important feature of trade on forest products, especially for New Zealand. In 1977-78, some 16 per cent of Australian imports of forest products were derived from New Zealand and this represented some 48 per cent of New Zealand exports of forest products. Conversely, some 21 per cent of New Zealand imports of forest products were derived from Australia and these represented some 8 per cent of Australian exports of forest products. Under NAFTA the majority of trans-Tasman trade is unrestricted and a fairly high degree of economic co-ordination has been achieved. Hence, the advantage of greater economic co-ordination at this time would be to strengthen the recognition in both countries of the benefits of rationalisation and long-term co-ordination of industrial development based on forestry.

While the overall direct effect on agricultural industries of closer economic co-operation between Australia and New Zealand is likely to be small the effects on producers in some of the smaller more highly regulated rural industries could be significant. In particular, the dairy industry in Australia would face significant losses that would add to the strong adjustment pressures the industry has already accommodated and continue to persist in the longer term. Closer economic integration would involve significant changes to existing marketing arrangements and would be most difficult to negotiate. Dairy products contributed some 6 per cent to the gross value of agricultural commodities produced in Australia in 1977-78 and some 12 per cent of Australian farmers are involved in dairying. In New Zealand, there are some 16 000 dairy farms and in 1976 dairy production contributed some 22 per cent to the gross value of agricultural production and employed some 26 per cent of the rural workforce.

As the agricultural industries in both countries are integral parts of the respective economies, especially with respect to the balance of payments, the indirect effects of closer economic integration on the development of the economies generally could have significant effects on the agricultural industries. In particular, a rapid growth of the mineral sector in Australia will impart significant adjustment pressures on the agricultural sector (...).² The New Zealand economy does not have the same resource base as does Australia; for one, New Zealand is a net energy importer while Australia is a net energy exporter.

This suggests that with similar inflation rates the Australian dollar is likely to revalue relative to the New Zealand dollar. As a net result, the Australian rural industries would have greater competitive pressures to develop and adjust production structures. Closer economic co-operation with New Zealand would be unlikely to significantly alter this situation, but it would provide increased opportunities to better co-ordinate economic development of agriculture in both economies.

[NAA: A1838, 370/1/19/18, ANNEX 6]

² Two references to journal articles omitted.

38 REPORT BY DEPARTMENT OF TRANSPORTCanberra, [October 1979]¹

CONFIDENTIAL

Transport*Shipping*

Trans-Tasman sea transport has a number of characteristics which influence the nature and extent of the shipping services provided and their cost (freight rates), frequency and efficiency.

The main characteristics of the shipping service are:

- It is a short sea route which means that a greater proportion of round voyage time is spent in port rather than on longer sea routes, hence the cost per tonne mile across the Tasman is greater.
- There can be no competition from third flag vessels because of the long-standing policy of the Australian and New Zealand seamen's unions which requires that shipping across the Tasman shall be operated only by either New Zealand or Australian manned vessels.
- The liner trade has been serviced almost exclusively by one operator, the Union Steam Ship Company of New Zealand Limited, which, although domiciled in New Zealand, has since 1971/72 been owned 50% by Tasman Union Limited (a New Zealand consortium) and 50% owned by Bulkships Ltd (an Australian consortium). The largest single shareholder in Australia is Thomas Nationwide Transport.
- A limited service is provided by [Australian National Line] (ANL) cross-over vessels en route to Europe and North America at similar freight rates to USS Co[mpany].
- In addition the Waitiki Line of New Zealand has recently commenced a service with one small container vessel, offering competitive freight rates to shippers.
- A single vessel service carries alumina between Gladstone and the Bluff. The vessel used is chartered by Comalco and managed by the Shipping Corporation of New Zealand, carrying a composite crew of Australian and New Zealand seamen.
- BHP and Tasman Pulp and Paper operate their own vessels but BHP recently reached agreement with the USS Company to service its markets in the South Island.

¹ The document is undated.

There has been much dissatisfaction with the trans-Tasman shipping service over the years. Main shipper complaints have been:

- It has been claimed that the Union Company has, in the past, exploited its strong position in the trade, e.g. with freight forwarders' clients getting preference in cargo space.
- When the company phased out its conventional vessels in 1974 in favour of roll-on/roll-off vessels which, at the time, could not handle steel products, the company was not prepared to offer suitable arrangements for BHP steel exports from Port Kembla and Whyalla. BHP then started its own service with its iron class vessels. However, as indicated above, agreement has recently been reached with the USS Company to service its markets in the South Island.
- The Tasman Pulp and Paper Company purchased two purpose-built vessels for the route because of dissatisfaction with past and proposed levels and type of service provided by the USS Company. These vessels carry only the company's own products.
- Also at the time of the USS Company changeover from conventional vessels to roll-on/roll-off vessels problems were experienced by citrus exporters with inadequate refrigerated capacity.

'Plans existed in 1974 for the Australian National Line and the Shipping Corporation of New Zealand to enter the trade with dedicated vessels but these were deferred because of a significant downturn in trade in 1975.'

The Australian and New Zealand Governments have for some time been concerned with the cost and adequacy of the service and have carried out a considerable amount of work in investigating trans-Tasman shipping services.

Following a joint report by Australian and New Zealand transport officials in 1976, a survey on shipping in the trans-Tasman trade was undertaken by transport and trade officials in late 1977 to establish the views of selected exporters in both countries on trans-Tasman shipping services. The results of this survey were announced by Australian and New Zealand Transport Ministers in August 1978. In March 1979 the results of the 1977 survey were updated by a further approach to the firms included in the initial survey to establish what subsequent changes, if any, had occurred in the transport arrangements and costs in this trade.

The surveys reached the following main conclusions:

- The level of freight rates and frequent freight rate increases have been major factors which have inhibited two-way trade across the Tasman. Infrequent sailings, lack of a direct service to some ports and occasional short shipping were disadvantaging some shippers.

- It is frequently cheaper for Australian and New Zealand export firms to ship to more distant third countries than to ship across the Tasman between Australia and New Zealand.
- The lack of commodity rates in the trans-Tasman trade tends to disadvantage low value/high volume commodities as compared with other trades.
- The recent introduction of competition into the trade (Waitiki Line) and an increased willingness by the USS Company to consider the problems of individual exporters, have benefited trade in some commodities, but the general level of the USS Company freight rates, together with frequent freight rate increases, has continued to make trading difficult for many exporters.

The reports covering both of these surveys were referred to the NAFTA Ministers for consideration. The NAFTA Ministerial meeting on 10/11 April 1979 agreed with the recommendations of the joint reports that the survey results should be brought to the attention of the shipping lines in the trade, and that developments should be reviewed annually. Discussions have now been held with the shipping lines.

The potential benefits of a customs union between Australia and New Zealand could be undermined by the cost of shipping between the two countries. The higher the rates, the less likely benefits would be realised. On the other hand, the rising cost of bunker fuel should provide a cost advantage on the short haul trans-Tasman run vis-a-vis more distant suppliers and as trade increases and frequency or tonnage is increased the capital charges of ships per tonne of cargo would also be reduced.

In the report by the New Zealand Institute of Economic Research Inc (Page XII) it is stated that 'it should be stressed that a certain level of protection will always prevail in the form of the cost of shipping freight between the two countries'. The protective element in a freight cost can be positive or negative depending upon the commodity involved. No study appears to have been carried out of the protective element in the trans-Tasman freight cost.

Once the Government has decided to move towards forming a Customs Union with New Zealand, it would seem essential that a detailed but broad based study be carried out into:

- any inhibiting factors trans-Tasman shipping may impose on the full benefits of the union being realised
- how the efficiency of such shipping services can be improved.

In this connection the following aspects may be worthy of examination:

- The importance of the freight rate and adequacy of shipping services in terms of the proposed overall trading relationship. Such factors as the requirements of shippers regarding frequency and number of port calls required, the effect of directional trade imbalances, the suitability of the present ships to handle

trans-Tasman cargo and the protective element in the freight costs would need to be examined.

- Any factors that inhibit the possibility of improving the efficiency of shipping services. The extent to which New Zealand and Australian Seamen's Unions would accept lower manning scales and/or ships manned by other than New Zealand or Australian crews would be one factor to be taken into account.
- Options to alleviate the freight rate burden on shippers while still retaining the standard of services required. Such possibilities as the introduction of specific commodity rates for a wide range of cargoes, the scope for the introduction of further competition into the trade, while avoiding the development of an overtonnaging situation and the merit of governmental incentives/subsidies (e.g. special investment allowances, accelerated depreciation for ships, grants, etc.) could be considered.

Aviation

Australia and New Zealand have concluded a bilateral air services agreement under which they may jointly regulate civil aviation services between the two countries. Both countries have granted certain traffic rights to third countries which permit airlines designated by the latter to carry both passengers and freight on trans-Tasman routes. However, the bulk of both passenger and freight traffic is carried on the services of Qantas and Air New Zealand.

The two countries can jointly regulate tariffs for the carriage of passengers and freight by air between their respective territories.

The bulk of air cargo carried on trans-Tasman routes is accommodated on scheduled services. These are primarily designed to meet the requirements of passenger traffic, and characteristics of the air cargo market have secondary influence on the frequencies, etc. of services operated on the various trans-Tasman routes. However, the cargo capacity available on passenger flights is supplemented by ad hoc non-scheduled cargo flights and by a regular freighter service operated by Pan Am as part of its US-Australia operations.

Unlimited entry by non-scheduled cargo carriers is not permitted, since this could result in uneconomic utilisation of cargo capacity on scheduled services with adverse impact on passenger fares.

With regard to the relative competitiveness of air cargo, it is noteworthy that a number of respondents to the trans-Tasman shipping survey mentioned in paragraph 9.5 indicated that for certain products air freight was already competitive in price with sea freight. Respondents noted the speed and reliability of air freight, and in the view of some this more than offset and cost disadvantage compared to sea freight.

The economics of both air and sea transport can be expected to change markedly and rapidly under the impact of frequent and substantial increases in fuel prices.

It is difficult to predict the likely effect of fuel price rises on both sea and air transport across the Tasman and the relative competitiveness of the two modes.

Although Australia and New Zealand operate their own international airlines and have their own policy objectives in international aviation, there is a high degree of co-operation between Qantas and Air New Zealand. There are, however, some strains in the relationship, due in large measure to Qantas carrying New Zealand traffic that is bound for points north and west of Australia and Air New Zealand carrying Australian traffic that is bound for the USA. Recent amalgamation by New Zealand of its international and major domestic airlines would limit the scope for closer integration of the operations of Qantas and Air New Zealand, because of the risk that the latter would seek to cross-subsidise its domestic from its international operations.

It is possible that closer co-operation could be developed between the two countries in the field of international aviation. It would be possible, for example, for one country to provide certain technical services or to mount certain air services on behalf of the other under some agreed arrangements. Clearly, however, such a suggestion would need to come from New Zealand for it to have any prospect of being accepted in practice.

[NAA: A1838, 370/1/19/18, ANNEX 6]

39 PAPER BY RESERVE BANK OF AUSTRALIA

Canberra, October 1979

CONFIDENTIAL

Australia – New Zealand Economic Co-operation

Scope for Co-operation in Monetary and Banking Areas

The focus of the current exercise on closer economic relations between the two countries has been largely trade-oriented and thus runs mainly in terms of the possibilities of a full free-trade area, a customs union etc. The question might be asked whether this closer integration on the trade front might be accompanied by closer co-operation in monetary and financial matters.

Monetary Union

At one extreme, closer monetary co-operation could be interpreted as involving complete monetary union, ie the establishment of a common currency. Such a step requires a major political decision by both countries. It would have far reaching implications and would call for harmonisation over a broad range of monetary, fiscal and wages policies.

Moves along these fronts would not seem to warrant serious attention given that they pre-suppose a degree of commitment to political integration well beyond

that envisaged in the current exercise. It is perhaps worth observing that the most notable example of espousal of the case for monetary integration has been the EEC, which has had this objective over a decade or more: progress in practice has been limited. The recently launched European Monetary System is an attempt to introduce greater stability in exchange rates between the participants but does not involve any major loss of autonomy on the part of individual countries in regard to their monetary and fiscal policies. The new system is in its early stages.

Co-operation in Financial Matters

In his meeting with the Prime Minister in Lusaka, Mr Muldoon mentioned banking as one area that would need to be considered. This suggests a need to consider whether there are any initiatives that might be taken in the financial area—less radical than monetary union—that would help the cause of closer economic relationships.

At present, three Australian banks undertake trading and savings bank business in New Zealand. Between them these three banks—ANZ Banking Group, Bank of NSW and Commercial Bank of Australia—operate about 470 branches and agencies in New Zealand. In terms of trading bank business they account for about 45 per cent of total deposits in New Zealand.

The remainder of the trading bank sector in New Zealand is accounted for by the National Bank of New Zealand (a member of the Lloyds Group) and the Bank of New Zealand which is owned by the New Zealand Government.

The Bank of New Zealand holds unconditional authority under the Banking Act to conduct banking business in Australia and at present operates five branches here. Its trading bank deposits in Australia amount to approximately \$70 million or 0.3 per cent of aggregate trading bank deposits in Australia. The authority held by the Bank of New Zealand Savings Bank (BNZSB) is conditional in that it specifies the points at which it can carry on banking business in Australia. BNZSB holds deposits in Australia totalling \$4 million. This represents about .02% of aggregate savings bank deposits.

In the area of non-bank financing there are a number of intermediaries whose operations extend across the Tasman. Four of the Australian banks have interests in hire purchase, general finance and merchant banking companies operating in New Zealand. There are also several Australian non-bank intermediaries with share holdings in New Zealand financial institutions. Major Australian life assurance and general insurance companies also have extensive operations in New Zealand.

A number of New Zealand insurance companies and other financiers carry on activities in Australia but their presence here is in total less significant than in the case of Australian intermediaries operating in New Zealand.

The spread of activities of Australian financial institutions to New Zealand (and the reverse process) has reflected commercial judgments made by the institutions

concerned. More recently the scope for the process to be taken further has been subject to policies relating to foreign investment in each country. The Government's policy on foreign investment in the bank and non-bank sectors of financial markets is set out on pages 4 and 5 of the publication 'Foreign Investment in Australia'.

[NAA: A1838, 370/1/19/18, ANNEX 6]

40 BRIEF BY ASHWIN FOR HENDERSON

Canberra, 29 October 1979

CONFIDENTIAL

Australia – New Zealand Economic Co-operation: Permanent Heads Talks, Wellington, 1–2 November

The talks will be held in the Treasury Building, Wellington. All members of the Australian delegation will be accommodated at the Town House. The High Commission will provide transport and stenographic assistance if necessary. Mr Border has arranged a social function.

2. The New Zealand delegation is expected to comprise:

Mr N. Lough	Secretary	the Treasury
Mr H. Clark	Secretary	Trade/Ind.
Mr F. Corner	Secretary	Foreign Affairs
Mr B. Galvin	Secretary	Prime Minister's Dept
Mr G. Bathgate	Director	Customs Dept
Mr R. White	Governor	Reserve Bank
Mr M. Cameron	Secretary	Agric. & Fisheries
Mr C. Terry	Dep. Sec.	Treasury
Mr G. Scott	of the Prime Minister's Dept (Secretariat for New Zealand Study)	
Mr N. Plimmer	of the New Zealand High Commission	

3. The Australian delegation is as follows:

Sir Geoffrey Yeend
 Mr J. Scully
 Mr N. Currie
 Mr P. Henderson
 Mr V. Montgomery Dep. Sec., Business and Consumer Affairs
 Mr G. Miller Director, Bureau of Agric. Economics
 Mr J. Moore FAS, Treasury

Background

4. At their meeting in Lusaka, Mr Fraser and Mr Muldoon noted that the main options for wider economic co-operation included:

- an extension of the present limited free trade area
- full free trade area
- customs union (i.e. common external tariff)
- economic community
- monetary union.

5. Mr Muldoon also noted that economic co-operation could also encompass many other matters such as the free flow of people, consultation on industrial matters and investment co-ordination. (The possibilities of co-operation in specific fields outside the tariff area has been referred to frequently by New Zealanders.)

6. The Prime Ministers agreed that papers should be exchanged and that the senior Officials' Meeting would be followed by another meeting between themselves no later than February.

Purpose of the Permanent Heads meeting

7. The meeting is to review a number of issues which have been thrown up by the study of the various options. It is expected that discussion will concentrate on the lower end of the spectrum of options set out above (i.e. extending NAFTA to a full free trade area, or possibly a customs union).

8. A report will be submitted to Cabinet on the exchanges between officials and the preparations for the meeting between the two Prime Ministers.

Briefing and Documentation

9. The briefing and reference papers for the meeting are

(a) The discussion papers recently exchanged between officials.¹

(b) A paper in three parts:

(i) Australia's objectives and the framework for the meeting²

(ii) Conclusions arising from Australian Studies

(iii) The proposed agenda (prepared by New Zealand).

(c) A report on Australia – New Zealand Economic Relations by STR.³

(d) Three volumes of reference papers. (Reports on special topics by individual Australian Departments.)⁴

1 The Australian discussion paper is Document 33.

2 Document 32.

3 Document 22.

4 A selection of these is published in Documents 34 to 39.

10. All of the abovementioned (except (c) which is attached to this note) were passed to you last Friday afternoon. For our discussion paper please see Vol I, p.1.⁵ It would be sufficient for you to read (a), and (b) which will probably become the working brief, and the foreign policy implications paper (Vol. 1 of reference papers p.73).⁶

11. You should also be aware of recent Ministerial correspondence on OAPEC and trade in whitegoods, and of recent Ministerial discussion of trans-Tasman travel (see attachment A).

Foreign Affairs Role

12. Our role in the current exercise has been a constructive if largely supportive one. Although we were not consulted by Trade and Resources before Mr Anthony took his initiative in April it can fairly be claimed that our low key role in nurturing the moves New Zealand has made to strengthen the relationship in the past few years has contributed to a favourable atmosphere which has made the initiative politically possible. Particular mention should be made in this regard of the part the Department and the High Commission in Wellington played in making a success of Mr Talboys' visit to Australia in March/April 1978 and in ensuring that all the initiatives have been followed up. DFA and NZMFA⁷ have both been closely involved with the exercise since Mr Anthony's initiative. An officer of this Department was seconded to the STR task force for the preparation of the preliminary report.

13. We broadly endorse the interdepartmentally agreed objectives set out in the briefing paper. From our point of view, we would wish to see discussion freewheel over the range of issues even if this means departing from the agreed Agenda. We regard this first meeting as testing the water and we hope that it could be conducted more in general terms rather than on points of detail. The success of this initiative will depend upon the political commitment of both Governments. Our interest will be to keep before this meeting an awareness of the level of political involvement in this exercise and to head off any move by the economic departments (on both sides of the Tasman) to take a 'hard-headed' approach which emphasises potential damage rather than the opportunities.

14. The meeting will of course identify potential difficulties for both countries in moves towards closer economic co-operation. The risk is that the cumulative effect of these difficult, indeed in some cases, unanswerable, questions, could give a negative tone to the meeting. In our view, the point of this first discussion should be to accept that there will be problems but to go on to examine whether these can be set to one side to allow movement where it is possible.

5 i.e. Document 33.

6 i.e. Document 36.

7 i.e. the New Zealand Ministry of Foreign Affairs.

15. The search for common ground must be the prime purpose of the talks with a view to providing the subsequent Prime Ministerial meeting with some substantive agreement capable of effective public presentation.

16. While we endorse the delegation briefing, there are a number of points on which this Department has a particular perspective:

(i) NEED FOR AN OUTWARD-LOOKING ARRANGEMENT

We strongly support the view that whatever arrangement is eventually agreed upon, it should result in a liberalising of the trade regime both between the two countries and between our two economies and our other trading partners, particularly in Asia and the Pacific. This accords with the Minister's view expressed in the Sir Robert Menzies lecture on 17 September:

'I have focussed my attention tonight on the economic argument for Australia's association with the industrial revolution occurring to our north. But there are also powerful political arguments pointing in the same direction. If we want to live in a stable and prosperous and peaceful region, it is in our interest to act to facilitate rather than frustrate sustained economic growth. And if we want close political relations with our neighbours, we must appreciate that we cannot do so while remaining economically inward-looking and protectionist. Economic and political relations are different sides of the same coin.'

The likely third country reaction could be stressed as an important factor in the examination of the various options. If the exercise is to be a credible one it must hold out the possibility of potential gains (particularly trade) for developing regional countries and must not conflict with our goal of promoting greater GATT based non-discriminatory global trade liberalisation.

In this context, the importance of international presentation even at this stage should be stressed along with Foreign Affairs' willingness to play its part. Consideration could be given to NZMFA and DFA producing an agreed Information Objectives Paper for dissemination overseas.

(ii) SOUTH PACIFIC

The New Zealand discussion paper places particular stress on any implications for New Zealand's distinctive historical role in the South Pacific. Reference is made to ensuring that trade in sensitive products (sugar, bananas, tropical fruit and juice concentrates) is not damaged by any new arrangement. If this becomes a problem area it may be necessary to ensure that other departments appreciate the importance which New Zealand places on its relations with the South Pacific.

(iii) POLITICAL CONSTRAINTS/PUBLIC OPINION

The degree of success of the current initiative will obviously depend in the last resort on the political will of the two governments. One aspect of the matter which we need to assess is the political freedom of movement of the respective parties. The constraints on Mr Muldoon have been analysed by the High Commission. On the Australian side the main political constraints are concern

that any show of Australian enthusiasm could backfire against the project in New Zealand and a concern that closer economic links with New Zealand not prejudice the development of relations with our developing country neighbours. An important ingredient in decisions taken will be public opinion in both countries. Ways of promoting informed public discussion could be raised and perhaps the need for a bipartisan political approach and what recommendations should be made to Ministers in this regard. Possible roles for the Australia – New Zealand Foundations, Parliamentary Committees, media and SOVF visitors could be suggested.

(iv) NEW ZEALAND'S ECONOMIC PERFORMANCE

We should respect the fact that the New Zealand discussion paper gives a frank statement of New Zealand's economic difficulties. Australian departments should not use the talks to lecture New Zealand on its poor economic performance or to imply that New Zealand is looking to Australia to mount a rescue operation and accordingly that Australia has the right to call the tune. Such views would be of course anathema to the New Zealand side.

Preparations for the Prime Ministerial Meeting

17. One of our concerns has been to ensure that the momentum of the exercise is sustained. There is a possibility that a decision could be taken to have another Official's Meeting before the two Prime Ministers meet. There would be advantage in any such meeting being again at permanent head level to reduce the risk of the exercise reverting to the officials who have continuing responsibility for NAFTA and whose perceptions have been affected by the rigidity which characterises NAFTA. Agreement on a joint record of the current meeting would also be a useful way of confirming important understandings in the interests of maintenance of momentum.

18. The Prime Minister is strongly of the view that the initiative should be seen to be coming from New Zealand. While we have no difficulty with this in principle we feel it should not be carried to the point where it frustrates the speed with which further work and consultation proceeds.

19. Departmentally, we would see merit in Mr Fraser going to New Zealand for the February discussions with Mr Muldoon rather than Mr Muldoon coming here. (Mr Muldoon would obviously not wish to create the impression that by coming to Australia he was assuming the role of suitor.) We understand that Sir Geoffrey Yeend also is of this view, although the Prime Minister has not yet taken a decision on it. It is important therefore that nothing be done which would foreclose this option.

20. This briefing note was prepared jointly with Economic Division.

Attachment

Recent Relevant Developments

You should be aware of recent developments which may be raised at the talks. On 25 October Mr Muldoon wrote (copy attached) to Mr Fraser about a possible joint Australia – New Zealand *dialogue with the Organisation of Arab Petroleum Exporting Countries*. Mr Muldoon has couched consultation on this question in terms of the spirit of the closer economic co-operation initiative. The Government has not yet reached a decision. Any discussion at the meeting could centre around the possibilities for co-operation in dealing with the Middle East on joint marketing or energy.

Mr Anthony wrote (copy attached) to Mr Adams-Schneider on 25 October regretting that *Australia cannot agree to incorporate whitegoods into a NAFTA Schedule B arrangement* at this time. Mr Anthony cites the decision as an example of the difficulties in moving NAFTA forward which make it necessary to take a fresh look at the possibilities for broader Australia – New Zealand co-operation. Given the timing of the decision and the fact that this has been the only trade matter on which there has been Ministerial correspondence since the Prime Ministerial talks at Lusaka, the matter might be raised by the New Zealand side. There is a danger that Mr Anthony's reply might be seen as an attempt to pressurise New Zealand at the talks. The delegation may need to give early attention to how the matter should be handled.

You should also be aware that senior officials in NZMFA have expressed concern that moves in respect of *trans-Tasman travel arrangements* should not conflict with the spirit or the substance of the closer economic co-operation exercise. There should no longer be any need for this concern as we understand that the respective Ministers have recently agreed that no further action would be taken on proposals for the introduction of documentation on the trans-Tasman route at this stage.

[NAA: A1838, 370/1/19/18, x]

41 CABLEGRAM FROM AUSTRALIAN HIGH COMMISSION IN WELLINGTON TO AUSTRALIAN GOVERNMENT

Wellington, 29 October 1979

O.WL3993 CONFIDENTIAL

A/NZ Permanent Heads Meeting

Scott, Head of the New Zealand officials group which prepared the paper on closer economic association with Australia, told us today that the final draft handed to us has been prepared in some haste and that Cabinet Economic

Committee acceptance of the document and its central theme of an outward looking economic association flowed from the 'outward looking' principles contained in the last budget. The officials group had deliberately avoided getting 'bogged down' over the specific merits or otherwise of free trade with Australia, and had turned to a broader theme as the more acceptable common denominator.

2. Scott conceded that while an outward looking economic association (on which he noted both papers were more or less in agreement) might imply a customs union, the New Zealand political climate did not allow Ministers to move as far as this. They were still looking at a free trade area in which N.Z. would be free to utilise lower tariffs on capital goods and raw materials to create a market for itself in third countries. Nevertheless Scott agreed that the officials' paper implied movement away from the present NAFTA format.

3. Scott did not deny that there were some inconsistencies in the long term aims of the New Zealand officials' paper and what Ministers were willing to entertain. Working back from an outward looking economic association could logically imply a customs union—itsself a logical and perhaps inevitable progression from a free trade area. However Scott noted that Ministers, including Mr Muldoon, were concerned with more concrete shorter term scenarios.

4. In this context the Prime Minister was anxious to have a reasonably specific proposal before him prior to his meeting with Mr Fraser. He was not interested in having a loose set of options. It was therefore hoped that the Permanent Heads might be able to make some positive progress and at least provide a broad scenario and time-frame for close economic association which could then be further worked over by a meeting of lower level officials.

5. Asked about the absence of Mr Adams-Schneider from the Cabinet Economic Committee meeting at which the New Zealand paper was discussed, Scott said Adams-Schneider has been sick. He strongly implied, however, that if there were to have been protectionist objections then they would have come from Mr Muldoon.

6. We should also note that Scott has accepted a difference in definition of trade creation and trade diversions between the two papers. He seemed to accept our definition as more appropriate.

[NAA: A1838, 370/1/19/18, ix]

New Zealand Documents

42 TELEGRAM FROM MULDOON TO TALBOYS

Lusaka, 7 August 1979 (from NZ CHOGM delegation)

No 024. CONFIDENTIAL

For Talboys¹ from Prime Minister

Australia – New Zealand Relations

I had a very useful conversation with Malcolm Fraser yesterday. You will have seen in an earlier message the statement I issued afterwards. After my initial presentation, Fraser told me they were willing to respond in a very forthcoming manner. Neither of us knew exactly where the work we were doing would lead or the extent of the problems that it would throw up; but we lived in an increasingly difficult world and it made no sense for us to preserve rigidly two separate economic units. We should be looking for ways to maximize the economic cooperation between us.

Both of us agreed that it had become difficult to make very much more of NAFTA. This did not mean that it should be wound up, but that it no longer seemed to be an adequate vehicle for progress in our economic relationship. We listed the possibilities ranging from free trade areas to economic and finally monetary union and we agreed that our studies, at least at the initial stages should be broad in scope and should not exclude any of them. They should look at a generous time-scale and should be conducted in a positive spirit.

We noted the other areas of possible cooperation—energy policies, industrial development, consultation on markets and the like—which could either be picked up in the context of one or the other of the broad options, or be considered in their own right. We decided that these too could be studied with advantage.

We set a timetable for our work. I suggested to Fraser a ministerial meeting either late this year or, more likely, early next, so that we could review the work that had been done, and identify the areas in which it should be carried forward. He in turn proposed that officials should give each other a note on what they were looking at by late September, and meet shortly afterwards for a preliminary discussion. After they had reported, a time could be fixed for Prime Ministers and

¹ Talboys was Acting Prime Minister in Muldoon's absence.

their respective Ministers to meet. It would in any case be no later than February 1980.

Fraser expressed again his concern that Australia should not appear to be making a big brother take-over, and that the initiative should therefore come from the New Zealand side. I told him I thought we had already dealt with this problem in New Zealand, which was where the potential sensitivity lay, and that to my recollection we had described the initiative simply as one which arose out of the difficulties of NAFTA. He wished, however, for a note—half a page or so—on the way we had presented it so that he could take the same line, and I undertook to give it to him before he left Lusaka. I do not have with me the papers, which would establish exactly what has been said each time the matter has been discussed, but I see no particular reason why we should cast ourselves, quite artificially, as the demandeur. Unless you have a contrary view, therefore, I propose to give him a note which expresses the impulse behind our present discussions simply as one which arose out of our ordinary negotiations.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 19A
Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

43 LETTER FROM MULDOON TO FRASER

Wellington, 16 August 1979

I am very glad we had the chance to have such a useful talk about Australia – New Zealand relations in Lusaka. The fact that you and I were able to discuss the exercise and arrange how it should be handled will make it a lot easier for the work to go ahead in the positive spirit that we both want.

You asked me for a note on how we have been handling the matter in public. I think you have already seen the press statement I made after our meeting, and I attach to this letter a copy of what I said at the National Party conference just before I left for Lusaka. In summary, the line I have been taking and, subject to any views you may have, will continue to follow is that the idea emerged naturally from our discussions following a NAFTA meeting. We agreed that NAFTA, valuable though it had been in the past, no longer seemed to be providing a sufficiently strong impetus for the economic cooperation that makes sense in the difficult economic environment in which both of us live. In pursuing this cooperation both of us would, of course, have to avoid sudden dislocations of our economies—whatever we worked out would have to be to the benefit of each, otherwise it would not endure or command public support. We could not predict the result of our examination of all the options but we would approach the exercise constructively, in a strong positive spirit.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 19A
Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

44 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 16 August 1979

CONFIDENTIAL

Australian – New Zealand Economic Cooperation: Progress Report

Introduction

1 This is to report on progress under the present initiative to investigate options for greater economic cooperation between Australia and New Zealand.

2 The work currently under way has arisen from the recent discussions, statements and speeches by Ministers of both Governments who have expressed dissatisfaction with the present state of the economic relationship between the two countries and called for a full discussion of the alternatives for the future. This has culminated in the meeting of the Prime Ministers of both countries at the Commonwealth Heads of Government meeting in Lusaka. Those discussions set the scope of the present initiative in general terms and the timing for the next stages of discussions between officials and Ministers.

3 These recent activities follow on from the Nareen Declaration¹ and the establishment of the Australian – New Zealand Businessmen's Council and the Australia – New Zealand Foundation. The discussions which the Prime Minister of New Zealand and others had with the Australian Deputy Prime Minister, Mr Anthony, in April underscored the problems with NAFTA trade negotiations. Also, the Australian invitation to New Zealand to make proposals for a fresh approach to developing the relationship² were made at that time. Mr Anthony's views were subsequently reinforced in correspondence between the two Prime Ministers.

4 The Prime Ministerial statement from the discussions in Lusaka lays the foundation of future analysis and discussion, and is recorded below:

Following work that has been done in recent months by committees of officials in each country, it was agreed that further investigation would be made into broad areas of economic cooperation as well as specific fields where the two countries could work more closely together. The timetable was set for Australia and New Zealand officials to exchange information about the end of September and meet shortly thereafter. Following consideration of the results of that meeting by the respective Government, it was anticipated that the two Prime Ministers and other appropriate Ministers would meet to discuss the future direction of economic cooperation not later than February of next year.

1 Document 1.

2 See Document 15.

The Prime Ministers emphasised that any form of structural change in the two economies would be necessarily a long term operation and that neither country would wish to see drastic changes made rapidly to any particular industry or group of industries. Nevertheless they agreed that in a complex world economy which continues to throw up new and almost intractable problems, it is in the best interests of Australia and New Zealand to join forces wherever possible in advancing their own economic development and combating the forces that are arrayed against us.

The two Prime Ministers agreed that their study would consider the full range of options and would be undertaken in a positive spirit.

In addition to the meetings of officials and Ministers set out in this statement the Australian Minister for Special Trade Representations, Mr Garland, has expressed his interest in visiting New Zealand in mid-September.

Work Programme

5 A working party of officials has been established which is presently chaired by the Prime Minister's Department and includes the Ministry of Foreign Affairs, the Department of Trade and Industry, Customs Department, Treasury, Ministry of Agriculture and Fisheries and the Reserve Bank. The approach being taken to the study is to examine the possibilities for closer economic cooperation and assessing the implications for New Zealand's economic objectives and policies. This is the first step in defining a path of development in economic cooperation that best suits New Zealand's interests. The brief provided for the Prime Minister's meetings with Australian Ministers in Lusaka summarised this approach and parts of this are reproduced as the Appendix to this report.

6 It has been agreed that papers will be prepared by the departments on the following topics:

- a Examine the potential of New Zealand industries by comparison with their Australian counterparts to assess their vulnerability and their likely export performance under various alternatives; (Treasury)
- b Assess the potential for trade creation and trade diversion on the basis of the relative competitiveness of Australian and New Zealand industries in relation to world prices for their products and current levels of protection; (Trade and Industry)
- c Examine the implications of a possible rationalisation of Australian and New Zealand tariffs; (Customs)
- d Examine the implications of a closer economic relationship with Australia on New Zealand's other economic interests); (Trade and Industry/Foreign Affairs)
- e Consider the implications for our political and other interests with, for example, the Pacific, Europe and South East Asia; (Foreign Affairs)

f Assess the future prospects for the Australian economy with emphasis upon its likely trade policy and its attitudes towards protection; (Foreign Affairs)

g Consider possible areas of coordination in major industrial developments; (Trade and Industry)

h Consider relevant overseas free-trade precedents, including EFTA; (Treasury/Foreign Affairs)

i Consider the implications for agricultural production and trade of closer economic cooperation; (Agriculture and Fisheries/Trade and Industry)

7 The statement by the Prime Ministers sets a timetable for the end of September for an exchange of information and a meeting of officials in October. By then it can be expected that officials will have completed a preliminary review of the alternatives and have the outline of an approach to developing greater economic cooperation. This will provide the basis for discussion with Australian officials after which the areas requiring deeper analysis and consultation should become clearer.

Consultation with the Private Sector

8 It will be important to keep the private sector well informed of progress in the coming months to allay any fears of undue official secrecy. Also because of the intensive publicity the subject is receiving there is some risk of public attitudes towards various proposals being influenced prematurely before thorough consideration has been made by the Government. In the light of this there is a need to consider carefully and to coordinate the publicity given to various announcements and formal consultations as they arise.

9 The Australian – New Zealand Businessmen's Council and the Manufacturers Federation are seeking a close involvement with the Government in these developments and other groups will no doubt wish to be involved in the near future. These two organisations have close links with their counterparts in Australia and can provide valuable information to Government. The Businessmen's Council has met with Mr Talboys, Mr Adams-Schneider, Mr Templeton and with officials. It was agreed that the Council will be kept abreast of the on-going work and consulted for views on specific proposals at the appropriate time. For its own part the Council, together with the Foundation have supported a study by the New Zealand Institute of Economic Research on the subject which has just been made available to Government.

10 The Manufacturers Federation have raised with Ministers and officials its strong wish to be involved and it points to the consultations that took place over the new export incentive scheme as an example it would like to be followed on this subject. Part of the work being undertaken by the Department of Trade and Industry will require discussions with manufacturers on the likely effects of various proposals for their operations. This is the first stage of consultation with

manufacturers and the approval of the Cabinet Economic Committee is sought for officials to enter into these discussions.

Recommendations

11 It is recommended that the Cabinet Economic Committee:

- a *note* this report;
- b *authorise* officials to enter into consultations with manufacturers and other relevant bodies on the implications of alternative developments in economic cooperation between Australia and New Zealand;
- c *note* the need for coordination of the publicity given to proposals and consultations as they arise;
- d *request* officials to report further on the question of future meetings of officials with their Australian counterparts.

12 The departments of Foreign Affairs, Trade and Industry, Customs, Agriculture and Fisheries and the Treasury have been involved in the preparation of this report and concur with its recommendations.

Appendix

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Australian Attitudes

It is difficult to assess Australian views on how they wish the relationship to develop. They are plainly frustrated with NAFTA negotiations and they do not see the relationship as equitable in its present form. New Zealand's continuing maintenance of import controls is perhaps the most fundamental objection. They have also in recent years complained about other imbalances built into the trading relationship through the inter-company agreements in Article 3:7 arrangements, for example, and at New Zealand's export incentives. It seems unlikely that these objections could be resolved by New Zealand offers to put more items on Schedule A and minor concessions on import controls. A more fundamental response from New Zealand may be required to offset this hardening of the Australian position and it is possible that Mr Anthony's initiative³ was, in part, intended to point this out. It may be that the supporters of a general lowering of Australian protection and an effort to boost its trade see the present relationship with New Zealand as inconsistent with this, particularly as Australian exports to New Zealand have been static. They may see Australia and New Zealand jointly adopting an outward looking trading strategy and improving the prospects for this by a closer internal relationship.

3 See Document 15.

New Zealand's Objectives

New Zealand's general economic objectives provide the basis for defining and evaluating proposals to expand its relationship with Australia, although factors including other trading relationships must also be taken into account. It is assumed that our economic objectives over the longer term are to raise living standards by the most efficient use of our resources. Among other things this requires that we expand exports of goods and services which we can produce efficiently in comparison with the major trading nations and for which markets are available. The cost of inputs into export production and hence the general level of costs in the New Zealand economy must be competitive with our trading partners. This means we must increase the efficiency of resources used domestically in part by lowering the costs in firms producing tradeable commodities at prices that are excessive by world standards (or by moving resources out of those firms). Producers must also have access to imported inputs at prices that are reasonable in relation to what is generally available in world trade. The restructuring policies the Government has initiated are directed towards those goals. The recent Budget announcements on exchange rates, import licensing, export incentives and other measures provide the means for further progress.

Options

This general objective and these policies have profound implications for our economic relationship with Australia as it provides the largest market for our manufactured exports and is the source of many of our imports. There are potential gains from the greater efficiency an integrated market would permit. There are many options open for developing our economic relationship with Australia and each should be evaluated according to how far it goes towards satisfying the requirements above. While there are endless variations available on any theme the main ones are:

- Extension to the present limited free trade area;
- Full free trade area;
- Customs union;
- Economic community;
- Monetary union.

In this order, and with some over-simplification, they extend along the spectrum from the lowest to the highest degree of economic cooperation and integration. There is substantial evidence that Australia under the present NAFTA regime is unwilling to make progress and that there are difficulties in preserving our present trading advantages. Australia is in effect inviting New Zealand to propose a greater degree of cooperation and implying that otherwise we will slip backwards. Each of these broad alternatives is described briefly in the following paragraphs.

The present arrangement under NAFTA requires consideration to be given to free-trade product coverage on a case-by-case basis. It is increasingly difficult to add items to Schedule A for a number of reasons including reluctance on the part of manufacturers on both sides of the Tasman to accept competition and Australian concern on the effects of New Zealand's import licensing policy. Some useful trade also takes place, however, under special arrangements (Schedule B,⁴ Article 3:7⁵). A necessary administrative detail is an area-content rule (currently 50 per cent) designed to ensure that the benefits of the NAFTA devolve on the participants and industry is not subjected to competition from goods which to a large extent are sourced elsewhere.

Under a full free-trade approach all goods would be traded freely between the countries with zero tariffs but with no requirement to harmonise the tariffs applied against third countries. A complete free trade area would create pressure to rationalise or eliminate those industries which are more heavily protected in one country than in the other. Area-content rules could be maintained and in practice pressure could be expected from Australia to make these more restrictive and other non-tariff restrictions could receive even more attention than at present. Area-content rules in a free trade area have a crudely similar effect to harmonised external tariffs as an exporter is restricted in his freedom to purchase raw materials from countries outside the free trade area.

Under a customs union both countries would agree to harmonise their external tariffs against third countries. Whether this raises or lowers the level of protection in general or for particular products against third countries depends on how the process is negotiated. While the customs union approach has many merits it would be inconsistent with New Zealand's restructuring policies to enter a union which raises protection or commits us to a high long term level of protection. On the other hand a customs union that is directed towards a general lowering of New Zealand's level of protection is desirable and this should be our objective in any discussions of this concept. As New Zealand's level of protection is higher than Australia's except in certain areas, there should be scope to develop such discussions.

Both the free trade area and customs union options emphasise trade flows as the focus of cooperation. Economic cooperation may also encompass many other matters some of which are listed below:

- a Free flow of people;
- b Free flow of capital;
- c Consultation on industrial development strategies;

4 Schedule B of the NAFTA was an intermediate arrangement to provide for partial participation in free trade provisions 'by way of quotas or duty free schedules on the basis of partial reciprocity'.

5 Article 3:7 allowed for the remission or reduction of duties on goods that were not duty free.

- d Cooperation in marketing of major products in the rest of the world;
- e Cooperation on energy development;
- f Coordination of economic relationships with other countries and trading regions;
- g Coordination of monetary, fiscal and exchange rate policies between both countries;
- h Coordination of employment and incomes policies;
- i Establishment of a monetary union.

Rather than choose, at this stage, a particular ideal form for a future economic relationship made up of some particular trading arrangements and some of these other elements it is essential instead to keep in motion the machinery of analysis, consultation and negotiations. However, some preliminary studies of these latter elements is justified.

The terms 'Economic Community' and 'Economic Union' can encompass various of these elements and can bring to mind misleading parallels from other areas of the world. There is already a free flow of people (although threatened by difficulties in tracing criminals and unemployment problems) and a significant flow of capital between Australia and New Zealand which indicates a closer relationship than might be inferred from our trade agreements. There is already a degree of consultation, if not coordination, in some areas of economic policy. The problem in coordination of monetary, fiscal and exchange rate policy is that it arouses suspicions that one country may export more of its inflation or unemployment than it might do otherwise. The last step in economic union is the establishment of a common currency which cannot succeed unless there is already an intimate coordination of these policies and completely unrestricted trade. A step towards cooperation in these areas could be taken through greater consultation between Ministers and officials and the integration of more non-government organisations across the Tasman. New institutions could be established for formal consultations between Governments on these questions. In the immediate future the most fruitful steps might be to explore possibilities for cooperation in industrial development strategy and to review New Zealand's foreign investment policy in relation to our relationship with Australia. The complications arising from Australia's federal structure of government must be accounted for.

The Basis for Possible Proposals

Until we have a clearer understanding of the Australian scene and have completed our consideration of the options it is premature to raise specific proposals. Whatever recommendations eventually emerge from our studies it is apparent that if any proposal is to succeed it will have to be expressed in more comprehensive terms than those which are presently occurring under NAFTA. The Government's restructuring policies including those in the recent Budget

form the basis of a new approach to our relationship with Australia. In this connection we will have to recognise Australian concerns over New Zealand import licensing if we wish to bring about significant change. The possibilities for cooperation in the development of energy and other resources and for coordinated marketing of major export products may also have some promise.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 19A
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45 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION IN CANBERRA

No. 2715.¹ 3 September 1979

Australia/New Zealand Economic Relations and the South Pacific

There has been some questioning of the implications for South Pacific Island countries of the current discussions between Australia and New Zealand regarding a possible closer economic relationship. You might wish to make use of the following extract from a speech delivered by the Deputy Prime Minister² at Otaki on 2 September. Full text follows by bag.

'Nor will a closer economic relationship with Australia involve our turning our backs on our economic (or political) obligations to the developing countries which are our neighbours in the South Pacific. I want to be quite explicit about this. Australia and New Zealand have both agreed to enter into negotiations on a comprehensive non-reciprocal Trade Agreement in favour of the South Pacific Forum Island countries. As recently agreed by regional heads of government at the last Forum meeting, the aim of these negotiations is to achieve progressively duty free and unrestricted access to the markets of Australia and New Zealand over as wide a range of Pacific Island products as possible. This effort will proceed at the same time as our consideration with Australia of new options for our bilateral relationship. And, most important, the opportunities for improved access from the South Pacific to New Zealand will not overall be diminished by whatever arrangements are eventually agreed with Australia.³ As I have said, we must become more outward looking rather than less pursuing our interests and in meeting our responsibilities.

In the final analysis we are a Pacific nation, not just an Australasian nation, and no new economic relationship with Australia will change that. Such a

1 Copied to New Zealand missions in Pacific countries.

2 Brian Talboys.

3 The SPARTECA agreement, a major aim of which was to offer Pacific island countries improved terms of access to the markets of Australia and New Zealand, was signed in 1980 and entered into force in 1981.

relationship would only be of value to us, I believe, if it made us better able to exploit the economic opportunities available to us in Asia and the Pacific. And better able to play a distinctive and constructive New Zealand role in the region in which we live.'

[ABHS 950/Boxes1221-1226, 40/4/1 Part 21A

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46 FILE NOTE BY PLIMMER

Canberra, 12 September 1979

RESTRICTED

Australia/New Zealand Economic Relations: Conversation with President of the Federation of Labour

While in Melbourne 10-11 September for the Heads of Post meeting, I attended also, on invitation, the biennial conference of the ACTU, and met there Mr Knox, President of the Federation of Labour from New Zealand.

2 Mr Knox wondered about the talk on economic union. He was pleased that Mr Muldoon had damped down on some of the speculation and had said that things would develop over a longer time frame. Mr Knox was not sure about the whole idea. I said that the studies being done were without commitment and it was a desirable exercise to go through. In any case I doubted if people were really talking about full economic union, meaning common currencies and the whole works. My guess was that the focus would be more on options such as a full free trade area or a customs union. He agreed with this with some enthusiasm.

3 Mr Knox said he had discussed the subject with the President of the ACTU, Mr Hawke, and they had simply agreed that any arrangement should look after the work forces of both countries. About five years ago he and his predecessor in the FOL had discussed a similar idea with Mr Hawke. They had agreed then in broad terms that a closer trade relationship was desirable under which New Zealand would export dairy products and small manufactured products, particularly component parts, and Australia would develop heavy industry. Hawke had returned to Australia and said this publicly and had been howled down by the Australian dairy industry. This would no doubt happen again. I agreed that the Australian dairy industry would fight increased competition from New Zealand and said that it had already started to do so in the context of the economic relations study, but that there were signs the Australian Government would be willing to face up to this if it were part of a desirable overall package. Certainly, it would seem to be necessary that any comprehensive free trade or customs union arrangement would have to include provisions for New Zealand dairy access to Australia.

4 I then said that in any event it seemed to me that agriculture should not dominate the exercise. I did not like the idea that Australia would do industrial products and New Zealand do agricultural products with perhaps marginal manufacturing. An arrangement would have to be mutually beneficial on manufacturing. Mr Knox agreed entirely but wondered whether New Zealand's manufacturing could compete. Australia had some powerful industries, he said.

5 I responded that it was hard to generalise but overall the evidence was that many sectors of New Zealand industry could compete. The trade balance had swung in New Zealand's favour over the years of NAFTA from about 4:1 against us to 1.5:1 against us. Studies showed that apart from tariff cuts and better access arrangements a key factor which permitted New Zealand manufacturers to export to Australia was the exchange rate. With this differential New Zealand manufacturers could compete, and exports had surged when the differential was greatest. New Zealand also had the advantage of lower wages. Mr Knox was non-committal on this line of argument (and we were probably talking about different things in the sense that he would have been concerned with the New Zealand manufacturers competing with Australian imports rather than competing in the Australian market), but he was moved to talk at some length about New Zealand as a low labour cost economy. Its development could not be based on that, he argued. I noted that I did not use that expression or concept and had simply referred to the fact of the current wage differential between Australia and New Zealand. He accepted this, but said that he had to use that expression.

Foreign Investment

6 The discussion on 'low labour cost economy' led Mr Knox to talk about foreign investment, especially from West Germany. He had met the Investment Delegation from that country. He did not like the idea that they should invest in New Zealand if they did so because of New Zealand's low wages. If they did there would be trouble when they exported the products back to Western Europe or wherever. But there was certainly a need for foreign investment and for overseas technology which came with it. There were not the financial resources in New Zealand to develop without it. He was ahead of many unionists in supporting this. But there would be difficulties, he reiterated, if foreign investment came in just on the basis that New Zealand was a cheap labour country.

Trade Missions

7 Mr Knox said he had been pushing for some time to participate in New Zealand trade missions abroad, and he was pleased that this had been accepted at least in one case. He was going off shortly on a trade mission (to West Germany, I think). He thought it essential to participate in these sorts of talks, so that he and the union movement could improve/ their understanding of the issues involved in trade and investment.

47 SUBMISSION FROM CORNER TO TALBOYS

Wellington, 14 September 1979

Australia – New Zealand Economic Relations: Visit of Mr Garland

Mr Garland, Australian Minister for Special Trade Representations, will be in New Zealand as a Guest of Government from 15–21 September. He is to call on you at 9.00am on Tuesday, 18 September. A programme setting out Mr Garland's itinerary while in New Zealand is attached.

2 The purpose of Mr Garland's visit is to give him an opportunity to learn something about New Zealand and New Zealanders, to familiarise him with the medium to longer term prospects for the economy and to allow him to meet a wide range of people in the Government and private sector who are involved in the trans-Tasman relationship.

3 It is not our intention to open negotiations or pursue with Mr Garland or his accompanying officials the question of closer economic relations with Australia. The studies of the various options which are under way in Canberra and Wellington are still at an early stage and are not sufficiently advanced to permit substantive discussions at this point. You will recall that the agreed timetable announced by Mr Muldoon and Mr Fraser at Lusaka provides for a preparatory meeting of Permanent Heads from both sides (now scheduled for October 25 in Wellington) followed by a meeting of Prime Ministers and other Ministers no later than February 1980.

4 Although it is too soon to engage in substantive discussions on the economic options, Mr Garland will no doubt be interested in learning what work is under way in New Zealand to prepare for these meetings. A list of the papers in preparation (taken from a recent progress report to the CEO) is attached:¹ the topic headings at this stage should be regarded as being no more than broadly indicative of the scope of the studies. There will be further refinement as the work proceeds.

5 From the viewpoint of this Ministry, one of our major concerns in assessing the implications of a new relationship with Australia, and perhaps the only concern that might be worth flagging with Mr Garland at this stage, will be to ensure that the political and economic interests of the island countries of the South Pacific, with which we have long-standing and special relationships, are not overlooked. We also need to bear in mind our ties with other countries in the wider region to which we belong—the ASEAN member states and the rapidly growing economies of North Asia. These points were made in your recent speech to Otaki Young Nationals on 2 September. This set out in broad terms the approach we are taking: any new economic relationship with Australia, if it is to

1 Not published here, but see Document 44.

conform with our wider interests and responsibilities, must be outward, not inward, looking. As you noted at the conclusion of that speech:

[*matter omitted*]²

[ABHS 950/Boxes1221-1226, 40/4/1 Part 20

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48 RECORD OF GARLAND'S TALKS IN WELLINGTON

Wellington, 19 September 1979

CONFIDENTIAL

Mr Garland's Visit: Meeting with Deputy Prime Minister, 18 September 1979

[*matter omitted*]¹

7 MR GARLAND asked how far the two countries would go on the bilateral relationship. He asked MR TALBOYS if his government would consider some of the more far-reaching alternatives. Mr Talboys said he thought it would. He commented that we had to be clear what was being talked about. If we were talking about a customs union, what did that mean. How would it cope with the problem of investors putting their money closest to the major markets within the customs union. Mr Talboys commented that one of the main problems he saw was the degree of protection a customs union would afford in the case of manufacturing components which New Zealand manufacturers import from other sources. If as a result of a customs union the prices of these components rose, no doubt people would move to Australia owing to the uneconomic nature of industries in New Zealand. Mr Talboys said that he did not believe New Zealanders wanted to be just a farm.

8 MR TALBOYS said that he was encouraged by the widespread interest in the general subject of closer economic cooperation. To him the concept certainly made sense. Studies were of course under way at present and they would have to be looked at carefully. MR GARLAND commented that the studies would take the two governments some distance. On the question regarding the competitiveness of New Zealand industries being based on cheap material from overseas, Mr Garland said that there used to be similar fears in those parts of Australia some distance from Sydney and Melbourne. The fears had subsided. In fact the highest growth areas in Australia were outside the most highly industrial regions.

2 Corner quoted the closing paragraph of Document 45.

1 Matter on non-CER topics omitted.

9 MR TALBOYS asked whether Mr Garland felt the ASEAN governments were concerned about the implications of closer cooperation between the two countries. MR FLOOD commented that he did not think that was a real problem. If the two countries were stronger through closer cooperation that would be all the better from the ASEAN point of view. MR GARLAND said that he thought closer economic cooperation between Australia and New Zealand would seem to be a logical step to ASEAN governments. This would be particularly so when it was explained to them that it was not a 'shut out'.

10 MR TALBOYS reflected that the consequences of not moving on Australia also needed to be thought about within New Zealand. They were not consequences which appealed to him.

11 MR BORDER asked about the attitude of New Zealand manufacturers. MR TALBOYS said that on the whole they were reasonably positive.

12 MR TALBOYS asked about the political measure of statements in the Australian dairy industry to the effect that they would not put up with free trade with New Zealand. MR GARLAND said that the Australian dairy industry was a changing animal. It had been under some pressure. Moreover, he felt that these kinds of initial statements of concern were always a bit exaggerated.

13 MR TALBOYS commented that he felt there was a momentum building up on bilateral economic relations. At the end 'we'll get a towering debate'. He asked for Mr Garland's thoughts on the time-scale, referring to the Australian elections next year. MR GARLAND said that he thought that lots of the problems would be capable of resolution in interim arrangements. He did not think that a lot of time would be necessary. In the event, the EEC countries had needed less time than had at first been expected. MR TALBOYS agreed, commenting that if people felt that they would have the opportunity of arguing themselves out of change they would try to do so. MR GARLAND said that in this situation you could have too long a period—the steam could go out of it. The fact was that Australia and New Zealand were going to be buffeted more in international trade. The MTN had not produced much and economic growth in our traditional markets was not good.

14 MR FLOOD said that there was an empirical problem in assessing the actual consequences of a move of this kind. The EEC countries had made estimates of the likely consequences, many of which had in the end proved quite wrong.

15 MR GARLAND reflected that there was a need for more exchanges of responsible commentators between the two countries. It would be very unfortunate if Australians got the view that this was a rescue operation. There needed to be more responsible comment on New Zealand in Australia to dispel the notion that any kind of rescue operation was involved. Mr Talboys said that there was an element of the rescue operation notion in New Zealand also in the sense that some people felt that economic integration with Australia would be their salvation. He was concerned to dispel this exaggerated view too.

49 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 19 October 1979

No. E (79) 208. CONFIDENTIAL

Australia – New Zealand Economic Cooperation*Background*

1 At its meeting on 21 August, Officials reported to the Cabinet Economic Committee on preparations for the meeting of the Prime Ministers of Australia and New Zealand that is to be held in February 1980.

2 A team of Australian Officials, that will include the Permanent Heads of the Department of Trade and Resources, Prime Minister and Cabinet, Industry and Commerce and Foreign Affairs, as well as senior officials from the Treasury and the Department of Business and Consumer Affairs and the Department of Primary Industry, will visit Wellington for discussions with their New Zealand counterparts on 1–2 November 1979.

General

3 Attached is a report of the Chairman of the interdepartmental Working Party that has been coordinating the work that Departments have been undertaking on the opportunities and implications of any moves by Australia and New Zealand to seek a closer economic relationship. This report incorporates in summary form the main points that emerge from the various working papers that have been prepared by individual Departments. These papers have been prepared with a view to their forming a general basis for discussion at the Permanent Heads meeting on 1–2 November. It is intended that suitably abbreviated versions of these papers should be handed to the Australians in advance of the meeting. Papers prepared by the Australian side, which will be handed over to us at the same time, will serve a similar purpose. The full papers, which it is not proposed should be given to the Australians, will form the basis of the brief for the New Zealand side for the meeting. It was thought inappropriate at this stage to attempt to formulate recommendations on the specific forms of any new trading arrangements and policies on such matters as import licensing, export incentives, tariffs, etc. The papers, and therefore the attached report of the Chairman of the Working Party, represent an initial exploratory survey of the issues that are thought to be at stake in the Australia – New Zealand economic relationship.

4 The discussions expected to take place at the 1–2 November meeting will be exploratory in nature. It is hoped that the two sides will be able to isolate the basic issues that would underly any move by Australia and New Zealand to seek an economically closer relationship, and that on the basis of this understanding, further work can be undertaken by both parties in preparation for the meeting of Prime Ministers that is expected to take place around February 1980. It is considered likely that officials from both countries will want to meet again before

the Prime Ministerial meeting to seek agreement on the specific areas of the Australia – New Zealand economic relationship which should be the focus of attention for the two national leaders when they meet.

5 A copy of a draft agenda for the 1–2 November meeting, in the form of a telegram to the New Zealand High Commission in Canberra, is attached.

6 Officials are keeping under review the question of consultations with interested groups such as the Manufacturers' Federation, the Federation of Labour, and the Australia/New Zealand Businessmen's Council. It is agreed that any formal consultations with such groups should be conducted on the basis that the work undertaken so far does not lead to any conclusions being reached about the kind of policies or institutional structures that might be sought for regulation of the growth of trans-Tasman trade, and that no conclusions are being drawn about the more specific areas of cooperation, such as the development of specific sectors of the economy or joint approaches to deal with the world at large.

Recommendation

7 It is recommended that the Committee:

- (a) *note* the approach, outlined in the report of the Chairman of the Working Party on Australia – New Zealand Economic Cooperation, that New Zealand officials will adopt in their discussions with their Australian counterparts at the Permanent Heads' Meeting on 1–2 November 1980; and
- (b) *approve* the draft agenda for the meeting contained in the accompanying draft telegram to the New Zealand High Commission in Canberra.

Attachment

Report of Working Party on Australia – New Zealand Economic Cooperation

PREFACE

The work summarised in this brief arises from the decisions of the Prime Ministers in Lusaka to investigate possibilities for closer economic cooperation. Those decisions built on events including work for the Nareen meeting and was stimulated by the visit of Mr Anthony early this year. (CEC paper Australia–NZ Economic Cooperation: Progress Report, C (79) 162 refers).¹ The work described below follows the programme laid out in that paper. The Prime Ministers agreed in Lusaka on the following points:

- review the full range of options in a positive spirit and investigate both general and specific areas of cooperation;
- exchange information between officials of both countries;
- Prime Ministers to meet in February 1980;

¹ Document 44.

- rapid structural changes of a ‘drastic’ nature are to be avoided in any moves to greater cooperation;
- Australia and New Zealand should join forces wherever possible in facing the outside world.

The Working Party was established to examine the possibility of closer economic cooperation and to assess the implications for NZ’s economic strategy against the broad background of New Zealand’s continuing search for economic and trade opportunities wherever these can be found. In identifying additional opportunities for growth in the trade and economic relationship with Australia, equal attention has been paid to identifying the accompanying costs, but recognising that in the end the nature of the exercise is a search for new growth opportunities in the bilateral relationship with Australia.

SECTION I

Introduction

The subject of closer economic relationships between Australia and NZ is vast. It poses endless questions for many of which we can never hope to have precise answers. As yet we have only accomplished the first stage of analysis of these questions and there is much that remains to be done to dispel the mists of uncertainty which envelop the subject. It is all but impossible to construct a programme of research that leads to a clear conclusion as to what would be the precise long-run advantages and disadvantages to NZ’s interests of various schemes for a closer relationship. This is not surprising considering the experiences of other countries in developing closer economic relationships. The final effects have rarely been predicted with any certainty although it can fairly be said that the disruption has never been as great as was feared. This lack of certainty need not of itself inhibit movement towards closer economic relations. The precedents show that closer relationships between countries do not come about from blind commitments to some precisely defined future relationship. Rather, agreement is reached to establish procedures to negotiate changes in the policies that regulate the relationship against the background of a general commitment to closer cooperation. As a consequence of this commitment greater weight is given to expanding the relationship when national economic decisions are made. Such agreement establishes a direction of change but the Governments can modulate the pace of change to ensure adequate safeguards to deal with problems as they arise. The essential point is that to begin such a process it is not necessary to know precisely where it will end. What is required to make a decision to start the process is the knowledge that closer economic cooperation in some form is consistent with national economic development strategy.

It is also necessary to know what issues should be addressed in the foreseeable future if a move is taken in that direction.

The attentions of the Working Party on Australia–NZ Economic Cooperation have been directed at these questions. The work is preliminary but is suggested

as the appropriate basis for introducing interdepartmental discussion and talks with Australian officials. The following numbered paragraphs contain some broad conclusions drawn from each of the various working papers and it is hoped that this will convey an overall perspective on the work so far. Papers on transport, energy industrial development and the joint marketing of primary produce are nearing completion and it is anticipated that these will be added to the brief for the Permanent Heads' meeting.

1 *New Zealand's Development Strategy*

Poor growth performance by the NZ economy has led to a reappraisal of development strategy and it is being reoriented towards a more efficient use of resources to achieve a more internationally competitive economy capable of a better performance in world trade. Considering that Australia has already made substantial progress along similar lines the NZ strategy would likely be advanced by closer cooperation with Australia. While trade under the existing arrangements has increased it has been based in part on exploiting the differences in the two countries protective structures regarding raw materials and semi-finished goods. This has not often resulted in the establishment of internationally competitive industries. As we have no choice but to develop such industries there is little long-run advantage in continuing to expand trans-Tasman trade on this basis even if Australia were prepared to perpetuate the past approaches. Consequently it is in NZ's interests to seek to expand cooperation with Australia but on a basis that is more consistent with the merits of our own economic development strategy.

2 *Australian Development Strategy*

The path of Australia's industrial development is fairly clearly in the direction of greater international competitiveness and less reliance on high levels of protection. Movement will be cautious, particularly in respect of labour intensive industries and in periods of unemployment. At times there will be steps backwards but the policies have been followed for many years and it is expected that they will be followed for years to come.

3 *Relative Competitiveness of NZ and Australia*

It was noted in the introduction that conceptual and empirical problems rule out a full assessment of the net gain in welfare to NZ of lowering the barriers to trade between the two countries. The dynamic effects on the economy of freer trade would have to be analysed considering the time phasing of the changes and the form of the arrangements chosen. Besides the effects on the protective structure of the economy the effects on consumption of having a wider range of goods at different prices would have to be accounted for. While this full assessment is unlikely to be achievable the short-term effects on the production side can be assessed. Any move to a more open trading arrangement would change the configuration of pressures for rationalisation and new investment in NZ industries. The short-term problems of managing any new arrangements will

arise from the first-round impact on industry. With this in mind an assessment has been made as to the competitiveness of NZ industry by comparison with Australia. Aside from indicating the sectors of industry where freer trade could be expected to lead to growth or retrenchment this study indicates the potential for diversion and creation of trade under free-trade and customs union arrangements. It indicates the possible balance of advantage from NZ's point of view. The study shows that roughly half of New Zealand manufacturing industry (by number of establishments, employment, output and exports) would be expected to benefit from unrestricted free trade. Another quarter constituted a grey area. It contains companies which would be likely to adjust successfully to the changed economic circumstances. Other companies in this group would not. The final quarter comprised those industries and companies which would be unlikely to survive in their present form in the longer term. On the basis of an assumption of a free trade area with low area-content rules and a customs union with relatively high external tariff rates the paper concludes that a free trade approach is less conducive to the diversion of trade than is a customs union. However, it concludes that by itself the study is not a sufficient basis for drawing conclusions about the most appropriate nature and pace of change.

4 *Coordination in Major Industrial Developments*

Australia is much better endowed with industrial raw materials than New Zealand which constrains the scope for cooperation in this area. There is some scope for coordination in some manufactured products and finished goods. Overall there is likely to be competition between New Zealand and Australian industry in both world and domestic markets.

5 *Implications for New Zealand's Other External Interests*

The external implications of a closer economic relationship with Australia are balanced in favour of pursuing such a relationship providing it is based on the adoption of complementary growth strategies. It is assessed that an outward-looking trans-Tasman partnership would have the capacity to devote greater resources to economic development within the region, trade would prosper and the stability and security of the region would benefit. In such a development New Zealand's distinctive historical role in the Pacific, which is an essential element of New Zealand's external relations, would be enhanced. On this basis therefore there would be much to gain, both for New Zealand and for the region as a whole. The extent to which New Zealand could continue to claim 'special' treatment for traditional exports to some traditional markets, and the degree to which other governments concerned felt particular obligation towards New Zealand, could be reduced. On the other hand such effects would be offset by the extent to which the new Australian relationship opened up new opportunities. There will be some difficulties to overcome in protecting the legitimate interests of developing countries of the region in the course of developing a closer relationship with Australia. None of these is expected to be insurmountable.

6 *Comparison of Australian and New Zealand Tariffs*

A series of partial studies comparing Australian and New Zealand tariffs lead to several broad generalisations to which there are of course exceptions. The Australian tariff is the main instrument of protection and as such has been tested by the market and is an expression of the Government's strategy. This is not the case in New Zealand and it is likely that there will be considerable pressure in any rationalisation for New Zealand to adopt Australian tariff levels. New Zealand tariffs are generally higher than Australian tariffs where both countries have an industry to protect and the New Zealand tariff is also supplemented with import licensing. In the area of consumer goods New Zealand's protective policies are considerably more restrictive but this is less so in the intermediate goods area. Imports of industrial raw materials and capital goods which New Zealand does not produce are subject to very little intervention. To the extent that Australia protects these same goods its tariffs are also much higher. Hence a simple adoption of the Australian tariff by New Zealand could reduce protection on final goods and raise the costs of some industrial inputs. Rationalisation of tariff structures need not of itself require termination of import controls but this could be considered particularly where Australia has tariff quotas and high rates of tariff that provide similar levels of protection.

7 *Free Trade for Agriculture*

Most NZ agriculture products already enter Australia free of tariff. The exceptions are a few preserved vegetables, fresh onions and potatoes, milk powders, apples, butter and alcoholic beverages. Quotas apply to cheddar cheese and pig meat and there is voluntary restraint on meat, peas and beans. The largest items in the trade are vegetables, fish, wool, cheese, fruit, seeds and boneless beef. There have been substantial increases in some of the non-restricted categories in recent years. If restrictions were lifted from cheese, beef, some milk preparations and preserved and fresh vegetables, increased exports could be expected. NZ butter and cheeses may not have a price advantage in Australia if Govt subsidies were harmonised. NZ has quantitative import controls over a much wider range of agricultural products than does Australia. Tariffs are also applied. The sole rights to import wheat, pip fruits, citrus fruits and eggs rest with marketing boards. Removal of these inhibitions to imports could see increases in imports of wheat, canned fruit, and citrus fruit during the NZ season, apples, wine and possibly tobacco. Each of these local industries might have to face up to rationalisation to some degree.

8 *The Monetary Sector and the Exchange Rate*

(a) THE EXCHANGE RATE Trade between Australia and New Zealand is quite sensitive to changes in the exchange rate. The improvement in New Zealand's competitiveness is one factor behind the reduction in our trade deficit with Australia over the last ten or fifteen years. Economic integration, even if confined to a closer trade relationship, could benefit from consultations about the methods

of fixing the exchange rates of the countries with a view to reducing to a minimum unnecessary fluctuations. It should be recognised that any attempt to impose a static exchange rate while economic conditions, particularly inflation rates, differ, would hinder rather than promote trade. The implications for the exchange rate of lower tariffs, import restrictions, subsidies and exchange control which might result from integration would have to be borne in mind as negotiations proceed.

(b) EXCHANGE CONTROL Exchange control policy on current payments is already quite relaxed in Australia and New Zealand, but relaxation of controls on capital payments across the Tasman could be considered. It is possible, even likely, that a considerable outflow of capital for investment purposes would develop, unless the return on investment in New Zealand appeared competitive with Australia. As an intermediate step, it may be possible to negotiate some relaxation while continuing certain exchange controls as safeguards. The speed with which exchange controls are dismantled has important implications for the exchange rate and for monetary policy. If steps were taken in this direction, a need for a common policy vis-a-vis the rest of the world would emerge.

(c) INTEGRATION IN THE FINANCE SECTOR It is not suggested that integration in the finance sector should be high on the agenda for negotiation with the Australians. However, steps in this direction would assume greater significance if barriers between the capital markets were to be broken down. Many legal, administrative and policy questions would arise. Matters which might deserve attention are financial regulation, the operation of branch offices, taxation, financial instruments and insurance.

9 *Foreign Investment Policy*

Foreign investment plays a significant role in the development of both Australia and New Zealand. Direct investment flows from Australia to New Zealand in the last few years exceeded flows in the other direction by a very large margin. New Zealand's approach to regulating foreign investment is broadly similar to Australia's.

Although there are economic arguments which favour liberalisation of foreign investment policy vis-a-vis Australia, there is little reason to expect that substantial new flows will result from such a step taken in isolation. It is possible, even likely, that flows stimulated by liberalisation would tend to favour Australia. An argument in favour of liberalisation is that it would permit rationalisation of industries which are established in both countries and which are involved in trade.

Discriminatory relaxation raises the question of whether general relaxation would be preferable. This parallels arguments regarding trade in goods. A relaxation vis-a-vis Australia alone would be contrary to the OECD code unless it were part of a special monetary or customs system. (The same issue arises for exchange control policy.) There would be many administrative difficulties,

including identification of the source of foreign investment, and the enduring problem of foreign ownership in key sectors would remain.

10 Institutional Issues

While NAFTA is intended to provide a mechanism to work towards free bilateral trade the arrangement whereby the private sectors of either Government can prevent the addition of items to the schedules means that tariffs are removed in areas where neither side could anticipate any reduction in the level of its own trade. Hence the development of trade has not been based on comparative advantage and promoting the growth of internationally competitive industries which is the economic justification for free trade arrangements. However while a variety of institutional arrangements can be contemplated for the development of free trade areas the character of any mechanism must derive from the pattern of economic and trade relations that apply with and between member countries and debate about such arrangements cannot be separated from debate about the nature of relationship as a whole. The removal of non-tariff barriers represents a more difficult objective than the lowering of tariffs but is facilitated by the existence of broad understandings as to common economic objectives. Any institutional arrangements must act as positive instruments to balance pressure for maintenance of the status quo.

Conclusion

The main theme reflected in the contributions to this brief and perhaps its central conclusion is that closer economic relations is only likely to succeed against the background of close political and social sympathies and provided that there is reasonable harmony in the policy objectives of the two countries and especially their economic policy objectives. The divergence of the two economies in recent years partly explains the difficulties with NAFTA and further divergence particularly in policies on protection would make progress in the relationship more difficult. Greater harmonisation of the two economies might conceivably be pursued by both countries pursuing an inward-looking protectionist stance in relationship to everyone except each other. It is difficult to imagine why either country would find such an arrangement in its own interests if only because protectionist economy still seeks to obtain its imports at the cheapest prices available in the world. A closer relationship is therefore conceived in this brief as being within the context of outward-looking trading strategies in both countries. Hence the implementation of the Government's economic strategy evolved in recent years and perhaps most concisely expressed in the last Budget is fundamental to the development of a closer relationship with Australia. Growth strategy based on the development of internationally competitive export industries is assumed for NZ.

Any resources released from sectors unable to compete over the longer term are to be absorbed by the more competitive sectors and by the major new industrial developments in prospect. In tandem is the assumption that Australia will

continue to pursue policies that in many respects place it further ahead in the conception and application of this approach than New Zealand. With these assumptions of more liberal trading tendencies in both countries many of the potential problems of closer economic relations are minimised because greater trade with each other is fixed within that general framework. Hence expanded trade between the two countries cuts off few options for the expansion of trade with other countries. Also the prospects for significant diversion of trade are reduced and there is a lower risk that NZ adapts its economy to match a larger Australian economy which is not itself adapting to the world trade scene at large.

For the purposes of the initial discussion and briefing for the Prime Ministers meeting in Lusaka it was a useful simplification to think in terms of a spectrum of alternatives from limited free trade area to full economic union. At this stage of the analysis these concepts are too crude to be a helpful basis for further study because the conditions of a customs union or a free trade area can vary widely and the arguments for or against any such option depend entirely on the particular characteristics of the broad options that are established. To derive the guidelines for further analysis it is more important to set in place the principles around which any arrangement is to be designed rather than simply selecting a single form of institutional arrangement. It is important to establish what the elements of a more cooperative relationship will be rather than to jump to early conclusions about the particular institutional forms.

Both Governments have indicated their dissatisfaction with present arrangements and this brief offers an analysis of why the status quo is unsatisfactory. In short it is because these arrangements have not encouraged trans-Tasman trade in a pattern consistent with outward-looking national economic strategies aimed at the development of internationally competitive industries.

The next step towards making significant progress in the relationship is to reach agreement within and between the two Governments on the following points:

- a Both countries are pursuing outward looking development policies to achieve greater trade through more efficient agricultural and industrial development;
- b A closer relationship between the two economies set along the right lines is consistent with the pursuit of these policies;
- c The pattern of trans-Tasman trade has not been entirely consistent with developing such a relationship;
- d While changing the nature of the relationship along these lines would enhance long-term economic prospects it would also involve structural adjustment problems that would have to be addressed.

The work done so far and summarised in this brief shows that there are wide ranging possibilities for developing the relationship and some serious problems that would need to be analysed and policies developed to cope with them.

However, if agreement on these basic points could be reached then it would be fruitful to consider in detail the means to achieve a closer relationship. Future work should be directed at these specific quarters and the scope of this work will be defined by the outcome of the Permanent Heads' meeting.

G C SCOTT
Chairman
Interdepartmental Working Party

[ABHS 950/Boxes1221-1226, 40/4/1 Part 21A
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50 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 24 October 1979

No. E (79) M 41 PART II: CONFIDENTIAL

Australia – New Zealand Economic Cooperation¹

The discussion on the report from the Inter-departmental Working Party on Australia – New Zealand economic co-operation was prefaced by consideration of a number of administrative and strategic matters. Among them were:

- that members of the Committee should be provided with the background papers prepared by officials on which the paper attached to E (79) 208 was based. The Committee was advised that these papers would be considered by the Officials Economic Committee on the following day, Thursday 25 October, and on being cleared would be distributed to Ministers;
- that it was important to bear in mind that it was possible that the forthcoming attempt to secure closer economic co-operation between Australia and New Zealand might not be successful. It was accordingly considered important that proposals should not be publicised in a manner which would unduly raise expectations;
- that at this stage it was envisaged that the New Zealand and Australia Prime Ministers would meet in either late February, or more probably, in early March 1980;
- that the officials' meetings leading up to the Prime Ministers' meeting should concentrate on assessing the scope for economic co-operation in the light of the economic structure and strategies of the two countries, and against this background consider the form which economic co-operation between Australia and New Zealand might take. The Committee was informed that at this stage Australian manufacturers were in favour of a customs union type

1 This minute records the Committee's discussion of the preceding Document (49).

arrangement, whereas New Zealand interests seemed to prefer an extended free trade agreement. The view was expressed that there was a need for some common ground to be found before the Prime Ministers met in March 1980 if the risk of an impasse at that stage was to be avoided, and that officials should establish which of the options currently under consideration would clearly not be acceptable to either or both sides;

- that there were many variations to each of the broad options, such as a customs union and a free trade agreement, and that in view of this a reasonably open position should be maintained at this early stage;
- that it was important that interested groups be consulted and kept informed on developments arising from the exercise. The Committee was informed that the Manufacturers Federation had been consulted over recent days, although the Federation of Labour had not. At this point the view was expressed that it was important that the Federation of Labour be consulted and informed on the same basis as other groups. On the question of when interested groups should be consulted the Committee was of the view that they should be briefed before the Permanent Heads' meeting and be informed that they would be further consulted after that meeting.

The Committee then proceeded to consider the Working Party's report. The following headings correspond to the section headings contained in the report:

New Zealand's Development Strategy

The point was made that the proposed economic strategy for New Zealand as outlined could cause some industries to feel uneasy and at risk, although it was noted that some industries would benefit. Again, it was considered that care needed to be exercised in the presentation of a development strategy. It was also suggested that more emphasis than suggested in the paper should be placed on a resource-based approach to economic development. It was suggested that there was scope for co-operation with Australia in this area, although others pointed out that there would also be areas of conflict.

Relative Competitiveness of New Zealand and Australia

Attention focussed on the prospects for the New Zealand manufacturing industry under a free trade or customs union arrangement. It was noted that a study showed that about half of New Zealand's industry (by number or establishments, employment, output and exporters) would be expected to benefit. Another quarter constituted a grey area and the remaining quarter would be unlikely to survive in the present form. Officials indicated that these results had been arrived at by way of a study of New Zealand industry sector by sector, but it was stressed that they were based on very crude calculations and assumptions. Officials advised that it was very difficult to foresee the long term outcome of major changes in the economic relationships between countries, and in this context it was noted that when the Benelux customs union had been established it had been expected that the advantages would accrue to the manufacturing industries in Belgium and to

the agricultural sector in the Netherlands. However, in the event both industries in both countries benefited and expanded. Another comment made was that those industries which were expected to benefit under such arrangements could not necessarily be expected to support the arrangements simply because of the risks inherent in change.

Comparison of Australian and New Zealand Tariffs

There appeared to be a clear difference in the purposes for which tariffs were used in Australia and New Zealand, and it was considered that this would make the establishment of a customs union most difficult. At this point it was noted that the economies of the Benelux countries for which the customs union had worked successfully were of a more similar structure than was the case for New Zealand and Australia. It was also considered that a compromise between the New Zealand and Australian tariff structures would not be in the interests of either country, although it was suggested that there may be some scope for a hybrid customs union/free trade arrangement.

Free Trade in Agriculture

Discussion under this heading focussed on the dairy industry. A member of the Committee understood, on the basis of discussions he had had with Australian Ministers, that the Australian dairy industry was declining and would continue to do so. However, an official commented that whilst there had been some restructuring and rationalisation in the Australia dairy industry, a stable situation had now been reached and that there would not be significant scope for increased dairy exports to Australia under either a free trade or customs union arrangement.

Conclusion

It was considered that the points listed (a) to (d) under this heading, on which it was proposed agreement between the two Governments be sought, were not sufficiently substantive nor specific. Officials however indicated that it was proposed that these points were intended as only the first stage and that it would be necessary to secure agreement on them before more specific proposals could be formulated. Officials also suggested that the points listed (a) to (d) should be considered in conjunction with the proposed Agenda (contained in the telegram attached to E (79) 208) for the Permanent Heads' meeting, which gave a more detailed outline of the issues on which agreement would be sought. It was noted that the New Zealand proposals for the Agenda were closely paralleled by the Australian proposals on this question.

The Committee:

(a) *noted* the approach, as outlined in the report of the Chairman of the working party on Australian – New Zealand economic co-operation attached to E (79) 208, that New Zealand officials will adopt in their discussions with their Australian counterparts at the Permanent Heads' meeting on 1 to 2 November 1979;

- (b) *approved* the draft Agenda for the meeting as contained in the draft telegram, attached to E (79) 208, to the New Zealand High Commission in Canberra;
- (c) *directed* that the background papers to the report attached to E (79) 208 be distributed to members of the Committee as soon as possible after they had been cleared by the Officials Economic Committee;
- (d) *directed* officials to consult with interested groups before the Permanent Heads' meeting and to inform them that they would be further consulted after that meeting.

[ABHS 950/Boxes 1221–1226, 40/4/1 Part 21A

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51 NOTE FROM POWLES TO CORNER

Wellington, 30 October 1979

Australia: Economic Relations

1 In conversation with Australian Permanent Heads this week, and possibly in the meetings themselves, there could be a sense of impatience on the Australian side that New Zealand is not, even at this stage, coming up with precise proposals (complete free trade, customs union of this or that sort) on which a preliminary Australian response is sought. (The Australian Discussion Paper¹ opens with an explicit reference to expected 'New Zealand proposals'.) A sense of impatience on the Australian side could easily become a sense of frustration and could sour Australian attitudes generally.

2 The formal explanation of course is that it will be for the Prime Minister to discuss concrete 'proposals'. But this is unlikely to cut much ice with Australian Permanent Heads, who may well expect a precise, if preliminary, indication of New Zealand thinking on the form of economic cooperation which we favour.

I suggest that it will be an important aim of this week's discussions to get across to the Australians an understanding of the way the subject is being approached here. This will require an understanding on the Australians' part that:

- there is a very real appreciation here of the *magnitude* of any decision to link New Zealand's economic future more closely with that of Australia;
- the domestic economic implications for New Zealand are *immense* and extend beyond the strict confines of trade and external economic policies;
- no New Zealand Government could take such steps without the support of the *electorate*, including the influential manufacturers;

1 Document 33.

- while, therefore, a satisfactory economic blueprint for, by way of example, a form of customs union might in theory be easily negotiable between economists from both sides, a New Zealand Government could not endorse it unless it was *saleable* to the electorate;
- obtaining the support of the New Zealand electorate will involve a sustained effort to emphasise publicly the *opportunities* afforded New Zealand by closer economic cooperation with Australia and, equally important, a widespread appreciation of the historical *inevitability* of closer cooperation between the two countries or, put another way, of the implications for New Zealand of having to choose between *drawing* closer to Australia or *drifting apart*.

[3] These points need not be made in any negative sense. The Governments are committed to a *positive* examination of the options. But they do suggest that the most likely path to closer economic cooperation will be by a thorough examination of respective economic (and political) objectives, both by officials and, eventually, in public. Such an examination could well lead to widespread acceptance of the logic of moving closer to Australia, even if it should take a little time. The alternative approach, of beginning by looking at economic blueprints or formulae, is likely to result instead in fear and, most likely, opposition in New Zealand.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 21A

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Joint Document

52 STATEMENT OF UNDERSTANDING

Canberra, 3 November 1979

O.CH855020¹ CONFIDENTIAL

Talks in Wellington

Following is text of 'Statement of Understanding between Permanent Heads' agreed in Wellington on 2 November. Please bring to the attention of the Minister.

Begins:—

Australian – New Zealand Economic Co-operation Statement of Understanding between Permanent Heads

1. There was general understanding that the present was an opportune time to examine the future prospects of a closer economic relationship. The external environment, if not hostile to Australian and New Zealand interests was at the very least difficult and in many ways unpredictable. Given the trend elsewhere to regional economic groupings it was sensible for Australia and New Zealand, as countries with similar backgrounds and ideals to look at the prospects for closer co-operation. The present talks should be seen by other countries as a matter of logical and historical progression. While it would be inaccurate to see the present talks as the last possible opportunity when Australia and New Zealand might discuss the prospects of closer economic co-operation, it might well be more difficult to attempt the same exercise in ten or twenty years time when the economies and trading interests of both countries might well have diverged from their present, roughly similar paths.
2. It is recognised that there is scope for new economic arrangements between Australia and New Zealand which can provide economic benefits for both countries, strengthen relationships between both countries, and allow each to cope with greater confidence with the difficult international economic and trading environment. It is important that any new arrangements reflect an outward-looking approach based on an efficient allocation of resources and an efficient structure of industry, and should be designed to enhance relationships

¹ The cablegram was sent to Peacock in Seoul.

with third countries. Such an approach is regarded as being in conformity with the economic policy objectives of both countries.

3. An outward-looking approach would enhance relationships with third countries and the two countries would be better placed to accommodate the interests of neighbouring developing countries. This should permit assurances to be given to third countries that in any new arrangement it would not be the intention to raise new trade barriers against them.

4. The specific arrangements for closer economic co-operation would need to provide for elimination of trade barriers, which would be phased over a period of say, five to seven years, and for conditions of fair competition. It is recognised that to provide for conditions of fair competition the specific arrangements for closer economic co-operation would also need to provide, to the extent practicable for the harmonisation or elimination of quantitative controls, industry assistance measures, export incentives, customs procedures, trade practices, standards and other relevant matters impinging on the cost of trade between the two countries.

5. In spite of its successes there are fundamental problems with further developments of the NAFTA. It was devised at a time of growth in the world economy and the procedures by which it was implemented assumed that rationalisation between the two economies could be based on future growth. This has led to an over-managed agreement and in the changed economic circumstances of the 1970s to severe difficulties in expanding its coverage. The new approach should seek to avoid these shortcomings and to encourage the expansion of internationally efficient industries and provide a better climate for investment decisions.

6. In reaching a judgment on any new approach particular attention should be given to the dynamic and not merely the static costs and benefits.

7. The benefits of closer consultative arrangements for such matters as marketing in third countries and approaches in international forums were recognised. In addition, transport costs were identified as a particular problem affecting trans-Tasman trade.

8. Study groups are being established to report by the end of January with the following terms of reference:

Terms of Reference (underlined)

I. To assess as far as practicable the economic, industrial and institutional implications for Australia and New Zealand of eliminating over say five to seven years all tariff and non-tariff barriers and other protective devices between the two countries on all products:

(a) With each country maintaining its freedom to vary its tariff and non-tariff barriers against third countries; or

- (b) With a movement to a common external regime based on the adoption, in respect of each industry, of the lower of the two external regimes currently in force; or
 - (c) With combination of these approaches.
- II. To determine the most desirable and practicable techniques that might be applied in achieving the elimination of tariff and non-tariff barriers between Australia and New Zealand over such a period.
- III. To determine what administrative adjustments associated with tariff related policies might be desirable to achieve harmonisation and to examine the implications that might be involved in this regard.
- IV. To examine the other forms of assistance currently provided to industries in each country with a view to assessing the likely effects of:
- (a) Their elimination in respect of trade between the two countries in the event of a decision to proceed with closer economic integration in either of the forms I(a) or I(b) above; or
 - (b) Their harmonisation (in the event of such a decision being taken) in such a way as to provide equal treatment of the industries in each country.
- V. To report broad conclusions including identification of major issues taking account of both dynamic and static implications as far as practicable.

[NAA: A1838, 370/1/19/18, x]

Prime Minister's Meeting

From November 1979 to March 1980 Departments made preparations for a Prime Ministerial meeting. Two important joint preparatory meetings were held: on 30 January 1980 the Joint Working Parties of Australian and New Zealand officials met in Wellington and prepared a Report (Document 58) for Permanent Heads setting out the principal issues arising from the studies done in accordance with the Statement of Understanding. On 25 February the Australian and New Zealand Permanent Heads met in Canberra to consider the Report. They produced their own Permanent Heads Report (Document 66) and this was discussed by Fraser and Muldoon at their Prime Ministers' meeting on 20 March 1980. After the meeting the Prime Ministers issued a Communiqué (Document 93) announcing the decision to examine possible arrangements for a closer economic relationship.

Australian Documents

53 MINUTE FROM HENDERSON TO ASHWIN

Canberra, 13 November 1979

CONFIDENTIAL

**Closer Co-operation with New Zealand:
Meeting of 12 November**

At yesterday's meeting it was agreed to set up three study groups to examine the issues raised in paragraph 8 of the Statement of Understanding reached between Permanent Heads. The first study group, which will be chaired by Treasury, will focus on para. 8(v). The other two study groups will cover the remainder of the points made in para. 8. One of those groups will be chaired by Industry & Commerce and the other by STR. The three study groups will report to a steering committee chaired by Scully and with representation from other departments at Deputy Secretary level.

2. Moore (Treasury) asked if Foreign Affairs could provide some part-time assistance for the working group to be chaired by Treasury. The actual Chairman will be Waterman (FAS). I said I thought that Doran would probably be our nominee and that I would ask him to get in touch with Waterman direct.

3. The first task of the three study groups is to draw up terms of reference which will then be circulated to representatives of all Departments who attended yesterday's meeting. In addition, I agreed that Foreign Affairs would set up a working group to study the question of the ANZAC Pact.¹ Here again, it will first be a question of establishing terms of reference. We may need to enlist other departments as well. In the course of yesterday's meeting I outlined the reservations that we have about revision of the ANZAC Pact (paras. 4-6 of your Brief) and said that, although we would be perfectly happy to run the study as proposed, we were concerned that if effort was afforded towards revising the ANZAC Pact, attention could be diverted from the real object of the present exercise. Scully and Currie, in commenting on the foregoing, seemed to see mention of the ANZAC Pact as being something which might be supportive of the Prime Ministers' meeting in March rather than as an alternative to closer economic association.

[*matter omitted*]

[NAA: A1838, 370/1/19/18, x]

¹ Permanent Heads had agreed to Scully's suggestion that both countries consider the possibility of revising the Treaty.

54 REPORT BY ANDREWS ON MEETING OF AUSTRALIAN STEERING COMMITTEE

Canberra, 11 December 1979

Australia – New Zealand Co-operation: Steering Committee

The following are the main points that emerged from the meeting of the Steering Committee on Australia – New Zealand economic co-operation on 10 December.

Meeting with New Zealand Officials¹

2. The Steering Committee was advised by Mr Flood (STR) that discussions with the New Zealand delegation would take the form of a full session on Wednesday with Thursday morning set aside for consultations with individual departmental counterparts and a return to full session discussions on Thursday afternoon. It was suggested that Foreign Affairs might wish to speak to Mr Beath. The Departments of National Development and Transport were asked to provide delegates for particular items on the Agenda. The other departments involved are expected to have a representative in attendance for all the discussions.
3. A low-key exchange of views rather than striking initiatives was expected of the meeting. Nevertheless, there would have to be an indication of some progress otherwise momentum might be lost. Mr Flood raised the possibility of a joint report to be prepared by February. Another working level officials' meeting was expected to be necessary before February especially as it was not clear what progress the New Zealand side had made to date. There was some inconclusive discussion about the difficulties of preparing joint papers with the meeting unable to take a firm view until more was known of New Zealand's position.
4. A list of designated speakers on each agenda item and a draft agenda is attached.

Working Group 1

5. Mr Waterman (Treasury) outlined Working Group 1's progress on the dynamic implications for Australia and New Zealand of various forms of closer economic association. A draft report is expected to be finalised early next week following another meeting of the Working Group on Friday. The main conclusion of the Report thus far is that any form of closer association should ensure that the benefits of more general trade liberalisation are not foregone and that costs of maintaining inefficient industries are minimised. The Group has looked at the main options identified by the Permanent Head's memorandum of understanding.² There have been some difficulties in quantification so that the conclusions reached will be broad and generalised. IAC involvement has included a review of the possibility of contributing to the Report by using the

1 A Joint Working Group Meeting was to be held in Canberra on 12–13 December 1979.

2 Document 52.

Impact model, but it is not likely that the results will be meaningful. Mr Waterman felt that the draft report would be suitable for handing over to the New Zealanders.

Working Group 2

6. Mr Bayley (Industry and Commerce) reported that Working Group 2 has been moving towards producing a paper in three chapters:—

(i) the institutional implications of the elimination of protective devices under both a free trade area and a customs union—a general assessment paper has been prepared by Treasury with separate sections on industrial implications being contributed by Primary Industry, DTR (minerals) and DIC (secondary industry);

(ii) tariff and non-tariff barriers elimination techniques—this looks at both the Australian and New Zealand systems and also deals with voluntary export restraints;

(iii) administrative arrangements for tariff and non-tariff barrier harmonisation—this covers dumping, rules of origin etc., and is being largely prepared by STR.

7. There will also be a two page overview paper drawing out the conclusions of the separate chapters. There is some doubt whether this Working Group will meet the deadline of 19 December. There were no inhibitions about handing over a *cleared* version of the Group's Report to the New Zealanders, however, references to New Zealand industries might be deleted.

Working Group 3

8. Mr Hawes (STR) reported that the Group has so far identified forms of assistance for examination. Papers have been circulated to departments, but so far coverage was patchy and implications were not drawn out sharply. There will be a further meeting of the Group later this week to finalise individual papers and begin an overview paper. The Group's Report was expected to be finalised by the end of next week and would be suitable for handing to New Zealand officials.

Working Group on the 1944 Treaty

9. Mr Gate (Foreign Affairs) outlined the results of the Group's deliberations:—

(i) the 1944 Treaty was not a useful working draft from which to work towards a new draft;

(ii) while no departments especially favoured the development of a new Treaty none were opposed;

(iii) it was decided to begin work on drafting a new Treaty even though the meeting felt that progress on this front would have to wait until after the substance of the new economic relationship becomes clearer.

10. Contributions to a draft were currently being prepared by departments. This Group would not be preparing a report to be given to the New Zealand side.

Handing Over of Papers to New Zealanders

11. Working Groups 1, 2 and 3 were urged to do their best to meet the 19 December deadline. The meeting considered that we would need to make it clear that the reports were *draft working papers* only.

Transport

12. After much discussion about the merits of including transport issues in the exercise (it was referred to by the Permanent Heads) it was agreed that the Department of Transport should circulate a background paper for the consideration of departments.

Energy

13. The Department of National Development recorded its view that it was unclear just what could be achieved on the energy side of co-operation with New Zealand as major initiatives were already in train.

Points for Public Use

14. The meeting agreed to the draft points for public use (copy attached) with minor drafting modifications. The points were prepared by STR on the basis of the Lusaka discussions between the countries' respective Prime Ministers.

Ministerial Involvement

15. Mr Flood flagged the notion of ministerial involvement by February 1980 noting that there had been no substantive submissions to Cabinet to date.

[NAA: A1838, 370/1/19/18, xii]

55 MINUTE FROM GATE TO HENDERSON

Canberra, 13 December 1979

CONFIDENTIAL

Discussions on Closer Relations with New Zealand

I attended the first day (12 December) of the talks between Australian and New Zealand officials, chaired by Mr Flood at STR, on closer economic relations between Australia and New Zealand.

Future Arrangements

2. There was consensus that, if Prime Ministers are to meet on 20/21 March, Permanent Heads should meet approximately one month earlier to prepare the ground. Mr Flood and Mr Scott (leader of the New Zealand team) agreed that it would probably be desirable if, at this meeting, the Permanent Heads could finalise a joint Australian – New Zealand report to be submitted to the Prime Ministers. Mr Muldoon had told his officials that he would need about one month

to consider any report made to him by officials and the suggested timing for the Permanent Heads meeting met this requirement. Mr Flood said that he thought that the Australian side would need to go to Ministers *before* the Permanent Heads meeting, to enable the Permanent Heads to speak with authority. (Mr Scott of New Zealand suggested that the Permanent Heads might meet shortly before the Prime Ministerial meeting so as to iron out any last minute problems, but this idea did not get far.)

3. Mr Flood said that the Australian side hoped to hand over its preparatory paper to New Zealand early in January. We would need to maintain contact with New Zealand after that, and a further officials meeting would be required late in January to prepare for the Permanent Heads meeting. A small group might meet in Wellington or Canberra for five days in the week beginning 28 January for this purpose.

Substantive Discussions

4. Discussions lasted all day and were very detailed. STR will issue a summary record next week. However, it does seem that there are serious impediments to a Customs Union or a Free Trade Area.

5. The Permanent Heads' Terms of Reference for the officials talks referred to 'a common external regime based on the adoption, in respect of each industry, of the lower of the two external regimes currently in force'. The New Zealand side was astonished to learn that the Australian interpretation of this was that, in those cases in which an industry existed in Australia but did not exist in New Zealand, we would expect New Zealand to adopt the Australian tariff, even though there was no New Zealand industry for the tariff to protect there. This was unacceptable to New Zealand. Mr Neilson (I&C) argued that any other policy would mean the demise of Australian industry. New Zealand said that the Australian interpretation of the Permanent Heads Terms of Reference meant that there was no point in discussing the Customs Union option. Neilson argued that it could just as well be said that the Free Trade option was equally unacceptable to Australia because it would allow New Zealand to continue to import its raw materials duty free. (New Zealand would also have problems with a Free Trade Area.) Discussion will continue on this point on 13 December.

6. Generally, the New Zealanders seemed, as was to be expected, much more apprehensive than Australia about the effect of closer association on their industries. They were conducting a survey of some fifty manufacturing firms, some of whom were the leaders in their field in New Zealand, and were surprised by the degree of hostility to the idea. They did not seem to think their Government could withstand the pressures for assistance that industry would exert in the event of closer association.

7. The Australian side also noted various difficulties that closer association would bring, but, in general, we were more positive than the New Zealanders. Our only real difficulty seemed to be in the dairy industry. Mr Flood warned the

New Zealanders that the dairy interests were very active in questioning Ministers on the implications of closer association.

8. Many other matters were also discussed during the seven hour talks—minerals, agriculture other than dairying, export incentives, health and quarantine requirements, consumer safeguards standards, various forms of industry assistance, but they are beyond the scope of this interim report. Four matters are worth mentioning:

(a) how any closer association would be implemented. Some ideas were canvassed. Would it be done through the IAC here and the IDC in New Zealand, or as a result of a government decision? On the Australian side, action by the IAC would normally involve a public enquiry which might be unsuitable in the circumstances. The IDC in New Zealand is not similar in structure or in its procedures to the IAC; whether or not its decisions are implemented often depends on political considerations. How could we be sure the IAC or the IDC came to compatible conclusions? Perhaps the Government could simply decide that certain action was to be taken and could simply then ask the IAC and the IDC to work out the time span over which it should take place. This will need to be looked at carefully;

(b) the New Zealanders are worried about actions that the States might take which could undermine any closer association agreed to by New Zealand and the Commonwealth Government. For example, they fear that attractive incentives by State Governments to establish industries in non-metropolitan areas could induce industries to move from New Zealand or not to invest in New Zealand. Neither the Commonwealth or the New Zealand Government could prevent this and it would strike at the heart of agreed policies between the two countries;

(c) the New Zealanders have difficulty with Mr Scully's 'fair go' concept that any agreement should be absolutely the same for both sides. They appear to think they should be given some advantage over Australia;

(d) the New Zealanders seemed unwilling to undertake more detailed studies until they were given political guidance; one reason was their inadequate statistical resources.

56 MINUTE FROM GATE TO HENDERSON

Canberra, 14 December 1979

CONFIDENTIAL

Australia – New Zealand Talks on Closer Economic Association

At the talks on 13 December, the two sides discussed marketing in third countries, GSP, energy matters, transport and the revision/replacement of the 1944 ANZAC Agreement. Very little of what was said on many of these issues seemed to affect the question of whether we were moving towards closer economic association. The following is a follow-up to my note of yesterday on Wednesday's talks.

Future Arrangements

2. As on the previous day, there was considerable discussion of what arrangements were to be made for future discussion of the question. It was assumed that Prime Ministers would meet on 20/21 March. It was decided to ask Permanent Heads whether they would be able to consider meeting in Canberra on 25/26 February (the latter would be a sitting day of the Australian Parliament). Mr Flood suggested that official discussions might take place in Wellington on 30, 31 January and 1 February to prepare for the Permanent Heads meeting. He said that Mr Anderson of STR would be prepared to fly to Wellington for those talks. (Mr Flood did not suggest what other Australian Departments might be represented at these talks and I decided not to raise this potentially divisive question in front of the New Zealanders.)

Conclusions

3. Summing up, Mr Flood said that March would be too soon to take or prepare decisions. He thought, however, that the Prime Ministers might be able to settle on principles or a charter for future work to be done by officials. He said he thought he could draw eight conclusions from the talks:

- (i) Any new arrangements must reflect an outward-looking approach and efficient structure of industry and resources;
- (ii) The further liberalisation of trade between the two countries would need to be studied further. He thought that the solution might lie in a hybrid consisting of certain non-tariff barrier adjustments, phased elimination of tariffs between the two countries over a period and the reduction of external tariffs to the lowest prevailing rate. In those cases where one country did not have a protective tariff in respect of an industry which existed only in the other country, a careful examination would be required before a solution could be found;
- (iii) Both countries would have to face the fact that some of their industries would be hurt, but this might be balanced by advantages to other industries;
- (iv) There should be no expansion of inefficient industries;

- (v) There should be automacity in any new arrangements;
 - (vi) Following from (v), there should be only very limited procedures for safeguards;
 - (vii) Careful attention would have to be paid to how industry and tariff policy was to be implemented under the new arrangements (e.g. by the IAC or whatever);
 - (viii) The normal growth expectations of our partners in Asia and the Pacific should not be impinged on by the new arrangements.
4. Mr Flood also noted that the talks had identified certain other subjects which would have to be followed up by the Prime Ministers—joint action in third country marketing; closer co-operation in GATT, OECD and UNCTAD (bearing in mind that much is already done in those areas); energy, transport and tourism. The big questions were, however, what work was to be done after March and how it was to be done.
5. Mr Flood's was a valiant and largely successful effort to get the talks back into focus after the somewhat negative talks on Wednesday.
6. The leader of the New Zealand team, Mr Scott, then said that New Zealand would take home the impression that the following four points were of most interest to Australia:
- (i) Export Incentives. Compared with the totality of forces that would be unleashed by closer association, export incentives were not, in Mr Scott's opinion, of very great significance, but he thought progress had been made in identifying those export incentives that were important in Australian eyes;
 - (ii) Importation of world prices. This was a reference to the tariff structures of both countries. Mr Scott thought that Mr Flood's reference to a hybrid arrangement was a useful one;
 - (iii) Anti-dumping and countervailing arrangements;
 - (iv) Import Controls. These were very important to Australia, but it would be very difficult for New Zealand to eliminate them. Many entrenched interests were involved and politicians were very sensitive to them.
7. Neilson (I&C) commented to me later that there was no doubt that export incentives, tariff structures and import licensing are regarded as of prime importance by Australia. Both he and O'Donohue (STR) thought, however, that Scott had exaggerated Australian attitudes to anti-dumping and countervailing.
8. Mr Scott seemed to be trying to present a more positive picture than had the other members of his team the previous day. He noted that Australia's and New Zealand's broad policies were compatible and that the implications of what had been begun could not be lost on those who had started it (i.e. Ministers). He noted (in contrast to what Cranston has said the day before) that all groups of New Zealand manufacturers thought that some form of economic association was desirable and were waiting to see what it was. (This advice tended to support the

comment made to us privately by NZMFA officials that the other members of the New Zealand team had exaggerated the fears held by New Zealand manufacturers of closer association.)

9. Mr Scott finished by saying that officials had to work out a solution that would be acceptable to politicians. Nevertheless, he noted that we were not equals. New Zealand was smaller and weaker. In considering what to do, we would need to see that in any arrangement made, there was a balance of advantage. (This recalls the New Zealanders' fear of Mr Scully's 'fair go' policy.)

10. In the discussion on the Canberra Agreement, New Zealand accepted our view that the 1944 text did not provide a good working draft and that a fresh text would be necessary. They did not object to the outline of our draft as explained to them and, like us, did not consider that the new pact should provide for the establishment of a secretariat. Neither did they disagree with our view that it would be inappropriate to include in the text any provisions about the rights and privileges of individuals and companies in Australia, similar to those included in the Nara Treaty.¹ They said, however, that in any treaty they would attach importance to the clauses on consultation (on international relations and the economies of both countries) and on the free exchange of people. (On this latter point, we are having some difficulties with I&EA who do not want to put in anything beyond a very general reference to migration.) New Zealand would also want something on economic relations, but accepted our view that it was difficult to do this until we knew in which direction the current negotiations on closer association were going. They emphasised that they did not want the treaty to become something that distracted attention from the closer association proposal or to turn [it] into a piece of paper which the Prime Ministers could use as an alternative if the closer association exercise proved too difficult. We, of course, agreed with that view.²

[NAA: A1838, 370/1/19/18, xii]

1 Treaty of Friendship and Co-operation between Australia and Japan, 1976.

2 Ashwin summarised the Joint Working Group's meeting in a Ministerial submission to Peacock on 18 December 1979. A full report was cabled to the High Commission in Wellington on 19 December.

57 SUMMARY OF AUSTRALIAN STUDIES¹

Canberra, 23 January 1980

CONFIDENTIAL

Australia – New Zealand Closer Economic Co-operation

The following summarises the main points covered by Working Groups 1, 2 and 3 in the reports which will be the basis of discussions between Australia and New Zealand officials in Wellington.²

Working Group 1: Dynamic Implications for Australia and New Zealand of Various Forms of Closer Economic Association

2. The report's main conclusion is that any form of closer association *should* ensure that the benefits of more general trade liberalisation are *not* foregone and that costs of maintaining inefficient industries are minimised.
3. It should be remembered that the Department of Trade and Resources attacked early drafts of the report. DTR claimed that the report's theme (Treasury line) that ANZ co-operation be seen as a catalyst towards decreasing protectionism on a general (mfn) basis did not reflect the intentions of Ministers who saw *trade diversion* in Australia's favour as the desired result of the exercise (Mr Scully's interpretation). The Working Group's terms of reference had stressed that an outward looking approach be followed so that assurances could be given to third countries that, in any new arrangement, it would not be the intention to raise new trade barriers against them.
4. The report found that any form of closer association would have, relatively, a much larger impact on the NZ economy—the impact on the Australian economy and Australian policies might be quite small.
5. The Working Group believed that a '*pure*' *free trade area* would be likely to leave the combined size of the present protected manufacturing sectors largely unaltered. However, it could lead to a shift in the distribution of sectors between the two countries. It should be noted that this would *not necessarily* lead to an improved industrial structure as some industries which expanded in one country might still be internationally inefficient—the sort of trade diversification effects that Mr Scully believes Australian Ministers desire.
6. Under a *customs union* (CU) the Working Group found that net economic benefits would be large for NZ but small for Australia. However, the report stressed that a customs union would mean reduced flexibility for either country to decrease tariffs against third countries. In any movement towards a *common*

1 As reported in minute from Andrews to Gate.

2 A meeting of the Joint Working Parties was scheduled for 30 January to 1 February 1980 in Wellington.

external tariff at the lowest common denominator (LCD), NZ would face greater changes as its rates of protection are generally higher.

7. The Working Group considered that a 'hybrid' or 'adjusted' *free trade area* might be more achievable given the substantial differences which exist between the external regimes of the two countries, and the difficulties implied in reaching agreement on an external regime satisfactory to each country. An example of a hybrid arrangement might involve the maximum degree of alignment of tariffs with each country able to determine the pace at which it lowers external trade barriers. Given the framework of the understanding reached by permanent heads, the report argued that the aim of any CU arrangement should be an eventual common external regime at the LCD.

Working Group 2: Tariff and Non-Tariff Barriers

8. The Working Group's report was broken down into three chapters:

- (i) the industrial implications of the elimination of protective devices;
- (ii) techniques of tariff and non-tariff barrier elimination; and
- (iii) administrative elements of tariff and non-tariff barrier harmonisation.

9. Like Working Group 1, the Group found that the economic significance of closer economic co-operation would be limited by market sizes and, therefore, likely to be greater for New Zealand. While increased trade *should* lead to improved resource allocation there was a risk of perverse allocative effects.

10. The report argued that there would be a number of sensitive *rural* sectors. There was, therefore, a need to ensure that in a free trade situation rural industries in both countries were able to compete on an equitable basis. The report found that no significant implications were envisaged for any particular *minerals* or for *energy*. In the case of *manufacturing* industry a *free trade* situation would be likely to mean the expansion of important segments of NZ industry at the expense of their Australian counterparts. The report noted that, in general, trans-Tasman industries most sensitive to competition are also highly protected and not internationally competitive. Their expansion under a free trade area would, therefore, represent an undesirable misallocation of resources. Under a *customs union*, with a common external tariff where intermediate goods industries were protected, there would, the report argued, be very serious implications for important segments of NZ's finished goods industries which rely on duty free access for raw materials/intermediate goods.

11. The Working Group suggested, therefore, that progress towards closer association might only be feasible through an approach which has regard for the problems both countries would face in a free trade area and in a customs union—an oblique reference to a 'hybrid' arrangement.

12. The report's examination of possible *techniques* for elimination of trade barriers found that the adjustment requirements would appear to be greater for NZ. Significantly, the Working Group thought it might be desirable to make

provision for some form of *safeguard* action to avoid severe disruption to industry within the objective of industry rationalisation and development.

13. In its treatment of *administrative* elements, the report noted that the main GATT requirements for the formation of a customs union or free trade area are that substantially all trade between member countries must be free of duties and restrictions and that with respect to third countries' duties and restrictions shall not, on the whole, be higher or more restrictive than before the formation of the new arrangements. The report cautioned that a 'hybrid' arrangement might not meet GATT requirements and may need to be undertaken within the present NAFTA framework.

14. Concerning anti-dumping and countervailing, the report noted that current Australian legislation accords with the GATT Anti-Dumping Code to which NZ has not acceded. Significant differences exist between current practices and both countries are assessing their attributes to the revised Code of Conduct developed in the MTN. The Working Group suggested that, to overcome the problems of interpretation in areas of customs administration, the establishment of a joint consultative body of officials could be considered.

Working Group 3: Elimination or Harmonisation of Other Forms of Assistance

15. The Working Group examined forms of assistance other than tariffs and quantitative restrictions currently provided to industries in Australia and New Zealand with a view to assessing the likely effects of:

- (a) their elimination in respect of trade between the two countries; and,
- (b) their harmonisation in such a way as to provide equal treatment of the industries in each country.

16. The Working Group was guided in its approach by the Permanent Heads' Statement of Understanding³ which noted that specific arrangements for closer economic co-operation would need to provide, *inter alia*, for conditions of fair competition covering, to the extent practicable, the harmonisation or elimination of quantitative controls, industry assistance measures, export incentives, customs procedures, trade practices, standards and other relevant matters impinging on the cost of trade between the two countries. This is understood as the '*fair go*' principle which recognises that trade across the Tasman could be impeded or distorted due to differences in the domestic supports and other assistance measures applied by each country.

17. The report looked at measures ranging broadly from a number of financial supports and incentives for industry to various policies and practices which can, deliberately or otherwise, impede or distort conditions of competition between industries on either side of the Tasman. The Working Group found that the impact of these measures on trans-Tasman trade varied widely and was in most

3 Document 52.

cases extremely difficult to determine. The Working Group was, therefore, of the opinion that no generalised conclusion could be reached regarding other forms of assistance. Rather, each measure must be considered on a case by case basis.

18. It also proved difficult to assess the implications of harmonising or eliminating assistance. However, the report concluded that the likely effects of the elimination or harmonisation of such measures, where considered appropriate, would differ little between the two basic options of either a full free trade area and a customs union. While steps towards harmonisation or elimination appear to be called for in the cases of export incentives, agricultural support arrangements, production subsidies and government purchasing as part of any move to closer economic co-operation, beyond these three forms of assistance the Working Group did not identify any other measures which impacted on trans-Tasman trade to an extent that harmonisation or elimination seemed called for.

19. The report noted that, as a general principle, measures which applied across-the-board were neutral in terms of their impact on resource allocation.

20. The Working Group gave some consideration to NZ's concern that any moves to harmonise or eliminate measures between the Australian (Commonwealth) and NZ Governments might lead to inequitable treatment if the Australian State Governments are not similarly constrained from providing regional assistance and certain other measures. The report suggests, therefore, that moves towards closer co-operation might desirably be accompanied by a general undertaking by the two governments in relation to the principle of fair competition.

[NAA: A1838, 370/1/19/18, xiii]

58 REPORT BY JOINT WORKING PARTIES

1 February 1980

CONFIDENTIAL

Australia – New Zealand Economic Relations

Report by Joint Working Parties

1 February 1980

In accordance with the terms of reference established by Permanent Heads in November 1979,¹ Australian and New Zealand working parties have separately completed a series of studies aimed at identifying the implications of various options for a new trans-Tasman trading relationship.

¹ See Document 52, paragraph 8.

A joint meeting of the two working parties was held in Wellington on 30 January – 1 February 1980 to consider the principal issues and conclusions to emerge from the respective national studies and has prepared the following summary report as a basis for the further discussions to take place between Permanent Heads in Canberra on 25/26 February.

ITEM 1

To assess as far as practicable the economic, industrial and institutional implications for Australia and New Zealand of eliminating over say five to seven years all tariff and non-tariff barriers and other protective devices between the two countries on all products.

1(a) *With Each Country Maintaining its Freedom to Vary its Tariff and non-Tariff Barriers Against Third Countries*

Because the areas of trade still subject to bilateral barriers presently also receive high protection against third country imports, the protection against those imports would remain high, at least initially.

From the New Zealand perspective, the maintenance of a protective regime against the rest of the world of a height close to the present while allowing free trade with Australia, would almost certainly lead to significant trade diversion. For Australia the problem of trade diversion would appear to be less significant. In consequence, there could be scope for the expansion of internationally inefficient industries in one country or the other, even though the combined size of such industries would be unlikely to alter much under such conditions.

In the absence of suitably designed rules of origin it would be possible for third countries to avoid the domestic tariff of the higher tariff partner by routing products through the lower tariff partner. This so-called trade deflection would, over time, force the more protected industry to retrench or to lower its costs, so as to be able to compete with only the protection available in the other country.

Particular problems would arise where one country has an industry which the other does not. New Zealand manufacturing is to a much greater extent than Australia, protected by high levels of protection on finished goods and very low protection on raw materials and intermediate goods that are not manufactured locally.

While Australia permits concessional entry of imports, the equivalent of which are not available from local manufacture, its wider industrial base means that many goods imported at world prices into New Zealand would attract duties in Australia. The margin between tariffs on finished goods and inputs is, however, in most instances, less in Australia than in New Zealand.

Because of this, it is of particular concern to Australia that in a full free trade area New Zealand final good manufacturers might expand their exports to Australia, not because they were necessarily more efficient, but because they have access to cheaper world-sourced inputs and lower wage related costs. This could occur

even though such New Zealand industries might be less efficient than their Australian counterparts and require higher protection against third country imports. Even though a New Zealand industry receives the same nominal protection as the Australian industry, it could be more competitive because of its access to cheaper raw materials and its consequent higher level of effective protection.

Notwithstanding the problems of trade diversion and the expansion of inefficient industries, the increased exposure of each country's industries to competition from the other's, offers advantages of greater incentives for efficiency wherever both countries have an industry. These effects would, in some degree, spill over to affect the management climate in some segments of industry generally. The larger market would tend to promote intra-industry trade and more specialisation.

There is a tendency for some self-correction over time of the problem of the expansion of inefficient industries in a full free trade area of the type envisaged. This comes about because of market forces, national self-interest in protection policy and the general commitment to outward looking development policies. For instance if one country finds its local market for the product of an inefficient industry being taken by imports from a less inefficient producer in the other country, then it will increasingly question the desirability of forcing its own consumers to pay above world market prices to protect employment in the other country. In the extreme case where the domestic industry is forced to close there would be no domestic justification in maintaining the protection. These considerations would influence investment considerations.

In the agricultural sector, it should be noted that free trading conditions already exist for a number of products. However, there are some industries for which movement to free trade between the two countries would create problems. These include dairying for Australia, wheat and wine for New Zealand and for both countries a number of horticultural products. Freeing trade would in some cases involve major policy changes affecting production and marketing arrangements in both countries and these would be the same regardless of the option chosen for closer economic association.

The principal concern would be to ensure that in a free trade situation rural industries in both countries would be able to compete on an equitable basis. Because of the particular measures used to support agriculture, this raises the issue of current marketing/stabilisation schemes and assistance measures which can affect the relative competitive position of these industries.

1(b) *With a Movement to a Common External Regime based on the Adoption, in respect of each Industry, of the Lower of the Two External Regimes currently in force*

A common external regime deals effectively with several of the problems attendant upon a free trade area. For example, it dispenses with the need for special rules of origin since all third country imports enter the wider customs

territory on the same basis and may therefore be interchanged between the two countries without additional impost other than for domestic fiscal purposes.

Countries operating or contemplating a full free trade agreement are normally brought to appreciate that a common external regime has the attraction of ironing out at least some of the distortions and inequities that are necessarily attendant upon the free interchange of goods which are produced by countries having divergent external policies.

The formation of a customs union which based the common external tariff on a lower of the two union partners would minimise the potential for trade diversion. Conversely, trade diversion would rise to the extent that the common external tariff was set above the lower of the two previous tariffs.

Both working groups see problems in establishing a full customs union within the terms of reference. These difficulties relate to the existence of significant Australian input industries and the fact that the tariff and non-tariff barriers applied by Australia and New Zealand against third countries are diverse and substantially different. A common regime, particularly, if based on the adoption of the lower common denominator, would bring about a shift in economic and trade policy for both countries, but particularly for New Zealand.

An important implication would be the removal of duties assisting Australian producers of intermediate goods where similar goods are imported duty-free into New Zealand. This would involve severe adjustment pressures for the Australian producers of the inputs concerned. At the same time, there would be an increase in effective production for the Australian producers of associated finished goods unless the tariff on those goods moved downwards.

On the other hand New Zealand would not generally wish to raise its tariff and protective structures in these industries to the present Australian level. This would subject New Zealand's finished goods industries to greater competition and place greater pressure on New Zealand industries to relocate in Australia to minimise the impact of higher costs, including freight rates. This would also cause New Zealand to divert trade away from third countries to Australian sources. Equally important from both a trade and foreign policy point of view would be the adverse impact on relations with New Zealand's other trading partners of raising tariff and protective structures to the Australian level in these industries.

The long-term industry and trade effects of a customs union would be more fluid as factor utilisation and prices adjust to the combined market, technology advances, new products emerge and international economic changes occur. Predictions beyond the immediate future cannot be made with any confidence but present circumstances can give some guide to the likely future development. The common external tariff that would result from taking the lower common denominator in those cases where both countries had similar industries would be only slightly lower than the pre-union Australian tariff because that tariff is in

most cases already lower than the New Zealand tariff. However, such a common tariff would be considerably lower than the pre-union New Zealand tariff and, given the more extensive use by New Zealand of quantitative restrictions, a greater liberalisation by New Zealand of quantitative restrictions would be involved. Other commercial factors and policies notwithstanding, it seems likely that in a customs union of the type proposed by Permanent Heads, Australia could become the preferred location for development of some types of manufacturing activities. There would be a tendency for New Zealand to specialise in areas where its blend of natural resources and where the relatively lower New Zealand labour related costs could be important. In the longer term a customs union might facilitate corporate planning involving both countries which would lead to rationalisation of production between existing manufacturing entities.

Such a customs union would require a reconsideration of the policies that have been devised (for instance, following reference to the Australian IAC and the New Zealand IDC) relating to particular sectors of the economy.

1(c) *A Combination of the Two Approaches*

The joint working parties recognise that it is possible to envisage a wide variety of combinations of the two options examined under 1(a) and 1(b).

However, given the principal problems and issues of a Free Trade Area and Customs Union as classically defined, a hybrid arrangement which appears to present a promising option for the progressive development of the closer long-term relationship compatible with the overall economic aims might be based upon commitment to move to free trade in as broad a band of industries as possible. It would be essential that there be automaticity in the phasing-in of the free trade arrangements with exceptions, rather than inclusions, being nominated.

Such a hybrid agreement should make provision for the following:

1. Recognition that for developmental and other reasons some industries may require special arrangements, including differential phasing within the overall objectives of the agreement. Recognition also of the possible need for phasing arrangements beyond the five to seven years' time frame specified in the terms of reference where warranted by special industry circumstances.
2. Provide scope for study of agreed cases where industries in both countries would have extreme problems of adjustment to be undertaken before existing bilateral trade restrictions are eased and, where appropriate, adjustment assistance be provided.
3. Examination of the options open to deal with the problems caused by intermediate goods industries. These might include:
 - (a) special area content rules
 - (b) production subsidies

- (c) lowering of tariffs to the lower level of the two countries
 - (d) margins of preference
4. Proposals for change in external tariffs for the products of industries common to both countries be based on recommendations by separate advisory bodies in each country working in consultation, and leading wherever possible to a common external tariff.
 5. Safeguard mechanisms based on present NAFTA arrangements. Resort should only be had to these measures in circumstances of significant concern.

TERMS OF REFERENCE—ITEM 2

POSSIBLE TECHNIQUES FOR THE ELIMINATION OF TARIFF AND NON-TARIFF BARRIERS BETWEEN AUSTRALIA AND NEW ZEALAND

1. The Terms of Reference arising from the Permanent Head's Statement of Understanding asked officials 'to determine the most desirable and practicable technique that might be applied in achieving the elimination of tariff and non-tariff barriers between Australia and New Zealand' over an agreed period.
2. Decisions in this area would be interdependent with those relating to the form and timing which the elimination of tariff and non-tariff barriers to trade might take. Moreover, any consideration of the best techniques for elimination of trade barriers cannot be divorced from institutional issues—including the possible involvement of industry advisory bodies—and such safeguard provisions as might ultimately be implemented.
3. The following are amongst the options that are available and which show the greatest practicability and advantage.
 - (a) An across-the-board phased removal of tariffs, possibly following a basis similar to the phasing arrangements provided for addition to Schedule A in the existing NAFTA (i.e. an 8 year phasing arrangement with reductions of 20 per cent of the base rate bi-annually).
 - (b) Possible adaptation of the phasing arrangement which could include, for example, variations to the degree and period of tariff cut and/or special provisions relating to those goods where the existing tariff rates are already low or relatively high. However, regard should be had to the fact that levels of tariff are not always necessarily indicative of the sensitivity of the goods in question.
 - (c) General or selective references to industry advisory bodies which might be asked—with some degree of co-ordination between the two countries—to determine arrangements appropriate to particular industries for the removal of existing trade barriers.
 - (d) Concurrent with tariff action, the phased elimination or liberalisation of such non-tariff barriers as may be agreed. Progress in this respect would require to be carefully monitored to ensure that distortions were minimised

and the administration of any such restrictions as might continue to be applied against third countries was not complicated.

(e) For sensitive items, New Zealand import licensing might best be liberalised on a licence-on-demand basis for successive increments of the domestic market over the duration of an agreed phase-out period. For less sensitive items, an unrestricted move to licence-on-demand within a shorter period, thereafter a full removal of licensing requirements might be possible. Conditions for each industry would need to be determined ultimately on a case-by-case basis.

(f) A progressive removal of protection should be accompanied by an appropriate range of adjustment assistance measures and safeguards to prevent unnecessary industry dislocation.

ITEM 3: ADMINISTRATIVE ADJUSTMENTS INVOLVED IN HARMONISATION

INDUSTRIES ASSISTANCE

Harmonisation of the work of advisory bodies would involve considerable legislative and administrative change. Perhaps an option with some advantages, but involving the greatest change, would be new joint bodies with modified guidelines, etc. An option involving less change would be to retain the two sets of institutions, with perhaps minor changes, and provide for greater co-operation between them before separate reports are submitted to the respective Governments.

CUSTOMS

Although there are differences in the institutional arrangements involved in setting tariff levels, a considerable degree of commonality already exists in the policies and procedures followed by the two countries in administering their Customs Tariffs.

Significant differences do, however, apply in relation to the following elements.

(a) *By-law and Concession Policies*

Although both countries provide mechanisms whereby rates of duty appearing in the Customs Tariffs might be reduced by the exercise of discretionary authority, there are considerable differences in the operation of such discretion. This reflects, inter alia, differences that exist in the substantive tariffs and in industrial development between the two countries.

(b) *Valuation*

Presently New Zealand's Customs valuation system is based on Current Domestic Value in the country of export whereas Australia applies the Brussels definition of Value at free-on-board level. The differences are substantial. A possible means of achieving compatibility would be for both countries to adopt the GATT Valuation Code developed within the Multilateral Trade Negotiations.

(c) *Rules of Origin*

Significant differences are noted in the Rules of Origin adopted by each country in relation to trading with third preference receiving countries.

(d) *Anti-Dumping and Countervailing*

Australia's anti-dumping legislation is aligned to the principles contained in the GATT Anti-Dumping Code and also includes countervailing provisions. New Zealand has not acceded to this Code. A number of differences are apparent in the policies applied by the two countries. Both countries could achieve compatibility on the basis of the Codes on Anti-Dumping, and Subsidies and Countervailing, developed in the Multilateral Trade Negotiations though this would involve a consideration of wider trade policy issues.

Both Australia and New Zealand are active members of the Customs Co-operation Council, a factor which has reinforced the considerable degree of harmonisation which exists in Customs procedures. The extent to which harmonisation is desirable in the particular areas identified above as having significant differences would depend upon the nature of the arrangement reached between the two countries. Complete harmonisation would be seen as necessary in the event of a decision to adopt a Common External Regime.

ITEM 4: EXAMINATION OF OTHER FORMS OF ASSISTANCE CURRENTLY PROVIDED TO INDUSTRIES IN AUSTRALIA AND NEW ZEALAND WITH A VIEW TO ASSESSING THE LIKELY EFFECTS OF:

- (a) their elimination in respect of trade between the two countries, or
- (b) their harmonisation in such a way as to provide equal treatment of the industries in each country.

Having examined a wide range of measures falling within the category of other forms of assistance, the working parties consider that special and particular attention needs to be given to at least three cases to determine their significance for trans-Tasman trade and the effects of their elimination or harmonisation. The three cases identified are: export incentives, agriculture support arrangements and production subsidies and government purchasing.

While these measures require further detailed study the following points can be noted:

(a) *Export Incentives*

The various export incentive and development schemes operating in both countries have a common approach in that they are intended to assist exporters by defraying the costs of export promotion and to reward and encourage export performance. However, while the current Australian schemes are viewed by them as providing a short-term incentive to the export sector, in the New Zealand context they are regarded as a major plank of New Zealand industry policy. The range and level of incentives available to New Zealand exporters is wider and

more generous than those available to Australian exporters. In this regard, the disparity between the schemes operated by the two countries is such that Australian industry is likely to complain that New Zealand exporters are able to compete unfairly in the Australian market. On the other hand New Zealand industry may also feel justified in complaining that some Australian exporters will be able to use the current Australian scheme to unfairly assist rapid growth in the New Zealand market.

Harmonisation of the schemes would provide a means to overcoming such potential difficulties in that it implies fair treatment by both countries. As the New Zealand scheme has been specifically tailored to meet industrial development and export objectives, it could be expected that there would be strong resistance to change or major modification, particularly if it involved a significant scaling down of the level of incentives. On the other hand it is not clear that, notwithstanding the positive effects on export performance which could be expected, Australia would be prepared to adopt the New Zealand scheme.

While elimination of the schemes in relation to trade between the two countries is a possibility, such a move would in effect act as a disincentive to bilateral trade, the growth of which is one of the objectives of the exercise. One possibility, to reduce the disincentive to bilateral trade, could be set a common level of assistance lower than that applying to third countries.

(b) Agricultural Support Arrangements

The operation of agricultural marketing/stabilisation schemes and assistance measures in both countries influence[s] the performance and competitiveness of agricultural industries. However, because of the complexities of these mechanisms, appropriate solutions may lie in approaches other than elimination and harmonisation. In any approach the objective would be to ensure that the net effect of support measures on producers in either country were approximately equal.

In the case of wool, meat, tobacco and eggs the existing marketing/stabilisation schemes would not be significantly affected by closer economic co-operation. In other cases such as the dairy, wheat, citrus and some fresh and canned fruit industries, closer economic association could have significant implications for the operation of existing marketing/stabilisation arrangements and assistance measures.

Appropriate solutions would need to be developed through detailed discussions in respect of particular agricultural industries. In this respect, it is recognised that both countries may wish to maintain the freedom to assist their agricultural sectors in ways which they feel are most in line with their overall policy objectives.

(c) *Government Purchasing*

The preferences which the Governments of both countries extend to domestically-made goods in their procurement policies and practices constitute an additional layer of protection for Australian and New Zealand suppliers, within their respective markets, over and above that accorded where applicable by duties and non-tariff barriers.

The implications of removing discrimination in government purchasing as it applies to bilateral trade would be to increase competition between potential suppliers on both sides of the Tasman. For New Zealand industry it would provide the opportunity to bid for a larger procurement market. While the total procurement market which would be opened to Australian manufacturers would not be significant, it needs to be borne in mind that the manufacturing base in New Zealand is much narrower than in Australia. Accordingly, Australia would enjoy a preferred position over third country suppliers for a range of goods which are not available in New Zealand.

As the purchasing policies and practices of the two countries are broadly similar, the implications of any move to harmonise them around a common denominator close to existing arrangements, are unlikely to be major, however, the progressive liberalisation of tariffs in trans-Tasman trade would enhance the competitiveness of both countries in relation to third country suppliers given the continued application of notional duties for some purchases from such sources.

It is possible that agreement might be reached on the harmonisation of policies including, for example, an agreed maximum margin of preference to apply to domestic suppliers, or to significantly reduce the area touched by discriminatory policies. Consideration could also be given to a combined area content to apply when assessing bids, irrespective of whether the last place of manufacture was in the domestic or partner country.

This subject also directs attention to the preferences which the Australian State Governments accord to their own 'domestic' suppliers. Harmonisation might be achieved by agreement between the Commonwealth, State and New Zealand Governments on a uniform maximum level of preference. The States might be able to agree that goods which are the produce of New Zealand are treated no less favourably when traded in an Australian State than goods from any other Australian State.

ITEM 5: TO REPORT BROAD CONCLUSIONS INCLUDING IDENTIFICATION OF
MAJOR ISSUES TAKING ACCOUNT OF BOTH DYNAMIC AND STATIC
IMPLICATIONS AS FAR AS IS PRACTICABLE

Dynamic Effects

The Working Groups noted the difficulties of assessing the dynamic effects, but recognised their significance in reaching an overall judgement of any future form relationship. The Working Group considered the following points worth noting:

The increase in competition, and the greater market size, should result in a higher level of efficiency in both countries in the use of resources and improved allocation of those resources. The larger market size and inter-industry rationalisation within the agreement should enable more of the advantages of economies of scale to be realised. Consumers in both countries should benefit. In the long term improved employment and stronger economic growth could be expected for a closer economic relationship but there would be severe short term adjustment problems from any rapid change in the relationship, particularly for New Zealand. The major benefit that will accrue to New Zealand will come about through the dynamic gains that a greater level of competition will bring. New Zealand's small market size and the low level of international competition locally suggest that there is considerable room for improvement in productivity simply through better use of resources. Work that has been carried by international agencies in highly protected economies suggest that the major gains from free trade operate through this type of mechanism.

The overall benefit for Australia is likely to be less significant in relative terms and would depend importantly on equal market opportunity, including the treatment of the intermediate goods industry.

The Working Group considered it important that the potential benefits from closer economic ties between the two countries are not diminished by the impact of trans-Tasman freight rates or inadequacies in transport services.

There are dangers in closer ties, the most important of which is trade diversion, with its impact on both higher balance of payments costs for the country whose trade is diverted and also through the expansion of inefficient industries to take advantage of the possibility of trade diversion or trade creation which is not based on internationally efficient industries. Both impose costs on the countries involved and both should be avoided if possible. A good deal will depend on the rate of change in the protective structure between the two countries, and between each country and the rest of the world.

The reduction in bilateral trade barriers and the longer term impact of that on competitiveness could result in the present exchange rate being inappropriate. In Australia's case and adjustment is unlikely to be large, given the relatively small potential impact of New Zealand on the Australian balance of payments. However, a reduction by New Zealand of direct controls on imports and other

forms of assistance to industry could require an adjustment of the New Zealand exchange rate over time, to ensure that the balance of payments remains within reasonable bounds.

However, closer association will only be one factor bearing on the overall balance of payments outcome. Exchange rate policy will continue to be framed in the light of other factors including internal economic conditions, policy objectives and the setting of other policy instruments.

Conclusion

The studies confirm Permanent Heads' views that any new arrangements need to reflect an outward looking approach based on an efficient allocation of resources and should be designed to enhance relationships with third countries.

The Working Groups consider that Australia would favour a Customs Union based upon the lower of the two external tariffs in those cases where both countries have the same industries, but would find difficulty in completely removing protection for industries which New Zealand did not share. New Zealand has substantial problems however, with any Customs Union which would require its industries to accept increased input costs and, in many cases, reductions in protection for its finished goods industries. For this reason, it considers a Free Trade option, suitably qualified, as being more acceptable. As a consequence the third option of a 'hybrid' arrangement appeared to offer the best prospects for providing the basis for any possible future agreements. Such a 'hybrid' would attempt to deal with the major problems identified by each country, but it should not compromise long term possibilities of a Customs Union approach.

The Working Groups believe that the problems of achieving a mutually beneficial closer economic relationship are likely to become more difficult if the two countries proceed along different lines of development in the coming years. The overriding concern should be to achieve a relationship that promotes the long term growth of economic activity, employment and living standards.

[NAA: A1838, 370/1/19/18, xv]

59 MINISTERIAL SUBMISSION TO PEACOCK BY ASHWIN

Canberra, 5 February 1980

CONFIDENTIAL AUSTEO

**Subject: Closer Economic Association between Australia
and New Zealand**

PURPOSE: To brief you on the outcome of Australia New Zealand officials talks on the above subject which took place in Wellington from 29 January to 1 February and to report some comments of Mr Fife on his discussions with Mr Muldoon in Sydney on 31 January.

ISSUES: The group of Permanent Heads from both countries which met last year had tasked working groups on both sides to examine a number of options for closer association and to report back to Permanent Heads. The report, which was drawn up at last week's meeting, will now be discussed by the Permanent Heads (including our own) at a meeting in Canberra on 25/26 February. The outcome of the Permanent Heads discussions will be considered by the two Prime Ministers when they meet in Wellington on 20/21 March. (It is expected that Mr Fraser and Mr Muldoon will briefly discuss closer economic association as well as the international situation at their meeting in Christchurch next week.)

The Australian side at last week's officials talks was chaired by the Department of the Special Trade Representative and included officials from Foreign Affairs, Industry and Commerce, Business and Consumer Affairs, Primary Industry, Treasury and Transport. The Australian group of officials found that New Zealand was not well prepared for last week's meeting. Although our side had handed over our papers¹ to them earlier in January, no documents were received from New Zealand until shortly before our team was due to leave Australia and these were largely inadequate. When our team arrived in Wellington it was given a draft report to the Permanent Heads which had been drafted by the New Zealand side, but our officials found it too sketchy and it had to be rewritten considerably.

New Zealand officials told our team that, although they had been able to carry their own Permanent Heads with them in consideration of this matter, they had no confidence that New Zealand Ministers would be able to withstand the considerable pressure from New Zealand manufacturing and other interests who fear any closer economic co-operation with Australia. Mr Muldoon told Mr Border before the latter left Wellington last week² that he saw a number of 'fishhooks' in the exercise which he could not get around. A senior official of the Foreign Ministry told our representative to the talks that he did not think that Mr Muldoon would be able to agree, at the Prime Ministerial meeting in March,

1 i.e. the reports of the Australian Working Groups. These are summarised in Document 57.

2 Border ceased as High Commissioner on 2 February 1980 and was succeeded by J. J. Webster.

to anything more than the need for closer economic association and a broad indication of trends that future studies of the subject should take. Neither are the New Zealanders enthusiastic about a revision or replacement of the 1944 ANZAC Pact with New Zealand which they fear the press would see as an attempt to paper over the cracks to hide basic disagreements.

Nevertheless, after several days of negotiations, both sides were able to agree on a joint report³ to Permanent Heads. In brief, this document states that because New Zealand would favour a Free Trade Area and Australia a Customs Union, the solution may lie in a hybrid arrangement, incorporating features of both such arrangements but excluding those which cause difficulties for either country. It remains to be seen, however, whether this document (if approved by Permanent Heads), will be acceptable to Ministers on the New Zealand side. The New Zealand view seems to be that it may not. They are therefore casting around for initiatives which the Prime Ministers could announce if they cannot agree on a major step towards closer economic association. Their preliminary thoughts are that energy, shipping or joint marketing in third countries may be worth exploring, but our initial view is that these areas do not look very promising at this stage.

The attached cable, giving an account of Mr Fife's talk with Mr Muldoon in Sydney on 31 January was sent to you in Jakarta. We have now received the attached letter from Mr Hearder in Sydney giving some comments from Mr Fife on his discussions with Mr Muldoon. Mr Fife told Hearder that Mr Muldoon had been very pleased with the visit and thought that there should be more visits of this kind in both directions both before and after Mr Fraser's trip to Wellington in late March. Once more, Mr Muldoon played down the possibility of any substantive results emerging from the March meeting.

Mr Fife told Hearder that, having regard to New Zealand sensitivities, he thought it would be a good idea to have a reserve core of two or three Australian Ministers with appropriate knowledge of and background about New Zealand who could deputise for the Prime Minister or the Foreign Minister, as he did on this occasion, in dealings with the New Zealanders. His own previous acquaintance with Mr Muldoon and previous dealings with New Zealand had been helpful on this occasion.

RECOMMENDATION: *It is recommended* that you note the above.⁴

[NAA: A1838, 370/1/19/18, xiv]

3 Document 58.

4 Peacock annotated the submission with 'Noted. A. S. P. 5/2'.

60 MINUTE FROM SANTER TO GATE

Canberra, 12 February 1980

**Australia – New Zealand Economic Relations—The View of
Australian Industry**

In view of the need to have Australian industry's concurrence to new developments in Australia's economic relations with New Zealand (regular discussions between the two countries' industry associations and officials—the 'Quadrilaterals'—are an integral part of the consultative process established under NAFTA and applications for the inclusion of products on the various NAFTA schedules are channelled initially through the industry associations) it would be worthwhile to include in the Secretary's brief for his discussions at the Permanent Heads meeting a section on the attitudes of Australian industry, as expressed by their delegates to the most recent Quadrilaterals meeting.

2. The Australian industry representatives have two major areas of complaint. Firstly, they are dissatisfied with NAFTA because it allows the establishment of safeguards for the protection of inefficient industries and does not prevent the imposition of non-tariff barriers to trade. In both cases New Zealand is the beneficiary—in the first case because most of its industries are more inefficient and they can, and have, resorted to the existence of exclusion clauses to ensure that Australian competitors are denied access to the New Zealand market; and in the second case because, in spite of the existence in NAFTA of a schedule (Schedule A) allowing for duty-free trade between the two countries, Australian exports to New Zealand are subject to an import licensing system for their products. The import licensing system is one of the major devices used by New Zealand to protect its industry.

3. Secondly, Australian industry representatives point to the institutional support provided to New Zealand industry by their Government, which gives some New Zealand industries a competitive edge unrelated to efficiency of production in third country markets and even in Australia. The major examples of this support are the export incentives scheme, the New Zealand scheme being five times more generous than ours, and the provision in New Zealand for duty-free entry into New Zealand of raw materials and components provided they are processed further by New Zealand industry. Australian industry must pay normal tariffs for raw materials and components. As a result a significant number of Australian companies have moved offshore to New Zealand where they can obtain their imports duty-free and then export to Australia taking advantage of the duty-free provisions of NAFTA.

4. The trade ratio between the two countries is currently 1.4:1 which, while still being in Australia's favour, is progressively moving New Zealand's way and is much lower than would occur if there was completely free trade both ways and Australia's more efficient industries were allowed to compete openly.

5. Australian businessmen therefore see NAFTA as being excessively biased in favour of New Zealand. At the 1978 NAFTA industry associations' meeting the matter came to a head, the Australian side arguing that in its present form NAFTA was no longer acceptable to Australian industry. At that time the New Zealand delegation, although somewhat surprised by the strong Australian feeling, seemed to accept the need for the revision of NAFTA and agreed to form a joint working party to canvass the various options available in the formation of a new economic association.

6. The working party prepared a paper which was submitted to both delegations prior to the 1979 meeting in Christchurch last October. At the meeting the Australian delegation repeated that, as far as Australia was concerned, NAFTA was no longer viable and proposed that a customs union—a free trade area with a common external tariff—be phased in, becoming fully effective when NAFTA expired in seven years time. In private meetings some Australian delegates argued that it should be presented as a 'take it or leave it' proposal and that, if the New Zealand side refused to accept it, Australia should scrap NAFTA and both countries should go their separate ways.

7. In reply, the New Zealand delegation, which was again taken aback by this further bout of Australian radicalism, argued that the two countries should adopt a 'NAFTA-plus' scheme whereby all goods currently not on Schedule A be entered onto Schedule B—a so far little used schedule under NAFTA allowing for the trading of goods on an industry wide basis subject to duties and limitations (quotas, licensing etc.) as may be agreed by each country—with a definite timetable established for their move to Schedule A. The Australian side found this proposal to be completely unacceptable since it enshrined the abovementioned inequities existing under NAFTA.

8. Both sides therefore agreed to put each other's proposals to further study by the joint working party to examine their implications for the two countries' industries. The October meeting set a deadline of February 1980 for the working party to report back to the two industry associations, so that a joint view could be submitted to the two Governments in time for the planned meeting between the Prime Ministers.

9. The Australian approach to the working party discussions was constructive. Realising that the New Zealanders would not agree to a customs union under any current circumstances and believing that the main problems for Australian industry could be overcome if certain concessions which treated each problem in turn were made, the Australians went to the joint working party meeting (held in December 1979) prepared to back off from the customs union proposal in favour of one allowing for a free trade agreement with high area content and the harmonisation of the two export incentive schemes. The high area content provision was felt to be necessary to ensure that, by the establishment of a large locally-sourced proportion of total duty-free inputs, the unfair competitive edge currently given to New Zealand manufacturers would be eliminated. At the same time the New

Zealand objection to the common external tariff provisions of a customs union (assuming that the c.e.t. would be set at the lower Australian levels) would be overcome. There was, therefore, a mood of compromise on the Australian side.

10. This mood was not, however, shared by the New Zealanders. Instead they regressed from the October meeting, saying in effect that there could be no agreement on the total package presented by the Australian side until each of the elements plus one other—the relative effects on each country's industry of their respective Governments' fiscal policies—was put to thorough study. The working party is now dormant and the Australian side, at least, is wondering where the negotiations will go next. It believes that this situation is what the New Zealanders want, since they are doing very well out of the status quo. Australian industry, however, if the delegates' views are any guide to industry's thinking, is not prepared to support the maintenance of the status quo. It would prefer to see NAFTA scrapped entirely and it believes that the New Zealand side should be so informed. It does not accept the New Zealand argument that, since New Zealand is Australia's largest market for manufactures, Australia needs New Zealand as much as New Zealand does Australia. It points out that, largely due to NAFTA, New Zealand buys only those Australian manufactures which it does not itself produce on a lowest world price basis and that Australian competitiveness on those terms would be little changed if NAFTA were to go. The same would not apply to New Zealand manufactured exports, however, (Australia is also New Zealand's largest market for manufactured exports) since New Zealand would otherwise be subject to the normal Australian tariff provisions.

11. In short, the Australian industry representatives argue that the time for the tabling of imaginative proposals by Australia has passed—the New Zealanders are well aware of what we want. It is now time for Australia to put before the New Zealanders some hard economic and political facts and some worst-case scenarios which could result from their intransigence. They point out that the New Zealand manufacturers have much greater influence over government policy than do their counterparts in Australia and that the current New Zealand Government opposition (as expressed by Muldoon and Adams-Schneider) to further substantive progress towards closer economic ties results directly from the power which a relatively small clique of (generally older) businessmen have over the Government. They therefore argue that the New Zealand case needs a detailed rebuttal pointing out why each of their arguments is wrong in terms of both sides' interests and how, overall, the New Zealand economy will be better off under a customs union or even a genuine free trade agreement. They also say that the debate, at least on the New Zealand side, has generally been conducted in a vacuum, without attempting to relate to the two sides' proposals to the current world economic situation. All these trends need to be drawn together if we are to convince the New Zealanders where their best interests lie.

12. Having been a witness to the above events, I would endorse their views.

61 MINUTE FROM ASHWIN TO HENDERSON

Canberra, 12 February 1980

CONFIDENTIAL AUSTEO

Closer Economic Association between Australia and New Zealand

A meeting of Australian Permanent Heads is to be held in the Department of Trade and Resources on Thursday, 14 February, to discuss tactics for the meeting between Australian and New Zealand Permanent Heads scheduled for 25/26 February in Canberra.

[*matter omitted*]¹

6. In particular, the New Zealanders are reluctant quickly to dismantle their import licensing system and to vary their tariff structure and export incentive system (although we believe that the latter may be modified as a result of threats from the United States to take action against New Zealand in GATT and under its countervailing duties legislation and as a result of concern by the New Zealand Treasury over its cost). The representatives of the Australian economic departments believe that it is the New Zealand intention to make arrangements that will serve only their industries by agreeing to 'first step' arrangements favourable to New Zealand industries without any time scale being set for further steps. While there are probably some New Zealanders who take this view, the obvious difficulty they had in getting their act together before the Wellington meeting suggests that there is no united New Zealand attitude. The New Zealand Treasury is thought to have a more liberal view. Nevertheless, there does seem to be well-entrenched reluctance on the part of New Zealand politicians to move ahead in uncharted waters (see Mr Border's valedictory speech attached). These views are supported in the attached paper² prepared by Mr Santer of EP Branch.

7. A meeting was held in Canberra on 11 February amongst Australian officials to consider the next steps to take. The economic departments were very pessimistic about the likelihood of any further progress because of what they see as New Zealand obduracy. While not overlooking this fact, we argued that our own Permanent Heads should not enter into the discussions in the belief that no progress at all was possible. If no progress is possible, it should be left to the New Zealanders to say so. We supported the suggestion that the positive aspects of the joint report should be emphasised and that, where differences are known to exist, the Australian Permanent Heads should clearly state what our position was and endeavour to pin down the New Zealanders to a precise statement of their position.

1 The omitted material repeats the content of the first four paragraphs of issues in Document 59.

2 Document 60.

8. STR has now produced the attached 'issues' paper³ for consideration of Australian Permanent Heads at this week's meeting. In our view it somewhat overstates the 'negativeness' of the New Zealand Officials' views. Although the New Zealanders obviously had difficulties in adopting a unified position, they did agree to the Joint Report which does recommend the 'hybrid' approach as worth further investigation. The STR paper also, and in our view unnecessarily, goes a bit too far in assessing underlying New Zealand motives, although we did get STR to agree to delete some references to this.

9. The paper does (on page [7]) come up with some good recommendations as to what our attitude should be at the February meeting, specifically, that we should reaffirm that any future arrangement must be consistent with our Government's objective for a more competitive and outward-looking Australian industry, that any move towards closer economic association must be a gradual process with an agreed long term goal (i.e. not a single immediate step or maintenance of the status quo for New Zealand's benefit) and that we should ascertain the extent to which New Zealand is committed to these objectives and whether they would be prepared to modify some key policies (e.g. import licensing, export incentives) to achieve them and to establish what is negotiable in this area. The paper does, we think, raise a red herring in the form of possible Constitutional objections from the Australian States when, in fact, the objections are more likely to come from Australian industries wherever situated. In any case, there are procedures which we can invoke for consulting the State[s] when Treaties are under consideration.

10. The STR paper also deals with some other matters which have been discussed as possible areas in which progress could be made, including revision of the ANZAC Pact, transport, co-operation in Third Country Markets, and energy. We are proceeding with the draft of a revised ANZAC Pact (which has been held up by the absence of Mr Pritchett overseas) but New Zealand is not enthusiastic. No further useful announcements seem possible on energy or joint marketing. On transport, the two Transport Ministers have just announced that a six month study of trans-Tasman shipping is to be undertaken and suggestions have been made that the Prime Ministers may wish to give this study some encouragement; it is difficult to see how they could do so.

11. A record of conversation giving some New Zealand views on these matters in attached.

12. It is recommended that at the meeting of Australian Permanent Heads this week, you recommend that our attitude to the meeting with the New Zealanders on 25/26 February should be:

3 Document 62.

- (a) The Joint Report of the Working Groups represents a positive step forward and should be recommended to Ministers (the New Zealand side may well prove unable to agree to this)
- (b) We should work together towards realisation of the 'hybrid' noted in the Report as being the most promising area for investigation, but one which should not compromise long term possibilities of a Customs Union approach
- (c) The arrangement should be consistent with our objective of a more competitive and outward looking structure for Australian industry
- (d) A definite time-scale should be set with a long-term goal
- (e) We should ascertain precisely what modifications, if any, New Zealand is prepared to entertain to its tariff, export incentive and import licensing policies.

[NAA: A1838, 370/1/19/18, xv]

62 ISSUES FOR PERMANENT HEADS MEETING

Canberra, 18 February 1980

CONFIDENTIAL

Australia – New Zealand Economic Relations Permanent Heads Meeting—25/26 February 1980

Issues for Consideration¹

BACKGROUND

The joint report by the Australian and New Zealand Working Parties² setting out the principal issues and conclusions arising from studies undertaken in accordance with the Statement of Understanding,³ is expected to form the basis of discussion at the Permanent Heads meeting in Canberra on 25/26 February.

This note, based on the Australian Working Party's assessment of the key issues which need to be addressed at the forthcoming meeting, has been amended to incorporate the views and comments expressed by Permanent Heads at a preparatory meeting on 14 February.

[*matter omitted*]⁴

1 The paper was prepared by the Special Trade Representative.

2 Document 58.

3 Document 52.

4 The omitted material summarised the Joint Report.

COMMENT

While the joint report has been prepared and agreed to by the Working Parties as a means of advancing consideration of this subject, it should be noted that the document is not considered as formally binding on either side

— this is particularly important in the case of New Zealand officials who appeared to submerge major internal differences in order to reach agreement on a text with Australia.

The New Zealand Working Party was reluctant to have the report identify some of the hard issues (e.g. export incentives and agricultural support/stabilisation measures) and took the approach that they were not negotiable

— this Australian delegation had to press them into acknowledging their position in the report even though expressed in fairly evasive language.

Clearly, New Zealand Trade and Industry officials have reservations about aspects of the report dealing with liberalisation of New Zealand import licensing, access to world-priced raw materials and intermediate goods and export incentive schemes since these form the cornerstone of New Zealand's industry policy

— it may be therefore that after further internal consideration New Zealand Permanent Heads will be unable to endorse the joint report.

Any assessment of the possible New Zealand approach should also take account of a marked reluctance on the part of the New Zealand officials to be tied down to mention of a time frame

— the impression was conveyed that they would wish to push out the indicative time frame beyond the 5–7 years mentioned by Permanent Heads.

New Zealand officials have also sought acceptance of the view that any advantages conferred on its industries by various assistance measures should be regarded as a factor offsetting the advantages which Australia would enjoy because it is the larger partner

— i.e. the concept of equality of trading opportunity would need to be viewed in the light of the balance in the overall package

- NZ thinking in this respect is clearly different from that of Australia.

It would be too optimistic to assume that New Zealand would be prepared to proceed to a customs union in the next ten or so years or modify many/most policies which are fundamental to establishing equality of trading opportunities across the Tasman.

Against this background, it is in Australia's interests to ensure that any new trade and economic arrangements do not become locked-in to a 'stretched' version of NAFTA which provides selective advantages to New Zealand but does not embody the commitment to longer term arrangements which would provide benefits to both countries in a wider relationship

- this is particularly important given that the overall benefits to Australia are considered likely to be less significant than for New Zealand in relative terms.

From the discussions to date it would appear that New Zealand's main interest in an outward looking future trade arrangement is to ensure that their existing duty-free treatment of most raw materials and intermediate products is maintained

- as regards finished goods industries of interest to New Zealand, it is likely that New Zealand would resist future moves by Australia to reduce tariffs applicable to third countries.

The Working Party considers that the approach to be adopted by Permanent Heads at the forthcoming meeting should be to:

- reaffirm the position that any future arrangement with New Zealand must be consistent with the Government's broader objective for a more competitive and outward looking structure for Australian manufacturing industries which is less reliant on government assistance
- acknowledge that any move to closer economic association must be a gradual process and to avoid a situation where both countries could enter new arrangements without an agreed longer term goal
- ascertain the extent to which New Zealand is committed to these objectives and whether and over what time frame they would be prepared to modify specified existing policies to achieve them
- make it clear that Australia regards duty-free and import licence-free treatment fundamental to the liberalisation of trade across the Tasman
 - and that both Parties must be prepared to tackle other measures which significantly affect prospects for equality of trading opportunity between Australia and New Zealand
- establish what is negotiable in this area before Australian officials can advance any recommendations to Cabinet.

Otherwise, judging from current New Zealand attitudes, the first step might be the only step.

Closer relations with New Zealand involve questions of interest to Australian States

- these will need to be given due consideration at the appropriate time.

Should Permanent Heads agree that further studies are warranted, Australia is of the view that they should at least include

- an assessment of the extent of the raw materials intermediate goods problem
- in relation to the concept of equality of trading opportunity
 - a detailed comparative analysis of the impact of the respective export incentive schemes

- detailed comparative analysis of by-law and concessional entry arrangements in the two countries and the implications of harmonisation
 - consideration of the scope for harmonisation or equalisation of the impact of agricultural production and marketing arrangements
 - further study in depth of the possible mechanisms, time frame and implications for particular industries of phasing out of import licensing
- study of the implications and arrangements for co-operation between the respective industries and assistance advisory bodies.

OTHER ISSUES

The Working Parties have held follow-up discussions on certain other issues which were raised at the first Permanent Heads meeting:

Transport

- the joint report (p. 20) notes that the Working Parties consider it important that the potential benefits from closer economic ties are not diminished by the impact of trans-Tasman freight rates or inadequacies in transport services
- at the request of the Working Parties the two Transport Departments have finalised a paper (to be circulated separately) setting out available information on the costs and problems in this area along with an indication of the range of policy options which may be open to governments to deal with them
- Permanent Heads might consider whether a statement by Prime Ministers would make a useful contribution to this work
- on 8 February the two Transport Ministers announced in South Australia that a six-month study of trans-Tasman shipping services is to be undertaken by the BTE and the NZ Transport Ministry
- Permanent Heads may wish to review the terms of reference of the proposed study and consider how it relates to the current exercise on closer economic co-operation.

Co-operation in Third Country Markets for Agricultural Commodities

- this subject has attracted enthusiastic comment at the political level
- however, papers prepared by both Working Parties have not revealed significant scope for putting this into practice
 - appears to be reluctance on the part of commercial interests/marketing boards
- although the subject might still be referred to in some way in joint Prime Ministerial statement, more study and change of heart would be required if greater co-operation was to become a reality.

Energy

- matter was discussed by Working Parties in December
 - did not see scope for significant increase in co-operation beyond that which already occurs, with Ministerial endorsement, in relation to energy R&D.

Canberra Pact

- was also discussed in December
- Australian working group saw no pressing need for a new treaty, but was not opposed to the concept
 - considers any revised treaty would have to be based on a fresh draft rather than existing text and that before deciding on appropriate course it would be necessary to know outcome of current discussions on the central issues on closer economic co-operation
- it is expected that a draft text which could be used either as a treaty or adapted to form a joint Prime Ministerial statement, will be available for consideration by Australian Permanent Heads and, if considered desirable, passing to New Zealand.

Note that as of late January New Zealand had not started drafting

- did not wish to detract from studies on the central issues
 - but agreed would require a new draft
 - no firm views on whether a new treaty or an agreed statement, although considered any new treaty would need to have a broad focus (would attach importance to consultations provisions and free exchange of people across the Tasman).

In brief, not a great deal of interest.

[NAA: A1838, 370/1/19/18, xiv]

**63 MEMORANDUM FROM DORAN TO WORKING GROUP
DEPARTMENTS**

Canberra, 22 February 1980

SECRET AUSTEO

**Report of Working Group on Possible Revision of the 1944 Treaty between
Australia and New Zealand**

Attached is a copy of the report of the Working Group chaired by Foreign Affairs which was asked to report to the Australian Permanent Heads Steering Committee on the possible revision of the 1944 Treaty between Australia and New Zealand.

2. We would be grateful if it could be drawn to the attention of the Permanent Heads and senior officials who will be participating in the meeting on 25/26 February in Canberra.

3. The finalisation of the Group's work was delayed by difficulties experienced by several Departments in providing, or, in obtaining an agreement on, certain draft articles. The Working Group has endorsed the report on the clear understanding that the draft treaty is indicative only and does not necessarily represent the final position of Department[s] on individual articles if it were decided to proceed with the exercise.

Attachment

SECRET AUSTEO

**Report of Working Group 4 on the Proposed Revision of the
1944 ANZAC Pact**

As a result of the Permanent Heads meeting in Wellington on 2 November, the Department of Foreign Affairs was asked to chair a working group to investigate the possibility of formalising the 'Nareen Declaration' and updating the Australia New Zealand ANZAC Pact of 1944. It was agreed during the discussions that Australia and New Zealand officials examine the proposal on their own and consider whether the idea could or should be pursued independently or whether it only had merit against the backdrop of a closer economic relationship.

The first meeting of the working group which was held on 30 November 1979 and attended by representatives of the following: Departments of the Prime Minister and Cabinet, Special Trade Representative, Defence, National Development, Immigration and Ethnic Affairs, Primary Industry, Transport, Employment and Youth Affairs, Administrative Services, Business and Consumer Affairs, Finance, Industry and Commerce, Treasury, Trade and Resources, Education, Science and the Environment and representatives of ADAB.

The meeting agreed that the terms of reference of the Working Group should be 'to examine the desirability of revising or replacing the 1944 Treaty between Australia and New Zealand and to suggest matters that might be included in such a revision or Treaty'. It was further agreed that the 1944 Treaty did not constitute a useful working draft, and that a new document, if drawn up, would have to be based on a new draft. In particular the emphases in the 1944 Agreement reflect the war-time condition in which it was drafted; it over-emphasises the importance of the South Pacific in relations between the two countries, and its attitudes towards the South Pacific reflect the now outdated paternalism of those years.

Departments felt that the conclusion of any new treaty or lesser agreement should not take place until the substance of the future economic relationship becomes clearer, although this consideration should not delay further work on the revision exercise. A revised Pact could come into being together with or independent from closer economic association but it is not recommended that it be seen as a specific alternative to closer economic association.

It was clear that no Department felt that there was a pressing need for a new treaty although no Department expressed outright opposition to the idea. It was finally decided that the Working Group's mandate could best be fulfilled by the drafting of a document which might provide the basis for a new treaty, or possibly a joint statement by the two Prime Ministers, to be issued some time in the future. It would be left to Permanent Heads to decide either to proceed with negotiations with New Zealand for a treaty or communiqué or to decide that the treaty did not contain enough substance or advantage for Australia to proceed further.

During talks with New Zealand officials in Canberra on 13 December the New Zealanders were non-committal about the idea of a general pact and they revealed that they had not begun any drafting. However they shared the Australian view that the 1944 Treaty was not a good working draft and that a new text would be necessary. They did not object to the outline of our draft treaty as explained to them. The New Zealand officials informed us that they would attach importance to consultations in international relations and bilateral economic relations, and to the free exchange of people in trans-Tasman travel. (It is most unlikely that the Department of Immigration and Ethnic Affairs would wish to go as far on this point as the New Zealanders would wish.) It was also clear that New Zealand would favour a section on economic relations between the two countries but accepted the Australian point of view that it would be difficult to complete this until we know the outcome of the closer association negotiations. The New Zealanders emphasised that they did not want any revision of the Pact to detract from closer economic association or to turn into a piece of paper which could be used as an alternative to closer economic association if this proved too difficult.

In comments made to Mr R. K. Gate on 1 February, during the Officials' Meeting in Wellington, Mr Bryce Harland, a senior official of the New Zealand Foreign

Ministry, said that he was not keen on revision of the Treaty but stressed that he was speaking personally. He felt the press would quickly see it as an attempt to paper over fundamental differences while containing little of substance.

A draft cleared with Departments on the Working Group after extensive interdepartmental consultation is attached for decision by Australian Permanent Heads whether to continue with the exercise. A contribution from the Department of Defence is still to be submitted. The draft does not reflect the final positions of Departments on various articles but is submitted as a document which could be given to the New Zealanders as indicative of Australian thinking on the framework and coverage of any new treaty.

The rest of this report deals with sensitive issues and points for negotiation should it be decided to proceed further.

The Working Group believes that although the draft may contain little that is of new or positive advantage to Australia, the document does reflect the co-operation which does exist between the two countries and that its adoption would be in conformity with the importance that both sides attach to that co-operation. It is important to note that the draft does not commit either side to any new areas of activity. The important provisions on foreign affairs (Article II) are the same in substance as those in the 1944 Treaty and the Group does not consider that the provisions of the draft presage a closer degree of co-operation than already taken place.

There are two main arguments against concluding a new agreement—(1) that it would lead the New Zealanders to demand a greater degree of co-operation than now exists and (2) that the draft could be considered too empty and devoid of real commitment to be worthwhile. The first argument could be disposed of by making it clear that we consider that the draft reflects existing practice and that, although we would expect co-operation with New Zealand naturally to grow in future, we do not consider that the draft commits us to any new practices. The second argument is essentially one for the New Zealanders to pick up or reject. It does seem to us, however, to be a useful agreement which consolidates those areas of co-operation which now exist.

The Departments outlined the following areas of sensitivity which must be taken into account in considering the question of revising the Treaty.

Both the Departments of Defence and of Productivity do not wish to place undue emphasis on defence co-operation and supply in order to avoid raising expectations which may not be able to be met. The Department of Defence although confident that worthwhile advances can be achieved in defence supply co-operation, is also conscious that there are some significant practical limitations, including differences in procurement timings and in equipment requirements.

There is already in existence (1969) a Memorandum of Understanding with New Zealand on supply co-operation.

The Department of Education wishes to exclude any statement on recognition of educational qualifications. The Department of Immigration and Ethnic Affairs, in view of concern at abuses of entitlement to trans-Tasman travel, does not wish to give treaty status to the current arrangements for trans-Tasman travel, nor do they wish to include any comment on the question of harmonisation of immigration policies.

The Department of Transport wishes to omit any specific mention of trans-Tasman shipping services, the costs of which are seen by both sides as a factor inhibiting two-way trade.

In revising the draft we have looked closely at the Treaty of Nara. Article I, 1 and 2 are virtually taken from it. We have not, however, included in the draft those sections of the Treaty of Nara concerning the status of individuals and companies. The Working Group does not believe (and this is confirmed in our discussion with the New Zealand side) that such matters are of great concern to Australians in New Zealand or New Zealanders in Australia. Moreover, the introduction of such matters in a revision of the Pact would take it into difficult areas of jurisprudence and would be affected by State legislation governing the rights of individuals and companies.

[NAA: A1838, 370/1/19/18, xv]

64 MEMORANDUM FROM ANDERSON TO HENDERSON

Canberra, 22 February 1980

Australia – New Zealand Economic Relations

Further to the meeting of the Permanent Heads Steering Committee on 14 February, I am attaching drafts of:

[a] a paper representing the optimal agreement which we would hope to emerge from the meeting of Prime Ministers on 21 March

[b] a statement of Australian objectives for the Permanent Heads meeting

The attached draft statement [a] has not been prepared as a public statement but rather as an agreement between Prime Ministers on the outcome of their discussions. Any public statement or communiqué would necessarily be less precise and would have to take account of what each country was prepared to publicly announce.

For these reasons we worked up the basis of an agreed statement and from that derived the proposed objectives [b] to be pursued in the Permanent Heads meeting.

Rather than attempt to co-ordinate individual comments from several Departments by telephone, it is proposed that Steering Committee Departments should meet at 4 p.m. today (STR Conference Room, Wing 5 First Floor EBB) to finalise the papers.

Attachment [a]

CONFIDENTIAL

**Draft Outline of Statement to be Agreed by Prime Ministers of Australia
and New Zealand at the Conclusion of Meeting in Wellington,
20–21 March 1980**

Australia – New Zealand Economic Co-operation

In accordance with the programme established during discussions at Lusaka in August 1979,¹ a review has been undertaken of the preliminary studies by Senior Government Officials of options for the development of closer long-term trade and economic links between Australia and New Zealand.

2. It is recalled that the decision that officials should, at this time, examine a range of options for closer economic association was motivated by two basic considerations.

3. First, it was considered that the external environment, if not hostile to Australian and New Zealand interests, was at the very least difficult and in many ways unpredictable. In view of this, and given the trend elsewhere to regional economic groupings, it was sensible for Australia and New Zealand, as countries with similar backgrounds and ideals, to look at the prospects for closer trade and economic co-operation.

4. Second, it was recognised that valuable though NAFTA had been in prompting the significant growth in bilateral trade which had occurred since the mid 1960s, the Agreement in its present form did not seem to be providing sufficient impetus for the type of economic co-operation which would best serve the interests of both countries in the changing international economic environment.

5. Against this background, it is agreed that the preliminary studies which have been undertaken by senior officials represent a necessary and valuable first step in identifying the issues which would have a major influence on the prospects for achieving closer forms of association between Australia and New Zealand.

6. On the basis of work done so far, there is reason to believe that an appropriately structured closer economic relationship could provide economic benefits for both countries and enable each to cope with greater confidence in the difficult international economic and trading environment. It has been accepted as

1 See Document 20.

a principle that any new arrangements should reflect an outward-looking approach based on an efficient allocation of resources and an efficient structure of industry which is less reliant on government assistance and designed to enhance relationships with third countries.

7. Reports by officials have highlighted a number of important differences in the size and structure of industry and the extent and form of assistance accorded to industries in each country. Australia has a broader industrial base and produces a wider range of industry inputs, including intermediate goods than is the case in New Zealand. Although Australia provides assistance to a broader range of industries, including many which do not exist in New Zealand, overall levels of protection are generally lower. Further, Australia has had considerable recent experience in lowering levels of assistance and embarking upon a course of industry restructuring. On the other hand, while New Zealand generally accords higher levels to its finished goods industries and makes significant use of import licensing, it has less need to apply tariffs and other forms of protection against imports of raw materials and other inputs for industry which are mainly imported at competitive world market prices.

8. Both countries are by world standards efficient low cost suppliers of agricultural commodities and production is geared largely for export to third countries. It is apparent that liberalization of trans-Tasman trade could create difficulties for certain agricultural industries in each country and that the differences in agricultural production and marketing arrangements for certain commodities in Australia and New Zealand are such as to inhibit equality of trading opportunity between the two countries.

9. The studies have shown that Australia and New Zealand do not start from a common position in contemplating the scope for more broadly based forms of economic association and that any rapid change in the relationship could lead to severe problems of adjustment in the short term, particularly for New Zealand. At the same time it has been noted that the problems of achieving a mutually beneficial closer relationship are likely to become even more difficult if the two countries proceed along different lines of development in the years ahead. It is agreed that the differences which exist between the two economies will have to be taken into account in determining the pace and direction in which the relationship can be developed but that they should not be regarded at this stage as setting limits to the form of relationship which might be established in the longer term.

10. As a general conclusion, it is agreed that a basis should be found for progressing the trans-Tasman relationship beyond the plateau currently reached under NAFTA without prejudice to the scope for moving ultimately to a customs union.

11. Accordingly officials are requested to continue their work with a view to elaborating arrangements which would facilitate the progressive development of a closer bilateral relationship and contribute to the development of

internationally efficient industries consistent with the outward looking trade and economic strategies of both countries. In particular, they should further refine elements of an arrangement which would:

- (a) assume a commitment to move to tariff and import licence-free trade across the Tasman in as broad a band of industries as possible
- (b) provide automaticity in the phasing-in, over an appropriate time period, of free trade arrangements with a minimum of exceptions to a prescribed formula
- (c) incorporate provisions which, without prejudice to the overall momentum towards the longer-term objectives, would enable appropriate consideration to be given to sensitive industries, to problems arising from differences in industry structure and to changes in levels of production against third countries
- (d) lead wherever possible to the establishment of a common external tariff and harmonization of customs administration procedures
- (e) increase the scope for equality of trading opportunity by harmonizing, eliminating or establishing an equivalence of measures which significantly distort conditions of competition in trans-Tasman trade.

12. Specific questions which should be examined in the course of further work include:

- (a) an assessment of the extent of the problems arising from different levels of protection applied by each country to imports of raw materials and intermediate goods
- (b) in relation to the concept of equality of trading opportunity
 - (i) a detailed comparative analysis of the impact of the respective export incentive schemes
 - (ii) detailed comparative analysis of by-law and concessional entry arrangements in the two countries and the implications of harmonization
 - (iii) consideration of the scope for harmonization or equalization of the impact of agricultural production and marketing arrangements
 - (iv) further study in depth of the possible mechanisms, time frame and implications for particular industries of phasing-out of import licensing
- (c) study of the implications and arrangements for co-operation between the respective industries assistance advisory bodies.

13. It is agreed that officials should report by in preparation for a further meeting of Prime Ministers to take place around

Attachment [b]

CONFIDENTIAL
DRAFT

**Australia – New Zealand Economic Relations
Permanent Heads Meeting Canberra 25/26 February 1980**

Australian Objectives

With a view to laying the ground work for the Prime Ministerial meeting to be held 21 March, Australian objectives at the Permanent Heads meeting in Canberra, 25/26 February are to:

- (1) review the main issues identified and conclusions reached in the studies undertaken in accordance with the Statement of Understanding²
 - (2) determine whether, on the basis of New Zealand attitudes to the main issues, there is a sufficient basis for further pursuing options for closer economic association, and if so
 - (3) seek New Zealand agreement to a paper, to be submitted for the endorsement of Prime Ministers, setting out the conclusions reached so far, and recommendations for the direction and timing of future work
- these should include:
- (a) an assessment of the extent of the problems arising from different levels of protection applied by each country to imports of raw materials and intermediate goods
 - (b) in relation to the concept of equality of trading opportunity
 - (i) a detailed comparative analysis of the impact of the respective export incentive schemes
 - (ii) detailed comparative analysis of by-law and concessional entry arrangements in the two countries and the implications of harmonization
 - (iii) consideration of the scope for harmonization or equalization of the impact of agricultural production and marketing arrangements
 - (iv) further study in depth of the possible mechanisms, time frame and implications for particular industries of phasing-out of import licensing
 - (c) study of the implications and arrangements for co-operation between the respective industries assistance advisory bodies.

2. More specifically the objective of discussion, expected to be based on the report of the Joint Working Parties,³ should be to:

(1) ascertain whether New Zealand is genuinely prepared to enter into arrangements with Australia which

- are consistent with the objective of achieving a more competitive and outward-looking industry structure which is less reliant on government assistance
- embody a commitment to the progressive development of a trading relationship with an agreed longer term goal of eventually moving towards a substantial customs union

(2) have it acknowledged that:

- the elimination of tariffs *and* import licensing are fundamental to the liberalization of trans-Tasman trade
- it is logical that such liberalization be backed up by arrangements to ensure to the extent possible, equality of trading opportunity between Australia and New Zealand

(3) determine whether and over what time frame New Zealand would be prepared to modify its existing policies in order to give effect to the above principles.

[NAA: A1838, 370/1/19/18, xv]

65 MINUTE FROM WILLIS TO PARSONS

Canberra, 22 February 1980

CONFIDENTIAL

Briefing for Meeting of Australian and New Zealand Senior Officials to Discuss Closer Economic Association, Canberra 25/26 February

The venue for the Permanent Head level meeting which you are attending next Monday and Tuesday is the fourth floor conference room at Trade and Resources. Sessions are expected to be 9.30–12.30 and 2.30–4.30 each day. Mr Scully is hosting a reception at the Press Club 6–8 p.m. on Monday evening and the New Zealand High Commissioner may reciprocate hospitality (probably a lunch) on Tuesday.

3 Document 58.

2. It is expected that Mr Scully will chair all sessions. The Australian Delegation will be:

Mr Scully	T&R
Mr Lind	T&R
Mr Flood	STR
Mr Anderson	STR
Mr Hawes	STR
Mr Codd	(Act. Sec.) PM&C
Mr Fitzgerald	PM&C
Mr Stone	Treasury
Mr Waterman	Treasury
Mr Currie	I&C
Mr Neilson	I&C
Mr Besley	BACA
Mr Maddern	BACA
Mr Smith	(Act. Sec.) PI
Mr Parsons	(Act. Sec.) FA
Mr Doran	Head, NZ Section
Mr Santer	(Act. Head) Commercial Policy Section

3. The New Zealand Delegation is expected to comprise:

Mr N. V. Lough	Secretary, Treasury (Leader)
Dr G. Scott	Director, Treasury
Mr B. Galvin	Secretary, PM's
Mr J. Kean	Comptroller, Customs
Mr G. Bathgate	Director, Customs
Mr H. Clark	Secretary, Trade and Industry
Mr A. Cranston	Director, Trade and Industry
Mr A. Edwards	Secretary, Transport
Mr M. L. Cameron	Director-General, Agricultural Fisheries
Mr I. L. G. Stewart	Deputy Secretary, MFA
Dr L. A. Beath	Assistant Head (Aust., & Am. Div.) MFA H. E.
Mr L. Francis	High Commissioner
Mr Plimmer	Dep. High Commissioner
Mr Turnbull	Minister Commercial
Mr Price	Second Secretary (Economic)

The following briefing/working documents for the meeting are attached.

- (a) Draft Agenda (based on the terms of reference for Working Groups agreed on by Australian and New Zealand Permanent Heads at their meeting last year in Wellington and incorporated into their Statement of Understanding¹).
- (b) Joint report by Australian and New Zealand Working Parties² agreed at a meeting in Wellington, 29 Jan – 1 Feb. (It sets out the principal issues and conclusions arising from studies undertaken in accordance with the terms of reference.)
- (c) Issues for Consideration³ (Confidential briefing document for the Australian side which reports on the background to the work which resulted in the Joint Report and highlights areas of difficulty).
- (d) A confidential Australian Objectives paper⁴ for next week's meeting which amongst other things will seek to obtain New Zealand agreement to the draft Statement referred to in (e) below.
- (e) A draft outline confidential Statement of Understanding⁵ to be agreed between the Prime Ministers when they meet on 20/21 March. (The draft represents the Australian perception of the optimal agreement possible between Prime Ministers and presupposes that the whole exercise will continue to move forward. It is hoped that the Permanent Heads can go a long way towards reaching agreement on the draft at this meeting.)

New Zealand Approach

According to [cablegram] O.WL4825 (attached) the objective of the New Zealand side will be to adopt a pragmatic and flexible approach with a view to achieving a good negotiating framework for the Prime Ministers' talks. More specifically the New Zealanders are expected to use their best efforts to achieve:

- (a) Agreement that a meeting between the two Prime Ministers will be worthwhile;
- (b) Recognition that while there are difficulties in some form of closer economic association, these difficulties are negotiable;
- (c) Agreement that following the Prime Ministers' Meeting it will be worthwhile pursuing the objective of negotiating a new trade agreement.

An important New Zealand aim will be to obtain agreement on a draft communiqué for the March meeting of Prime Ministers. Such a draft would not

1 Document 52.

2 Document 58.

3 Document 62.

4 Attachment [b] to Document 64.

5 Attachment [a] to Document 64.

duplicate the Australian work on a Confidential Statement of Understanding as the New Zealand draft would be for public use.

We understand that consistent with the views expressed from time to time by the New Zealand Prime Minister, most of the New Zealand Permanent Heads (certainly Galvin), will not want discussion to be confined to trade, but to canvas wider areas of co-operation (energy, transport, including civil aviation, joint marketing, the financial sector and tourism have been specifically mentioned). We also understand that the aim is not to obscure the trade relationship, which is fundamental, but to recognise that the ANZ relationship is not exclusively trade.

It is unlikely that substantial progress could be made on these points at this meeting. Some of them have been considered before and the view reached (by Australian Departments mainly) that there is little scope for meaningful co-operation in these areas. Civil aviation is a new addition to the list and one which the Australian side would prefer to see excluded from the current exercise. (We will be providing you with separate briefing on civil aviation relations with New Zealand.)

Foreign Affairs Role

Departmentally we support the objectives of the Australian side for next week's meeting. The prospects for a positive result seem somewhat brighter than they were a few weeks back. Both sides are now approaching the talks in a positive spirit and seem anxious to ensure that we maintain the momentum of the exercise if at all possible.

It is difficult to foresee in advance what sort of a role Foreign Affairs should play at the meeting. Much will depend on how the discussions progress. It is important for the overall relationship that there not be a complete breakdown in negotiations but this does not seem likely now.

The economic Departments will take most of the running as much hard-headed talking will have to be done on technical matters. We should be generally supportive of the need to maintain momentum and to proceed with the Prime Ministers' Meeting in March if it is not to be a non-event. We should also continue to support the continued involvement of Ministers and Permanent Heads in the exercise.

ANZAC Pact

An Australian working group was set up (chaired by Mr Gate of Foreign Affairs) to advise Permanent Heads on the scope for a new treaty with New Zealand to replace the ANZAC Pact of 1944. The Working Group's report⁶ is attached. It does not make a recommendation but leaves it up to Australian Permanent Heads to decide on whether or not to proceed with the exercise. An indicative draft of what such a treaty might contain is attached to the report.

6 Attachment to Document 63.

The New Zealand side appears to be most unenthusiastic about this idea and although it is on the agenda (Item 3(c)), it may be unwise to push it too hard. You may wish to discuss with Ian Stewart (Deputy Secretary NZMFA) how this agenda item should be handled.

[NAA: A1838, 370/1/19/18, xv]

66 REPORT BY PERMANENT HEADS

Canberra, 26 February 1980

CONFIDENTIAL

Report of Australia – New Zealand Permanent Heads Meeting

Canberra, 25/26 February 1980

The meeting agreed that:

- (i) on the basis of its discussions and the report of the Joint Working Parties¹ it should be recommended to Ministers that an appropriately structured closer economic relationship would provide economic benefits for both countries;
- (ii) on the basis of studies to date this would appear to be technically capable of achievement;
- (iii) if this was accepted the need was to establish a commitment to move ahead in a politically acceptable way.

DECLARATION

2. It was agreed that there could be value in a Declaration by the Prime Ministers which would provide a framework for developing the relationship. This could enshrine principles which are set out in a separate draft of the Declaration.²

3. In addition to trade matters, co-operation on other economic issues should be maintained and developed. Such matters would include labour, transport, tourism, raw materials, energy, finance and investment.

TRADE ISSUES

4. The objective would be gradual and progressive liberalisation of trade across the Tasman on all products produced in either country.

1 Document 58.

2 Document 67.

Tariffs

5. Products are to be grouped in three categories:
 - (1) those which could move immediately to duty free treatment, e.g. those with tariffs which were at the equivalent of 10% or less
 - (2) those for which duties would phase out over 5 years in annual steps after a 1 year grace period
 - (3) those which required deferred decision because of special considerations such as cases where an official industry enquiry was planned or in progress.
6. It was agreed that all industrial and agricultural products should be included in these categories.
7. It was agreed that there should be an exchange of lists of products for inclusion in category (3) within 3 months. The objective would be to keep this list as small as possible.
8. From these exchanges three common lists would be derived.
9. It was agreed that in agriculture a study should be made of agricultural support/stabilisation measures to identify whether there were problem areas which might have undue impact and to examine the scope and need for neutralising the impact on trade. An assessment should then be made to determine the extent of any significant impact on trade in these cases. This work should be completed in 3 months so that lists of products as above can be exchanged.

Agreement on Tariff and Tariff Preferences

10. The agreement should be extended for 12 months and further extensions would depend on the progress towards broader economic co-operation.

Import Restrictions

11. Both sides will make a study of the possibility of liberalising the treatment of the other country under import licensing and tariff quotas on the following basis:
 - (1) where trade is already flowing a 10% annual increase in access in real terms;
 - (2) where no trade exists a base to be established and the above formula applied;
 - (3) resulting figures would need to be of a sufficient size to give commercial viability;
 - (4) would apply to the two categories of goods committed to duty free treatment;
 - (5) a principle to be taken into account in the progressive liberalisation of import restrictions is that it should not foster the expansion of inefficient industries in either country.

12. Further discussions will take place within 3 months to determine if the foregoing is practicable.

Customs Valuation

13. There appeared to be scope for moving even closer together in this matter, based on possible acceptance of the GATT code provided that both countries adopt the same basis of valuation (i.e. FOB or CIF), with a preference for FOB.

Safeguards

14. It was agreed that safeguard provisions should be kept to a minimum.

Intermediate Goods

15. It was recognised that there may be a problem with intermediate goods. Australia will carry out a study to quantify the problems and canvass possible solutions. This study will be completed within 3 months.

Export Incentives

16. It was noted that both countries have export incentive schemes and there are commitments to maintain these for a time. It was agreed that an assessment should be made of their applicability to trans-Tasman trade with the purpose of a review when this is applicable.

Customs By-Laws/Rules of Origin

17. The operation of these systems requires further study.

Industry Rationalisation

18. Where industries which exist in both countries develop different product specialisation, consultations should take place with the objective of ensuring reasonable protection against third country suppliers of these specialised products in the interest of the economic development of both countries. Where practicable this should be encouraged by the adoption of a common external tariff and appropriate by-law arrangements.

Developing Country Preferences

19. It was recognised that there is no need to go to a common scheme but that there should be consultation before any changes are made.

GATT

20. It was agreed that both countries would review at an early date the GATT implications of the closer economic relationship under consideration.

Co-operation between Industries Assistance Advisory Bodies

21. Present consultation between the two bodies should be maintained. There may be need for special consideration to be given in respect of particular industries. It was agreed that at this stage there should not be joint sittings of the

two bodies although this was not ruled out for the future on an ad hoc basis. However, it may be appropriate in some instances to have concurrent hearings.

Government Purchasing

22. Consideration will be given to the scope for extending domestic supplier status to each other and that Australia would approach individual State Governments with a view to New Zealand being accorded treatment no less favourable than suppliers from other States.

Standards

23. The importance of the continuing consultations between the two countries was noted and that both were likely to join the GATT code.

FINANCIAL ISSUES

24. Australia's concern to avoid precedents in treatment of New Zealand which would create difficulties in relations with third countries was noted but it was agreed that the ability to present to third countries a closer economic relationship with New Zealand could enable Australia to provide some preferential treatment for New Zealand.

TOURISM

25. It was agreed that this subject be covered by the declaration and that consideration be given to the scope for expanded co-operation.

ENERGY

26. It was agreed to exchange information on all items on refinery product slates or energy sources coming on stream. It was agreed to

- examine the scope for further co-operation in R & D projects,
- consult on any energy problems having economic impact.

JOINT MARKETING ACTIVITIES

27. It was agreed that there was some scope for increased co-operation in joint marketing activities and that this should be brought out in a communiqué to be issued when the two Prime Ministers meet. However, it was agreed that there were limitations to what could be achieved.

TRANSPORT

28. It was agreed transport matters would be kept under review in the context of the Declaration.

THIRD COUNTRIES

29. On release of the communiqué the overseas posts of each Government would talk separately with third countries.

30. However, in relation to Papua New Guinea and the Pacific Islands it was recognised that there would be a need for a joint Australia – New Zealand presentation.

[NAA: A1838, 370/1/19/18, xv]

67 DRAFT TASMAN DECLARATION

Canberra, 26 February 1980

RESTRICTED

Draft Tasman Declaration

PREPARED BY AUSTRALIA – NEW ZEALAND
PERMANENT HEADS MEETING

CANBERRA, 25/26 FEBRUARY 1980

Reviewing many aspects of the economic and social relationship between Australia and New Zealand,

Recognising that the long standing co-operation which already exists between the two countries provided a convincing demonstration of the existence of a special relationship,

Considering the desirability of further enhancing the closeness and diversity of that relationship especially so far as the growth of trade and other economic links are concerned, and

Agreeing on the advantages of providing a further focus and framework for the more rapid development of the relationship.

The two Prime Ministers DECLARED

1. That a closer economic relationship between Australia and New Zealand, based on outward-looking principles and consistent with their overall national economic development policies, will lead to stronger economic growth prospects for both countries.
2. Central to such a relationship is the recognition that the two countries have an obligation to the international community and to themselves to make the most efficient use of their natural resources and productive capacities. By developing the relationship along these lines both countries will have increased capacity to contribute fully to the growth of world trade and development, and to strengthen their own economies and those of neighbouring countries.
3. The freest possible movement of people, goods and capital between Australia and New Zealand will contribute to these broad goals. One of the most important factors, therefore, that will lead to closer economic relationship between Australia and New Zealand is a gradual and progressive liberalisation of trade

between the two countries. This should take due account of adjustment problems for industry in both countries, and be undertaken in the context of policies that will enhance relationships with third countries, particularly with the developing countries in the South East Asia and Pacific regions.

4. Closer economic association is not limited to freer trade but extends to other economic links in fields such as labour, transport, tourism, raw materials, marketing, research and development, finance and investment. In future, therefore, discussions in such areas will take place in the light of the broader objective to further develop the special economic relationship between Australia and New Zealand.

5. To reinforce the objectives stated above, the two Prime Ministers declare that relations between Australia and New Zealand will be conducted in conformity with the following principles:

(i) there should be the freest possible movement of people, goods and capital between the two countries consistent with an outward-looking approach to trade and economic policies;

(ii) to the greatest extent possible both countries will treat citizens of the other no less favourably than if they were their own citizens;

(iii) in all aspects of the economic relationship each of the two countries will take into account the interests of the other. In international trade and economic matters, each will consult the other partner, wherever practicable, before taking part in wider discussions;

(iv) the existing close co-operation between the two countries over a wide range of subjects will be further developed through regular discussion and consultation.

6. The two Prime Ministers agree that there exists already a sound foundation on which future closer trans-Tasman economic relations can continue to develop and expand. They recognise that within the community on both sides there is wide interest and enthusiasm in achieving as close an economic association as possible. They agree to keep under review all aspects of the relationship.

7. The two Prime Ministers recognise the importance of the work being carried out to foster closer co-operation between Australia and New Zealand by such bodies as the Australia – New Zealand Foundations and the Australia – New Zealand Businessmen's Councils. To these activities must be added the growing cultural and scientific exchanges between the two countries and the increasing dialogue between industry organisations. The Prime Ministers are agreed that these activities have already contributed in a significant way towards the desired goal of a broader and deeper relationship between the two countries and expressed their determination to ensure that these activities will be continued and strengthened.

68 LETTER FROM DORAN TO BENTLEY

Canberra, 29 February 1980

CONFIDENTIAL

Enclosed are copies of the papers which constituted the Australian brief and the documents which represent the product of the meeting earlier this week.¹

The meeting went very well. The only really acrimonious notes were sounded on import licensing (when it was first discussed) and civil aviation. Discussion of the former became a little heated following comments by the Australian side to the effect that for the health of the New Zealand economy import licensing should be totally abolished. The New Zealand side felt that this sort of remark showed a total lack of appreciation of New Zealand political realities. Harry Clark got up a head of steam and some of the old NAFTA animosities surfaced. However Jim Scully moved quickly to defer further discussion. He and Lough had dinner together that evening and thrashed out the import licensing compromise.

The civil aviation spectacle had to be seen to be believed. The two Secretaries for Transport battled the united front of all other ANZ permanent heads and denied to the wider group the right to scrutinise the civil aviation relationship. Jim Scully argued forcefully that the charter of the permanent heads group was to look at ways of promoting closer co-operation in all fields of the relationship. However the two Transport heads toughed it out and claimed that civil aviation was separate and that nothing should be done to prejudice the conclusion of the current bilateral negotiations (incidentally Halton said that the study by the two carriers had revealed a 'disbenefit' in QANTAS' favour). The discussion ended inconclusively but without the Transport heads making any concessions. Edwards' colleagues were not very happy about the position he took as I understand that he had been told in Wellington that civil aviation was on the agenda like everything else. (There was also a difference of opinion within the New Zealand delegation over whether or not there was a problem with split freight charter approvals—Mike² may like to follow this up.)

The two agreed pieces of papers to come out at the meeting are the draft declaration³ and the permanent heads report.⁴ The New Zealand draft communiqué was not considered at the meeting and is still under study by Departments. Our side did not table its draft confidential statement of understanding⁵ although Scully served notice that it would be necessary to have

1 i.e. the Joint Permanent Heads meeting on 25–26 February 1980.

2 Not identified.

3 Document 67.

4 Document 66.

5 Attachment [a] to Document 64.

something along this line in addition to a declaration and a communiqué. The ANZAC pact exercise has been laid to rest hopefully.

The package reflected in the report of the permanent heads is a messy one and has yet to be sold to Ministers. However it probably is sufficient to justify a Prime Ministerial Meeting. The sticky points of course will be

- (a) the size of the third category and the type of produce included
- (b) the formula to get around the import licensing problem
- (c) agricultural support measures and
- (d) the intermediate goods problem.

I only have time for these few comments at this stage. I hope to provide you with a better assessment of the outcome from our side next week.

[NAA: A1838, 370/1/19/18, xv]

69 MINUTE FROM DORAN TO ASHWIN

Canberra, 4 March 1980

Closer Economic Association with NZ: Prime Ministerial Meeting

The following are the main points arising from an interdepartmental meeting held at STR 3–6 p.m. on 3 March to discuss preparations for the proposed Prime Ministerial Meeting scheduled for (20–) 21 March.

Prime Ministerial Meeting

2. PM&C (Fitzgerald) advised that Departments should act on the strong assumption that the Prime Ministerial Meeting would take place as scheduled. The Prime Minister was waiting for an assurance from Mr Muldoon (expected 4 or 5 [March]) that he was happy to proceed before finally committing himself to the meeting.

3. A list of topics for inclusion in the Officials and the Prime Minister's briefs for the visit was circulated (see attachment) and format guidelines issued. Departments responsible for drafting are required to lodge fully cleared items with PM&C no later than lunch-time Monday 10 March. DFA has responsibility for initiating 8 items. Departments with an interest in clearing items are to contact initiating Departments direct to register their interest. An [internal]¹ note on briefing has been prepared for your signature.

1 Words in square brackets were handwritten corrections by Doran.

Draft Cabinet Submission

4. The Trade and Resources/STR draft Cabinet submission came in for considerable adverse comment at the meeting. BACA (Maddern), Treasury (Waterman) and DIC (Purcell) felt that it was too neutral in tone and that the major impediments on the NZ side to a full measure of closer economic association needed to be given greater emphasis. There was insufficient emphasis given to the fact that NZ had moved very little and Australia had to take all the running. Discussion proceeded on the basis that comments were welcome and would be taken into account but the final wording of the body of the submission must remain the prerogative of the initiating Departments/Ministers (i.e. T&R and STR). This produced some mild protest but it was eventually accepted. After some modification agreement was reached by all Departments on the recommendations, which would be [so] recorded in the co-ordination section of the submission. (A copy of the agreed recommendations is attached.) DIC said that they may wish to have a short note included in the co-ordination section to the effect that although they agreed with the recommendations they are not necessarily in full agreement with comments in the main body.

5. DIC's main grievance was that the submission did not stress sufficiently the amount of further study required before Australian Departments would be in a position to make responsible recommendations to Cabinet on whether to proceed with the proposed package. DIC further argued that the proposals in the Permanent Heads report² required much more refining whereas STR was assuming that we are already well down the track on the general package envisaged to the extent that the language of the submission was running ahead of the Permanent Heads report.

6. DIC challenged the use of the word 'arrangement' throughout the draft arguing that it had certain implications in trade law and suggested that 'approach' was the preferable term. DIC counselled caution lest the New Zealanders only take a first step towards closer association based on Australian concessions and without reciprocal benefit for Australia.

7. Treasury had particular difficulty with the 'understanding' on import licensing. It was their view that although New Zealand officials had refused to give any specific undertaking (on the grounds that it [would] be unacceptable to NZ Ministers) they had acknowledged in an indirect way that [the] import licensing package would be a first step towards [its] eventual abolition. DIC supported Treasury arguing that the import licensing proposal could not be sold to the Australian public unless something in writing could be obtained from the New Zealanders.

2 Document 66.

8. Although not spelt out in the draft submission PM&C and STR made it clear
 - (a) that the leader of the Opposition and appropriate shadow Ministers would be informed of developments some time after the Prime Ministerial Meeting and
 - (b) Ministers had indicated that no important decisions would be taken before this year's election.

Tasman Declaration

9. It was agreed to set up a small working group chaired by David Hawes (STR) to examine the draft Tasman declaration.³ The aim would be to obtain NZ comments on any proposed changes and to present a final draft to the Prime Minister for his approval by the end of next week. Mr Flood said that comments had been received from Mr Parsons about references to transport and tourism. I&EA (Smith) expressed dissatisfaction with the references to the free movement of people between the two countries.

10. In examining the draft Mr Flood suggested that we should treat it as if it were a legally binding document so that the Government would not be embarrassed by the wording at some later stage.

11. It was agreed that although principle (ii) on page 3 ('to the greatest extent possible both countries will treat the citizens of the other no less favourably than if they were their own citizens') is still square bracketted in the text, Permanent Heads on both sides would require a lot of convincing before it would be dropped. However it should be vigorously examined from the taxation, social security and immigration angles in particular.

12. It was agreed that the Legal and Treaties Division of Foreign Affairs should be consulted on whether anything in the draft declaration or the Permanent Heads report would cut across special treatment given to other countries under treaties such as the Basic Treaty of Friendship and Co-operation with Japan. Treasury are particularly worried about principle (ii) and the implication of para 24 of the Permanent Heads report that Australia might be prepared to give New Zealand special treatment under the Australian foreign investment policy. (However the protocol to the Japanese Treaty may cancel out the effect of the undertaking given to Japan in the body of the treaty.) A draft note to Mr Bray is being prepared for your consideration.

13. DIC felt that some consideration should be given to broadening the declaration to bring in political aspects of the relationship. However it was generally felt that to do so would loosen up the economic [focus]. However Mr Flood suggested that individual Ministers might wish to raise the question in Cabinet and that perhaps some contingency work could be done in case some broadening of focus is necessary.

³ Document 67.

14. The NZ draft communiqué would also be examined by the Hawes group [which would aim] to get an Australian redraft back to the New Zealanders as soon as possible.

15. I will draft a Ministerial submission commenting on the final Cabinet submission (when received) over the next couple of days.

[NAA: A1838, 370/1/19/18, xvi]

70 MINISTERIAL SUBMISSION TO PEACOCK BY ASHWIN Canberra, 6 March 1980

CONFIDENTIAL

Subject—Cabinet Submission 3866: Closer Economic Co-operation with New Zealand Prime Minister's Proposed Visit to New Zealand

PURPOSE: To brief you for Cabinet consideration of a submission by Mr Anthony/Senator Scott on closer economic co-operation with New Zealand.

ISSUES: Cabinet is to take the attached submission at short notice today (6 March) instead of next week.

[*matter omitted*]¹

We and all other Departments support the recommendations although we would not necessarily agree with all the value judgments in the body of the submission. Although much work still has to be done we believe that the outline of the possible package which emerged from the Permanent Heads talks does provide an acceptable basis for continuing with the exercise and eventually achieving a result acceptable to both countries.

Some economic Departments, particularly Industry and Commerce, remain sceptical about the seriousness of New Zealand's commitment to a closer mutually beneficial economic relationship. It is felt that New Zealand really wants non-reciprocal trade concessions from Australia. However we believe that New Zealand should be given the benefit of the doubt and that we should continue to approach the exercise in a positive and constructive spirit.

The earlier idea of trying to revise or replace the 1944 Agreement between Australia and New Zealand as a gesture of commitment to the relationship has been dropped. It has been superseded by the proposal for a Tasman Declaration² although by comparison the focus of the latter is almost solely economic.

1 Omitted material has been excluded in accordance with advice from the Department of the Prime Minister and Cabinet.

2 Document 67.

Departmentally we have no difficulty with a largely economic umbrella declaration as it is that area of the relationship which requires particular attention at present. However we would not object to the inclusion of additional non-economic content if it did not take the spotlight off the economic relationship.

Legal advice is being sought on possible domestic and international legal implications of certain passages in the declaration as currently drafted. Departments have asked for particular attention to be paid to principle (ii) 'to the greatest extent possible both countries will treat citizens of the other no less favourably than if they were their own citizens'. Any necessary changes to the wording will be made before a final draft is presented to the Prime Minister for approval.

We feel that the submission and the draft declaration as it stands adequately meet our concern about the implications for our relations with third countries although we will need to pay careful attention to the final wording of the declaration and any associated communiqué.

[*matter omitted*]

You will recall your own and the Department's initial reservations about STR chairmanship of this exercise. However in the event our earlier fears have not been realised. Foreign Affairs has been fully involved throughout and the broader implications of the exercise have been taken into account at all stages. We therefore are agreeable to STR continuing to co-ordinate.

We do not know whether the Prime Minister intends to take other Ministers with him. We understand that Mr Muldoon is not planning to be accompanied unless Mr Fraser wishes to bring other Ministers. The main item for discussion will be the economic relationship. However, if the Prime Minister wishes to discuss international issues such as Afghanistan, there may be some merit in your accompanying him if convenient.

[*matter omitted*]

RECOMMENDATIONS: *It is recommended* that:

- (a) you agree to the recommendations in the submission
- (b) you raise for discussion the question of other Ministers accompanying the Prime Minister and register the views of New Zealand Ministers on civil aviation.³

[NAA: A1838, 370/1/19/18, xvi]

³ Peacock indicated on the submission that he agreed to recommendation (a) but wrote the word 'No' in respect of recommendation (b).



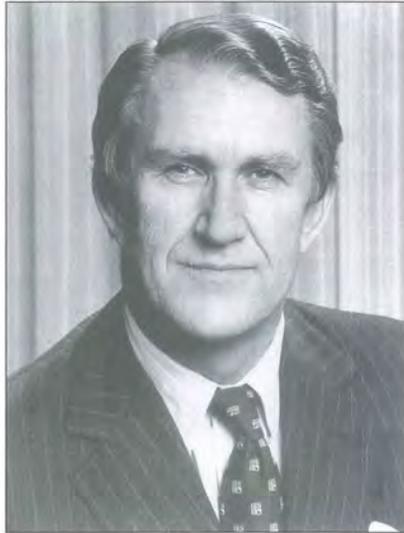
Visit by Brian Talboys, Deputy Prime Minister of New Zealand, Minister of Foreign Affairs and Minister of Overseas Trade to Australia in March 1978.

[PHOTOGRAPH COURTESY OF NATIONAL ARCHIVES OF AUSTRALIA]



Brian Talboys Presenting a Painting to Australia in King's Hall, Parliament House, Canberra, 14 March 1978. Brian Talboys and Prime Minister Fraser stand in front of the painting by the New Zealand artist Colin McCahon entitled 'Victory over Death'.

[PHOTOGRAPH COURTESY OF NATIONAL ARCHIVES OF AUSTRALIA]



J.M. Fraser, Prime Minister of Australia, 1975-83.

[PHOTOGRAPH COURTESY OF
NATIONAL ARCHIVES OF AUSTRALIA]



*J.D. Anthony, Deputy Prime Minister of Australia, 1975-83,
and Minister for Trade and Resources, 1977-83.*

[PHOTOGRAPH COURTESY OF
NATIONAL ARCHIVES OF AUSTRALIA]



J. Scully, Secretary of the Australian Department of the Special Trade Representative 1979–80; then Secretary of the Department of Trade and Resources, 1980–83.

[PHOTOGRAPH COURTESY OF
NATIONAL ARCHIVES OF AUSTRALIA]



P.J. Flood, Deputy Secretary of the Australian Department of the Special Trade Representative, 1977–80; then First Assistant Secretary, Department of Trade and Resources, 1980–84.

[DEPARTMENT OF FOREIGN AFFAIRS AND TRADE]



Brian Talboys, New Zealand Deputy Prime Minister until 1980, Minister of Foreign Affairs and Minister of Overseas Trade, 1976–81.

[COURTESY OF ARCHIVES NEW ZEALAND/
TE WHARE TOHU TUHITUHINGA O AOTEAROA, HEAD OFFICE, WELLINGTON]



*Hugh Templeton, New Zealand Deputy Minister of Finance until 1981,
then Minister of Trade and Industry.*

[COURTESY OF ARCHIVES NEW ZEALAND/
TE WHARE TOHU TUHITUHINGA O AOTEAROA, HEAD OFFICE, WELLINGTON]



New Zealand Prime Minister Robert Muldoon and Australian Prime Minister Malcolm Fraser at a meeting in Wellington in March 1980.

[COURTESY OF ARCHIVES NEW ZEALAND/
TE WHARE TOHU TUHITUHINGA O AOTEAROA, HEAD OFFICE, WELLINGTON]



Deputy Prime Minister J.D. Anthony (right) greeting the Prime Minister of New Zealand, R.D. Muldoon (left), on his arrival at Melbourne for the 1981 Commonwealth Heads of Government Meeting. Sir Phillip Lynch, Australian Minister for Industry and Commerce (centre), looks on.

[PHOTOGRAPH COURTESY OF NATIONAL ARCHIVES OF AUSTRALIA]



Australia New Zealand Closer Economic Relations Ministerial Meeting, April 1982. Doug Anthony, Australian Deputy Prime Minister and Minister for Trade and Resources (centre). Two of the participating New Zealand Ministers are shown at far right: John Falloon, Associate Minister of Finance, and Jim Bolger, Minister of Labour.

[COURTESY OF THE DOMINION POST, WELLINGTON]



Doug Anthony, Australian Deputy Prime Minister and Minister for Trade and Resources, meeting with New Zealand Prime Minister Robert Muldoon during the visit to Wellington for Australia New Zealand Closer Economic Relations Ministerial Talks in April 1982.

[COURTESY OF THE DOMINION POST, WELLINGTON]



Dignitaries assembled at Parliament House, Canberra, for the Signing of the Heads of Agreement on 14 December 1982. From left to right: Sir Laurie Francis, New Zealand High Commissioner in Australia; unidentified [obscured]; A.S. Peacock, Minister for Industry and Commerce; J.D. Anthony, Deputy Prime Minister and Minister for Trade and Resources; P.J. Nixon, Minister for Primary Industry; A.A. Street, Minister for Foreign Affairs; and H.G. Aston, President of the Confederation of Australian Industry.
[PHOTOGRAPH COURTESY OF NATIONAL ARCHIVES OF AUSTRALIA]



Muldoon/Anthony Video Link-up. Prime Minister Muldoon, in the New Zealand Parliament's Executive Council room, prepares to address audiences in Australia and New Zealand at the formal announcement of the Australia New Zealand Closer Economic Relations Trade Agreement, December 1982. Doug Anthony in Canberra can be seen on the video link-up screen.

[COURTESY OF THE DOMINION POST, WELLINGTON]



Signing of the Heads of Agreement on 14 December 1982. J.D. Anthony, Deputy Prime Minister of Australia and Minister for Trade and Resources, signing for Australia at Parliament House, Canberra. Seated beside him is A.S. Peacock, Minister for Industry and Commerce, while Sir Laurie Francis, New Zealand High Commissioner in Australia, looks on.

[PHOTOGRAPH COURTESY OF NATIONAL ARCHIVES OF AUSTRALIA]



Signing of the Australia New Zealand Closer Economic Relations Trade Agreement on 28 March 1983. Sir Laurie Francis, New Zealand High Commissioner in Australia (left) and Lionel Bowen, Deputy Prime Minister of Australia and Minister for Trade (right) sign the agreement at Parliament House, Canberra, assisted by officials.

[DEPARTMENT OF FOREIGN AFFAIRS AND TRADE]

71 MINUTE FROM SHANNON TO ASHWIN

Canberra, 10 March 1980

Tasman Declaration

By your minute of 5 March you sought our views on the international and domestic legal ramifications of the draft Tasman Declaration¹ and associated Communiqué.

2. As advised, we do not consider either document to have treaty status in international law and consequently to create no legal obligations between the parties. The commitments are political and the rhetoric reflects this rather than any striving for legal precision. It is pointless, therefore, to impose on the language an assumption that legal obligations are created (para 2 of your minute refers).

3. Although there are no legal obligations between the parties, the political commitments could generate legal consequences for each Government's relations with third countries and for its own domestic legislation. We note the report of the Australia – New Zealand Permanent Heads meeting² foreshadows a study of the GATT implications.

4. Australia is a party to a large number of bilateral treaties which contain 'most favoured nation' [m.f.n.] provisions. These are generally found, as far as trade is concerned in bilateral Trade Agreements which supplement GATT obligations and as far as commerce is concerned, [in]³ the old-style 'Freedom of Commerce and Navigation' treaties. There are also m.f.n. clauses in the Basic Treaty of Co-operation with Japan. The standard formula is that Australia undertakes to extend the same privileges on trade and commerce to the other party as it offers any other nation. Frequently there is a derogation in favour of Commonwealth nations to the effect that such countries are agreed to have a 'special' privileged status. M.f.n. clauses can be triggered when Australia treats a third country in a privileged way which is not excepted under the m.f.n. clause itself. It should be noted that the reference is generally to 'treatment' and not to some legally binding agreement which extends the privilege.

5. Paras 5(i) and 5(ii) of the Tasman Declaration and the equivalent references in the Communiqué could be argued to establish in principle a privileged status for New Zealand which is not open to other countries. The question arises whether the consequent special treatment of New Zealand could precipitate claims for equal treatment from third countries who have m.f.n. agreements with Australia. A related question is to what extent derogations in favour of Commonwealth countries in a m.f.n. clause operate as a defence for special

1 Document 67.

2 Document 66.

3 Handwritten amendment.

treatment of New Zealand. A conclusive answer to these questions requires a study of every treaty to which Australia is a party, which contains an m.f.n. clause.

6. However, an analysis of the effect of the new commitments with New Zealand on our relationship with Japan is illustrative of some of the problems involved. Article IX (3) of the Basic Treaty of Friendship and Co-operation with Japan and article I(c)(i) of the related Protocol together establish an m.f.n. regime in respect inter alia of the movement of capital with a derogation in favour of Commonwealth countries.

ARTICLE IX (3)

'Each Contracting Party shall accord within its territory to the nationals of the other Contracting Party fair and equitable treatment with respect to matters relating to their business and professional activities, provided that in no case shall such treatment be discriminatory between nationals of the other Contracting Party and nationals of any third country.'

ARTICLE I(C)(I) OF THE PROTOCOL

'(c) entitle Japan to claim the benefit of any treatment, preference or privilege which is or may hereafter be accorded by Australia—

(i) to any country or to its nationals or companies, where that treatment, preference or privilege originates from that country's membership of the Commonwealth of Nations.'

7. With regard to para 5(i) of the Declaration an argument can be mounted that it extends a special privilege to New Zealand (although not based on any legal right) to have the freest possible movement of inter alia capital into Australia. The degree of movement is unqualified and the words 'freest possible' imply that a better degree of movement is not, in fact, possible. This would further imply that this is a special status. Japan could (and probably would) point to the clause as establishing in principle a degree of movement of capital which it does not enjoy with Australia. (I assume here that it does not.)

8. To justify the exception for New Zealand we would need to rely on the derogation in para I(c)(i) in the Protocol of the Basic Treaty. The question now poses the extent to which the special privilege to New Zealand 'originates from its membership of the Commonwealth of Nations'. There is no automatic justification for a discriminatory practice simply because it is accorded to a Commonwealth country. One has to show a link between the discriminatory practice and Commonwealth membership. It is unclear what the link needs to be but the length of time the discriminatory practice has operated and the number of members of the Commonwealth in whose favour it is granted would be relevant. A strong argument can be made that the link would be difficult to establish in the case of the New Zealand proposal, since the initiative seems to have its genesis in historical ties and geographical proximity than any Commonwealth nexus.

9. The upshot of this analysis is that the implementation of para 5(i) of the Tasman Declaration could well trigger Japanese claims for an equal degree of movement into Australia of capital (and possibly people and goods related to business and professional activities).

10. As noted in para 3 above, another legal consequence of the Declaration and the Communiqué could be their effect on domestic Australian legislation. In this regard para 5(2) of the Declaration which establishes equal national treatment might be in conflict with Australian legislation or regulations which specify nationality criteria for employment, government benefits or services or other privileges. Although there would be no legal obligation to bring Australian legislation into conformity with the principles of the Declaration (since it is not a treaty) there could be political embarrassment if, as the result of its own discriminatory legislation, Australia were not able to accord equal national treatment to the greatest extent possible. We should add that the phrase 'to the greatest extent possible' has no discernable legal meaning in as much that everything is possible including, in this context, the amendment of discriminatory legislation.

11. A point to note in passing is that the word 'citizen' in para 5(ii) excludes non-citizen residents, which leads to the question why a long-time Greek resident in Australia should not enjoy the privilege extended under 5(ii) when he/she is in New Zealand.

12. To be confident about all the legal ramifications of the principles espoused in the Declaration and Communiqué will require extensive consultations with Commonwealth departments and State governments. Neither the Attorney-General's Department nor ourselves are now in a position to comment in detail on the taxation, social security, repatriation and immigration angles you mention in para 4 of your minute.

13. Given the time constraint you face in settling the terms of the Declaration and Communiqué by the end of the next week and the unlikelihood you could complete Federal and State consultations by then, you might consider amending the text to obviate the problems raised above.

14. The critical changes would be to paras 5(i) and (ii) of the Declaration and the equivalent references in the Communiqué which confer identifiable 'special' privileges on New Zealand. We suggest the following redrafts:

5(i) the movement of people, goods and capital between the two countries should be consistent with an outward-looking approach to trade and economic policies;

5(ii) consistent with their laws both countries will continue to treat citizens of the other no less favourably than if they were their own citizens;

The effect of the changes is to nullify any implication that privileges are granted. The principles thus become hortative like the rest of the Declaration. You will need to judge whether the consequent dilution of the political rhetoric is worth

the prudence of not triggering possible m.f.n. difficulties or any embarrassments in our domestic legislation.

15. In conclusion, we would like to stress that amending the Declaration along the lines we suggest is only a stop-gap solution to having a suitable text for the Prime Ministers to issue later this month. As we foreshadow, the development of a special relationship with New Zealand will generate important international legal consequences, particularly in our relations with third countries such as Japan. You have already focussed on the GATT implications. Before the Australia – New Zealand relationship evolves much further these problems will need to be put to extensive inter-departmental study.

[NAA: A1838, 370/1/19/18, xvi]

72 CABLEGRAM FROM DEPARTMENT OF FOREIGN AFFAIRS TO AUSTRALIAN HIGH COMMISSION IN WELLINGTON

Canberra, 11 March 1980

O.CH878374 CONFIDENTIAL

Economic Relations with New Zealand: Prime Ministerial Meeting 21 March

At a meeting yesterday Departments agreed on procedures for implementing the decisions taken by Cabinet last week and on preparations for the discussion of the economic relationship by Prime Ministers on 21 March.

2. It was agreed that Mr Scully should ring Mr Lough today to advise points which the New Zealand side needs to know about Ministerial reactions to the Joint Report of Permanent Heads¹ and to the nature of documentation which should result from the Prime Ministerial meeting.

3. These points include:

- Cabinet has given positive but not unqualified support to the Joint Permanent Heads Report.
- It should be clearly understood that we do not intend to enter into any commitments at the Prime Ministerial meeting.
- We will be looking for firmer undertakings on matters such as import licensing, intermediate goods, customs by-laws, export incentives and agricultural support/stabilisation measures.
- The 3-month time frame for further studies is over-optimistic.

1 Document 66.

- A separate 'Declaration' is not considered appropriate.
- There should be another meeting of officials before Prime Ministers meet.
- 4. To take account of these points we envisage that the Prime Ministers should have before them two draft documents—a communiqué giving the background to the meeting and incorporating points of substance from the 'Draft Tasman Declaration' and (possibly as an attachment) a more detailed outline of the framework within which further studies of the possibilities for closer economic co-operation would be carried out.
- 5. We hope to be able to provide the New Zealanders with drafts towards the end of this week. We would propose that a small group of officials travel to New Zealand for a meeting with New Zealand officials on Wednesday and Thursday of next week to reach agreement on the drafts before they are submitted to Prime Ministers for approval.
- 6. The New Zealand High Commission has been informed of the above.

[NAA: A1838, 370/1/19/18, xvi]

73 EXTRACT FROM CABLEGRAM FROM SCULLY TO AUSTRALIAN GOVERNMENT

Wellington, 18 March 1980

O.WL5002 CONFIDENTIAL

Australian – New Zealand Economic Co-operation

Talks¹ were conducted in cordial atmosphere. Agreed draft of Communiqué and Annex for submission to Prime Ministers follows.

We are of view that texts reflect accurately the Australian Cabinet Decision. New Zealand officials are fully aware of reasoning behind the Cabinet's amendments to Permanent Heads' Report.²

Two document approach results from belief that the necessary broad in principle approach of a Communiqué and the more detailed approach dealing with scope and techniques require separate treatment. New Zealand officials strongly favoured as much detail as possible being included in second paper to allay possible misunderstandings in mind of N.Z. public.

The only new emphasis is the question of freedom of movement of people between the two countries. This has attracted considerable interest arising from

1 Talks at the joint meeting of officials on 18 March.

2 Document 66.

references to finding of Williams Royal Commission. Text is we believe satisfactory but required considerable discussion before New Zealand side would accept.

If there are difficulties in this area would appreciate earliest possible advice.

[*matter omitted*]

[NAA: A1838, 370/1/19/18, xvi]

New Zealand Documents

74 MINISTRY OF FOREIGN AFFAIRS INTERNAL NOTE¹

Wellington, 5 November 1979

Australia/New Zealand Economic Relations

1 The following is our record of the additional points proposed for study which are not covered in the 'Statement of Understanding'² between Permanent Heads:

Public Position Paper

2 It was proposed by Mr Henderson, Permanent Head of the Australian Department of Foreign Affairs, that there should be a joint position paper worked up by the two Departments of Foreign Affairs which would attempt to set out for public consumption the guiding principles both countries were following in the examination of a closer economic relationship. This document would be useful in preparing the ground and giving the 'correct signals' to other countries in the region and beyond for whatever new relationship might be agreed.

Preservation of Third Country Trade Levels

3 The view was expressed by the leader of the Australian delegation (Mr Scully) that the guiding principle governing trade relations with third countries in the region should be that trade at existing levels would be preserved, together with an allowance for normal growth expectations. It was suggested that this principle be referred to a joint working party for further consideration.

Harmonisation of Developing Country Preference Schemes

4 It was also suggested by Mr Scully that a further subject for examination by a joint working party would be the question of possible harmonisation of the two countries' respective developing country preference schemes. If they could not be brought together it would be important to reach an agreed understanding that the two separate schemes were to be administered for the benefit of developing countries and not as an avenue for trade interests in either country to take advantage of each other.

Joint Marketing and Trade Policy Formulation

5 It was proposed by Mr Scully that a working group be formed to explore in further detail the question of joint approaches on access questions, on joint

1 Authorship uncertain; possibly drafted by Powles.

2 Document 52.

marketing of primary products and other trade policy topics that might be susceptible to a combined approach. Mr Scully noted that although Australian studies showed that the concept of joint approaches in these areas was full of fishhooks, he felt nonetheless that there was some merit in the idea. He felt sure that Australia and New Zealand working together could do a little better than either country on its own.

Canberra Pact

6 Mr Scully noted that his delegation had talked about the 1944 Canberra Agreement on their way over to New Zealand. Many of its provision now seemed irrelevant and he proposed therefore that both sides look at the possibility of a new umbrella type agreement. At this stage Mr Scully thought that it would be premature to suggest that a working group be set up to examine the idea. Both sides could think about it and come together in a month or two's time after considering whether it should be pursued and if so, whether it had sufficient merit to stand on its own feet or whether it could only sensibly be considered against the background of a closer economic relationship.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 22

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75 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 7 November 1979

No E (79) 226. CONFIDENTIAL

Australia – New Zealand Economic Co-operation

At its meeting on 24 October 1979 the Cabinet Economic Committee reviewed a number of administrative and strategic issues relating to the meeting of Australian and New Zealand Permanent Heads on Australia – New Zealand Economic Co-operation that was held on 1–2 November in Wellington.¹

Permanent Heads Meeting

2 Discussion of recent trends and possible developments in economic relations between Australia and New Zealand revealed a considerable degree of commonality in the approach that officials on the two sides of the Tasman are adopting in assessing the possible merits of changes in the relationship. General agreement was reached that on the basis of the preliminary analysis of some of the issues relating to Australia – New Zealand economic relations that has been undertaken in Wellington and Canberra, a *prima facie* case exists for the two countries to anticipate benefits from a closer relationship, and that a more

1 Documents 49 and 50 refer.

thorough study of the possible balance of costs and benefits to each of various approaches to increased co-operation should now be undertaken. The attached Statement of Understanding² between Permanent Heads sets out the basis on which officials on both sides will approach this work, which will include the establishment of study groups that will report early next year on a number of issues that were identified by Permanent Heads as central to any consideration of the merits of closer economic ties between the two countries. It is anticipated that on the basis of this work, agreement should be reached on the issues that should be discussed by the two Prime Ministers when they meet in March 1980. (It was agreed that a meeting in the second half of March rather than February would be desirable, given the substantial amount of work to be accomplished before then and the need for the Prime Ministers to have the results of the studies some time in advance of their meeting.)

Further Study: Trading Arrangements

3 The aspect of trans-Tasman economic relations that the meeting identified as the principle area for focus over the next few months are tariffs and non-tariff barriers to trade. The meeting revealed a considerable degree of agreement between officials on both sides of the Tasman as to the reasons why NAFTA is now proving to be a less effective instrument for the freeing of trade than it was in the first years of its operation. With a view to establishing the extent to which the two countries could benefit as a result of changing NAFTA, or introducing an alternative instrument, the Permanent Heads agreed that study groups should be established with the terms of reference indicated at the conclusion of the attached Statement of Understanding. These groups, which will be established in both capitals, will collate information already available, and within the limitations of the very tight timescale required, undertake additional analysis to arrive at an assessment of the likely effects of the elimination of tariffs and non-tariff barriers to trade between Australia and New Zealand over a period of around five to seven years. The purpose of these studies is to establish those elements of the trading environment that create inequity, and the implications of removing or harmonising these inequitable features. The studies should therefore assess the extent to which the removal or harmonisation of these barriers to trade would require adjustments in domestic policy areas that impinge on trade between the two countries. They are not intended to define a specific programme for the establishment of a particular new trading arrangement. Rather they are intended to establish benchmarks (see 1(a) and (b) in the Terms of Reference contained in the attached Statement of Understanding) against which the effects of possible instruments designed to free trade can be judged. The study groups should therefore provide relatively detailed analysis of the factors that would have to be taken into account if the Prime Ministers discuss possible changes to the

2 See Document 52.

administrative arrangements that govern trade relations between the two countries when they meet in March 1980.

Other areas being studied

4 Although the Statement of Understanding does not cover them, a number of issues relating to aspects of the trans-Tasman relationship outside the area of tariffs and non-tariff barriers to trade were considered by Permanent Heads. These issues, which will be the subject of further discussion between Australian and New Zealand officials over the next few months, constitute a catalogue of subjects for possible discussion, at the Prime Ministers' meeting.

5 An idea put forward by the Australian side (without, it would appear, having been discussed first with Australian Ministers) was that the *1944 Canberra Pact* should be re-examined to see if it might be rewritten to provide an umbrella agreement under which existing co-operation at all levels could be formalised. There was some discussion as to whether a new agreement would serve any useful purpose in practice and whether the idea could stand on its own merits, independent of efforts to achieve a closer economic relationship, or whether a necessary precondition would be a clear move towards such a relationship. It was agreed that both sides would give some thought to these issues with a view to reviewing attitudes when preparing for the Prime Ministers' meeting early next year.

6 The potential benefits that might accrue to both countries as a result of increased co-operation in the *marketing of Australian and New Zealand products in third countries* were reviewed. Attention was drawn to the considerable extent to which the two countries already co-operate in this area, co-operation which for commercial reasons is not always publicised. The point was also made that given the independent status of the marketing organisations involved in selling primary produce, scope for closer co-operation between the two countries may lie in the area of increased co-ordination in government-to-government representations rather than the joint marketing of produce. Papers on this subject were exchanged and it is proposed that further discussions be held in the near future.

7 Discussions on the *energy resource* policies of the two countries led to agreement that the two countries should exchange information on present Government pricing and development policies for bulk electricity supplies, and that Australia should provide information on current Australian practices and policies on the taxation of multinational oil companies. It was also agreed that a report should be prepared on the future scope for co-ordination and co-operation in the energy field with a view to assessing whether any new arrangements could be the subject of a suitable announcement by the Prime Ministers.

8 The continuing problem of trans-Tasman freight costs was discussed, and it was noted that labour costs and restrictive practices could erode many of the apparent benefits of a closer economic relationship. It was agreed that it might be useful to study the effect of these high costs on trans-Tasman trade. The

Australian side indicated in confidence that it intended to promote a public enquiry into coastal shipping around Australia, and that this could have implications for the trans-Tasman trade as well. It was agreed that both sides would continue to compare notes on these questions. It was also agreed that although air freight and other aspects of civil aviation relations between the two countries would be negotiated elsewhere it was important that the present group remain seized of the problem to ensure that sectional interests in the two countries did not prevail over national ones.

9 Other areas covered by the discussion among Australian and New Zealand Permanent Heads that will be subject to further exploration by officials within the next few months include the effect of any change in the trans-Tasman trading relationship on trading relations between each country and its developing neighbours, the preparation of a joint position paper setting out for public consumption the guiding principles both countries are following in examining prospects for a closer economic relationship, problems that have arisen for New Zealand enterprises seeking to undertake direct investment in Australia, and the implications of any move to harmonise the Developing Country Preferences Schemes of the two countries.

10 It was agreed that questions relating to trade in *agricultural products* should not be separated from the general framework of the trade and industrial issues being studied. It was understood that support measures and subsidies rather than tariffs would have to be the major area of focus in the assessment of opportunities for freer trade in these products.

Further Meetings

10³ Permanent Heads agreed that further meetings between officials from both sides should be held as appropriate over coming months. It is assumed that a further meeting of senior officials will have to be held early in February to review the outcome of the programme of work outlined above with a view to preparing a suitable agenda for the meeting of Prime Ministers due to take place in March, 1980.

This report is for information only.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 22

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3 Follows a numbering error in the original.

76 WORKING NOTE BY CHAIRMAN OF THE INTER-DEPARTMENTAL WORKING PARTY

Wellington, 21 November 1979

Members of Inter-Departmental Working Party on Australia/New Zealand Economic Relations

Australia – New Zealand Economic Cooperation

1 At its meeting on 13 November the Working Party agreed that the following work would be undertaken by Departments:

I *Tariff and Non-Tariff Barrier Removal Study*

(a) The Department of Trade and Industry, with appropriate support from Treasury, Customs and Foreign Affairs, will obtain from selected members of the Manufacturers' Federation, information to be used to further develop the 'Trade Creation and Trade Diversion Paper'.

(b) The Ministry of Agriculture and Fisheries, with support from DTI and other departments as required, will reassess their paper in the light of additional material, including further information on Australia's non-tariff barriers.

(c) On the basis of the work being undertaken under (a) and (b), consideration will have to be given to determining 'the most desirable and practicable techniques that might be applied in achieving the elimination of tariff and non-tariff barriers between Australia and New Zealand over say five to seven years'.

II *Administrative Adjustments Associated with Tariff Related Policies*

Customs Department is preparing a paper in consultation with its Australian counterpart.

III *Effect of Elimination or Harmonisation of Industry Assistance Policies*

Treasury, in consultation with DTI and MAF, is examining the assistance provided to New Zealand industry by measures other than tariffs and import licensing with a view to assessing the effect of harmonising or eliminating Australian and New Zealand policies over five to seven years.

2 The 13 November meeting also agreed that Treasury would, in consultation with other departments, put together a paper exploring the possible dynamic effects of various forms of closer economic cooperation between the two countries. This 'essay' is to incorporate case studies illustrating at the micro-economic level the possible effects of changes to the forms of protection currently employed. In addition, it was agreed that George Bathgate would prepare the first draft of [a] comprehensive report drawing together conclusions reached from the various exercises undertaken by departments so far. (This paper was circulated to Working Party members on 19 November.)

3 The Department of Trade and Industry is preparing a paper, in consultation with Foreign Affairs, on joint marketing cooperation. The Ministry of Foreign Affairs is preparing papers on the Canberra Pact, and the possible effects of a changed Australia/New Zealand economic relationship on trade relations with third countries including, in consultation with Customs Department, any move to harmonise the Developing Country Preference Schemes of the two countries. (The Australians do not want these subjects to attract a high level of attention at this stage.) The Australians are preparing a draft paper for public consumption setting out guiding principles. The Reserve Bank is preparing a paper detailing problems that have arisen for specific New Zealand enterprises seeking to undertake direct investment in Australia.

4 It is proposed that a further meeting of the Working Party be held before the end of November to discuss the brief for the delegation expected to visit Canberra for talks on 12/13 December. It is not anticipated that any of the papers referred to in paras 1 and 2 above will be handed to the Australians at the meeting, though there might be value in handing over one or two of those referred to in paragraph 3 if they are ready. Papers are not being prepared on transport, joint promotion of tourism and cooperation in international economic fora, but the need for New Zealand to undertake work on these subjects will be reviewed in the light of further exploratory discussions in Canberra.

5 The purpose of the Canberra meeting is to lay the groundwork for Permanent Heads to meet again in late January or early February to reach understanding on the agenda for the Prime Ministers' meeting. The Permanent Heads will have to reach a broad measure of understanding on the possible contents of a draft communiqué for the Prime Ministers. The 12/13 December meeting will therefore need to sort out the issues that are going to be reviewed by Permanent Heads and the form in which they will be placed before them. New Zealand Ministers will have to be consulted before the Permanent Heads meeting. It is therefore proposed that a further report, that will be based on the outcome of the 12/13 December meeting, should be submitted to CEC on 23 January.

6 It is proposed that at a meeting of the Working Party next week we discuss the sort of report that should be submitted to CEC in January, and therefore, the kind of understandings we should reach with Australian officials in December as to the character of the issues to be placed before Permanent Heads in the New Year. The contents of George Bathgate's draft report (see para 2 above) could be a useful starting point for this discussion and it is suggested that members of the Working Party obtain the views of their departments (i.e., Permanent Heads) on the material contained in that report before the meeting.

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**77 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 29 November 1979

No 3771. CONFIDENTIAL

A/NZ Economic Relation[s]

1 It is proposed that a delegation of eight officials led by chairman of the working party Graham Scott should be in Canberra for meeting 12/13 December. Membership of delegation and travel arrangements will be advised as soon as these have been worked out.

2 Purpose of meeting as we see it will be to identify any differences that exist between Australia and New Zealand on the substance of the various elements that should be taken into account in preparing papers within the terms of reference of the study group. This will entail analysis of the respective Australian and NZ policies and existing provisions in relation to each element, the identification and possible quantifications of any differences that exist between the two positions and finally some commentary on the implications of the differences and the practicability of elimination/harmonisation. In addition to tariffs and quantitative restrictions, the following subjects will also need to be reviewed in varying depth.

(A) The administrative aspects of tariff policies—(a separate customs exercise in terms of paragraph III of the terms of reference).

(B) Exchange rates

(C) Export incentives

(D) Developmental grants and financing

(E) Bounties, subsidies and other similar support measures, other subjects which could come up in the course of discussion but which we would not expect to be reviewed in any detail at this stage are—

(a) special sectoral policies (for example, Australia's motor vehicle plan)

(b) standards (safety, health etc)

(c) Government (and State) involvements in marketing

(d) Governmental purchasing policies and procedures

(e) Energy policies (for example special tariffs)

(f) Taxation policies

(g) Consumer protection legislation and requirements

(h) Trading regulations (for example, hire purchase requirements).

3 We are also conscious that there are a considerable number of non-tariff barriers existing on both sides of the Tasman, which are not covered in the listing of elements above. We envisage a discussion of the nature of such barriers as

currently exist, though many of these (for example phytosanitary) will probably not need to be carried forward into further more detailed examination. As an aid to the exercise we suggest that the two customs administrations could prepare a listing of all import and export restrictions. This could usefully be done within the confines of broad categories of controls related to purpose.

4 Please let us know whether Australia has any difficulty with this approach which is directed at providing a necessary framework to assist in the preparation of the report. We would, of course, be receptive to ideas for further subjects to be included. We hope that by the conclusion of the December meeting much of the factual information will have been identified and accepted and that a preliminary run through of possible implications could have been conducted to provide a basis for each side to prepare for a Permanent Heads meeting in early February.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 22

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78 LETTER FROM NEW ZEALAND AUTOMOTIVE COMPONENT MANUFACTURER'S FEDERATION TO CLARK

11 December 1979

Recently this Federation along with other trade groups affiliated to the New Zealand Manufacturers' Federation had the opportunity of discussing with Departmental officials, developments in the study the Government is carrying out gauging the effects of a customs union or a free trade arrangement with Australia.

As you will be aware this industry is also a party to the motor vehicle industry study and any change in the relationship with Australia could have profound implications on this industry.

It was for this reason the Federation felt it important to write to you, particularly commenting on the current study by Government as a predicate to the Prime Ministerial meeting in March and the implications of this on the motor vehicle study.

The original equipment component industry is essentially a multi-national industry in its own right with component companies having international links through parent companies, joint ventures or franchise agreements that are not solely restricted to Australia.

The component industry operates separately and internationally from the multi-national vehicle companies although there are obvious and intimate connections world wide between the two industries.

Therefore any policy changes which occur in New Zealand must take cognisance of these factors which will increasingly manifest themselves in more rapid technological change.

Although the New Zealand component industry recognises the importance of exports to re-establish growth in the economy, it is believed that this can only be achieved by industry specific policies to maximise the growth potential of any industry. The component industry believes a more global trade orientation is necessary for the industry to take advantage of technological change and that Australia will not necessarily be the source of that technology. The corollary of this is that substantial investment probably will be required in the component industry and there must be some offsetting advantage for that investment particularly increased volumes to third markets. Currently the Federation is examining the possibility of designating West Germany or Canada as export target markets.

The policy, the Federation sees in this context, is the retention of the mandatory deletions system modified by an export facilitation procedure to allow component companies to import componentry or source material inputs on a world wide basis.

Such a scheme would allow the component manufacturer to rationalise production by reciprocal exports with the overseas company and significantly expand exports. It would also allow the domestic assembly companies to source components within New Zealand which would develop this country's industrial infrastructure in the most effective way as component companies would be able to specialize production and take advantage of technological change.

Other alternatives for the development of the industry would not be able to achieve this. A domestic content scheme for example, even if it had a non-reversion procedure, would not allow the security of investment needed as assembly companies would be able to make up domestic content as they pleased. The situation that has emerged in the Australian domestic content scheme is evidence of this.

A further ramification is that the New Zealand domestic market is too small to allow a content scheme as there could be no offsetting advantage through replacement parts manufacture, if the vehicle company ceased sourcing on a component company.

The scheme outlined above has very clear implications on the industry's future relationship with Australia. Such a scheme for example could make NAFTA arrangements redundant as it gives an incentive for companies to rationalise production world wide (but not to the exclusion of Australia) in the most commercially realistic manner.

As you may be aware this Federation has had a number of discussions with the Federation of Automotive Parts Manufacturers, its sister organisation in Australia.

Currently the Australian industry, in a reference to the Industries Assistance Commission, is attempting to gain access to that country's export facilitation

scheme which if successful, could equate component industry policy between Australia and New Zealand, if this Federation's scheme was adopted.

It is planned that a further meeting will be held between the Federations in March 1980 and these possibilities will be explored further.

It is for this reason the Federation is opposed to a customs union or free trade relationship with Australia.

A further point is that it is vital the Federation is able to submit a proposal to the inter-departmental committee on the Motor Vehicle Industry Study, after the release of the profile report but before policy options are identified. Because of its importance I have written to the Minister of Trade and Industry seeking further clarification of attitude and an assurance that this will be the case.

I have also circulated this letter to those departments which have representatives on the inter-departmental working party for the Motor Vehicle Study.

If there are any other matters upon which you require further comment from this Federation, I would be most willing to discuss these with you.

J L W Green
Executive Officer

[ABHS 950/Boxes1221-1226, 40/4/1 Part 23

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79 SUBMISSION FROM CORNER TO TALBOYS

Wellington, 18 January 1980

Australia/New Zealand Relations: Officials Meeting: 12-13 December 1979

Attached for your information is a copy of a report of the interdepartmental working party on Australia/New Zealand Economic Co-operation to be considered by NZ Permanent Heads on 23 January. The report describes the outcome of two meetings held in Canberra on 12 and 13 December of Australian and New Zealand officials, at a working party level, to review the studies being undertaken on both sides of the Tasman in accordance with the terms of reference agreed by Australian and New Zealand Permanent Heads¹ in November last year.

2 A further meeting of Australian and New Zealand officials at a working party level will be held in Wellington from 30 January to 1 February 1980. This will be followed by a second joint meeting of Australian and New Zealand Permanent Heads in Canberra on 25 and 26 February to prepare for the meeting of Prime Ministers in New Zealand in March 1980.

1 See Document 52.

3 Work so far has focussed on the various ways both countries could eliminate all barriers to trade over a 5–7 year period. Australia's concern has been to ensure that whatever form of arrangement Governments may wish to adopt it should enhance, as far as possible, general economic conditions within the two countries. They have been less concerned with encouraging the growth of bilateral trade *per se*. New Zealand officials, while fully recognising the long-term importance of Australia's main objective, have been more mindful of the difficulties New Zealand industry would face from substantial and rapid economic restructuring.

4 There is general agreement that the most fruitful option for further study is neither a pure customs union nor a pure free trade area but a mixture of both—a 'hybrid'. But Australian officials tend to favour a hybrid which veers more towards a customs union; New Zealand officials tend to favour more of a free trade area approach. These differences in perspective basically reflect the greater progress Australian industry has already made in living with lower levels of protection.

5 There is a good measure of agreement about the effects of the various types of arrangements. A common external regime, on the basis of the lower of the two tariff levels, would have major implications for much of New Zealand manufacturing and agriculture. It would also give rise to additional imports from third countries with balance of payments consequences which would have to be resolved by other means. A full free trade area (or a 'hybrid' close to it) would have fewer problems for New Zealand industry but could cause greater problems from an Australian perspective because it would maintain certain advantages New Zealand manufacturers currently enjoy compared with their Australian counterparts. It could also lead to growth in industries which may not be internationally competitive in the long-term.

6 Again, so far as the effects are concerned, there is agreement that whatever form closer economic integration may take, some industries in both countries would be hurt, others would benefit.

7 Australia is seeking to put conditions of competition on, as they see it, a more equal footing. While this is a matter for negotiation, there will have to be provision for harmonisation of policies in certain areas—export incentives and developing country preferences for example. In the longer term, New Zealand's import licensing, at least as it is applied to Australia, would need to be phased out.

8 The quantitative analyses by Australian officials indicate that either a full free trade area, a customs union, or a hybrid arrangement would have a positive and beneficial impact on both countries. However, the extent and distribution of these benefits is critically dependant on the terms of the agreement. Their studies suggest that the benefits of any of these arrangements would be greater for New Zealand than for Australia because New Zealand's smaller size and higher levels of protection. New Zealand officials have not carried out comparable studies. To

the extent that the Australians' assessment is correct, it is likely that the adjustment costs necessary to obtain those strict economic benefits would be correspondingly greater for New Zealand.

9 The Ministry would be happy to arrange a full briefing on this and other aspects of the current exercise should you wish.

Attachment

Report of Australia/New Zealand Working Party

AUSTRALIA/NEW ZEALAND ECONOMIC CO-OPERATION

Introduction

1 On 12–13 December 1979 Officials from the Departments in Canberra and Wellington respectively, that have been involved in consideration of possible changes to the economic relationship between Australia and New Zealand, met to review the work they have been undertaking. This report reviews the outcome of that meeting and outlines the further programme of work and the schedule of meetings that are being set up preparatory to the meeting of Australian and New Zealand Prime Ministers around 21 March 1980.

Background

2 At their meeting in Wellington on 2 November 1979 to discuss Australia/New Zealand economic co-operation, Permanent Heads recognised that there is scope for new economic arrangements between Australia and New Zealand which could provide economic benefits for both countries, strengthen relationships between both countries, and allow each to cope with greater confidence with the difficult economic and trading environments. In a statement of understanding² agreed to at that meeting, Permanent Heads noted that while it would be inaccurate to see current discussions as the last possible opportunity that Australia and New Zealand might have to discuss the prospects of closer economic co-operation, it could well be more difficult to attempt the same exercise in 10 or 20 years time when the economies and trading interests of both countries have diverged further from their present roughly similar paths. It was understood that any new arrangements between the two countries should reflect an outward looking approach based on an efficient allocation of resources and an efficient structure of industry. Such an approach would be in conformity with the economic policy objectives of both countries.

Studies in Progress

3 The statement of understanding endorsed by Permanent Heads contained terms of reference for study groups to report early in 1980 on a number of issues that were identified as being central to any consideration of the merits of closer

2 Document 52.

economic ties between the two countries. Four working groups have been established in Canberra to prepare material in conformity with the terms of reference, and in New Zealand officials have been undertaking work on the same programme through the inter-departmental committee that was set up earlier in the year.

4 The terms of reference require study of the implications of the elimination over a period of around 5–7 years of all tariff and non-tariff barriers, and other protective devices between the two countries, on all agricultural and industrial products, on the basis of:

- (1) a full free trade area;
- (2) a full customs union; based on the lower of the two tariff regimes;
- (3) a combination of these.

On the New Zealand side, a survey of manufacturers and studies of agricultural products most likely to be affected, are being conducted to assess the possible effects on trans-Tasman trade of a full free trade area or customs union approach to the phased elimination of tariff and non-tariff barriers. A report on this work is now being prepared. For their part the Australians are not undertaking a survey of this kind, but a considerable amount of quantitative work on the possible impact on the two economies of alternative approaches to free trans-Tasman trade, is being undertaken in Canberra.

5 Also under the terms of reference, the customs administrations on both sides of the Tasman have been involved in discussions on adjustments that would be required to tariff related policies if either a free trade area or customs union approach were to be put into effect. In addition, Officials on both sides of the Tasman have investigated the forms of assistance currently provided to industries in each country with a view to assessing the likely effects in these two policy areas of a move to closer economic relations. Officials have identified policies, such as export incentives, development grants, bounties, special sectoral policies, and Government purchasing policies, that are judged to be relevant in this context, with a view to establishing the prospects for harmonising these. Studies are also under way on the longer term dynamic effects of closer economic co-operation on economic growth, industrial structure, etc. These questions are difficult to assess in a precise factual manner. An attempt is being made to identify broad trends and dynamic effects on particular sectors, including an analysis of the experience of other countries in this area. These issues, together with the short-run static effects emerging from other studies, will be brought together to form a report on general conclusions.

6 In addition to the work just outlined, both sides are investigating a number of subjects including third country marketing, co-operation in international fora, transport, Government purchasing, energy, telecommunications and cultural co-operation (Annex 1). Also being considered are the merits of establishing a formal framework agreement between the two Governments to update the 1944

Canberra Pact. These are all possible issues for review by the Prime Ministers when they meet in March.

Officials Meeting Canberra 12–13 December 1979

7 At their meeting in Canberra on 12–13 December 1979 Australian and New Zealand Officials reviewed the work being undertaken on the basis of the programme outlined above.

The Australian Position

8

(1) The Australians indicated that their studies will assess the effect of any arrangement on general economic conditions within the two countries, rather than just on bilateral trade relations.

(2) They claim that their analysis demonstrates that because of New Zealand's smaller size, the impact of any new relationship would be greater on this country than Australia.

(3) Their theoretically based analysis also indicated that the pure form of either cooperative arrangement, that is either a full free trade area or a customs union, can have a favourable impact on the two economies. Equally, a hybrid arrangement based on a combination of elements of each of these, could have a favourable impact. The terms of agreement establishing any such arrangement would, however, be critical in determining where the final balance of advantage lay between the two economies.

(4) The Australians have also concluded that some approaches to freeing bilateral trade could lead to a form of industrial rationalisation. Whether or not this would be in the interests of the two countries would depend on whether any such rationalisation produced internationally efficient or inefficient industries.

(5) The Australians seemed to favour a customs union based approach. While this did not remove the possibility of inefficient industrial development, such a problem could be controlled by altering tariff rates to third countries. They also stated that distortions created through disadvantages originating from tariff differentials could be avoided.

(6) The Australians stated that the exchange rate is an important factor to be considered in the economic relationship. It is acknowledged as having major importance in complementing assistance and protection policies, but it is not seen as constituting in itself a subject for negotiation between the two governments.

9 Australian officials asserted that over the years, Australia has developed a broad and reasonably consistent industry development plan and that although New Zealand has not reached this same point, nevertheless there are common areas between the development policies of the two countries. Australian studies so far indicate that issues including import licensing, international sourcing and

export incentives would cause problems in any new trading relationship unless some degree of harmonisation of structures was achieved. The officials also affirmed that the future of New Zealand's import licensing system would be a critical factor in the future of the relationship as far as Australia is concerned. On the question of international sourcing, it was stated that high area content rules could be contrary to some of the policies that Australia is pursuing on the industrial development front but this remains a question for further study. Australian Officials also indicated that their interpretation of the terms of reference of the study groups allowed, in the case of the customs union study, for the tariff level to be set at the higher of the rates prevailing in the two countries, rather than the lower rate, in cases where one country did not have an industry to protect.

10 On agricultural questions, the subject of the dairy industry was raised. Presently, with the exception of cheddar cheese, free trade exists between the two countries in dairy products. However, the Australian dairy industry is politically sensitive as a result of its home market pricing policies vis-a-vis export markets. The Australians have indicated that they would expect to review support measures for both countries' industries as part of any negotiations towards a closer economic relationship.

New Zealand's Position

11 New Zealand officials informed their Australian counterparts that, on the basis of the work already undertaken, it was clear that New Zealand's industrial development programme had not reached the same point as its Australian equivalent and that the effects on New Zealand of large scale industrial rationalisation resulting from a substantial or rapid movement towards a closer economic relationship could be severe. It is particularly important that any industrial restructuring as a result of change in the trans-Tasman relationship should be balanced within the context of trade growth opportunities opening up as a result of the changed relationship. In particular, the oft-enunciated Australian concept of an 'equal go' relationship could have difficult consequences for New Zealand. New Zealand must be convinced that opportunities for growth would exist in any new relationship, before decisions could be taken that would result in protective barriers being significantly lowered. In particular, the Australian analysis of a customs union approach based on the maintenance of high tariff levels in cases where New Zealand did not have an industry to protect, but sourced internationally, was unacceptable. Indeed, officials were sceptical of a classic customs union approach as a realistic option for developing closer economic ties between the two countries.

Personal Impression of Leader of the Australian Delegation

12 At the conclusion of the meeting the leader of the Australian delegation gave his personal impressions of the meeting on the basis of the following points that he said had emerged from the two days of discussions.

- (1) Any new arrangement between Australia and New Zealand should be based on an outward looking approach in which there would be an efficient allocation of resources and an efficient structure of industry and should be designed to enhance relationships with third countries.
- (2) In any further study of possible liberalisation of trade between Australia and New Zealand attention should be devoted to the development of some kind of hybrid customs union-free trade arrangement tied to a package covering the phased elimination of tariff and non-tariff barriers on the basis that:
 - (a) where both countries employed protective rates harmonisation could proceed by moving towards the lower prevailing rate in either country;
 - (b) where both countries had non-protective rates, harmonisation could likewise proceed by way of the lower prevailing rate; and
 - (c) in the difficult areas where protective rates were employed in one country only, there would be a need for further exploration of the approach to be taken.
- (3) Both countries will have to face up to the reality that in any changed relationship some industries would be hurt, but there would also be advantages for each side. An overall balance of advantage for both countries would be necessary.
- (4) Any arrangement should not lead to the encouragement of internationally uncompetitive industry.
- (5) Automatic adjustments of tariff, and where appropriate, non-tariff barriers would form an essential component of any arrangement.
- (6) Any safeguards arrangements should be limited in effect and be of limited duration.
- (7) The two Governments would have to agree on principles and arrangements to apply in the area of industry assistance in both countries, especially where existing tariffs were set at levels which might result in harm to one partner.
- (8) Normal trade growth opportunities for regional partners should not be impaired.

Assessment of Meeting

13 On the basis of the discussions between Australia and New Zealand officials in Canberra, the New Zealand working party considers that some tentative conclusions can now be drawn on the basis of the terms of reference, about the focus required for further work. These conclusions are—

- (a) A common external regime based on the lower of the two levels of protection would imply withdrawal of protection in any case where one country has an industry and the other does not. This would affect Australian

industry more than New Zealand because it has more intermediate goods industries.

(b) In a relatively large number of other cases a common external regime would imply a general lowering of rates of protection.

(c) Such changes could be expected to be inconsistent with judgements based on existing policy as expressed in detailed reports from the Australian Industries Assistance Commission and the New Zealand Industrial Development Commission. Movement to a common external regime would give rise to additional imports from third countries with balance of payments consequences which would have to be resolved by other means.

(d) There would also have to be readiness to accept similar trade policies in such matters as preferences to third countries including developing countries. Movement to a Common External Tariff would also mean the gradual phasing out of New Zealand's import licensing system as it applies to Australia.

(e) A common external regime, on the basis of the lower tariff level, would have major implications for a relatively wide area of New Zealand manufacturing and agriculture. It would lead to difficulties for a considerable number of industries if introduced abruptly and would have far greater effects than a free trade area.

(f) On the other hand a complete free trade area has problems from an Australian perspective because it does not necessarily discourage the expansion of inefficient industries. The use of high area content rules as part of the free trade approach creates administrative difficulty and can also promote the development of industries which are not internationally competitive.

14 The points above suggest that the full customs union approach is not at this stage fruitful for further detailed analysis from a New Zealand point of view. Emphasis should therefore be given to the free trade approach or a hybrid approach which takes account of Australian concerns and New Zealand aspirations. There will be difficulties in accommodating Australian concerns if such an approach is adopted. From a New Zealand view point, however, further discussions could most usefully focus on the following:

(a) How to permit the sourcing of industrial imports at world prices;

(b) How to minimise disruptive changes through various safe guards and techniques for predicting and managing change;

(c) How to accommodate Australian concerns over what they see to be an unfair advantage for New Zealand exporters through export incentives and so forth.

15 By directing work along these lines it would be possible to study the framework and institution of possible new trading arrangements in a way that is

more meaningful than has been possible to date. The wide and rather abstract range of possibilities under study has meant that an almost limitless variety of institutional arrangements has had to be open for discussion. On the basis of discussions between Australian and New Zealand officials so far, it is accepted that further work on the free trade customs union hybrid concepts should take account of such matters as:

- (a) Area content rules;
- (b) Import licensing;
- (c) Balance of Payments effects;
- (d) Implications for existing policies;
- (e) Third countries preferences;
- (f) Export incentives and other assistance measures;

For further study of these issues to be productive, the focus of attention should be narrowed down as far as practicable from the comprehensive range of possibilities that have been under study up till now.

16 The work outlined above fits comfortably within the existing terms of reference and it is proposed that it should form the basis for New Zealand participation in further discussions with the Australians on the work programme.

Timetable for Further Meetings

17 Australian officials will hand over to New Zealand by 15 January 1980, copies of papers that have been prepared in conformity with the terms of reference of the Permanent Heads' Statement of Understanding. A small delegation of Australian officials will come to Wellington on 30–31 January and 1 February to complete joint consideration of the studies that have been undertaken on both sides of the Tasman and prepare a report for the Permanent Heads of both countries. Papers on the New Zealand studies outline in paragraphs 4–6 above are to be tabled at that meeting.

18 Tentative agreement has been reached with the Australians that Permanent Heads should meet again in Canberra on 25–26 February to consider the report prepared by Working Party level officials and to consider the subjects that could be discussed by Prime Ministers when they meet on 21–22 March 19[80].

CHAIRMAN

Inter-departmental Working Party on
Australia/New Zealand Economic Co-operation

**80 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 18 January 1980

No 182. CONFIDENTIAL

A/NZ Economic Relations

The following is an attempt at a preliminary assessment of where the Australians are at on this exercise. Despite the tentative nature of all that has been said and written, it is arguable that they, and we, have come a considerable distance over the last 2–3 months.

2 The Australians have defined their principal requirements for a new relationship clearly enough. These seem to be:

(a) To create a trading environment in which manufacturers/producers from both countries compete under approximately equal conditions—the so-called ‘fair go’. This objective of equality of conditions and opportunity is very different from the ‘dollar for dollar’ theme of many recent NAFTA negotiations.

(b) To devise bilateral trade and economic relations which relate to Australia’s general and long term plans for economic development and trade/protection policies—the ‘outward looking’ and ‘internationally competitive’ themes.

(c) To establish a freer trading environment in which the private sector is less subject to Government control and to changing Government policies, and in which it can therefore invest with greater confidence—the theme that current trade is ‘over managed’.

3 While further attempts to define a proposal, or to negotiate, will involve all these themes and others, we think it likely that (a) above, equality of opportunity, will emerge as Australia’s central concern. It is almost certainly going to want equal trading conditions introduced in a purer form than does New Zealand. So the question will be, how pure?

4 The rough shape of the answer is emerging, and it seems that the Australians are showing a fair degree of flexibility on a number of key aspects. Here are some indicators:

(i) At no stage have the Australians suggested any move towards wage equalisation. They seem to accept NZ manufacturers/producers will retain their head start with cheaper wage rates, and if that gap widens further to NZ’s advantage, so be it. (We are aware that the Prime Minister virtually ruled out wage harmonisation when talking to Mr Fraser at Lusaka.) In fact they think the gap may narrow, and if it does not NZ will be bled of its skilled workers.

(ii) They seem to be moving towards accepting that certain other conditions, notably taxation regimes, of an essentially domestic nature, could also be kept out of the equation (see (iv) below).

(iii) They have accepted an exchange rate differential in NZ's favour. If we had a complete customs union, we would need to have some understandings about mechanisms for adjusting exchange rates but, far from suggesting some sort of parity, the Australians envisage further NZ devaluations (beyond inflation-related adjustments) to make NZ exporters more competitive. (It is perhaps worth noting here that the best study of this we have seen, NZIER paper No. 22 of 1977 shows that the exchange rate has been a primary trade creating factor over the period of NAFTA and that NZ trade has grown fastest when the difference has been widest following NZ devaluations.) The recent clarity of the Australian position on this, incidentally, negates the concerns we expressed in an earlier message.

(iv) Tariffs comprise a key area and the Australians of course require comparability in a new trading relationship. A particular difficulty they focus on is the NZ manufacturers' advantage in being able to import raw and intermediate materials from third countries over very low tariffs, while Australian manufacturers must use protected domestic sources. Under a free trade area NZ would retain this advantage, and Australia would require compensating area content rules. Under a customs union, or hybrid which extended customs union principles into these areas, the Australians face real difficulties. The application of their own 'outward looking/internationally competitive' guideline clearly suggests they should lower their tariff on intermediate goods to the NZ level, and achieve equality that way. But that will be a most difficult decision and I and C officials, in particular, cannot contemplate it. They advocate the formula (now enshrined in working group II report) that the condition of a common external tariff based on the lower of the two 'would only apply to cases where an industry sector existed in both countries. Where it did not (we should adopt) a rate at that currently applying to the producing country.' However officials are not united on this and various options are being explored (see W.G. II pages 33-34 and 36-37). The main point here is that even in this critical area, the Australian position is probably negotiable.

(v) Non-tariff barriers. Australian papers assume NZ's import licensing will have to go in any FTA or CU, yet their approach is not devoid of understanding of the difficulties NZ would have over this. They see the abolition of licensing against Australia only as substantially redirecting NZ supply to Australian sources, and acknowledge that it may be hard to maintain licensing satisfactorily against third countries once it is removed for Australia. Some alleviating suggestions have been made (see (VIII)¹ below).

¹ Apparently an error; the message ends after section VII.

It is premature to try to define what might be negotiable in this area: we wish neither to raise any expectations of Australian softness nor spread gloom over Australian inflexibility.

(vi) Export incentives and other industry assistance. This is another key area in the Australians' search for equality, but one which is at least being whittled down to size. W.G. II report focuses on the need to harmonise or eliminate export incentives, agricultural support arrangements (we will not discuss agriculture specifically in this message) and production subsidies/Government purchasing. They come close to saying that harmonisation beyond consultations may not be required for export financing arrangements, production incentives, import subsidies, tax incentives, concessional regional assistance programmes etc. On the difficult one, export incentives, they note that bilateral elimination will not work (divert trade to third countries), and acknowledge that their preferred solution to harmonisation on the basis of the least expensive scheme would be difficult for NZ.

(vii) The problems of inefficient industries, adjustment assistance, safeguards etc. It is worth noting that while Australian officials at the permanent heads meeting seemed to have little time for such things, they have at least entered the vocabulary of the recent reports, and are discussed briefly.

5 We will report separately on some other aspects between now and the next officials meeting.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 24

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

81 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 22 January 1980

NO 209. CONFIDENTIAL

A/NZ Economic Relations: PMs' Meeting

The only Australian suggestion we have had until now for the type of agreement the Prime Ministers might reach in March has been the notion, from the Australian Treasury, of an agreed set of principles (our 3194 para 4).

2 Flood of STR, stressing he was indulging in personal speculation, has now suggested that it should not be too difficult to agree on some practical 'intermediate' steps. These might be undertakings to harmonise various policies or activities. Some might be relatively easy—perhaps the common application of by-laws against third countries, or an agreed practice on Government purchasing

(our 050 related to Wran's visit). A decision to work to harmonise export incentives could be considered. These were examples, not specific proposals, and the idea will no doubt be spelt out a bit more by Anderson next week.

3 It occurs to us some thought might be given by the NZ side to the best institutional or machinery arrangements to sustain this exercise, also in time for decisions at the Prime Minister's meeting.

4 Overall Flood was most optimistic about the prospects for the Prime Ministers' meeting—'We are in a cooperative not confrontational situation and there is every reason to believe it will be most successful.'

[ABHS 950/Boxes1221-1226, 40/4/1 Part 24

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

82 RECORD OF DISCUSSION BETWEEN FRASER AND MULDOON

Christchurch, 11 February 1980

SECRET NEW ZEALAND EYES ONLY

[*matter omitted*]¹

64 MR MULDOON referred to bilateral talks on economic relations and wondered what the Australians thought about the chats which were to take place a month from then.

65 MR FRASER replied that before the two Prime Ministers met they would want to be sure that the real groundwork had been laid. When they got together on the economic thing they had to have made some substantive progress. He could see value in a further round of official talks and of the Prime Ministers' meeting a little later. But mischief could be made if the Prime Ministers met without real progress. Not enough work had been done yet. He wanted the Permanent Heads from the two countries to get together and then their work could be reviewed. There followed a brief exchange on the way the work was to be organised.

66 MR MULDOON emphasised the impression should not be given that the talks were coming to grief. In his view, the best thing was to get the date for the Prime Ministers' meeting firm without commenting any further on the substance. They could say at the press conference that people were being asked to work harder, to raise the tempo. There were a lot of journalists on both sides of the Tasman who were only too willing to stir up trouble.

67 MR FRASER agreed. There were two problems. There was the potential problem of holding the meeting a little later. On the Australian side they were not

1 Fraser stopped briefly in New Zealand while returning from a series of visits to Washington and European capitals. The two Prime Ministers' discussions in Christchurch were wide-ranging, and CER was not a major issue on this occasion.

firm on the answer to this. The second problem, was the need to make progress before the Prime Ministers' meeting, because if no progress could be shown—of course no one was expecting a revolution—it would be put around that officials got on very well together but the whole thing blew apart as soon as Fraser and Muldoon got involved.

68 MR MULDOON said that what Mr Fraser had said was entirely consistent with his own view. The press could be told the two Prime Ministers were going to meet to determine areas on which more work should be done. They would not be making decisions but would be giving directions, looking towards the subsequent meeting. In his view there was no problem about it all and he did not think there was even a need to disclose specific areas in which officials would be studying.

69 MR FRASER thought there would be, at least on the Australian side, great pressure to disclose the areas.

70 MR MULDOON felt that in that case it would be said a number of areas had been looked at, some of which had shown possibilities, others which were no good and would have to be forgotten. If the clash with the ANZUS meeting was a problem for Permanent Heads, Prime Ministers could of course put off the meeting for a month. However, he was conscious that the election thing would be a problem for Mr Fraser. All in all, he thought the sooner they had the meeting the better it would be.

[ABHS 950/Box 1607, 59/203/2 Part 7

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

83 MINISTRY OF FOREIGN AFFAIRS DRAFT DISCUSSION PAPER FOR OFFICIALS' WORKING GROUP

Wellington, 12 February 1980

CONFIDENTIAL NEW ZEALAND EYES ONLY

Australia/New Zealand Economic Relations: The Status Quo¹

Purpose of Paper

1 Some broad judgement needs to be drawn on the viability of what has come to be known as the 'status quo option'—i.e. a decision by New Zealand to reject

1 At this time at least two departments (Customs and Foreign Affairs) drafted papers setting out the likely consequences of dropping the CER exercise or allowing it to fail. This Foreign Affairs draft is the more exhaustive, but both reached similar conclusions. There is no reason to suppose that key Ministers such as Muldoon or Talboys ever considered dropping CER, but the drafts may have been intended to convince other more recalcitrant Ministers and their departments (possibly elements in the often protectionist Department of Industries and Commerce). There is no indication that the draft published here was further developed or put to any official use.

a broader economic relationship with Australia and try to maintain, throughout the coming decade, the existing NAFTA framework in broad terms.

2 It is acknowledged that of the many difficult issues involved in considering the best course of action for New Zealand to take in the context of this exercise, there is probably none that is so predictive in nature and dependent on intuitive judgements. The only possible defence of the approach taken below—which does not shy from making such explicit sweeping judgements—is that a failure to arrive at an agreed view of New Zealand's future economic relationship with Australia under the status quo option is itself an implicit broad judgement that the status quo is tenable and a reasonable basis against which the costs of moving towards a broader-based relationship can be measured. As the latest NZIER study (Butcher & Copeland) observed, the question that must be addressed is not a comparison of *before* integration with *after* integration but *with* integration and *without* integration.

3 The importance of this issue is clear enough: New Zealand manufacturers are basically happy with the status quo. If you can have your cake and eat it too, why bother changing the recipe? Putting aside the extremist viewpoints expressed to officials in the DTI Industry Survey (January 1980), a dominant theme running through manufacturers' verbal comments to members of the survey team was: 'Look, we've got what we want now. You blokes and your Ministers have done a great job negotiating with the Australians—just carry on'.

4 The history of New Zealand's trade with the U.K., however, underlines the importance of taking a longer-term view of the longevity of even the happiest and apparently most mutually satisfactory of trading relationships. To state at the outset this Ministry's overall assessment of the realities of this exercise: just as it was obvious from the early 1960s that the cornerstone of New Zealand's trading links—the provision of 'cheap food' to the British housewife—could not be taken for granted any longer, so too today the existing framework of trans-Tasman economic relations does not fit with the long-term political and economic aspirations of the dominant (Australian) trading partner. The broad policy inference to be drawn from this historical analogy is rather similar too, we think: New Zealand must begin the task of negotiating a long-term relationship that is consistent both with our own needs and our trading partner's aspirations *before* the existing framework is further whittled away.

The 'Status Quo' Further Defined

5 To avoid the accusation that one is setting up a 'straw man' argument, it is necessary to define approximately what one means by the status quo.

6 It would be quite inaccurate to portray the current NAFTA framework as a static thing. Since the NAFTA was signed in 1965, it has been in a process of constant evolution: the implementation of article 3:7 deals from 1967, progressive changes in the rules of origin, the transition from British Preferences to the present-day Preferences Agreement, and so on. But at the level of

generality on which this assessment is based, it is easy to identify a set of broad assumptions underlying the evolution of the NAFTA. First, it is not a free trade area approach but essentially a preferential area approach to trade relations. Second, competition has been consciously avoided (cf. panel arrangements, positive list approaches, highly disaggregated additions to the schedules). As Les Castle² once put it: 'the avoidance of competition has run through the NAFTA like a theme in a Greek play, but whether it is tragedy or comedy, I have not yet decided'. Third, it has been marked by an exceptionally high degree of administrative intervention. Fourth—and less and less true in recent years—it has been imbalanced in New Zealand's favour (this has nothing to do with the balance of trade—we are referring to the *form* of institutional arrangements). Finally, there is no provision for harmonisation of policies that can lead to accusations of unfair competition; in practice, New Zealand has been the main beneficiary of this feature.

7 All of these central assumptions are, it is suggested, at variance to a greater or lesser extent with the trend in Australian policy thinking.

Australia's Approach to Economic Relations with New Zealand

8 The old cliché about Australia's approach to A/NZ Economic Relations—Australia takes New Zealand for granted; it is up to New Zealand, as the smaller partner, to define the nature of the relationship—once an accurate statement of reality, is now most misleading. It remains true, we think, of the Australian population generally, the Australian press and the Australian State and Federal Parliaments, but it is no longer true of that group of Departments and their Ministers responsible for formulating Australian Government policy towards New Zealand.

9 For about the last three years the Australian Governmental system has, at first fitfully but now in a concentrated fashion, been redefining the relationship from an Australian perspective. This process of redefinition represents the confluence of many factors—many of them contradictory—but some of the main elements can be identified readily enough. The most important initial impulse was plain old-fashioned protectionism. Once New Zealand manufacturers began to make real gains in the Australian market in the 1970s, at a time of growing unemployment and heightened concern over import competition, the Australian bureaucracy was put under intense pressure to re-examine the basis of that market penetration. About the same time Australia became embroiled in a domestic and international debate over the desirability of protectionism. This was engendered by complex political and economic forces (differential relative rates of inflation, tensions created by the explosion of mineral wealth in Australia which worked its way through the system principally via the exchange rate mechanism). In the circular debate over protectionism that followed, everyone

2 A former Treasury official, later Professor of Economics at Victoria University of Wellington.

had their own barrow to push. Some (Treasury/IAC) were concerned principally with the economic costs of retaining these rigidities. Others (DFA) were concerned with the impact of protectionist measures on Australia's trade relations with a highly selective group of countries which they decided were 'theirs' in terms of their bureaucratic and their foreign policy preoccupation (i.e. ASEAN). Industry and Commerce represented the concerns of Australian manufacturers.

10 New Zealand—and the NAFTA—got squeezed in the middle. Because of the momentum built up behind the NAFTA, New Zealand received in 1976 two totally contradictory signals from the Australian Government on the future of the economic relationship: the quota decision and the extension of the NAFTA.

11 The 1976 quota shock resulted from the convergence of views between the free traders/foreign policy people on one side and the protectionists on the other. For entirely different reasons, both agreed it was not in Australia's interest to continue to exempt New Zealand from the range of quantitative restrictions introduced in the 1974–76 period. This paradox is by no means unknown in other contexts. The main voice in favour of UK entry into the Community was an uneasy coalition of free-traders and protectionists: the free-traders were looking at the intra-community barriers while the protectionists had their eyes firmly fixed on the common external tariff. In the case of the 1976 quota decision, it is understood that the Department of Overseas Trade representatives (now Trade and Resources) walked out of the final senior officials meeting indicating that what was being recommended to Ministers was totally inconsistent with the whole spirit of the economic relationship between the two countries built up over the last ten years. They were delivering an instant but correct historical judgement.

12 The decision to renew the NAFTA for a further ten years was, we consider, simply too hard to contemplate not doing. To have taken such a cataclysmic step in terms of relations with a political partner as close as New Zealand would have presupposed a consensus of opinion at the political and bureaucratic level that was only then in the process of formation. It can only be a matter of speculation, but had the Agreement come up for renewal two years later we might well have been faced with a major renegotiation rather than a rubber-stamping operation.

13 This current exercise to explore the prospects for closer economic integration between the two countries has, we think, to be considered against this background. For very clear political reasons, this exercise must be presented as a New Zealand initiative. In many ways it is. It represents the realisation of the importance to New Zealand of the relationship with Australia—a process which culminated in Mr Talboys' extended visit to Australia in 1978. But future historians will probably be puzzled if they attempt to trace the links of the present exercise back to the Nareen Statement. The Nareen Statement contained words to the effect that it was agreed that because of the difficult economic circumstances, it was not an appropriate time to consider a major expansion of

the economic relationship between Australia and New Zealand. Eighteen months later, it would seem the reverse applies.

14 Fortunately, the process of redefining the A/NZ relationship in Canberra took a positive, rather than a negative turn. Whether we consider it accurate or not, it has a lot to do with very pessimistic assumptions about New Zealand's economic future held at the highest level (cf. Mr Anthony's comments to Mr Wright) and a lot to do with a genuine feeling that Australia's and New Zealand's futures are indivisible. The latter in itself owes a good deal to the strong New Zealand orientation of a few Permanent Heads and Ministers, largely through their association with New Zealand or the NAFTA over the last two decades (Scully, McKinnon, Parkinson, Currie and of course Mr Anthony). Stone has, more recently, lent his not inconsiderable weight behind the exercise—for the moment.

15 While relationships between two countries can be observed to be 'at a particularly critical phase', year after year, the statement is almost certainly true of Australia/New Zealand relations today. The historical explanation of the trend in Australian attitudes in paras 8–14 above is intended to show that:

(a) the Australians have done a lot of thinking about A/NZ relationship over the last three years,

(b) this took initially a negative turn but is now very positive.

16 Officially, the line taken by senior Australian officials is that if New Zealand decides now is not a propitious time to countenance a major change in the relationship, that is understood. At the same time, official cognizance is given to the 'greater difficulties' of attempting the exercise again in ten years time when the two countries' policies may have diverged further. This formal Australian position is merely a political recognition that if the initiative is seen to be imposed by 'big brother' it would be rejected by New Zealand. It should not, we think, be interpreted as a sign that the Australian Government is quite relaxed about the matter.

17 It would, we consider, be naïve to think that life with the Australians would be that simple. The forces that they have led to the redefinition of the relationship will continue, if not quicken, because of the essential relative dynamism of the Australian economy. The political consequences of New Zealand rejecting a closer economic relationship are likely to be quite severe over time. Such a decision by New Zealand would be widely perceived by the Australians as inward-looking. The common reaction would be to 'leave New Zealand to its own devices'. This would, over the longer term, come to have a damaging impact on the foreign policy relationship. In the short term, its impact would be very largely concentrated on the bilateral economic relationship. Where conflicts were seen to exist between economic arrangements with New Zealand and other objectives of policy, New Zealand would be the loser.

18 It cannot be over-emphasised that we are suggesting a *trend* in policy, not a single decision. It is in fact no more than an extension of what has been

happening for some time. This is very different from suggesting that the Australians, in a fit of pique, would immediately commence dismantling the framework of the current economic relationship.

19 It is extremely difficult to move beyond this general prediction to specify precisely what form these consequences would take. But among the possibilities would be:

- the Preferences Agreement,³ up for renewal in year's time, would be allowed to lapse,
- the NAFTA, when it came up for renewal in 1986, would be emasculated and allowed to continue in name only unless New Zealand exempted all goods on Schedule A from import-licensing or, alternatively, agreed to remove all goods with import licensing on Schedule A and (say) place them on Schedule B,
- Article 3:7 arrangements would eventually lapse,
- Special quota arrangements negotiated under the NAFTA umbrella would be, on expiry, renegotiated on an equal basis along the lines of the current apparel negotiations (or the emerging issue of hand-held rotary cultivators).

20 It might well be asked why Australia would consider such actions which would impair its own economic future in the New Zealand market—since all these arrangements are partly reciprocal. The answer is simple: in some cases that would indeed be an offsetting consideration (eg. CKD packs) but generally the Australians have, rightly or wrongly, come to the conclusion that their exports to New Zealand do not depend on existing preferential arrangements—i.e. that New Zealand would continue to source 20% of its imports from Australia regardless of the NAFTA.

21 These possibilities represent the most pessimistic limits. New Zealand would of course take corrective action. In doing so, the possibility of New Zealand adopting a de facto 'hybrid' (i.e. being forced to adopt harmonised policies—particularly on non-tariff barriers—as the price for maintaining free trade) cannot be discounted. If that were the result, it is likely that it would be a hybrid which would take far less account of New Zealand's interests than one entered into voluntarily from a position of negotiating strength based on the existence of current contractual arrangements. It is worth recalling that some of the most intractable NAFTA issues—whiteware, leather wallets—could have been resolved through addition to Schedule A but for the opposition of manufacturers at the time.

The Status Quo (II): Marketing Aspects

22 We have attempted to draw a very approximate picture of the long-term policy consequences of New Zealand deciding to reject the concept of a closer

3 Agreement on Tariff and Tariff Preferences, operative from 1 December 1977.

economic relationship. There is however, a further aspect to the status quo option to be considered—the ability of New Zealand manufacturers to continue to enjoy export growth rates in the Australian market implied by the Planning Council's projections and the Manufacturing Federation's own target of exporting, by 1984, 20% of output.

23 This Ministry has no particular competence to assess this issue but in the absence of any other analysis offers the following observations.

24 It is clear from the Manufacturers' Survey (DTI, January 1980) that marginal pricing techniques, buttressed by export incentives, are the basic marketing technique employed by a majority of exporters to the Australian market. Indeed, there is explicit recognition of that fact in the common observation that New Zealand manufacturers need the domestic market to export. This Ministry considers that as a long-term policy to secure compounded rates of growth of New Zealand manufactured exports this is an untenable strategy because of (i) the fiscal constraints implied by permanent export incentives matched to growth in exports, (ii) demographic and economic growth trends in New Zealand—i.e. the domestic market (on which export prices are averaged downwards) is likely to be static. There is also the question of countervailing, particularly if we do not accede to the subsidies/CVD code (and thus gain *benefit* of the injury clause) but this is unlikely to be a problem in the Australian market so long as Australia itself maintains export incentives.

25 Marginal pricing (and the associated policy instrument of export incentives) will always play a role in marketing strategy, getting companies committed to exporting but this seems to provide no basis for long-term sustained growth.

26 New Zealand manufacturers will also face gradually increasing competition from third country sources in the Australian market. Since 1968/69 there has been a slow rise in market penetration in imports of manufactured goods in Australia. Quite contrary to Australian perceptions, this is not due to ASEAN imports but to developed imports and imports from East Asia.

27 Australia is again on the verge of profound currency strength based on continued rapid growth in mineral exports and its growing importance as an exporter of energy and energy-based products (e.g. coking coal and aluminium). In the long-term this can feed its way through the Australian economic system in one, or a combination of two ways: revaluations or tariff cuts. Revaluations will improve the competitiveness of third countries' performance in the Australian market (New Zealand too of course). But tariff cuts would not help New Zealand much (the average tariff applicable to imports from New Zealand is only about 6%) while it would greatly enhance the relative competitiveness of third countries. There is a strong and growing body of opinion in Australia that will lobby for the tariff cut option rather than general revaluations (since they affect the competitiveness of all industries, efficient or inefficient, in the traded sector).

28 It is assumed that if we seek to retain the status quo for the foreseeable future, it will be because Ministers decide New Zealand cannot afford the adjustment costs required to obtain the economic benefits from bilateral trade liberalisation. It is difficult to imagine, therefore, that resource-switching will take place at a pace much higher than has been achieved in the last five years. It is suggested that this will have a significant impact on the possibility of future growth of our manufactured exports to Australia over the period leading up to the expiry of the NAFTA in 1986. In brief, there is a serious prospect of failing to make progress in the Australian market comparable to that achieved in the 1970s because of a growing failure of competitiveness *relative* to domestic Australian manufacturers and third country suppliers. This could be so even if one assumed the most optimistic scenario in a policy sense—i.e. that the Australians were prepared to maintain the current institutional framework in the NAFTA context. It could affect some of the important assumptions underlying the Planning Council's estimates of realisable economic growth.

29 It is acknowledged that this is an especially difficult area for judgement. But the current performance of New Zealand textile and apparel exporters in the Australian market *may* be a portent of our growing marketing difficulties.

Conclusion

30 A decision by New Zealand to opt for the 'status quo' would, in effect, be likely to be negated in due course. The 'status quo' contains features which do not sit well with Australian attitudes as they have evolved over the last three to four years. The 'status quo' is disliked both by those seeking faster economic restructuring than is currently taking place in Australia and also by those with traditional concerns of protecting Australian industry from 'unfair' competition from New Zealand. This prognosis of NAFTA's future (and agreements under its umbrella) is thus *not* critically dependant upon a continuation of outward-looking trade policies.

31 The economic basis to the network of Australia's trading relationships has undergone some marked changes in the last fifteen years—away from Europe and towards Asia. The political responses have, until recently, lagged a little behind. The MTN was, essentially, Australia's last hurrah with Europe. The Australian economic interest in Asia will broaden progressively, largely in response to economic development in the region and the impetus this will give to Australian resource-based development. The 'ASEAN and Japan' focus of the mid 1970s has already been changed to encompass Korea, Taiwan, Hong Kong, and the PRC.

32 It is evident that the Australian Government would like, in effect, to get the A/NZ economic relationship on the right footing—i.e. a basis compatible with Australia's changing external economic circumstances. From New Zealand's point of view, we would be likely to negotiate an arrangement that reflects our concern to a greater extent if we do so on the basis of current contractual

arrangements. For the reasons advanced in this paper, a negative decision by New Zealand would be likely to undermine those arrangements. This would coincide with the decline in the relative importance of New Zealand both as a market overseas and as a market for Australian manufactured goods.

33 New Zealand's export performance in the Australian market will thus be adversely affected by likely policy changes and growing commercial difficulties arising principally from greater third country competition. Successful development of new substantial export lines can only expect to be met by precisely the same negative policy reaction that has occurred on all of New Zealand's 'winners'—whiteware, leather wallets, carpets, cheese, peas and beans, apparel.

34 The 'status quo' option thus seems to offer the prospect of a loosening of economic ties and increasing frictions in the trading relationship. This could be offset by consequential policy adjustments by New Zealand (e.g. substantial import-licensing concessions) by this would be equivalent to New Zealand adopting a de facto hybrid from a position of relative weakness.

35 In this paper we have concentrated our attention on the economic consequences of a decision not to pursue at the present time the options for a closer economic relationship with Australia. In the view of this Ministry, the foreign policy implications of such a decision are also likely to be serious. These implications will be spelt out elsewhere.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 11-42

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84 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 19 February 1980

NO E (80) M 7 PART II. CONFIDENTIAL

Australia/New Zealand Economic Relations

Among the points made in the discussion were:

- that it was now unlikely that economic co-operation between Australia and New Zealand across a broad front could be phased in within the 5 to 7 years it had previously been considered possible. It now appeared as though a pragmatic approach was required whereby each aspect was phased in at such time as appropriate;
- that there was a need for officials to give attention to the question of how the agricultural sectors in the two countries would be involved with and affected by the proposed closer economic relations. It was commented that in a political context there was on the Australian side, pressure for their agricultural sector to stand apart from the exercise, while in New Zealand the

converse was the case. Officials advised the Committee that there had been correspondence between Australian Ministers and Australian farming interests to the effect that the agricultural sectors of the two countries would be drawn into the co-operation exercise. Australian officials at the working party level had also indicated that this would be the case;

- that it was most important for areas such as that immediately above to be resolved, to the point where the Prime Ministers could make a joint statement indicating that progress had been made, before the Prime Ministers' meeting. If such progress could not be made it was considered that the Prime Ministers' meeting should be postponed;
- that another aspect which required consideration was the 'fall back' position which would be adopted if sufficient progress could not be made on the development of economic co-operation across a broad front. It was suggested that in this situation the best approach might be to take specific issues through to fruition rather than to persist with a general approach. In this context it was suggested that co-operation in the financial sector was a possibility although officials could see some problems in this area in relation to Australian-Japan relations.

The Committee:

a noted:

- (i) the stage reached in the present studies and discussions as outlined in the memorandum attached to E (80) 23 and Annex thereto;
- (ii) officials' view that the scope for realising the potential gains in closer economic relationships with Australia lay in an approach of the type outline in paragraph 11 of the memorandum attached to E (80) 23;

b agreed:

- (i) that a Customs Union, based on the lower of the two countries' protective structures, was not likely to be achievable over the next five to seven years without unacceptable costs to the New Zealand economy;

- (ii) that a Full Free Trade Area also had major problems for both countries;

c *directed* officials to continue discussions with Australian officials, with a view to developing and defining the elements that might be considered in a pragmatic approach based on an adjusted free trade area, giving due weight to broad economic policies, for consideration by the Prime Ministers at their meeting in March.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 25

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85 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 29 February 1980

No E (80) 31. SECRET

Australia/New Zealand Economic Relations*Background*

1 On 19 February the Committee considered a report¹ on Australia/New Zealand economic relations. The Committee noted the stage reached in various studies, and directed officials to continue discussions with Australia, with a view to developing and defining the elements that might be considered in a balanced and pragmatic approach to a new relationship based on an adjusted free trade area, giving due weight to New Zealand's broader economic policies (E (80) 23 refers).

2 The three papers attached emerged from these discussions and are:

(a) report of Australia/New Zealand Permanent Heads² summarising the conclusions reached on the main questions;

(b) a draft declaration by the two Prime Ministers³ which, if accepted and refined, could provide a framework for continuing review and development of Australia/New Zealand economic relationships. This draft has been reviewed by Permanent Heads;

(c) a draft communiqué which outlines a possible presentation by the two Prime Ministers of the course outlined. This draft has had only cursory discussions so far.

The Present Position

3 Discussions were held in Canberra on 24–25 February at Permanent Head level and the attached report summarises the position in specific areas. The broad outcome of the talks was that Permanent Heads agreed, after reviewing the reports of the working parties on the implications, that an appropriately structured closer economic relationship would provide economic and social benefits to both countries. An arrangement would obviously have to provide balance and advantages to both sides. A more definitive assessment of the prospects for achieving a balanced agreement can only take place as a detailed structure is developed, but at this stage the outlook appears favourable.

4 The following comments are intended to amplify some of the major areas mentioned in the attached report and indicate some of the flavour of the meeting.

1 See Document 84.

2 Document 66.

3 Document 67. The proposed declaration was later abandoned.

Tariffs

5 It was agreed that further detailed studies were needed to establish additional areas where it would be possible to move quickly to free trade and where there would be problems. Permanent Heads agreed that six years should be the limit for duty phase-out except in problem areas. The problem category could include particularly sensitive industries, and areas where an industry study was currently under way by either Government or advisory bodies. It was agreed that this should be as small as possible. The general approach would be to aim for the smallest possible list of ultimate exceptions to free trade. In difficult areas the joint approach or the phasing elements should be used to ease transition.

6 There could be some difficult negotiations on inclusions in the sensitive list of industry areas. In some cases, e.g. motor vehicles and steel, New Zealand's 'sensitive' areas could be those of most trade interest to Australia and vice versa.

Import Licensing

7 The initial Australian position on import licensing was that it should be abolished for Australia, even if such abolition was phased in over quite a long period. The proposal finally agreed in the report was put forward by Australia after New Zealand rejection of such an approach. The revised proposition obviously aims at establishing 'reasonable' initial levels of access with guaranteed increases in real terms. The ultimate effect would in fact be exemption (licence on demand) for Australia in areas of interest to it, but this would take many years. The time that this would take would however depend on the size of the initial allocation in relation to the New Zealand market size.

8 Further detailed work is necessary in this area and it is likely that arrangements on access for Australia will be the major element for negotiation in any final package. Access for Australia leading ultimately to exemption is a major negotiating concession and New Zealand will have to use this as a key element in obtaining a final balanced package.

Agriculture

9 Australian Permanent Heads indicated that they saw all agricultural products being included. At the same time it was clear that dairying was an area of great sensitivity and Australia saw a need to ensure that New Zealand did not have 'unfair' advantages. The further studies mentioned in the report are aimed at identifying whether there are real or imagined problems, and examining possible ways of harmonising or equalising the impact. The timing of those studies and the time limit on exchanging exemption lists should ensure that we have a clearer idea of the Australian position on agriculture in three months.

Intermediate Goods

10 Australia's concern about its intermediate goods industry remains strong. As indicated in earlier reports this is the central reason for Australia's preference for a customs union and Australia kept referring to this during the discussions as

though it were some final objective. New Zealand officials indicated that New Zealand did not want to accept the disadvantages of having to use higher priced Australian inputs, either now or in the future. The matter was left on the basis of Australia studying the problem in greater depth and trying to establish the real significance of the problem. This is an advance, from the New Zealand point of view, but it will be necessary to watch the possible impact of any moves Australia may later seek, on New Zealand exports and the balance of the overall arrangement.

Export Incentives

11 It was accepted that both sides have incentive schemes and commitments to maintain these for a time. Australia would prefer some form of harmonisation; possibly a new scheme to be applied by both countries to trans-Tasman trade. The New Zealand side made it clear that Government had announced a scheme operating to a specified date and that any change before that date would present us with great difficulty. Further work is to be done in this area.

Other Elements

12 Other areas which would be relevant in the context of negotiating a balanced arrangement are tariff preferences, Government purchasing and financial issues. It was agreed that the Agreement on Tariffs and Tariff Preferences would be extended for one year beyond its 1980 expiry date. Significant in a general economic sense are tourism and energy. These, and other more administrative aspects, are mentioned in the report. Most of them need further detailed investigation and exploration.

Conclusion

13 In general the outcome of the discussions was favourable to New Zealand. Australian officials appeared to be keen to find a way forward taking account of New Zealand's position. They were also very well aware of the greater implications for New Zealand of a closer economic relationship. Overall, as evidenced by the rapid change in their position on import licensing, the Australian side appeared to be conciliatory and willing to 'downplay' some of the areas of concern they had identified earlier, e.g. the 'fair go' and intermediate goods. The final position however obviously depends on further detailed work and negotiation in these areas.

14 At this stage it is necessary to assess whether there is sufficient scope for an arrangement beneficial to New Zealand, and whether Prime Ministers can endorse an approach to a new relationship at the meeting proposed for 21 March 1980. In the view of the Permanent Heads delegation there are potential benefits to New Zealand and more detailed investigation and negotiation should proceed in order to establish a total package with balance and advantage to both sides.

Recommendation

15 It is recommended that the Committee:

- (a) note the attached report of Australia/New Zealand Permanent Heads on their meeting in Canberra on 25–26 February 1980;
- (b) agree in principle that a general declaration would provide an appropriate framework in which to proceed with the more detailed work and negotiations mentioned in this report;
- (c) note the draft texts of the declaration and communiqué attached to this report;
- (d) agree that the meeting of Australian and New Zealand Prime Ministers scheduled to take place on 21 March 1980 should proceed as planned;
- (e) agree that officials proceed with preparations for this meeting.

[*matter omitted*]⁴

[ABHS 950/Boxes1221–1226, 40/4/1 Part 25

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86 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 4 March 1980

NO E (80) M 8 PART V. SECRET

Australia/New Zealand Economic Relations

Among the points made in the discussion¹ were:

- that the Prime Ministers at their meeting would not be seeking to make specific decisions on the implementation of Australia/New Zealand economic cooperation but rather would be directing their attention to establishing the basis on which progress could be made and to making a joint statement that there was common ground for such progress;
- that the timing of the Australian General Election for later this year was a cause for some concern in that it seemed possible that the Australian Prime Minister would seek to defer any decision on how the agricultural sectors would be incorporated into the cooperation exercise until after their Election. This would mean that New Zealand would be faced with making decisions in its election year and it was considered that this should be avoided if possible;

⁴ Three annexes omitted.

¹ The Committee was discussing the paper published here as document 85.

- that Australian officials now had a better understanding of the nature and extent of Government assistance to the New Zealand farming industry. However, it appeared as though Australian farmers themselves still considered that New Zealand farmers would have an unfair advantage, should Trans-Tasman agricultural trade be liberalised. The Committee was informed that the President of New Zealand Federated Farmers had recently visited Australia to discuss this issue and was about to do so again. It was then suggested that it might be useful if Australian farming representatives were invited to visit New Zealand to view our industry first-hand;
- that consultations with New Zealand trade interests, e.g. the Manufacturing Federation, should continue but that this should be restricted to the official representatives of the various organisations and should be on a confidential basis.

The Committee:

- a *noted* the report,² attached to E (80) 31,³ of Australia/New Zealand Permanent Heads on their meeting in Canberra on 25–26 February 1980;
- b *agreed in principle* that a general declaration would provide an appropriate framework in which to proceed with the more detailed work and negotiations mentioned in the memorandum attached to E (80) 31;
- c *noted* the draft texts of the declaration and communiqué attached to E (80) 31;
- d *agreed* that the meeting of Australian and New Zealand Prime Ministers scheduled to take place on 21 March 1980 should proceed as planned;
- e *agreed* that officials should proceed with preparations for the Prime Ministers' meeting.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 25

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87 FILE NOTE BY BEATH

Wellington, 6 March 1980

AUS/NZ Economic Relations Consultations with Industry

1 At the CEC meeting on Tuesday the Prime Minister agreed with a suggestion from DTI that there should be some limited consultation with industry leaders before his meeting with Mr Fraser on 20–21 March. The purpose would be to brief them on the outcome of the Canberra Permanent Heads meeting and

2 Document 66.

3 Document 85.

indicate the probable lines along which the two Prime Ministers would be concentrating their discussions and further studies on the new trading relationship.

2 The first of these briefing sessions was held yesterday evening in Mr Clark's office. The briefing was for Mr Scollay and Mr Futter of the ANZ Businessman's Council. Other officials present were Woodfield and Dolan (DTI) and Scott (Treasury, Chairman of the NZ Working Party).

3 Clark began by explaining that this was the first in a limited series of confidential briefings for industry leaders. The two other groups who were to be briefed were the Manufacturers Federation (to be confined to Turnovsky, Stevens and Douglas) and the Federated Farmers (Wright, McLagan, Storey).

4 After traversing the background leading up to the Canberra meeting Clark went through the Joint Report of Permanent Heads¹ on a paragraph by paragraph basis, reading each section carefully before outlining in some detail the tactical background and approach taken by both sides which had resulted in the various nuances of language in the report.

5 Scollay and Futter showed most interest in the draft provisions for the phasing out of tariffs on trans Tasman trade and the removal of quantitative restrictions. They also questioned Clark closely on the future of export incentives and the proposed Tasman declaration.

6 The outcome of the briefing appeared to be very positive. Scollay noted that the approach devised by Permanent Heads appeared to be 'very close' to the working philosophy of the New Zealand arm of the Australian New Zealand Businessmen's Council. After some discussion on how detailed an account of the briefing could be passed on to the New Zealand and Australian membership of the Council, it was agreed by Scollay and Futter that they would do no more than tell their membership that on the basis of the confidential briefing they had received it appeared that the approach being taken by Government was consistent with the philosophy and work going on in the Council.

7 Scollay was particularly interested in the concept of the two Prime Ministers issuing a declaration to mark the start of a new relationship. He had been toying with this idea himself and intended reviewing past treaties and agreements between Australia and New Zealand to see what language and ideas might appropriately be carried forward (we are supplying Scollay today with a complete list taken from the treaty register of all agreements, treaties and exchanges of letters between the two governments, together with copies of the more relevant papers, including the Gorton/Holyoake declaration²—if we can

1 Document 66.

2 On 5 June 1979, during an official visit to Australia by New Zealand Prime Minister Keith Holyoake, a joint statement was issued by the two Prime Ministers on 'The Tasman Partnership'.

drag it back from the oblivion in which it seems to have come to rest—and the Nareen declaration³).

8 I thought it significant that in his presentation Mr Clark stressed that the joint report represented the unanimous views of Australian and New Zealand Permanent Heads who had been engaged in the exercise and that the broad thrust of it had now been endorsed by the Cabinet Economic Committee. He hoped that Scollay and Futter would take this into account in framing any proposals or public statements they might have in mind and try to avoid doing or saying anything that would 'box the Prime Minister in'. Clark passed on to them a comment made to him earlier in the day by Alan Wright. Wright had spoken to the Prime Minister and was surprised by the level of his enthusiasm. According to Wright, the Prime Minister, despite his public stance of coolness, was 'gung ho on getting progress on the AUS/NZ exercise'. Clark asked Scollay and Futter to be particularly careful not to 'steal the Prime Minister's thunder' on the declaration. He told them that a draft had been prepared by the New Zealand side and that he (Clark) had been surprised and pleased that it had been possible to get the Australians to accept the draft which had some 'very positive and useful language' that would act as a framework for all aspects of the economic relationship.

9 Two or three other remarks were of interest as a guide to the overall approach DTI are now taking to the exercise. Clark indicated that he was concerned to keep the list of sensitive industries nominated by the New Zealand side (for deferred treatment so far as tariffs are concerned) as small as possible—he said that he believes the final NZ list will in fact be less extensive than the Australian list, and in any event he sees the sensitive category as not being permanently excluded from the programme of tariff reduction but simply treated on a deferred basis or handled over a longer phase in period. On safeguards, Clark expressed the view that these should be kept to an absolute minimum—his personal belief is that these should be confined to anti-dumping measures using actual harm (rather than anticipated harm) as the trigger mechanism. I understand that Clark has indicated separately to officers in his department that because of its importance in influencing the outcome he plans to take 'personal control' of the list drawing up exercise.

10 The next briefing is for the Manufacturers' Federation and will be held on Wednesday, 12 March.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 26

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**88 EXTRACT FROM TELEGRAM FROM MINISTRY OF
FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION
IN CANBERRA**

Wellington, 12 March 1980

No 789. IMMEDIATE CONFIDENTIAL

A/NZ Economic Relations

[*matter omitted*]¹

2 . Following is to keep you in the picture rather than to enable you to engage in any line by line exchanges with Australians. That can wait till the advance officials party is here next week. However, you may take from this preliminary outline of our views at official level that the most recent Australian thinking does pose problems for us.

3 We welcome the suggestion that Australian officials should come to Wellington on the eve of the Prime Ministers' meeting to work on the communiqué and discuss what should be done about the Permanent Heads' joint report. The thought that the Prime Ministers should release a public version of the report is a new one to us, and has not been put to Ministers. We are sensitive to the need to keep people informed about what is going on between the two Governments at present, but have real doubts that a sanitized version of the report would have enough meat left in it for it to be credible? Australian side will be well aware of likely effect here of public statements on Government's intentions with regard to import licensing and therefore sensitive of comments on this issue contained in the report. On the other hand, in his discussion with Clark, Flood referred to a public paper 'on the issues to be further studied', and we might not face too many problems with this approach. (Scully's line on this point seems to be closer to that adopted by Flood, than to the one reported in your 671).

4 We will also give further thought to possibility of incorporating wording of declaration in the communiqué. Thinking of NZ ministers on question of declaration was that it would provide appropriate framework within which the various issues traversed in the communiqué would be set. The approach adopted to this issue will in some measure be influenced by decision on whether or not a 'public version' of the joint report is released along with the communiqué. Both questions will have to be resolved next week by officials.

[*matter omitted*]

[ABHS 950/Boxes1221-1226, 40/4/1 Part 25

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1 Matter concerning the Australian Cabinet omitted in accordance with advice from the Australian Department of the Prime Minister and Cabinet.

**89 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

12 March 1980

NO 706. CONFIDENTIAL NEW ZEALAND EYES ONLY

**Australia/New Zealand Economic Relations:
Officials' Meetings**

The significance of the Australian decision to upgrade the status of the group of officials which will be travelling to Wellington next week in advance of Mr Fraser's arrival cannot, in our view, be over-estimated. It reflects the strength of the commitment on the part of both Mr Fraser and Mr Anthony to the success of these negotiations and augurs well for the talks themselves. Since Lusaka it has been Scully who has maintained the momentum of the negotiations on the Australian side, kept alive the interest of other Permanent Heads, and kept both Mr Anthony and Mr Fraser up with the play. As it happens, Mr Anthony leaves Australia on the weekend on an important mission to the Middle East and Scully had been scheduled to accompany him. It is an interesting reflection on the priority the Government attaches to this exercise that Mr Fraser has now directed Scully to go to New Zealand, and that Mr Anthony has not insisted that Scully remain with him.

2 The other key figure is, of course, Neil Currie. Unlike Scully, however, Currie's role has not been quite so consistently positive, and the re-emergence of the intermediate goods industries and import licensing as key areas for negotiation reflects in large measure the traditional concerns of the department heads.

3 We hope to talk to both Scully and Currie later this week and will report further.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 25

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**90 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 13 March 1980

No 739. RESTRICTED

**Australia/New Zealand Economic Relations:
The Australian Dairy Industry**

It may help if we put in a political perspective some of our recent reporting on perceptions here of trends in the relative competitiveness of the two countries' dairy industries, NAFTA cheese issues, and the recent stream of complaints from dairy industry spokesmen about New Zealand's export policies. Set out below are the principal political factors we see as likely to guide decisions here on the extent to which the interests of dairy farmers will be registered in the present negotiations for closer economic relations.

2 There is no doubt that the massive structural change which has taken place in the Australian dairy industry over the last few years has resulted in a much leaner, more economically self-reliant, and efficient industry here than a decade before. Nevertheless statements by the present leadership of the dairy industry do not always seem to reflect the extent of these changes. There are two reasons for this: First, despite the changes which have taken place, the industry has still not stabilised and seems to be on the threshold of another wave of change springing from the introduction of new technology (UHT Milk) and new marketing techniques to promote consumption of flavoured milk. These changes are likely to intensify the competition within Australia, and give an edge to the efficient producer[. E]fforts by dairy industry spokesmen over the last few months to seek greater protection from imports and higher prices in the domestic market represent new signs of a rear guard action by inefficient elements in the industry. Secondly, since the retirement of the ADC chairman, Tony Webster, the effective political leadership of the dairy industry has passed to the ADFP and the UDV, both of which organisations have a long tradition of unabashed protectionism.

3 Given this background, it is no surprise some industry spokesmen should seek to create an impression that New Zealand represents a 'threat' to their livelihood. You will be aware of statements last year by people like Webster to the effect that the 'imminent' closure of the European market for New Zealand butter was likely to put severe pressure on the Australian industry. Not only have such categorical assertions been at variance with, but they have actively undermined, Australia's own interest in their support for New Zealand's case for continuing access in Europe. The way in which the dairy industry took up the issue of New Zealand's 'preferred' deal with Japan on milk powder was another case in point. Nevertheless they have served the purpose of helping to unify the industry here, and to call up in particular the support of those efficient producers whose interests would not otherwise be served by greater assistance for the industry. If and when the question of post-1980 access is resolved, we can expect

the debate here to shift to highlighting in general terms the extent to which New Zealand's greater productivity, geographical proximity and preferential trading access represents a continuing threat to the industry here. We are already hearing rumours about fears that New Zealand will begin shipping UHT milk to Australia once a regime for marketing UHT milk is established. However irrational and unrealistic these fears may be, and however we may seek to allay them at the official and political levels, they remain powerful factors in fuelling the pressure within the industry to ensure that the New Zealand 'hole' in the walls of the protective 'dyke' is plugged. As you know, recent work by the BAE has given a degree of respectability to these views and we can expect them to gather strength as negotiations for closer economic relations between the two countries proceed.

4 In terms of our own negotiating strategy, we consider that we should bear in mind that our access under the NAFTA in dairy products could not be improved on. Securing a greater volume of exports of dairy products to Australia however, is dependent on the negotiation of a new arrangement between the ADC and the NZDB which would supersede the present 'gentlemen's agreement' not to ship butter across the Tasman. We have been told by ADC officials that all it would need would be a drought in Victoria (which is responsible for about 60 percent of Australia's total butter production) for Australia to require imports of butter from New Zealand. However, the Australian market for butter continues to decline, partly because of competition from margarine, and partly because of poor packaging and marketing techniques. However, the BAE tell us that sooner or later the decline in butter consumption will level off as the butter market finds its own level based on consumer preference and special (e.g. cooking) qualities.

5 Over the longer-term, while it may be realistic for us to expect no more than residual supplier status for relatively small quantities of butter, opportunities for New Zealand may increase if domestic pricing policies favour the diversion of wholemilk into other more profitable products—e.g. liquid milk for domestic consumption, and cheese. These opportunities would be further enhanced if we were prepared to produce and export the exotic cheeses not subject to quantitative restrictions.

6 Other opportunities for New Zealand seem likely to be created in other third markets which Australia may be forced to vacate. (We saw only this week, for example, the suggestion that despite buoyant demand in Japan for Australian cheese, because the Australian dairy marketing system yields a higher return for dairy products not pooled as cheese exports are, there was no economic point in increasing sendings to Japan.) In another context, the dairy board and the ADC are also working on establishing an 'Agent' relationship in the US and the UK. Such pooling of resources in third markets makes sound economic sense for both industries. However, the extent to which we are able to take advantage of such opportunities will depend in large measure on the creation of a climate of mutual trust between the two industries.

7 How will the coalition assess these factors? On the one hand Mr Anthony has made it quite clear that he is confident that he can 'carry' the dairy industry into a new economic relationship with New Zealand when the time comes. This commitment clearly reflects a measure of confidence that as the restructuring process continues, the industry will increasingly be capable of matching any competition New Zealand is able to offer. On the other hand it is equally obvious that the dairy industry has very skilfully mobilised support for its interests, that on the issue of exports of cheese from New Zealand a massive campaign has been undertaken and that ministers and members of Parliament generally are keenly aware of the New Zealand 'dimension' to the dairy industry's problems. We should not assume that just because Mr Anthony has made such commitments, and because he is the leader of the Country Party, other elements in the coalition will be less responsive to the industry's importunations. Many key figures in the Liberal Party, including Mr Fraser himself, have been subjected to intense pressure. We believe that we must assume that Mr Anthony's commitments to us on agriculture are not completely open-ended: They are conditional on satisfactory arrangements being worked out which do not overtly prejudice the interests of the Australian dairy as it is presently constituted. For that reason it is likely that the Australians could find it difficult to be forthcoming to us in providing the same degree of access under new arrangements as we have enjoyed under the NAFTA if we are unable to come to arrangements which Australian ministers regard as satisfactory.

8 Clearly the sensitivities generated here, particularly on the cheese issue, are related to the election at the end of the year. However, the scope for taking up the sort of opportunities that seem likely to be created for us in the longer term should grow once the Government has the election behind it.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 25

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91 MULDOON'S BRIEF FOR MEETING WITH FRASER

Wellington, 14 March 1980

SECRET NEW ZEALAND EYES ONLY

**Meeting of Australian and New Zealand Prime Ministers
Wellington 21 March 1980
Overview Paper**

1 The best result that could emerge from your meeting with Mr Fraser would be to establish a clear direction for the future of the A/NZ economic relationship. The draft Tasman Declaration¹ and the Communiqué (or some combination of the two), together with a public version of the Joint Report of Permanent Heads² will be the main instruments for achieving this result. These documents would establish the climate for subsequent inter-Governmental negotiations. They would convey to Australian and New Zealand interest groups and the public at large an idea of the future relationship. They would also be observed closely by neighbouring Governments.

2 Though this meeting is focused very largely on the trading relationship, the development of closer economic ties should have a favourable impact on the wider relationship too—and should be seen in the context. Given the limited time available it is anticipated there will be little opportunity to discuss other political issues of common concern.

3 Earlier CEC and other briefing papers have set out the reasons why officials see long-term economic advantages for both countries in seeking a substantial broadening of the economic relationship, with particular reference at this stage to further trade liberalisation. For New Zealand, the potential advantages lie as much in the broad impact this may have on our economy as a whole as in the favourable consequences such a step will have in improving the trading and political relationship with Australia.

4 This meeting, however, has a clear negotiating function from New Zealand's perspective. New Zealand's efforts will now be directed to getting the best deal possible for New Zealand. The Australian Prime Minister will no doubt be seeking the same for Australia. But the impact of the sort of policies recommended—and hence the economic and political adjustments—is acknowledged as being far greater for New Zealand and Australia.

5 Because of New Zealand's higher existing protective base, it would be difficult to achieve the objective of substantially free trade across the Tasman if we sought a package with 'balance' in traditional negotiating terms (e.g. the trade value of concessions on access).

1 Document 67.

2 Document 66.

6 These tactical considerations should, officials consider, be central to the approach to be adopted at this meeting. We wish to give the Australians a clear sign that we are indeed prepared to undertake a major revision of the economic relationship on more competitive grounds. But we also want to establish the climate in which New Zealand can maximise gains in the negotiations to follow. To sustain the political and economic adjustments required, these steps should result in immediate and meaningful trading opportunities in the Australian market for products where New Zealand has proven marketing ability.

7 The balance for New Zealand in the negotiations to follow will thus come not only from improved access (through, for example, the phasing out of Australian tariff quotas and 'gentlemen's agreements'); it will also emerge from New Zealand negotiating a fair measure of flexibility on some of the important elements envisaged in the 'fair go' principle.

8 The indications are that the Australian Cabinet, conscious of the General Election held traditionally in late 1980, would like a substantial delay in implementing any new economic relationship. New Zealand's requirements, however, suggest the adoption of an early time-frame. Admittedly, the Australians have some difficult problems in undertaking a major expansion of the economic relationship. But even the dairy issue has been categorised as essentially a 'regional' problem (Victoria). It is unlikely that closer economic ties between Australia and New Zealand will become a national issue in Australia—simply because of the disparities in size between the two countries. Further, the earlier the business community knows what is envisaged, the sooner their investment and marketing decisions will take account of changes in the economic relationship.

Talking Points

9 At the outset, you might like to suggest to Mr Fraser that you would prefer to confine discussions to bilateral economic issues and that it would be useful to concentrate on the central issue of bilateral trade liberalisation. The other non-trade economic issues (transport, financial issues, etc) could be picked up later against the background of what progress can be made on the trade issue, (officials see the Tasman Declaration used to provide a setting for such discussions now and in the future).

10 As far as the question of trade liberalisation is concerned, the following talking points may serve to illustrate the tactical approach outlined in paragraphs 3–7 above:

- note that, by agreement, the approach of both sides to the question of trade liberalisation has been fairly academic and objective,
- this has resulted in a proposal which would appear to embrace far more significant trade liberalisation than has ever been undertaken in the NAFTA context or even entertained by New Zealand in any other context (e.g. MTN),

- New Zealand accepts the long-term economic logic behind these proposals which have far-reaching consequences for New Zealand,
- New Zealand is conscious, however, that in the real world, trade liberalisation is not an academic issue, but an intensely political one,
- it is not just a question of 'selling' the arrangement to the New Zealand public and special interest groups over the next 12 months or so, it is a question of sustaining the trade liberalisation over time and withstanding the pressures that will be put on the New Zealand Government as the arrangement 'bites',
- this is not really a 'shared problem'; work by officials indicates that while the long-term economic benefits appear to be greater for New Zealand, the balance of adjustment costs will be borne by New Zealand,
- this leads to the following observations:
 - (a) that at the end of the day, after all the talk of 'fair go', intermediate goods problems, etc, there must be immediate and meaningful trading opportunities opened up for New Zealand in areas where New Zealand has a proven marketing ability. Specifically, we are seeking the abolition of the various 'gentlemen's agreements' that impede New Zealand's agricultural exports and the dismantling of Australian tariff quotas as they apply to New Zealand. Australia will secure such trading gains through the import licensing changes envisaged in the Permanent Heads' Report. The New Zealand Government would not be able to sell a package where it offered unprecedented import licensing concessions in return solely for generalised long-term economic benefits. (The Australians could compile a very short exceptions list and yet still cover practically all of New Zealand's winners in the Australian market—cheese, whiteware, carpets, peas and beans, for example.)
 - (b) the need for these trading opportunities becomes even more apparent when the balance of payments considerations are taken into account. This arrangement will, no doubt, assist New Zealand, over the long term, to secure an economy better able to adjust to balance of payments problems. But the short term effect of substantial movement on import licensing for Australia may not be favourable. The nature and timing of Australian concessions must take this into account.
 - (c) Australia should appreciate New Zealand's need to retain flexibility on many of the elements identified in the application of the 'fair go' principle—export incentives, sourcing on international markets for example.
 - (d) given that the nature of any new trading relationship is likely to become a major national issue in NZ it would be helpful if these negotiations could be completed as soon as possible

92 MEMORANDUM FROM MINISTRY OF FOREIGN AFFAIRS TO CHAIRMAN, OFFICIALS' ECONOMIC COMMITTEE

Wellington, 17 March 1980

Aus/NZ Economic Relations Draft Declaration And Communiqué

In the brief for the Prime Minister the declaration and communiqué, and the public version of the Joint Permanent Heads Report, are seen as the main instruments, following the Muldoon/Fraser meeting, for establishing a clear direction to the A/NZ economic relationship. It is important that at this stage, while public opinion appears favourably disposed to a positive step forward, that we get the public signals right. The Australian draft communiqué does not seem to go far enough either in content, tone or language to meet this prescription. Significantly, it appears to have been written from a position several steps *behind* the point reached between Permanent Heads in Canberra.¹ Although the reports we have received suggest that the Australian Cabinet had no difficulty with the spirit underlining the draft declaration² prepared in Canberra, the Australian redraft of the communiqué, incorporating a much watered down version of the declaration, does not capture much of the spirit or, indeed, all of the substance. For example:

- (i) the joint Canberra draft recognised the existence of a special economic relationship. In the latest Australian draft, all references to a special economic relationship are edited out (the closest the Australians get to this thought is the acknowledgement of the 'special nature of the Tasman relationship');
- (ii) in the Canberra draft, the Prime Ministers declare that a closer economic relationship *will* lead to stronger economic growth prospects for both countries. The latest draft is more conditional. '... Prime Ministers were of the opinion that ... a closer trading relationship could offer the prospect of economic benefits for both countries'. This is a much weaker formulation;
- (iii) the Canberra draft states, without qualification, that 'the freest possible movement of people, goods and capital between Australia and New Zealand will contribute to these broad goals' (i.e. of stronger economic growth, the most efficient use of their natural resources and productive capacities, and a fuller contribution to world trade and development). The latest draft refers only to the freest possible movement of their peoples (subject to their respective laws) but not to goods or capital. This is an important omission;

1 At their meeting on 25-26 February, see Document 66.

2 Document 67.

(iv) there is no reference in the Australian draft to the agreed goal of progressive liberalisation of trade, or even freer trade. There is no reference to the inclusion of both manufactured and agricultural products;

(v) the reference to the agreement by Prime Ministers to 'keep under review all aspects of the relationship' has been dropped.

2 It is suggested that you may wish to circulate to the Australian side as a basis for further discussion the latest version of the New Zealand draft communiqué which incorporates Mr Templeton's redraft of the Tasman declaration. Copies of the New Zealand version will be available for this purpose. Once there has been sufficient discussion on the two drafts it should be possible for a small joint drafting group to be set up to work out a composite draft that could reflect more closely the positions of the two sides. An opportunity for discussion would be helpful for us in determining whether the latest Australian draft reflects fairly the position of Australian officials or just the views of one department.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 26

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Joint Document

93 PRIME MINISTERS' COMMUNIQUÉ

Wellington, 21 March 1980

Prime Minister's Visit: Communiqué¹

The following Communiqué was issued by Prime Ministers Fraser and Muldoon at a joint press conference on 21 March.

Begins:—

At the invitation of the Prime Minister of New Zealand, the Right Hon. R. D. Muldoon, the Prime Minister of Australia, the Right Hon. Malcolm Fraser, visited Wellington on 20–21 March for consultations on the prospects for establishing a closer economic relationship between the two countries.

The two Prime Ministers began their talks with a review of the extent of existing co-operation across the full range of the relationship.

It was clear from this review that Australia and New Zealand had developed a close working relationship based on a common language, a shared tradition of democratic government, and free interchange of their peoples. They already had the habit of co-operation. In addition, they were each other's largest markets for manufactured goods as well as increasingly important markets for a wide range of other products, including agricultural and horticultural produce, and close links existed between the financial, commercial and service sectors. These factors were all evidence of the existence of a special economic relationship.

In the light of their review the Prime Ministers believed it was timely for Australia and New Zealand to take the special relationship between them a step further. The Prime Ministers agreed that an appropriately structured closer economic relationship would bring benefits to both countries and improve the living standards of their peoples. They believed that this could be achieved in a manner consistent with their obligations to the developing countries of the region, enhancing their prosperity as well as that of Australia and New Zealand.

They noted that while NAFTA has promoted significant growth in bilateral trade since the mid-1960s, the free trade agreement in its present form did not seem to be providing sufficient impetus to the kind of co-operation which would best serve the interests of the two countries in the changing international economic environment.

1 Conveyed to Canberra in cablegram O.WL5043, dated 21 March 1980.

The Prime Ministers therefore agreed on a framework for further detailed exploration and examination of possible arrangements for a closer economic relationship. An outline of the basic approach and scope of these studies is contained in the accompanying Annex.

These studies would be set in train immediately and would involve close consultations in Australia and New Zealand with interested parties including Australian State Governments. Until these consultations had been taken to a further stage, a firm timetable for taking the necessary decisions could not be set. In the meantime, the Prime Ministers announced that the existing agreement on tariff and tariff preferences between Australia and New Zealand, which was due to be reviewed on 30 November 1980, shall continue unchanged for a further period of at least one year.

The Prime Ministers expressed their commitment to an outward-looking approach, based on an efficient allocation of resources. They agreed that any new trade and economic arrangements that were to be considered would need to be consistent with the economic development policies of the two countries. The Prime Ministers emphasised that the success of any closer relationship would depend on the foundation laid by sound economic policies in both countries.

The Prime Ministers noted that while the expansion of trade was central to the further development of the bilateral relationship, the objective of closer economic co-operation would also be served by strengthening important links which already existed across a broad spectrum. Co-operation and consultation now taking place in fields such as tourism, energy, marketing, scientific research, technological development, labour, transport, finance and investment along with free movement of their peoples between the two countries were clear evidence of the special nature of the Tasman relationship. The Prime Ministers agreed that the decisions taken in all these fields must be framed to ensure that they assisted in developing the special economic relationship.

In support of this and as testimony to the importance which they attached to the further development and diversification of the economic relationship, the Prime Ministers endorsed the following principles:

- (a) The freest possible movement of goods between the two countries;
- (b) An outward-looking approach to trade;
- (c) The most favourable treatment possible for each other's citizens;
- (d) The freest possible movement of their peoples between the two countries, subject at any time, to their respective laws and policies;
- (e) The fullest consideration for each other's interests in all aspects of the economic relationship; in particular, prior consultation on international trade and economic discussions;
- (f) Frequent discussion and consultation on matters of common concern.

The Prime Ministers agreed that a sound foundation already existed for the development and expansion of bilateral economic relations. There was strong support on both sides of the Tasman for building on this foundation and making further progress.

Much good work had already been done in the development of closer co-operation by national bodies representing industry and agriculture in each country, and by organisations such as the Australia – New Zealand Foundations and Businessmen's Councils. This, combined with the increasing number of exchanges between scientists and academics as well as various cultural and sporting contacts between the two countries served to promote the concept of a broader and stronger trans-Tasman relationship.

In conclusion, the two Prime Ministers reiterated their expectation that closer economic co-operation conducted in conformity with the principles agreed between them would result in economic and social benefits to both countries, and a strengthened ability, on the part of Australia and New Zealand working in partnership, to contribute to the development of the region. They were especially concerned to ensure that a closer relationship between Australia and New Zealand should provide a stronger base for the expansion of their economic and trading links with other countries, particularly those of the Pacific and South East Asia.

ANNEX: STATEMENT BY PRIME MINISTERS OF AUSTRALIA AND
NEW ZEALAND ON FURTHER STUDY AND FUTURE CONSULTATIONS
(UNDERLINE ALL)

The Prime Ministers agreed upon a framework for further detailed exploration and examination of possible arrangements for a closer economic relationship. An outline of the basic approach and scope of these studies is set out below.

The central trade objective would be a gradual and progressive liberalisation of trade across the Tasman on all goods produced in either country on a basis that would bring benefits to both countries. However, no commitment to any specific proposal had been entered into at this stage, nor was it possible to determine if a satisfactory mutual balance of advantage would be attained until all the elements of a package had been defined and agreed.

In respect of tariffs applying to trans-Tasman trade, an initial examination would be based on a grouping of all products into three categories:

- (a) Those which would move immediately to duty free treatment, for example, those with tariffs which were at 10 percent (or equivalent) or less;
- (b) Those for which duties would phase out over five years in equal annual steps after a one year grace period;
- (c) Those on which a decision would be deferred because of special reasons. These could include but would not necessarily be limited to cases where an official industry enquiry was planned or in progress.

The objective would be to include all industrial and agricultural products in these categories while keeping the deferred list as short as possible. This work would result in the establishment of three lists common to both countries.

In respect of import restrictions, the possible techniques for achieving the objective of a gradual and progressive elimination of import licensing and tariff quotas between Australia and New Zealand, in reasonable time, would be studied.

Initially the study would apply to the two categories of goods committed to eventual duty free treatment and would be based on the following approach:

- (a) Where trade was already flowing, an annual increase in access of 10 percent in real terms;
- (b) Where no trade existed a base to be established and the above formula applied;
- (c) The resulting figures from (a) and (b) above to be of a sufficient size to give commercial viability.

A principle to be taken into account in the progressive liberalisation of import restrictions was that it should not foster the expansion of inefficient industries in either country.

A study would be made of agricultural support/stabilisation measures to identify whether there were aspects of these measures which might have undue impact on trading opportunities between the two countries. An assessment would then be made to determine the extent of any significant impact and to examine the scope and need for neutralising the impact on trans-Tasman trade in these cases.

Australia had a much broader industrial base and produced a wider range of industry inputs than was the case in New Zealand and assistance in Australia was provided across a broader range of industries producing such inputs. The difference in treatment of these intermediate goods industries in the two countries was recognised as requiring special study to quantify the problems and canvass possible solutions.

Both countries had export incentive schemes, although they varied in nature, extent and duration of commitment. It was agreed that an assessment should be made of their applicability to trans-Tasman trade within any future closer economic relationship, with the purpose of a review when this was practicable.

In any future closer relationship, industry rationalisation would be encouraged. Where industries which existed in both countries developed different product specialisation, consultations would take place with the objective of ensuring reasonable protection against third country suppliers of these specialised products in the interest of the economic development of both countries. Where practicable this would be encouraged by the adoption of a common external tariff and appropriate by-law or tariff concessions.

It was agreed that there were other and significant areas of possible co-operation which would need to be examined in the context of a closer economic relationship: customs valuation, customs by-laws or concessions and rules of origin, standards, continued consultation between industries assistance advisory bodies, government purchasing procedures, joint marketing activities in third countries and the development of tourism.

Transport, which was of fundamental importance to the development of trans-Tasman trade, would be kept under special review.

Ends.

[NAA: A1838, 370/1/19/18, xvi]

Joint Report to Ministers

Following the Prime Ministers' meeting, officials carried out the detailed studies identified in the communiqué. On 7–10 October 1980 they assembled for a joint meeting in Wellington to start work on a report. In due course this report was submitted to the Joint Permanent Heads who met in Wellington for the third time from 10–11 December 1980. The Permanent Heads in turn produced a report entitled Joint Report of Permanent Heads to Prime Ministers (Document 139) which included the text of the Draft Heads of Agreement.

Australian Documents

94 CABLEGRAM FROM DEPARTMENT OF FOREIGN AFFAIRS TO POSTS

Canberra, 25 March 1980

O.CH881297 CONFIDENTIAL

Australia – New Zealand Economic Relations

Separate (in most cases BB¹) messages contain the texts of:

(A) The communiqué and annex² released by the Australian and New Zealand Prime Ministers after their meeting in Wellington on 20–21 March. (The fourth and the last paragraph of the communiqué will be of particular interest to third countries as will be references to an outward looking approach in paras 8 and 10.

(B) A paper entitled 'Points to Draw on in Discussions with Other Governments' agreed between Australian and New Zealand officials;³

(C) The text of a statement made by the Prime Minister in the House of Representatives on 25 March;

(D) Wellington's O.WL5050 reporting the text of a New Zealand all posts cable of 21 March.⁴

2. You should draw on these messages in briefing Governments to which you are accredited or in responding to press enquiries. We would be grateful if any critical host Government reaction or press comment could be reported to Canberra and repeated or copied to Wellington for information.

3. We have agreed with the New Zealanders that it would be appropriate for Australian and New Zealand representatives accredited to Forum countries to jointly brief their host Governments. In all other cases it is considered that unless posts have strong views to the contrary separate briefings would be appropriate. In briefing host Governments you should stress

(a) that no commitment to any specific proposal has been entered into at this stage nor has any timetable for further decisions been agreed, and

1 i.e. 'by bag'.

2 Document 93.

3 Document 95.

4 New Zealand sent a similar telegram to its posts.

(b) that essentially what emerged from the meeting on 20–21 March was an agreement to conduct further and more detailed studies in accordance with certain principles and guidelines.

4. In the event that any host Government should raise the question of most favoured nation treatment on the basis of principles (c) and (d) of the communiqué such an approach should be referred to Canberra for a detailed reply.

[NAA: A1838, 370/1/19/18, xvii]

95 CABLEGRAM FROM DEPARTMENT OF FOREIGN AFFAIRS TO POSTS

Canberra, 25 March 1980

O.CH881300

Australia – New Zealand Economic Relations

Points to Draw on in Discussion with Other Governments

[*matter omitted*]

1. The examination of possibilities for closer trade and economic co-operation between Australia and New Zealand is logical and historical progression in the relationship between the two countries which have similar backgrounds and ideals and which are conscious of a trend elsewhere to regional economic groupings.

2. Against this background, Australia and New Zealand recognise that there is scope for new economic arrangements which can strengthen the bilateral relationship, provide economic benefits to both countries and enable each to cope with greater confidence with the difficult international economic and trading situation.

3. The examination is influenced in particular by the fact that valuable though the New Zealand Australian Free Trade Agreement has been in promoting the significant growth in bilateral trade which has occurred since the mid-1970s, the agreement in its present form does not seem to be providing sufficient impetus for the type of economic co-operation and development which will best serve the interests of both countries in the changing international environment.

4. While there has been no attempt to prejudge the outcome of the studies being undertaken on both sides, the two countries are agreed that any new trade and economic arrangements between them should conform to certain broad principles.

5. In recognition of the relatively limited size of the trans-Tasman market, the continued adjustment pressures which will be faced in an increasingly

competitive trading world and the legitimate interests of their regional trading partners, the two countries accept that any new arrangements must reflect an outward-looking approach, based on an efficient allocation of resources and an efficient structure of industry. These principles are in conformity with the economic policy objectives of both countries.

6. Both countries recognise the importance of encouraging industries to become increasingly efficient and internationally competitive. Both countries recognise the need to provide a better climate for investment decisions if improved rates of economic growth are to be achieved. In line with these objectives, they accept that it would be undesirable to seek to develop bilateral trade under conditions which encouraged restraints on exports from efficient third country producers by high costs imports from the trans-Tasman partner. Such an approach would perpetuate the structural problems which long-term industry policy in both countries is seeking to resolve.

7. Following from above, Australia and New Zealand are agreed that increased trade and economic co-operation between them ought not to be based on the raising of more barriers against third countries. In particular, they are agreed that any new arrangements should not prejudice the legitimate trading interest and aspirations of developing countries, especially those in the Asia/Pacific region for which the two countries have special responsibilities and interests.

Ends.

[NAA: A1838, 370/1/19/18, xvii]

96 RECORD OF MEETING BETWEEN COMMONWEALTH AND STATE GOVERNMENTS

Canberra, 22 April 1980

Commonwealth/State Meeting on the Future Australian – New Zealand Trade and Economic Relationship, Canberra, 15 April 1980¹

The meeting was chaired by Dr V. FitzGerald (PM&C)—a list of persons present at the meeting is attached. (N[orthern] T[erritory] was unable to send a representative.)

Dr FitzGerald

- sketched in the background to the recent Prime Ministerial meeting in Wellington on 20–21 March
- went through and elaborated on the texts of the Communiqué issued by the Prime Ministers following the Wellington meeting and the Annex on 'Further Study and Future Considerations'

¹ The record of meeting was prepared by Trade Branch, Prime Minister and Cabinet.

- emphasised that there were 2 guiding principles in the negotiations
 - there needed to be mutual benefits overall for both sides. It was recognised that some adjustments would be required and there was a need for commensurate benefits to be derived
 - in all cases there should be equality of trading opportunity (the ‘fair go’ principle)
- mentioned that the A/NZ relationship would be on the agenda for the June Premiers’ Conference
- indicated that a meeting of NAFTA Ministers in the second half of July would be reviewing the A/NZ officials’ studies
- emphasised that no commitments had been entered into and that the Commonwealth would not be taking any decisions until full and meaningful consultations had been held with the States, industry bodies and other interested parties.

A summary of the more substantial questions asked by State officials and responses given are set out below.

NSW: Had there been consultations with NZ on export incentives?

Response: The preliminary examination of both Australia’s and NZ’s export incentives had revealed that they were the corner stone of NZ’s industry policy and a major plank in its approach to industry restructuring. The Prime Ministers had agreed that bearing in mind particularly the different duration of their respective export incentive schemes that they should be reviewed when they had almost run out. There were 2 separate questions involved—first, the longer term approach to export incentives and trans-Tasman trade and second, their implications for exports to third countries.

QLD: What consideration had been given to Government purchasing?

Response: Australia already receives preferential treatment in some NZ Government purchasing. NZ typically gives a 10% preference to local manufacturers (cf about 15% in Australia) but administers its policy flexibly. NZ is seeking treatment on the basis of it being, in effect, another Australian State. Government purchasing hasn’t been talked about in detail. Australian Departments have a study under way which will be submitted to Australian Industry Ministers in June.

SA: How will the question of special assistance be to Australian firms be handled?

Response: It will not be easy to bring this into the exercise; we want to avoid ‘stand-out’ departures from the ‘fair go’ principle—State programs, however, give few examples of such standouts.

VIC.: What is the situation regarding future trans-Tasman trade in dairy products?

Response: There have been a lot of discussions on this matter. Some see potential gains for NZ in the Australian market but if the 'fair go' principle is strictly adhered to (e.g. taking into account the value of NZ's special access to the EC market), Australia may not be so badly off. Australian Ministers had emphasised that they will need to be fully assured that the dairy industries in both countries are operating off the same mark before bilateral trade in such products is further opened up.

QLD: Fruit and vegetables need to be given special study too.

Response: Their sensitive nature is recognised and they will be—as they will be, e.g., wheat and wine. The approach will be to examine the impact of support schemes, subsidies, marketing arrangements etc. and if these have no significant impact on trans-Tasman trade, they will not be the subject of further special study. If, however, there are disparities, then options will need to be examined. The Commonwealth will be looking very closely at this matter—indeed, the Director of the BAE will visit NZ shortly to examine NZ's subsidy and other assistance systems to get to the bottom of them.

TAS.: Expressed special concern that the dairy industry (particularly cheese) and vegetable processing be looked at very closely.

Response: Mr Anthony and Mr Talboys have exchanged correspondence on NZ cheese imports. The objective was that NZ not increase its share of the Australian market but rather share in the growth of the market. Discussions were currently aimed at examining how this might be done.

WA, QLD AND SA: How would the states be involved in *meaningful* consultations?

Response: Commonwealth officials were under very strict marching orders that the consultations *must* be meaningful. This was reflected in the Communiqué and the PM's statement to the Parliament and in the fact that *no decisions* had been taken up on what form any closer A/NZ economic relationship might take. *Full* account would be taken of the views and comments of the States, industry and other interested parties. It would be many months before any matters were ready for decision and in the interim, there would be full discussions. Commonwealth Departments and their State counterparts should keep in touch.

Additional formal discussions could readily be arranged if considered necessary. The Premiers' Conference will provide a forum for further discussion—this could be supplemented by officials discussions. States should keep in touch with the State industry bodies.

The States should feel completely free to pass any views or comments direct to the Commonwealth. The ANU proposed to hold a high-level seminar on the A/NZ relationship in August. The A/NZ Businessmen's Council had published papers on both trans-Tasman transport and foreign investment and exchange control policies and one on Government procurement would soon be available.

QLD AND NSW: What is the situation regarding poultry/meat?

Response: PI undertook to be in touch direct on this.

WA: Will manufacturing industry be the most sensitive area to NZ?

Response: Neither NZ nor Australia really know how NZ manufacturing industry will shape up under any modified trading arrangements. The studies will focus on the 'fair go' principle. Trade in intermediate goods is a very important matter and close and detailed studies will assess the implications for Australian industry.

TAS.: How will NZ handle import licensing? At present NZ resorts to import licensing not only when a NZ industry is in operation but also when there are *prospects* of such an industry being established.

Response: There has recently been some evidence of a change in the NZ approach. While its most recent Budget outlined proposed new industry policies, it was a little uncertain at this stage just how far NZ was prepared to modify its policies in the area.

QLD: What consideration has been given to the implications of any closer A/NZ economic relationship for Australia's special relationship with PNG, ASEAN and the South Pacific countries?

Response: Australia is very conscious of this angle and it will be watched closely. Any new package is to reflect an outward-looking approach. The broad thrust is that the increased economic strength of A/NZ would be to the ultimate benefit of all Australia's near neighbours.

QLD: It appears that most benefits will go to NSW and Vic. with their industrial complexes, with other States suffering disbenefits unless action is taken on agricultural products. Can an assurance be given that those industries not receiving special assistance (e.g. fruit and vegetables in Qld) will also be examined?

Response: Anything affecting the 'fair go' principle will be considered in the studies—the entire primary industry sector will be covered.

There is no expectation that the net economic benefits to Australia from any closer association with NZ will be large and for this reason it was therefore necessary to look beyond the narrow economic/commercial area to implication, e.g. politically, culturally and for the free movement of people.

VIC.: Will there be political union between A/NZ?

Response: Definitely not! The subject has never been under consideration.

WA: What will happen with the present limitations on air transport?

Response: The question of civil aviation links had been discussed briefly by the two Prime Ministers in Wellington. Mr Fraser had acknowledged that there was an imbalance in the situation and that Air New Zealand should be granted access to the Australia/North America route. He told Mr Muldoon that he had given instructions that the matter should be resolved as soon as possible. It was noted

that Qantas and Air New Zealand had reached agreement on access by Air New Zealand to this route before the Prime Ministers met but that official talks had not yet been held. There was a proposal that a Hobart/Christchurch link be established but final details on this proposal had still to be worked out. A Submission was being put to Australian Ministers and this would need to be considered before any official talks could take place.

QLD: What 'Treasury type' matters are being looked at?

Response: These studies have a much longer time frame than the other studies. There are no immediate issues—recent NZ proposals for the establishment of insurance and finance companies in Australia had been settled amicably. Australia had problems with NZ proposals for preferential treatment for NZ investment propositions.

Dr FitzGerald thanked the States for attending and reiterated that further discussions of this kind may well be necessary when the States and the Commonwealth had progressed their examination of this matter.

[NAA: A1838, 370/1/19/18, xviii]

97 LETTER FROM WEBSTER TO HENDERSON

Wellington, 8 July 1980

CONFIDENTIAL

Prime Minister Muldoon Budget Statement

In his Budget Statement Mr Muldoon, referring to moves toward closer economic relations between Australia and New Zealand, stated inter alia

'Certain problems have been identified. I make it clear that if these cannot be surmounted, this exercise will have to be abandoned, a result which I would regret' etc.

Officers of this Commission discussed this comment at length. No reason was known which currently may have prompted the remark. My concern was the effect such a comment may have on the primary and manufacturing interests in New Zealand.

The words used appear to be now drawing public comment. A respected newspaper, 'The Press', today carried a leading article. Last evening in an address to a civic group, Sir Frank Holmes said, inter alia, that closer economic ties were essential and there was no reversal of the trend.

I spoke this afternoon with Hugh Templeton, Deputy Minister of Finance. He said in brief that some matters of concern had arisen. The Prime Minister is depressed. Certain individual negotiations are taking far too long. The matter was discussed today. White ware difficult. He must be satisfied. The comment was to

rally the faint hearted. Industry will know by end of the year. Its all a part of the negotiations. Its no more or less that which was said previously. We can work through it. Nothing should be read into the comment.

I was aware of one journalist challenging Prime Minister Muldoon on the evening of the Budget. He was told the words were not intended to alert any new situation.

Secretary, I note the above as our Prime Minister will be in discussion with Mr Muldoon in the near future.

More detail is in cable O.WL5812 of 8/7/80.

[NAA: A1838, 370/1/19/18, xviii]

98 MINUTE FROM EVANS TO DALRYMPLE, KINGSMILL, LANG Canberra, 16 July 1980

CONFIDENTIAL

Australia – New Zealand Economic Relations

As you are aware, there have been a number of recent references in the New Zealand media which have tended to cast some renewed doubt on New Zealand attitudes towards the closer economic relationship discussed by Mr Fraser and Mr Muldoon in Wellington in March. Bentley has told me that he is inclined to think that there is no cause for alarm but that the High Commissioner takes a less optimistic view.

2. I telephoned Frank Anderson today to see if he had any indications as to where the New Zealand concern might be coming from. Anderson said that his own view was that New Zealand officials had not done as much work as we had and the more they examined the problems the more they had found out what would be involved for New Zealand and might be backing away from the closer economic relationship. He thought also that Muldoon could be under some pressure from industries which might be adversely affected.

3. We discussed the requirement for a progress report by officials for consideration at the NAFTA Ministerial meeting on 12 and 13 August. Anderson said that he had intended that officials would meet from 6–8 August to prepare a report and to exchange lists of products which would be affected by a closer economic relationship. The New Zealanders had indicated that they would send ten people to these talks. Anderson had just been informed however that the New Zealanders were not proposing that 'because of the lack of progress on the Australian side' there would not be a need for the review talks. Anderson had done a quick check around the relevant Departments and was glad to say that the Australian studies were on schedule in respect of almost all the papers required and that he had told Turnbull of the New Zealand High Commission that we still

saw a need for a couple of days of discussions for a plenary session and bilateral discussions. In particular, he was concerned to dispel any suggestion that the talks could not go ahead because the Australian side was not ready. He had in mind that the IDC would be called together next week to ensure that if there were any loose ends they could be tied in time for the talks.

4. I said that I would telephone Hunn and reinforce STR's views. I subsequently spoke to Hunn and recalled the requirement for a progress report indicating that we were surprised at suggestions if they were true that we might not be ready. I confirmed that I had had advice from Anderson that we would be ready for talks and hoped that the New Zealand side would be also. He said he would check the position and let me know.

[NAA: A1838, 370/1/19/18, xviii]

99 MINUTE FROM LANG TO KINGSMILL

Canberra, 23 July 1980

CONFIDENTIAL

New Zealand: 'Closer Economic Co-operation'

The following is a progress report on the studies and discussions by officials that have taken place in the name of closer economic co-operation with New Zealand since the Prime Minister visited New Zealand at the end of March.

2. Meetings have been neither frequent nor regular. The most recent was held on 3 July 1980, and chaired by Frank Anderson of STR. The meeting reviewed progress on the special studies for which a need was identified in the March communiqué.¹ Initial drafts of some of these papers have been circulated. Others are not yet available. The Department of Primary Industry has probably been more dilatory than any of the other departments with a major involvement, although it is not clear whether from design, or an inability to understand and come to grips with the last task that it has been set.

3. Comments on the papers prepared on particular issues follow. The complete list of special studies is in Attachment A. The papers themselves are not attached because of their considerable bulk.

(A) LIBERALISATION OF TRADE

(i) *Tariff Reductions*

The preparation of lists of products for immediate or progressive tariff reductions has been undertaken by the Department of Industry and Commerce (DIC) and the

1 Document 93.

Department of Primary Industry (PI). It will be recalled that the objective of this study was to locate as many as possible of those products not already duty free, in the duty free or phase-to-duty-free-over-five-years categories, and to locate as few products as possible in the 'decision deferred for special reasons' category. The initial DIC paper on this subject listed 133 items which could immediately be made duty free, 45 items which could be phased to duty free over five years, and 1083 items on which special considerations required that decision be deferred. The paper was distinguished by its failure to include product descriptions along with the tariff code numbers, so that without a copy of the tariff code alongside, it is impossible to make sense of it.

PI's paper on this subject was better in that it included product descriptions as well as the tariff code. PI's paper listed 140 items in Category 1 (duty free) and rather fewer in Category 3 (decision deferred). There was some overlap between the two Departments' lists, and a consolidated version will now need to be prepared. The Department of Business and Consumer Affairs, which is also meant to be covering this subject, has not yet come forward with a paper.

Neither the PI or DIC papers put forward the logic of their classification, so that their reasons for including items in Categories 2 and 3 are not known to most of the Departments taking part in the IDC, with the probable exception of Trade and Resources. (T&R is represented by Newton Lind, who probably knows more about NAFTA and the history of innumerable NAFTA wrangles over tariffs than anyone else in the Public Service.) At some stage, the rationale of the classification will have to be exposed for discussion and evaluation, but that stage seems not yet to have been reached. The Treasury spokesman has been critical of the extent of the Category 3 list included in the DIC paper, although the criticism was mainly 'ideological', reflecting the standard Treasury line on tariff reductions, and seemed to have little or no regard to what particular goods were involved, or why.

Another problem is that it is not yet known how significant most of these tariff items are for Australia – New Zealand trade. It would be my guess, for example, that the move to duty free status of most of the 140 items listed in PI's paper will be of little consequence, either because no trade occurs, or because tariffs are not a significant influence over such trade as does occur.

Lastly, the Government has committed itself to discuss fully with Australian industry any changes in the tariff that might affect them. On the basis of the papers prepared so far, it is difficult to anticipate how contentious those discussions would be, but it goes without saying that any change which appeared to have the potential to significantly disadvantage an Australian producer would be resisted, and the Government's commitment to consult would marginally strengthen the hand of the objector.

In short, it is not clear what conclusions the papers prepared so far actually permit. In particular, it does not seem possible yet to say whether further changes in trading arrangements will have significant consequences for actual trade.

(ii) *Possibility of Liberalising Import Licensing and Tariff Quotas*

T&R, DIC and PI have all prepared papers on this subject. The DIC paper points out that on the Australian side, 'apart from textiles, clothing and footwear and assembled motor vehicles, which are subject to separate sectoral policies, the range of imports from New Zealand subject to tariff quotas or import licensing is very small'. For this small range the paper concludes that a ten per cent increase in access in real terms is unlikely to result in any significant problems for Australian industry.

The Primary Industry paper, which is very brief, deals only with cheddar cheese and pigmeat. The latter, except in canned form, is subject to quarantine restrictions, whilst the former is the subject of continuing discussions between the Government, the dairy industry and the New Zealand Government.

The paper prepared by T&R sets out to assess the importance to New Zealand of its own licensing and quota arrangements. The likely problems in bringing about substantial changes in this aspect of the trading relationship are clearly highlighted in this paper. T&R is obligated to admit that there are serious gaps in its knowledge of how New Zealand's licensing system actually works. This ignorance is not due to a lack of diligence on T&R's part; New Zealand has consistently refused to provide certain information about its licensing system, such as who actually holds licenses, and the total quantity or value of particular goods for which licenses have been allocated. Trade's paper invites the suspicion that, although the total of imports entering New Zealand under licensing arrangements is a declining percentage of total imports, the licensing arrangements amount to a fairly flexible weapon which the Government has used in conjunction with New Zealand producers to ensure effective protection for them. As much as the export incentive scheme (see below), import licensing appears to be a central feature of industrial development policy in New Zealand. It is to be doubted whether the New Zealand Government would readily agree to negotiate changes that significantly disadvantaged New Zealand producers, whatever New Zealand Ministers might say publicly about their recognition of the need for economic rationalisation.

(B) OTHER TRADE RELATED ISSUES

(i) *Agricultural Support/Stabilisation Measures (including special study on dairy industry)*

These papers, three in all, are obviously the domain of PI. They were to have been ready by the end of May, but are not yet available.

(ii) *Assessment of the Intermediate Goods Problem*

Both DIC and BACA have prepared papers on the subject. Both underline the complexity of the subject. Having produced them, neither Department feels itself in a position to say whether there is an intermediate goods problem and if there is, how significant it is and what the solution might be. Mr Muldoon challenged

the Australian side in March to say what the problem was with intermediate goods. We still do not appear to have worked out the answer. The discussion at the 3 July meeting did not leave the impression that DIC, BACA or STR have any clear idea about what to do next on this item.

(iii) *Export Incentives*

T&R (Lind) has produced a useful but somewhat general paper on this subject. The paper is not such as would permit any negotiation between the two sides of changes in the level of such incentives, because it does not assess in sufficient detail the importance of the incentives to particular items in the trans-Tasman trade. T&R has proposed the collection of survey data from Australian firms exporting to New Zealand, to make his assessment. Such a survey would take several months to complete. The paper points out the strong attachment of private business on both sides of the Tasman to existing incentive schemes, and notes that the Australian and New Zealand Governments have given commitments to maintain them until 1983 and 1985 respectively.

Of rather more interest than the T&R paper is a study which has been sent to economic departments by Simpson Pope Ltd., Adelaide. We hold a copy of Simpson Pope's covering letter, which summarises the findings of the study. Simpson Pope commissioned a New Zealand firm of chartered Accountants, Clarke Menzies & Co., to prepare a report on 'New Zealand Taxation Export Incentives Available to Industry'. Clarke Menzies and Co. examined the balance sheets and annual reports of five major New Zealand companies. They conclude that New Zealand manufacturing companies operate under radically different fiscal policies than Australian manufacturing companies. Simpson Pope express their concern in this way:

'Although we would be more than pleased to see a completely unrestricted and unassisted flow of trade between Australia and New Zealand under consistent and compatible policies, we are apprehensive because of the radically different fiscal, trade and regional policies of Australia and New Zealand.'

The Clarke Menzies study in fact shows that as a result of export incentives in the form of cash rebates on taxation, one firm converted an operating loss to an operating profit, and another firm had an after-tax profit that was greater than pre-tax profit.

From the discussion that took place at the meeting on 3 July, it would appear that Australian departments were not aware of the actual impact on New Zealand firms of the complex system of export incentives in operation in New Zealand. Their understanding had been limited to the provisions of the system itself. The system appears to amount to a purposeful and important tool of industrial development, the use of which the New Zealand Government would not lightly forgo.

(iv) *Customs By-laws and Rules of Origin*

BACA's paper on this subject is comprehensive, partly reflecting the fact that the issues it covers have all been well aired in discussions with New Zealand over the last decade. The descriptive parts of the paper have been passed to the New Zealanders for comment. This is a desirable part of the process, but may not yield much, since the area is not specially contentious. A concluding section of the paper discusses the scope for achieving compatibility in the administration of rules of origin. There appears to be such scope, but once again, the area is not specially contentious, so it is possible that the consequences would not be specially significant.

(v) *Extension of Agreement on Tariffs and Tariff Preferences*

Formal Cabinet approval has now been obtained for a 12 month extension of NAFTA. It is expected to announce the extension during the NAFTA Ministerial talks on 12, 13 August.

(vi) *Other Studies*

The 'Outline of Arrangements for Further Studies (Attachment A) lists a number of other papers which are to be prepared. They cover government purchasing, joint marketing, transport, energy, finance, tourism, industry rationalisation and one or two other minor studies, including one that Foreign Affairs is to be involved in, on relations with third countries. These other studies constitute a substantial agenda. It is my impression that little or nothing has been done in these areas although it ought to be stressed that the deadline in each case was generous, and none have expired.

4. In February this year a meeting of Australian and New Zealand Permanent Heads was able to conclude that:

'on the basis of its discussions and the report of the Joint Working Parties it should be recommended to Ministers that an appropriately structured closer economic relationship would provide economic benefits for both countries'.²

5. I must admit to some difficulty in understanding how this judgement was arrived at, and even in deciding whether it should be taken as a judgement, or as a [pious]³ hope. The special studies now being carried out do not remove that difficulty. If anything, they add to it. Nothing that has so far been discovered or proposed in these papers promises any economic benefit to Australia. Whether benefit to us occurs will depend on the outcome of negotiations with New Zealanders, and the papers tend to highlight the extent to which economic management in New Zealand depends [heavily] upon procedures which we would like to see abandoned.

2 Document 66.

3 Material in square brackets was corrected by Lang in handwriting.

6. If we consider change, as distinct from benefit, then the papers produced so far do contain a few kernels of change which, if political exigencies required it, could be tarted up in the manner that is depressingly familiar, and publicly unveiled as a 'significant breakthrough' or as 'changes expected to bring fresh impetus ...' or some such. Several participants in the IDC have already begun to speak of the new arrangements as being 'NAFTA by another name' and there is a tendency on the part of some, particularly T&R and DIC, to regret what I think they regard as the euphoria that characterised earlier studies and statements.

7. The indications are that the New Zealanders are beginning to realise how little they have to offer in return for what they hope to get. We almost certainly will see more of last week's attempts to force our hand by public statements suggesting that we have not honoured our commitments,⁴ and the motive for them will undoubtedly be that the New Zealand Government wants to avoid for as long as possible (or perhaps to avoid altogether) negotiations that involve concessions on points of substance. A tendency towards this has been in evidence from the outset.

8. Whether by accident or with forethought, the New Zealanders seem to have developed the habit, in their dealings with us, of giving us every opportunity and encouragement to 'talk big'. Then they wait a while, and challenge us publicly to deliver the goods or accuse us of failing to deliver the goods. We could make that accusation with somewhat greater cause, but the tactic would not work for Australia because it would look like unpardonable bullying.

9. In the early days of the 'closer economic co-operation' saga, our files reveal, Mr Dalrymple repeatedly sounded the cautionary note that the initiative must come, and be seen to come, from New Zealand. This suggestion regrettably did not attract much attention or support. If it had, I believe we would have been much less likely to be now in a position where the New Zealanders can (as they are) put pressure on us to deliver the goods they say we promised.

[NAA: A1838, 370/1/19/18, xviii]

4 See Document 97.

100 LETTER FROM EVANS TO WEBSTER

Canberra, 25 July 1980

CONFIDENTIAL

Thank you for your letter of 8 July 1980¹ to the Secretary with your comments on reactions to Mr Muldoon's statement in his budget speech about the possibility of the closer economic co-operation exercise being 'abandoned'. The Secretary indicated in his reply (telegram No. O.CH904928) that I would also be writing.

I have also seen your cable O.WL5849 reporting the trans-Tasman article of 10 June 1980, and a press item by Ian Templeton, on the same subject, with more hard-hitting allegations, notably that Australian Ministers are reported to have instructed Australian officials to make negotiations as difficult as possible.

Mr Muldoon's comment and the press reports have been the subject of concern to us here, given the imminence of the NAFTA Ministerial level talks on 12–13 August which will give Ministers the first opportunity to consider progress on the studies to date. You will be aware that officials' talks had been scheduled from 6–8 August in preparation for Ministerial consideration of the studies on 12–13 August.

On checking with the Department of the Special Trade Representative, which is co-ordinating the studies on economic co-operation, I was gratified to hear confirmation that progress on the Australian studies is on schedule, in respect of almost all the papers required. I am told, too, that officials here have had the impression that New Zealand officials have to date been optimistic about the studies. Sir Frank Holmes' remarks which you cited, and Mr Muldoon's indication to the press that his words were not to alert any new situation together support this inference.

However, Frank Anderson of the Department of the Special Trade Representative, has let me know that he has been informed that the New Zealanders were now proposing that there would not be a need for pre-NAFTA officials talks, due to the 'lack of progress on the Australian side'. We are somewhat surprised by this suggestion and wonder about the basis for it. The New Zealand High Commission here has been advised of our readiness to conduct the officials' talks, and of the need for them. We were informed on 23 July by the High Commission (*on a please protect basis*) that the real reason why the New Zealanders now want only a short meeting on 7 August is that they are not yet ready to hand over any papers.

It may be that their own studies are simply not far enough advanced. But considering the timing of Mr Muldoon's public indication of his reservations about the idea of closer economic co-operation, subsequent press reaction, and

¹ Document 97.

the seeming about-face of New Zealand officials, the following are possible explanations:

- (a) the New Zealanders have assessed that their negotiating coin is limited, and are seeking to postpone negotiations of substance for as long as possible;
- (b) on the basis of their studies of the question to date, they have decided they would prefer to settle for a continuation of the benefits which they derive from NAFTA and thus want to back away from carrying examination of any other sort of arrangement further; or
- (c) the New Zealanders are seeking by their reference to negotiations taking 'too long' (cf Hugh Templeton's comments to you) to exert pressure on the Australian side to establish a specific timetable at the NAFTA Ministerial meeting.

As you know, considerations of timing and decision-making were only vaguely referred to in the Muldoon/Fraser communiqué in March, primarily because of election considerations on both sides. (You will no doubt recall the rather amusing exchange between the two Prime Ministers on this point.) The imminence of the Australian elections (as opposed to the later New Zealand elections)² could well be another element of the 'pressure' tactic. Your comment on New Zealand primary and manufacturing industry interests may also be relevant here.

In any of the foregoing explanations, either separately or in combination, it would seem that the press has had some inspired briefing. Our O.CH904929 was prepared with this in mind, in the hope that the press might be fully briefed on our side of the question.³

[NAA: A1838, 370/1/19/18, xviii]

2 The Australian federal election was held on 18 October 1980 and the New Zealand general election on 28 November 1981.

3 Dispatched 22 July 1980, the cablegram instructed Webster to take up with Ian Templeton 'the misleading reports that have appeared on the subject of closer economic co-operation'. The cablegram included five points to be used in briefing press contacts and officials.

101 MINISTERIAL SUBMISSION TO FIFE¹ FROM EVANS

Canberra, 29 August 1980

CONFIDENTIAL

Subject—Australia – New Zealand Relations

PURPOSE: To inform you of some recent developments in Australia – New Zealand relations.

Closer Economic Relations

2. Australia and New Zealand officials met on 7 and 8 August to exchange preliminary drafts of some of the studies commissioned by the two Prime Ministers in March 1980. In the preceding fortnight, some New Zealand press reports which seemed inspired by Mr Muldoon's office, cast doubt on the readiness or willingness of Australian officials to proceed with these discussions. We took steps to counter those stories through our High Commission in Wellington.

3. The talks that took place on 7 and 8 August were brief, and had little substantial content. It seems clear that the New Zealanders (to some extent like ourselves) are still feeling their way towards the details of a closer economic relationship. There are also signs, confirmed at these talks, that there now is a greater level of anxiety than before among New Zealand manufacturers about what concessions to Australian traders the New Zealand Government might be contemplating. In the course of a lengthy discussion I had with Mr Ian Douglas, President of the New Zealand [Federation] of Manufacturers, it was nevertheless apparent that New Zealand industry is growing more accustomed to the idea that the restructuring of industry, already under way, will need to continue. At the same time, it seems that the discussions between government and the business sector about the possible forms of a 'closer economic relationship' have been rather more frequent and intense on the other side of the Tasman than they have so far been here. I believe, for a number of reasons, that the tempo of consultation on this side may quicken over the next few months.

4. In addition to the studies agreed on, the New Zealanders put forward a statement of principles relating to the possible liberalisation of their import licensing system. Although it will need to be studied carefully before its potential value to Australian exporters can be assessed, the initial reaction in the Department of the Special Trade Representative was that it marked a useful step forward. So far the New Zealanders have made no specific statement of what they will be seeking in return. It is likely however that they will be seeking greater access to the Australian market for those products that have been the

¹ Fife was Acting Minister for Foreign Affairs while Peacock was attending the United Nations General Assembly Special Session on Economic Development.

subject of lengthy NAFTA wrangles—carpets, clothing, dairy products and whiteware.

5. The New Zealanders pressed for agreement on a precise timetable for the completion of officials' studies. An approximate timetable was agreed between officials, although the NAFTA Communiqué states that, as far as further Ministerial meetings are concerned, their timing 'would depend on the pace and progress of studies and discussions by officials and associated consultations with interested parties'. Our expectation is that further officials' talks will be possible towards the end of the year with the two governments looking at possible package arrangements in the first quarter of 1981 (i.e. after the Australian and before the New Zealand elections).

NAFTA Talks

6. The 'closer economic relationship' was dealt with as one item on the agenda of the annual round of NAFTA consultations, official and Ministerial. With a single exception, every substantive item on the agenda represented a New Zealand grievance. The New Zealand side complained, for example, that the Australian Government had refused Ford Australia permission to import aluminium wheels from New Zealand free of duty. The decision was based on likely employment consequences for Australian manufacturers, and has not deterred Ford Australia from declaring its intention to proceed with the importation of these wheels at the normal preferential rate of duty (10%). New Zealand, in other words, does not appear to have been substantially disadvantaged, but still felt it had a legitimate grievance. The manner in which the official and Ministerial talks were actually conducted, the arguments that were presented and the manner in which they were received, did not invite the inference that New Zealand has been unfairly treated. In most cases, the situation of which the New Zealanders complained was marginally more favourable to them than it was to us. This, of course, has not stopped and will not stop the New Zealand side briefing its press to the effect that Australia is taking a 'tougher than ever' stance on NAFTA. (It had always been expected that in the absence so far of an agreed broader economic relationship, the shortcomings in NAFTA would continue to result in hassles over access for individual products.)

7. Mr Muldoon has tried, since the meeting, to ascribe blame to Australia for the abandonment of the special access arrangement for apparel. The full story is more complex. A 1977 arrangement gave Australian exports open ended access into New Zealand provided there was no serious disruption to New Zealand. In return, Australia preserved for New Zealand exclusive quotas to allow New Zealand to largely maintain the increased export levels reached when New Zealand was exempted from Australia's global quotas. In November 1979 New Zealand unilaterally imposed a limit of 4% of the New Zealand market on Australia's apparel exports. This would have had the effect in 1980, of providing Australia with an export opportunity about half as valuable as that enjoyed by New Zealand. New Zealand offered the prospect of a 10% increase in real terms

for 1981/82, but this was not regarded as an equitable arrangement, and New Zealand was informed at the NAFTA meeting that, as foreshadowed, Australia would allow New Zealand's special quota under the 1977 arrangement to revert to a global quota. It should be noted that New Zealand's preferred access arrangement was continued for a considerable time after the introduction of the 4% limit, in the hope that a more equitable arrangement would be able to be negotiated. The paradoxical consequence of all this is that the apparel trade both ways across the Tasman will fall. It was for this reason that Mr Anthony made last minute attempts to find a solution which would have avoided this outcome.

8. The atmosphere of the NAFTA meeting was blunt with the New Zealand Minister for Trade and Industry Mr Adams-Schneider handling his brief in a take-it-or-leave-it manner, and yet seeking to give the impression, also reflected in some of Mr Muldoon's statements following the meeting, that Australia was being unreasonable. By contrast, Mr Brian Talboys, Deputy Prime Minister and Minister for Foreign Affairs sought to be more conciliatory and, in particular, more optimistic about the prospects for eventual agreement on a closer economic relationship. (The fact that New Zealand officials have carved the acronym CER to describe it indicates the extent to which it has now become a factor in New Zealand thinking.)

9. The communiqué, a copy of which is attached, carefully disguises the fact that almost no new agreements were reached, and that in most areas, stand-offs continue. The communiqué does not refer to the vexed question of leather wallets, which consumed an inordinate amount of time at the officials' discussions, largely because New Zealand's foremost manufacturer, Fred Turnovsky, is a friend of Mr Muldoon and a former President of the New Zealand Manufacturers' Association.

10. It is interesting to note that while Mr Anthony has in the past declared NAFTA to be a moribund arrangement, he stressed at the joint press conference on 14 August that there was still an important role for NAFTA. While it has been clear that NAFTA will have to continue until a closer economic relationship can be agreed his remarks suggested that an alternative arrangement will not be easy to come by.

ANU Conference on Australia – New Zealand Relations

11. The ANU Conference sponsored by the ANZ Foundation was opened by Mr Anthony and Mr Talboys on 12 August. An audience ranging from 150 on the first day, to 70–80 on the second and third days, heard papers and took part in discussion on Energy, Agriculture and Forest Products, Sea Transport, Manufacturing and Industrial Adjustment, the Labour Market and Industrial Relations and the new Trans-Tasman Economic Partnership. A satisfactory range of competent speakers took part and a good press coverage was achieved. Sir Peter Derham chaired most of the proceedings on the opening day, and seemed satisfied with the way things went.

12. A number of the officials involved in the study of 'closer economic relations' attended throughout, but the concurrent NAFTA talks prevented the Department of Trade and Resources from attending in strength. The fact that the NAFTA meeting was being held concurrently did however enable the Conference to gain some useful publicity and impetus from the attendance of Mr Anthony, Mr Talboys, Mr Adams-Schneider and Senator Chaney at functions on the first day.

13. The Conference provided a useful opportunity for some of the foremost partisans of closer trans-Tasman links to state their views. Sir Frank Holmes, Chairman of the New Zealand Economic Planning Council, and a long-standing advocate of closer Australia – New Zealand economic ties, took a prominent part in the discussions. His contribution, however, shared with many others the defect that it was rather long on broad objectives and expressions of confidence, and rather short on suggestions for specific action or change. At its meeting in Melbourne on 20 August, the ANZ Foundation agreed that while the attendance had been somewhat disappointing, the Conference had met its objective of focussing public attention on the content of and prospects for the trans-Tasman economic relationship.²

[NAA: A1838, 370/1/19/18, xviii]

102 EXTRACTS FROM MINISTERIAL SUBMISSION TO PEACOCK FROM EVANS

Canberra, 16 September 1980

CONFIDENTIAL

Australia – New Zealand Economic Relations

Background

We reported to the Acting Minister on the outcome of the latest record of ministerial talks on 'closer economic relations'. A copy of the submission¹ is attached. Mr Anthony and Mr Talboys took advantage of the NAFTA ministerials talks to review progress and agree on further work.

[*matter omitted*]²

2 Fife added the annotation 'Noted 2/ix/80' to the submission.

1 Document 101.

2 Omitted material has been excluded in accordance with advice from the Department of the Prime Minister and Cabinet.

3. The officials' studies agreed to by the two Prime Ministers in March³ have gone ahead satisfactorily although it could not be said that they have yet succeeded in bringing significantly greater definition to the form of a possible 'closer economic relationship'.

[*matter omitted*]

In part, the apparent enthusiasm of the CAI is probably based on frustration at the lack of a clear idea of precisely what the Government is proposing, and hence what the likely consequences for Australian industries will be. They would probably like in short, something more concrete to consider.

4. The next step proposed is for officials to try to achieve agreement on the factual basis of their studies. This would mean, for example, reaching a common view on the operations of New Zealand's export incentive scheme, and its significance for the competitive position of New Zealand exporters vis-a-vis their Australian counterparts. Agreement on the relevant facts in areas such as this is seen as being an essential pre-requisite to any harmonisation of policy, and the removal of inequities.

5. In our note to the Acting Minister, we commented that after the NAFTA talks Mr Anthony had appeared to set more store by the continuation of NAFTA than he had previously been inclined to do, possibly because of a growing sense of the difficulty of replacing it with the 'closer economic relationship'. These more difficult questions are expected to be discussed by the Permanent Heads Committee in November. His submission expressed no misgivings about the likely outcome of the discussions and studies underway, although there is a hint that he expects the concept of 'equality of trading opportunity' to give rise to some impassioned discussions.

[NAA: A1838, 370/1/19/18, xix]

103 JOINT STATEMENT BY NEW ZEALAND MANUFACTURERS' FEDERATION AND CONFEDERATION OF AUSTRALIAN INDUSTRY

[Hobart, 30 September 1980]

Joint Statement of the 17th Annual NAFTA Conference of the NZMF and the CAI

The seventeenth meeting of the New Zealand Manufacturers' Federation and the Confederation of Australian Industry, at Hobart on September 28–30, endorsed the concept of a closer economic relationship between Australia and

3 See Document 93.

New Zealand based on providing equality of bilateral trading opportunity. The meeting agreed that the framework of issues being studied by Governments on both sides—and stemming from the Joint Prime Ministerial communiqué of March 1980¹—provided a satisfactory basis for negotiating a closer economic relationship. The consensus was that both Governments should make a decision on proceeding with a closer economic relationship and announce in the first quarter of 1981 the timing of its implementation.

The two bodies also noted with satisfaction the support for the concept by members of the rural, commerce, and retailing sectors present and from the Australia – New Zealand Businessmen's Council.

The meeting recognised that in the course of implementation of an agreed closer economic relationship, specific industries on both sides of the Tasman may wish to become involved in industry-to-industry consultations which could help overcome problems and identify joint opportunities in the expansion of trade. The two Governments should encourage and facilitate such industry-to-industry consultations and take them into account as part of developing the closer economic relationship.

However, it was also recognised that the time frame of such consultations should conform to the programme set by the two Governments for the implementation of the closer economic relationship.

The meeting expressed the view that pending the establishment of procedures to bring about a closer economic relationship, initiatives within the framework of NAFTA should be pursued positively.

A number of issues of concern to both sides were discussed. These included the intermediate goods problem, fiscal support mechanisms (including export incentives), tariffs and quantitative restrictions, government procurement policies and transport. A considerable degree of common ground was established, however it was agreed that these two issues warranted more detailed study by the CAI/NZMF Joint Working Party.

[NAA: A1838, 370/1/19/18, xix]

1 Document 93.

104 RECORD OF CONVERSATION

Canberra, 2 October 1980

RESTRICTED

**Record of Conversation with Mr David Morton, Director, International
Affairs, Confederation of Australian Industry (CAI)****On 2 October 1980****Officers Present: Mr J. E. Monfries, Head,
General & Import Policy Section****Mr G. L. K. Santer, General and Import Policy Section**MAIN SUBJECT(S) LIASON BETWEEN DFA AND CAI;
RELATIONS WITH NEW ZEALAND—DISCUSSIONS BETWEEN
CAI AND THE NZMF*Liason between the Department and the CAI*

Mr Morton said that the CAI was planning to write to the Department shortly raising the question of closer liaison between the two organisations. The CAI was exploring ways in which each side could help the other by closer consultation and exchange of information. He wondered whether the Department had given any thought to the idea, including, for example, the release to CAI of some of its non-sensitive material. *Mr Monfries* said that the Department had been looking into the matter of closer liaison including the establishment of consultations with industry organisations and the release of material using a procedure similar to that employed for the distribution of the *Backgrounder*. He said that the Department would welcome any proposals from the CAI for closer liaison.

Australia – New Zealand Closer Economic Relations (CER)

2. *Mr Morton* outlined the discussions which had taken place in Hobart from 29–30 September between the representatives of the CAI and the New Zealand Manufacturers' Federation (NZMF), the 'Quadrilaterals'. He said that the New Zealand side had been taken aback by the Australian insistence on reciprocity of trading opportunities (the 'dollar for dollar deal') and by the termination of the textiles and apparel agreement. He said that these two developments seemed at last to be bringing home to the New Zealanders that they needed Australia more than Australia needed them. This new awareness had led them to the New Zealanders being more forthcoming at this meeting than they had been at the previous meeting in 1979. The New Zealanders were, for example, hoping for a speedy timetable for the introduction of the CER; as indeed were the Australians, but for different reasons. Whereas the New Zealanders were now seeing the CER as a means of reviving their flagging economy the Australian side saw it overcoming what they considered to be the inequities in NAFTA in favour of New Zealand.

3. The New Zealanders had initially tried to have included in the joint statement two points which were unacceptable to the Australians. Firstly, they asked that the CER be formulated from the combination of individual industry agreements between industry groups from both countries. The Australians pointed out that this would mean that the two Governments would be ruled out of effective participation in the formulation of the CER, a situation which neither the Government nor the CAI could accept since it would reproduce many of the escape clauses which had hamstrung NAFTA.

4. The New Zealand side had also sought to have inserted in the communiqué a call on the two Governments not to reach any decisions on CER without first consulting the relevant industry groups, again ensuring that the Governments' hands were tied and forcing the Australian industry groups to consult first their New Zealand counterparts before approaching their own Government. Paragraph three of the attached Joint Statement,¹ concerning industry to industry consultation, was diluted as a result of Australian objections to the New Zealand proposal. These objections were voiced most strongly by the Australian textiles and apparel representatives who, after the dissolution of the apparel agreement between the two countries, were not interested in consulting their New Zealand counterparts at the meeting nor in being forced to do so at any future meetings.

5. *Mr Morton* agreed that while nothing concrete had been achieved at the meeting in terms of a definite timetable or structure for the CER (compared with the previous meeting when definite proposals, albeit opposing ones, had been submitted by both sides), more had been achieved in terms of progress towards a CER acceptable to both sides, largely because the New Zealanders were now more interested in closer ties. He attributed the New Zealanders' change of heart partly to their realisation that the New Zealand economy was steadily declining and partly to their awareness that the Australians, by their action in scrapping the apparel agreement, were less enthusiastic about the need for closer ties than they were.

6. On the question of import licensing, the CAI and the NZMF had discussed the progressive liberalisation of Australian access to the New Zealand market by expanding the licences to be issued to Australia according to various formulae. There were found to be problems with expressing the percentage increase in licences in value terms because of exchange rate fluctuations and differences of effect on companies of a liberalisation in these terms since products varied. The Australian side had therefore proposed that the percentage increases in licences be expressed in volume terms. This proposal was now being studied further.

7. *Mr Morton* said that the next round of industry consultations between the two countries would take place in mid November. He was not confident that there would be much more progress until the outcome of the officials' studies

¹ Document 103.

was known and there had been further consultations between CAI and Australian officials.

8. *Mr Morton* said that at the Hobart Meeting he had passed to the Department's representative a number of papers prepared by the CAI on the major issues in the CER, including export incentives, government procurement and intermediate goods. He looked forward to receiving the Department's comments on these papers.²

[NAA: A1838, 370/1/19/18, xix]

105 MINUTE FROM LANG TO EVANS

Canberra, 21 October 1980

RESTRICTED

Working Party Meeting on Closer Economic Relations

Australian and New Zealand officials met in Wellington on 8, 9 and 10 October to discuss the progress of the studies agreed upon by Prime Ministers Muldoon and Fraser in March 1980.¹ New Zealand Departments represented were Treasury (Chairman), Trade and Industry, Customs, Foreign Affairs, Prime Ministers, Agriculture and Fisheries. The Australian side included representatives of Special Trade Representative (Leader), Trade and Resources, Industry and Commerce, Business and Consumer Affairs, Foreign Affairs, Treasury, Prime Minister and Cabinet.

2. There had been some changes in personnel on the New Zealand side since the last meeting. Both Belgrave (DTI) and McArthur (Treasury) are new to the subject, and McArthur's chairmanship suffered a little from his ignorance of what had gone before.

Tariff Reductions

3. An exchange of lists of goods with tariffs of 10% or less, to become duty free immediately, took place. The New Zealanders gave us their list with the exclusions shown by a line drawn through the item. Our exclusions were listed separately. Both sides took the position that exclusion from list One did not automatically mean inclusion in list Three. It was simply a matter of more study being needed. Some of the exclusions from New Zealand's list One were items in which there is a substantial trade, such as pineapples. Some of the exclusions from our own list One were items where quantitative restrictions apply

² For a further report on the Hobart meeting see Document 106.

¹ See Document 93.

e.g. whiteware. Frank Anderson put to the New Zealanders certain propositions about how the downwards tariff escalator to be applied to items in list Two might work. His suggestions were based on the need to (a) preserve equity among businesses affected by the changes and (b) not to further complicate an already very complex tariff. The New Zealanders took note, and will respond at the next meeting.

Intermediate Goods

4. An agreed paper was finalised on this subject. This was achieved mainly by virtue of the CAI having told Australian officials at the Hobart meeting that, except in the area of chemicals and plastics, their detailed enquires amongst members had not brought to light any significant intermediate goods problems. Having previously been fairly sensitive on this issue Australian officials were now placed in the position of not having any substantial interests to defend. It was not a difficult matter to agree amongst ourselves that some general safeguard provision in a new agreement would be enough to protect the interests of any manufacturers who could demonstrate substantial injury as a result of differential tariff treatment of an intermediate good. Possible remedies which were identified included: common external tariff on the good in question, countervailing duties, increased area content rules. Which remedy was applied, our IDC felt, would be determined by the specific nature of the problem. The New Zealanders had no difficulty accepting this. Their only concern was that any paper agreed between the two sides should recognise that New Zealand had potential intermediate goods problems too. It seemed clear to us that they were talking about problems that were different from those that concerned us; the world price of sugar, for example, is at the moment higher than the Australian domestic price, but New Zealand does not buy from CSR. This, New Zealanders feel, gives Australian confectioners an unfair advantage. In the expectation that New Zealand could not make a credible case of injury in a situation such as this, the Australian side agreed that the joint paper should give equal prominence to the possibility of an intermediate goods problem on both sides of the Tasman.

5. Now that a joint and agreed paper on the subject exists, we can probably take it that the intermediate goods 'problem' has been solved.

Access

6. Discussion of the question of liberalising tariff quotas and import licensing made some progress, although there is no prospect of a substantial advance until the New Zealanders have completed their talks with industry associations on the question of levels of initial access. This is one area that still has the potential to cause serious problems; if too many of the access levels offered by New Zealand are manifestly absurd, it will not be possible, I think, for the Australian side to agree to a final package. Further discussions are to take place between trade officials with a view to defining a set of agreed principles to be included in the Joint Working Party's Report to Permanent Heads. It would not be surprising if

there were to be some slippage in the timing of meetings on this subject. The New Zealanders have allowed 4–6 weeks for industry consultations on access levels. Given the snail's pace of discussions hitherto, that seems a fairly ambitious deadline, particularly in view of the growing anxiety that attaches to talk of industry restructuring in New Zealand.

Export Incentives

7. Although there appear to have been discussions in the Cabinet Economic Committee, New Zealand's position does not seem to have been elaborated beyond the commitment to retain the present scheme(s) until 1985. New Zealand made no reaction, written or oral, to the Australian paper they received in September. At the meeting Newton Lind submitted an additional two-page paper the burden of which was that Australia could contemplate entering into a new agreement with New Zealand with the present export incentives schemes still in place, but only if the agreement also contained a commitment by New Zealand to review the schemes in 1982 with a view to harmonisation or elimination on trans-Tasman trade after 1985. The New Zealanders responded by saying that they had a 'very tight brief' on export incentives. With both Clark and Woodfield out of the country, there was no reply they could give us.

8. In a discussion I had with the Customs Department representative a few days after the CER meeting, it was suggested to me that New Zealand officials accept the logic of the Australian proposal. What they need to do is get fresh riding instructions from Cabinet. We were told in Hobart by the CAI that New Zealand manufacturers are beginning to appreciate the inevitability of change to the present scheme because it has become very costly, out-running by a considerable margin the budgetary provisions that were made in the last financial year. The New Zealand Chairman of the Working Party, from their Treasury, made the same comment to me in Wellington. This would seem to be a factor, not previously in evidence, that will facilitate the eventual removal of present inequalities and enhance the likelihood of eventually reaching a new agreement with New Zealand.

Government Purchasing

9. Australia submitted before the meeting a paper proposing that each country treat the other as a domestic supplier for the purposes of central government purchasing. New Zealand rejected this approach, stating that they sought to exchange the preference of their central government for the abandonment by State Governments of their preference for home state suppliers. They claimed that the preference of the Federal Government was a lesser interest to them, because many of its purchases could not be supplied by New Zealand. The State Governments, on the other hand, spent a lot on carpets and building materials. Anderson remonstrated that the Federal Government could do nothing to coerce the States, and suggested that the New Zealand Government approach State Governments direct. The New Zealanders seemed to have little enthusiasm for

this. When the New Zealanders insisted that they were not willing to trade central government preferences, (despite the very much larger expenditure by the Australian Government) Anderson tore up the paper containing the Australian offer and told them we would wait for the New Zealand side to make a fresh proposal. There appears to be very little likelihood that State Governments will abandon their preferences for home state suppliers, so that it is unlikely New Zealand's demand can be satisfied. The present stalemate will probably continue until New Zealand modifies its request.

Agriculture

10. I have left Agriculture till last, because that is the position to which it seems to have been relegated in our discussions, both at home and with the New Zealanders.

11. Agricultural items were conspicuous amongst the exclusions from our list One. There does not seem to be, at the moment, any agreed procedure on our side for determining whether such items should go back into list One, or into list Three. Also, it seems to me that the New Zealanders are expecting to re-open the vexed question of cheese exports to Australia. They say they regard the voluntary restraint arrangement negotiated by the two Dairy Boards as not setting a precedent for the future, and may be looking to the Australian Government to impose on its own industry access levels for New Zealand products that the industry has previously resisted. The extent of New Zealand pressure will probably be conditioned by their success in preserving traditional (and more important) markets elsewhere. It may be that ultimately the two sides will agree on a formula giving New Zealand the right to a share of *growth* in the Australian market, but this is, as yet, by no means clear. I intend to follow-up these questions with my Primary Industry colleague in the next few days. As matters stand at the moment, not even having seen the BAE study on the dairy industry, we will be very lucky indeed if we reach a common view on agricultural products, or a clear statement of agreed differences, before the next meeting of Permanent Heads.

12. The timetable at present envisaged is—

- (i) a small group of Trade officials to meet in Wellington at the end of October to try to advance papers on access, tariff reductions and export incentives
- (ii) a further meeting of Joint Working Party in 3rd week of November to finalise report to Permanent Heads
- (iii) meeting of Permanent Heads in 1st week of December.

13. As noted above, quite a lot of hard talking and thinking will be needed, especially on the New Zealand side, if that timetable is to be adhered to. As I said to you earlier, the prospects of achieving agreement with New Zealand on something to replace NAFTA seem to be improving, partly as a consequence of the endeavours of officials on both sides, partly by dint of economic circumstances. Whether, in the long run, it will work to Australia's advantage is

still a question I can't answer. It came as a surprise to me to hear Newton Lind, the hard-bitten NAFTA expert, describe the basic inspiration of the present exercise as being the assessment that 'we need each other'. He wasn't talking about an economic need, simply the need of two isolated, relatively prosperous, and somewhat frightened anglo-saxons in a confused and hostile world.

[NAA: A1838, 370/1/19/18, xix]

106 MINUTE FROM LANG TO EVANS

Canberra, 27 October 1980

RESTRICTED

17th Annual NAFTA Meeting of Confederation of Australian Industry and New Zealand Manufacturers' Federation

The Hobart meeting of the CAI and the NZMF is now slipping a little into the mists of history, having taken place on 28–30 September but there are one or two points worth recalling because they may have continuing relevance. Incidentally, the information Mr Santer and Mr Monfries obtained from Morton of the CAI two days after the meeting¹ they could have got from me (if information was what they really wanted) the day after the meeting. I have told Morton that I share the hope that there will be closer liaison between this Department and the CAI, and that New Zealand Section will continue to be the point of contact for discussions on the 'closer economic relationship' with New Zealand.

2. The only conference papers attached are the list of delegates and the opening address by the CAI President, Sir Max Dillon. Dillon stressed that Australian manufacturers will be seeking more equitable trading arrangements with New Zealand, whether under NAFTA or some new 'CER', is not specially important to them. He was, I think, concerned to lay to rest any expectation amongst the New Zealanders that Australia would relent from its pursuit of greater equity under NAFTA in anticipation of a CER, and I think his message was well-judged and timely.

3. There was little of note in the conference papers which included:

- Review of Australian – New Zealand Economic Situation
- Review of Australia – New Zealand Trade (which contains a useful up-to-date summary of trends in trade)
- CER. Recent developments at the Government and Private Sector levels (largely historical in treatment and suffers somewhat from ignorance of what has been discussed at official and ministerial level)

1 See Document 104.

- Statement by National Farmers Federation ('... if agriculture in both Australia and New Zealand is to benefit significantly from a closer economic relationship, the spirit and mechanics of the agreement must primarily be concerned with fostering increased co-operation in the development of third country markets'. '... very little is to be gained by NZ exercising its potential, which is largely won by virtue of different marketing assistance arrangements, to disrupt Australia's dairy marketing arrangements.')
 - Statement by Federated Farmers of NZ Inc. (Placed more emphasis than the Australian statement on increasing agricultural trade between the two countries '... after all, a major objective of the whole exercise is for both countries to benefit from rationalising production to those areas which do have a naturally lower cost structure')
 - CAI Paper on Intermediate Goods (which illustrated the problem with a hypothetical example from the plastics industry)
 - NZMF Paper on Intermediate Goods (which makes the claim that some New Zealand manufacturers 'would be substantially disadvantaged in competition with Australia because they would be forced by protection policies for local suppliers to buy from NZ suppliers at prices substantially higher than available to Australian manufacturers from their own domestic suppliers'. This is decidedly not the problem that the Australian side is talking about. As Frank Anderson was to point out later on in Wellington, the solution to that problem is a simple one—buying from Australia)
 - CAI paper on Tariffs and Quantitative Restrictions (which makes the sensible point that an annual increase of 10% on items for which the value of NZ imports from Australia is less than \$100,000 and the CAI believes that these constitute the great majority, provides an incremental market opportunity of less than \$10,000, which new entrants to the trade would find hardly worth bothering about.)
 - CAI Papers and brief NZMF comments on export Incentives, Exchange Rates and Government Purchasing.
4. A highlight of the meeting was the attempt by some NZMF delegates, abetted but not strongly supported by the NZMF President, Stevens, to have the meeting endorse the principal that inter-industry consultations and agreement should become the building blocks of the CER. They quickly retreated from this position to the looser formulation contained in the Joint Statement,² which does not oblige industries to consult (many Australian industries will not want to) and does not bind governments to the outcome of such consultations (which even NZ officials present at the meeting did not favour).

² Document 103.

5. The most obvious objection to an arrangement [such]³ as the New Zealanders sought is that it would remove control of negotiations from governments, but more serious objections are that it could not be counted on to increase trade, and would probably serve to prevent even a modicum of industry rationalisation of the kind which is central to the concept of closer economic relations. The words actually used on this subject in the Joint Statement come very close to describing what actually happens now; industries can't be prevented from consulting each other and putting their views to governments, and governments have never been so unwise as not to 'take them into account'.

6. I looked for echoes of this NZMF bid during the Working Party Meetings in Wellington.⁴ Either NZ manufacturers had not had time to catch up with their officials, or the idea died a natural death in Hobart. Treasury and DTR people who had been in Hobart told me that Stevens had used the Hobart meeting to allow an irredentist rump of the NZMF to have their say and be put in their place, the NZMF as a whole not being in favour of the idea. Colin James, who I spoke to on two occasions in Wellington, told me that Ian Douglas had given him a similar explanation, but I am not altogether sure we have heard the last of the idea. If DTR officials, in their consultations with industry on levels of initial access, find it necessary to press hard to ensure that economically viable levels are agreed on, then there is, in my view, a strong possibility that the idea will re-emerge.

7. The only other interesting aspect of the Hobart meeting were the talks we had with Morton and Hopwood. Morton gave us copies of a letter addressed to Frank Anderson signed by Bill Henderson, with attached confidential papers on intermediate goods, tariffs and quantitative restrictions, export incentives, exchange rates and government procurement. The papers were classified, we were told, because they had not been given to CAI members or delegates at the conference, and contained information which varied slightly from that contained in the conference papers on the same subjects.

8. Henderson's covering letter included some interesting and instructive references to the results of a recent survey of CAI members attitudes to the CER, both in general and on particular detailed aspects, such as intermediate goods. The letter notes:

'Our members are taking a positive view of the CER exercise, and generally hope that a CER with New Zealand can be negotiated. This desire to see a closer relationship does not flow from a belief that Australia would gain significantly in terms of expanded market: in fact, most members feel that New Zealand has little to offer in terms of future growth prospects even under a CER. The desire by our members to see a closer relationship stems rather from a belief that existing

3 Material in square brackets was added by Lang in handwriting.

4 On the Working Party meetings see Document 105.

levels and patterns of trade would be smoother and more problem-free if a CER were to be negotiated; and from a view that both countries could benefit in international negotiations by presenting a common front.

These reasons for favouring a closer relationship are rather marginal, and the corollary of this is, of course, that our members would not be unduly disturbed if a closer relationship did not eventuate. Indeed, our members would be very strongly opposed to any framework in which—to buy these rather marginal benefits—Australia had to make major concessions which were not reciprocated by the New Zealanders. Furthermore, members were strongly of the view that any agreement leading to a CER should be negotiated on a ‘total package’ basis, such a package incorporating a satisfactory resolution to what we see as the major problem areas. These problem areas primarily relate to export incentives, adequate access increases under the New Zealand import licensing system, and satisfactory treatment for chemicals, plastics, and certain textiles products in relation to the intermediate goods question.’

9. When I raised the question of attendance at this meeting you will recall that I said that we might get some indication of what Australian industry would and would not want from the ‘CER’. I thought we would have to glean it from the debate. In the event, this letter tells us much more than the debate did. Although the language is not precise, and to that extent the CAI’s final position is reserved, I think we have a clearer idea now than at any previous stage, of what industry will regard as an acceptable package. Certainly, the two meetings so far held in the name of ‘consultations with industry’ were barren by comparison.

10. Of the [papers attached to the letter], only the one on intermediate goods deserves special comment. It records the results of a survey of members carried out at the request of the DIC. It established that there appear to be no intermediate goods problems in the food and beverage industry, carpets, pulp and paper, or the glass and glassware industry. But, the CAI paper says, ‘a major intermediate goods problem exists for the Australian chemicals and plastics industries; for those Australian manufacturers whose products embody significant proportions of chemicals or plastics; and for certain parts of the textiles industry’. Chemicals and plastics enter NZ duty free. In Australia they are dutiable at rates above 20%. The CAI paper gives hypothetical examples (plastic injection moulding and brush manufacture) showing a 22½% and 34% difference in cost, largely arising from raw materials costs.

11. In all other areas of industry, the CAI encountered a marked lack of interest or concern, which they discovered only when making enquiries about the very low rate of response to their questionnaire.

12. The paper concludes:

‘Apart from (chemicals and plastics), the intermediate goods question is not generally seen to be of major significance ... ‘ It seeks ‘special arrangements’ for chemicals and plastic products, and the inclusion of some safeguards provisions

relating to intermediate goods in any new agreement with NZ. The second point was agreed on in the Joint Working Party meeting in Wellington. The first point has yet to be looked at by our IDC, and may result in chemicals and plastics being included in List Three of the tariff items.

[NAA: A1838, 370/1/19/18, xx]

107 SUMMARISED REPORT OF SHIPPING SURVEY

[31 October 1980]¹

Trans-Tasman Shipping Survey 1980

In February 1980, the Transport Ministers of Australia and New Zealand announced that a further survey of exporters' views on trans-Tasman shipping services would be undertaken by Transport officials in both countries. This survey followed similar surveys undertaken in 1977 and 1979 as a result of concern by the NAFTA Ministers with the cost and adequacy of trans-Tasman transport services.

At the same time the Transport Ministers also announced a joint study of the trans-Tasman shipping services by the Australian Bureau of Transport Economics and the New Zealand Ministry of Transport. Shipping in this trade was identified as requiring special review in the context of consideration of initiatives for a closer economic relationship between the two countries.

The survey of exporters' views was completed recently and a report on the survey findings was submitted to the NAFTA Ministers' meeting on 12/13 August for consideration. The NAFTA Ministers noted that the results of both the survey and study reports will be examined together when the latter becomes available later this year. Further steps that may be taken to improve the efficiency of the services will then be considered.

The recent survey covered a much larger number of respondents than the previous surveys, 131 in Australia and 111 in New Zealand. It confirmed the findings of previous surveys that some exporters were dissatisfied with the level of their freight cost and saw this as an inhibiting factor in respect of their trans-Tasman exports. On the basis of the recent survey, the freight cost did not appear as a critical factor for the majority of exporters. It indicated that there was some improvement in the exporters' freight cost situation as compared with the previous surveys. The level of service was also regarded as generally satisfactory by most respondents.

¹ The document was prepared by the Australian Department of Transport and the New Zealand Ministry of Transport. It is undated but was distributed by the Australia - New Zealand Businessmen's Council to members on 31 October 1980.

Some of the improvement was due to the change in the Union Steam Ship Company's freight rating policy announced in January 1978, which introduced both developmental and commodity rates into this trade. A large proportion of the trans-Tasman liner trade is now carried at these rates. Increased competition in the trade has also been a moderating influence on sea transport costs. A number of exporters supported the view that a greater competitive element could be beneficial. The special condition in this trade is that there is an agreement between maritime unions of both countries to reserve trans-Tasman cargoes for national flag vessels.

There was a dramatic turnaround in the level of trans-Tasman liner trade between 1977-78 and 1978-79 with the volume of exports increasing between 100 and 200 per cent in both directions. This reversed the declining trend in this trade since 1975 but the substantial increase was considered to be due to factors other than improvement in transport costs.

In analysing the survey results, a comparison was made on the basis of the volume of exports shipped, rather than value, in the following categories: Small (100 tonnes or less per annum), Medium (101-1,000 tonnes per annum) and Large (over 1,000 tonnes per annum). In general the larger exporters accounted for the major proportion of both countries' trans-Tasman export earnings. However, it was noted that large exporters shipped generally lower value products as indicated below:

	<i>Weighted Average Export Value Per Tonne</i>	
	<i>Australia (\$A)</i>	<i>New Zealand (\$NZ)</i>
Large Exporters	920	500
Medium Exporters	1,770	2,500
Small Exporters	3,500	2,700

In general, a higher proportion of medium and large exporters than small exporters indicated sensitivity to the freight cost and larger exporters were also more active in seeking freight rate concessions. This did not alter the overall conclusion that the majority of exporters as well as a substantial volume of exports were not significantly affected by the freight cost factor.

It is also noted that the Metal Trades Industry Association of Australia National Export Group recently completed a survey of those members who had not been included in the joint governmental survey. The same questions were employed in the MTIA survey, which had similar results in relation to the importance and sensitivity of the freight cost in the trans-Tasman trade. However, approximately one half of the MTIA survey respondents reported dissatisfaction with the service frequency and serious delays in contrast to the governmental survey, which indicated that the majority of exporters considered the service to be generally adequate. This result could have been due to the much smaller number of respondents (16) to the MTIA survey than the governmental survey (over 200).

MAJOR FINDINGS

(a) *Export Details*

An improvement in trade levels was reflected in the response of both Australian and New Zealand exporters. Amongst Australian respondents 61 per cent reported an increase in trade, with 18 per cent reporting a decrease and 21 per cent stating that trade was static. New Zealand respondents reported on an even larger increase: 81 per cent stated that trade had improved, 15 per cent reported trade to be static, while only 3 per cent reported a decrease. This compares favourably with around one-third of exporters in both countries who indicated an increase in the 1979 survey.

Most of the tonnage on both sides of the Tasman is exported by a very small group of shippers. In Australia 86 per cent of the 245,000 freight tonnes represented in the current survey was shipped by 25 respondents. This is typical of most Australian outward liner trades. In New Zealand a substantial proportion of the tonnage included in the survey was shipped by the 27 respondents who accounted for 425,000 tonnes (95 per cent) out of an approximate total of 450,000 tonnes exported to Australia.

The majority of Australian respondents (58 per cent) supplied the New Zealand manufacturing market while the majority of New Zealand respondents (61 per cent) supplied the Australian consumer market. In terms of tonnage exported, however, the majority of tonnage represented by the survey was exported for manufacturing purposes on both sides of the Tasman. This was consistent with the findings of previous surveys.

(b) *Method of Shipment*

The majority of respondents on both sides of the Tasman indicated that they utilised the services of a freight consolidator. Approximately 16 per cent of all respondents shipped most of their goods directly through a shipping line. Up to 40 per cent of large exporters shipped direct.

Approximately 20 per cent of exporters in both countries used air to transport most of their goods across the Tasman, with approximately half of all exporters using air freight to some extent. Small exporters, with high value/low volume shipments, were the main users of air freight. Those exporters who used air freight said that it was either cost competitive, mainly for low density products and for small shipments, or other benefits made it competitive, such as speed of delivery, security and the perishable nature of the goods. However, relatively fewer exporters included in the current survey used air freight than in the 1979 survey, as recent increases in air freight costs have tended to make air uncompetitive for many exports.

(c) *Freight Cost*

There are difficulties in comparing freight costs between individual trades, primarily because of the different characteristics of each trade, which can have a

significant effect on the economics of the shipping operation. For example, some of the claims of a higher cost in the trans-Tasman trade than in other trades were based on a comparison of cost per tonne/mile, which does not necessarily constitute a freight cost disadvantage to an exporter in absolute terms. Moreover it is not appropriate to compare short haul tonne/mile rates with longer routes as the average tonne/mile costs fall with increasing distance.

However there is some validity in using comparative freight rate analysis between one survey and another. In the recent survey in respect of New Zealand, there has been a significant change in the relationship between trans-Tasman freight costs and the costs of shipping to Asian and Pacific markets. In 1979 none of the exporters reported trans-Tasman costs to be lower. This year 22 per cent of exporters reported trans-Tasman costs to be lower, with 36 per cent stating that they were higher, and another 17 per cent considering them to be about the same.

Among Australian exporters the change was not as significant: 59 per cent of respondents stated that costs were higher trans-Tasman compared with Asian and Pacific markets while 16 per cent said they were about the same. There was some improvement in this situation since the 1979 survey when 80 per cent of respondents stated that trans-Tasman freight costs were higher than to other markets.

The average air freight was between \$A700–800 per tonne and was not considered competitive by the majority of respondents on both sides of the Tasman. By comparison the weighted average sea freight was estimated at \$A139 per tonne for Australian respondents and \$NZ125 per tonne for New Zealand respondents.

(d) Importance of Freight Cost

For the majority of Australian exporters to New Zealand the freight cost was less than 20 per cent of CIF price but large exporters had a greater freight cost component than small exporters.

Although close to 60 per cent of the cargo volume consisted of low value exports, this was not reflected in a high freight cost component in the CIF price of these exports. The survey response indicated that only about 20 per cent of the volume of exports had a freight cost component exceeding 20 per cent of CIF price. It therefore appears that many low value cargoes also had a relatively low freight rate.

The majority (66 per cent) of New Zealand exporters had freight costs of less than 20 per cent of CIF prices. However, amongst large tonnage shippers, 52 per cent had freight costs of over 20 per cent. In contrast to Australia, the high freight costs for this group led to 86 per cent of the total volume of exports surveyed having freight costs of over 20 per cent. This in part reflects the low value per tonne for large volume New Zealand exports. Large volume Australian exporters shipped cargoes with a value almost twice as much per tonne in comparison with New Zealand.

According to the USS Co. about 60 per cent of its trans-Tasman cargoes were moving on concessional rates. The Australian response indicated that over 75 per cent of the volume of exports included in the survey were receiving freight concessions. In New Zealand 50 per cent of exporters were receiving freight concessions, though the actual volume of exports being discounted would again be considerably higher. The majority of respondents indicated that they preferred commodity rates to FAK rates.

Exporters were asked to estimate possible increases in their exports if freight rates were reduced either by 10 per cent or 30 per cent. The majority of respondents indicated a low level of responsiveness or no effect in their export shipments to freight reductions. Some exporters commented that other factors were more important than freight cost. However the sensitivity to freight rate reductions was found to be greater in New Zealand than in Australia.

(e) Adequacy of Service

Three-quarters of the Australian and New Zealand respondents thought that the service was adequate except for minor delays resulting from industrial action on the waterfront and a communication problem by the dominant shipping line to advise variations to sailing schedules.

The majority of exporters were also not prepared to either pay more for a more frequent service or pay less frequent service.

Exporters views were not sought on the lack of direct services to Australian ports other than Sydney and Melbourne. However respondents' comments suggest that a reintroduction of direct services could assist with the development of trade between New Zealand and those Australian States which are not served directly at present. The question is whether or not such a service would attract sufficient cargo to make it economically viable.

Apparently the majority of respondents on both sides of the Tasman do not seem to experience any difficulties in obtaining adequate cargo space. However, 20 per cent did report difficulties, the bulk of the problems being experienced by large shippers. This is probably due to the fact that large shippers' goods are often very bulky and non-containerisable.

A space shortage problem had developed in late 1979 with a number of short shipments on both sides of the Tasman, but this was subsequently overcome. However, individual exporters continued to experience problems related to their particular types of cargo, due to unsuitability or shortages of seafreighters. A number of complaints were also received about the condition of the seafreighters, indicating that they were sometimes in a poor state of repair and difficult to assemble, as well as offering inadequate protection against pilferage and the elements.

Serious delays were reported by approximately one-third of Australian and New Zealand respondents. Industrial disruptions were a continuing problem.

Seasonal delays were reported by more New Zealand than Australian exporters: 45 per cent of New Zealand respondents reported delays at particular times, compared with only 23 per cent of Australian respondents. Reported delays occurred mainly during the November/January period, though Australian exporters also reported delays in the May and June period, which coincides with the end of the New Zealand licensing period.

(f) *Trans-Tasman Shipping Improved over the Past Year?*

An improvement in the service was indicated by 26 per cent of Australian respondents during the current survey as compared with only 8 per cent during the 1979 survey. The reported improvement was considerably higher amongst New Zealand respondents, with 47 per cent stating that it had improved compared with only 8 per cent who stated that service adequacy had improved in the 1979 survey.

[NAA: A1838, 370/1/19/18, xx]

108 LETTER FROM BENTLEY TO EVANS

Wellington, 14 November 1980

CONFIDENTIAL

While I was in Canberra last week there was a further CER meeting (albeit of mini working parties) here in Wellington. The meeting focused on technical questions such as access, safeguards and export incentives, matters on which people like David Hawes and Newton Lind are the experts. Not being an expert in these matters I shall not go into details, but I have a few comments from Beath and Groser in MFA which might round out the picture.

List 3 (the deferred category)

The New Zealanders presented to last week's meeting a paper on principles for List 3, the effect of which would be to achieve a full free trade area automatically by 1998. For what it is worth, both Beath and Groser were surprised at the ease with which the paper was accepted by the Official's Economic Committee, some members of which seemed not to grasp the effect of a system which would automatically empty List 3. The Cabinet Economic Committee which considered the paper on 4 November was more switched on. Muldoon opened with the words: 'Here is one Minister who will not accept this approach', but ultimately he did, along with the remainder of the Committee as a basis for discussion. I now attach¹ Newton Lind's redraft of List 3, which you may already have. So far as I can gather the New Zealanders are quite happy with this revision and are happy to do some further work at Newton Lind's suggestion to reformulate the

1 A handwritten footnote here reads 'plus draft covering submission to CEC'.

wording on positive criteria. The New Zealanders do not intend to go back to the Cabinet Economic Committee on this subject until after the forthcoming joint working party meeting in Canberra.

Safeguards

As I understand it, the New Zealanders are committed to preparing a paper on safeguards for the joint working party meeting. I discern two approaches here. One, the Bathgate (Customs)/Donovan (Trade) view that the equivalent of a new article 9² be negotiated. The other, the view which seems to be shared by most other Departments that there be no article 9 equivalent at all. MFA, in fact, seems to take the view that there should be little or no protection of infant industries but concede that other Departments would not be prepared to go this far. The MFA view is that if safeguards are to be provided they should be tightly defined and relate only to national development projects. Temporary duties only would apply and there should be no question of quantitative restrictions.

Export Incentives

MFA sees little chance at this stage of narrowing the gap between the Australian and New Zealand positions. Beath said categorically that New Zealand was not planning to modify its position. He could not see New Zealand being able to articulate a firm commitment to phase out incentives. On the other hand, natural forces (and Treasury pressure) would bring about the collapse of the present scheme: as exports increase, the Government will simply be unable to finance its current incentive schemes.

Quantitative Restrictions (QRs) in Liberal Trade Areas

At least some New Zealanders are looking at ways of dismantling QRs in those areas where trade is considered to be liberal (i.e. in areas where imports account for 20% or so of the market). The formal New Zealand position is that we have sufficient access and that it does not matter if licences continue in these areas. Our view, as you know, is if it does not matter, abolish QRs altogether. MFA is quietly working away on a scheme to [do]³ just that. The scheme provides for licences to be abolished on goods as duty reaches zero, but Beath and Groser enter the caveat, however, that New Zealand would wish first to consider the contents of List 3.

In this context MFA has made the point that at the next working party meeting, Trade & Industry Secretary Clark will wish to focus on the real implications for New Zealand trade as a result of the sort of agreement we are heading towards. Much will depend on what is in List 3 in the end. While there is recognition on the part of officials here that all goods in List 3 will ultimately move through

2 Article 9 of the NAFTA provided for safeguards where the importation of scheduled goods threatened to cause injury in some way to producers of like goods.

3 Handwritten insertion by Bentley.

List 2 and 1 to duty free status, they see a presentational need for New Zealand to have early access in the dairy and whiteware areas.

In another development here, Clark and other officials were pressing to take Douglas of the Manufacturers Federation through the vast bulk of the New Zealand working party papers on 13 November. I shall let you know when I have some reaction. New Zealand industry views on CER are beginning to polarise more sharply as the prospect of a new trade agreement draws closer. The attached National Business review report is relevant.

[NAA: A1838, 370/1/19/18, xx]

109 MEMORANDUM FROM HENDERSON TO STREET¹

Canberra, 19 November 1980

RESTRICTED

Relations with New Zealand

Over the past twelve months there have been a series of meetings between senior Australian and New Zealand officials to discuss possible arrangements for closer economic co-operation between the two countries. The first such meeting took place in early November 1979 in Wellington and was attended by a number of Permanent Heads including myself. Since then there has been one meeting at Permanent Head level in Canberra. The next scheduled meeting is in Wellington on 10 and 11 December.

2. The handling of these discussions, which has involved very detailed technical work relating to customs schedules, national trade practices, etc., etc., has been by the Department of Special Trade Relations. Since that Department was abolished several weeks ago the work has been taken over by the Department of Trade and Resources. Mr Scully (Secretary of the Department of Trade and Resources) has asked me if I would be free to accompany him and some other Permanent Heads to Wellington on this next meeting. I asked him if he thought it was necessary for me to go. His reply was that, although much of the discussion will be technical, he felt it highly desirable to signal to the New Zealanders the seriousness with which we were taking the political dimensions of the matter.

3. If you agree, therefore, I should like to attend the Wellington meeting, leaving Canberra early on Wednesday 10 December and returning on the afternoon of Friday 12 December.²

[NAA: A1838, 370/1/19/18, xx]

1 Street succeeded Peacock as Minister for Foreign Affairs on 3 November 1980.

2 Street annotated the document 'Agreed. AAS'.

110 MINUTE FROM LANG TO EVANS

Canberra, 27 November 1980

CONFIDENTIAL

NZ-CER Joint Working Party

The problems that I mentioned briefly to you at the NZHC on Tuesday evening had grown by the time the meeting ended on Wednesday afternoon.¹ As matters stand, all the contentious issues, which have been readily identifiable from the outset, remain unresolved and will almost certainly be the main matters for discussion when Permanent Heads meet in Wellington. There is no change to my assessment that the ground is not sufficiently well prepared for a Permanent Heads Meeting, but the momentum seems too great.²

2. There is no problem about the mechanism for the scaling down of tariffs. There is no problem about the harmonisation of customs procedures. But New Zealand has not prepared a List 3 of items exempt from both tariff reduction and the liberalised access provision. Their industry consultations are not complete (as I forecast they probably would not be), and the document we were given in exchange for our more or less complete List 3 included whole chapters of their tariff code, and a list of all times on which representations had been made to the government by industry groups. Anderson told Woodfield, and Woodfield appeared to accept, that if we did not have detailed information on the contents of New Zealand's List 3 and on base levels of access for goods in which no trade is now flowing by close of business on Tuesday, 2 December, we would not be able to brief Permanent Heads properly for their meeting in Wellington. My guess would be that Woodfield appreciated that perfectly well, and intends to try to capitalise on it at the Wellington meeting. There is little likelihood of that information being available by Tuesday next.

3. Differences remain on Export Incentives. The New Zealanders will not commit themselves to a review aimed at the harmonisation or elimination of [f] incentives for trans-Tasman trade, and the decision not to do so was taken (as we know from Geoff Bentley's reporting) by the Cabinet Economic Committee at Muldoon's instigation. The reason is obvious. New Zealand's incentive scheme was intended to give New Zealand exports a competitive edge in the Australian market, and seems to have done so.

4. Government purchasing continues to be a stalemate, with the New Zealanders continuing to insist that their Government's preference is worth the preference of both the Commonwealth and State Governments on our side. The further we look into their claim that the Commonwealth Government does not

1 The Joint Working Party met in Canberra on 24-26 November 1980.

2 Evans replied in the margin here: 'I agree that things are still not sufficiently on the rails but we should not underestimate the pressures to see it all come together'.

purchase the same range of goods of interest to New Zealand suppliers that the State Governments do, the more doubtful the claim becomes.

5. The intermediate goods problem has not been entirely solved by the paper that was agreed to at the last Joint Working Party meeting in Wellington. That paper contained only general prescriptions. To remove from our List 3 the whiteware goods that New Zealand wants to get onto the Australian market, specific solutions to the intermediate goods problems in that area need to be agreed upon.

6. The most depressing feature of the talks was the long-postponed discussion on the dairy industry. The veil that has for months been drawn over this subject had enabled the Australian side, it seems, to imagine that the New Zealanders understood our sensitivity on this, and would not press for anything but cosmetic changes to present arrangements. The same veil had enabled the New Zealanders to convince themselves that, against all expectation, we were apparently prepared to apply the same 'base level and 10% real annual increase in access' formula to the dairy industry as was to be applied in other areas where quantitative restrictions now exist. In short, we are not. It is Primary Industry's expectation, which I probably share, that Cabinet will not seek to impose on our dairy industry pressures for accelerated rationalisation such as would flow from automatic increases in access for New Zealand cheese. The paper on agricultural commodities in the section on dairy produce, states:

'The principal New Zealand objective under CER is to secure unrestricted duty free access on a fair basis for NZ dairy produce into the Australian market. New Zealand would see existing trade barriers in the dairy sector, such as they are, being subject to the accepted formula.'

7. The Australian reply states:

'The Australian side also believed that in order for New Zealand to take full advantage of opportunities in the Australian market it will be necessary for it to exercise voluntary restraint on all dairy products in its own interest and that the formula approach to liberalisation proposed by New Zealand is inappropriate in the case of dairy products.'

8. At this stage I cannot see where a compromise might lie, and although further talks might help, it is not as thought this problem has never been intensively examined before.³

9. Woodfield reminded the meeting, in rejecting the Australian position, that if there was no deal on dairy products there would be no agreement. How Cabinet will resolve the matter is hard to say, but it will have to take into account the stance of the CAI, which has told us that members do not much care whether there is a CER or not. My point is that the argument cannot now be made that our

3 A marginal note here by Evans reads: 'As I mentioned last week, I believe that Scully will seek a compromise'.

dairy industry needs to be sacrificed for the sake of securing for our manufacturing industry objectives which are important to it.

Geoff Bentley has seen, and generally agreed with, this report.⁴

[NAA: A1838, 370/1/19/18, xx]

111 MINUTE FROM LANG TO HENDERSON

Canberra, 5 December 1980

CONFIDENTIAL

New Zealand—Permanent Heads Meeting

I attended the resumed session of the preparatory meeting¹ on 5 December as requested. Scully and Duthie were the only Permanent Heads present. I apologised for your absence.

2. Most of the meeting was taken up with an attempt to define the position that the Australian delegation next week should take on New Zealand access to our dairy produce market. Scully put it to Duthie that an agreed package was needed so that it could be put to governments for them to evaluate. In his view, this meant that Primary Industry was free to put forward solutions to the dairy problem with which it did not agree, and which it would be free to advise against most vigorously in Cabinet. Then Cabinet could decide whether the 'pain' involved in liberalising New Zealand's access to our market was worth the positive opportunities for our manufactured goods that the package would contain. Duthie's reaction was sullen and recriminatory. He pointed to number of agricultural areas where the New Zealanders use a monopolistic purchasing policy to ensure that New Zealand's domestic produce was distributed before any imports were allowed. Why shouldn't we do the same with dairy products? (Present policy is a close approximation to such a model.) Duthie left before anything was resolved, and Scully was obliged to patch up some makeshift 'solutions' with the equally intractable FAS from Primary Industry responsible for the dairy industry.

3. As matters stand, we have no proposals to put to the New Zealanders on dairy produce that are likely to be acceptable to them, and they, so far as we know have no proposals that are acceptable to us.

4 Last sentence handwritten.

1 A meeting of Australian officials to brief permanent Heads or their representatives for the joint meeting with New Zealand Heads on 9–11 December 1980 in Wellington.

4. Scully (and Frank Anderson) selectively misrepresented the Prime Minister in an attempt to persuade Primary Industry that it had been agreed at the highest level the dairy industry should be no exception to the liberalisation formula. As I read the Prime Minister's words during his meeting with Muldoon in March (Anderson or David Hawes could show them to you), he was fairly equivocal about the dairy industry, twice making the point that New Zealand should have no 'exaggerated expectations'. Challenged by Muldoon, he shied away from any suggestion that the dairy industry was excluded from the arrangement, but he held to the view that New Zealand could not expect a 'bonanza'.

5. Given the way Scully proposes to handle the agenda in Wellington, discussion of this topic may well be concluded by the time you arrive. Or it may not be. At the end of this morning's meeting Scully commented, with somewhat grim humour, that it might take up most of the meeting.

[NAA: A1838, 370/1/19/18, xx]

112 CABLEGRAM FROM DEPARTMENT OF PRIMARY INDUSTRY TO DUTHIE

Canberra, 8 December 1980

O.CH932130 CONFIDENTIAL

Australia – New Zealand CER—Joint Permanent Heads Meeting

For Duthie: (please deliver immediately).

In respect to trade in dairy products in the context of the CER, three possible options are set out below. They are:

- A) Granting of monopoly import powers to the Australian Dairy Corporation.
- B) Adoption of the formula approach.
- C) Year-to-year consultations between the Australian and New Zealand dairy industries.

(A) MONOPOLY IMPORTS POWERS (UNDERLINED)

Proposal (underlined)

To give the Australian Dairy Corporation (ADC) monopoly powers in respect of the import of dairy produce from NZ.

Advantages (underlined)

To give the ADC control over the quantity of product imported from NZ.

Would be easily administered.

By fixing the 'resale' price of imported product the ADC could ensure that domestic pricing arrangements are protected.

Disadvantages (underlined)

Conferring such powers on a statutory authority would be criticised:

- by consumers, fearful of losing freedom of choice of type of product,
- by traders, who would lose present profitable business,
- by supporters of 'free enterprise', who would see this as further government control of business.

Some difficulties could arise in conferring the powers on the ADC

- the Commonwealth's powers over international trade would probably enable it to confer the monopoly import powers (possibly through the customs, prohibited imports, regulations) on the ADC.

However, the ADC's powers to trade intra-state in imported dairy produce could be called into question.

To circumvent this it may prove necessary to develop a system of importing product into one state for use in another.

The proposal would involve major changes to the Dairy Produce Act.

Likely NZ Attitude (underlined)

NZ could fear that as Australian traders would remain free to import unlimited quantities from other sources to meet demand, the ADC would take the role of 'importer of last resort' thus limiting NZ access to Australian market

- this would substantially reduce the attraction of the proposal to NZ.

Possible Modification to Scheme (underlined)

A modification which may be suggested in a scheme based on monopoly import powers coupled with guaranteed minimum purchases, at levels and prices to be negotiated.

This would have the advantage (underline one) of enabling the ADC to control the wholesale price in Australia of the product, would be easy to administer and would give NZ guaranteed access.

In addition to the disadvantages (underline one) listed above for the monopoly import powers the suggested modification would place the ADC in the position of a trader tied to a long term contract

- should losses be involved on imported product because of the compulsion to buy fixed or minimum quantities the cost would have to be met from industry funds.

(B) FORMULA APPROACH (UNDERLINED)

This would allow butter and cheese imports from NZ to grow at 10 per cent per year over the next 7 years from a base of dlr 200,000 in the case of butter (currently no imports) and 4.9 kt in the case of cheese (agreed imports for 1980/81).

This approach would result in—

(a) Butter imports from NZ increasing from 0.160 kt in 1980/81 to 0.312 kt in 1968/87;

(b) Cheese imports increasing from 4.9 kt in 1980/81 to 9.5 kt in 1986/87.

On an aggregate basis these increases in imports would have only a marginal impact on the Australian dairy industry. In 1986/87 the above imports represent some 40ml of milk; representing the production from 1 per cent of Australia's dairy farms and being less than 1 per cent of current dairy production.

This formula would undoubtedly lead to NZ increasing its share of the Australian cheese market

— cheese consumption expected to grow only slowly in the 1980s

— NZ imports under above formula likely to grow from 4 per cent of market currently to around 8 per cent by 1986/87.

In the case of butter the formulae would have imports growing from 0.160 kt in 1980/81 to 0.312 kt in 1986/87. Assuming the domestic butter market stabilises imports would represent less than 1 per cent of domestic consumption. Even if the market continued to contract to say 40,000 tonnes in 1986/87 imports would only represent 0.8 per cent of the market.

Taking WMP, SMP and casein together, application of the formula could result in NZ's share of the domestic market growing from less than 1 per cent currently to approximately 3 per cent. Recently, imports of condensed milk have risen sharply (406 kt worth d/lrs 1.5m in 1979/80) and given the high unit value of the product market share likely to expand under the formula.

(C) YEAR-TO-YEAR APPROACH (UNDERLINED)

The proposal which is outlined below should be read in conjunction with the paper prepared by the Dairy Products Division (dated December 2, 1980) on the closer economic relations (CER).

Under this proposal the Australian and New Zealand dairy industries would meet annually with the aim of reaching agreement on the types and quantities of dairy products which would be traded between the two countries during the ensuing year. In the determination of the levels of trade, the two industries would take into consideration trends in the price, production and consumption (and hence growth) of dairy products in each country as well as the effects of such trade on each country's domestic marketing arrangements. The overall objective would be to increase the level of trade in dairy products between the two countries.

The machinery already exists for such consultations between the two industries in the form of the Australia – New Zealand Joint Dairy Industry Consultative Committee which was established in August of this year and which held its first meeting in Melbourne last week (December 3).

Backing would be given to the arrangements agreed upon between the two industries by each government giving an undertaking that it would not place any impediments in the way of such agreed trade and would in fact ensure that their respective industries carried out obligations under the arrangement.

If the two industries were unable to reach agreement in any year on the level of trade in the respective types of dairy products then it would be a matter for the two governments to decide upon the matter

— the threat of government action should in itself act as a powerful force in encouraging the industries to come to an amicable understanding.

The year-to-year approach outlined above would be written into and form part of the CER agreement.

ATTITUDE (UNDERLINED)

Allowing increased imports of NZ butter and cheese as would occur under Option B would have a relatively minor influence on the Australian dairy industry over the next decade. Other economic and market developments are likely to be much more significant.

Option B also has the advantage of putting dairy trade on the 'common framework' being developed as part of CER.

However, political factors would likely cause problems in Australia if his option was pursued immediately. The political situation could change, however. As a result of impending negotiations on domestic dairy policy in Australia and the reconsideration of the market outlook that would be undertaken in the context of those developments.

This suggests that if at all possible, the dairy import issue should be deferred pending the outcome of our domestic negotiations.

If this is not possible, then the option of industry consultations is the only practical possibility and has the advantage of allowing flexibility in the future if the environment changes.

[NAA: A1838, 370/1/19/18, xx]

113 JOINT STATEMENT BY FEDERATED FARMERS OF NEW ZEALAND AND NATIONAL FARMERS' FEDERATION

Wellington, 9 December 1980

Joint Statement of General Principles Agreed by Federated Farmers of New Zealand (Inc.) and National Farmers' Federation in Relation to the Closer Economic Relationship Between Australia and New Zealand

Preamble

1. Representatives of Federated Farmers of New Zealand (Inc.) (FFNZ) and the National Farmers' Federation (NFF) meeting in Wellington on 8 and 9 December, 1980, discussed aspects of the closer economic relationship (CER) between Australia and New Zealand. The scope of the CER was agreed by the Prime Ministers of Australia and New Zealand when they met in March 1980, and announced in a joint communiqué¹ issued at that time.
2. The meeting recalled discussions between their respective Presidents—Mr. Allan Wright (FFNZ) and Mr. Don Eckersley in Canberra in November 1979, and those between representative teams from FFNZ and NFF also in Canberra in April 1980. These discussions canvassed broad aspects of trans-Tasman agricultural trade and trade generally in agricultural products.
3. Emerging from these discussions was a general agreement between the two organisations.
4. Within the context of the Australian and New Zealand Governments' expressed intention to establish a closer economic relationship, the farmer organisations agreed that trade in agricultural products should:
 - (a) be conducted within the general framework of the CER;
 - (b) take place under conditions of fair and equitable competition;
 - (c) recognise the advantages of trade being directed outwards to third countries.
5. Both organisations noted the complementary nature of certain product sectors as a positive factor from which advantage may accrue.
6. It was agreed that closer consultation between industry elements was an integral part of the CER. This was seen to have particular relevance in ensuring an understanding of problems by both parties in relation to some industry sectors; in looking toward and gaining maximum advantage from third country markets and assessing third country imports with a view to Australian or New Zealand substitution.

1 Document 93.

7. With this background the FFNZ and the NFF agreed that detailed consideration of trade in the various product sectors was, and must remain, the prerogative of producer/commodity groups.

8. The discussions underscored the need for a clear recognition of the role and position of marketing authorities in the consultative process. It was seen to be necessary to establish mechanisms for consultation within the CER where this did not already exist, and in cases where such consultation now occurs to formalise this within the CER framework.

9. The FFNZ and NFF agreed that the results of this round of discussions would be circulated within their organisations without delay with a view to informing their respective Governments of the position if possible not later than Christmas 1980.

10. In their considerations the FFNZ and NFF took note of the agreement reached recently by the Confederation of Australian Industry (CAI) and the New Zealand Manufacturers' Federation (NZMF)² in relation to manufactured products, and agreed that it would be useful to follow the general pattern of these agreements in regard to agricultural products.

11. The FFNZ and NFF considered and agreed to a joint position on the range of topics in the attached papers.

[NAA: A1313/111, 81/1440, ii]

114 LETTER FROM BENTLEY TO EVANS

Wellington, 17 December 1980

CONFIDENTIAL

All in all, the Permanent Heads' meeting last week went very well, but there is no escaping that issues—key issues—remain to be resolved. The briefing provided by the IDC and Warren¹ was invaluable; I have to admit, however, that I still found some of the proceedings quite bewildering, particularly when the experts on each side went into huddles.

For the most part discussion centred around a New Zealand draft of a Joint report from Permanent Heads to Prime Ministers and its accompanying draft Heads of Agreement. When the Permanent Heads finished up on 11 December there were

² See Document 103.

¹ Presumably Warren Lang, Head of New Zealand Section in Canberra.

a few loose ends and what I now attach is a copy of the Joint Report² as it stood by the end of 12 December. There are still some notable gaps:

- Agriculture support/stabilisation measures
- Export incentives
- Rationalisation

and a few points to be resolved in the intermediate goods and tariff areas. It is not immediately apparent from the Joint Report either that other outstanding items are the final content of Category C (the deferred list) and our reservations about import restrictions (para 2.26 and 4.01 ff refer). A New Zealand draft of the Export Incentives section is also attached.³

As always, it seems, the major gap boils down to dairy. I attach the Australian draft of the Agriculture Support/Stabilisation measures section⁴ of the Joint Report and an accompanying Australian draft specifically on dairy.⁵ These two documents warrant closer examination. You will note that much of the work foreshadowed in the latter could take some time, which in my view must put in jeopardy a timetable that envisages at least Ministerial initialling of Heads of Agreement by late March. Frankly, I have difficulty seeing how Heads of Agreement can be completed ahead of new stabilisation arrangements for the Australian dairy industry being worked out. But I could be completely wrong.

For what it is worth, the New Zealanders—or at least Beath in MFA—take a more optimistic view. He believes that our side can and will come up with a viable option on dairy (see paras 2 and 3 of the Australian dairy draft) well ahead of March/April.

With 1981 and a very tight general election looming the New Zealanders are very conscious that little time is left to consummate the deal. According to Beath Prime Minister Muldoon is still anxious to meet with Mr Fraser in late February. Officials are also talking about the possibility of a further Working Party meeting in late January and another Permanent Heads' meeting in early February.

In the remaining few days before Christmas I shall attempt to get a clearer reading of the New Zealand view of the timetable. Despite all the current talk of getting on with the job, you will be well aware that between 25 December and late January everything in New Zealand will be in a state of suspended animation.

2 Document 139.

3 Attachment A.

4 Attachment B.

5 Attachment C.

Attachment A

Export Incentives

7.01⁶ It is agreed that significant bilateral disparities between the basis and benefits of performance based export incentive schemes or other similar support measures are inconsistent with the objectives of this agreement.

7.02 In respect of trans-Tasman performance based export incentives there shall be a joint review to be commenced before 1 July 1982. The purpose of the review would be to identify the nature and content of disparities and to quantify their effect. In the event that significant disparities were apparent it would then be determined what remedial action was required to remove them.

7.03 Any action agreed as a result of the review will form part of the new Agreement and should be completed by 1 April 1985 or in any event no later than 30 June 1987.

7.04 In this context both Governments have indicated that it is their intent not to increase the real benefit of other types of export incentives (e.g. promotion incentives) applying to trans-Tasman trade.

7.05 In relation to other forms of assistance at the request of either Government, the review can be extended to consider differential fiscal measures also causing a significant bilateral trading advantage.

Attachment B

Australian DRAFT

Agricultural Support/Stabilisation Measures

6.01⁷ For most agricultural commodities, support/stabilisation measures in either country do not hinder trans-Tasman trade. However, in the cases of wheat, citrus fruits, grapes, bananas, pineapples, peas and beans and dairy products there are a number of issues to be resolved.

Wheat

6.02 It was the Australian view that the proposed continuation of the New Zealand Wheat Board's monopoly import arrangements represented a divergence from the basic principles of a closer economic relationship. In practical trade terms, however, it was felt that the impact would be minimal.

One of the objectives of the New Zealand Wheat Board as a monopoly importer is to ensure that all domestically produced bread wheat finds a place in the domestic market. Under a CER arrangement it is agreed that for imports of wheat to meet market requirements as necessary, New Zealand will accord Australia

6 The paragraph numbers conform to the section in Document 139 for which this is a draft.

7 The paragraph numbers conform to the section in Document 139 for which this is a draft.

first preferred supplier status subject to normal commercial terms. It is noted that prices to New Zealand wheat producers are approximately equal to Australian FOB prices.

Citrus Fruit and Grapes

6.03 The operation of New Zealand's monopoly importer arrangement, Fruit Distributors Limited (FDL) was noted and the Australian view on the basic principle of a closer economic relationship set out in 6.02 was re-expressed. It is agreed that in the case of citrus fruit and grapes Australia will be accorded preferred supplier status subject to normal commercial terms.

Bananas and Pineapples

6.04 It was noted that for New Zealand's imports of bananas and pineapples FDL accords the Pacific Islands preferred supplier status. It is agreed that subject to normal commercial terms Australia will be considered to have a supplier status at least as favourable as the Pacific Islands.

Peas and Beans

6.05 It is the Australian view that the existing panel serves a useful purpose in that its monitoring and guidelines seek to even out fluctuations in trade of the disruptive kind. Accordingly Australia wishes to see these arrangements continued. New Zealand sees the guidelines as inconsistent with the principles of a liberalisation of trade under a CER and therefore they should be terminated, although New Zealand has no objection to continuing consultations.

Dairy Products

6.06 Both sides noted the report by the Australian Bureau of Agricultural Economics on the 'Comparative Efficiency in Dairy Farming between Australia and New Zealand and its Implications for Freer Trans-Tasman Trade'. The BAE study concludes that the forms of assistance to the Australian and New Zealand dairy industries differ markedly. The bulk of Australian assistance is derived from high levies on domestic production⁸ and consequently wholesale prices for Australian dairy products are considerably above world and New Zealand levels. In a free trade situation these relatively high Australian price levels would act as a strong incentive for a substantial increase in imports.

6.07 The BAE study pointed to possible damage to the Australian dairy industry in a situation of unrestricted duty free access to the Australian market. However, both sides agreed that such a situation would only occur if New Zealand took full advantage of such access arrangements. Except for the NAFTA 1220 tonne cheddar cheese quota unrestricted duty free access has been available to the New Zealand Dairy Board for many years. During this time the New Zealand Dairy Board has restrained its exports to Australia on a voluntary basis has co-operated

8 For explanation of the levies see the first paragraph of Attachment C.

closely with the Australian industry. In recent years a substantially improved climate of constructive co-operation between the two industries has developed. A Joint Industry Committee has been established and recently held its first meeting. The New Zealand Dairy Board's current marketing objective in respect to the Australian cheese market is to develop a modest place in that market and to secure reasonable growth.

6.08 Against this background and bearing in mind the possibility of further contractions in Australian production both sides agreed that there was scope in the future for reasonable growth in New Zealand – Australian dairy trade.

6.09 New Zealand believes that the most appropriate means of facilitating this growth is for the New Zealand Dairy Board to continue to exercise its own commercial judgement with regard to the level of exports to the Australian market. With regard to the existing NAFTA 1220 tonne quota for cheddar cheese it is New Zealand's view that the normal access formula should apply.

6.10 Australia on the other hand would like to see growth in New Zealand exports to the Australian market manage jointly through agreed industry-to-industry co-operative arrangements.

Attachment C

[Australian] DRAFT

Australia – New Zealand—Dairy Products

Australian Permanent Heads indicated that they would be recommending that Ministers not accept the New Zealand approach involving reliance upon the New Zealand Dairy Corporation to determine the extent to which it would export to Australia under the current essentially open access arrangements with Australian producers handicapped by levies on cheese of \$A500 per tonne and butter of \$A710 per tonne.

However Australian Permanent Heads indicated that they would place a number of options before their Ministers in an attempt to arrive at an approach to the dairy sector which would mesh with the general thrust of a new CER arrangement but at the same time take proper account of the question of equity arising from the differences between the support arrangements of the two countries and the potential vulnerability of Australian dairy farmers in the absence of some clear understanding along the lines envisaged by Prime Ministers concerning the rate of growth of imports and the rate of adjustment.

One option which would be put to Ministers for consideration would be the negotiation of initial access levels for individual dairy products and an appropriate growth factor.

The implications of the current levy arrangements for fair trans-Tasman trade would be addressed by Australia in the coming months within the context of work on a new stabilisation arrangement for the Australian dairy industry. Work

on a new arrangement should be well advanced by March/April and should be operative from 1 July, 1981.

Australian officials recognised the pivotal nature of the dairy issue in future negotiations on a CER and undertook to keep New Zealand officials fully informed of developments in their thinking.

[NAA: A1838, 370/1/19/18, xx]

New Zealand Documents

**115 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 27 March 1980

NO 894. CONFIDENTIAL PRIORITY

Australia/NZ Economic Relations

Mr Nixon spoke at the opening of an agricultural field day in the Gippsland area (the dairying heartland of Victoria) on 21 March.¹ On relations with New Zealand he said:

The dairying industry has, over the years, gone through many challenges and changes—some of which are, of course, continuing.

I am aware of the intense interest and concern in some sections of the industry with the development of UHT milk, and the move towards closer economic co-operation with New Zealand.

Those in the industry would know of the consultations which are currently under way with New Zealand on the question of economic co-operation.

I am sure the Prime Minister, Mr Fraser, will be raising the matter in his talks with his New Zealand counterpart, which are currently underway in Wellington.

Let me assure you that the Government will not allow the Australian dairy industry to be adversely affected by economic co-operation, and that we are making this point most plain in our negotiations with New Zealand.

2 It is interesting however that Mr Nixon chose the same speech to attack agricultural protectionism. He criticised the attitude of developed countries he encountered at the recent OECD meeting in Paris that 'agriculture is our oil' that is, that the way to pay for higher oil import bills was by increasing exports of subsidised agricultural products.

He said:

Australia has always spoken out strongly against dumping of subsidised agricultural products. It distorts real market opportunities and blatantly discriminates against the low cost, efficient producer, such as Australia.

¹ This message replies to a query from officials in Wellington, who had seen press reports of Mr Nixon's speech.

Clearly, if this new 'agriculture is our oil' policy gains momentum among the industrialised nations of Europe, then prospects for increasing Australian exports must decline.

I realise that many of the poorer developing countries are currently able to take advantage of cheap prices for imports of dumped goods. But the real advantage to those countries is only skin deep, and the long-term prospect is one of real disadvantage.

By importing cheap goods, there is no incentive for the developing countries to develop their own agricultural industries. That means their progress to self sufficiency is slowed down, as is their capacity to win export earnings from agriculture. The overall result is that their economies are not becoming stronger and healthier. In terms of agriculture, the developing countries, instead of developing, are in fact being forced to stagnate because of this dumping.

Ends

3 While there may appear to be some inconsistency between 'not allowing the Australian dairy industry to be adversely affected by economic cooperation', and 'free(ing) up world trade in agriculture', Mr Nixon's comments which were not, we gather, cleared with the Department of Trade and Resources must be read alongside Mr Fraser's comments in the House on Tuesday about coming to an equitable arrangement by which trade in agriculture can take place, and against the background of the pressure building up from the dairy lobby on this issue. The lobby's latest tactic is to accuse the Federal Government of 'selling out' the dairy industry, and to have Mr Anthony removed from his 'responsibility' for negotiations with New Zealand on the grounds that he has displayed insufficient interest or sympathy for the cause of dairy farmers, and replaced by Mr Nixon. This tactic was reported in the recent article in the Melbourne Sun referred to by Mr Bowen in the House of Representatives on 25 March (our 871) the text of this is in a separate telegram.

4 Mr Nixon's statement seems to be an attempt to deflate the pressure from those in the industry who are bent on using this issue to embarrass Mr Anthony's leadership of the Country Party, and to force the Government into a corner. What Mr Nixon said is consistent with the view given us by Miller to the BAE (our 777) that ministers felt they had to be in a position to say that the industry would be fully consulted. Mr Nixon obviously felt it necessary to go one step further. The clear intention was that farmers take home with them two messages: that the Government is looking after their interests and that in any event they had nothing to fear from closer economic cooperation with NZ.

5. There is no doubt that in this election year Mr Nixon will continue to make statements to assuage farmers' fears which at the same time may have the effect of arousing suspicions among the New Zealand public. In many ways the pressure is more on Mr Nixon than it is on Mr Anthony. His Victorian constituency is in a dairy farming area and his own position was threatened last

year by a local Liberal Party move to contest the seat. It required Mr Fraser's intervention to prevent a Liberal/Country clash. It seems very much in our interests to avoid if possible any New Zealand reaction which would make it more difficult for Mr Nixon to keep the issue off the boil in coming months. If we can do this our negotiating position would be much stronger when the real bargaining begins.

6. We shall report in a separate telegram on the general press reaction here to the Muldoon/Fraser communiqué.²

[ABHS 950/Boxes1221-1226, 40/4/1 Part 26

Archives New Zealand/Te Whare Tohu Tuhihinga O Aotearoa, Head Office, Wellington]

116 MESSAGE¹ FROM TALBOYS TO ANTHONY

Wellington, 2 April 1980

NO 1051. CONFIDENTIAL PRIORITY

Australia – New Zealand Economic Relations: Cheese

Our immediately preceding message refers.² Below is the text of Mr Talboys' reply to Mr Anthony's letter of 13 March. Grateful you communicate the text to Mr Anthony immediately. The original will be forwarded by bag.

'Thank you for your letter of 13 March 1980 outlining your thoughts on the cheese issue and your proposal for limiting sendings of New Zealand cheese to Australia.

I am grateful to you for setting out so clearly the problem facing your Government. I can assure you that I have also been giving serious thought to the circumstances relating to this trade and its place in our future economic relationship. The essence of your proposal is that New Zealand should agree to a Government to Government arrangement under which our exports of cheese to Australia would be "voluntarily" restrained. An arrangement would apply initially for three years and then be reviewed. As I understand it this arrangement would stand on its own, unrelated to other issues of competition and cooperation between our two dairy industries in the context of closer economic relations between our two countries. Although I appreciate the factors which weigh with you, I consider that an approach of this kind would be most difficult to reconcile

2 Document 93.

1 Text of telegram to NZHC Canberra.

2 This exchange between Anthony and Talboys initiated lengthy and difficult negotiations on what proved to be one of the more intractable issues of the CER negotiations.

with the long term interests of both Australian and New Zealand producers. Nor, I believe, would it be helpful to the development of a closer economic relationship between our two countries.

At the time when our two governments are endeavouring to create a political and economic environment conducive to closer cooperation and more liberal trading conditions, restrictive action of the nature you have proposed would be widely interpreted as being inconsistent with our joint objectives. It would call into question the basic approach adopted by the two Prime Ministers at their meeting on 21 March which envisaged that the objective of any new arrangement would be to include all goods produced in either country.³ In this respect I think it is vital that neither the Australian nor New Zealand Governments put themselves in the position of having to circumscribe the scope of the proposed new agreement at this early stage. You will appreciate that there is considerable sensitivity on the New Zealand side in the dairy and other farming sectors—as well as in manufacturing—as to the likely balance of advantage under any arrangement.

The view I have reached after further reflection and consultation with my colleagues is that this is a matter which it should be possible for our two industries to resolve between them. This, indeed, was the position taken by both Prime Ministers at their 21 March meeting. There is already a high level of understanding of each other's view points, as well as cooperation on day to day matters between the New Zealand Dairy Board and the Australian Dairy Corporation. There have been misunderstandings in the past over issues such as pricing but these have now been resolved. Moreover, the New Zealand Dairy Board remains anxious that regular consultations take place between the Board and the Corporation at a policy level as well as on day-to-day issues. I see no reason why this should not be possible.

The Chairman of the New Zealand Dairy Board, in his letter of 8 August 1979 to the Chairman of the Australian Dairy Corporation, made certain specific undertakings on behalf of his Board, relating to New Zealand's aspirations in the Australian dairy market. This remains a true expression of New Zealand Dairy Board policy with respect to the Australian market and I have every confidence that the undertakings made by the Board will be met.

Fears expressed from time to time by Australian industry leaders, regarding potential levels of imports from New Zealand, are also misplaced. The New Zealand Dairy Board Chairman's letter of 8 August 1979, referred to above, provides an assurance that the New Zealand industry's aspirations in the Australian dairy market are based on a realistic appreciation of all political and economic considerations, as well as commercial ones. Concerns that Australia may be the recipient of large quantities of New Zealand product displaced from the European Community market are equally baseless.

3 See Document 93.

It seems to me that some further development of the concept of an annual consultative process involving both our producer interests and the two governments, display[s] the most merit. Under such a consultative system the New Zealand Board would make a judgement about the market situation and the extent of its shipments of cheese to Australia for the year ahead in the full realisation of the views of the Australian representatives, against the background of the market objectives already stated by the Chairman of the New Zealand Dairy Board, and other relevant factors in the relationship between the two industries.

This would be "voluntary" action in its best and purest form without direct government influence.

In the circumstances, the New Zealand Government would have the greatest difficulty in accepting that your proposals provide an appropriate basis on which a long term, balanced and stable industry relationship could be achieved. This view has been reached after the most careful consideration and with a full appreciation of the difficult position in which your Government is placed. Nevertheless, it is my earnest hope that the considerations which I have expressed, and the need for both our governments to reinforce and substantiate publicly the commitments given by our Prime Ministers on 21 March to work to establish an open and durable relationship, will weigh with you on this issue.'

[ABHS 950/Boxes1221-1226, 40/4/1 Part 27

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117 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 21 April 1980

No 1162. CONFIDENTIAL

A/NZ Economic Relations: The States

We talked to Anderson (STR) last week about the briefing session officials had had with the States and with industry on the discussions between the two governments about closer economic relations.

2. Anderson said that despite the fact that the communiqué¹ and the annexes had been circulated well before the meeting, not all those who came to the meeting seemed to particularly well briefed. Some of the States' representatives in particular seemed to be thinking aloud rather than from properly considered notes. Predictably the concerns they raised tended to reflect regional issues.

1 Document 93.

Tasmania, for example, expressed concern about the continuing orderly trade in frozen vegetables. Queensland on the other hand had raised the possibility of some of their more specialised exotic fruit industries being subject to competition from New Zealand. (On this latter question we said to Anderson that we thought Queensland would have been more likely to ask about possible increases in opportunities to sell fruit, particularly tropical fruit, in New Zealand. Anderson said that he was a little surprised by Queensland's approach too as, against the background of New Zealand's expressed concern about displacing imports from South Pacific countries, officials had been ready to dampen any expectations Queensland may have foreshadowed, but he did not feel that their representative was in any event particularly well briefed.) Dairy products and intermediate goods did not feature at all.

3. However, Anderson said that they had tried out a formula on the states for government purchasing and had got a fairly positive response. Officials had suggested that, whatever loading should be used to give preference to industry in any particular state, New Zealand should be treated for purchasing purpose as 'another state'. The States seemed 'pretty relaxed' about that suggestion.

4. Anderson said that one general observation he felt should be made about the meeting was that there was a strong feeling that to the extent States would benefit from the new economic relationship with New Zealand most of the advantages would accrue to Victoria and New South Wales and to a lesser extent, Queensland. Officials had stressed that the pain would be felt to a proportionate degree in those same States.

5. We were not surprised that Canberra officials should find that the States' representatives were not well informed. At the Federal Council of the Liberal Party held in Canberra 11–13 April there was no mention at all of the Muldoon/Fraser communiqué; although this could partly be explained on the basis that there were no specific discussions or resolutions on substantive trade issues, but the comments which the Premier of Victoria, Mr Hamer, made to us were probably fairly typical of views from the States delegates: he said Mr Fraser had so far not informed States of what was going on. He did not really know anything about the issue other than the brief references in the newspapers. He had received no comments from any Victorian constituents. He was conscious of Victoria being the dairy farmers' stronghold but they had not said anything to him. Moreover, he could not see A/NZ economic relations becoming a national issue.

6. We were surprised that Hamer was not conscious of the pressure being exerted by the Victorian dairy farmers. But this could change if the farmers broaden their campaign.

118 LETTER FROM BATHGATE TO SCOTT AND MEMBERS OF THE INTERDEPARTMENTAL WORKING PARTY

Wellington, 22 April 1980

Australia/New Zealand Economic Relations

1 I attach copy of an exercise on the Intermediate Goods question which throws up some interesting (even unexpected) conclusions.

2 I think that it would be valuable to pass this over to the Australians at this stage.¹ The immediate need is to verify the Department's interpretation of the effects of Australian tariff and by-law policies. However, the conclusions of the study seem helpful to our negotiating position and to the extent that the Australians can be brought to agree with the implications, might be useful in putting this matter into correct perspective before they adopt a position.

Attachment

New Zealand – Australia Economic Relations

Exercise Quantifying Disparities in Relation to Intermediate Goods

1 The Customs Department has conducted an exercise directed at quantifying the treatment given by Australia and New Zealand to intermediate goods used for further processing.

Products and basis adopted for exercise

2 The selection of goods for the exercise was based upon identifying products which were traded between the two countries and where the Customs Department already had information as to cost breakdowns. This latter information was acquired in the course of the Tariff Review. The product range took account also of Australian known sensitivity concerning possible benefits enjoyed by New Zealand industry in the whiteware area. A number of other products were looked at but were rejected when it was found that the value of the intermediate goods used was minor and/or the information available was insufficient to present meaningful conclusions.

3 The products assessed were:

- electric refrigerator
- clothes drier
- electric range
- automatic washing-machine
- loudspeaker
- spark-plug.

¹ The records do not indicate whether this suggestion was adopted.

4 The information compiled in respect of each of these products was tariff classification, normal and developing country rates of duty, concessionary provisions, import licensing position, cost of intermediate product, Australian tariff item, Australian General and DC rates of duty and Australian bylaw position.

5 Since the exercise was directed at establishing the comparative advantages and disadvantages relating to each intermediate item, it was not considered necessary to identify the actual source of the items concerned—that is, whether they were, in fact, purchased from New Zealand, Australia or from third countries.

6 It should be noted that tariff classifications were based on available information and descriptions and therefore encompass a possible margin of error. The input costs were on an into-store basis and included duty paid. In a few cases the company indicated that it enjoyed a tariff concession at the time of importation which could not, however, be verified. The calculations were, however, based on the most favourable position in that regard.

Significant factors

7 Working papers giving a break down of the position are attached.

8 Overall, the results of the exercise showed that in three cases there was an apparent disadvantage to the New Zealand manufacturer and in the other three cases the reverse was the case. More detailed information in this regard is contained in the Appendix.

9 This shows that, in the cases under study, New Zealand had an apparent cost advantage of some 7.77% in the case of the refrigerator, 1.82% for the clothes drier and 1.04% in relation to the spark-plug. On the other hand, Australia had an advantage in the case of the loudspeaker (6.76%), the automatic washing-machine (3.57%) and the electric range (1.75%).

10 Further calculations were made to estimate the advantages/disadvantages in the event of there being no concessions/bylaws applicable—that is, if the normal (General) rates had been applied or, alternatively, both countries had applied developing country rates. The percentages of advantage/disadvantage consequential to these calculations vary. The most significant variation applies to spark-plugs, due largely to the New Zealand manufacturer being required to pay a substantive rate of 40% if the existing concession on insulators was to be cancelled.

11 It should be noted that a substantial factor in the advantage accruing to New Zealand in the case of refrigerators stemmed from compressors where the New Zealand tariff levels were 5% (Normal) and Free (DC), (the former rate being waived by a tariff concession) whereas the Australian rates were 15% (General) and 5% (DC).

12 A further point of significance is the extent to which the intermediate goods are subject to import licensing in New Zealand. For example, of the 49 individual items used in the manufacture of a refrigerator, some 42 are controlled by import licensing. The exercise has not been taken to the length of attempting to quantify the impact of import licensing policies. Presumably, in those cases where comparable intermediate goods are not manufactured in New Zealand, the acquisition of an import licence does not present any substantial problem. However, in those cases where the goods might be within the possible range of local manufacture, the New Zealand manufacturer is being asked to accept an additional and quantifiable cost. This could be significant and could materially influence the conclusions of the exercise.

Conclusion

13 The exercise is recognized as having its limitations. It is based on an analysis of six individual costings. The costs provided by the companies are now outdated (originally being on a 1976 basis). However, the products have been weighted having regard to an area of known Australian concern. It can be reasonably surmised that the conclusions stemming from the analysis are unlikely to be altered in any significant detail by a much wider exercise.

14 What has emerged from the study, therefore, can be summarised as follows:

(a) The effects of different tariff policies applied to a large and diverse range of goods present a complex picture. However, the exercise does not show (as Australia might have anticipated) that Australia is generally the disadvantaged country. This is for a number of reasons, including the offsetting factor of higher New Zealand tariff levels on a wide range of input materials (an example being in washing-machine component parts, where many items attract a normal rate of 40% in New Zealand as against 22.5% in Australia).

(b) When regard is had to the extent of 'overs' and 'unders' the actual level of disadvantage experienced by one country's manufacturers is very modest. It was anticipated before commencing the exercise that the highest level would probably be experienced in refrigeration equipment. This has proved to be so (7.7%). However, in that case much of the disadvantage is occasioned by tariff policies on one relatively high-cost intermediate product (compressor).

(c) The effects of New Zealand's import licensing policies would doubtless add an additional element of disadvantage to New Zealand manufacturers who might, in some cases, be compelled to purchase higher-cost inputs from local sources rather than source on the international market.

15 Overall, the exercise supports a conclusion that any across-the-board approach to the intermediate goods question is not warranted. A glance at the complex tariff pattern as presented in the working papers will show the disparate

nature of the respective tariff positions. When account is taken of the different results that could be achieved by, for example, using a different model from the same company, or otherwise using a model from a different manufacturer of the same goods, the problem of taking equitable action to offset relatively minor advantages is put into perspective.

16 It would seem that if there is a fruitful course to pursue, it would be on the basis of looking at individual circumstances where:

- the quantity of finished goods traded presents a particular problem;
- there is a significant difference in tariff treatment on individual intermediate goods which in themselves represent a substantial proportion of the finished items.

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119 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 23 April 1980

NO 1207. RESTRICTED IMMEDIATE

Australia – New Zealand Economic Relations: Visit of FFNZ Delegation

In view of the forthcoming visit of Federated Farmers leaders next week we thought it might be useful to prepare a few notes for briefing purposes in the event that you may wish to discuss the visit with FFNZ before the delegation leaves. The following reflects discussions we have had over the past few days with officials and the NFF executive here.

2. We understand FFNZ will shortly have the complete programme for their trip 26 April to 2 May. The discussions in Canberra will include appointments with Mr Anthony, Mr Nixon and Senator Scott, as well as talks with DPI and BAE officials, and a luncheon with Bruce Lloyd's (Federal NCP member) Government Rural Committee.

3. The dairy issue obviously presents the most sensitive problem at this time and it would help if farmers leaders could bear in mind the political dimension to the issue in their discussions both with the ADFP and Ministers. Country Party politicians continue to be exercised by what they see as the New Zealand threat to the Australian domestic cheese market and will no doubt seek to impress on the FFNZ delegation their already well-known views. For its part the ADFP is also likely to seek a clear expression of intent from the delegation about dairy farmers' expectations in the Australian market.

4. Over the last few days the ADFP have circulated a document amongst Federal Members of Parliament (our 1159) which makes the following points:

- New Zealand exports of cheese to Australia have increased dramatically since 1973 from 1200 tons to 4800 tons in 1978/79.
- New Zealand 'uses the proceeds from preferred markets in USA and the EEC to subsidise exports to other countries including sales of cheese to Australia.'
- To contain 'unreasonable' penetration of the Australian cheese market by New Zealand a quantitative limit of 4800 tons should be set geared to market share and increased in proportion to the Australian domestic market for cheese.

5. Elsewhere in the same document the ADFP acknowledges that 'official representations and negotiations' have resulted in 'restraint' on the part of New Zealand which in turn has led to a levelling off in the growth of New Zealand's share of the market. (This comment is in the context of the line that imports from other countries have moved into the vacuum created by New Zealand's restraint.)

6. This position represents a major advance on the Federation's earlier somewhat unrealistic efforts to contain the NZ share of the market to around 4,000 tons (the average of the preceding three years), but the form of restraint which the ADFP is seeking, namely quantitative restrictions, is not one which finds general favour. It was not canvassed as one of the options in the IAC report, and goes rather further than Mr Anthony's 'voluntary restraint' proposal.¹ It is difficult to assess how wedded the ADFP is to QRs: if they can be encouraged to believe that there could be other equally successful means of containing New Zealand's share of the growth in the market, it may be that they would be prepared to abandon it. What is clear, it seems to us, is that those politicians who are pressing the dairy farmers case (Simon, Lloyd, and Nixon) are not prepared to go any further than the ADFP is prepared to go publicly, and that if the ADFP could be persuaded to accept an 'industry-to-industry' arrangement, the politicians would go along with it. As a more general point, it seems to us in any event that it is pretty important at this stage that this farmers mission does not exacerbate any further some of the more paranoid fears which Australian dairy farmers have about our intentions in this market. They could, however, without dwelling too much on the past, stress that the NZDB has lifted its prices and that the ADC, as we understand it, is happy with its present pricing policies.

7. In considering means of longer term cooperation between the NZFF² and FFNZ it may be useful to canvass the possibility of some form of regular consultative arrangement between the two organisations along the lines of the annual consultations between the CAI and MANFED. For its part the NFF, as we

1 Referred to in Document 116.

2 Apparently a mistake for the ADFP.

have previously reported, is prepared to be as positive as it can about the prospect of closer economic relations with New Zealand, but it should probably be borne in mind that while the ADFP and the AHGC are affiliates of the NFF they are less committed to the NFF's general free trade approach.

8. For Melbourne and Sydney:

We understand that the VGFA and the LGPA are making arrangements in Melbourne and Sydney respectively.

[ABHS 950/Boxes 1221–1226, 40/4/1 Part 27

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**120 MEMORANDUM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 30 April 1980

**NZ Bureau of Importers and Exporters
Seminar on A/NZ Economic Relations
Auckland 2 April 1980**

'I believe the [Communiqué], despite its vagueness and generality, represents an irreversible political commitment to greater economic cooperation. In that sense, progress is assured'

—Mr F Turnovsky, Outgoing President NZ Manufacturers' Federation.

1. As reported in our telegram No. 1086 of 3 April 1980, a representative of the Ministry attended the above seminar on A/NZ economic relations. Since the NZ Manufacturers Federation was well represented at the seminar (Turnovsky and Stevens), it afforded a good opportunity to test the reaction of the NZ business community to the Prime Ministers' Communiqué and Annex.¹

2. That reaction, at least to judge from the proceedings of the seminar itself, was extremely positive. It soon became evident in the open discussion that followed the set speeches that the meeting should convey a clear signal of its views to the Government. Accordingly, the following motion was carried unanimously: 'That this meeting commend the initiatives being taken by private enterprise and Governments in both countries to foster closer economic ties between the two countries and urge those involved to pursue the objectives laid down as quickly as possible.'

3. Media comment on the seminar concentrated exclusively on Sir Max Dillon's unfortunate choice of words about 'blood being spilt on the floor'. Our earlier

1 Document 93.

message attempted to put this into context. It was picked up again in two subsequent news reports, the transcripts of which we attach for your information.

4. We also attach, for your consideration, copies of the three keynote speeches. Sir Max and Sir Frank [Holmes] covered fairly familiar ground. The broad endorsement of the communiqué by the President of the Confederation of Australian Industry—‘for our part we would have been most disappointed if the current Government initiative had come to nothing’—is, of course, significant.

5. Turnovsky’s speech struck us as particularly interesting. We commend it to your attention. Some of the salient observations made by Turnovsky were:

- the meeting creates an irreversible political commitment to closer economic integration (see quote above)
- the arrangement does not prevent (or commit) the two countries moving subsequently to a customs union
- the close similarity between the discussions at Prime Ministerial level and the October 1979 Quadrilateral meeting (i.e. the identification of intermediate goods as the key problem for the Australians and the ‘three category’ proposal for free trade)
- the recognition that meaningful change cannot take place without some dislocation
- the possible use of changing area content requirements to overcome the intermediate goods problem but a clear statement of the New Zealand viewpoint that this is essentially a problem ‘for Australian industry to resolve in the context of its own industrial restructuring plans’
- a recognition that the 10% formula could be a workable proposition though the question of the base ‘is one of the many intriguing issues left for future determination’
- the expansion of trade should not be impeded on ‘frivolous grounds’, as in the past. Any products put on the ‘*deferred* list’ (our emphasis) should be subject to examination by a bi-national mechanism to determine the justification for their exclusion
- that the ‘structured inclusion’ of agricultural products should not, as with manufacturing, give rise to any insuperable difficulties.
- the ‘future of New Zealand’s economy is based on a wide range of options. Trade with Australia is an important, but not an overriding element of our economic strategy’
- the present low wage structure relative to Australia cannot be viewed as anything more than a temporary advantage for New Zealand. Trans-Tasman trade should result from the best use of our resources and skilful management, rather than acceptance of depressed living standards

— an endorsement of the outward-looking approach: 'A new agreement that merely looked across the Tasman at each other would be quite out of tune with global realities.'

[ABHS 950/Boxes1221–1226, 40/4/1 Part 27

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**121 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 6 May 1980

No 1439. CONFIDENTIAL ROUTINE

A/NZ Economic Relations: The States

Thanks your 1162¹.

In some respects the low level of understanding and interest on the part of the States reported in your message may not be too bad a thing from our point of view. We could hardly expect the States, even if they were prepared to make encouraging noises about A/NZ cooperation on most general level, not to reflect political pressures put on them by such lobbies as the dairy one. That this does not seem to have happened is welcome. Indeed, in the light of this response, we wonder how much further the Federal authorities will now feel obliged to take consultations with the States.

2. We are inclined to suggest therefore, that posts concerned² continue to take a low-key attitude and avoid dialogue with the State authorities at least until the intentions of the Federal Government about further consultations are clarified.

3. At the same time, we recognise that a continued lack of understanding of the facts of the New Zealand Government position could breed misapprehensions on the part of the States, particularly as the election nears. We are now giving thought to how we might best brief posts on the exercise in case the need develops for them to play a supportive role. No doubt this consideration will influence the timing and nature of the annual Heads of Post meeting.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 27

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1 Document 117.

2 The message was copied to NZ consular missions in State capitals.

122 SUBMISSION FROM GROSER TO NORRISH

Wellington, 20 June 1980

A/NZ Economic Relations: Progress Report

1. The exercise on closer economic relations with Australia has produced a huge volume of paperwork and a language all of its own. It has produced some results too. The purpose of this briefing note is to give you a picture of the overall 'state of play' and the role the Ministry has played in the exercise.¹
2. The history of the exercise has some obvious sign-posts: Nareen (March 1978), the agreement between Mr Anthony and the Prime Minister (April 1979) that we should have a fresh look at the economic relationship; clear public statements, first by Mr Anthony then by Mr [Hugh] Templeton, indicating the NAFTA had run out of steam (Spring 1979); the meeting between Mr Fraser and Mr Muldoon at Lusaka (August 1979) which commissioned official studies of the options. This was then followed by a series of middle-level official and Permanent Head meetings. Finally, the two Prime Ministers met in Wellington on 20 March 1980.
3. A copy of the communiqué and annex² from their meeting is attached. The annex, although rather technical, is the more important document in that it describes the approach both Governments consider to be the most promising. It spells out, in unusually frank terms, the way in which the two countries can achieve substantially free trade in seven years.
4. The core of the agreement is trade. There is nothing in the agreement that the NAFTA could not theoretically achieve, but the practical effect of the agreement is to turn the NAFTA on its head: everything is 'in' (including agriculture) unless specifically nominated for 'deferral'. Its procedures are to be automatic—not relying on administrative discretion. Most important of all, unlike the NAFTA, it tackles the issues of access head on (not just tariffs). It also has provisions for 'harmonisation' of policies that distort trade (export incentives, for example).
5. The main deficiency of the agreement is the lack of a timetable to continue the studies and implement the results. New Zealand wanted one; Mr Fraser did not. The main problem is that the two elections are no longer synchronised: Australia will have its election late this year, ours in 1981. The danger is that the exercise, which officials will be trying to bring to a conclusion in the period immediately following the Australian elections (November) will not maintain the political (and bureaucratic) momentum it has developed if it has to be put to one side until the New Zealand election is over. On both sides of the Tasman officials are at present working through an extensive work programme fleshing

1 Norrish had just taken up his appointment as Secretary of Foreign Affairs.

2 Document 93.

out the detailed implications of the approach endorsed by the two Prime Ministers in March.

6. The next step is to review the progress of this work at the NAFTA meeting in Canberra on August 12–13. This will be a non-negotiating meeting: a stocktaking of conclusions. We hope Ministers will discuss the political and timing problems too.

7. In theory, neither New Zealand nor Australia has committed itself to anything. But as each checkpoint since Nareen has been passed, it becomes increasingly unlikely that we could return to the NAFTA status quo. In a recent address to an important public seminar in Auckland,³ Fred Turnovsky has called the Prime Ministers' meeting 'an irreversible political commitment to closer economic relations.'

8. There are, of course, a number of difficulties, in addition to the timing problem, that require careful attention. First, the key to the exercise is the 'deferred' (exemptions) list. Both sides want to keep it short. This will not be easy to achieve within New Zealand. The Australian list can be very short but include almost all the items of significant export interest to New Zealand—cheese, whiteware, carpets for example. In addition to the important and more obvious trade and foreign policy arguments for a closer economic relationship, New Zealand is looking to this exercise for long term 'restructuring' reasons. But the political defence of the arrangement, when it begins to bite, will undoubtedly be the ability of the Government to point to the creation of direct and meaningful export opportunities. Second, there is evidence to suggest that Mr Fraser's personal commitment to the exercise is not great. The Australian commitment came first and foremost from Mr Anthony and second from a raft of Australian Permanent Heads with a strong A/NZ orientation. Finally, the usual catalogue of NAFTA difficulties has reached new heights. It is a delicate exercise to keep these two strands in the economic relationship separate. The NAFTA difficulties provide further evidence of the inability of the current NAFTA framework to deal with trading problems as they arise.

9. This conceptual problem of trying to keep the two strands (NAFTA and the wider exercise) separate has come to a head on cheese. All cheeses are on Schedule A but cheddar is subject to a quota. The Australian dairy industry wants quantitative restrictions on New Zealand cheeses of all types. The industry, although much smaller than a decade ago, still has considerable political clout in the present coalition government. The Australian Government has indicated it wants 'bankable assurances' about the level of New Zealand exports and has suggested a voluntary restraint arrangement to that effect. It is trying to use New Zealand's commitment to the broader exercise to bring this about by arguing that this could sour the whole exercise from the Australian point of view. Quite apart

3 See Document 120.

from the intrinsic importance of the export trade to New Zealand, the Prime Minister has made it clear he expects something for dairy products from the wider exercise. At the level of editorial comment, access for New Zealand dairy products is part of what the exercise is about. The Ministry and other Departments are therefore standing on New Zealand's NAFTA rights and resisting these high-pressure tactics from the Australians.

10. The reaction from the New Zealand business and farming community has been most favourable. However, DTI are worried (with some justification, we think) that the almost complete absence of pressure from manufacturers in the field (as opposed to their representatives) is the calm before the storm.

11. As you might imagine, the bureaucratic politics have been kaleidoscopic. The chairmanship of the exercise by Treasury, both at the Permanent Head level (Lough) and working level (Graham Scott), has been of central importance, particularly when the political direction was none too clear. It has been the major preoccupation of AUS Division and of the Post, where the Foreign Affairs officers, not the Trade staff, have taken the running. The analytical work is done in a working party context. This has had the effect of watering down, to a certain extent, narrow departmental preoccupations. We have taken a full part in the most technical areas of the work. Within the working party we have tried to maintain throughout the primacy of broad political considerations. It has been our experience that close involvement in, and understanding of, the technical area is a pre-requisite to achieving our broader political objectives.

12. In addition, the Ministry has, of course, taken the prime responsibility for preparing material on the Australian political and economic setting for the exercise and the likely external implications of a closer economic relationship for our other foreign and trade policy concerns. Attached is a copy of the work programme agreed in the aftermath of the Prime Ministers' meeting in March. None of the specific tasks assigned to the Ministry can be taken much further at least until the initial work on lists has been completed.

The proposal for a White Paper has not been put to Ministers yet. But we see this as an important element in the exercise. If the Government agrees a White Paper would be desirable, its preparation would become a major preoccupation for the Ministry and will help ensure a continuing and central role for us in the stages leading up to and including the negotiation of a new economic and trading relationship and perhaps in its subsequent administration. Attached is a piece of paper (it has no standing) setting out our views on the scope of a White Paper.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 28

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123 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 18 July 1980

E (80) 116. CONFIDENTIAL

**Australia/New Zealand—Closer Economic Relations—
Tariff and Access Measures***Background*

1. At the meeting between the Prime Ministers of New Zealand and Australia in March a programme of work was agreed to provide the basis for further examination of the prospects for closer economic relations between the two countries. This programme included analysis and categorisation of tariff and access measures in force. Relevant extracts from the Prime Ministerial Communiqué¹ are in the annex.
2. Officials have undertaken considerable work on the whole range of topics identified for further study. A report on the totality of this work will be submitted to the Committee later this month in preparation for discussion at the NAFTA Ministers' meeting in Canberra on 12–13 August 1980.
3. This paper concerns the detailed commodity study and seeks authority for consultations with the commercial community on the basis of certain general policy principles upon which judgements now need to be made.

Tariff Aspects

4. Mechanical aspects of the line-by-line commodity study have been completed. It involved extracting from the tariff and identifying every tariff item or part tariff item subject to a tariff and/or licensing on goods of Australian origin. Information was then accumulated for each item—brief product description, NAFTA status, tariff on Australia, 1978/79 imports (total and from Australia), item code and allocation. In order to facilitate valid judgements on New Zealand industries' actual or potential sensitivities, production information on the number of units affected and highly significant producers then had to be assembled on a tariff item by tariff item basis.
5. The study established that altogether there are some 1,400 tariff items outside the terms of the study, because they are already duty-free and exempt licensing. It then identified 1,743 whole or part tariff items which need to be further studied as part of this exercise, of which only 352 are not subject to import licensing.
6. Officials are now ready to move into detailed consideration of the import licensing access aspects of the study. However, there is obviously a need to continue to consider the total protective structure (tariffs and licensing) in the studies.

1 Document 93.

Import Licensing Aspects

7 Officials have identified 1,391 tariff items where goods of Australian origin would be the subject of New Zealand's various import licensing controls. In dealing with these, a number of general principles can, in the opinion of officials, be set down:

- All additional licences arranged as a result of any agreement reached with Australia, would be designated as being for goods of that country only (NAFTA rules of origin would apply).
- That it would be assumed that Australia would be moving towards unrestricted access for equivalent New Zealand goods where this did not already apply.
- The basis for study specified that where additional Australia licences are to be instituted they would also provide for 10 percent access growth per annum in real terms. There would therefore be a need to establish a basis on which 'real terms' would be assessed.
- There should be no general intention to use the licensing system to guarantee shares of the New Zealand market to Australia. Rather the intention is to generate additional access opportunities in each others markets.
- Administratively simple solutions are to be preferred, keeping in mind the balance of other requirements. Wherever practicable whole item codes rather than individual tariff items which make up each item code should be dealt with.
- The requirement that the license provision be of sufficient size to give commercial viability allows for considerable latitude in judgement and negotiation.

8 In considering the next steps officials are of the view that New Zealand must approach the discussions with Australia from the viewpoint that we have something positive to offer, and that we must maximise the negotiating advantage to be gained from this. Unless we do this New Zealand's commercial interests may not receive the range of benefits from successful negotiations that they would reasonably expect. In this light it is considered the licensing access aspects readily fall into five categories

- Items already exempt licensing—these would remain exempt.
- Licence on Demand (LOD)—at the initiative of MANFED, some 170 Schedule A items have already been made LOD for Australia, and more are in the pipeline. Few of these are substantively manufactured in New Zealand. LOD also exists for other Schedule A items which are made in New Zealand but this has not caused any problems.
- Officials feel all these items could be offered for exemption in the context of the negotiations if this seemed likely to gain some reciprocal benefit for New Zealand. The starting position for discussions should, however, be maintenance of licence on demand status.

- Special NAFTA Access items—specific licensing access levels have been negotiated under NAFTA for about 100 items, through Schedules A and B. Officials consider these levels should be taken as the base starting point, and the 10 percent increase formula applied (Article 3:7 arrangements, which are inter-company, would be left as they are, although regard would have to be had, over time, to the relationship between them and any general increase in access levels for the items concerned that might flow from the rest of the package). It is envisaged that any existing special arrangements on non-Schedule A goods (e.g. apparel and footwear) would have to be negotiated separately.
 - General licensed products area—it is proposed that, for negotiating purposes, these be split into three broad groups. Obviously Australia might seek further access either on general grounds or on the grounds of commercial viability.
 - A for items where New Zealand's import licensing arrangements are already liberal and can be presented as offering no substantive hindrance to imports, it is considered that no extra provision for Australia needs to be offered in terms of the formula approach, although Australia may well make representations pointing to special factors. (This has been the subject of discussion with Australian officials and could well be acceptable. There may, however, be questions of permanence of current access arrangements for Australia.)
 - B for all items where import controls are tightly administered, but where Australia already enjoys significant trade, a three year average of imports from Australia would be established as the base, on to which the 10 percent progression would be applied.
 - C for all items where Australia, for one reason or another, has no or few sales in this country, a New Zealand market share of, say, five percent would be established, and the 10 percent progression formula then applied.
- 9 It should be noted that import licensing proposals which involve steadily increasing access could lead to a situation where it may be desirable to reconsider the position of items currently duty-free.

Intermediate Goods

10 Australia identified this problem as likely to be one of concern to them in a free trade as opposed to customs union situation. They are to produce further papers on the subject. As they have not done so yet, we do not know the extent of their specific concerns.

11 It is difficult to take this matter much further until the promised Australian studies are to hand. The Customs Department has, however, already completed a very useful exercise² on an indicative basis involving six products which has

2 See Document 118.

pointed up the complexity of the problem but concludes also that Australia is not necessarily the disadvantaged country. The New Zealand Manufacturers' Federation has also commissioned a study of the problem. In the meantime it is proposed that general discussions be held with MANFED, with a view to a pooling of knowledge as to where specific problems may lie.

Consultations with the Commercial Community

12 Officials now seek the authority of the Committee to enter into consultations with relevant sectors of the commercial community to invite them to consider and respond to lines of approach as set out in this report. The result of these consultations would be the subject of a further report to CEC.

13 The consultations would cover the inter-relationship of the tariff and import licensing aspects. On the latter it is hoped that the Federation³ will concur with the broad principles set out above. Officials would then proceed to further develop the categorisation of tariff items into the three lists mentioned in the Prime Ministers' communiqué.

14 It is also proposed to pass to the Federation the lists of items currently considered suitable for inclusion in list one (i.e. those goods exempt licensing, but subject to tariffs at or below 10 percent, which would move forthwith to duty-free treatment, and those goods exempt licensing, but with tariffs above 10 percent which would be subject to the phase-down process).

15 The Federation would be consulted further as lists are developed.

Recommendations

16 It is recommended that the Committee:

(a) endorse the general principles set down in the memorandum as forming a suitable basis for discussions with appropriate trade organisations and the Federation of Labour;

(b) agree that:

i officials consult at an early date with relevant sections of the commercial community on the general aspects of the work carried out so far with respect to closer economic relations with Australia, and on the principles that may be followed in further detailed work, especially in the area of import licensing access for Australia;

ii officials enter into specific consultation with the New Zealand commercial community on tariff items which are already exempt from import licensing for Australia.

[ABHS 950/Boxes1221-1226, 40/4/1 28

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3 i.e. MANFED.

**124 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 18 July 1980

No 2319. RESTRICTED ROUTINE

Australia/NZ Economic Relations: Financial Sector

The course of action we propose to follow as far as the financial sector is concerned involves firstly completion of the exchange control review. With the review complete, and assuming that policy is changed to introduce a more liberal attitude on outward remittances for direct investment in Australian financial sector (as is likely), we would then have a firm basis on which to press our case with Australia. Exchange control review has been held up, but progress should be made shortly.

The exchange control review aside, the question of New Zealand financial institutions in Australia is probably not one on which early progress can be made, given Permanent Heads' agreement (February meeting in Canberra) that agreement to establish a closer trade relationship is a pre-requisite. For this reason, New Zealand working party has placed emphasis on trade questions at this stage. It is also possible that the conclusions reached by the Campbell Committee¹ might fundamentally alter the context of our current approach. The questions and issues which we might wish to raise when the exchange control review is complete would probably cover detail on how far Australia is prepared to move in this area, including the particular areas of financial activity to be covered by liberalised Australian foreign investment rules, and extent of liberalisation. Australia would also need to consider questions of presentation to OECD and Japanese (Nara Treaty). Questions of how Australia would deal with situation where approaches originating in New Zealand involving enterprises owned or controlled in third countries would also require attention. If you wish, you could foreshadow these points with Australian authorities. However we hope to be in a position to come back to you with a more definitive list shortly.

On other points raised in your 2048:

- a Reserve Bank and Treasury would each appreciate two copies of Campbell Committee's Preliminary Report by airmail when available.
- b We note from recent press reports that Campbell Committee mentions role of overseas *banks* in Australian financial system in its preliminary report. Our concern is, of course, with financial institutions generally (including insurance companies).
- c Grateful if you could advise where question of compatibility between Stock Exchange requirements and FIRB rules now stands. Latest information we have

¹ A Government-sponsored inquiry into Australia's financial system, which ran from 1979 until 1981.

is an AFR report of 26 March 1980 to effect that Federal Government was to ask States to agree to amendments to procedures to ensure that takeover and securities legislation does not conflict with FIRB rules.

d There is no specific objective to match participation of New Zealand banks in Australia with participation of Australian banks in New Zealand. Objective is simply to enable New Zealand financial institutions generally to have easier access to Australia, to redress (partially) the present imbalance in participation in each other's financial markets.

e Your paragraph 4. Wider financial issues such as coordination of exchange rates, exchange control, foreign investment regulations and other aspects have been shelved in the meantime, by agreement amongst Permanent Heads. It would be inappropriate to consider these issues at this stage. The question of New Zealand financial institutions investing in the Australian financial sector is the only financial issue currently on the table.

The Bank² would appreciate text of Australian Treasury submission to Campbell Committee on question of foreign participation. Submission on this aspect may have been made orally by Stone.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 28

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125 LETTER FROM DOUGLAS TO WOODFIELD

Wellington, 29 July 1980

Australia – New Zealand Closer Economic Relations

This letter is in response to the notes handed to us at the meeting in Mr Clark's office last Thursday and is intended to express our views on the principles to be applied in considering tariff and import licensing changes.

The FOL believes that before any consideration be given to trade relationships between countries and the possible benefits accruing from such trade that recognition be accorded to the fact that much international trade is intercompany. In this regard it should be noted that P J Lloyd's study on 'New Zealand Manufacturing Production and Trade with Australia' published in 1971 recognises quite significant links between Australian and New Zealand investment. It is likely that this phenomenon has not been significantly reduced since 1971.

The significance of this feature of modern investment patterns to international trade is its impact upon the pricing of exports and imports. In many cases it means that trade transactions are not 'arms length' and that alleged 'international

2 Probably a reference to the Reserve Bank of New Zealand.

prices' only reflect the accounting policies adopted by the company concerned, Comalco's pricing of aluminium exports at cost of production being a significant example of this. Our general concern is therefore that any economic benefit accruing from an enlarged share of trade could be easily dissipated by losses arising from 'transfer pricing' and we would wish to see some surveillance of this practice as an integral element in any movement towards freer trade.

A second factor of general concern is the actual reality that can lie behind lower cost imports. In many cases the[s]e are through low wage levels made possible by poverty, vast inequalities and the denials of trade union and political rights. While these considerations do not apply to Australia, they do apply to imports from many other parts of the world and the FOL would be concerned if a move to freer trade generally was envisaged.

In our comments on the proposals put to us, I would like to develop our position on the tariff and import licensing questions separately.

Suggested Tariff Categorisation

In list 1 the major problem area could be in paints, an industry which will be adversely affected by any contraction in the motor vehicle assembly industry. In list 2 we would consider that early consultation with unions in the industries concerned will be an essential element in winning acceptance and working out any transitional problems that may arise.

Import Licensing

Our major concerns would relate to the annual 10 percent access growth and the establishment of a 5 percent market share where no sales presently exist. There would need to be some means of monitoring the effect of the 10 percent growth upon employment opportunities in New Zealand and also the extent of the benefits gained from such growth with some proviso for revision if the effects were harmful.

It is difficult to assess how the initial 5 percent access could be calculated and this is one area in which substantial trade offs from Australia should be sought before any such provision was agreed to.

I trust that the above is of assistance to you.

K G DOUGLAS
Secretary
[Federation of Labour]

**126 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 30 July 1980

NO 2404. CONFIDENTIAL NZEO PRIORITY

Australia – NZ Economic Relations: Australian Attitude

Since the meeting of the Prime Ministers in March, the Australian inter-departmental committee has been meeting regularly under the chairmanship of STR (Anderson) to charge member departments with the preparation of papers and to review progress. The IDC interpreted the Prime Ministers' instructions as giving them sufficient authority to press ahead without seeking further guidance from Ministers, and without involving key interest groups like the CAI or the NFF in consultations.

2. As we have indicated in other messages, the studies on the Australian side are on schedule and at the NAFTA/CER officials' meeting they will be ready to exchange with us a selection of the papers that have been prepared. They appreciate however that the task of working through the tariff, assigning each product to a 'box' and drawing up a timetable for those products under reference to the IAC, is a good deal more straightforward for them than it would have been if, like NZ, they had had to deal with a large number of products which were subject to quantitative restrictions as well. While officials are relatively relaxed about the possibility that our studies may not have progressed as far as their own, they are keen to hear from us on the state of play on the NZ side, any unexpected problems that may have been identified, and where, from the NZ perspective, the studies seem to be headed.

3. What can we expect from the Australians at this round of talks? From an early stage in this exercise Australians have been very forthcoming in their approach. We have had access to most of the major internal papers they have prepared: their objective has been to seek to identify and define the principles on which any new economic relationship should be based, rather than to protect or extend areas of comparative advantage. This approach has meant that we have been exposed to an extremely diverse and at times mutually inconsistent range of views from the Australian departments involved:

- The Treasury has been sceptical whether closer economic relations with NZ will bring substantial economic benefit to Australia: but it sees the discussions as a useful forum for pressing its own case to other (Australian) departments about the need for reducing protection.
- Trade and Resources, somewhat harassed by their parallel involvement in NAFTA discussions, are keen to remodel the basis of the economic and trading relationship so that it more accurately reflects the two countries' long term economic interests. We have not recently heard the NAFTA/ASEAN 'trade-off' line which was so current a year or so ago and this may be

because, as far as we can discern Trade now not only accepts but presses the view interdepartmentally that if Australian manufacturing industry is to be able to compete with its ASEAN counterparts, it must first be in a position to compete with its NZ counterpart.

- Primary Industry's focus of attention has been the likely fate of the dairy industry in a closer economic relationship with NZ: but the BAE has also pressed the view that dairying's lack of profitability vis-a-vis other sectors of the Australian rural economy suggest the need for an approach to the problem which is other than solely defensive.
- Industry and Commerce have tended to take an aggressive attitude on questions such as access, import licensing, and intermediate goods: but, I and C also look on these discussions as a means of seeking support for a more positive approach towards adjustment assistance. Needless to say, on both the general issue of adjustment assistance and on its specific application to ANZCER, I and C is opposed by Treasury).

4. Many of these divisions of interests parallel those on the NZ side, but the overall Australian approach has been sufficiently flexible and positive, at least at the official level, to suggest that at this juncture they are not seeking major concessions from us in the CER context (although that has not prevented them from continuing to take their usual hard line on current NAFTA issues—which they regard as totally separate). While the Australians consider the move to establish a new economic relationship is essentially a New Zealand 'initiative' they have acknowledged that the burden of adjustment to a relationship of the dimensions being contemplated will fall more heavily on NZ than on Australia (although again that has not inhibited them from emphasizing their potential difficulties). For that reason, they are now showing willingness to add to the principles of reciprocity (Scully's 'fair go') and automaticity a third principle: gradualism. While a gradual approach to resolving the more difficult areas would be particularly helpful to New Zealand there is no doubt that it would suit the Australians also—one needs only to note the increasing sensitivity of the Australian Government to the possibility that some lobby groups (such as the TCF industry) will use the impending election to intensify pressure to accommodate sectional interests. This is a general concern of the Government's part and is not specifically generated from the ANZCER exercise itself. But it could mean the Australians are now prepared to face up to the difficulties of finding solutions to the problems presented, as distinct from merely defining them.

5. The Australians want to concentrate attention for the informal talks on Thursday on:

- categorisation of products
- liberalisation of tariffs and quotas
- agricultural support and stabilisation measures

- intermediate goods
- export incentives.

On a more routine level, they have also worked out some position papers on:

- by-law rules of origin
- extension of preferences agreement
- government purchasing.

6. The Australians are not looking on this round as 'make-or-break' discussions, nor even as entering the hard negotiation phase. At the same time the indications they have been reviewing of NZ attitudes have raised doubts about our commitment to a continuation of the discussions. Both in Wellington and Canberra we have been at pains to dispel the misapprehensions of Australian officials on this score, but they will want to be able to report to Ministers that progress has been achieved, and, if possible, that officials can now get down to the business of elaborating the framework for solutions to the more difficult problems. They are flexible because of the diversity of interests that have been brought to bear on their side: they are positive because they appreciate the extent of the adjustment likely to be necessary on NZ side. Consequently the Australians will be most receptive to any initiatives from us which will help to advance the discussions: on timing they will defer to us provided we accept that no final discussions¹ can be taken before the general election (which was earlier assumed would take place in December but may now be brought forward to October).

7. There is something of a contrast between the generally positive approach of officials, and the apparently less constructive tone of one or two public statements emanating from some Cabinet ministers. This is largely a reflection of the difficulty Australian politicians have had in taking a public stance on an issue whose outlines have yet to be fully defined in terms of all its pluses and minuses but at the same time in being expected to protect essential Australian interests. Since the Prime Ministers' meeting, both Mr Fraser and Mr Nixon have assured dairy farmers they will not allow 'unfair' competition from New Zealand to affect adversely the Australian dairy industry's viability. While we may regret the need for such statements it is important to recognise that the dairy industry is the only lobby which has sought to make ANZCER a political issue: politicians have responded to it as an issue because the dairy industry's lobbying efforts have persuaded them that it is one. It has been in order to contain the issue and prevent it from becoming part-political that Australian ministers have been so anxious to reach an accommodation on cheese which can be presented to dairy farmers as evidence of NZ's reasonableness and willingness to accept the principle of restraint in developing its market in sensitive areas. Similar considerations apply, of course, to our own political situation and the uncertainty as to what has been

¹ This word should presumably be 'decisions'.

happening during a period of seeming inactivity has required public reassurance that the NZ Government is above all fully aware of the implications of the exercise for the future of the NZ economy. The difference between the two perhaps lies in the differing emphasis placed on CER by the two countries. For New Zealand CER would be a major development having consequences right across the community. Hence any public statement in NZ must be of a general nature, the result being that any reservations we may express tend to be interpreted by the Australians as reflecting our attitude toward the concept itself. In Australia, on the other hand, CER is regarded as having much less significance in the total scheme of things so that public statements have focussed on the one issue and the note of criticism implicit in those statements does not go beyond that.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 28

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127 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 5 August 1980

E (80) M 27 PART II. CONFIDENTIAL

Australia – New Zealand Economic Relations

There was a wide-ranging and free-flowing discussion which turned, however, on three key points. The first was the underlying rationale for the development of closer economic relations between New Zealand and Australia. The second was the timing of the discussions with the Australians. The third was the attitude being displayed by New Zealand manufacturers.

As to the first point, it was explained that New Zealand should not, whether explicitly or implicitly, develop a 'Fortress New Zealand' economic policy and foster industries just for the sake of providing employment. If this were to occur, the standard of living of New Zealanders would simply continue to decline. New Zealand had to become more involved in the international marketplace in order to make fullest use of the comparative advantage of its own and other economies. What was so often forgotten was that New Zealanders' living standards could be improved by reducing the costs of consumption goods, by increasing the volume of cheaper imports. Indeed, this would be a better method of improving living standards than nominal wage rises which fed back into the inflationary spiral, which in turn effectively negated the rises. However, increases in imports needed to be compensated for by increases in export earnings because of the balance of payments constraints the New Zealand economy had to operate under. Employment considerations also had to be taken into account such that the run-

down of the inefficient import substitution industries needed to be accompanied by the start-up of more efficient export industries. This was the broad context of the drive to establish closer economic relations with Australia. The issue was not so much that New Zealand needed to have a closer relationship with a country whose economy would in all likelihood enjoy considerable expansion based on the growth of mineral production and export; rather, the issue was the maximisation of the comparative advantage of the New Zealand economy in relation to the Australian economy, and vice versa, particularly, but not exclusively, with respect to manufacturing industry. However, the goal was not to substitute 'Fortress Australasia' for 'Fortress New Zealand'; the establishment of a freer market between Australia and New Zealand was just the first step in the major enterprise of making the New Zealand economy more efficient and productive by having it play a more active role in the international economy.

The example of Finland was referred to. The Finnish economy had been highly protected for some time, but since the removal of much of that protection, its exports had grown considerably, the economy as a whole had expanded and living standards had improved significantly. The major catalyst for this change had been the close relationship established between the Finnish and Swedish economies. The Finnish case seemed a highly pertinent analogue for New Zealand.

As to the second point, there needed to be significant progress within the next year or so. The Australians had made it clear that, if New Zealand was not interested, they would seek closer economic relations with other countries in the area. However, because of their forthcoming election, probably in November or December, they would be unlikely to want Ministerial discussions before then. For a similar reason, the New Zealand Government would want to have an agreement with the Australians settled before very much of 1981 had passed. Quite apart from the latter consideration, it was necessary to maintain the momentum of the talks. The signing of a Heads of Agreement between the two Governments should be completed as soon as possible; the consequent detail, including such legislative change as might prove necessary, could be dealt with in due course. Officials assured the Committee that the electoral considerations were no bar to the continuation of discussions with the Australians at an official level. These could be completed within a 2-3 month period, such that the New Zealand Government could make the decisions on its final negotiating position around November with the view to reaching agreement with the Australian Government at meetings during the Christmas-New Year vacation period.

This timetable was to the Committee's liking, although thoroughness should not be sacrificed to speed. In this regard, officials pointed out that there was no chance that agreement could be reached with the Australians on every detail within a reasonable period. The agreement to be reached at the end of 1980 or the beginning of 1981 would necessarily have to be couched in relatively broad terms.

This brought discussion to the third point. Manufacturers had yet to be convinced as a group that closer economic relations with Australia were desirable, even though the more enterprising of them were keen at the prospect. The majority of them had become accustomed to the considerable protection they had been granted, and enjoyed the comfort it afforded; in consequence, they were apprehensive at the prospect of any change. They had shown considerable concern regarding the government's domestic economic restructuring policies, although there were indications that the recent public statements on this issue by manufacturers did not reflect their true feelings to the extent one might suppose. The Committee was concerned as to how manufacturers could be influenced to support closer economic relations with Australia; officials should perhaps be more active in feeding information to them through the Manufacturers' Federation regarding the benefits of closer economic relations with Australia. Manufacturers also needed to be more closely in touch with the issues at this stage so that the overall process could be hastened; in particular, they needed to become aware of the likelihood that trade barriers between New Zealand and Australia would be reduced at a faster pace than they at present seemed to want. A slow pace would be unacceptable to the Australians and would in all likelihood cause the process of economic integration to become bogged down in a mass of detail. On the other hand, it was pointed out that gradual progress was preferable to none at all, and it might well prove necessary to sacrifice a certain amount of speed for the sake of preserving the overall programme.

The Committee *agreed*, for reference to Cabinet, to:

- a note the present position of the studies which are being carried out in the course of examining the possibility of a closer economic relationship with Australia, as outlined in the memorandum attached to E (80) 123;
- b endorse the position, outlined in the memorandum attached to E (80) 123, which officials recommend that New Zealand take at the forthcoming meeting with Australia in Canberra on 12–13 August 1980.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 28

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128 TELEGRAM FROM BEATH TO NORRISH

Canberra, 14 August 1980

No 2533. CONFIDENTIAL PRIORITY

NAFTA Ministerial Meeting and CERPersonal for Norrish from Beath.¹

Text of communiqué and delegation report have been cabled separately. As I won't be back in Wellington until the 25th I thought you might find the following observations useful:

NAFTA

2 The message conveyed by Australian Ministers and officials was straightforward. There will be no new access proposals agreed under NAFTA, or old arrangements renewed, unless they result in what the Australians are calling 'equivalence of opportunity'. They have not defined very precisely what they mean by this but it is clear enough that substantially balanced access opportunities are the underlying idea. This is not a new concept. But at this meeting it was a principle that was articulated with considerable force. None of the proposals put forward by the New Zealand side were considered by the Australians to meet this basic principle—and that is why it was not possible to renew the special apparel arrangement, or to reach agreement on leather wallets.

3. Any NZ proposal based on limited access by Australia to the NZ market (through the provision of import licence) and unrestricted access by NZ to the Australian market is not going to be acceptable: equivalence of opportunity to the Australians means *either* limited access both ways, on the basis of dollar-for-dollar trade, *or* unrestricted access both ways.

[*matter omitted*]²

9. It would be an exaggeration to say that NAFTA is 'dead'. For example current contractual arrangements not subject to review will remain in force and two-way trade showed an increase last year of around 24 percent. But the proportion being traded under NAFTA, whilst still high (72 percent), is declining and there has been no significant movement towards a meaningful expansion of Schedule A for some years. (I set aside particle accelerators and wooden utensils excluding knives and spoons.)

10. Australia has agreed formally that it will continue to consider new proposals for Schedule A and B access or 3:7 deals. But unless these meet the requirement for 'balanced' trade there is no prospect of them being approved. And, in practical terms, the impression I have (but not shared by NZ trade officials here)

1 Beath had been in Canberra as a member of the officials' group attending Ministerial talks on NAFTA and CER.

2 The material omitted relates to technical discussion of specific NAFTA requests.

is that the resources that have normally been devoted within the Australian Government to NAFTA administration have been substantially diverted to the CER exercise. A skeleton crew has been left to man the ship but I doubt if it has more than a minimal capacity to put in the effort that trade access proposals of the leather wallet sort have traditionally required.

11. To sum up, the message from this NAFTA meeting is plain: the NAFTA will continue in a formal sense for as long as it may take to negotiate a new trading arrangement, but it is clear that the Australians at least have lost interest in it as a vehicle for expanding duty free or preferential trade across the Tasman. They simply don't believe the work required to negotiate Schedule A or 3:7 arrangements, and the results that can be expected, is worth the effort. Leather wallets have come to symbolise that.

CER

12. The studies seem to be pretty well on track. I was disappointed initially by the rather general nature of the papers handed to us by Australian officials. From corridor discussions, however, I gather that work here is well advanced—they are further ahead than the papers we have seen indicate but are not yet ready to participate in a full exchange. My suspicions that more papers were not made available because of an Australian fear that these would find their way back to the Australian press via the MANFED/CAI link (possibly before the Australian election) appear not to be well founded. Though there may be something in this the difficulties appear to be more of an interdepartmental nature. But whatever the difficulty the Australians have agreed to a NZ proposal for a formal timetable for future meetings and exchanges of papers (set out below)³ and this will no doubt be a useful spur both in Canberra and in Wellington to get the work done.

[matter omitted]

13. The objective on both sides is to complete sufficient work by about the end of November or early December to allow governments to form an assessment as to whether the prospects for negotiating a balanced package are sufficiently encouraging to warrant a renewed commitment and progression to the major negotiating phase in which common lists will be derived and a new arrangement put together.

14. As an aside, it is important to note that the Australians are no longer talking about a 'hybrid'. They are now openly and unequivocally talking about the CER as a 'free trade area'. They are able to do this because they feel that the concerns which motivated them to begin advancing the idea of a customs union in 1978 are now effectively being taken care of by the studies on intermediate goods, export incentives and import licensing.

3 Omitted here for reasons of space and relevance.

Interaction between NAFTA and CER

15. It will be difficult (and it is in some ways an artificial undertaking anyway) to keep the NAFTA and CER strands separate. As the Prime Minister noted at the National Party Conference, it is a legitimate question to ask whether the current Australian mood of bloody mindedness over NAFTA has (adverse) implications for the CER exercise. But nothing that Mr Anthony said during the Ministerial sessions could be taken, I think, to indicate a waning Australian interest in the CER. On the contrary, Anthony indicated he had been particularly pleased with the way the concept spelt out in the Prime Ministers' communiqué and annex had been received by editorial writers and members of the Australian business community generally. He felt that a 'certain momentum' had been established which would help sustain governments on the indicated course against the inevitable objections that could be expected from vested interests. Anthony noted however that he doubted there were many votes in the issue in Australia. Trade liberalisation with NZ was something the Australian Government would pursue for its own sake. But he seemed to be implying that it was not an issue the Government could campaign on, and indeed there was a danger, if the issue was not handled very carefully, of it becoming an electoral liability. Hence the current Australian sensitivity about saying anything publicly about an agreed timetable, or to say anything very specific about the pace at which the work is being pursued.

16. These considerations, along with some sensitivities on our own side, explain the blandness of the communiqué's references to the CER. The NAFTA meeting had limited objectives to pursue in the CER context: to review progress in the studies and narrow down scope for the political decisions to be taken after the Australian election. I think the meeting achieved this purpose.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 29

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129 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 28 August 1980

Australia – New Zealand Economic Relations*Introduction*

1 This report discusses the position that has been reached in relation to the work programme agreed to at the March meeting of the Australian and New Zealand Prime Ministers in the light of the Ministerial and official level discussions which took place in Canberra in August.

Progress on Studies

2 At the August meeting, officials exchanged papers on the following subjects:

- Basic data relating to goods with duty rates of 10% or less, or equivalent. This was the first step towards compiling Category 1 comprising goods which might immediately move to duty free treatment.
- Factual information on New Zealand's import licensing system and Australia's tariff quota system.
- General principles which might be applied to a relaxation of import licensing in Australia's favour consequential to any new relationship, on the basis approved by the Committee on 5 August 1980 (E (80) M27 Part II refers¹).
- An industry description paper on agricultural products other than dairy products.
- Position papers on the intermediate goods question.
- Comparative studies of Customs issues (rules of origin and tariff concessions/by-laws).

3 Much of the information was of a factual nature. In the case of Customs issues, the analyses are now complete to the stage that the conclusions need to be related only to the latter stages of the negotiations. On other topics, the principal focus of attention was directed at the work necessary to complete the categorisation of tariff items, to secure broad agreement on a basis for considering import licensing/access questions and to advance the formulation of conclusions on the intermediate goods problem.

Import Licensing/Access Issues

4 Following consultation with the New Zealand Manufacturers' Federation and the Federation of Labour, a paper (annexed) setting out possible principles that might be applied in accommodating New Zealand's import licensing system to any new relationship was given to the Australian officials. Although the paper requires further detailed evaluation by Australian officials, their initial reaction was that it was helpful in advancing the exercise. None of the principles was challenged at the meeting. It was acknowledged, however, that there was latitude for interpretation on such critical issues as the level at which New Zealand judges that existing import licensing arrangements present no substantive hindrance to Australian imports (thus necessitating no extra provision) and what might constitute a commercially viable allocation in those cases where there are no or few Australia sales at present.

5 Australia is expected to react more specifically to the access question (including accommodation for New Zealand exports within their own tariff quotas) at the next working party meeting. A final package involving defined

1 See Document 127.

specific levels of access for Australia (and vice versa) will not emerge before consultations with manufacturers and producers have been completed and until the later stages of negotiation are reached.

Categorisation of Tariff Items

6 It was agreed that the approach used in drawing up Category 1 (for immediate duty free treatment) and Category 2 (planned phase down of tariffs) should be on the exceptions principle—that is, goods should only be singled out for special treatment (Category 3 which comprises goods which would be temporarily deferred from Categories 1 and 2) where there were clearly identifiable reasons for doing so.

7 Officials conclude that they are now in a position to advance the preparation of Category 1 on an *ad referendum* basis to the extent that it should be possible to exchange initial lists of goods that might be considered for this category at the next working level meeting. This was on the basis that goods attracting a tariff of 10% or less would not in general justify the phasing in treatment envisaged for Category 2. (The New Zealand Manufacturers' Federation has indicated a relaxed attitude on this question, subject to accommodation being reached on other aspects of greater concern such as import licensing treatment.) It is considered, however, that the final identification of goods for the sensitive Category 3 list must follow industry consultation. The initial Category 1 list will be submitted to the Committee once it has been prepared.

Agricultural Products Other Than Dairy Products

8 An industry description paper was handed to the Australian officials. The Ministry of Agriculture and Fisheries is commenting on factual points which have been raised. It is expected that Australia will respond to the paper at the next meeting.

Dairy Products

9 The Bureau of Agricultural Economics has prepared a first draft of its paper on the dairy industries in both countries. A copy of the paper has been passed to the Ministry of Agriculture and Fisheries and to the New Zealand Dairy Board for comment on the factual content. Comments have been supplied. Further dialogue on dairy products is expected to take place following completion of the report in November.

Intermediate Goods

10 The New Zealand delegation expressed disappointment at the limited progress reported in the Australian studies. This issue had originally been presented by the Australian Prime Minister as an Australian concern. However, it would seem that some of this concern has dissipated and Australian analyses are now more related to quantifying the impact of differing policies on intermediate goods and on the possible shape of the relationship, recognising that these differences are not substantial in a large number of cases.

11 On the basis of the work that had been done so far, New Zealand officials attempted to draw out a reaction from Australian officials which might assist in providing a basis on which discussion might take place with industry and a narrowing of the studies towards a basis for possible solution. A paper (annexed) was presented for their consideration. Pressure is now on Australian officials to bring their exercise to a conclusion and to react to the work already done in New Zealand.

Timetable

12 Officials envisage a timetable in which the next step will be a meeting of the joint working party to be held in early October in Wellington. The principal objective of the meeting will be the identification of Category 1 goods *ad referendum*; reaching an understanding on import licensing/access principles (which, however would not go so far as to include offers relating to specific goods); major progress in resolving the intermediate goods issue; progress towards resolution of institutional differences in agriculture; and exchanges of study papers on export incentives and Government purchasing as far as this is practicable.

13 Hopefully, a sufficient basis will then exist on which to work towards a second meeting in November. The objectives of the second meeting would be to complete the balance of the item categorisation; to reach positions on all outstanding issues; and to draft a joint report for Permanent Heads to discuss prior to Ministerial discussions in early 1981 directed at establishing a Heads of Agreement with a view to the eventual completion of negotiations.

Comment

14. The August Ministerial meeting and the associated discussion at officials level in reviewing the work so far undertaken did not bring to light any new factors which adversely affect the progress of the studies. There was a general agreement on the importance of consultations with industry and other interested parties (including the States in Australia's case). It was understood that the timing of the later stages of negotiation would have to take into account the timing of general elections in both Australia and New Zealand.

15. Mr Anthony at the Ministerial meeting indicated that he was, in general, pleasantly surprised at how the closer economic relations concept was being received in Australia. This was against his judgement that, although Australia stood to gain some benefit in political and security terms, in terms of economic advantage any such arrangement would be in New Zealand's favour. He made a special plea for the Category 3 (special case) listing to be as small as possible and expressed the hope that neither country would allow a small number of vested interests to terminate the exercise.

16. Mr Anthony drew a significant distinction between the specific concessions arising from negotiations under NAFTA which are essentially on a 'knock for knock' basis, and the broader framework of agreement which is being sought in

the closer economic relations exercise. In the latter case the question of balanced trading opportunities is set in a wider context. There will be a plan and an agreed schedule of movement to freer trade across the board. Australia would not expect dollar for dollar arrangements as a general principle in a freer trading arrangement. As Mr Anthony would see it, given an equal trading opportunity the market will decide what trade will flow.

17. Ultimately, Mr Anthony acknowledged that when any negotiated arrangement was agreed there would have to be a comprehensive presentational exercise. The implementation of the arrangement itself he saw as being gradual, so as to reduce adverse impacts. However, he stressed that once a plan was in place it was highly important that neither country deviate from it, if the concept was to succeed.

18. With the reservation that the balance of advantage in any new relationship has still to be determined in later negotiation, officials concur with Mr Anthony's broad perception as indicated above. In particular, in discussion with manufacturers it will be necessary to isolate issues of real and major concern before any decision is taken to include goods in Category 3. It is also appreciated that the treatment to be accorded on import licensing access will be crucial to the attitude of manufacturers and later negotiations.

Consultations

19. The Prime Ministers' Communiqué² recognised that consultations with interested parties would be necessary before either country could take decisions on the ultimate direction of the closer economic relations exercise.

20. If timing options are to be kept open it is necessary to have the manufacturing and business communities focus on the exercise, on the importance of these consultations and on the need for involvement in them. This might best be achieved by a Ministerial press release by 4 September. A draft statement is being prepared and will be submitted shortly.

21. Recent experience with consultations involving documentation shows that working papers tend to get in the hands of the press in a way that causes many problems. A suitably worded press statement would let all concerned know what was going on and the reasons for it. The methodology spelt out would draw on the Prime Ministerial Communiqué and would cover all problems, such as intermediate goods, in a way that would not publicly disclose any Australian position. There is perhaps not too much to worry about on this score because there is as yet no finite Australian position and the consultations on such points will need to be held in a way that leaves options open.

22. It is intended to give Australia advance notice of the press release and to inform Australia that New Zealand intends to carry out such consultations.

2 Document 93.

Recommendation

23. It is recommended that the Committee:

- (a) note the progress that has been achieved in advancing the studies associated with determining a basis for possible closer economic relations with Australia;
- (b) agree that these studies should be further progressed by a meeting of the joint working party to be held in Wellington in October;
- (c) agree that a timetable be followed with the objective of providing Ministers with the material needed to reach Heads of Agreement stage by early 1981;
- (d) direct officials to report back to the Committee on the initial Category 1 list and on any specific proposals to include goods in Category 3 and on the implications of taking this action;
- (e) invite the Acting Prime Minister to release a press statement by 4 September to alert the New Zealand manufacturing and business communities to the need to hold substantive consultations with them;
- (f) agree that advance notice of the contents of the proposed press statement be given to Australia.

Annex [1]**Australia – New Zealand: Closer Economic Relations Exercise***General Principles that may apply in the consideration of possible Import Licensing Allocations*

- All additional licences arranged as a result of any agreement reached with Australia, would be designated being for goods of that country only (NAFTA rules of origin would apply).
- It would be assumed that Australia would be moving towards unrestricted access for equivalent New Zealand goods where this did not already apply.
- The basis for study specified that where additional Australia licences are to be instituted they would also provide for 10 percent access growth per annum in real terms. There is therefore a need to establish a basis on which 'real terms' would be assessed.
- There should be no general intention to use the licensing system to guarantee shares of the New Zealand market to Australia. Rather the intention is to generate additional access opportunities in each other's markets.
- Administratively simple solutions are to be preferred, keeping in mind the balance of other requirements. Wherever practicable whole item codes rather than individual tariff items which make up each item code should be dealt with.

Import Licensing Allocations—Possible Lines of Approach

- Items already exempt licensing—these would remain exempt.
- Licence on Demand (LOD)—as there has been little chance for importing patterns to become clear it is considered that licence on demand status should be maintained for these items.
- Special NAFTA Access items—specific licensing access levels have been negotiated under NAFTA for about 110 items, through Schedules A and B. These levels could be taken as the base starting point, and the 10 percent increase formula applied (Article 3:7 arrangements, which are inter-company, would be dealt with in terms of the 3:7 formula, although regard would have to be had, over time, to the relationship between them and any general increase in access levels for the items concerned that might flow from the rest of the package. Where there are existing special arrangements on non-Schedule A goods (eg apparel and footwear) an access base would be the subject of separate negotiation.
- General licensed products area—these could be split into three broad groups:—
 - A for items where New Zealand's import licensing arrangements are already liberal and offer no substantive hindrance to imports, no special provision would need to be made.
 - B for items where import controls are more tightly administered, but where Australia already enjoys significant trade, a three year average of imports from Australia would be established as the base, on to which the 10 percent progression would be applied.
 - C for items where Australia, for one reason or another—has no or few sales in this country, the initial access level would be based on an estimate of commercial viability which takes account of the nature of the goods, the amount of import provision already available generally and the extent to which the particular industry might be sensitive to Australian competition.

Annex [2]**Intermediate Goods***Objective*

1. To establish some preliminary agreed observations about the nature of the intermediate goods problem and thus narrow the field for further study both of the issues and the range of possible solutions. This would help to provide the basis for industry and Government in each country to assess the access and tariff proposals in particular.

The Nature of the Problem

2. On the basis of work already undertaken it could be accepted that:
 - (a) The tremendous diversity of industrial inputs and the considerable differences that exist in the protective structures of each country relating to intermediate goods make the issue a highly complex one.
 - (b) Because of the impossibility of obtaining and aggregating the necessary data, it is unlikely that any further attempt to quantify, with any degree of precision, the overall extent to which either country might be advantaged or disadvantaged would be warranted.
 - (c) Australia has, however, the broader industrial base and where New Zealand does not share the same intermediate goods industry, New Zealand has the ability to source on the most efficient world producers (consistent with the 5% margin provided for in the arrangement on Tariffs and Tariff Preferences).
 - (d) In cases where both countries protect like intermediate goods industries, New Zealand's tariff levels applicable to such industries are in general higher than Australia's, but the position varies considerably from product to product.
 - (e) Further, where both countries protect like intermediate goods industries, New Zealand's import-licensing applicable to such industries results in additional costs borne by the associated New Zealand final-goods industries.
 - (f) The significance of the intermediate goods issue needs to be considered in relation to the total costs of producing the goods in question (namely, labour, overheads etc). In most cases, any advantage/disadvantage arising from differences in treatment of input industries represents a relatively small proportion of factory and cif prices.
 - (g) Rules of origin act as an important constraint against the possibility of any substantial inequity arising.
3. Having regard to these considerations, a possible basis on which the issue might be progressed could be:
 - (a) Acceptance that an across-the-board formula directed at offsetting any possible overall advantage/disadvantage is not required or, indeed, capable of being calculated with any degree of precision.
 - (b) Concentration in the next study phase (and in consultation with industry) on identifying only those individual goods which stand out as a possible significant problem area.

Possible Solutions: Some Relevant Considerations

4. Subject to whatever results might be obtained from this further study, it may be useful to consider ways to concentrate attention on how significant problem areas might be resolved. Intermediate goods problems could arise in two general cases: first, where certain intermediate goods have a fairly general role to play in

the industrial structures of both countries and/or are also important inputs to a range of products traded between the two countries. Second, cases where intermediate goods industries are significant to a particular industry of some importance within the trading relationship.

5. In the former case, a solution might be sought on a general basis tailored to the situation. Amongst the options which have been discussed at an earlier stage are special content rules, production subsidies, tariff adjustments, and adjustments to referential margins.

6. In the latter case—where an individual final-goods industry appeared to have a ‘stand-out’ problem—it might be possible to seek an offsetting factor in relation to the trade in the finished goods in question.

7. To establish some bounds to what might be considered a problem of ‘stand-out’ dimensions, it may be necessary to agree on certain criteria. For example:

(a) Cases where the cost disabilities (arising from the associated intermediate goods industry) encountered by the final goods industry concerned represented only an insubstantial proportion of the industry’s overall costs could be disregarded. It might be possible to establish a benchmark level.

(b) Where there are only relatively modest differences in tariff levels, it might also be possible to disregard such cases.

(c) In the case of a particular industry which appeared to have a stand-out problem in the intermediate goods area (para 5 above), it would be necessary to take account of the cumulative effect of other advantages and disadvantages it may incur in its input costs compared with its trans-Tasman counterpart. That is, it is likely that over the range of input costs particular to that industry, there will be pluses and minuses.

8. In making an overall assessment as to whether some specific action was warranted to take account of a stand-out problem, regard would also be had to the possibilities afforded by whatever phasing provisions and safeguard provisions might be agreed upon.

9. All cases would be subject to consultation.

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130 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 4 November 1980

E (80) M 41 PART III CONFIDENTIAL

**Australia – New Zealand Economic Relations
General Overview**

Discussion flowed principally from recommendation (c) of E (80) 208. This concerned the criteria to be taken into account for the inclusion of items in category III, ie the category of goods for which the liberalisation of Australia/New Zealand trade would be deferred in the event of any agreement between New Zealand and Australia for a Closer Economic Relationship (CER).

Officials observed that they had been supplying New Zealand manufacturers with as much information about the negotiations with Australia as was possible. While in some cases the response was somewhat negative, in many cases it was quite positive. The Committee remarked that this was natural; firms engaged in exporting goods to Australia would welcome a more open Australian market, while firms producing for the New Zealand market alone would not welcome increased competition from Australian imports. Officials needed to bear two points uppermost in their minds. The first was that the Government did not want to become embroiled in a controversy with New Zealand manufacturers' representatives on the CER question. If any agreement was to be reached between Australia and New Zealand, the Government would need to have the manufacturers on its side. Secondly, in order to do this, officials needed to give great attention to manufacturers' requests for the inclusion of items in Category III. Part of the Government's economic strategy had been to support the development of New Zealand manufacturing and the prerequisite for this was a stable domestic market and the confidence that this would be maintained.

These points were acknowledged as being of considerable importance. However, it needed to be borne in mind that a final decision on the CER package would be made in the light of the balance of advantage to New Zealand. The opening up of the Australian market would in effect enlarge the domestic market for New Zealand manufacturers. This would mean that if the balance of advantage turned out to be favourable to New Zealand, any decline in the domestic market for New Zealand manufacturers caused by increased Australian imports would be more than compensated for. Hence, the liberalisation of trade between New Zealand and Australia would change the shape of some New Zealand industries rather than eliminate them altogether; production in some product lines would be enhanced, while production in other lines would decrease. In any event, the liberalisation envisaged would not be sudden and drastic; it would be gradual and steady and would provide ample time for adjustment. As indicated in paragraph 2 of the memorandum attached to E (80) 208, the liberalisation was not intended simply as a rationalisation of trade protection between Australia and

New Zealand; it was intended to be the essential first step in making industry in both New Zealand and Australia more competitive internationally.

The point was also made that Australian officials, it seemed, had not been keeping Australian manufacturers very well informed about the progress of the CER negotiations. The possibility of significant changes in stance by the Australians at a late stage of the negotiations could therefore not be totally discounted. For their part, New Zealand officials would continue to keep New Zealand manufacturers fully abreast of developments. The Manufacturers' Federation were on the point of considering their response to the suggestion of amalgamating Categories I and II.¹ Once the parameters of the possible CER agreement package were more precisely defined, and the reactions of New Zealand manufacturers more clearly identified, officials would be in a better position to advise the Government as to where the balance of advantage to New Zealand of the CER exercise lay.

In conclusion, the observation was made that it would be desirable for Manufacturers' Federation representatives to attend a meeting of the Committee, following its consideration of the next officials' paper on the CER negotiations, to discuss the shape of the CER agreement package as it was developing and to ensure that there would be broad-based support from manufacturers for the position the Government was adopting.²

The Committee *agreed*, for reference to Cabinet, to:

- a note that the work programme for officials is based on the requirement that agreement be reached on the main elements of a new arrangement by February 1981;
- b agree, subject to confirmation that the Manufacturers' Federation has no substantial objections, that the Australian proposal for combining Categories I and II and for a revised tariff phasing formula be accepted;
- c agree to the principles which govern the nature of Category III and the principles for consideration of inclusion of items in Category III set out in the Annex to the memorandum attached to E (80) 208 as a basis for discussion with Australia and for considering industry requests for Category III classification;
- d note the position reached on other issues and the proposed immediate work programme as set out in the memorandum;
- e agree that officials inform the Manufacturers' Federation of present progress on issues other than those which are forming the basis of current consultations;

1 The 'easy' categories of goods that were already freely traded or were expected to move quickly to a free trade basis.

2 This suggestion was adopted, and representatives of the Manufacturers' Federation joined the Committee for a discussion on CER on 18 November 1980.

f authorise officials to continue their discussions with their Australian counterparts on the basis of the discussions within the committee outlined in E (80) M 41 Parts III, IV and V.

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131 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 13 November 1980

NO 3526. CONFIDENTIAL PRIORITY

ANZCER: Agriculture

Now that the Prime Minister's consent to lifting the embargo on discussion of the BAE dairy paper¹ has been obtained, officials here have been giving some thought to the way in which agriculture should be addressed. Anderson has asked DPI to work up some options as the basis for consulting industry and for engaging in a substantive discussion on agriculture at the next JWP. He is conscious time is running on, and that on the NZ side, the importance accorded agriculture in striking an appropriate balance of advantage will make it essential for Permanent Heads to be in a position to report substantial progress.

2. In the Australian IDC discussions Anderson has started from the premise that agriculture—including dairy products—should be treated in the same way as industrial products and manufactures. He maintains there is nothing peculiar about agriculture that requires different phasing formulae for tariff treatment or for QRs, but articulating the principle in this way should strengthen resistance to any notion on the Australian side that 'sensitive' areas of agriculture warrant exclusion from the deal.

3. Anderson said it would help if we could be in a position to spell out in greater detail our concerns on agriculture at the next Joint Working Party meeting. On tropical agriculture it will be necessary to take on board the way in which NZ's commitments to South Pacific countries are likely to affect our freedom of movement. He seems to be thinking along the lines of having Australia designated as a preferred 'secondary' source of supply for tropical agricultural products. This would enable NZ to preserve access for South Pacific countries but at the same time make some commitment to seek supplies from Australia should the need arise. (It is not clear what mechanism Anderson has in mind for

¹ The Bureau of Agricultural Economics had produced a paper on dairying that aroused some concern in New Zealand, which considered the paper to include erroneous views on some points that could damage its dairy business elsewhere.

this but perhaps some form of undertaking from FDL to source on Australia when the need arises, possibly reinforced with a substantial margin of preference over third country suppliers, could satisfy Anderson's criteria.) In addition, it would help to have a better picture of NZ's other concerns in agriculture.

4. On dairy, Anderson said that the next step should be identifying those parts of the BAE study which specifically deal with the impact of support/stabilisation measures on trade. (This accords with Blamey's view as reported in our 3382.) We asked Anderson what conclusion he would expect to flow from this approach. He said it was his impression the study showed that while the degree of support for each country's dairy industry was about the same, because of the difference in form that assistance took, the impact on trade was potentially quite extensive. If the current structure of assistance each country's industry enjoyed was kept in place, free trade would in fact reduce by about 75 percent the value of assistance to the Australian industry. What was required, therefore, was an understanding which improved NZ's exporting opportunities (as distinct from 'access') in the Australian market, but which would also include some form of 'orderly marketing' provision inhibiting the capacity of support/stabilisation measures to undermine price levels in Australia.

5. We noted that the High Commission was at something of a disadvantage in that we had not yet seen the BAE study; nor were we in a position to comment on the substance of Anderson's thinking at this stage. However, it seemed to us that in responding to any specific Australian proposals, there were a couple of considerations which we felt sure would weigh heavily with us: the first was that any Australian proposal which did not reflect the duty-free unrestricted status of dairy products in the NAFTA would not be consistent with the rules we were applying for translation of products from the NAFTA to the CER. The second point was that proposals flowing from whatever conclusion was reached on the impact of support/stabilisation measures in trade should not be based on an assumption that the current value of assistance will remain constant.

6. Anderson indicated that as far as the duty free NAFTA status of butter and cheese was concerned, there would have to be some acknowledgement that an important element in the negotiations when the NAFTA was signed had been an agreement between the Dairy Boards which effectively inhibited the NZ Board from using the access for butter; and a quota had been applied to access for cheddar cheese. What he hoped Australia would be able to offer would be considerably better than the opportunities available to the NZ dairy industry under the NAFTA, in that if we accept them they would enable 'assured, predictable, and growing participation'—a studied paraphrase of the NZDB's own language—in the Australian market.

7. Anderson agreed to our reporting this conversation, but asked it be made clear these are his views only at this stage, and he still has some way to go in securing the agreement of the Australian IDC. For our own part, we consider we should have no illusions that the concept of assured access for NZ dairy products

in the Australian market (as distinct from cooperation in third markets via, eg ADI) will not encounter strong opposition from dairy interests here. We think it can be assumed, however, that Anderson's thinking as outlined above accurately reflects the role both Anthony and Scully see for the dairy industry in the CER at this stage.

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132 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 14 November 1980

E (80) 221. CONFIDENTIAL

Australia/New Zealand Economic Relations: Industry Consultations

Introduction

1. It is important that in evaluating the overall benefits of a closer economic relationship with Australia, the broad reactions of New Zealand industry to the proposals are taken into account. The need for consultations with interested parties was endorsed by Ministers in September and the Government's intention to hold detailed consultations with such parties was spelt out in a press statement by the Acting Prime Minister on 6 September 1980. Subsequently, the Committee underlined the importance of obtaining a favourable reaction from industry and approved the Manufacturers' Federation being briefed on all relevant aspects of the negotiations (E(80)M41 Part III).¹ This paper outlines the progress of consultations to date as a basis for discussion between the Committee and members of the Manufacturers' Federation on 18 November 1980.

Consultations to Date

2. Consultations have taken place with manufacturers' groups and various farming and producer organisations. Because the proposed trading relationships should, in general, benefit the agricultural production sectors, there has been little adverse reaction from representatives of those sectors (except for the NZ Vegetable and Produce Growers' Federation).

3. Consultations with manufacturers have generally been conducted through the Manufacturers' Federation (MANFED), at the national and district levels and with trade groups. Besides a general briefing on the proposals, manufacturers have been given a detailed outline of the proposed levels of access on the basis of individual tariff items. They were asked to react as individual companies or

¹ Document 130.

trade groups to the various access proposals. Discussions have also been held with industry groups outside MANFED (eg the Pharmaceutical Manufacturers' Association and the Wine Institute) and are being extended to individual key manufacturing companies.

4. At a meeting on 13 November, MANFED executives were given on a confidential basis documents relating to a wide range of relevant issues, so they are now fully briefed on the whole compass of the negotiations. At the same time Mr I Douglas reported on the general position of MANFED and raised a number of points for consideration. These are set out below.

Reactions of Manufacturers

5. While the MANFED Council is still adopting a broadly positive stance to the proposals for a CER there are certain trade groups and a number of individual companies that have misgivings. Douglas made it clear that the two issues that loom largest at the national level are access and the continuation of export incentives. He indicated that the offer of full consultations on issues as well as access had been warmly received. MANFED has also been reassured that adequate time will be made available for consultations; the concern about lack of time has come through in a number of submissions from groups and companies.

6. An analysis of written submissions to date from individual manufacturers or groups has revealed a number of common factors. These, and comments by officials, are mentioned below:

(a) The Government has not yet identified clearly to manufacturers the benefits that will accrue to New Zealand of a CER.

Comment: The major benefit of any new arrangement would arise from more favourable conditions of access to the Australian market. The extent to which New Zealand producers and manufacturers can take advantage of that access cannot be measured in advance. These factors will need to be fully explained in public statements. However, until the shape and content of a new arrangement have been more clearly determined, it is not possible to fully evaluate the likely benefits.

(b) The current depressed market conditions and government induced changes make this an inappropriate time to be entering into a new relationship with Australia.

Comment: The answer to this point is that the direct competitive affects of the CER lie some way in the future. It is likely that the earliest possible date to begin tariff phasing and access increases would be 1 July 1982 and the process would take up to five years. The process of access liberalisation will in most cases be even more gradual. It is also important to bear in mind the possible consequences to trans-Tasman trade if no changes are made to the present institutional arrangements.

(c) The issue of special licences equivalent to the average of three years' imports from Australia where trade is already flowing freely under Global licences would provide an unduly high level of access.

Comment: Australian and New Zealand officials now agree that commercially viable imports under existing Global licences should constitute the base and that initially additional licences for Australia would be required only to the extent of 10 percent of the base figure to provide the increase in access in the first year. (This effectively meets the MANFED request.)

(d) Manufacturers should be eligible for some of the additional import licences that are to be issued as they will be giving up part of their market.

Comment: The policy has not yet been determined and account will need to be taken of the views of manufacturers and other interested parties (importers, retailers). In the special circumstances of the CER, consideration could be given to the MANFED request in selected areas, especially where beneficial industry rationalisation was involved.

(e) The issuing of licences on an item code basis would endanger some manufacturers. The issue of licences according to tariff items would be preferred.

Comment: This problem is receiving detailed attention in the light of the submissions received.

Other MANFED Concerns

7. MANFED has identified several other more general matters which may be raised with the Committee. These are as follows:

(a) There is some concern about the open-ended nature of the proposed arrangement. There should be provision for a stocktaking after, say, five years to determine if it is still appropriate to continue moving to free trade.

Comment: The stated objective of the CER is ultimate free trade and there must be certainty as to the outcome to provide a basis for long term investment decisions. Nevertheless, it would be normal to review progress and the operation of an agreement of this type at about the end of the tariff phasing period. Such a review would provide an opportunity for the Government to make a general assessment of the benefits of the arrangement.

(b) Because of higher tariffs in New Zealand than Australia against third country imports, Australian exporters gain greater benefit in New Zealand than vice versa. New Zealand should seek to retain a margin of preference in Australia if third country tariffs are reduced.

Comment: Although, in general, New Zealand tariffs tend to be higher than Australian tariffs there are wide variations. An effect of the formula approach to tariff phasing will be that some New Zealand tariffs will be phased out over a longer period than their Australian counterparts. Officials have not yet

addressed the future of the Agreement on Tariffs and Tariff Preferences.² The possibility of maintaining tariff preferences during the tariff phasing period on a limited range of key products might be explored.

(c) All items currently subject to an industry study should automatically qualify for inclusion in Category III.³

Comment: Officials believe the justification for inclusion in Category III should require a tighter test than only whether products are scheduled for an IDC or industry study. Each case will be considered on its merits. All proposals for Category III treatment are presently being intensively studied.

Conclusion

8. This meeting enables the Committee to take a reading on the views of MANFED at this point in the consultative process. At the same time Ministers may wish to reinforce the Government's intention to carry through the consultations begun in terms of the September policy statement.

9. Ministers may also wish to give an indication of possible timing in reaching an agreement with Australia. Officials assume that no final decision to proceed will be taken until prior to the meeting of Ministers sometime early in 1981, and that any such decision will depend on the outcome of the meeting of Permanent Heads in early December and will have full regard to the views of industry.

The material set out above may be drawn on, as appropriate, to answer points raised by the MANFED representatives.⁴

[ABHS 950/Boxes1221-1226, 40/4/1 Part 31

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2 Concluded in 1977.

3 Category III was the category of goods for which trade liberalisation would be deferred.

4 At their meeting with the Committee, set down for 18 November.

133 TELEGRAM FROM TURKINGTON TO MULDOON

Canberra, 25 November 1980

No 3660. CONFIDENTIAL IMMEDIATE

ANZCER Talks 25 November 1980¹

New Zealand stated its basic position that agricultural commodities should fall within the general CER arrangement. Australia raised several problems in this area.

1. Fruit Distributors Ltd. The monopoly importing role of Fruit Distributions in New Zealand was seen to disadvantage Australian exporters especially with regard to citrus products where Fruit Distributors has an obligation to protect the domestic industry.
2. Wheat. Again Australia objected to the NZ Wheat Board being obliged to first purchase the domestic crop so that Australia is only a residual supplier. New Zealand officials argued that as the prices paid to farmers in both countries tend to be the same, the role of the NZ Wheat Board presents no problems.
3. Peas and beans. These products are currently subject to an industry panel arrangement which limits exports to Australia. The Australians argued for a continuation of this arrangement. New Zealand officials could not accept that peas and beans, or other vegetables, should be treated as special cases and argued for the phasing out of the existing arrangement.
4. Dairying. The Australians argued that their stabilisation arrangements, which involve the imposition of a levy on dairy products, place their industry at a disadvantage relative to New Zealand. It was pointed out by New Zealand officials that this was a crucial issue in the whole exercise and that the objective was unrestricted duty-free access of the dairy products to the Australian market. Currently the only restrictions relate to cheddar, which should be liberalised according to the arrangement, and any imposition of constraints would be strenuously opposed. The Australians could see cheddar being subject to the arrangement but expressed concern that New Zealand penetration of their market would not proceed in an 'orderly' fashion. They are to spell out their position on dairying and other agricultural products in a paper.

Deferred Lists

There was an exchange of lists of deferred items. It was pointed out that the New Zealand list was merely a catalogue from which an ultimate deferred list would be selected. It consists largely of goods under industry study and items on which representations had been received. The Australian list also includes goods under industry study but in addition includes several products which involve

¹ Turkington had been participating in a meeting of the two countries' official-level Joint Working Party in Canberra.

possible 'intermediate goods' problems. Among the latter are several of special interest to New Zealand such as textiles, clothing, whiteware and several plastic products. It was indicated by the Australians that some of these goods would be taken off the deferred list once arrangements had been formulated under the safeguard provisions already agreed for such goods. New Zealand officials pointed out that several of these goods have been export winners and are [of] particular concern. Some may have been included on the deferred list as a means of placing pressure on New Zealand to resolve outstanding questions on access.

Other Matters

Among the matters discussed were general safeguards to be incorporated in the agreement and industry rationalisation.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 31

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134 BRIEF BY MINISTRY OF FOREIGN AFFAIRS

Wellington, 2 December 1980

ANZCER: Joint Permanent Heads Meeting: Wellington 10-11 December, 1980: Overview Paper

The Report by Joint Working Parties, finalised in Canberra on 26 November, is the base document for this meeting. It provides background and analysis of the issues to be addressed by Permanent Heads.

2. The process of study, discussion and consultation that has taken place since March has cleared most of the ground for taking decisions on the shape of a new economic relationship.

3. In the majority of cases, the Joint Working Parties have been able to reach agreed conclusions and recommendations. Permanent Heads are asked to confirm these. On the others—inevitably the areas of greatest sensitivity—the Joint Working Parties have tried to specify as clearly as possible the differences in approach.

4. As Permanent Heads work through the agenda it will be apparent that on some of these issues (which are summarised in the introduction to the joint report) there is probably not much between the two sides—for example, in the area of access the method of calculating the initial 'base' (para 2.28). Others are more substantive—the terms of reference for the 1982 review of export incentives (paras 5.12-5.16) and the treatment of dairy products, for example.

5. New Zealand may have a rather more modest view of what this meeting can achieve in relation to the Prime Ministers' meeting proposed for the last week of February. Australia appears to see the Prime Ministers' meeting primarily as

putting a formal stamp of approval on the framework agreed by Permanent Heads. At the last round of talks in Canberra the New Zealand delegation expressed the view that there were likely to be some outstanding areas requiring political decisions. Australia acknowledged this possibility but suggested a meeting between Deputy Prime Ministers (Talboys/Anthony) might be a more appropriate forum for settling any issues that remained following the Permanent Heads meeting.

6. This is a matter which can probably be resolved only in the light of next week's discussions between Permanent Heads. Certainly New Zealand will need to seek Ministers' views.

7. Either way, it would seem desirable if Permanent Heads could reduce substantially the number of outstanding issues. Where this is not possible, the meeting could distill further the areas where political judgments will still be required. This task will, no doubt, now be somewhat easier to achieve in the light of the large measure of agreement reached by the Joint MANFED/CAI Working Party Report (copy attached)—assuming that report is approved by their respective governing bodies.

8. The formal outcome of this meeting is expected to be an agreed joint report to Prime Ministers. Again, it is difficult to prejudge its exact form but one approach would be:

(a) A covering paper recalling the terms of reference for the study in the March communiqué and annex¹ and setting out the conclusions of Permanent Heads.²

(b) An attached draft Heads of Agreement describing the main procedures and policies required to bring about the closer economic relationship envisaged by the two Prime Ministers.

9. A framework has been prepared along these lines to serve as a focus for discussion and is included in the brief. Permanent Heads will also need to discuss whether this report, or an amended version of it, should be made public, once Ministers have had the opportunity to consider it.

10. Certain linkages in the emerging package are becoming apparent and this meeting should provide an opportunity to clarify these. From Australia's point of view, the key issues remain access and export incentives. If, for example, New Zealand can confirm the parameters of its access offer and reach an acceptable formulation on the purpose of the review of export incentives, it is possible this could unlock the present Australian position in areas which are central to New Zealand's concerns: for example, on dairy products and on intermediate goods.

1 Document 93.

2 See Document 66.

11. Apart therefore from the formal task of preparing a report to Prime Ministers and a draft Heads of Agreement, this meeting will be useful in gaining a perception of the overall shape of the CER package and the likely balance of advantage for New Zealand.

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135 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 9 December 1980

E (80) M 46 PART V. CONFIDENTIAL

Australia – New Zealand Economic Relationship: Meeting of Permanent Heads¹

Officials stressed that, on the question of the dairy trade between Australia and New Zealand, no commitment should be given by New Zealand to either a Government to Government agreement to limit dairy exports from New Zealand to Australia or a voluntary restraint arrangement concluded between the New Zealand Dairy Board and the representatives of the Australian dairy industry. To pursue such a course of action would be to step on to a very slippery slope indeed. All that could be said to the Australians at this stage was that any formal limitation on the dairy trade between Australia and New Zealand was unacceptable to New Zealand, notwithstanding any restraint which might have been exercised voluntarily by the Dairy Board in the past; such a formal limitation would represent a reduction in access and would hence be completely contrary to the goals of the Closer Economic Relationship. In New Zealand's view, the Dairy Board should be allowed to export such quantities of dairy produce to Australia as it considered appropriate in light of all the factors relevant at the time. This was the view that would continue to be transmitted to the Australians.

Officials also noted that the New Zealand Manufacturers' Federation had recently qualified somewhat the position that its representatives had outlined in person to the Committee some weeks ago. However, it did not seem that these qualifications would affect the conduct of the Permanent Heads' meeting during the coming few days; they might nevertheless be a factor in the Government's deliberations on the Permanent Heads' final recommendations.

[*matter omitted*]²

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1 The meeting was due to take place in Wellington on 10–11 December.

2 Details of the Committee's decisions omitted.

136 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 12 December 1980

E (80) 253. CONFIDENTIAL

**Australia/New Zealand Economic Relations
Report of Meeting of Permanent Heads
10–11 December 1980***Background*

1 At its meeting on 9 December 1980, the Committee agreed to a report, E(80)M46 Part V¹ refers, outlining aspects of the negotiating brief for the meeting of Permanent Heads of New Zealand with their Australian counterparts in Wellington on 10–11 December 1980. The report agreed to at that meeting is attached.²

2 The purpose of the Permanent Heads' meeting was to attempt to reach as much finality as possible on the format of a new relationship with Australia, following the outline given in the Prime Ministers' communiqué and annex of March 1980.³

3 This report outlines the major areas to which Permanent Heads gave their attention. A draft of a possible Heads of Agreement was considered to which a broad measure of agreement was reached on many aspects of a closer relationship.

Tariffs

4 Permanent Heads agreed on a tariff phaseout formula of five years duration. Assuming that final agreement on all other aspects of the relationship could be reached in time for it to commence on 1 July 1982, it would result in the total removal of all tariff barriers on goods in Category A/B⁴ between the two countries by 30 June 1987.

Category C⁵

5 Broad agreement was reached on provisions covering the inclusion of goods in Category C. Australian Permanent Heads wished to consider further the maximum time period that any item might stay in Category C. They will report on this by mid January. The product coverage of List C has still to be discussed in detail. The Australians wished to consider further the status of whiteware, plastics, motor vehicles and apparel upon which they will comment further; in

1 Document 135.

2 See Document 139.

3 Document 93.

4 Elsewhere known as Categories 1 and 2.

5 Elsewhere known as Category 3.

mid January for whiteware and plastics, and mid February for motor vehicles and apparel.

The Agreement on Tariffs and Tariff Preferences

6 Consideration is being given to the need for extension of tariff preferences provided in the 1977 Agreement on Tariffs and Tariff Preferences. The need for the extension of the present Agreement following the implementation of a closer relationship, is presently being studied.

Import Restrictions

7 Subject to the Australians checking the full effect of the access levels derived from the formula presented by New Zealand for calculating the base level of access for licensed goods where trade is presently flowing, there was mutual agreement on the access formulae. The Australians questioned the meaning of the phrase 'gradual and progressive liberalisation of import licensing and tariff quotas between Australia and New Zealand in reasonable time'. They suggested that the aim might be achieved by a review at a later stage in the new relationship, perhaps 1990. The review could seek to arrive at an undertaking to phase out completely all import restrictions on Australia/New Zealand trade by say, the year 2000, a date which the Australians described as 'reasonable'. New Zealand Permanent Heads stressed the advantageous position that Australia would enjoy under the access arrangements at present under discussion. The very significant impact that these liberalisation arrangements would have on New Zealand's protective structure was also stressed. It was agreed that there was room for debate as to the interpretation that could be placed on the term 'in reasonable time'. Both sides undertook to consider the point further.

Intermediate Goods

8 Permanent Heads affirmed a set of principles covering an approach which should enable intermediate goods (inputs) problems of significant dimensions to be resolved in a manner consistent with the overall objective of the closer economic relationship. It was agreed that talks would be held in the week of 15 December on the specific question of whiteware and plastics.

Agricultural Issues

9 Resolution was not achieved on the issue of trade in dairy products. Australian Permanent Heads will recommend to their Ministers that the New Zealand proposals, as outlined in (80)M46 Part V,⁶ should not be accepted. The major reason for this was that the high levy on Australian dairy production, and consequently high wholesale prices did not permit fair competition to take place in a free trade environment. The Australians stated that a review of all assistance measures to the dairy industry is currently underway and consequent changes

⁶ Document 135.

could be implemented in the middle of 1981. Additionally they raised the need that they saw, notwithstanding the result of the review, for dairy trade to be established in the new relationship on a base access level plus growth factor approach. This would mean the restriction of the largely free access currently available to New Zealand. The Australians stressed their understanding of the importance of this issue to New Zealand and expressed the hope that a satisfactory formula relating to a base access level and growth factor which would be acceptable to New Zealand could be found and which accordingly would not unduly delay the signing of the Heads of Agreement. New Zealand again emphasised the importance of this issue and reiterated its view that the objective in terms of the dairy industry in a CER was a continuation of the present unrestricted duty free access for dairy products, other than cheddar cheese, to the Australian market.

10 On the other agricultural issues, a broad measure of understanding was reached. In the matter of Peas and Beans however, the Australians requested that export incentive eligibility be removed.

Export Incentives

11 Agreement was reached that a review of performance based incentives be undertaken, commencing before 1 July 1982 and to be completed by 1 April 1985, or in any event no later than 30 June 1987. The Australians also wished to see the removal of performance related incentives between the two countries by 30 June 1987.

Government Purchasing

12 It was agreed that discrimination in purchasing by national and state bodies was not in harmony with the concept of the closer economic relationship. It was recommended that the subject be put on the agenda of the State Premiers' Conference in June 1981 and that, with reference to available documentary evidence demonstrating the magnitude of the problem, the elimination of discriminatory purchasing practises by the states be sought.

Customs Issues and Rationalisations

13 Both these items were agreed.

Consultation, Review and Safeguard Provisions

14 General agreement resulted on the need for mechanisms to be included in the new relationship to allow for regular consultations and reviews. The need for safeguard provisions, in keeping with the format of the relationship, was recognised.

New Agreement

15 Once all the outstanding problems, particularly in Agriculture have been resolved, it was agreed that the NAFTA and its related agreements be replaced by the new Agreement. It was recognised that the Closer Economic Relationship

was a development from the NAFTA, but it was considered that the breadth of its provisions was such that it should be formulated as a new agreement.

Future Timetable

16 Permanent Heads considered that if no major problems were met, an agreed report would be completed by mid January 1981. If significant problems were encountered, then it was envisaged that separate reports be made to respective Cabinets in January outlining agreed progress and areas requiring further negotiation in February. This latter scenario would retard the following process by approximately one month. It was otherwise considered that the reports to Ministers should be referred to Cabinets in early February 1981, seeking agreement to the joint report and also seeking authorisation to make public a Heads of Agreement. A period of one month would be set aside for public comment to be followed by initialling of the Heads of Agreement by late March at Ministerial, or possibly Prime Ministerial, level. The detailed text of the new agreement would then be signed by the end of April, by Ministers.

17 Consideration of this timetable took place before discussion on agricultural issues and Government purchasing was completed. It was agreed, after further discussion, on the dairy issue, that there could be considerable difficulties in keeping to the timetable. The Australians said they would try very hard to develop their position on the dairy issue in a time frame that allowed the timetable to be met. Attention should also be drawn to the date of the Australian State Premiers' meeting in June 1981, and the consequent effect that this may have on achieving the timetable considered by Permanent Heads.

18 The Joint Report of Permanent Heads to Prime Ministers plus a draft Heads of Agreement are currently being completed. Likewise separate reports on matters upon which agreement has not yet been reached are also in preparation. In accordance with the timetable outlined in paragraph 16, they should be available in mid January.

Recommendation

19 It is recommended that the Committee *note* this report.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 32

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137 SUBMISSION FROM NORRISH TO TALBOYS

Wellington, 15 December 1980

The Benefits to New Zealand from a Closer Economic Relationship with Australia

1. You asked for an assessment of the benefits to New Zealand from a closer economic relationship (CER) with Australia.
2. This paper takes account of developments at the Joint Permanent Heads meeting held in Wellington on 10 and 11 December. Because of the tight timing constraints, it has not been possible to seek the views of other Departments.

Scope of Paper

3. Officials have not yet attempted a comprehensive assessment of the benefits likely to arise for New Zealand from a CER along the lines now emerging. This is, therefore, a preliminary attempt to specify the more important economic and trade benefits. It does not attempt to examine any costs arising from a CER (eg any trade diversion costs, adjustment difficulties). Nor is it an attempt to examine the balance of advantage. That would require a separate evaluation of the concessions likely to be offered Australia by New Zealand.
4. The benefits can be grouped under four general headings:
 - (a) direct (static) gains for New Zealand
 - (b) long-term (dynamic) economic benefits
 - (c) so-called 'damage limiting' benefits—ie what is the future of the NAFTA status quo if the CER exercise fails?
 - (d) bilateral and regional foreign policy benefits.

The first three are examined in turn below. We have not attempted to sum up the foreign policy benefits in this paper, but essentially they turn upon the desire to get in place a more appropriate structure for the economic and trading relationship and the creation of a stronger base for the expansion of economic and trading links with the Pacific and S E Asia.

Direct (Static) Trading Benefits

5. An analysis of the effects of eliminating tariffs necessarily considers the present structure of exports. Of course, if the tariffs being applied to New Zealand exports are having a trade-inhibiting effect, the exports will, by definition, be small. With that caveat, it should be noted that about three quarters of New Zealand exports by value are accorded duty-free treatment under NAFTA. The CER formulae for phasing out *tariffs*, therefore, will presumably have little or no direct effect on the greater part by value of existing New Zealand exports.
6. On the basis of Australian import clearances in 1978/79, some \$44m worth of imports from New Zealand were accorded duty-free treatment because of

Australian by-law approvals (analogous to New Zealand's tariff concessionary system). The eventual elimination of tariffs, and the binding of rates to duty free, will thus confer a greater degree of security for a significant part of New Zealand exports already accorded duty-free treatment.

7. The benefits of eliminating tariffs on New Zealand dutiable exports (worth some \$85m in 1978/79) will naturally vary considerably from commodity to commodity.

8. It is clear from recent trade surveys and a major survey conducted by the NZIER in December 1979 of New Zealand's 200 largest companies involved in the trading relationship that Australia has become a very competitive (and thus price-sensitive) market. The NZIER survey asked exporting companies to rank 'trade-inhibiting factors'. After 'transport costs', 'lower third country prices' and 'lower Australian prices' were ranked respectively as the second and fourth most important factors inhibiting New Zealand exports. The removal of even relatively low tariffs on the (approximately) quarter of New Zealand exports by value now subject to duty could, in such circumstances, make the difference between making a sale and not making it. Certainly, some individual New Zealand exporters have indicated they see definite advantages in eliminating the Australian tariff on products of interest to them.

9. Many of New Zealand's current or potential export winners (eg whiteware, carpets, apparel, cheddar cheese) are subject to Australian *quantitative restrictions*. The eventual elimination of current QRs will thus confer an important benefit on New Zealand.

10. The CER, in its present form, will not permit the imposition of new QRs. Therefore, under a CER, New Zealand exporters could depend on assured access to the area market. It could encourage New Zealand firms to make the investment decisions necessary to exploit the full economics of scale inherent in the area market without the possibility of a 'dollar for dollar' approach being imposed on them if they are successful.

11. The eventual removal of '*gentlemen's agreements*' that operate in some key agricultural areas (eg peas and beans, butter, non-cheddar cheeses) would confer important benefits on New Zealand. Although negotiations are only now beginning in earnest on these sensitive items, the Ministry considers Australia has already signalled these areas are negotiable and there is no reason why New Zealand should not at least be able to attain a useful base and assured growth in the Australian market thereafter. For political reasons, the form of any arrangement along these lines would clearly need the most careful consideration.

12. It should be noted that this very general assessment of trading gains in paras 5-11 above assumes Governments will endorse procedures for handling the deferred list of sensitive items along the lines recommended by Permanent Heads. The main issue at stake is a set of procedures which have been evolved effectively to guarantee eventual automatic movement of these sensitive products

off the deferred list so as to make them subject to the tariff and access formulae. Thus, although New Zealand will hopefully negotiate a 'deferred list' which contains few items of significant export interest, at the end of the transitional phase, all goods would benefit from the CER rules eventually.

Longer-Term 'Dynamic' Economic Gains

13. The impetus a CER is likely to give to the further development of a more efficient, competitive and export-oriented New Zealand economy has been identified by many as an area of key importance. Earlier studies by Australian officials concluded that New Zealand will make much greater gains in this area than Australia and there are a number of theoretical reasons for accepting this conclusion.* [Footnote to original text reads: These issues were discussed in some detail in the 1979 NZIER study 'Administrative Options for Closer Economic Relations between Australia and New Zealand'.] The 1980 Budget highlighted the contribution this exercise could make to a gradual restructuring of the New Zealand economy, particularly since a CER would complement other elements of the Government's growth strategy.

14. In the final analysis, any assessment of the benefits in this area rests on a prior judgement: namely, whether it is considered that gradual and progressive trade liberalisation is likely to bring desirable changes to New Zealand's industrial structure as it has evolved from policies of import substitution and high protection.

15. If the general case for gradual and progressive trade liberalisation is accepted, then this process of *bilateral* trade liberalisation could be considered a more palatable path than any unilateral removal of trade barriers, even if the latter could be expected to confer greater gains in pure economic terms. First, bilateral trade liberalisation has fewer adjustment difficulties (we are required to compete with a relatively high-cost country). Second, the pace of change can be controlled through the mechanisms of the arrangement which have been carefully designed to ensure gradual and progressive change. Finally, it may be more readily understood by the community since a CER will confer reciprocal benefits for New Zealand exports in return for lowering of New Zealand trade barriers. The CER is not a substitute for other approaches to trade liberalisation. But it could contribute towards a process of general change in protection policy if experience so gained under the CER appears to warrant it.

16. New Zealand officials have not attempted any quantification of these general, economic benefits. However, the Department of Trade and Industry carried out a study in October 1979 in an attempt to assess the broad competitive trends ('The Potential for Trade Creation and Trade Diversion on the Basis of the Relative Competitiveness of Australian and New Zealand Industries').

17. The study was based on an extreme proposition: a full customs union or free trade area overnight. No allowance was made for the gradual phasing in of trade liberalisation. The results of this study can be summarised as follows:

- of the 83% of the sample of industries surveyed for which it was possible to make an assessment of their competitiveness vis-a-vis Australia, 50% (by value of production) could be expected to be able to benefit from expanded opportunities in a CER. These industries accounted for 53% of New Zealand's manufactured exports.
- 33% of the sample were not considered able to compete with Australia *in their present form* and under immediate duty free trade and unrestricted access.

18. The study illustrates a general point: those activities which New Zealand does best will prosper under a CER with Australia. Those industries involved in activities in which New Zealand is less efficient will face pressures to restructure. Provided the latter group of industries are given time to adjust (and the CER mechanisms developed in the 14 months since the survey are designed to do that), this pattern of development could be considered consistent both with Government policy and changes already taking place in the market place itself.

19. A CER could stimulate *foreign investment* in New Zealand from Australia and third countries. While opponents of the NAFTA in the 1960s argued the NAFTA would cause a 'flight of capital' across the Tasman, this did not occur. Some firms could well relocate in Australia under a CER but a recent survey by the Confederation of Australian Industry (CAI) suggest there could be strong incentives for Australian firms to relocate in New Zealand if their access to the Australian market was guaranteed.** [Footnote to original text reads: 'The CAI surveyed its members who had subsidiaries operating in New Zealand. It discovered that, on average, the cost to these companies of employing labour in comparable activities in New Zealand was less than half (47%) the cost in Australia. This huge discrepancy was accounted for by lower wage costs in New Zealand and much higher "on-costs" in Australia (eg the generous holiday loadings).']

20. Foreign firms could conceivably prefer New Zealand as a location within the single area market, particularly where such companies were interested in a base for their regional operations. The lower labour costs, New Zealand's generally better industrial relations, New Zealand's more generous export incentives (the CER will not involve any disciplines on export incentives applied to third country exports), and the absence in New Zealand of complex State/Federal regulations could all be factors here.

21. Clearly, the impetus a CER could give to foreign investment must remain a matter for conjecture. On balance, we consider New Zealand might do quite well from a CER on this score, particularly if this initiative were well received in

financial circles and the general perception of New Zealand's future prospects was enhanced.

22. There is a range of other long-term economic benefits known, in economic terms, as 'X-efficiency gains'. Simply stated, this means that a CER could lead to improvements in any number of economic practices and institutions where inefficiencies have been allowed to creep in over the years. For example, a more competitive environment could put pressure on any outmoded regulatory mechanisms, the use of inappropriate industrial or service inputs, bad accounting practices: competition tends to have a cumulative effect.

'Damage-Limiting' Considerations

23. The CER exercise arose essentially because NAFTA was recognised as having 'run out of steam'. It was no longer seen as providing an impetus for growth in trade. Recent Schedule A additions had become more and more trivial.

24. Any assessment of the benefits to New Zealand from a CER must consider the other side of the coin: what are the prospects for the trading and economic relationship under the NAFTA status quo?

25. The Ministry recognises this is an area in which it is difficult to arrive at definitive judgements. However, in general the 'status quo' option seems to hold the prospect of a loosening of economic ties and increasing frictions in the trading relationship best summed up in that infelicitous Australian phrase 'dollar for dollar'.

26. Specifically, while it is considered goods on Schedule A would remain duty free, the likelihood is:

- there would be no new Schedule A additions unless New Zealand offered equivalent access opportunities.
- existing article 3:7 arrangements would be allowed to run their course and then lapse. These cover important New Zealand exports such as whiteware.
- the Preferences Agreement¹ which is up for renewal in 1981 would not be renewed, or would be substantially revised. Of all the possible deleterious changes, this could be the most serious for New Zealand manufactured exports.
- special quota arrangements negotiated under the NAFTA umbrella would come under severe pressure from Australia, as has occurred with the case of apparel.

Conclusion

27. This assessment has sketched some of the benefits on a very general level. As negotiations progress it should be possible to refine the analysis considerably with greater emphasis on a commodity by commodity examination. It could be

1 The 1977 Agreement on Tariffs and Tariff Preferences.

said, however, that the main purpose of the CER is to establish a framework for our most important economic relationship that is consistent with the direction of the broad economic policies of both countries. By removing the considerable uncertainties that have arisen in the NAFTA context, it is hoped to establish a climate for the growth of new and existing export industries in New Zealand based on free access to a market of 17 million people.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 32

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138 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 16 December 1980

E (80) M 47 PART III. CONFIDENTIAL

Australia/New Zealand Economic Relationships Meeting of Permanent Heads¹

It was explained by officials that the meeting between New Zealand Permanent Heads of Government Departments and their Australian counterparts on 10-11 December 1980 had been somewhat disappointing in comparison with the progress that had previously been achieved in the discussions on a Closer Economic Relationship (CER) between Australia and New Zealand. There were three principal outstanding issues. The first concerned the Australian reluctance to accord the access to Australia for New Zealand dairy exports which New Zealand was seeking. The second concerned the reluctance on the part of New Zealand to phase out the licensing of Australian imports into New Zealand as rapidly as Australia wished. The third concerned the inability at this stage of the Australian Federal Government to meet the New Zealand wish that the Australian State Government purchasing arrangements should be brought within the ambit of the CER agreement on Government procurement. Officials noted that it was possible for the Government procurement issue to be left out of the CER agreement for subsequent resolution, if this issue was the only one outstanding. In this case, the New Zealand Government would not give Australian manufacturers preference in its purchases until the Australian State Governments, as well as their Federal Government, gave New Zealand manufacturers the corresponding preference in their purchases. On the other hand, the question of the trans-Tasman dairy trade could definitely not be left for later resolution. If this issue was not resolved, then the overall CER agreement would not be signed. It was an integral part of the total package.

¹ The Committee had discussed a submission from officials reporting on the Permanent Heads' meeting (see Document 136).

Because these and other problems were not being resolved at the speed which initial progress had indicated, the possibility of the CER agreement being concluded by mid-February had diminished somewhat. Nevertheless the Committee was of the view that officials should continue to work in terms of this time horizon. The Committee would soon receive a draft joint report by the Permanent Heads and a draft Heads of Agreement.² The latter would however at this stage contain the three gaps corresponding to the three issues mentioned above. Australian and New Zealand officials would continue to develop their attitudes on the three outstanding issues and it might be that some progress could be made in narrowing the gap between the Australian and New Zealand attitudes before Ministers were brought directly into the negotiations; thus another negotiating session between Australian and New Zealand officials was a possibility.

The Committee *agreed* to:

- a note the report attached to E (80) 253³ on the major topics covered at the meeting of Permanent Heads of New Zealand with their Australian counterparts in Wellington on 10 and 11 December 1980;
- b refer the report attached to E (80) 253 to Cabinet for its information.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 32

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

2 Document 139.

3 Document 136.

Joint Document

139 JOINT REPORT BY PERMANENT HEADS TO PRIME MINISTERS

[Wellington, December 1980]¹

CONFIDENTIAL

Joint Report of Permanent Heads to Prime Ministers on a Closer Economic Relationship between Australia and New Zealand

Introduction

1.1 The communiqué² issued at the conclusion of your meeting in Wellington on 21 March 1980 declared that it was timely to take the special relationship between Australia and New Zealand a step further. The communiqué and annex (attached) set out an agreed framework for further detailed exploration and examination of possible arrangements for a closer relationship between Australia and New Zealand. Officials were directed to set appropriate studies in train immediately and to consult closely with interested parties.

1.2 Australian and New Zealand Permanent Heads met in Wellington on 10 and 11 December to review the outcome of these studies. Permanent Heads have concluded that the studies and consultations have been completed in sufficient detail to enable a draft Heads of Agreement to be drawn up outlining the possible shape of a new Agreement that could govern the closer economic and trading relationship between Australia and New Zealand consistent with the approach set out in the March communiqué.

1.3 This report is in two parts: a covering paper indicating the background to the studies, the objectives, principles and concepts on which the new proposals are based, and some comment on the main features of the new arrangement. The second part is a draft Heads of Agreement which could form the basis of a new Agreement to govern the economic and trading relationship. The Heads of Agreement contains an outline of the procedures and policies that Permanent Heads consider would be required to implement the new relationship.

1.4 This joint report is a confidential document addressed from Permanent Heads to the Prime Ministers of Australia and New Zealand. Whether or not it

1 As explained by Bentley in Document 114, the document is 'as it stood by the end of 12 December'.

2 Document 93.

should be made public at any time is a matter for joint decision by the two Governments.

1.5 It should be noted that some issues remain to be resolved. These are covered in the report and are covered in paragraphs [6-8, 10] and relate to³

Part I

DESCRIPTIVE OUTLINE OF THE BACKGROUND TO THE STUDIES

2.1 The March communiqué records your agreement that an appropriately structured closer economic relationship would bring economic and social benefits to both countries and improve the living standards of their peoples. Closer economic co-operation conducted in conformity with certain agreed principles would also result in a strengthened ability by Australia and New Zealand, working in partnership, to contribute to the development of the region through an expansion of economic and trading links with other countries, particularly those of the Pacific and South-East Asia.

2.2 It was also agreed that while the New Zealand and Australia Free Trade Agreement (NAFTA) had provided significant growth in bilateral trade since the mid-1960s in its present form it did not seem to be providing sufficient impetus to the kind of co-operation which would best serve the interests of Australia and New Zealand in the changing international economic environment.

2.3 The set of studies which you directed officials to undertake last March was aimed at exploring, in consultation with interested parties, the possibility of concluding a closer economic relationship than that which had proved possible under the NAFTA. Officials were directed to seek an economic relationship which would better serve the interests of both countries and the region.

Objectives

2.4 The central trade objective in a closer economic relationship was defined in the March communiqué as 'the gradual and progressive liberalisation of trade across the Tasman on all goods produced in either country on a basis that would bring benefits to both countries'. In respect of import restrictions, the objective was defined as the 'elimination of import licensing and tariff quotas in reasonable time'.

2.5 At the direction of Permanent Heads, the Joint Working Parties have concentrated their attention on the attainment of this central trade objective and the issues raised by the various forms of frontier protection each country maintains against the other. The emphasis of this report therefore falls heavily on questions raised by tariffs and quantitative restrictions and the desire to see trade conducted in conformity with certain principles. Other objectives outlined in the

³ As indicated by Bentley in Document 114, the issues related to agricultural support/stabilisation measures, export incentives and rationalisation.

March communiqué, which were related to the strengthening of links in fields such as tourism, energy, marketing, scientific research, technological development, labour, transport, finance and investment, while important to the goal of closer economic co-operation, are seen as coming after the central trade issues. Once the immediate questions raised by frontier protection are resolved it should be possible to turn attention to these remaining matters in the context of the closer trading relationship that will undoubtedly develop if the new arrangement outlined in this report is set in place. Other issues which will require attention at the appropriate time are touched on elsewhere in this report.

Principles

2.6 The central trade objectives have been considered in relation to certain principles which were underlined in the March communiqué:

- commitment to an outward looking approach based on the efficient allocation of resources within Australia and New Zealand;
- consistency with the economic development policies of both countries;
- account to be taken of the wish not to foster inefficient industries in either country as a result of the progressive liberalisation of import restrictions;
- industry rationalisation to be encouraged.

2.7 Implicit in the approach spelt out in this report is a desire to ensure that trade between Australia and New Zealand takes place under conditions of fair competition. This is not an explicit principle laid down by the March communiqué but, as in Article 2 of the NAFTA agreement, it is a principle which is seen as fundamental to the new trading relationship.

2.8 The principle of fair competition is one to which both countries are committed. Its application in practice, however, needs to be considered in the light of differing business conditions in both countries arising from divergences in wages, fiscal measures and other factors including different tariff policies towards third countries. At the present stage of the relationship neither government believes it to be practical to harmonise these divergences many of which will in any event tend to cancel each other out when considering the final selling price of goods being traded. Permanent Heads have concluded that impediments to closer economic relations arising from these factors can be best addressed through appropriate safeguard and consultation clauses. This is touched on further in paragraph 2.3[3] dealing with consultations and safeguards.

2.9 The sections of this report on intermediate goods, agricultural support and stabilisation measures, export incentives and government purchasing, are all part of this general question. All of these topics can be seen in the context of questions which may arise as a result of the application of the principle of fair competition.

2.10 A further principle, and one which stems explicitly from the terms of reference set out in the March communiqué, is that the free trade area which it is

envisaged should be established to replace the NAFTA is to be fully comprehensive in its coverage. All goods produced in either country will eventually be subject to trade liberalisation. Specifically this will include both agricultural and industrial products.

2.11 Permanent Heads have endorsed the view that, providing adequate time is allowed for industries to adjust to the new trading conditions envisaged in this report, there should be no industries in either country that cannot be included in the Australia and New Zealand free trade area. Deferments for particular goods from the liberalisation measures spelt out elsewhere in this report are seen as being strictly temporary and limited to a predefined period. This period is to be set at the outset of the agreement with the reasonable adjustment needs of industry in mind.

2.12 In developing the various liberalisation measures to apply to tariffs and quantitative restrictions, considerable stress has been laid on the desire to see these work in a gradual, progressive and predictable way. A balance has been sought between the need to give industries adequate time to adjust to increased flows of goods from the partner country (and the greater competition this will engender) and the desire to eliminate trans-Tasman barriers to trade 'in reasonable time'.

Underlying Concerns

2.13 In reviewing the studies conducted by the Australian and New Zealand Joint Working Parties, Permanent Heads have placed considerable emphasis on the desire to create a new trading relationship based on a high degree of automaticity in the tariff reduction and access generating mechanisms and with a minimum of administrative management and review procedures.

2.14 This is not a requirement imposed by the March communiqué but stems from experience gained from the administration of NAFTA and a general view expressed during industry consultations that the process of adjustment can be eased if clear marketing and investment signals are provided. Predictability in the operation of the liberalisation measures lying at the heart of the new trading arrangement is sought by the commercial communities in both countries.

Conformity with Terms of Reference laid down in the March Communiqué

2.15 In examining the various mechanisms and procedures for trade liberalisation suggested by officials as a result of the intensive programme of studies which have been conducted since your March meeting, Permanent Heads have asked the following questions:

- (i) Will the procedures recommended result in eventual and complete trade liberalisation including the elimination of tariffs and quantitative restrictions in 'reasonable time'?

- (ii) Is the pace of liberalisation 'gradual and progressive'? Will industries be given adequate time to adjust to the new trading environment which is proposed?
- (iii) Are the procedures comprehensive in their scope? Will all agricultural and industrial goods produced in either country be included?
- (iv) Is there a high degree of automaticity in the mechanisms recommended? Is the pace and direction of liberalisation predictable? Will clear marketing and investment signals be provided?
- (v) Is the outward looking principle on which the new arrangement is to be based effectively preserved? What are the implications for third country trading relationships?
- (vi) Will trade take place under conditions of fair competition?
- (vii) Are the mechanisms designed to provide an acceptable balance of advantage to both countries?
- (viii) Will they lead to more effective use of each country's resources? Will each country do more of what it can do best?
- (ix) Is the arrangement consistent with the economic development policies of the two countries?
- (x) What appropriate transitional arrangements will be required to minimise disruption to existing trade and access opportunities set out under the NAFTA as the new agreement takes effect?

Conclusions and main features of the new arrangement

2.16 On the basis of the studies conducted, Permanent Heads have concluded that the framework for examination of possible arrangements for a closer economic relationship set out in the March communiqué and annex provides a workable basis for achieving the central trade objective of gradual and progressive liberalisation of trade across the Tasman on all goods produced in either country.

2.17 The Permanent Heads have concluded that the Heads of Agreement set out in the second part of this paper, if agreed by Governments, would enable the establishment of a fully comprehensive free trade area between Australia and New Zealand.

2.18 The creation of a full free trade area between Australia and New Zealand in accordance with the plan and schedule set out in the draft Heads of Agreement is seen by Permanent Heads as a further evolutionary step in the development of the special relationship.

2.19 The mechanisms and procedures set out in the draft Heads of Agreement are designed to accord with the objectives, principles and underlying concerns set out in paragraphs 2.4–2.15 above.

Implementation Date

2.20 Permanent Heads consider that on the assumption that the Heads of Agreement are initialled by the two governments in the first half of 1981, it would seem appropriate for the additional access provisions and first reduction in tariffs to take place on 1 July 1982, thus providing a one year grace period on all products. If the Heads of Agreement are initialled at a later date, the implementation of the Agreement on the date envisaged would still be possible, but the formal grace period would need to be reduced.

FORM OF THE NEW AGREEMENT

2.21 Permanent Heads recommend that the closer economic relationship be formalised in a completely new and comprehensive agreement and the current agreements terminated. This would have the advantage of clearly signalling in Australia and New Zealand a new approach to the bilateral relationship.

Tariffs

2.22 Permanent Heads recommend a variation to the indicative tariff phasing approach in accordance with the principles of the March communiqué aimed at more equitable treatment. All tariffs would be reduced and eliminated over a five-year period according to the formula set out in the Heads of Agreement. With the exception of goods initially committed to the deferred category duty free trade would be achieved by 1 July 1987 assuming tariff phasing commences on 1 July 1982.

2.23 The deferred category is to be a temporary category only. Conditions governing its nature and indicative criteria to be used in considering goods which may initially be given deferred status are contained in the draft Heads of Agreement. In brief, the deferred category is to be kept as small as possible; it will be closed when the new Agreement comes into effect; (it will have a predetermined lifespan set in accordance with the reasonable adjustment needs of industry. At the end of the predetermined period all goods will be removed to the tariff phasing category and the deferred category will be abolished. At that point all goods produced in either country will be subject to the normal tariff liberalisation and access generating formula). The product coverage in the deferred category is still under examination by both countries in accordance with the above principles. A recommended common list of goods to be included in the deferred category will be placed before Ministers as soon as possible. It is recognised that a final decision on the new Agreement will not be possible until Ministers have decided on the content of the common deferred category.

2.24 Provision will be made for acceleration of the agreed liberalisation measures where this is the wish of industry in both countries and is consistent with the overall objectives and principles of the new relationship. It is recommended that no provision be made for reversal of tariff phasing and that retardation will not be possible, except in exceptional circumstances arising from the operations of agreed safeguard measures.

Import Restrictions

2.25 Additional access opportunities are to be generated by a combination of formulae as set out in the Heads of Agreement. In general, special access opportunities exclusive to either country will double approximately every seven years. The formulae are predictable, gradual and progressive in their impact and provide for a high degree of automaticity. With one general exception (paragraph 2.26) all goods subject to quantitative restrictions and not initially in the deferred category will be covered by the additional access opportunity formulae.

2.26 At the outset of the agreement certain goods may be identified which, although subject to quantitative restrictions, may be considered to be liberally licensed in the sense that available access opportunities are not judged to be an impediment to trade. It is agreed that where these give rise to access problems for specific products, they could be examined within the consultative framework with a view to giving liberal treatment consistent with the principles of the new Agreement.

Intermediate Goods

2.27 Permanent Heads have affirmed a set of principles covering an approach which should enable intermediate goods problems of significant dimensions to be resolved consistent with the overall objectives of the closer economic relationship. The details are set out in the draft Heads of Agreement.

Agricultural Support/Stabilisation Measures

2.28 Permanent Heads request Prime Ministers to note that for most agricultural commodities, support/stabilisation measures in either country do not hinder trans-Tasman trade. However, in the cases of wheat, citrus fruits, grapes, bananas, pineapples, peas and beans and dairy products there are a number of issues to be resolved. These will be the subject of separate study and recommendation.

Export Incentives

2.29 Permanent Heads recommend that there should be a joint review of performance related export incentives applying to trans-Tasman trade. The terms of reference for the review and its specific objectives are still to be resolved and are being reported on separately.

Government Purchasing

2.30 Permanent Heads are of the view that discrimination in purchasing by national and state governments is not in harmony with the concepts of the closer economic relationship. Australian Permanent Heads would recommend that the subject be discussed with supporting material at the Australian Premier's conference in June 1981.

Customs Issues

2.31 Permanent Heads agreed that on the basis of their studies customs issues do not present any substantial impediment to a closer economic relationship along

the lines envisaged. Existing rules of origin applied to the NAFTA relationship provide an adequate general basis for continuing and expanding trade between the two countries in terms of the new Agreement.

Rationalisation

2.32 Permanent Heads agreed that procedures to assist rationalisation of industry are an important element of the new Agreement. Measures to facilitate rationalisation require further consideration in the context of drafting the Agreement.

Consultation and Safeguards

2.33 Permanent Heads are agreed that there is a need for appropriate consultation and working safeguard provisions in the new Agreement. Working safeguard instruments would offset cases of unfair advantage that may arise for example from dumping, subsidisation or significant trade deflection. In addition, during a transitional period the need was seen for general safeguards to be extended to cover cases of severe material injury arising from the trade liberalisation process.

In the longer term, it is considered that even limited recourse to general safeguard provisions could seriously undermine the objectives of a closer economic relationship. The consultative provisions of the agreement are seen as providing sufficient opportunity for serious problems, for example, relation to industrial development, to be addressed and solutions found.

Duration of Agreement and Review Provisions

2.34 Permanent Heads recommend that the duration of the new Agreement should be open-ended.

2.35 Permanent Heads also recommend that there should be provision for a broad-based general review by a Council of Ministers of the working of the new Agreement five years after it comes into effect. The purpose of the review would be to consider whether the Agreement is providing a satisfactory balance of advantage to both countries and whether its full potential is being realised. The review would also consider other issues that might arise once frontier protection has declined, for example industrial standards, economic policies and practices, industry co-operation with a view to assessing whether these were frustrating the objectives of the new Agreement. Progress in other areas set out in the March communiqué as being important to the overall economic relationship would also be examined.

Transitional Arrangements

2.36 Although a completely new Agreement to supersede the NAFTA and its associated instruments is recommended, Permanent Heads emphasise that there would be considerable elements of continuity between the NAFTA and its successor. Transitional arrangements will need to be developed to ensure that

existing trading arrangements are maintained until they are overtaken by the trade liberalisation procedures of the new arrangement.

Existing Agreement on Tariffs and Tariff Preferences

2.37 The New Zealand delegation believed that a continuation of tariff preferences provided in the 1977 Agreement on Tariffs and Tariff Preferences, would be warranted. The Australian delegation agreed to undertake an urgent examination of the issue with a view to reaching a joint position in January 1981.

Conclusion

2.38 Permanent Heads believe that the mechanisms and procedures outlined in this paper and the accompanying draft Heads of Agreement will result in the attainment of the agreed central trade objective of the gradual and progressive liberalisation of trade across the Tasman on all goods produced in either country on a basis that will bring benefits to both.

2.39 The process of liberalisation will result in significant new trading opportunities, enhance economies of scale, assist in a move towards the more efficient use of the resources of both countries and contribute to the improvement of long term growth prospects and hence employment opportunities in New Zealand and Australia.

2.40 Permanent Heads believe that the approach outlined is in general conformity with the principles contained in the March communiqué and the underlying concepts spelt out elsewhere in this report.

2.41 Moreover, since the agreed procedures are based on an outward looking approach to trade, they will assist both countries to expand their economic and trading links with other countries, particularly those of the Pacific and South-East Asia.

Part II

DRAFT HEADS OF AGREEMENT

Objectives

1.01 To bring economic and social benefits to Australia and New Zealand and improve the living standards of their peoples through the conclusion of an appropriately structured closer economic relationship.

1.02 The closer economic relationship will be based, in the first instance, on the development of the partial free trade area at present operating under NAFTA into a fully comprehensive free trade area according to an agreed timetable.

1.03 All goods produced in either Australia or New Zealand will eventually be traded between the two countries free of duties and import restrictions.

1.04 It is expected that the sustained and mutually beneficial expansion of trade that will result from liberalisation will lead to the more effective use of each country's resources. Increasingly, each will do more of what it can do best.

1.05 Trade expansion will also lead to a strengthened Australia and New Zealand partnership with an increased capacity to contribute to the development of the region through closer economic and trading links with other countries, particularly those of the Pacific and South-East Asia.

Principles

2.01 The new Agreement will be comprehensive in coverage, evolutionary in nature and based on the free movement of goods.

2.02 Trade is to take place under conditions of fair competition. The Agreement is to be consistent with the overall economic development policies of both countries.

2.03 It will be based on an outward looking approach to trade and should not foster the expansion of inefficient industries.

2.04 Automatic procedures are to be preferred to those relying on administrative discretion so as to minimise the extent of Government involvement in the day to day trading relationship.

2.05 The procedures are to be designed to achieve the maximum degree of certainty so as to facilitate investment decisions, planning for change and industry rationalisation.

2.06 The transition to free trade conditions is to be achieved in such a way as to minimise unnecessary disruption.

2.07 Trade liberalisation will take place in a gradual and progressive way and in accordance with an agreed timetable. Import restrictions are to be eliminated in reasonable time.

2.08 The CER tariff reduction formula and access generating mechanisms will apply from the outset to all goods produced in either country, industrial and agricultural, except for those placed in the agreed temporary deferment category.

Tariffs

3.01 Items already traded free of duty will remain free. This applies to items free of duty under either the preferential or the general tariff.

3.02 All goods produced in either country will be placed in categories for tariff phasing purposes. There will be no exclusions either at the outset or subsequently from the scope of the Agreement. A common tariff phasing formula (as set out below) will be applied at the outset of the Agreement to all goods placed in Categories A/B.⁴ The objective for these goods is full duty free trade within a clearly defined and predictable timetable set out before the commencement of the agreement.

⁴ A footnote here reads: 'The specific nomenclature dealing with this category will be decided in due course.'

3.03 Goods for which the application of the common tariff phasing formula will be temporarily deferred will be placed in Category C. During the period of inclusion in Category C, on their removal, these goods may be subject to the common phasing formula or some suitably adjusted formula compatible with the general objectives of the Agreement, under terms and conditions agreed between the two Governments.

3.04 A one year grace period mentioned in the Prime Ministers Communiqué will be provided before tariff phasing commences. The grace period will begin on 1 July 1981.

3.05 All goods in Categories A/B will have all tariffs applying to them reduced to zero and bound to duty free no later than five years after the date of commencement of the tariff phasing.

3.06 The following tariff phasing formula will apply to all goods in Categories A/B:

- (a) —The first reduction in tariffs will take place on 1 July 1982.
- (b) —On this date all goods with a tariff level of 5 percentage points (or equivalent) or less will move to duty free.
- (c) —Ad valorem tariffs of greater than 5 percent but not more than 30 per cent will be reduced initially by 5 percentage points and rounded down to the nearest whole number where fractional rates are involved. Thereafter tariff rates will be reduced by 5 percentage points per annum.
- (d) —Specific rates of duty equivalent to more than 5 percent but not more than 30 percent ad valorem will be reduced each year by the equivalent of 5 percentage points based on 1979–80 assessed unit values.
- (e) —Tariffs greater than 30 percent or equivalent will be phased out over 5 years. This will be achieved by applying a duty cut in each year at a level calculated by dividing the duty by 6 and rounding to the nearest whole number with an additional adjustment being made in the first step so that duties are eliminated within the agreed five year period.
- (f) —Procedures will be agreed for removing or phasing out other than ad valorem and specific rates of duty consistent with the approach and timetable set out above.

3.07 Where tariff quotes apply, the tariff rate on imports within the quota will be subject to the Categories A/B phasing formula.

3.08 Duties imposed for revenue purposes at rates equivalent to those imposed on like goods of domestic production will not be subject to the phasing formula. Revenue duties or taxes may be imposed on goods, or on ingredients or components contained in those goods, at rates equivalent to those imposed on like goods, ingredients or components when of domestic production or manufacture. (Subject to agreement, duties may be imposed for revenue

purposes, in cases where there may be no like goods of domestic production or manufacture and such duties have therefore no protective effect.)

3.09 Where goods already on Schedule A are in the process of phasing to free, phasing arrangements established under the NAFTA will continue, except where the application of the new formula to the tariff level existing immediately prior to the commencement of phasing would result in a more rapid achievement of duty free status. In such case the formula will be applied.

3.10 In certain circumstances, including at the request of the industries concerned, it may be practicable to accelerate the tariff phasing process. To be agreed by both Governments, such acceleration must be in accordance with the underlying principles and objectives of the Agreement.

3.11 Consistent with the 1977 Agreement on Tariffs and Tariff Preferences, it is agreed that in any consideration of assistance and protection for industry, the lowest rates of import duties will be accorded the products of the other country consistent with the need to protect producers of like or directly competitive goods. It is agreed also that tariff advisory bodies will be requested to base their recommendations on this principle, particularly where decreases in the rates of duty for third countries might be contemplated.

3.12 Except as a result of carefully limited and temporary action arising from the safeguard provisions of this agreement, there will be no reversal or retardation of the CER tariff phasing formula.

3.13 The following provisions shall apply to Category C:

(a) —Category C is a temporary deferred category with an overall predetermined maximum lifespan set in accordance with the reasonable adjustment needs of each industry concerned.

(b) —Category C will comprise a list of goods common to both countries which governments consider should not be immediately subject to the tariff phasing and access provisions of categories A/B.

(c) —Bearing in mind the overall objectives of the new Agreement the number of goods placed in Category C shall be kept as small as possible.

(d) —The individual periods of deferment for goods in Category C will get set for as short a time as possible taking account of the adjustment problems faced by individual industries. To this end, the reasons for goods being included on the list will be clearly specified and a programme of measures tailored to each good developed to enable their early removal. This may involve an early reference to an appropriate industry advisory body which could be asked to recommend on the terms and timing of individual removals from Category C.

(e) —Implementation of the programme of measures to enable the early removal of each good from Category C will commence as soon as possible after the implementation of the new Agreement. There will be an individual

timetable developed for each good in Category C. The overall lifespan of the Category will be set after the reasonable adjustment needs of each industry with goods in the Category have been considered.

(f) —It is recognised that in certain cases variations to the phasing formula may facilitate early removal from Category C.

(g) —It is agreed that in order to maximise continued opportunities for trade during the period in which Category C goods are deferred from the tariff phasing process, the tariff levels applied to such goods should be set at the lowest level consistent with protective needs.

(h) —The list will be finalised before the new Agreement comes into effect and shall not be added to thereafter.

(i) —When all goods have been removed from Category C the Category will be abolished.

3.14 It is noted that a need exists to define what customs charges will constitute a tariff for the purposes of this agreement.

3.15 The Agreement on Tariffs and Tariff Preferences

(This section will be drafted to record the outcome of the examination to be carried out in terms of paragraph 2.38⁵.)

Quantitative import restrictions

4.01 The measures which are to be adopted and which are designed to lead to the progressive elimination within reasonable time of all import licensing and tariff quotas in trans-Tasman trade will be equitable both as between the two countries and between different industries in each country. Unless otherwise agreed in exceptional circumstances the same rules will be applied to both countries and to all products subject to licensing or quota.

4.02 Administrative discretion in the operation of liberalisation measures will be kept to a minimum. The techniques adopted for liberalisation will be administratively simple and designed to achieve maximum automaticity.

4.03 The liberalisation will be effected in such a way as to generate additional opportunity to sell to each other's market. It is not intended to guarantee sales or market shares.

4.04 Where the agreed liberalisation measures provide for action at the discretion of either government, each government will bear in mind the need to minimise the effects which such action may have in fostering the expansion of inefficient industries in either country.

4.05 The liberalisation measures will apply to all goods committed to duty free treatment under Categories A/B which are presently subject to import licensing tariff quotas, or any other form of quantitative import restriction. In certain

⁵ Presumably paragraph 2.23 was meant.

circumstances it may be possible to apply partially the mechanisms in the agreement to liberalise access opportunities in respect of goods deferred from the tariff phasing process. Such action would need to be examined on a case by case basis.

4.06 Goods from the other country which are exempt from import licensing, tariff quota measures or quantitative import restriction of any kind at the commencement of the new Agreement will remain exempt.

4.07 Goods from the other country which are accorded licence on demand or replacement licensing treatment will continue to receive at least such treatment.

4.08 Having regard to the overall objective of achieving the gradual and progressive elimination of import licensing and tariff quotas, either country should at any time during the period when the access formula is being applied, remove or liberalise restrictive measures on particular products at the point when the country applying these measures judges that they are no longer necessary and/or effective.

4.09 In cases where retention of controls on particular products is considered desirable for general monitoring purposes only, then licensing may be continued provided that this does not result in constraints on imports from the other country.

4.10 Global allocations will continue to be available for imports from the other country.

4.11 As far as possible access levels will relate to global item codes in New Zealand and quota categories in Australia and be measured in quantity or value to correspond to global licensing/quota practice.

4.12 Progressive liberalisation of import restrictions will be achieved by increasing access opportunities by 10 percent per annum in real terms. This will result in a doubling of access opportunities about every seven years.

4.13 In order to establish the annual increase in access a base access level will be calculated for each product grouping by taking an average of imports from the other country over the 3 year period 1978/79–1980/81.

4.14 The exclusive licenses under this Agreement to be made available in the first year of the arrangement shall represent 10 percent of the base access level defined in 4.13 as adjusted by a deflator (defined in 4.19) (covering the 1980/81 trade year).

4.15 A minimum base level of NZ\$200,000 cif (or the equivalent in Australian currency at the date of signature) or 5 percent of the domestic market, whichever is the lower, in respect of item codes, quota categories or other agreed quota groupings, will apply to all products, irrespective of current trade.⁶

6 A footnote here reads: 'It is envisaged that a detailed schedule would eventually be annexed to the Heads of Agreement which would cover these details'.

4.16 Exclusive licences will be made available at the beginning of the first year of the Agreement to the extent that the calculated base access derived under 4.13 and 4.14 is less than the minimum base level.

4.17 It is agreed that where significant anomalies are created by the access provisions set out above the two Governments will seek to resolve these within the consultative framework of the Agreement.

4.18 Where licence or quota allocations are expressed in value, an increase in 'real terms' will require adjustment to be made for inflation in the importing country. An appropriate deflator will be agreed for each direction of trade.

4.19 Any increase or decrease in global license or quotas will be taken into account in calculating the increase in exclusive licenses or quotas necessary to achieve a 10 percent annual increase in real terms. A formula suggested by Australia was accepted in principle by New Zealand subject to further clarification.

4.20 The liberalisation of individual exclusive licence categories to a global basis was also accepted subject to such decisions being made within general parameters which ensured that, to the maximum extent possible, any such conversions were predictable, were not too abrupt in their impact and maintained the objective of progressive liberalisation of quotas between the two countries.

4.21 The allocation of special access will be left to the importing country having regard to the following objectives:

- (a) —the need to provide genuine access opportunity;
- (b) —allocations will take account as far as possible of import performance;
- (c) —the publication of names of licence holders;
- (d) —rights of consultation.

4.2[2] In respect of tariff quotas, base access figures, minimum base levels and a 10 percent annual increment will apply to the quota element as for import licensing. Tariff rates applying to imports within the tariff quotas will be treated as for tariffs generally under the Agreement.

4.2[3] In respect of special Schedule A access the objective will be for allocations to be determined eventually by the importing country rather than the exporting country as is the current general practice. Products where special Schedule A access is not presently fully utilised or where only one exporter is interested in the market will be handled in this manner immediately. Where exporters have competing claims for the available access these exporters will retain the right to nominate the importers for their present value of allocation for a period of 2 years.

4.2[4] The value of Schedule A licences will not be increased above present values. All increases will be within the new liberalisation arrangements.

4.25 It is envisaged that the level of trade under existing inter-firm Article 3:7 arrangements⁷ would not normally be increased above present levels. However, there may be some situations where because of rationalisation proposals and/or a significant move towards accelerating the liberalisation process, increases could warrant consideration.

4.26 No new Schedule B, or other Article 3:7 arrangements will be entered into. However, existing Article 3:7 arrangements should be allowed to continue subject to meeting normal criteria until such time as duties are eliminated on the goods concerned in the Australian Tariff or duties and effective licence barriers are eliminated on the goods concerned in New Zealand. Any arrangement currently in existence with 'promise to source' provisions where the goods are already duty free should lapse at the end of its current term.

4.27 Special provisions in respect of NAFTA footwear and textiles arrangements and the Schedule B furniture arrangement will be agreed before the agreement enters into force where these are necessary on an interim basis to avoid the transitional introduction of more restrictive conditions.

4.28 Where appropriate, the process of liberalisation set out above may in some circumstances be accelerated in a manner designed to further the objectives of the new Agreement.

4.29 Without limiting the form which any such arrangements may take and notwithstanding the provisions of paragraph 4.26 it is agreed that these may include agreements reached on an industry basis.

4.30 Liberalisation measures in respect of all quantitative import restrictions will come into operation from 1 July 1982, as soon as practicable after the date at which the new Agreement comes into force taking into account normal administrative arrangements.

Intermediate goods

5.01 Intermediate goods problems (or trade deflection) can arise

(a) where governments in one country have policies which enable producers to source intermediate goods (inputs) from third countries, at better prices than their competitors in the other country;

(b) where other forms of government assistance—e.g. a subsidy or other form of direct assistance; the existence of a monopoly supplier of intermediate goods; including in New Zealand's case the existence of import licensing enables the purchase of intermediate goods to be made on terms and conditions more favourable than are available to users in the other country.

⁷ Article 3:7 of the NAFTA allowed for the remission or reduction of duties on goods that were not duty free.

5.02 Where the extent of the advantage (i.e. in relation to the total cost for the manufacture and sale of the relevant final goods) is substantial enough to give rise to a trend in trade which may frustrate the achievement of equal market opportunities being available to producers in both countries, then there will be a provision for consultations aimed at finding a satisfactory solution to the problem.

5.03 Currently known intermediate goods problems of a significant nature will, if possible, be solved in advance of the Agreement coming into operation so that they can then be placed in Category A/B from its beginning.

5.04 The first step with both currently known and future problems of this nature will be the conducting of a joint examination of the intermediate goods industry concerned in an attempt to find a solution which, as far as practicable, is consistent with the objectives of the Agreement.

5.05 Should no solution be found at the source of the problem, an examination will be made of a range of options designed to offset the advantage enjoyed by the industry in the exporting country. Measures which may be considered, either individually or in combination, could include:

- (a) —the possibility of adopting a common external tariff or narrowing the tariff differential (with associated joint policies relating to concessions/by-laws and drawbacks);
- (b) —variation of area content requirement on the particular finished goods incorporating intermediate products;
- (c) —cancellation of drawback provisions and/or concessions/by-laws granted for export purposes as these relate to trans-Tasman trade;
- (d) —a preparedness, consistent with national legislation and the provisions of GATT, to initiate anti-dumping or countervailing action on the request of the other country to offset any cost advantages achieved by this practice. This is on the understanding that similar action would have already been initiated in the country with an intermediate goods industry to protect, if dumping of these products were already taking place in that country;
- (e) —compensation production/export subsidies for the disadvantaged industry;
- (f) —adjustment of phasing arrangements on finished goods;
- (g) —compensating tariffs;
- (h) —export tariffs to offset the quantum of advantage.

[6]⁸ *Agricultural support/Stabilisation measures*

[7] *Export incentives*

Rationalisation

Customs issues

9.01 The rules of origin applied to trade which takes place under the existing NAFTA arrangement will continue. These rules will be varied in individual cases only for special reasons consistent with the other provisions of the new relationship.

9.02 Recognising that there are no significant problems which arise in the area of Customs related issues, there will be provision for harmonisation or adjustment of Customs policies and procedures in particular cases where this is warranted. There could also be circumstances where it might be appropriate for third country dumping or countervailing action to be taken jointly by both countries and/or to protect the interests of one country. It is noted that both countries intend to adopt, on an FOB basis, the Customs Valuation Agreement which emerged from the GATT Multilateral Trade Negotiations.

Consultation, Review, and safeguard provisions

11.01 The new Agreement will contain a general review and consultative clause. The clause will meet specific needs for consultation arising as a result of the operation of individual areas of the Agreement, as well as the more general case where either government believes that the objectives of the Agreement are being frustrated.

11.02 Ministers will meet annually, or otherwise as appropriate, to review the operation of the new Agreement.

11.03 Provision will also be made for a general review of the operation of the new Agreement. This review will be commenced by 1 July 1987. Its terms of reference will include

- (a) General consideration of whether the Agreement is bringing benefits to both countries on a reasonably equitable basis.
- (b) Consideration of additional measures that may be warranted to facilitate adjustment to the new relationship.
- (c) Consideration of other economic policies and practices in, for example, the fields of taxation, company law, and standards; and to the trans-Tasman elements of such factors as foreign investment, transport, tourism, and the movement of people, to see whether changes in such policies and practices might be required to reflect the stage reached in the closer economic relationship between the two economies.

8 For drafts of sections [6] and [7] see Attachments A and B to Document 114.

11.04 To correct unfair advantage, safeguard clauses will be included in the new Agreement to cover, for example, instances of dumping, subsidisation, or significant trade deflection that may arise. The latter will be drafted to take account of the approach on intermediate goods set out elsewhere in the Heads of Agreement.

11.05 Beyond the above, general safeguard provisions will be available to meet circumstances where the rate of industry adjustment flowing from further trade liberalisation results in severed material injury and is in need of moderation. Such provisions will only be available in the transitional period.

11.06 In the longer term, it is considered that even limited recourse to general safeguard provisions could seriously undermine the objectives of a closer economic relationship. The consultative provisions of the Agreement are seen as providing sufficient opportunity for serious problems for example, relating to industrial development, to be addressed and solutions found.

11.07 Any safeguard clauses considered necessary will be drafted to ensure they are consistent with the objectives and underlying philosophy of the new Agreement. Any suspension of obligations will be temporary in nature. During their operation the greatest possible opportunity will be provided for trade to continue to flow consistent with amelioration of the problem.⁹

[NAA: A1838, 370/1/19/18, xx]

⁹ In the following months, as participants resolved some of the issues left undecided in the report, it was amended as necessary. It was submitted to Cabinet in February 1981 with slight variations to the version published here. On 23 April 1982 Australian Permanent Heads, meeting in Canberra, agreed to cease work on part I of the report and to continue work on the Heads of Agreement. The final version of part I of the report appears to be that dated 15 April 1982 (on file NAA: A1313/111, 81/1223).

Completion of the Official Studies

The Joint Report of Permanent Heads to Prime Ministers was considered by officials of the several Australian Government departments involved in the process of bringing about a closer economic relationship with New Zealand. However, some aspects of the Permanent Heads proposals caused concern among some branches of the administration and, as a result, Commonwealth departments were unable to reach an agreed position on the proposals. Trade and Resources Minister Anthony decided the best course was to seek Cabinet direction on how to proceed. This was obtained in March 1981. It cleared the way for another Joint Permanent Heads meeting in Wellington on 11–12 March at which Australian Heads conveyed the reactions of Australian Ministers to the Joint Report. Following this Anthony and Muldoon met on 11–12 May 1981 to consider what had been negotiated by officials. The record of their meeting (Document 170) marks the completion of detailed official studies.

Australian Documents

**140 EXTRACT FROM CABLEGRAM FROM WEBSTER TO
DEPARTMENT OF FOREIGN AFFAIRS**

Wellington, 3 February 1981

O.WL7391 CONFIDENTIAL

Call on Prime Minister

This morning, Monday 2 February, the Prime Minister, Mr Muldoon, kindly consented to my call at his office. He received me cordially. (I attended a private function with he and Mrs Muldoon on Saturday last.)

2. The PM spent two or three minutes commenting on an Australian reporter who phoned him at midnight last to seek his view on the controversial cricket result. He said the paper, in its headlines had misrepresented his view. However, he did not seek to amend what I understand is printed 'that Australians have a wide yellow streak'. A little time was spent in gaining a stable attitude toward such a result.

3. The matters raised by me covered three subjects:

- (a) CER
- (b) Pacific Community concept
- (c) Social Credit
- (d) Likely visits to Australia.

4. On CER the PM considered there are substantial political obstacles in the way of agreement. Officials had placed on his desk a file which gave encouragement to progress being achieved 'across the board' in a closer concept. However, the problem areas appeared to him, in instances, to be insurmountable unless proposed agreements were substantially altered.

5. He dwelt on the change occurring in New Zealand industry due to the Government's restructuring policies. There was no industrial sector which disagreed with the activity which had occurred and he spoke highly of Mr Douglas of the Manufacturers' [Federation]. All this meant that New Zealand restrictive quotas and limitations on imports in many areas would be eased. Whilst this would be a world wide to sell to New Zealand, the Australian market would find greater access to New Zealand and access would be easier in future, this had significant bearing on CER. But major problems existed with intermediate goods. He mentioned components for refrigerators. I agreed that

compressors were such a component and he said 'That's the one.' The PM said that if New Zealand markets were being opened up to import influence then competition for certain intermediate goods would bring keener prices and NZ Industry would have cheaper goods to offer. This appeared a stumbling block in exports to Australia.

6. He mentioned in passing dairying as a very vital market problem and this required much further progress than was visible to him currently.

7. 'Horticulture and canned goods' was his phrase to refer to both countries having troubles in getting goods into each others market. He mentioned beer and said it seemed that competition for NZ producers appeared difficult.

8. But he dwelt for the main time slot on finance. Australia had for 150 years built very strong connections with finance houses and banking institutions. When NZ attempted to grow in the Australian market they were prohibited and inhibited. BNZ bank could not extend its operation and when 'Marac' (a NZ finance house) attempted to take over an Australian finance house the Australian Government said 'you cannot hold more than 50 percent', the Australian Stock Exchange said 'buy all shares offered when you bid' and so the matter became 'unstuck and unresolved'. New Zealand were not treated well by any measure in reciprocal finance business operations. This must be attended now. The officials' report tended to say 'set this one aside and it will be cured later' but this could not be done. It must find equal opportunity in finance matters for both sides.

9. Also he understood that some items currently on Schedule 'A' were proposed to be transferred to one of these deferred lists and this can only be seen as a retrograde step. That was not pushing closer relations ahead it was reversing what had been achieved.

[NAA: A1838, 370/1/19/18, xxi]

141 FILE NOTE BY BENTLEY

Wellington, 3 February 1981

CONFIDENTIAL

Note for File¹**ANZ CER: Finance & Banking**

I spoke to ...,² Treasury, this morning in an attempt to gain some insight into what the Prime Minister had in mind on the above. ..., who insisted he was talking off the record (therefore protect), said that the issue had been kicked around for quite some time, but while agreeing that the 'general financial market relationship' was one that would have to be looked at, officials had concluded that it was 'second generation'. The important thing was to concentrate on the central trade issue. ... said that individual issues, (e.g. Government purchasing) kept cropping up. At one stage last year it was horticulture and officials did not know whether the Prime Minister was talking about cut flowers or what. The issues came and went or, if they did not go, they normally receded. Somehow or other the finance issue had occurred to the Prime Minister once again. But how? Had he been got at by some business acquaintance or had he simply decided that some movement on the finance side should be a pre-requisite to CER agreement?

As to the substance of the issue, ... said that carriage had rested with the Reserve Bank. In a paper presented to the Treasury quite some time ago, the Bank had suggested that the financial market relationship should be left as it is for the time being. The Bank's paper made a number of points. To begin with there were certain restrictions on New Zealand-based finance operations in Australia, but the Campbell Committee was reviewing such matters in Australia and New Zealand could well afford to await the outcome of that review. The basic Australian rule that a finance company had to be 50% Australian-owned had also proved difficult to meet and this rule had sometimes been in conflict with other requirements (by the Stock Exchange for example). On the other hand, the Reserve Bank concluded that the Bank of New Zealand had a number of opportunities in Australia—it was operating and could use its Australian profits to expand those operations. In the Reserve Bank's view there was not a great deal to point out that in the long run there could be some domestic concerns, particularly in relation to exchange control. If Australia's rules were liberalised, would the New Zealand Government be happy about its finance companies taking advantage of the opportunities.

Having outlined the Reserve Bank's general approach ... pointed out that because the area was second generation, bureaucrats had not considered the

1 Forwarded by Bentley to Lang.

2 Material identifying the informant has been exempted under S.33 (1) (b) of the Freedom of Information Act 1982.

subject in detail. They now had in effect a political instruction, but what they would have to do was unclear. He thought that working party might obtain some guidance from today's CEC meeting. His personal view was there was no need for us to do any more than to flag that finance was potentially a current problem. I gave ... the gist of what the Prime Minister had to say to the High Commissioner yesterday of the issue. ... commented that interestingly the Prime Minister's comments followed very closely the note Treasury had put to him. The note had gone on to say, however, that Treasury did not see great merit in pursuing the issues at this stage. Apparently the Prime Minister did not accept this advice.

[NAA: A1838, 370/1/19/18, xxi]

142 CABLEGRAM FROM AUSTRALIAN HIGH COMMISSION IN WELLINGTON TO DEPARTMENT OF FOREIGN AFFAIRS

Wellington, 5 February 1981

O.WL7432 CONFIDENTIAL

A-N.Z.—C.E.R.

At Tuesday's meeting of the Economic Committee of Cabinet, chaired by the P.M., Ministers discussed the draft Permanent Heads Report¹ and side papers on export incentives, dairy products,² government purchasing etc. Officials 'did not seek nor obtain any directions' from Ministers, the purpose of the exercise was to permit officials to obtain a better idea of Ministers' thinking on the issues.

2. From our discussions with a number of officials the main points arising from the Committee meeting are as follows:

- (a) Finance issues were not discussed.
- (b) Ministers consider that the Report and other papers as they stand at present do not represent an acceptable package.
- (c) State Government purchasing policies are still a major issue and it is view of Ministers that June Premiers' Meeting is too late for this to be considered. Ministers feel that if Governments are removing impediments to trade for private enterprise then Governments should also be able to agree on this matter. A cable outlining N.Z.'s views and seeking to bring forward discussions on this issue is to be sent to N.Z. High Commission today.

1 Document 139.

2 For the side papers on export incentives and dairy products, see Attachments A and C to Document 114.

(d) Whiteware, dairy products, are regarded as two areas on which Australia should be prepared to compromise so that differences may be resolved, and an acceptable package developed.

(e) Category 'c'—Australian list regarded as exempting more products than N.Z.

(f) On export incentives, are still seen as a difficult area. Manufacturers have been assured that existing schemes will continue to 1985 and the idea of a review prior to then seems to be of concern to some manufactures who see a review as the removal of their economic survival.

(g) As to timing of meeting of Prime Ministers, because of Muldoon's commitments outside N.Z. from mid-April, every month after March would have implications for the deal N.Z. would have to seek. There is also the thought that officials may be asked to carry out a further study. In any event, the later the meeting the greater the political need for a 'win'.

3. Most of the points A to E were reported by Nicolaidi in Wednesday's Evening Post, and we understand in the Canberra Times on 5 February.

[NAA: A1838, 370/1/19/18, xxi]

143 FILE NOTE BY BENTLEY

Wellington, 5 February 198[1]

CONFIDENTIAL

Note for file¹

ANZ CER: Cabinet Economic Committee Discussion on 3 February 198[1]

On 4 February I had a foreshortened discussion with ...² on the above meeting. He telephoned me from As usual he should be very carefully protected.

The CEC had before it the joint Permanent Heads Report,³ New Zealand and Australian side papers on export incentives, Government purchasing, dairy products⁴ etc., and a New Zealand covering submission. So far as I can gather, the New Zealand covering submission contained specific recommendations.

1 Forwarded by Bentley to Lang.

2 Material identifying the informant has been exempted under S.33 (1) (b) of the Freedom of Information Act 1982.

3 Document 139.

4 For the side papers on export incentives and dairy products, see Attachments A and C to Document 114.

... said the Prime Minister had made the running in what had been by far the best discussion on CER in the whole two years it had been under consideration. He thought that the Prime Minister and Ministers were now concentrating on the real issues. The Prime Minister said he had studied the Joint Permanent Heads' Report and accompanying documents a number of times. His basic inclination was to say that it was an unsaleable document but ... pointed out that he had made this comment on the document as it stood and was fully aware that there was still a number of issues of difficulty on which progress remained to be made.

Getting down to specifics, the Prime Minister began by concentrating on the *Category C* balance with the comment (which he admitted was not necessarily fair) that Australia seemed to be holding out rather more products than New Zealand. He supposed this was for negotiating purposes, but at the moment there was not a balance in Category C as the Australian list included more items of serious export interest to New Zealand than the reverse. ... commented that officials were able to make the point that the lists were still evolving, adding that there was an implied direction to achieve something better.

On *Government purchasing*, Mr Muldoon had a simple line. Here we are setting up a trade agreement inviting private interests to get out and trade, but it is ridiculous that it is with the two Governments that nothing was happening. The Governments should be able to agree on tariff preferences. The Prime Minister brushed aside officials' comments about Federal/State complications with remarks to the effect that everyone had problems to sort out. ... said the Prime Minister's attitude seemed very coloured by conversations he had had with Premier Wran, who had apparently indicated that something could be done. The Prime Minister's response to officials suggesting that the issue was complicated was that if Federal Government was finding it difficult why should not New Zealand discuss the matter with the States. In reply he was given to understand that for the moment it would be better to let the Federal Government pursue the matter. Mention was also made of the June Premiers' Conference which brought the retort from Mr Muldoon that he could not wait until June and that it was not an issue that could be separated off. ... said various ideas were floated such as monitoring a special mission to the States pointing out what New Zealand had to offer, but nothing firm decided.

The Prime Minister's perspective of *export incentives* ... thought was a little different from that of officials (separately Treasury Secretary Galvin commented that this issue was going to be more difficult than he had previously thought). The Prime Minister saw export incentives as an integral part of his future economic policies. Their purpose was to enable New Zealand manufacturers to land and sell their goods in foreign markets and if there were not to be export incentives, there would have to be some other market intervention mechanisms. When it was pointed out to Mr Muldoon that Australian manufacturers would have a legitimate complaint about export incentives in the context of fair and equitable trade he replied that that was precisely his worry. New Zealand was already

trading under NAFTA and some firms were saying to him that but for export incentives they would not be in the business. (I asked whether officials made the point that NAFTA in its present form would not go on forever. Apparently not.)

Officials took the line that in freeing up trade, tariffs would be phased out and it should be possible to phase down export incentives at the same time. But Mr Muldoon asked rhetorically what about goods already traded duty free.

... summed the Prime Minister's view up as being that the balance on export incentives had gone too far in Australia's direction. It was all very well to talk about a review but a review really meant a cut. How could the Government sell that to the manufacturers. Officials had in effect been instructed to watch the form of words on what a review was expected to achieve. ... thought the Prime Minister accepted the fair and equitable principle and the idea of a review of export incentives but was reluctant to have the outcome of the review pre-judged.

Dairy products remained the biggest issue. The Prime Minister's basic line was that he wanted some improvement on the present situation, i.e. some trade in dairy products. He acknowledged that any deal would be a step backwards from the formal position of free New Zealand access. A solution that did occur to the Prime Minister was retention of the present formal access with a side agreement (recognising Australia's need for a 'bankable assurance' that the Dairy Board would act responsibly and recognising New Zealand's need for a 'bankable assurance' that New Zealand would have some trade in dairy products).

As ... understands the situation, the next move in discussion of the dairy products area is to come from the Australian side. He ventured that the Prime Minister was becoming more responsive on the issue.

[*matter omitted*]⁵

[NAA: A1838, 370/1/19/18, xxi]

144 AUSTRALIAN DAIRY FARMERS' FEDERATION TO STREET

Melbourne, 26 February 1981

I have attached for your information a copy of a submission outlining the ADF's position in respect to the proposed closer economic relationship with New Zealand.

The Australian dairy industry's view can be summarized by the following policy statement endorsed at the last meeting of the Australian Dairy Industry Conference.

5 Omitted material referred to matters already mentioned in Document 142.

'That the Australian Dairy Industry Conference strongly supports the exclusion of dairy products from any phased reduction of trade barriers between Australia and New Zealand.

Special circumstances apply to the institutional arrangements of the dairy industries in the two countries that would result in unfair and unreasonable disruption to the Australian dairy industry in the event of any relaxation of the formal and informal arrangements that now control trade in dairy products. Because of the serious disruption that would inevitably result from greater New Zealand access to the Australian domestic market, the current agreements between the two dairy industries should be formalized at government level.'

The attached submission explains the basis of the firm stand taken by the dairy industry on this issue. Should you require any further explanation of the points raised in this submission, I would be happy to discuss the matter with you personally.

C.R. MANNERS
Executive Director

[NAA: A1838, 370/1/19/18, xxi]

145 VIEWS OF NEW ZEALAND MANUFACTURERS' FEDERATION

Wellington, 26 February 1981

O.WL7656¹

CER: NZ Manufacturers' Federation stance on relationship

As reported earlier today, latest issue of 'The Manufacturer' carries part of a MANFED² resolution on CER. We have now managed to obtain a copy of resolution which reads as follows:

'The New Zealand Manufacturers' Federation favours a controlled and progressive expansion of trans-Tasman trade.

Any arrangement must incorporate adequate safeguards to deal with any threat of disruption of the New Zealand market and damage to individual industries.

The Federation is opposed to the apparent government objectives of CER with Australia of full free trade which envisages the progressive but ultimate elimination of import licensing and tariffs on all goods.

1 From Gates for Trade and Resources.

2 i.e. the New Zealand Manufacturers' Federation.

The Federation believes that disparity in market size and New Zealand's vulnerability because of its narrow economic base are critical factors which must be taken into account.

This question of disparity in market size and its implications is the matter of greatest underlying concern to manufacturers as evidenced by the response the Federation has had from its district associations, its trade groups and individual corporate members.

New Zealand manufacturers suffer a greater burden of Infrastructural costs than do Australian manufacturers. Examples include freight, taxation and energy. These disadvantages must also be taken into account.

Many constituent trade groups and members have had difficulty in committing themselves to a position on CER because of uncertainty about various aspects of what might be the final trade arrangements.

We now take the opportunity of summarising major points of concern. We are concerned about:

1. The disparity in market size and New Zealand's vulnerability because of its narrow economic base.
2. An agreement which involves the progressive elimination of all import licensing and tariff quotas in trans-Tasman trade on all goods produced in either country.
3. Any agreement which does not:
 - (a) Retain the current system of export incentives until March 1985.
 - (b) Maintain the present level of assistance from export incentives after 1985 and thus continue Government encouragement for industry involvement in trans-Tasman trade.
4. The potential for injury by concentration of import licences on an item or small number of items within the item code. Aggregation over an item code represents potential for an unpredictable and significant disruption of manufacturing activity.
5.
 - (a) The increased costs which would occur if manufacturers ability to source their inputs on third countries were restricted as a result of mechanisms introduced to overcome the intermediate goods problem.
 - (b) The need to retain the fifty percent area content rule.
6. An agreement which does not:
 - (a) Include adequate safeguards to alleviate any serious injury to manufacturers which may be identified.
 - (b) Ensure that a full review takes place no later than five years from the commencement of the agreement. The agreement should have a renewable duration of seven years.

7. Companies operating national pricing who will face substantial price disadvantages at the port of entry in comparison with imported items. National pricing has been encouraged by Government and its abandonment, which would be the logical outcome of freer trade, would have unfavourable repercussions in regional areas.

8. Industries currently under study or those operating under industry study plans. We believe that industries should be placed in the deferred category while they are under study and until policy decisions have been made. CER arrangements should be accommodated within industry plans emerging from studies.

9. (a) The need for manufacturers to have priority access to import licences issued under any arrangement.

(b) The appropriateness of the access formula which is best judged through an intensive and comprehensive consultative programme with industry sectors.

(c) The situation where Australian imports already enjoy a reasonable proportion of global imports. In these cases no special allocation is considered necessary.

10. The maintenance of the current margins of preference for New Zealand in the Australian market. This is an essential ingredient in assessing the balance of advantage.

11. Government procurement policies in Australia, especially as they relate to the States.

12. Protection against dumping which must be an integral part of any agreement.

13. Non tariff barriers to trade such as standards and approval codes which can vary significantly between States and between local authorities in Australia.

Reservations can only be dispelled when the nature of final agreement is known and when firm assurances on the interpretation of its provisions and on the method of its implementation have been given.

Whilst CER should ensure mutual benefit to Australia and New Zealand we are concerned to see that the agreement promotes the continuing development of New Zealand industry. We believe that CER can lead towards these objectives provided manufacturers' concerns outlined in this document are fully taken into account.'

2. There is no doubt this resolution would have been one of several reports which caused Muldoon to issue his statement on 24 February, reported in WL7633.³

[NAA: A1838, 370/1/19/18, xxi]

3 See Document 162.

146 MESSAGE FROM FRASER¹ TO MULDOON

Canberra, 2 March 1981

CONFIDENTIAL

Thank you for your letter of 17 February 1981 regarding possible timing of a meeting to consider a package on a closer economic relationship between our two countries. I very much appreciate you giving me an indication of your thinking which will help my Cabinet in its consideration of the work so far undertaken by officials.

I share your view that this matter should be pursued as expeditiously as possible and Australian officials are aware of the need to avoid all unnecessary delays. The need for and the timing of, future ministerial meetings should become clearer in the next few weeks following the next round of negotiations by our senior officials.

[NAA: A1838, 370/1/19/18, xxi]

**147 JOINT STATEMENT BY AUSTRALIA – NEW ZEALAND
BUSINESSMEN'S COUNCIL LIMITED**

Canberra, 5 March 1981

The following is the text of a Joint Statement issued today by Mr J. W. Utz, President of the Australian arm of the Council and Mr W. J. R. Scollay, Chairman of the New Zealand arm of the Council:

'The Australia – New Zealand Businessmen's Councils in Australia and in New Zealand have re-examined the progress of discussions towards a closer economic relationship between Australia and New Zealand.

The Councils on both sides of the Tasman have no doubt that there will continue to be a strong and growing economic relationship between Australia and New Zealand.

The question of the extent to which that continuing relationship should be subject to formal Government to Government agreement is one which has been exhaustively examined in the last two years. There seems little doubt that a special relationship between Australia and New Zealand in economic matters should continue, based on mutual advantage.

Naturally, there are difficulties. If there were not, it would be a simple matter to form a customs union and full free trade agreement.

¹ Conveyed in cablegram O.CE237069 which advised that 'The original will be forwarded by bag'.

The Businessmen's Councils in Australia and New Zealand issued a joint paper setting out the view that a closer economic relationship was desirable at the earliest possible time in the shape of an extended free trade agreement based on mutual advantage.

The mutual advantage must be an overall situation taking into account the total economies of the two countries and specific sensitive areas.

It is impossible to foresee any arrangement being devised which is assured of advantages with no risks. Such risks must be identified as far as possible, their weight noted and decisions made accordingly on a balance of advantage.

Both Councils are completely of the view that at the earliest possible time the basis of the new economic relationship should be announced by the Australian and New Zealand Governments, such relationship should have as few reservations as possible.

Economic events are demanding positions being taken by Australia and New Zealand for development in the 1980s. There are hard facts to be faced by both countries in their competitive situations with the rest of the world.

The Businessmen's Councils are concerned that Australia and New Zealand should define their relationship quickly so that they move ahead with international arrangements in the light of a regional grouping of two countries with an economic relationship as long as their trading histories.

Both Councils believe that the majority of businessmen favour a closer economic relationship between Australia and New Zealand, and urge Governments in both countries to clear with minimal delay the major remaining difficulties and formulate an agreed position which will give businessmen the confidence to make trading and investment decisions affecting relationships between Australia and New Zealand.'

148 TELEX FROM DEPARTMENT OF PRIMARY INDUSTRY TO INDUSTRY ORGANISATIONS AND STATE GOVERNMENT OFFICIALS

[Canberra, 17 March 1981]¹

Australia–NZ economic relations

Senior Australian and New Zealand officials met in Wellington 11 and 12 March to continue discussions on a possible closer economic relationship which the two Prime Ministers set in train last March and which was subsequently outlined to industry organisations and State Government officials.

The meeting was held against the background of recent consideration of the issues by Australian Ministers and separately by New Zealand Ministers. The objective of the discussions was to ensure a full understanding of ministerial attitudes on both sides and to clarify differences in position. Resolution of such differences will be necessary before details of any possible arrangement can be made public and substantive decisions taken in accordance with the undertaking given by the Australian Prime Minister in his statement to Parliament last year.²

Matters discussed included the way in which tariffs affecting trade between the two countries are to be phased out, the approach to be taken to the removal of quantitative restrictions, the impact of export incentives on trans-Tasman trade, arrangements to cover special problems which might be caused by the liberalisation process in some sectors, Government purchasing and finance and banking.

The approaches being explored on tariffs, import licensing, export incentives and other matters apply to all products including all agricultural commodities.

In agriculture attention is being given to the impact of support and stabilisation schemes including the need to integrate New Zealand monopoly import arrangements into the general framework of a closer economic relationship. Specific commodities which are still under discussion include dairy products, horticulture, wine, sugar, wheat, citrus, grapes, pineapples and bananas.

Discussions on aspects of a closer economic relationship will continue at official level in order to provide a sound basis for further discussions at ministerial level which may be appropriate within the next two or three months.

In the meantime, industry organisations and State Governments are again invited to contact the relevant Commonwealth Government Departments should they wish to discuss any aspects of this question in more detail.

[NAA: A1838, 370/1/19/18, xxi]

1 The document is undated. It was forwarded by Primary Industry on 17 March 1981 to Laurie at Foreign Affairs.

2 On 25 March 1980.

149 MINUTE FROM FITZGERALD TO FRASER

Canberra, 18 March 1981

CONFIDENTIAL

**Australia – New Zealand Closer Economic Relations
Permanent Heads Meeting**

Australia and New Zealand senior officials met in Wellington last week. Australian officials presented in plain terms the Australian Government's position on the outstanding issues, as set out in the recent Cabinet decision and in the more detailed instructions given the delegation by Mr Anthony. Australian officials particularly stressed the firmness of the Government's position on these issues.

2. For their part, NZ officials re-stated and elaborated their Government's position, stemming from Cabinet consideration several weeks ago and for the most part already known to the Australian side.

3. There was some concern evident on the New Zealand side at various points during the discussions, but importantly, there was no breakdown. On the contrary, willingness to explore ways to reconcile the differences was always apparent.

4. On key outstanding issues the trend of the discussions was as follows:

- *Firm time-table for ending import licensing*: New Zealand is unwilling to fix in advance a date for final elimination but NZ officials will re-assess what residual areas of effective licensing are likely to remain, under the proposed liberalisation formula, at 1990 (the date envisaged for a review to implement the final elimination of licensing). Further consultations will take place after that re-assessment.
- *Tendering of exclusive Australian licences*: There appears to be scope and willingness on the New Zealand side to meet the Australian position as set out in the Cabinet decision. New Zealand officials did point out, however, that while an objective basis for issue (without use of tenders) existed in many cases, there would be a number of cases where licences had never been issued before (except in token amounts) and where some method such as tendering would be the only feasible way to make at least the initial licence allocation. Further consultations between officials will take place on procedures appropriate for specific cases.
- *Elimination of performance-related export incentives*: The relevant New Zealand Permanent Heads (and they only) were informed, in strict confidence, that Australia's Export Expansion Grants Scheme was being re-considered and could well be wholly or substantially eliminated in the near term. This will necessitate a thorough re-assessment of the New Zealand position on export incentives and, the Australian side was

informed, could add significant weight to pressures building up in New Zealand to re-consider the existing schemes, possibly leading to their (partial) replacement by assistance or tax concessions not related to export performance.

- *Dairy products*: New Zealand is willing to see industry to industry consultations on exports to Australia but not an explicit and formal Government-to-Government voluntary restraint arrangement which could be perceived as a retreat from New Zealand's present formal rights under NAFTA. Importantly, however, it was noted that the New Zealand Minister does have the power to direct the New Zealand Dairy Board in relation to exports and could, for example, give the Board guidance (or in the last resort, direction) as to what was consistent with the principles of an overall Agreement for a Closer Economic Relationship. New Zealand, however, would not like to make resort to such Government direction explicit in an Agreement. As both sides agree (in general, if not necessarily in detail) that there is long-term potential for growing New Zealand exports to Australia without displacing any Australian production, there is some confidence on the part of officials that a form of words (to be included in an Agreement) can be found which is satisfactory to both sides.
- *Other rural products (of interest to Australia)*: New Zealand officials were not very forthcoming but indicated that where New Zealand arrangements had appreciable trade-inhibiting effects New Zealand would be willing to look at neutralising such effects—e.g. for wheat, through not setting domestic prices above the Australian price. On wine, a reasonably long phasing-in may be sought.
- *White goods*: This is a manufacturing industry for which the New Zealand Government has high hopes under a closer economic relationship. The difference between the positions of the two sides was not seen to be too wide, and a solution seems possible. Further consultations will occur to explore ways of meeting the Australian position.
- *Government purchasing*: New Zealand does not at this stage wish to settle for an arrangement applying at the national level only, even on a trial basis. It would prefer to seek to obtain first its preferred result of achieving (on a reciprocal basis) in-State supplier status in State Government purchasing as well as domestic supplier status in Commonwealth Government purchasing. The Australian side explained that relevant powers lay with the States but indicated that the Commonwealth was willing to write to the States in support of New Zealand's wish to discuss the matter with the State Governments (this course was approved by Cabinet; letters to Premiers are in preparation).

5. It was agreed that talks at the Ministerial level would be needed to resolve these matters, although further work needs to be done by officials over the next few weeks on the precise nature and implications of the differences between the positions of the two sides, as a basis for the Ministerial talks.

6. Given that Mr Muldoon would certainly wish to be involved in such talks, they cannot take place until early May, given his other commitments. It is envisaged that Mr Anthony will go to New Zealand at that time. One implication is that it is now difficult—given the stage of the New Zealand election cycle—to envisage that an Agreement for a Closer Economic Relationship could be finalised this year.

7. It is noted that since the officials' talks, Mr Muldoon is reported in the press as having confirmed that there was no breakdown in the negotiations for a Closer Economic Relationship and that Ministerial talks would be the next step.¹

[NAA: A1209, 1981/508, i]

150 EXTRACTS FROM REPORT BY DEPARTMENT OF TRADE AND RESOURCES ON PERMANENT HEADS MEETING

Canberra, 25 March 1981

Australia – New Zealand Closer Economic Relations

MEETING OF AUSTRALIAN AND NEW ZEALAND PERMANENT HEADS,
WELLINGTON, 11 TO 12 MARCH 1981

Australian Permanent Heads conveyed the reactions of Australian Ministers to the Joint Report of 9–11 December 198[0].¹ The outcome of the discussion on particular issues was as follows:

Tariffs

The understanding was that the formula of phasing our tariffs by 5 percentage points per year over a maximum of five years and after a one year grace period is satisfactory to both sides.

[*matter omitted*]²

1 Fraser annotated the document: 'This must come back to Cabinet for direction before any talks are arranged. Malcolm Fraser.'

1 Document 139.

2 Omitted material is covered in Document 149.

Deferred Category

Australian position was that satisfactory arrangements must be concluded in respect of the final version of the deferred list to facilitate the early removal of specific products from that list. It was suggested that in principle items under industry review should be removed from the deferred list and the general formulae applied one year after the industry advisory body report was received by the Government.

New Zealand indicated that removal after one year would not give some industries sufficient time to adjust and could require the New Zealand Government to depart from its current practice of accepting IDC recommendations.

Australia agreed to examine possible means of achieving greater flexibility in this sector.

It was agreed that a timetable was needed for removal of items under industry enquiry and that on other items on the deferred list there was a need for early indication of conditions for their removal on a case by case basis.

[*matter omitted*]

Intermediate goods problems

The understanding was that the measures outlined in the Permanent Heads report were satisfactory.

Finance

From the exchanges of information which had taken place already New Zealand officials saw the possibility of achieving a satisfactory solution on this issue.

Further Action

- New Zealand proposed to examine the possibility of formulating a statement which would be satisfactory to both sides. This would be conveyed to Australia for comment.

[*matter omitted*]

Sugar

New Zealand regarded the Australian embargo on imports of sugar as an anomaly which could prevent New Zealand from exercising commercial judgements in terms of supplying refined or specially processed sugar to the Australian market. The possibility of intermediate goods problems was also flagged.

The Australian position was that the embargo was necessary to protect the Australian stabilisation scheme from world price fluctuations. There were some discretionary powers which could allow the import of sugar from New Zealand but Australia could not contemplate import of sugar from New Zealand on a toll refining basis.

If New Zealand wished to pursue the question of the sugar embargo then this also raised the question of New Zealand purchasing arrangements.

Industry Participation

The Australian position was that consideration should be given to greater participation by industry organisations in the negotiations. While this involves mainly dairy, other industries should not be ruled out. Ministers will decide as they review the situation which other industries should be brought in.

New Zealand proposed and Australia agreed that industry involvement in the negotiations should be closely controlled to avoid individual industries reaching solutions which were not compatible with the general principles of liberalisation.

[NAA: A1209, 1981/508, i]

151 LETTER FROM ANTHONY TO FRASER

Canberra, 3 April 1981

New Zealand has proposed that a meeting of Australian and New Zealand Ministers be held in Wellington from 11–13 May to consider unresolved issues and assess the prospects of agreement being reached this year on an acceptable basis for a closer economic relationship between the two countries.

As agreed by Cabinet, I would propose to lead the Australian delegation at the forthcoming meeting and believe it would be appropriate that I be accompanied by perhaps two other Ministers; I have in mind the Minister for Industry and Commerce, Sir Phillip Lynch and the Minister for Primary Industry, Mr Nixon. However, this is a matter which could be settled closer to the event.

I will of course be bringing a submission to Cabinet in advance of the Wellington meeting, setting out the unresolved issues and recommending the line of approach to be followed in the negotiations with New Zealand Ministers.

The dates suggested by New Zealand are acceptable to me and I seek your concurrence to the arrangements as proposed. I am sending copies of this letter to Sir Phillip Lynch and Mr Nixon for their information.

[NAA: A1209, 1981/508, i]

152 LETTER FROM FRASER TO ANTHONY

Canberra, 16 April 1981

In your letter of 3 April you advised that New Zealand had proposed a meeting of Australian and New Zealand ministers in Wellington on 11–13 May to consider unresolved issues in negotiations for a closer economic relationship.

You indicated that you would proposed to lead the Australian delegation at that meeting and suggested that you be accompanied by Sir Phillip Lynch and Mr Nixon.

You also noted that you would be bringing forward a submission to Cabinet in advance of the Wellington meeting, setting out the unresolved issues and recommending an approach to the negotiations.

While the arrangements you propose are sound, I believe that the substantive issues which remain unresolved should be addressed in Cabinet before a firm commitment is made to the Wellington meeting in May. It would therefore be helpful if the submission you foreshadowed could be available for consideration well in advance of the projected dates for the Wellington meeting.

I am sending copies of this letter to Sir Phillip Lynch and Mr Nixon for their information.

[NAA: A1209, 1981/508, i]

**153 MINUTE FROM LAURIE TO ACTING SECRETARY,
DEPARTMENT OF FOREIGN AFFAIRS**

Canberra, 1 May 1981

RESTRICTED

New Zealand: 'Closer Economic Relations'

The visit to Wellington this month by Mr Anthony, which was in doubt, has now been confirmed after a discussion between Mr Anthony and the Prime Minister. He will go over on Friday, 8 May, for an informal weekend in the company of Brian Talboys, and be joined by Scully, Anderson and Lind from Trade late on Sunday, 10 May.

2. This round of talks will focus exclusively on the hard core of remaining problems defying solution at any but a political level. On our side, the dairy industry is still the biggest problem, and on theirs, the issues of export incentives, the final removal of all import licensing and the list of imports to which tariff reductions and progressive removal of licensing restrictions shall not apply, are

the object of Australian requests that the New Zealanders are not prepared to meet.

3. Mr Anthony has been given a Cabinet mandate to conduct these negotiations on behalf of his colleagues. There is very little we can contribute to these talks, although we are, of course, fully au fait with the technical issues involved. I would think we would only need to have someone from Canberra present if you feel the Departmental flag needed to be seen. Otherwise I'm sure Trade would be happy to include Geoff Bentley in the official delegation. We understand that Treasury and PM&C will be represented. So, of course will Primary Industry and Industry and Commerce, the former probably by its Minister.

4. We will be doing a submission to the Minister asking him to brief Mr Anthony on the Springbok issue,¹ either for the purpose of having Mr Anthony raise it himself, or at least enabling him to handle [it] if it is raised with him.

5. I would be glad of your guidance on the matter of representation.

[NAA: A1838, 370/1/19/18, xxiii]

154 SUBMISSION TO FRASER BY SHANN

Canberra, 8 May 1981

CONFIDENTIAL

Australia – New Zealand Closer Economic Relations (ANZCER): State Government Purchasing

Background

New Zealand officials have made it clear in the discussions on ANZCER that they attached particular importance to Government purchasing policies in Australia in assessing any final negotiated package. New Zealand officials have been advised that in regard to purchasing by *Commonwealth* Departments and authorities, it would seem possible to extend the preference to Australian-made goods policy to New Zealand products, providing that New Zealand would reciprocate.

New Zealand, however, is seeking more than that. It is seeking (again, on a reciprocal basis) for its industry to be treated by each Australian State in the same manner as industry domiciled in that State.

¹ The South African Springbok team was to begin a tour of New Zealand in July. There was widespread condemnation in Australia and New Zealand of the South African government's apartheid policy.

Commonwealth officials have raised the matter with the States. However, it has been made clear to the New Zealand side that under the Australian Constitution it is ultimately a matter for the States to make their own decisions in this area.

[*matter omitted*]¹

Recommendation

The attached telex to the Premiers and the Chief Minister gives general background to the present position on ANZCER, refers to the request from New Zealand for discussions on State Government purchasing policies, outlines the nature of what New Zealand is wanting, and seeks their reaction to this request.

We seek your approval to despatch the telexes.²

[NAA: A1209, 1981/508, ii]

155 EXTRACT FROM BRIEF FOR ANTHONY'S MEETING WITH MULDOON

Canberra, [8]¹ May 1981

Australian Attitude

14. In a letter dated 4 May to the Minister for Trade and Resources (background paper 3),² Mr Talboys indicated, that as part of the process of review, New Zealand Ministers hoped that it would be possible for Ministers to endorse, at the political level, those specific areas of the negotiations where officials had advised that agreement had been reached or was close at hand. Such endorsement would be contingent on a satisfactory outcome on other issues under negotiation. New Zealand Ministers recognised that it would not be possible to reach agreement on all issues at this meeting. However, it was hoped to go a good distance on bridging the areas that remain unresolved and in giving a steer on how an arrangement envisaged in the Prime Ministerial Communiqué³ might be achieved.

1 A paragraph concerning Cabinet matters omitted on advice of the Department of the Prime Minister and Cabinet.

2 Fraser marked the submission 'Approved'. The telex was sent to all State Premiers and the Chief Minister of the Northern Territory on 12 May 1981 under Fraser's signature.

1 The brief is dated May 1981 and was prepared for Anthony's departure on 8 May 1981.

2 Document 168.

3 Document 93.

15. Having regard to the stage now reached by officials and the nature of the unresolved issues, it could be inappropriate, at this meeting, to give political endorsement to those areas on which agreement has been possible. Such an approach could have the effect of placing certain issues in an 'agreed box', as it were, pending the results of negotiations on other subjects. While it can be acknowledged that agreement appears to have been reached on some elements, it serves little purpose to grant them any status at this stage. A final decision, when it is taken, will be made on a complete package.

16. The inter-related nature of a number of issues under examination provides added reason for Australia adopting this attitude. Consideration of the composition of the deferred category, for example, will be influenced by the outcome of discussions on export incentives, on access and, in some cases, by the need for special solutions and to enable a smooth transition from present NAFTA arrangements. The outcome on some issues will influence assessments of the likely trade impact of new arrangements in the near term; on other issues it will have more bearing on the degree of commitment to the principles and long term objectives of CER.

17. Against this background, Australia views the Ministerial meeting as providing an opportunity for a clear presentation of positions at the political level. From this it should be possible to assess not only the prospects for agreement being reached on the key unresolved issues but also to determine the status and direction of the package as a whole. To the extent that discussions reveal scope for narrowing differences on key issues, this can be noted. However, it will not be the objective to negotiate issues to conclusion. As far as a statement of Australia's position is concerned, it will be a reaffirmation of the points conveyed to New Zealand Permanent Heads in March⁴ (reference para 10 above).

18. CER should not be viewed as a negotiation in which both sides are seeking gains and offering concessions on specific commodities. Rather, it is a case of seeking to arrive at a mutually satisfactory overall package which will enable the gradual and progressive elimination of barriers to trade under conditions of fair competition; arrangements which will be consistent with the principles and objectives agreed to by the Prime Ministers in March 1980.

19. New Zealand Ministers may claim that they are 'offering' Australia special additional access arrangements valued at around \$A48m. in the first year. It is not an offer in the normal sense. The figure emerges from the application of an agreed formula, and is modified only to the extent that a further \$A15m. of special access would be obtained but for New Zealand's intention to place a number of items in the deferred category. The fact that Australia stands to gain in this manner is a reflection of the nature and coverage of New Zealand's import licensing system. New Zealand already enjoys significantly more liberal access to the Australian market.

4 See Document 149.

20. Australia should continue to press for solutions which embody a high degree of automaticity and predictability and where special arrangements and deferrals are kept to a minimum. We need a clear indication that New Zealand is committed to achieving an agreement which will result in the eventual *elimination* of barriers to trade on *all* products.

21. As matters stand, the exceptions are relatively few. For reasons of industry policy, both sides find it convenient to hold back on *motor vehicles* at this stage. New Zealand has accepted that, because of special circumstances surrounding the trade in *whitegoods*, an 'accelerated-formula' solution will be negotiated. Special arrangements are also envisaged for *apparel*.

22. It is of concern, however, that New Zealand has included such a wide range of items in the deferred category and, as in the recent decision on *wine*, has failed to clarify the timing or nature of arrangements which would govern eventual inclusion in CER of some items of considerable importance to Australia. For this reason it is difficult for Australia to assess the immediate impact of CER and its likely evolution.

23. There are cases, as in relation to *dairy products* and *horticulture*, where we have pointed to the need for certain arrangements or conditions to apply to trade between the two countries if it is to be further liberalised. In such cases we seek arrangements which, in our view, are consistent with CER principles and objectives while at the same time recognising the findings of the studies on agricultural support/stabilisation measures and export incentives.

24. In outlining Australia's position as part of the proposed general review at the outset of the meeting it could be emphasised that we wish to obtain a clear statement of New Zealand's position of the following:

- elimination of import restrictions in reasonable time, bearing in mind Australia's wish that there be a commitment to this being achieved by 1995
- the elimination of performance-based export incentives in trans-Tasman trade by 1987 (particularly in an environment where Australia is scaling down its own scheme)
- the general philosophy underlying the deferred category, as well as details relating to the timing and conditions for the removal of items from the list at the earliest possible date
- ...⁵ it could also be indicated that, whilst agreeable to industry-to-industry consultations taking place on dairy products, Australia would first wish to hear New Zealand's view on arrangements for progressing negotiations across the range of agricultural issues, including monopoly import arrangements and horticulture

5 A small portion omitted in accordance with advice from the Department of the Prime Minister and Cabinet.

25. In regard to government purchasing, it would be appropriate to recall New Zealand's wish to have a mission of officials visit the States and to indicate that the Prime Minister will be writing to Premiers inviting them to consider the New Zealand position.⁶

26. It may be that the flexibility of New Zealand Ministers on some important aspects is being limited by the prospect of New Zealand general elections later this year. If so, this will have a bearing on the timing of future joint Ministerial consideration of CER.

27. Item-by-item briefing on relevant issues follows.

DAIRY PRODUCTS

Issue

Unfettered access for NZ dairy products would undermine Australia's domestic marketing arrangements and severely disrupt the Australian dairy industry. (Under the existing forms of stabilisation/support in the two countries, the NZ Dairy Board (NZDB) would have a significant competitive advantage over the Australian industry.)

NZ Position

NZ is opposed to any formal restraint on dairy products which does not exist at present. It argues that the NZDB should be free to determine the extent of exports to Australia and that dairy products should be treated the same as other products in any CER arrangement.

NZ is seeking application of the liberalisation formula (viz 10% per annum expansion) to the NAFTA cheddar cheese quota and in respect of other dairy products reaffirmation of the present situation of no formal barriers to NZ imports.

Australian Position

Australia is seeking a recognition from NZ that:

- the impact of stabilisation/support arrangements in the two countries on trade needs to be offset in some way, and
- the best way to proceed would be to build on existing industry-to-industry arrangement on cheese by expanding it to cover all dairy products with
 - a government-to-government 'tie breaker' (resolution) in the event that agreement cannot be reached at industry-to-industry level.

Possible Approach

NZ Ministers need to give in principle acceptance to our position so that work on precise nature of arrangement can go ahead.

6 See Document 154.

Elaboration of Australian Position

Dairy products to be included in CER arrangements but the framework for industry-to-industry consultative arrangements on cheese (Terms of Reference given in Annexure A) to be extended to cover all dairy products. The inter-industry arrangements to be supported by understanding between Governments as to appropriate course of action as 'fallback' if industries cannot agree. (Proposals are detailed in Annexure B.)

At the Working Group meeting on 28 April 1981, Australian officials were handed a paper by the NZ delegation (Annexure C) which has *no official standing* but which could outline a possible direction for briefing of NZ Ministers

- if such an approach is raised by NZ Ministers it would represent a significant shift in NZ position but difficulties remain in that:
- the pattern of NZ supply to the Australian market would be determined by the NZDB
 - this would not be acceptable to Australian industry
 - the mechanism being proposed to resolve an impasse at the industry level with regard to conduct of trade is too open
 - there is no explicit recognition by NZ that the machinery needed to ensure trade in dairy products develops on an orderly basis would be formally embraced by the CER.

As the NZ paper stands, we consider that it is not suitable for inclusion in a CER arrangement.

Annexure A

TERMS OF REFERENCE—CONSULTATIVE COMMITTEE

The Consultative Committee established by the New Zealand Dairy Board and the Australian Dairy Corporation shall, from time to time:

- (a) Examine trends in the world production of dairy products with particular reference to cheese.
- (b) Examine the world trade in dairy products including pricing levels with particular reference to cheese.
- (c) Examine developments in the production and consumption of dairy products in Australia and New Zealand.
- (d) Assess the present levels of consumption of cheese in Australia and factors likely to influence those levels.
- (e) Discuss New Zealand's marketing intentions for cheese in Australia and their appropriateness in the light of (d).

Annexure B

ELABORATION OF AUSTRALIAN PROPOSALS FOR THE INCLUSION OF DAIRY PRODUCTS IN CER

Trade in dairy products between Australia and New Zealand would be 'managed' so as to ensure that trade takes place on an orderly basis.

Management of the trade would be accomplished by broadening the scope of the present inter-industry consultative arrangement on cheese to cover all dairy products.

— inter-industry consultative committee would meet at least once a year with the view to reaching agreement on levels of trade in dairy products between the two countries for a future period.

In the event of the inter-industry consultative committee failing to agree on an appropriate level of trade for any class of dairy product, the Ministers responsible for trade matters in the respective Governments would be required to make a determination on the matter.

The arrangement for dairy products would be formally embodied in any CER agreement

— under the umbrella of an exchange of letters between the two Ministers responsible for trade matters.

In the exchange of letters NZ would be required to:

— recognise the competitive advantage enjoyed by the NZ Dairy Board in the domestic markets of the two countries

— recognise that unfettered access to the Australian market for NZ dairy products would be severely disruptive to the Australian industry

— provide assurances that NZ Dairy Board would not intentionally disrupt the Australian market.

For its part Australia would recognise

— NZ has a permanent place in the Australian cheese market and is entitled to share in market growth

— NZ will be given preference for 'topping-up' any shortfalls in Australian supplies of other dairy products.

Annexure C

EXTRACT FROM UNOFFICIAL NZ PAPER (RECEIVED ON 28 APRIL 1981)

Dairy Products

The two governments recognise the importance of dairy products in the closer economic relationship and wish to see trade in dairy products develop on an orderly basis to the benefit of producers and consumers in both Australia and

New Zealand. It is accepted that dairy products should be included in the arrangement. However, given the special circumstances on the industry additional measures of consultation should be provided.

It is envisaged that co-operation between the appropriate industry organisations in Australia and New Zealand would ensure the orderly development of dairy markets consistent with normal CER arrangements. In the light of its consultations with the appropriate Australian interests and taking full account of the assessments of production, markets and prices provided in those consultations, the New Zealand Dairy Board would determine its pattern of supply of product to the Australian market in any year.

Should any circumstances develop where it is considered by either side that the growth in trade is not occurring in an orderly way, the two governments would consult to consider whether any guidance should be given to the relevant industry organisations on the conduct of the trade.

[NAA: A1313/116, 84/2288, i]

New Zealand Documents

156 RECORD OF OFFICIALS' MEETING

Wellington, 19 December 1980

CONFIDENTIAL NEW ZEALAND EYES ONLY

CER: OEC¹ Meeting: 19 December 1980

Dairy

1 *Mr Galvin* suggested that there was very little room to move on dairy products. It was, he thought, an impossible situation for New Zealand could not appear to move backwards. *Mr Norrish* suggested it was important to specify what was moving backwards and what was not. He felt that, if in the end, the choice was the status quo and an arrangement in which the Board could make steady advances in the Australian market, it could be possible to present this as moving forwards. *Mr Durrant* responded that he had no quarrel with this in principle, but in order to make such an arrangement saleable New Zealand would need significant access opportunities at levels which he thought would be unacceptable to Australia. *Mr Clark* said that apart from access we would need to be able to point to mechanisms which would lead to changes in the Australian dairy system as a whole. *Mr Galvin* agreed that if that were possible it could prove highly useful. He asked MAF to consider whether they could write a paper which could indicate the minimum New Zealand requirement.

2 *Mr Durrant* pointed out that if New Zealand took advantage of access opportunities that were increasing year by year, this would change the Australian dairy system. This was a possibility which had been open to New Zealand in the past but had not occurred, simply because the Board had judged that if it did try to exercise its rights it would have meant formal restraints. The Australian Government was about to review its own policy in any case. The difficulty for the CER exercise lay in the timing of this exercise and the timing of the CER. *Mr Clark* concluded that a voluntary restraint arrangement could be acceptable provided there was a clause, which related to New Zealand concerns with the direction on dairy policy as a whole. *Mr Galvin* said this should be canvassed in

1 The Officials' Economic Committee was a semi-formal body of senior officials who met as necessary to coordinate views and discuss drafts on economic issues. Papers for the important Cabinet Economic Committee were formally submitted by the Chairman of the OEC, usually the Secretary to the Treasury or his representative. This document is a personal record that may have been drafted by T. J. Groser.

MAF's paper. In the meantime the New Zealand position would remain, but the piece of paper he was thinking of would be for Ministers, to indicate the direction of official thinking. *Mr Durrant* suggested that a possible outline would be:

- (a) New Zealand's preferred position was the status quo. But [if] New Zealand exercised its right under the status quo within the new arrangements that would destroy the Australian dairy system as it stood;
- (b) New Zealand could move towards phased access and thus phased change in the Australian system.

He felt it was important to stress to Ministers that there was no great bonanza for New Zealand in the Australian dairy market. When the 'rough edges' were knocked off the industry New Zealand would be facing an efficient dairy industry.

3 There was some discussion on whether there was any need for a voluntary restraint arrangement to include a mechanism to ensure some pricing discipline on the Board. *Mr Durrant* concluded that there was no need for any price discipline: if the access opportunities were phased in the Board would obviously price its product as high as it could.

Government Purchasing

4 *Mr Galvin* suggested that Ministers also required a paper setting out what New Zealand could reasonably get in the area of Government purchasing. This issue could, he thought, be the breaking point for the negotiations since the Federal Government clearly had very little leverage with the States on this matter. He felt that New Zealand required equality with every Australian supplier. *Mr Clark* suggested New Zealand was simply looking for the application of the 'fair go' principle.

Category C²

5 *Dr Beath* summarised the position which had been reached on Category C. As far as the concept of a pre-determined maximum deferment period was concerned, the central point was that the two Governments did not attempt to establish that pre-determined period until the content of the two Category C lists were known. He asked Permanent Heads to reaffirm that even if it was not possible to maintain the position on Category C at the end of the day the objective would be to preserve the position as long as possible. *Mr Clark* agreed that it was of some importance to retain the integrity of the drafting, otherwise it would be impossible to stop list three getting out of hand. *Mr Galvin* concluded that there was a consensus that the drafting in the Permanent Heads' record should be kept as it was. Again the position on Category C should be set down in a brief piece of paper for Ministers.

2 Elsewhere known as Category 3 or List 3.

Specific Commodities

6 *Mr Bathgate* then joined the meeting to indicate that he had just returned from Australia and that the discussions on whiteware had been unsuccessful. He briefed the Permanent Heads on the main element of the discussion. *Mr Clark* said that New Zealand could not go into CER without a reasonable agreement on dairy products and whiteware. They were the two key commodity areas for New Zealand manufacturing and [farming and]³ agriculture respectively.

Preferences Agreement

7 *Mr Clark* said that although New Zealand manufacturers seemed to be rather exercised about the future of the Preferences Agreement⁴ in the post-CER stage, he was inclined to think that New Zealand did not have to worry much about the agreement. The fact was that if tariffs applicable to New Zealand were being phased out in short order and progress on removing Australian tariff rates applicable to third countries was slow (as he expected), New Zealand would receive substantial margins of preference without any formal agreements. All in all he did not think it was a key issue in the CER.

'Year 2000' Proposal

8 There was some discussion on the Australian proposal to eliminate all quantitative restrictions by the year 2000. *Mr Galvin* indicated that this again should be the subject of a briefing paper for Ministers.

9 The meeting then turned to discussing administrative arrangements with respect to a joint working party planned for mid-January in Canberra.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 32

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

3 These two words are struck out in the original text.

4 The 1977 Agreement on Tariffs and Tariff Preferences.

**157 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 27 January 1981

No 235. CONFIDENTIAL IMMEDIATE

ANZCER: Financial institutions

Message¹ passed to Anderson who will discuss it with Treasury. His first response was to ask what it meant. As the Australian side had said last time subject² was raised, they were prepared to look at specifics any time but thought better longer term approach was to consider any fundamental changes New Zealand might request in light of CER once it was in operation. This would provide Australia with the rationale on which to base any special treatment for New Zealand and to answer those (e.g. Japan) who would be likely to question such treatment as going beyond Australia's current MFN arrangement.

2 We do not recall this issue being canvassed in quite the terms Anderson has suggested. Certainly the Australians made clear earlier in the chain of discussion that their treaty obligation with Japan presented difficulties in dealing with financial institutions on a preferential basis in the CER and this aspect was discussed in some detail. But we do not recall the issue being relegated to second generation as Anderson implies. However this interpretation of Anderson's probably does represent the view of the Australian IDC at this stage. As the issue had not been dealt with at all in more recent meetings—and it is not even referred to in the 'other areas' section of the JWP report—the Australians have not given it any more thought and may well have gained the impression we too were prepared to deal with it later after CER had been implemented.

3 Now that we have brought the issue forward once again we would imagine the Australians would consider the ball is in the NZ court. As you note, the Australians were told the scheduled review of NZ's exchange control policy could have a bearing on the issue from NZ's point of view. (It will be recalled when the subject was raised briefly during the August officials talks in Canberra, the Australian Treasury representative indicated they could not take their thinking any further until they were apprised of the outcome of the review.) We take it that this review has now been completed and that you are in a position to present specific proposals.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 33

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1 Refers to instructions received by telegram from Wellington.

2 i.e. the freedom of each country's financial institutions to operate in the other.

**158 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 3 February 1981

No 307. RESTRICTED IMMEDIATE

ANZCER: Financial Institutions

The story from Des Keegan in yesterday's Australian¹ has created quite a stir here. Head offices of the BNSW and the ANZ have been seeking urgent background from their NZ counterparts: briefing material has been hastily prepared in the Treasury for senior officers: and Anderson has also phoned to seek clarification on some aspects of the story.

2 Anderson's reaction was perhaps the most interesting. He claimed that he has never intended to suggest that the question of financial institutions could only be examined after CER was in place. It was entirely proper in his view to treat it as a first generation issue if restrictions on the movement of capital were not to potentially undermine the trade liberalisation process. But from Australia's point of view, the implementation of measures to free up capital flows could only accompany and could not precede the implementation of the CER. Any formal move before the CER regime began to be implemented would be vulnerable to challenge by Australia's other trading partners (particularly the Japanese) as a breach of MFN principles.

3 This is a considerable advance on the formulation Anderson gave us last week. It means that the Australians are now relatively relaxed about addressing the issue in the Heads of Agreement—and even as we spoke, Anderson began drafting aloud a possible paragraph. He appreciated it may be necessary for the capital exporting country to retain some control over the outflow of capital: As he sees it the essential point to capture in the Heads of Agreement is an acknowledgement of the principle of some form of preferential treatment being accorded to imports of capital from the partner country.

4 You know the FIRB has been taking a very strict line recently with all foreign investment proposals, from whatever source, particularly if they relate to the finance sector or mining. There have been no FIRB decisions permitting more than 50% foreign ownership of any finance company in the last few years, despite quite an upsurge in interest from foreign investors in the Australian financial sector recently. Preferential access for NZ to the Australian financial sector would therefore need to be written into the FIRB's guidelines as part of the implementation of a CER.

5 By our count, there are 4 NZ companies with interests in the Australian financial sector: Broadlands, BNZ, NZI and Marac. In the last twelve months the

¹ The story reported Muldoon's frustration at restrictions placed on New Zealand banks wishing to operate in Australia, and quoted some of the Prime Minister's comments.

latter three have all been called on by the FIRB to review applications for investment in Australia, but each now owns a half share of an Australian finance company—the BNZ's status here as one of only two foreign-owned banks in Australia is regarded by most in the business world as somewhat distinctive, if not unique. It follows that if the Australians accept a commitment to treat more liberally investment proposals from NZ finance companies, it is most unlikely that they could, by the same token, agree to entrenching the BNZ's relatively privileged position here.

6 Keegan's report says that New Zealand 'banks' have been denied 'licences' by the FIRB, and that the NZI has been 'unable to buy into financial houses in Australia.' Both these statements are, of course, factually incorrect: We suggest Keegan might be briefed accordingly.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 33

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

159 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION IN CANBERRA

Wellington, 6 February 1981

NO 414. CONFIDENTIAL PRIORITY

ANZ/CER

1 CEC on 3 February discussed the Permanent Heads report and draft Heads of Agreement,¹ together with the agreed side papers, and the other paper on agriculture. The covering paper noted that a further round of negotiations at Permanent Head level is likely to be necessary—probably around end of February/early March—and that ministerial authority and guidance would be sought in preparation for such a meeting. Officials have been instructed to prepare further papers on the outstanding issues, the contents of which will as far as possible take into account the outcome of Australian ministerial consideration of CER.

2 Ministers were of the view that real progress will have to be made on all of the outstanding issues before a Prime Ministerial meeting could be productive. The large amount of work that they saw as needing to be done in turn generated apprehension on the timing question. Ministers emphasised that because CER questions have significance for many areas of the economy, it is very important that negotiations be out of the way well before election issues begin to attract attention here.²

1 Document 139.

2 General elections would need to be held in the latter half of the year.

3 Among the many outstanding issues that the ministers judged to be of particular importance, were Government purchasing and the finance companies questions. On both of these, question arose as to whether the Australian side appreciated degree of importance that New Zealand attaches to their resolution, and therefore, the need for substantial discussions in advance of any further negotiating round.

Government Purchasing

4 Ministers here are very concerned at the somewhat stately timetable that appears to apply to Australian handling of this issue. Government purchasing is regarded by ministers to be an issue of particular significance both in assessing the final balance of advantage of a CER and because of the attitudes of manufacturers to CER as a whole. In their side paper on government purchasing Australians note that question of government purchasing has been raised with the States, would be the subject of further discussions, and could be raised at the Premiers' conference in June. Given ministerial concern about timing of CER exercise as a whole, there are serious problems for us in Australian timetable for government purchasing. If there is to be a ministerial meeting on CER within the next month or so, New Zealand side will have to know before then just where individual States stand on government purchasing issue. At last Permanent Heads meeting we informed Australians that we were prepared to pursue government purchase issue with individual States on a bilateral basis. It seems to us that such an approach might now be taken up as a means of injecting momentum into the Government purchase issue. Could you please take this up with Federal officials.

Financial Institutions

5 (See accompanying telegram).³

Other Issues

6 Discussion on the other outstanding issues at the meeting underlined the importance which is attached to securing a satisfactory outcome on each before a ministerial meeting, and the following comments will suggest aspects that will have to be explored further.

*Category (C)*⁴

7 Ministers are very concerned at the Australians wish to put several product areas of special interest to New Zealand in the deferred category. They certainly expect that trade possibilities for all products—including any in Category C—should be at least as good under CER as at present but would want to see solutions to the product concerns of special interest to New Zealand (whiteware etc) found through the establishment of formulæ that bring the products into

3 Not published, but see Documents 157 and 158.

4 Also known as Category 3.

schedule A/B. The final content of Category C will weigh heavily in the New Zealand Government's assessment of the overall balance of advantage and thus the acceptability of the total package.

Dairying

8 New Zealand is waiting for Australia to outline its proposals.

Export Incentives

9 Ministers were concerned that officials might in fact have gone too far in indicating a willingness even to review existing incentives before 1985 when the Government's commitment to the existing incentives runs out. Ministers indicated they could not accept the formulation of a review of export incentives that in any way prejudged the outcome of such a review.

10 We would appreciate an indication of where the Australian ministerial consideration of CER now stands and in due course an indication of the outcome of their Cabinet's deliberations, so that these can be taken into account in our own further reporting to ministers.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 33

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160 FILE NOTE BY HUNN

Canberra, 16 February 1981

89/4/1. CONFIDENTIAL

Closer Economic Relations: State Governments' Views

Prior to a recent visit to Sydney I contacted the Premier's office in order to establish whether they would be prepared to talk in broad terms about CER. We had understood from our Canberra contacts that NSW Government officials had prepared two or three papers on the subject ('by far the most detailed material the Federal Government had received from the States'). I spoke to a Mr Draper (a former Federal public servant—Department of Trade) who is concerned with NSW's trade relations with other countries.

Mr Draper made it politely but firmly clear that he did not consider it appropriate for the High Commission to be talking to State officials at this stage when the States were in the midst of discussing the issues with Canberra. He took the view that until an 'Australian' position had been defined it would be improper for him to enter into detailed talks with us. (He was prepared to have a broad sweeping exchange but thought this would only waste the time of both parties—I agreed).

Nevertheless I put it to him that there were, and would continue to be, differences between States on certain issues—Government purchasing being the most important from our point of view—and that at some point it would be essential for New Zealand to talk to State Governments. He conceded the validity of this but did not retreat from his position—that the present was not the opportune moment for such an exchange.

He admitted frankly that to some extent the States were playing games with the Federal Government. There were areas in which the States would be adversely affected by CER but naturally in pressing their case the States tended to exaggerate their importance. For the State Governments it was a case of all care but no responsibility.

He indicated that this was not so, however, in the area of government purchasing where State differences were more entrenched and less capable of political solution from Canberra. He understood the subject was on the agenda for the next Federal/State Industrial Ministers' meeting. NSW had embarked on its own internal enquiry and all that could be said at the moment was that confusion reigned despite the general guidelines promulgated by the Premier: if you took six government agencies you would find six different purchasing policies. He hoped this situation would be clarified in NSW over the next couple of months but he did not sound too optimistic.

He observed that Victoria and South Australia had joined to eliminate State preferences—although the special circumstances there made this easier—and he implied that New Zealand would have least difficulty eventually to obtain what it wanted in government purchasing with those States and with NSW. But he emphasised it was not enough simply to remove any formal preference to internal contractors or sources of supply. It would still be necessary to overcome the practical barriers put up by government officials against out-of-State suppliers. On their experience NSW would regard it as a hopeless quest to try and eliminate favoured son treatment in Queensland. Draper also commented that any advantages gained by New Zealand in terms of State Government purchasing would have to be reciprocal.

On a more general level Draper thought NSW was the least concerned of all the States on CER. There were some industry sectors which needed to be handled carefully eg dairy products (their dairy farmers were worried about a New Zealand 'surplus'). Import licences and export incentives would have to be eliminated from Trans-Tasman trade if CER were to work, but generally NSW was relaxed about it. The very good personal relations between Mr Wran and Mr Muldoon had created this climate.

161 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 20 February 1981

E (81) 26

**Australia/New Zealand Closer Economic Relations:
Consultations with Commercial Interests**

1 Since October of last year officials have been engaged in intensive consultations with national and regional manufacturers and trade associations and with a large number of individual companies, principally manufacturers. The consultations covered both the principles of CER thus far negotiated with Australia and in more recent weeks have concentrated on how the application of these principles will affect individual industries and companies. Some consultations remain to be concluded, although the bulk of discussions are now complete.

Manufacturers

2 Although the New Zealand Manufacturers' Federation has been the principal body through which the views of manufacturers have been assessed and the operation of CER discussed, officials have also concentrated on regional manufacturers' associations, national trade groups, and a large number of individual companies. In all, CER has been discussed with some 100 companies and 50 trade associations/groups.

3 The New Zealand Manufacturers' Federation has generally from the outset supported the CER, although since Christmas there has been something of a hardening of opposition amongst manufacturers, particularly amongst the regional associations. This was reflected in a submission to the Prime Minister dated 12 February 1981 (Appendix 1) representing the up-to-date views of the Manufacturers' Federation, which has assured officials that it has the full backing of the four regional associations.

4 This communication incorporates all of the points of principal concern which have been made to officials by individual manufacturers. These are:

- Inherent commitment in the CER to move to comprehensive free trade.
- Disparity of market sizes, and unfavourable freight/transport costs.
- Need to retain export incentives.
- Proposed issuing of CER licences on an item code basis.
- Provision for adequate safeguards mechanisms to alleviate serious injury to manufacturers, and anti-dumping mechanisms.
- Need to abandon national pricing in order to remain competitive—which would have unfavourable regional connotations.
- Manufacturers to have priority access to the CER licences.

- Maintenance of the current margins of tariff preference for New Zealand in the Australian market.
- Discriminatory effects of current Government/State purchasing policies in Australia, and of differential standards requirements and the policing thereof.

5 The Federation's position, in that it still supports 'a controlled and progressive expansion' of trans-Tasman trade, is seen by officials as qualified support for CER, whereas a number of individual manufacturers and trade groups in raising some of the same points of concern listed by the Federation go one step further and translate this concern into outright opposition to CER.

6 The principal point of concern to the Federation, echoed more strongly by the majority of individual companies who are against the exercise, is that CER envisages the progressive elimination of import licensing and tariffs on all goods. This is based on the Federation's perception that the disparity in market size between Australia and New Zealand is the matter of greatest underlying concern to manufacturers. These same points have been made to officials directly by a number of individual manufacturers.

7 The Federation is also concerned that the current system of export incentives be maintained until March 1985 and that after 1985 the present level of assistance from export incentives be also maintained. Generally this position has been reflected in submissions made to officials by individual manufacturers.

8 The Federation seeks, administratively where required, the issue of import licences on an individual tariff item basis, the retention of manufacturers' ability to continue to source imports on third countries, and the retention of current area content rules; again reflecting submissions made to officials by individual manufacturers.

9 The Federation sees distortions in the area of national pricing arising from CER. This problem has been raised by food manufacturers with officials as one of their principal reasons for opposition to CER and their request for deferral from the exercise. Similarly the Federation, supported by the individual industries concerned, submits that the existence of industry studies is a reason for placing these industries in the deferred category until industry studies have been completed and consequent policy development decisions have been made.

10 The Federation's views on allocation of exclusive Australia import licences, the maintenance under the CER of the current margin of preferences arrangement, improvement of access for New Zealand manufacturers to Australian Government procurement contracts, protection against dumping, and adequate provision for on-going procedures aimed at amending standards and other non-tariff barriers to trade currently faced by some New Zealand manufacturers, particularly those in the electrical and engineering industries, also reflect the position of individual manufacturers as discussed directly with officials.

11 The judgement will need to be made whether the new points of concern listed in the manufacturers' latest submissions will in fact constitute an effective barrier to a successful conclusion of CER, or whether final negotiations with Australia can resolve the issues, at least to the degree where manufacturers generally will go along with the arrangement.

12 Where individual companies have suggested that one or other of the above issues are of themselves sufficient grounds for opposition to CER, this does, of course, represent the importance of that particular problem to that particular company.

13 It is the view of officials that the principal stumbling block in the latest paper from the New Zealand Manufacturers' Federation is its opposition to the eventual achievement under CER of full free trade with Australia, since from the outset the Prime Ministers' communiqué of March 1980¹ envisaged the progressive and ultimate elimination of import licensing and tariffs on all goods.

14 This must also be seen in the context of the Federation's submission that the agreement be subject to a full review no later than five years after its commencement, and that it should have a renewable duration of seven years.

Sectoral Analysis

15 Attached as Appendix (2) to this report are summaries of the main elements covered in consultations between officials and each major sector. The papers set out the companies seen, the views expressed to officials and officials' responses, together with a judgement as to likely reactions of companies in the sector to the implementation of CER along the lines envisaged.

16 Based on the consultations undertaken, views of individual manufacturers to the exercise vary from enthusiasm to outright opposition, with the majority of manufacturers probably prepared to go along with CER, albeit with no great enthusiasm, provided that issues on which the majority feel strongly—namely export incentives, intermediate goods, government purchasing, and non-tariff barriers, particularly standards requirements—can be resolved satisfactorily. Officials in their discussions with individual manufacturers did not discern the same overt concern about the movement towards full free trade which is now put up by the Manufacturers' Federation as one of the principal objections to the CER as currently formulated, although a number of companies pointed out that they reserved final judgement until the final shape of the CER package emerged.

17 The most vocal opposition to CER has come from the food processing industry, fruit and produce growing industry, certain areas of the plastics, engineering and metals industries, and the ceramics industry. It is difficult to judge the degree to which the opinions of those opposed violently to CER are reflected in the final position as submitted by the New Zealand Manufacturers'

1 Document 93.

Federation. However, on the evidence of submissions made to officials, a minority of companies are in this position and are likely to continue their opposition to CER whatever form the final package takes.

18 Officials have also examined comments made by various sectors from the standpoint of effects in regional areas. Given that in the highly protected areas initial access proposed for Australia is not large, the short-term impact on regional areas is likely to be minimal. However, possible negative impact on regional areas has been mentioned by Watties (Hastings/Napier), Cadbury's (Dunedin), Ceramco (Whangarei, Dunedin), and McKechnies (New Plymouth), and by the Grocery Manufacturers because of the impact on national pricing. The Otago/Southland Manufacturers' Association has also submitted that CER could have serious effects for that part of New Zealand, but have not thus far as a group requested specific deferral on these grounds, although individual companies in the area expressed reservations about some aspects of CER.

Other Sectoral Groups

19 Officials have also kept the following organisations in touch with the general line of developments on the negotiations—Federated Farmers, the Australia/New Zealand Businessmen's Council, the New Zealand Retailers' Federation, the New Zealand Chambers of Commerce, the New Zealand Bureau of Importers and Exporters, and the Federation of Labour. These discussions have not in the main needed to be as detailed as those with manufacturers' organisations.

Federated Farmers of New Zealand Inc

20 Federated Farmers are philosophically inclined in favour of CER. They do, however, have some sub-sector groups who are opposed or, at the very least, concerned about the proposal. For example, the vegetable, fresh produce, and fruit growing sectors are generally against CER, and are making their concern public. Wheat growers are also not attracted to the idea of additional guaranteed access for Australian wheat, despite their being protected by the trading monopoly given to the Wheat Board. (The Australians are concerned about this monopoly, and may yet pursue it further in the negotiations, possibly linked to access into Australia of commodities of concern to New Zealand.)

Others

21 The New Zealand Chamber of Commerce, the Bureau of Importers and Exporters, the Retailers' Federation, and the Australia/New Zealand Businessmen's Council, are broadly in favour of the CER.

Federation of Labour

22 The greatest question must lie on the attitude of the Federation of Labour. The Federation has said it can accept the logic of CER, so long as employment prospects are not undermined or the interests of workers otherwise adversely affected. On the other hand, some manufacturers have expressed concern that the

CER will provide a stepping-stone to demands for equality of wage treatment between the two countries.

23 The CER will in time inevitably cause some change in individual sectors. Even if there is an overall balance of advantage for New Zealand at the end of the exercise, the precise attitude that the Federation of Labour will take as CER develops is difficult to determine.

Category C—Deferred List²

24 As part of the industry consultations, officials received a significant number of requests for Category C treatment. These are recorded at Appendix (3). These have all been examined carefully by officials with a view to assessing those requests, which could be met through the application of acceptable CER principles governing access as they are currently being negotiated. In these instances this approach was accepted generally by the companies concerned, albeit reluctantly in some cases.

25 However, requests by companies in the grocery industry, including canned fruit production and fruit and produce growing, the wine industry (seeking permanent deferral), the welding machinery industry, the ceramics industry, the gas appliances industry, and the aluminium fabricating industry, for Category C treatment, do not seem warranted by officials. It is anticipated that when these requests are declined formally, some units in the industries concerned may raise further objections.

26 Attached as Appendix (4) for the Committee's information, is the indicative Category C list, which currently is being discussed with Australian officials, with the possibility of removal of some further industries as part of the negotiations.

Recommendation

27 It is recommended that the Committee:

- (a) *note* the current position of the New Zealand Manufacturers' Federation and other interests towards CER as presently envisaged;
- (b) *note* from the attached sectoral papers the positions of major industries towards CER as a result of consultations by officials;
- (c) *note* the position concerning the items currently set down for deferral by New Zealand (Category C);
- (d) *instruct* officials to maintain close liaison with interested parties as the negotiations proceed.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 34

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² Elsewhere known as Category 3.

162 STATEMENT BY MULDOON

Wellington, 24 February 1981

Detailed submissions by the various sectors involved in the current studies on a closer economic relationship with Australia were considered by the Cabinet Economic Committee today.¹

Objections raised by various industries were considered and it is clear that these cover a wide area. Most are capable of being dealt with by either the working party of officials from both governments or the heads of departments, who will be meeting this week and next week.

It is a question of whether, on balance, we can see substantial advantages accruing to New Zealand. Ministers were agreed that the major issues raised must be dealt with satisfactorily before any progress can be made.

It is clear from our studies so far that serious problems do exist and these must be resolved. It is too early to say, therefore when I will be able to meet the Australian Prime Minister, Mr Fraser, again to discuss progress.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 34

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**163 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 4 March 1981

NO 701. CONFIDENTIAL NEW ZEALAND EYES ONLY IMMEDIATE

ANZCER: Wine

We thought it may help to draw out more specifically some of the background to an¹ implications of the way wine seems to have now emerged on the Australian side as an issue in the ANZCER 'package'. To the extent that decisions arising from the recent IDC industry study of the wine industry are still pending, you may wish to bear in mind the implications for ANZCER.

2 As we understand it, Australian ministers seem anxious to be able to point to some 'gains' in the agricultural sector. The positions agreed to on wheat and tropical fruit (where on the face of it comparative advantage is on the Australians' side) simply endorse the status quo and are not such as to enable the

1 The Committee had considered the paper published here as Document 161.

1 Presumably 'the' was meant.

Australians to point to the prospect of trade growth. Wine therefore represents one area where, given the formulae for liberalising tariffs and access, gains could be pointed to provided it is possible to come to some arrangement with them.

3 The Australian wine industry has not been as noisy as the dairyfarmers or the horticulturalists, but we understand that they have been making representations. Geoff Giles, who represents Riverland electorate of South Australia and who is Chairman of the Government Caucus Committee on Rural Affairs has been the target for a number of representations from the industry. What has concerned the grape growers, of course, is not the prospect of competition in the Australian market, but opportunity in the New Zealand market. Corporate links between Australia and New Zealand companies have enabled growers to familiarise themselves fairly readily with differences in structure, costs, and levels of protection between the two industries.

4 The Australians would probably prefer to negotiate an understanding with us which would mean, at the very least, that wine's status in the deferred category is limited to a defined period of time (eg two years), or at most that wine is subject to normal licensing and tariff provisions. Whether significant gains for the wine industry do result for the Australian industry from the CER is probably less important for them than being able to present the *prospect* of significant gains (cf, *mutatis mutandis*, the New Zealand position on the dairy industry). It follows, however, that they would not be able to do this if at the time the ANZCER was implemented, there was a coincidental intensification of protection of the New Zealand wine industry from competition with Australia.

5 Not having discussed this product in detail with the Australians and not being familiar with the trend of Government's thinking on the IDC report, it is difficult for us at this stage to articulate options. It is more than likely, however, that unless some attempt is made to bridge any gap the Australians may discern between our decisions and CER objectives, they may consider that the 'balance' of the CER package tips against their interests and accordingly seek redress in other areas. In such circumstances, comparison between what we are seeking for the dairy industry and what we are prepared to accept for the wine industry is, if odious, inevitable.

6 It seems to us that we will need to assess the scope for coming to an arrangement on wine against the prospect that an inability to do so will mean that the Australians could use wine's continuing deferred status as leverage on other products in the ANZCER package. Readiness on our part to explore the scope next week for an arrangement would go some way to meeting their concerns, however, as well as weaken their leverage.

164 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 13 March 1981

E (81) 36. CONFIDENTIAL

**Australia/New Zealand Closer Economic Relations:
Report of Joint Permanent Heads' Meeting, Wellington 11–12 March 1981***Introduction*

1 Permanent Heads of Australian and New Zealand Trade Departments met in Wellington to discuss the state of the ANZCER negotiations following the Australian Cabinet's consideration of the Permanent Heads' Joint Report of December 1980.¹ As expected, the Australian officials' attitude, which reflected the Cabinet's deliberations in Canberra, was significantly harder than the attitude displayed by them in December. It was particularly apparent in the discussions on two issues, export incentives and the elimination of import licensing in 'reasonable time'. Australian attitudes to New Zealand expectations, particularly with relation to dairy products and other agricultural commodities had also hardened following the Cabinet's consideration. This report outlines the major topics discussed by Permanent Heads and the positions reached on them. Further papers will be prepared giving detailed appraisals of the position of the two sides on the issues subject to continuing contention. This report is for the information of the Committee.

Areas of Tacit Agreement

2 As earlier indicated (E(81) 34 refers) the Australian Cabinet discussion appears to have been a free ranging and somewhat unstructured occurrence. A number of issues received scant or no attention. Australian Permanent Heads have taken the absence of substantive guidance on some issues as indicating tacit agreement by their Ministers. These issues include; the tariff phasing formula, whereby all tariffs will be eliminated over a five year period; the intermediate goods question; and rationalisation of industry. New Zealand Permanent Heads indicated general acceptance of this approach, subject to the need for further work on minor aspects of the texts concerned, and to the interrelationship of these texts with other aspects of any final package.

Topics Requiring Further Work

3 A number of areas were identified by Australian Ministers as requiring further discussion, in some cases within somewhat more stringent parameters than previously agreed by officials. Although in some cases the Australian position was not in line with the negotiating brief of New Zealand Permanent Heads, it was agreed that further discussion to reveal the full extent of the

1 Document 139.

differences could provide a basis for future agreement on these issues. The items were:—

(a) **THE FORMAT OF CATEGORY C.**² With the exception of whiteware, outlined below, Australia proposed the following treatment for goods so classified:

- (i) where an item was the subject of an industry study, that its deferral from the normal phasing formula be limited to twelve months;
- (ii) where an item was not subject to such a study, that a specific time for its removal from Category C be detailed prior to the agreement coming into force, and the principles for such action stated explicitly.

On (i) above, New Zealand Permanent Heads' attitudes remain unchanged in wishing to adhere to the time frame which the relevant industry commissions decide. This did not represent, in their view, a derogation from the principle of removing an item from Category C as quickly as possible. It was jointly agreed that the issue be further explored.

It was also agreed that discussions should proceed over coming weeks on individual items that each side has proposed for inclusion in Category C, with a view to establishing how they can be made subject to the tariff/access formulae and therefore transferred to Category A/B.

(b) **WHITEWARE.** Australia undertook to remove whiteware from its Category C list if the following conditions could be met:

- (i) that export incentives be eliminated by 1987;
- (ii) that solutions to intermediate goods problems be found;
- (iii) that whiteware be removed from Category C on the basis of a phasing arrangement which could extend to 1986;
- (iv) that a substantial increase in the base level of access into New Zealand be agreed;
- (v) that tariffs presently operating be phased down at a faster rate than the formula of 5% per year.

Australia indicated that the package was open to detailed negotiation within the above parameters. New Zealand Permanent Heads stated that the export incentives aspect of the proposal could be a major problem, but that the Australian approach would be studied. It was indicated that New Zealand would be, however, reluctant to depart from normal ANZCER formulae approaches or to adopt a sectoral approach to this or any other problem.

(c) **GOVERNMENT PURCHASING.** Australia recognised New Zealand's claim to equal treatment at both the State and Commonwealth levels. The commitment to extend domestic preferences at the Commonwealth level as an interim measure for a limited time, was reiterated. Australian Permanent Heads also stated that

² Elsewhere referred to as Category 3.

they intended to pursue the extension of the preference with States and statutory authorities. In doing so they undertook to inform States of the aims of eliminating the preference system and explicitly to outline New Zealand's concerns and desire to discuss the subject with them directly. It was agreed that it would be appropriate for a New Zealand delegation to visit State capitals in the near future.

(d) FINANCIAL INSTITUTIONS. Australia contended that despite its foreign investment policy guideline requiring a maximum of 50% foreign ownership in non-trading bank financial institutions, it had in the past demonstrated flexibility in dealing with applications by New Zealand companies. It was agreed that a statement would be prepared that outlined the attitude of the Governments to this issue.

(e) TENDERING FOR IMPORT LICENCES. Australian officials expressed reservations about the suggestion that the additional import licences to be made available to Australia under the new access arrangements should be distributed on the basis of tendering. New Zealand officials explained the practical advantages of such an approach and the Australian side undertook to give further thought to their own position.

Significant Problems

4 A number of significant problem issues for each country were identified. Discussion on these revealed that agreement could not be reached on the basis of the negotiating instructions under which the two sides are at present operating. It was agreed, however, that Permanent Heads should report their discussions to their Ministers, together with their assessment of how solutions to these problems might best be pursued. Decisions on how to proceed should, it was agreed, be the subject of Ministerial consideration.

(a) NEW ZEALAND

New Zealand Permanent Heads were unable to accept Australian proposals on the following two items. Further papers will be prepared on both of these issues:

[*matter omitted*]³

(b) AUSTRALIA

(i) *Dairy Products*: Australian Permanent Heads stated that dairy exports from New Zealand would have to be controlled for as long as their industry stabilisation scheme was in place. They favoured an industry to industry arrangement which would be endorsed by the respective governments. For Australia, a formula approach in keeping with ANZCER rules seemed to be untenable. New Zealand Permanent Heads reiterated the need for all agriculture trade to be treated in like fashion to other trade in the ANZCER, although they did not totally rule out the possibility of some individual

3 Two paragraphs concerning Australian Cabinet matters omitted in accordance with advice from the Australian Department of the Prime Minister and Cabinet.

problems receiving attention. New Zealand could not agree to a formula which imposed a reduction on present access opportunities. The Australian position appeared, in their view, to place the New Zealand dairy industry in a position where it would be negotiating under duress, as the Australian industry would, in practice, have the power to veto any proposals put forward by the New Zealand industry. Australian officials did not dispute the logic of the New Zealand stance but said that political realities in Australia appeared to rule out Ministerial acceptance of a 'voluntary restraint' approach. They nevertheless acknowledged the critical importance of the dairy issue for New Zealand and undertook to take up with their Minister, Australia's approach to the issue.

(ii) *Other Agricultural Trade*: Australia, it was stated, wished to see all export incentives removed for trade in horticultural products. Concern was also expressed that New Zealand monopoly suppliers represented a barrier to trade in the New Zealand market. New Zealand Permanent Heads reiterated their earlier reaction to the removal of export incentives, as outlined above. On monopoly suppliers, they stated that such monopolies existed for internal 'orderly marketing' reasons only. When purchasing outside New Zealand, with the exception of the undertaking to purchase bananas from the Pacific Islands, monopoly suppliers purchased at the best market prices available to them. Australia therefore stood an equal chance with other suppliers of products of interests to such monopolies. In the case of wheat, for example, Australia had proved to be the most competitive source for New Zealand. Australia requested further information on monopoly arrangements operating in New Zealand.

Other Issues

5 A number of other issues were canvassed in the course of the meeting and it was agreed that they should be addressed further. Wine, sugar, steel, and motor vehicles stood out as items which would be studied more closely in the coming months.

6 Of these issues, wine was described by Australian Permanent Heads as a problem for New Zealand, not unlike that which the dairy industry posed for Australia. New Zealand Permanent Heads did not disagree but did point out New Zealand's intention to eventually include wine in the ANZCER and noted that no such undertaking had yet been given by Australia for the dairy industry. Moreover, the New Zealand side contested the Australian contention that balance should be sought in individual sectors such as agriculture. New Zealand could not accept an approach which balanced dairy against wine and wheat.

7 The Australian embargo on sugar imports was raised by New Zealand, noting the fact that the product had not been nominated for Category C treatment. Australian Permanent Heads stated that the embargo was, to some extent, open to Ministerial discretion. They requested further information on the operation of

New Zealand sugar purchasing contracts and undertook, without commitment, to study the question.

Conclusion

8 Australian Permanent Heads will be reporting to the Deputy Prime Minister, Mr Anthony, who has been charged by the Australian Cabinet with responsibility for the ANZCER negotiations, on the outcome of the Wellington Permanent Heads meeting. (It is understood that Mr Anthony will be out of Australia until around 2 April.) Discussions between officials of the two sides on a number of issues, particularly those cited in paragraph 3 above, will continue over coming weeks.

Recommendation

9 It is recommended that the Committee *note* the contents of this report.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 35

Archives New Zealand/Te Whare Tohu Tuhihinga O Aotearoa, Head Office, Wellington]

165 FILE NOTE BY PRICE

Canberra, 30 March 1981

ANZCER: Government Purchasing Mission

Having told us for the greater part of last week that officials had prepared a text for Mr Fraser to telex to Premiers to clear the way for the New Zealand Government Purchasing Mission, we were informed late Friday afternoon that the telex had still not been sent¹ and that officials seemed reluctant to encourage Mr Fraser to focus on the issue.

2 The reasons for this are not at all clear. O'Sullivan told me on Friday that the general attitude at senior levels of the Department (that is, Yeend and Codd) seemed to be: 'What is all the rush about?' I explained that, from the New Zealand point of view, there were some constraints on the availability of personnel for the mission arising from the Prime Minister's commitment to visit Japan and Korea in the middle of next month. However, it was certainly not our impression that we were going about this mission in a precipitate way: we were simply following through with advice that the Federal Government had already offered us following Cabinet's discussion of this issue before the Permanent Heads Meeting. O'Sullivan confirmed that was certainly his understanding as well and that, in his view, there was nothing that New Zealand had done in setting up this mission which did not accord with Australia's expectations. On the Australian side, however, the problem was that the Prime Minister had had some

¹ On this see Document 154 and note 2 thereto.

communications from Premiers on CER and it was possible that he felt that he needed to be in a position to respond to these at the same time. However, this was mere 'speculation' on his part. (He had obviously been unsuccessful in persuading Yeend and Codd that we were hastening slowly.)

3 Earlier in the day, O'Sullivan and Anderson had both elaborated on senior officials' reluctance to get Mr Fraser to focus on the Government Purchasing telex to the Premiers. O'Sullivan had said that it was his impression that the Prime Minister may wish to get Cabinet to reconsider the CER package (in the light of the Wellington Permanent Heads Meeting) before transmitting the message to the Premiers. This would enable him to comment in a more authoritative way on other issues that Premiers had raised. However, it would be mid-April before it would be possible to do this. Anderson confirmed that there certainly had been a number of messages from the Premiers on CER. The Tasmanian Premier, Mr Lowe, had been particularly active and had asked specific questions of the Prime Minister, eg 'What is going to be done on the dairy industry and horticulture?' It was true that the Prime Minister had asked for a further report to Cabinet before Mr Anthony went to Wellington: This had arisen from an internal briefing paper² which PM and C had put to Mr Fraser following the Wellington meeting. (As Mr Anthony had left on an overseas visit by the time Permanent Heads returned from Wellington, it had not been possible to obtain a reaction from him on the basis of officials' briefing.) Mr Fraser's instructions to officials to prepare a further report to Cabinet before Mr Anthony's visit to Wellington, cut across somewhat Cabinet's earlier instruction to Mr Anthony to take charge of the negotiations (and, Anderson implied, had taken officials somewhat by surprise), but nevertheless officials had to take account of it.

4 Anderson also offered the view that it was possible that the Prime Minister may not wish to further confuse his relations with the State Premiers by undertaking an initiative which amounts in a sense to him asking a favour of them. Anderson then referred to the 'in-fighting' among the States and with the Federal Government in preparation for the Extraordinary Premiers conference, mid-April.

5 I explained both to Anderson and O'Sullivan that it was important that they do not create the impression that Mr Fraser is 'stalling' on this issue for reasons that relate to other current issues in the bilateral relationship. Both Anderson and O'Sullivan readily took the point on this and emphasised that none of the reasons for the delay should be seen as being in any way related to other aspects of bilateral relations. Clearly it was unfortunate that it now seemed most unlikely that the way would be cleared for the New Zealand delegation to begin its deliberations in Canberra early this week but, with luck, the 'road-blocks' should be cleared before too long.

2 Document 149.

6 Following these conversations I called Hensley in Wellington to explain the situation as it had developed here. Hensley said he had already taken the precaution of briefing the Prime Minister that day (Friday) stressing that it remained an 'open question' whether the visit would be able to be fitted in before Japan/Korea. If it was not possible to undertake it then, it would be necessary to go round all the States in May before Mr Anthony's visit. He confirmed that a letter from Mr Fraser to the Premiers was the proper way to proceed and that at this stage there seemed no alternative to our waiting patiently until Mr Fraser had sent the message and reactions obtained from the Premiers.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 35
Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

166 RECORD OF MEETING BETWEEN OFFICIALS AND NEW ZEALAND DAIRY BOARD REPRESENTATIVES

Wellington 23 April 1981

Participants: Messrs Charles Patrick (NZDB); Woodfield (DT); Kerr, Shallcrass (Treasury); Durrant (MAF); McDowell (MFA)

Mr Patrick began by reviewing the history of relations between the Australian and New Zealand dairy industries. The Australian industry was nowhere near as homogeneous as the New Zealand industry. Instead of having one Board pulling together all the strands of activity and acting as a trading organisation internationally, the Australian industry was split geographically, was split by having a multiplicity of trading organisations and often ran into problems arising out of State/Federal relationships. The Australian Dairy Corporation was a regulatory body not a trading body, and had changed considerably in its complexion in the last 10 years. Before that it had been producer-dominated so the NZDB and the ADC had tended to see eye-to-eye on many questions. Apart from the historical sharing of the British market, they had cooperated in many other external markets. With the exclusion of the Australians from the European butter market a decade ago, however, the ADC had been converted into a body with a non-producer majority, so relations between the two boards had not been as close in this period.

2 *Mr Patrick* went on to describe the discussions of the previous week between the NZDB and the ADC. Partly because the Deputy Chairman of the ADC (Mr Pyle—described disparagingly as a 'dairy politician' by Mr Patrick) [was absent]¹ from the meeting a good rapport had been re-established between the two sides. It was not felt that there was any need to modify current arrangements

1 Handwritten addition, apparently by the author.

for dairy products in the light of the CER exercise. In the view of the NZDB, the New Zealand side should not push things but should 'wait for the plum to fall'.

3 *Mr McDowell* commented that if milk production had fallen by 30 per cent in Australia in the past decade [does] this² not indicate that the less efficient dairy farmers had fallen by the roadside and that those who remained were a pretty impressive lot? *Mr Patrick* said that by and large this was so. In his personal view, the logical places in this part of the world for dairy industries were Victoria, Tasmania and New Zealand. They were now very much more on a par in Australia with New Zealand producers than had been the case in the past. *Mr McDowell* asked what was the nature and species of the 'plum' to which *Mr Patrick* referred, and when would it fall? *Mr Patrick* said that the Dairy Board had two objectives in mind: first, the removal of the Australian dairy industry from the export scene. This was happening. They were virtually out of the butter market internationally and were phasing out of the casein market. Secondly, to become the 'balancing supplier' in the Australian market. *Mr McDowell* asked whether these objectives might not be more quickly achieved in some ways through the CER arrangements. *Mr Woodfield* said that if things changed there was a risk that the present flexibility would be lost and *Mr Patrick* echoed this, asking why any restrictions should be placed on a trade when these did not exist at the moment.

4 *Mr McDowell* suggested that the NZDB's position that there were no restrictions on access at the moment beyond cheese, was a matter of semantics—New Zealand had little *effective* access to the Australian market, as opposed to its theoretical access across the board. *Mr Patrick* commented that this was not the position of the NZDB. *Mr Kerr* said that he was not attracted to the volume approach but asked where the gain for New Zealand came from just sitting tight as *Mr Patrick* was advocating. What were the Dairy Board's ambitions in the Australian market—and could the CER exercise help out in any way. *Mr Patrick* reiterated that the CER 'does not come into it'. *Mr Kerr* suggested that perhaps the process of entering the Australian market could be speeded up in some way through the CER. *Mr Patrick* thought that this was unrealistic. He said that the Dairy Board had never had any great ambitions to penetrate the Australian domestic market. The total butter market was 50,000 tonnes there, but we could not hope to get more than a small proportion of this. The NZDB had no fixed dogma, but its political judgment was that it would get further by just working in with the Australian industry. It was a matter of political judgment how and to what degree the Australian market could be penetrated, and NZDB preferred to exercise that political judgment itself without any regulation or restriction.

2 Amended, apparently by the author, to read 'this does not'. Perhaps an error as the question mark at the end of the sentence was also added by hand.

5 In response to questioning, *Mr Patrick* admitted that the 'self-sufficiency' argument might well come to the fore at some stage, with the Australian producers arguing on this basis for keeping out New Zealand imports.

[*matter omitted*]

[ABHS 950/Boxes1221-1226, 40/4/1 Part 36

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167 TELEGRAM FROM FRANCIS TO MULDOON

Canberra, 30 April 1981

NO 1355. CONFIDENTIAL IMMEDIATE

Australia/New Zealand Relations

The New Zealand Parliamentary delegation¹ has had two very interesting and useful sessions with Malcolm Fraser and Doug Anthony. The session with Doug Anthony concentrated on CER and in his usual forthright and positive way, Doug impressed on them the importance of the CER exercise for both countries and the need to advance the economic relationship beyond the 'plateau' that NAFTA has reached. The New Zealand team was left in no doubt about his sense of commitment to the CER and the role it will play in securing greater strength for both economies.

2 In response to question from the MPs about the extent to which others in Australia share his concept of CER, Doug explained the difficulties he has had in bringing his Cabinet colleagues around to his view that New Zealand is not able to dismantle import licensing rapidly. He also spoke very frankly about the way some dairy industry leaders had reacted—'as leader of the Country party that is the biggest single political problem I face'. Despite the fact that the Australian industry is destined to continue to decline, industry leaders remain—unjustifiably—'terribly frightened' about CER. He stressed the importance of preparing the way properly and ensuring that there was a broadly based political acceptance of the objectives of the exercise.

3 Doug also referred to the 'unfortunate' coincidence of other events in the relationship which could affect the 'atmosphere' within which CER was being negotiated. He was talking here about passports and the Springbok tour—even though there is no connection between those issues and CER, he felt that they had 'not created a good atmosphere and we may have to wait until the atmosphere clears'. My overall impression was that he is somewhat unsure whether the

1 A delegation of five New Zealand Members of Parliament made an official visit to Australia from 26 April to 8 May 1981.

timetable we had set ourselves for completion of the CER negotiations is a realistic one.

4 This impression was reinforced in the session with Malcolm Fraser. He stressed that progress towards CER would be difficult to achieve unless each country fully understood the pressures at work in the other. He emphasised, however, that the work that had been done since his meeting with Mr Muldoon last year had yielded some very good results. However, he felt that from Australia's point of view it was important to ensure there were no pressure groups in either country concerned to make CER into a political issue. The forthcoming New Zealand elections² seemed to be uppermost in his mind in this regard.

5 Malcolm Fraser had brought Tony Street and Ian MacPhee to the meeting as well and invited them both to brief the MPs on the background to the recent Australian Government decision on TTTA. This in my experience of New Zealand Parliamentary visits to Australia other than Prime Minister and Ministers is quite unprecedented and indicates Prime Minister Fraser's uneasiness and sensitivity to strong Australian newspaper anti-passport editorials. For his own part, he said he looked at the decision from the point of view of the need to ensure we were protecting each other from the twin scourges of drugs and terrorism. He was only too conscious there were groups of people in Australia who were planning terrorist activities and these had to be watched very carefully.

[*matter omitted*]

[ABHS 950/Boxes1221-1226, 40/4/1 Part 36

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168 MESSAGE¹ FROM TALBOYS TO ANTHONY

Wellington, 5 May 1981

Further to my message of 6 April, I though[t] it would be helpful if I were to set out how my colleagues and I see the discussion on closer economic relations proceeding at our meeting on Monday week.²

We regard this meeting as of very considerable importance in charting the future course of the whole venture. A good deal of work has been completed by our

2 General elections were due in the latter half of the year.

1 Conveyed by telegram to New Zealand High Commissioner in Canberra for onward delivery.

2 Anthony and his officials were due to visit Wellington for a further round of talks on CER from 11-13 May 1981.

officials and they have come very close to a basis for an agreement on many issues. Other issues can be resolved only at the political level. It is necessary, therefore, as we see it, for ministers to take stock of where we are and reach the strategic decisions required on how we proceed from now. Thus our first responsibility in our meeting will be to review on a broad basis the reports on our officials' discussions and determine whether the points reached are on the track that we can agree is appropriate to the needs and future aspirations of both our countries. The outcome of that discussion could be agreement on the guidance that we would offer to our Prime Ministers and other Cabinet colleagues on the decisions that need to be taken with respect to the major unresolved issues.

As part of the process of review we would hope that it would be possible for us to endorse at the political level, those specific areas of the negotiations where our officials have advised us that agreement has been reached or is close to that point. Naturally any endorsement of these points would be contingent on a satisfactory outcome on the other issues under negotiation.

Clearly we will not be able at this meeting to reach agreement on all issues. It is our hope, however, that we will be able to go a good distance in bridging the areas that remain unresolved and in giving a definite steer on how we move ahead to achieve an arrangement on the lines envisaged at the Prime Ministers' meeting of March 1980.³

We look forward to seeing you and your colleagues.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 36

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169 MINUTE FROM CLARK TO MULDOON

Wellington, 12 May 1981

Phasing out of Import Licensing

I am concerned that the starkness of the New Zealand position on import licensing either has not been conveyed to Mr Anthony or he is ignoring it.¹ I think our position is probably worth repeating direct from you to him. You might like to consider making the following points:

- Mr Anthony suggested that further persuasion might get our manufacturers to agree to a terminal date. The Government has yet to persuade the manufacturers to a continuing movement towards unrestricted access. Their

³ See Document 93.

¹ Anthony and his officials were in Wellington for talks on CER.

position is that the review five years out should be one which determines whether movement continues or not.

- The gradual and progressive elimination of import licensing is real, visible and certain. The New Zealand Government can persuade manufacturers to wear that. To seek to persuade them beyond that point would mean a completely new round of consultations with industry, and that in itself could create a counter-productive atmosphere.
- Import licensing has been embedded in the minds of New Zealand manufacturers in the past 40 years. It has been a great achievement to move them so far.
- The immediate benefits to Australia can be measured in financial terms. The first year's additional access figure would be upwards of \$50m increased by 10 per cent, real, a year.
- In the initial years Australia should sell up to this access if for no other reason than the novelty of competitive goods in many areas.
- Mr Anthony spoke of imbalanced trading opportunities. In the eyes of New Zealand manufacturers without some initial tilt to New Zealand the trading opportunities are all one sided—in favour of the bigger and more pervasive Australian competitor.²

[ABHS 950/Boxes1221–1226, 40/4/1 Part 36

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² Minute at head of document in unknown handwriting reads: 'Put to PM at Ministerial talks with Mr Anthony & handed over w/out top para'.

Joint Document

170 EXTRACTS FROM RECORD OF JOINT MINISTERIAL MEETING

Wellington, May 1981¹

CONFIDENTIAL

Australia – New Zealand Closer Economic Relations

Joint Ministerial Meeting: Wellington 11–12 May 1981

[*matter omitted*]²

AGENDA ITEM 1

General Review of the Negotiations

The Prime Minister welcomed Mr Anthony and members of the Australian delegation. He thought it would be helpful if he commenced the meeting with a brief review of the situation reached as New Zealand saw it.

The Prime Minister recalled that it was more than a year since he had met Mr Malcolm Fraser. The Prime Ministers had charged their officials with the task of exploring possible arrangements for a Closer Economic Arrangement on the basis of the Annex to the Joint Communiqué of March 1980.³ Officials had done a great deal of work and together had reached suggested solutions to some of the central aspects of a more comprehensive trade agreement that could appropriately form the core of a Closer Economic Relationship. The Joint Report of Permanent Heads⁴ showed that much had been achieved. The Prime Minister said that New Zealand Ministers had followed very closely progress on this matter of major importance to New Zealand's economy and had agreed to specific approaches as these had been developed. The New Zealand Government

1 The record which is undated was prepared by New Zealand officials. The Australian Department of Trade and Resources forwarded it to relevant Australian Departments on 23 June 1981. The file copy is annotated: 'These minutes seem reasonably accurate and can be taken as a guide. However they were not prepared in any sense as agreed minutes and accordingly cannot be taken as committing Ministers on either side'.

2 The report contains 39 pages. The selections published here are intended to complement and expand the summaries of the issues in Documents 149 and 150 which reported on the preceding Permanent Heads meeting in March.

3 Document 93.

4 Document 139.

considered that the work officials had done had been along the right lines. The Prime Minister therefore proposed that this Joint Ministerial Meeting should endorse what had been negotiated between officials. He informed Mr Anthony that much that had been negotiated by officials had already gone to Cabinet and been approved by it. The Prime Minister added that it was the hope of the new Zealand side that progress could be made in this meeting in solving issues which, owing to their political dimension, officials had not been able to resolve.

The Prime Minister noted that there was much public interest in the Closer Economic Relationship within New Zealand. It was of key interest to New Zealand's producer lobbies—manufacturers and farmers. However, the interest did not stop there. The press had followed the matter closely as it had developed, virtually week to week since the 1980 Prime Ministerial meeting. In addition, farming organisations and the Businessmen's Council had met together and were in favour of the envisaged closer relationship.

The Prime Minister said that manufacturers had been particularly active in their representations. The contacts between the New Zealand Manufacturers' Federation and the Confederation of Australian Industries had been positive and they took a similar view on many aspects of the Closer Economic Relationship. The New Zealand Manufacturers' Federation had come out in general support of the Closer Economic Relationship concept, but not without some equivocation and indeed opposition, reflecting views of their diverse membership. The Federation wanted to see an agreement of finite duration which would be subject to review and renewal and they were opposed to complete liberalisation of imports from Australia. The Prime Minister said that this might not be a final sticking point. However, it was the present position of New Zealand manufacturers. He added that the New Zealand Government did not share these views. It looked towards a lasting relationship which would indeed move gradually and progressively to complete liberalisation. However, they had not yet succeeded in bringing the Manufacturers' Federation to that point. It was necessary to move sensitively on such aspects as eventual free trade. The Prime Minister noted that the New Zealand Manufacturers' Federation's cautious endorsement, although a very real endorsement, of the Closer Economic Relationship by no means encompassed all manufacturer opinion on the subject. There were strong supporters but there were also some highly vocal, if not very numerous, outright opponents. Their arguments tended to be a blend of economic and political. The New Zealand Government had considered their economic argument in an objective and critical way. It accepted that some of the manufacturers, particularly in the metals area, would face considerable problems. In addition, the Government could not disregard the fact that some of the industries most opposed to aspects of the Closer Economic Relationship were of particular regional importance. He mentioned Watties and McKechnies and added that it had also to be recognised that they were not only of regional importance but also of political importance.

Looking at specific Closer Economic Relationship issues in the political context, the Prime Minister said that the New Zealand Government could not, at this stage, commit itself to abandon export incentives even several years ahead. He indicated that New Zealand could go some distance and would look for a formula that would be mutually acceptable; but it could not go as far as Australian asked. He reiterated that in March 1980 the Prime Ministers had agreed to assess the applicability of export incentives to trans-Tasman trade and to review the incentive schemes when it was practicable to do so. He noted that the Australian Administrative Services Review Committee had recently recommended an IAC review of incentives. New Zealand would be reviewing its incentive schemes on which the Government's current commitment extended to April 1985. He said that it was likely that, in this year's election programme, the Government would indicate its intention that the incentives be reviewed. This would be generally interpreted as a review downwards. The Government would certainly not seek to mislead the public on this matter. Logically, the New Zealand and Australia should conduct such reviews against the Closer Economic Relationship background. Thereafter, they should discuss and co-ordinate their positions. But New Zealand could not prejudge the outcome of the review. New Zealand could not disguise the fact that some of their incentives were excessive. At present, incentives were being given to some companies which are competitive exporters. These incentives would come down. Some of them were not appropriate in the Closer Economic Relationship context.

The Prime Minister said that on government purchasing, the New Zealand Government was concerned to ensure that the arrangement under Closer Economic Relationship should give New Zealand manufacturers as good an opportunity to sell in Australia as Australian manufacturers would have in New Zealand. Many New Zealand manufacturers knew that most government purchasing in Australia in their product ranges was done by State Governments rather than the Commonwealth Government. New Zealand needed to see the prospect of real progress here and looked to the Commonwealth Government to support its case with the States.

The Prime Minister indicated that the New Zealand Government considered appropriate the principles that Permanent Heads had proposed for the Deferred Category. He noted that Australian officials had indicated that the Australian Government was concerned at the size of New Zealand's Deferred Category List. After intensive consultations with industry, and weighing the different representations, New Zealand had nominated only those goods where it considered a period of deferment fully justified. New Zealand industry and its restructuring process was at an earlier stage of development than Australia's and for some industries more time was needed before they came into the main stream. However, New Zealand firmly endorsed the key principle that there should be no further items deferred once that agreement was signed and that there would be terminal dates for items on the Deferred Category.

New Zealand shared the objective that trade between Australia and New Zealand should be liberalised 'in reasonable time'. New Zealand had proposed an access formula which would rapidly increase the opportunity for Australian exporters. It would be prepared to have a review after five years and subsequent reviews to consider whether revision to the growth formula was necessary to fulfil the objective in the light of developments; but New Zealand was opposed to any formal pre-fixing of an end date. That would greatly strengthen opposition in New Zealand to the whole exercise.

Agriculture was of major importance to both countries. From New Zealand's viewpoint, inclusion of dairy products within the joint Closer Economic Relationship arrangements was a prerequisite for agreement. The Prime Minister noted that, in Canberra, New Zealand officials had floated ad referendum a proposal that aimed to take account of special circumstances of the dairy industry. According to that proposal, provision would be made for special and additional consultations between the Governments if either of the industries, which would have the responsibility of co-operating in the development of the trade, was not satisfied that it was occurring in an orderly way. The Prime Minister confirmed that the New Zealand could depart from the basic Closer Economic Relationship principle that where trade is at present unrestricted, no new constraints would be imposed.

The Prime Minister said he was informed that Australian horticulturalists were concerned about the implications of Closer Economic Relations. So, he said, were New Zealand's. The note which New Zealand officials had handed over in Canberra had also suggested ways of ensuring that Australia would not be disadvantaged by the role of the New Zealand Wheat Board of that of Fruit Distributors Ltd.

In conclusion, the Prime Minister said that there was no basic difference between New Zealand and Australia in their philosophy. On the Deferred Category and access creation, Australia was more anxious to foresee the final date. Each side wanted fair conditions of trading opportunity: Australia had particular concern regarding export incentives; and New Zealand, regarding government purchasing. Australia had certain agricultural concerns while New Zealand looked towards orderly growth in its participation in the Australian dairy market. Each side was looking for a little more in some areas. The Prime Minister looked forward to a positive discussion on these issues, taking account of the political factors. He proposed that the two sides should also consider if they could endorse the substantial agreement that officials had reached on some aspects.

Mr Anthony thanked the Prime Minister for his welcome and said that his review of the current situation provided a good starting point for their discussions. It brought to their attention the various points at issue.

Mr Anthony was very pleased with the rate of progress that had been made since he brought up the question of a Closer Economic Relationship a couple of years ago. At that time, he had noted that little further progress was being made with

the NAFTA and suggested there was a need for more imaginative approaches. That seemed to be a bold suggestion at the time. Some were still a little nervous at such an approach, but industry groups and officials had been in discussion and they had helped to build up a greater acceptance of the need for this kind of change. Mr Anthony had always thought it possible to work out an appropriate arrangement. Of course, it would have been easier were both countries of the same size. The difference in size did cause some difficulties. In fact, it was hard, in Australia, to get people to focus on the trans-Tasman trading relationship. The Australian public tended to take New Zealand for granted. It forgot the New Zealand was an important factor in Australian overall trade. Mr Anthony wanted to foster an appreciation of this. As Minister responsible for Australia's overseas trade, Mr Anthony had done his best to foster trade with Asia and with the European Community, but not for a moment had he ignored the importance of trans-Tasman trade.

Mr Anthony noted that both Australia and New Zealand were facing growing trading blocks in the world. It was part of the international scene that both countries had to live with. In these circumstances, he could see benefits for both countries to work together to maximise their international trade opportunities. There were benefits in co-operating, especially in agriculture. Mr Anthony said he was an optimist so far as the future of agricultural trade was concerned. Amazing developments were taking place in Asia. There, peoples with an increasing purchasing power did not have the capacity to provide for their food requirements. There were benefits to be had from co-operating rather than foolishly undercutting each other.

Both countries were also trying to liberalise their trade to the benefit of their developing neighbours, and particularly to assist, through SPARTECA, their Pacific Island friends.

As the smaller country, New Zealand and particularly its industry would be a little more apprehensive about the possible impact of a Closer Economic Relationship. Mr Anthony said that his task was to follow-up the work that officials had done. It should be possible to categorise the different areas of work. Some were very difficult, and some less so. He had been asked by the Australian Government to come and get the flavour of New Zealand's intention in regard to the Closer Economic Relationship and to report back. The Government would then know where matters stood. Mr Anthony said he did not have the mandate formally to endorse anything. But he would be in a position to give an indication as to the areas which should not be too difficult to agree on. Thus, he thought by going through the Agenda, it would be possible to make progress.

There were a few irritants which hampered progress. One was passports, from the New Zealand viewpoint. There was some underlying tension in Australia resulting from the Springbok issue. This had not been discussed by the Australian Government in the Closer Economic Relationship context, but he could sense

there was some underlying tension with his colleagues in persuading them to focus on Closer Economic Relations.

Mr Anthony noted that the Prime Minister, in his introductory statement, had mentioned quite a few areas that need to be looked at. He confirmed that the Australian Cabinet was sensitive on issues like export incentives. Australia was trying to cut back on incentives. A 50 percent reduction had just been announced. It was trying to reduce government commitment. But Australia was also concerned at the American attitude to export incentives. Australia hoped soon to be able to sign the GATT Subsidies Code.

Australia was also concerned about import licensing. If the two countries were looking towards free trade, they would want to reach the ultimate objective in a meaningful period of time. He noted that some difficult products might have to be treated a little outside the standard formula. Some agricultural issues would have to be looked at slightly differently from the standard free trade concept.

Important work had already been done. Mr Anthony hoped, at this meeting, to be able to get the measure of the time scale for future progress towards the Closer Economic Relationship. He hoped that, before too long, it would be appropriate for the Prime Ministers to meet.

AGENDA ITEM 2

Areas of Substantial Agreement at Official Level

The Prime Minister noted that officials had made considerable progress in various areas and reached substantial agreement on them.

[*matter omitted*]⁵

AGENDA ITEM 4 (A)⁶

Investment in Financial Institutions

The Prime Minister said that this question was probably not too difficult. There was a draft statement on investment in the financial sector with new wording in the final paragraph. Instead of the previous formulation referring to criteria being 'precisely the same' in Australia and New Zealand, it now referred to criteria designed to 'maintain an appropriate balance' between Australian and New Zealand investment in the New Zealand financial sector. There were different situations on either side of the Tasman and a reference to precisely the same criteria would not work. After consultation amongst the Australian side, *Mr Anthony* asked if the New Zealand side could elucidate the meaning of the change and the reason for it. *The Prime Minister* said that the previous wording

5 Omitted material concerns (a) tariff reduction formula; (b) access increase formula; (c) intermediate goods; (d) transition from NAFTA arrangements; (e) safeguards; (f) tariff preferences; (g) customs issues; (h) rationalisation.

6 Agenda items were taken in non-sequential order.

had meant that the criteria would not work because the New Zealand Overseas Investment Commission could not apply Australian criteria in New Zealand. The term 'similar' which had earlier been discussed among the New Zealand side was too loose although it was essentially what was meant. New Zealand now proposed to approach the idea from the other angle, i.e., in terms of results rather than criteria and this threw up the current wording. Australia had a very large slice of the New Zealand financial sector and New Zealand a very tiny slice of the Australian financial sector. The current draft meant that the New Zealand Overseas Investment Commission could operate in a manner similar to that followed in Australia. Australia had a vast preference over other investors in New Zealand. This compared with the Australian Cabinet's position that although it believed that New Zealand's position in the Australian financial sector should be encouraged it could not have preferential treatment.

The Prime Minister noted that New Zealand did not want to invest heavily in the Australian financial sector. It had enough trouble getting investment for New Zealand but he felt that sometimes Australian decisions on New Zealand had been 'a bit tough'.

Mr Anthony agreed that there had been a historical imbalance and he understood the point the New Zealand side was making. He felt the treasury officials would find the right words. Australia had pretty strict rules for other countries. There was currently an enquiry being held into the Australian banking system. A report was due by about September. This meant that matters concerning the Australian financial sector would be under consideration by the Australian Government. It was the first review of the banking system since 1938. There was very liberal thinking going on at the moment. New Zealand was already established in the Australian financial sector in some areas but he understood that the restrictions went against New Zealand's desire for expansion and took note of the point. Mr Anthony felt that both sides had come a long way and there was a willingness to achieve the objective New Zealand was looking for.

The Prime Minister noted that if New Zealand adopted Australian criteria New Zealand would be tightening up. This was not, of course, proposed but the situation was that about 3/5 of the trading banks in New Zealand were Australian. They had approximately 50 percent of the total business and there was only one small New Zealand trading bank presence (Bank of New Zealand) in Australia. In the field of merchant banking and finance houses, Australia was substantially established in the New Zealand financial sector whereas New Zealand had a very small interest in the Australian finance sector. There had been cases where very minor operations for New Zealand interests had not been permitted by the Australians. In the insurance sector Australian companies were heavily established in New Zealand whereas New Zealand companies had only a limited interest in Australia. What New Zealand would like is that future operations could be conducted in balance and in line with the overall principles of the Closer Economic Relationship. New Zealand was looking for a formula to achieve this.

Mr Anthony noted the point and said that both sides had reached agreement down to the final paragraph of the financial statement and suggested that officials get together and talk some more about this.

Subsequently, the Ministers were informed that officials had agreed to new wording for the final paragraph of the proposed joint statement which now read 'In respect of proposed Australian investment in New Zealand, the New Zealand Overseas Investment Commission still adopt *basically* the same criteria as *the Australian* authorities'. Ministers found this acceptable and *Mr Anthony* undertook to seek the Australian Treasurer's confirmation.⁷

AGENDA ITEM 4 (B)

New Agreement for Apparel

The Prime Minister advised *Mr Anthony* that the New Zealand Cabinet had agreed to the new apparel arrangement along the lines proposed by officials. The New Zealand Garment Manufacturers had given as much agreement to the new arrangement as the Government was likely to get. It was now necessary for an early announcement to be made so that the trade could make its arrangements in definite knowledge of the conditions in which they would be trading. *Mr Anthony* noted that agreement on this arrangement was needed whether or not ANZCER was negotiated. The last year had been a difficult one for these negotiations. He thought this formulation devised by officials was a very good one. *The Prime Minister* remarked that New Zealand officials had had some difficulty in persuading one or two New Zealand Ministers that that was the case and *Mr Adams-Schneider* added that he had also had some difficulty with one or two of the New Zealand manufacturers.

The Prime Minister wondered when it would be appropriate to publish details of the new arrangement. *Mr Anthony* said that it did not have to go for approval to the Australian Cabinet. He and Sir Philip Lynch had the authority to approve it. It would probably require a week. It was important that the details were published this month. He then asked if the New Zealand Government would like the announcement to come from this Ministerial meeting. *The Prime Minister* said it would be New Zealand's preference. *Mr Anthony* then said he would try to make the necessary arrangements by telephone with Canberra. *The Prime Minister* added that some New Zealand manufacturers would be rather unhappy at the arrangements proposed, but he believed that once they were explained, the arrangements would be understood. He agreed with *Mr Talboys* that the successful conclusion of the apparel arrangement was a good lever in the whole operation. *Mr Anthony* repeated that he could see advantages in an announcement emerging from the Ministers' meeting and would explore that possibility.

⁷ On 26 May 1981 Muldoon released a statement confirming that Treasurer J. W. Howard had accepted the agreement.

After discussing the proposal for an extension of the 1977 Preferences Agreement, Mr Anthony returned to the subject of apparel. He noted that Australia had dealt with apparel, textiles, and footwear as one issue covered by an industry plan. Referring to textiles other than apparel, *the Prime Minister* noted that the CER trade liberalisation formulae would be able to be applied without the need for deferral.

Turning to footwear, *the Prime Minister* said the New Zealand Government was agreeable to the NAFTA Article 3:7 arrangement being extended beyond 1 January 1982 on the lines discussed by officials in Canberra. He noted that this would be able to provide a basis for including footwear in CER, subject to the decisions that would be taken in the footwear industry study which was shortly to be completed. He added that any movement on protection proposed in the report on the footwear study was likely to be in the direction of easing up rather than tightening up.

AGENDA ITEM 4 (C)

Extension of 1977 Preferences Agreement

The Prime Minister opened the discussion on this item by noting that it was a matter of making arrangements in case the present Preferences Agreement lapsed before a CER agreement came into force. It was the New Zealand proposal that the present Preferences Agreement be extended for two years or until CER came into force whichever was the sooner. The two year extension allowed a later agreement on CER or if this was not achieved, then sufficient time to negotiate a new Preferences Agreement.

Mr Anthony noted that something had got to be done about the Preferences Agreement this year. He suggested that it be kept going on a year by year basis until the basic CER issue was resolved. *The Prime Minister* responded that if next year it was agreed that CER was not a starter then it would not be possible to go ahead on a new preferential agreement right away. That would require agreement from Ministers and the Cabinet and he did not know how long this would take. *Mr Clark* added that if there were only a one year extension and next year it was decided that CER would not go ahead, there would only be six months to negotiate a new Preferences Agreement. This would leave exporters with very little certainty about what was ahead (and importers to some extent, *the Prime Minister* added). *Mr Anthony* thought that this uncertainty was not bad leverage to have on people. The Agreement could always be extended. *The Prime Minister* noted that it was not just agreement to extend the existing arrangement but the need to give businessmen time so that business could be conducted in an orderly manner. Business did not like last minute decisions. *Mr Anthony* noted that that situation was equally true now.

The Prime Minister said that if there were a decision next year against the CER and negotiating a new Preferences Agreement was necessary, he could not envisage starting talking before then. *Mr Anthony* said he hoped that the crunch

point would be earlier, perhaps early in the year. *The Prime Minister* said possibly March. *Mr Anthony* said that a degree of uncertainty often persuaded people to be more co-operative. *The Prime Minister* said that depended which side of the argument one was on. *Mr Anthony* suggested that perhaps both sides might like to have further discussion about this point. *The Prime Minister* said that he was persuaded by the New Zealand officials' arguments. He agreed there would be finality one way or the other on CER by March next year. If the answer was No then the Preferences Agreement would need to be discussed. How long would this take? *Mr Clark* said that in New Zealand's experience it would take some time. The Prime Minister said it would not be simply an agreement Yes or No to continuing the Preferences Agreement but negotiations item by item until a package was reached. This could not be done overnight. *Mr Anthony* said that he could see some merit in establishing a timetable. *Mr Clark* added that *Mr Anthony's* point that a degree of uncertainty might be a spur on people was not perhaps as clear as it might be since the people who would be affected by CER were not necessarily the same people affected by the Preferences Agreement. The spur could work in some other direction. *The Prime Minister* said at some point it would be necessary to say that both sides were going ahead on CER regardless but the Preferences Agreement was a different question. It would not necessarily be the same as the present one and it could take time to renegotiate with all those involved—officials, Ministers and industries. *Mr Anthony* said that he did not envisage big changes in the Preferences Agreement itself. It was clearly expected at the political level in Australia that if CER itself did not go ahead, no other arrangement approaching it could be negotiated.

Later in the meeting, *the Prime Minister* noted that the previous discussion had shown a difference where New Zealand preferred an extension of the existing agreement for two years or the coming into force of CER whereas Australia preferred a one year extension. After some further discussion between officials, it had been suggested that the two parties might agree on a compromise figure of 19 months (a period necessitated by tariff changes being due in July). *Mr Anthony* said he had seen the one year extension as a means of putting pressure on people. A 19 month period would not achieve that. Moreover, it would be difficult to explain to anyone why a 19 month period had been chosen. He would therefore agree to go along with a two year extension.

AGENDA ITEM 3

OUTSTANDING ISSUES

AGENDA ITEM 3 (A)

Export Incentives

The Prime Minister opened the discussion by saying that in New Zealand's view export incentives did not create major distortions in trade or competition across

the Tasman. A shift away from export incentives by New Zealand could not be handled quickly or in isolation from a number of other supporting policy initiatives. The issue was a sensitive one among New Zealand manufacturers, many of whom see export incentives as fundamental to their competitiveness. Such perceptions take time to change. *The Prime Minister* recalled that Australian manufacturers (through the Confederation of Australian Industries) had been able to agree with their New Zealand Manufacturers' Federation counterparts that 'significant bilateral disparities between the benefits of export incentive schemes are inconsistent with the objectives of this agreement (CER)' and that a joint review should examine disparities with a view to action to eliminate them commencing on 1 April 1985 and being completed no later than 30 June 1987. The understanding reached did not require any predetermined commitment to elimination of the schemes. The Australian Industries Assistance Commission was to be asked to recommend, by the end of this year, on the future of the Australian scheme post 1983. Its recommendations, and decisions by the Australian Government, could not be foreseen at this stage.

In this situation New Zealand saw it as logical for the two Governments separately and jointly to review the position next year. New Zealand would accept as a principle guiding such a review that the maintenance of incentives long-term on trans-Tasman trade was inconsistent with the CER concept of a single domestic market. It considered, however, that the outcome of the review should not be pre-judged in respect of the method or timing of any withdrawal of incentives. New Zealand submitted that such an approach would come very close to meeting the position set out in the Australian side paper of January 1981⁸ in which it was stated that:

'Australia seeks as firm as possible a commitment in the Heads of Agreement that the objective of the proposed review will be to achieve approximate equivalence between the levels of benefit available to exporters in New Zealand and Australia respectively, and ultimately the elimination of performance based incentives in trans-Tasman trade.'

The Prime Minister said that a firmer commitment at this stage was difficult to contemplate and insistence on it could prejudice the possibility of reaching early agreement on a CER package.

Mr Anthony responded that the subject was one they would need to talk about a lot. It was one of the most difficult areas on which the Australian Government had a view. He appreciated the problems that phasing out export incentives posed for New Zealand, but there were big problems in Australia and obviously more work was needed. There was a view that performance-based incentives were inconsistent with CER and ultimately with its objectives, and that they were unnecessary. Market development arrangements were acceptable. Performance-

8 Entitled 'Export Incentives'.

based arrangements, especially as New Zealand operated them, brought a very strong reaction from Australian industries. They considered that the benefits to New Zealand industries were disproportionate. Australia was rethinking its whole approach. Currently, industries had to increase their performance over three years or they received less grant. Australia had defended this initially on the basis that it was not a straight-out subsidy, only an incentive. It had run into problems with the United States on the issue and it wanted too, to be a party to the Codes on Subsidies and Countervailing Duties. This had been at the back of the Government's mind when it had cut export incentives in half. In the meantime, it had referred the question of export incentives to the Industries Assistance Commission. A total review was going ahead. It would take about one year. But whatever the outcome of that review, Australian would see New Zealand trade as an area where export incentives did not apply because they were not compatible with CER. If both sides accepted the fair-go principle, then it was important that New Zealand should accept the same sort of basis for trans-Tasman trade.

The Australian horticultural sector (strawberries, sweet corn, peas and beans, mushrooms) was very sensitive regarding CER. Mr Anthony himself had moulded thinking amongst horticulturalists to the point where they were willing to talk and think about CER and he had been amazed at their willingness and involvement in the issue. They were adamant, however, regarding an equal basis for CER and they did not think it would succeed if New Zealand got export incentives and they did not. It would become a difficult point unless a quick solution was found. He wanted an end to export incentives immediately on the entry into force of CER. It would be hard to get finality on this point today but he would like New Zealand's comments regarding inconsistency with the free trade arrangement. The Australian Government thought it a critical point. There would be an imbalance if there were no definite terminal date for trans-Tasman export incentives.

The Prime Minister said that a good deal of the concern that Mr Anthony expressed had been covered by what he had said. The manufacturers' groups on both sides had gone a long way towards agreement on this question and had accepted that significant bilateral disparities in export incentives were inconsistent with the objectives of CER. This was a long way for New Zealand manufacturers to go. There would be a review of the present export incentives system in 1985. New Zealand's present export incentives scheme expired then. The review was likely to be completed by 1987. The Government would be looking next year to putting together some alternative scheme. Export incentives were not always going to be the ones now operating. Some existing incentives were too lavish and unnecessary, not in the Australian, but in the global context. If the manufacturers in both Australia and New Zealand could agree that this was acceptable he hoped it would be acceptable to the Australian Government to get rid of the problem by 1987. The manufacturers had agreed this themselves.

The Prime Minister said that New Zealand manufacturers had been very good in this exercise; better than he had expected, and were willing to agree that export incentives would be out by 1987. If this had been agreed with their Australian counterparts it would be difficult to push them further. They had agreed to eliminating the disparities which was the same thing as eliminating incentives.

Mr Anthony said that if the Australian and New Zealand manufacturers' discussions had taken place now, the position they reached might have been different. At the point they had reached agreement, they did not know that the existing Australian export incentives were going to be cut in half and that the total package would be up for review. But the points they had agreed were very helpful and further consultations between the two sides were needed on this now. *Mr Anthony* noted that Mr Muldoon had picked up the spirit of the need for elimination over a period of time. *The Prime Minister* responded that there was now a new factor in the Australian scene. Mr Anthony could talk to Mr Stevens (President of the Manufacturers' Federation) that evening. The New Zealand Government was taking the manufacturers quite a long way. The whole exercise would take the manufacturers a long way, and not just initially. New Zealand approached the question of export incentives as not just a concession but as something central to investment decisions by industry. It must have a measure of certainty over the years. It would not get that if export incentives were taken off overnight. It was necessary to phase out the existing scheme, to have an overlap phase and to bring in a new scheme because otherwise there would be no stable climate. The Government could not go back on the current scheme therefore, before 31 March 1985, and two years after that was about the best that New Zealand could do.

Mr Templeton said that he assumed the Australian Government would not have to move right out of export incentives and that they would not have to in spite of United States pressure.

Mr Anthony said there was a debate in Australia about the value of performance-based incentives but there was no doubt that market development grants would go on. The question was whether performance-based incentives were warranted or were generally fair. The IAC would look at this question and it was on the cards that they would be eliminated completely. The Australian Government had saved itself 100 million dollars simply by halving the present scheme. Regardless of what was agreed, export incentives were inconsistent with CER. They led to distortion and moved against the encouragement to each side to trade in each others' markets. *Mr Templeton* and *Mr Muldoon* agreed. *Mr Anthony* confirmed that the present New Zealand scheme would be in place till 1985 and noted that Australian manufacturers would have to face this difference under circumstances where their own export incentives had been halved.

Mr Currie noted that the whiteware sector had been against the joint manufacturers' declaration in the first place and that the Confederation of Australian Industries was a pretty broad body. It had acted in good faith at that

time but there were pockets within the Confederation that were very much against it. *The Prime Minister* noted that it would be impossible to get an agreement on CER if every individual manufacturer had to be brought to agreement with it.

Mr Adams-Schneider noted that the New Zealand Manufacturers' Federation comprised 60 separate associations and *Mr Clark* added that the present position of the Manufacturers' Federation had come about after a 'Palace revolution'. *Mr Anthony* reiterated that there needed to be complete elimination of performance-based incentives at the same time the tariffs were phased out. He said that both sides could not agree on that day but considerable work needed to be done. Both sides knew the reviews were taking place. The Australian Government was adamant that if they were looking closely at the economic relationship then performance-based export incentives trans-Tasman must be eliminated. *The Prime Minister* said that there was no difference between the two sides there. New Zealand could go along with the Australian - New Zealand Manufacturers' Agreement. *Mr Anthony* thought he could handle that alright on the Australian front.

Mr Anthony then said that horticulture was a different question. They might look at a faster process for horticulture than for manufactured goods. The Australian horticulturalists found it hard to compete with New Zealand imports, particularly given the exchange rate. He had told them they had to live with that; it was a part of the world they live in; but the horticulturalists would 'really buck' if they thought the New Zealanders had an unfair advantage through export incentives. What he had gathered from discussions with them had been a desire to co-operate with New Zealanders regarding developing third country markets. There were different production patterns and seasons in Australia and New Zealand and it was better therefore for both if they co-operated. The Australian producers had volunteered that themselves. Horticulture was important and the industry was shaping up quite well but the export incentives were a difficult issue. *The Prime Minister* said this should be pursued further during the discussions and not be left up in the air. He had the impression that Australian horticulturalists received incentives other than the export type in question here, e.g. in terms of special financing.

Mr Templeton thought that it would be necessary to look to see if a timetable for phasing out incentives could be agreed. *Mr Anthony* said that Victoria and Tasmania were very sensitive on this question. He would lose Tasmanian support for CER 'if they go silly on vegetables'.

Mr MacIntyre pointed out that in many cases the incentive involved was only applicable to the value added beyond the farm gate and only came to 1.4 percent. *The Prime Minister* thought it important that both sides clarify whether what they were talking about was very significant. *Mr Talboys* said that there was a banding for value added beyond a certain point. Fresh horticultural products were in the lowest banding. *Mr Duthie* noted that there was a 10.5 percent value on export

incentives on peas and beans although less on strawberries and these, it was agreed, covered frozen goods too. He gave the values for export incentives as: fresh vegetables 1.4 percent; mushrooms 11.9 percent; frozen vegetables 10.5 percent; dried vegetables 9.1 percent and preserved vegetables 10.5 percent. *The Prime Minister* thought these figures did not sound right and thought they should be checked.

Mr Anthony said he hoped the New Zealanders understood the sensitivity to Australian producers. *The Prime Minister* said he could see that regarding a 10 percent incentive but not a 1.4 percent incentive. 'We could mop it up in one month's devaluation.' *Mr Anthony* said there was a principle involved, however, that had to be handled. *The Prime Minister* asked whether there were no incentives for Australian exporters to New Zealand. *Mr Anthony* said that if there were any they were pretty insignificant. There were some export development grants but if they were on an increasing base the producer received no benefit. *Mr Anthony* said it was necessary to get officials to clarify what these incentives were. *The Prime Minister* said that it was important that interest groups did not have a misconception of what was at stake. 1.4 percent would net out to nothing but 10 percent was significant.

[*matter omitted*]⁹

AGENDA ITEM 3 (B)

Government Purchasing

The Prime Minister opened the discussion by emphasising the importance to New Zealand manufacturers of achieving equal access opportunities under the various regimes in Australia. He recognised there were difficulties in Australia resulting from the Federal system. New Zealand was proposing to send a mission to talk to the State Governments. The Prime Minister wondered what attitude the Commonwealth Government would adopt towards any State wishing to continue its present preference policies, once the CER came into effect. He underlined the value of Australian Commonwealth Ministerial support for the visit to the individual States by a New Zealand mission, and wondered if Commonwealth Ministers had been talking to the states on this issue lately. Did the Australian Government see any scope for the recent preference abolition agreement between Victoria and South Australia being extended to include other States? *The Prime Minister* confirmed that New Zealand manufacturers saw this as an important point.

Mr Anthony acknowledged the significance of this to New Zealand and said that government business was very large and he knew that New Zealand manufacturers would like access to it. He was aware of the discussions

9 Omitted material concerns discussion of potatoes, frozen and canned vegetables and fruit, and the use of sugar in canned fruit products.

Mr Muldoon had had with the State of Victoria and that New Zealand had got a pretty favourable response. He wondered had there been any discussions with South Australia? *The Prime Minister* said there had been no direct discussions with South Australia. He noted that they had no preference arrangement with Victoria and assumed that there would be no difficulty there. *Mr Anthony* said that New South Wales was reviewing its own position on this. Western Australia was more dogmatic—it wanted to encourage its own industries; and Tasmania would be difficult; Queensland had no fixed position. He suggested that, especially when in Queensland, New Zealand could discuss possible sugar arrangements (see earlier discussion on this point). This would bring New Zealand considerable goodwill and the Queensland Government would grasp this quickly. The question of CER had been intended for discussion at the recent Premiers' conference in Australia but there had been a heavy programme and only a few minutes of discussion on CER. The State Governments, however had shown a willingness to help and co-ordinate so that New Zealand officials could talk to their governments. The Federal Government would facilitate the process. If he had any advice, *Mr Anthony* said it was for New Zealand to concentrate on its best marks first. *The Prime Minister* said that New South Wales was the most important and that 50 percent of New Zealand's business was with New South Wales. *Mr Anthony* had said he had really meant in terms of getting support for the government purchasing question. This would mean dealing with Victoria and South Australia first and then with New South Wales and Queensland, leaving Western Australia to last. Ultimately, Western Australia would get into the spirit of CER. But it was valuable to familiarise them with what was involved and to allay the fears of the dairy states and the vegetables producers. The Australian Prime Minister would send a letter to the State Premier on the government purchasing mission.¹⁰

The Prime Minister said that New Zealand had it in mind to send a team of officials fairly soon before the Government became involved with other things here. He had discussed with Mr Wran the question of government purchasing and the latter supported the exercise New Zealand was engaged in and had agreed that New South Wales was most important for New Zealand's trade, tourism and finance. New Zealand might well get something there but he took the point that it would be wise to start with Victoria. The sooner the mission was underway the better. He thought sometime before the beginning of June, which would mean the party leaving soon. He welcomed Mr Anthony's advice that the Australian Prime Minister's letter was going out soon. *Mr Anthony* said it would go out immediately as a result of the current meeting.

10 See Document 154 and note 2 thereto.

AGENDA ITEM 3 (C)

Monopoly Import Arrangements

The Prime Minister said dealing with Fruit Distributors Ltd (FDL) should pose no difficulties. The company had always been amenable to government policy. *Mr Anthony* said he thought officials had covered this question fairly well. The products concerned were citrus fruits, grapes, pineapples and bananas. What Ministers had to do was to find some way of interpreting these arrangements as 'free trade'. *Mr Anthony* did not know, in the way FDL operated, how quality considerations came into play. It was an institutional situation. He understood that Australia would get a preferred position without prejudice to the Pacific Island countries which Australia would certainly not wish to supplant. But he understood that beyond the Island countries, FDL would look first to Australian fruit.

The Prime Minister considered New Zealand could go that far. New Zealand had some responsibilities to the Island countries but so far as bananas were concerned, most of New Zealand's purchases came from Equador with which New Zealand had little else going. *The Prime Minister* thought possible some development of banana imports from the Philippines, from which New Zealand had recently bought a significant quantity. He read the recent trade figures which showed that, apart from this recent trade figures which showed that, apart from this recent developments with the Philippines, New Zealand bought just over 100,000 cases of bananas from Western Samoa, smaller quantities from Tonga and the Cook Islands and almost 1.5 million from Equador. He did not know why New Zealand had not purchased from Australia. *Mr Anthony* thought shipping could have something to do with it. *Mr Durrant* confirmed that the reason would be a commercial one, related to price or quality. *Mr Anthony* said that at present all Australia's bananas are eaten in Australia.

The Prime Minister identified citrus fruits as an area where there were currently some problems in New Zealand. It was government policy that the New Zealand crop should be taken up. But the Government could tell FDL to do the best it could for Australia, and doubtless the company would do so.

Mr Anthony thought the proposed exchange of letters on wheat would be useful to Australia. He saw what New Zealand proposed as something of a parallel to what Australia would have to say to the New Zealand dairy industry. Where there was a shortfall Australia should buy from New Zealand. New Zealand would do the same on wheat. *Mr Adams-Schneider* recalled that New Zealand was already buying from Australia. *Mr Anthony* agreed that the wheat situation was already working well. The proposed exchange of letters would just make it more formalised.

The Prime Minister said that for oranges, Australia was already the supplier of more than half New Zealand's import needs, ahead of California. It was a seasonal thing. *Mr Anthony* said that there was some scope for an arbitrary

decision to be taken making it most likely that when New Zealand produce was available it would be favoured. However, he considered the approach set out in the New Zealand paper to be acceptable.

The Prime Minister said that bananas seemed the most difficult of the sub-tropical products. *Mr Anthony* acknowledged that supplies fluctuated and *Mr MacIntyre* referred to the problem of getting appropriate shipping. *Mr Anthony* hoped that if the Australian industry were to develop it would receive an equal chance. *The Prime Minister* said he was hoping to see development in New Zealand's banana imports from the Philippines and he had asked FDL to pursue this.

Pineapples were a very small trade in New Zealand. There was limited demand, more than half of which was supplied by the Cook Islands. The canning factory there was in difficulties. Australia was the next biggest source of fresh pineapples, followed by Tonga, Fiji and the Philippines. *Mr Anthony* considered it would be helpful if the opportunity Australia enjoyed could be recorded. *The Prime Minister* thought this could be suitably drafted.

Mr MacIntyre noted that New Zealand had developed a worthwhile export trade in tangelos to Queensland.

Mr MacIntyre went on to explain that FDL was in fact a group comprising the main companies in the fruit trade. He undertook to provide the Australian delegation with copies of FDL's annual report. *The Prime Minister* noted that, in addition to the importing role that had been discussed, FDL had the responsibility for orderly marketing of these perishable products through the country.

Mr Adams-Schneider confirmed that it was New Zealand's intention to formalise the existing arrangement, whereby the Wheat Board purchased any import requirement from Australia, in an exchange of letters.

AGENDA ITEM 3 (F)¹¹

STANDOUT PRODUCT ISSUES

Dairy Products

Mr Anthony asked if there was not the same sort of situation, as had just been mentioned with regard to wheat, in the case of dairy products.

The Prime Minister asked if *Mr Anthony* was in a position to respond to the approach on dairy products set out in the paper that had been handed over by New Zealand officials in Canberra. He considered that that approach did offer a way of handling the dairy situation.

¹¹ An irregularity in the labelling of paragraphs occurs in the remainder of this agenda item.

Mr Anthony said that the intention of the proposal was alright, but it was probably moving a little faster than was possible at this stage. He would be worried if some of the wording were published, e.g. '... the New Zealand Dairy Board would determine its pattern of supply ...'. What was necessary was that the two industries should come to grips with the way of handling the dairy question. What he foresaw was not dissimilar from this, but it would take time to bring it to this point. The previous week he had been visited by dairy industry representatives. He believed they were accepting the inevitability of co-operation. The State Governments could be a problem. The Victorian Government had an election this year. The Australian dairy industry had made great progress in his thinking but there was still latent suspicion of New Zealand. This also has found reflection in the Australian Federal Cabinet where there were some Ministers with some large dairying electorates—including the Prime Minister. *Mr Anthony* thought it would be possible to get into a position not dissimilar from what New Zealand was proposing—perhaps along the lines of the Wheat Board situation. He hoped New Zealand would leave the matter in his hands to use his diplomacy and wit to bring the Australian industry along. They were coming along quite well.

The Prime Minister noted that *Mr Anthony* had quoted of a sentence in the New Zealand paper, but he drew attention to the way the sentence started: 'In the light of its consultations with the appropriate Australian interests ...' *Mr Anthony* said he was afraid someone might quote extracts out of context. *The Prime Minister* responded that they must not be permitted to quote out of context. He reiterated how vital the dairy question was for New Zealand. Inability to reach a satisfactory outcome on this issue would be a breaking point in the entire CER negotiation. *Mr Anthony* said he realised that, but he did not want words written or accepted that people could work mischief with.

The Prime Minister noted that they would both have a problem at the conclusion of the meeting. They would be asked if the dairy industry was in CER or out of it. *Mr Anthony* said they would have to say it was in. Nobody was suggesting it was excluded. He thought it could be included on as good a basis as other aspects. The Australian industry was being brought along. He needed a few more months. The Australian Government had not yet given the industry its mandate. There had been terrific benefits from the contacts to date between the two industries. Thus horizons were extending. It was essential to get them to think that they were finding the solutions themselves. *The Prime Minister* asked if it was possible now to move to the next step—formal consultations between the industries. *Mr Anthony* replied in the affirmative. But first he would have to obtain approval of his Government. Whatever was agreed between the two industries would then need to be replaced under the umbrella of the two Governments.

Mr Anthony thought the outcome would be satisfactory. He believed it would be only a few years before the Australian market opened up. Already New Zealand

was being called on to supply some contracts outside. Describing the continuing contraction of the Australian dairy industry, *Mr Anthony* said that in one electorate the number of dairymen had declined from 3000 to 600. In one district the numbers had dropped from 450 suppliers to only 23. Ultimately it would be a liquid milk industry. Victoria would still make some manufactured milk products but the economics of liquid milk production were better and people did not like the social disadvantages of dairying. (*The Prime Minister* noted that the latter point applied also in New Zealand, but there was no choice.) *Mr Anthony* observed that, at present, the Australian market offered only a very small possibility in relation to New Zealand's dairy trading concerns. Nonetheless there would be further change over the next ten years and New Zealand would then have an important place in the Australian dairy market.

The Prime Minister agreed with *Mr Anthony's* conclusion, but in the present context it was going to be necessary to tell some people that certain things they were doing or wanted to do would not be possible because of a Closer Economic Relationship which was in the national interest. The dairy farmers would compare what the Government said to those farmers would compare what the Government said to those people with what it said to them. Firmness would be required. *Mr Anthony* replied that firmness would only come from the two industries working together. *Mr Talboys* noted that the atmosphere of relations between the two industries was much improved. He and *Mr MacIntyre* referred to the joint cheese promotion. *Mr Anthony* agreed. Much had happened in the past year. Now he would like to see the two industries get together. This could happen more quickly than Ministers expected.

Mr Talboys noted that it was necessary to recognise the differences between the wheat and dairy situations. In the case of wheat there were two monopolies. In dairying, however, while New Zealand had one industry, Australia had many. *Mr Anthony* said that the different participants in the Australian industry had to co-operate within internal orderly marketing arrangements and he was sure New Zealand could have a place within this context.

Mr Durrant said that New Zealand had been required to move 160,000 tonnes of butter and cheese from the British market yet had done this while taking only a one percent share of the Australian dairy market. *Mr Anthony* agreed this was a good point yet the New Zealand bogey was still a real one to Australian dairy farmers. *Mr Anthony* said he tried to urge Australian dairy people to co-operate with New Zealand in third country markets. *Mr Talboys* noted that the fear in the minds of many Australian dairy producers related to the danger when New Zealand was expelled from the European dairy market. There was no basis whatever for this fear. All the indications pointed to the conclusion that New Zealand would continue to sell to Europe for many years to come. A new agreement has just been concluded which would take New Zealand's butter sales to the UK beyond 1984. A position had been reached when it could be said New Zealand had a continuing place in the European dairy market. At the same time

the figures Mr Durrant had quoted demonstrated the Dairy Board's success in developing other markets.

Mr Anthony thought that when the Government Purchasing Mission was in Victoria and Tasmania it would be worthwhile reassuring them about the dairy situation. In response to a question from Mr Talboys *Mr Anthony* said that it could help the atmosphere of the discussions if some general reassurance of this kind could be given to the State Governments. But the most important thing was to encourage the maintenance of a favourable atmosphere between the industries.

AGENDA ITEM 3 (D)

Elimination of Import Restrictions

The Prime Minister opened discussion on the Australian proposal to impose a date for the termination of quantitative restrictions. He said this could jeopardise acceptance by New Zealand manufacturers of the whole approach taken to access. New Zealand did not consider such a cut-off date necessary. The arithmetic that had been done suggested that, by 1995, the impact of import licensing as a substantial impediment to trade would have been markedly diminished over a wide range of product interest. *The Prime Minister* confirmed that New Zealand was prepared to review the practical effects of the access formula in the course of the general review of the CER agreement proposed for 1987, or at another date if Australia wished, but without any commitment to the setting of a terminal date for the elimination of quantitative restrictions.

The point of concern to the Australians was, *the Prime Minister* believed, more apparent than real. The New Zealand Government was quite concerned but the New Zealand manufacturers had come along extremely well. There had been great difficulty in this for the Manufacturers Federation. The Auckland Manufactures Association, meeting the previous day, had discussed the CER and the New Zealand President, Mr Stevens, was concerned at Mr Anthony's statement that the aim of CER was totally free access. The manufacturers were adamant about a gradual and long term approach to the reduction of barriers and they were getting worried, as the Australian dairy farmers were, about the reactions that were coming to them from their members. *The Prime Minister* said he thought the CER could be sold to manufacturers but that in any commitment to a terminal date could jeopardise the whole thing.

Mr Anthony said he would find that hard to explain to his people. They would like to see what would be done by 1990. As soon as there were any suggestion that the termination of import licensing would be indefinite even if greatly diminished it became a question of who was kidding whom. Both were aiming for a free trade zone. He had argued that a very big concession was being made by New Zealand, but his Government kept saying that it was looking for a firm timetable in some way related to the elimination of tariffs. It might help if the tariffs phase out period were extended. He did not want that but he did not want an open ended situation either. This presented a stumbling block. He had been

hounded pretty hard on that point. However, there was a little bit of time for work to be done on both sides. There would be a review in 1990. That would leave it all very vague.

The sort of work that could be done, *Mr Anthony* said in reply to a question from *Mr Talboys*, was an assessment of the impact of the reduction of import licences by 1990 and how to present to Australia the advantages of that. In this way they would encourage people to move to an elimination point. It would be so small by then it would not matter. *Mr Talboys* noted that that was exactly the point but if the New Zealand Government said that today, it would pull the rug out from under the supporters of the CER in the manufacturing industries and the opponents would climb on a band wagon. If it could, the Government would like to bring the manufacturers up to the point that meant that by about 1990 there would be very little in New Zealand's import licensing system vis-a-vis Australian exporters. *Mr Anthony* asked what was the point then? *Mr Talboys* said that it was just the political point, and it concerned those manufacturers who wanted the CER and those who were frightened of it. *Mr Anthony* said that he might get more acceptance of this from his people in Australia if it could be demonstrated that the effect of import licensing by 1990 would be small. *The Prime Minister* noted that the best test had been in the industry studies. He had been very surprised at the success in getting these things into place. They concerned moving to points where New Zealand manufacturers are competitive. The memo he had had from Mr Stevens confirmed the sense of disquiet among manufactures. CER would have to be sold and sold again and he was anxious that the manufacturers might start to skitter and go. New Zealand was now getting into a political atmosphere for the next six months or so. There was a phantom opposition which had not yet said anything critical but they were really desperate and in bad shape. They might say something in public quite nonsensical and CER was made to order for a horror story if the New Zealand Government were too firm on this point. He cited the experience of 1972 where a carefully worded statement from the National Development Conference agreed by the manufactures at the time had been subsequently blown up as the death knell of manufacturing. Manufacturing interests had plumped for the other side and it had been a considerable factor in the year's results. The Opposition were now more desperate than they were then. The Government was fortunate in the top people in the Manufacturers' Federation but they had got to keep their troops in line.

Mr Anthony said that after the March discussions, where the proposal had been made that tariffs would be out by 1987, that licensing would be reviewed in 1990, but that the termination of licensing was an 'N' factor, his Government had erupted. It had told officials that they must get something tighter and to see if a terminal date by 1995 could be agreed. This meant a gap between tariff and import licensing elimination. Subsequent discussions had led to some progress but the same difficulty persisted. So far, efforts were being made to look to tariffs and import licences together: it was hard to break that link. Unless New Zealand

gave him some terminal date he would run into the difficulty again. Mr Anthony would speak to Mr Stevens but there was not much more both sides could do now. He had not the slightest doubt that the two sides would come together and that there would be a totally different New Zealand economy in 1995.

The subject of import licensing was taken up again in the afternoon session when *the Prime Minister* read out the points in Mr Clark's note as follows:

- *Mr Anthony* suggested that further persuasion might get our manufactures to agree to a terminal date. The Government had yet to persuade the manufacturers to a continuing movement towards unrestricted access. Their position is that the review five years out should be one which determines whether movement continues or not.
- The gradual and progressive elimination of import licensing is real, visible and certain. The New Zealand Government can persuade manufactures to wear that. To seek to persuade them beyond that point would mean a completely new round of consultations with industry, and that in itself could create a counter-productive atmosphere.
- Import licensing has been embedded in the minds of New Zealand manufactures in the past 40 years. It has been a great achievement to move them so far.
- The immediate benefits to Australia can be measured in financial terms. The first year's additional access figure would be upwards of \$50m increased by 10 percent, real, a year.
- In the initial years Australia should sell up to this access if for no other reason than the novelty of competitive goods in many areas.
- *Mr Anthony* spoke of imbalanced trading opportunities. In the eyes of New Zealand manufacturers without some initial tilt to New Zealand the trading opportunities are all one sided—in favour of the bigger and more pervasive Australian competitor.

This note was passed to the Australian side.

The Prime Minister pointed to the value of the starting point of increased access under QR's (\$50 million). This was an initial figure only and it would be compounded by 10 percent real growth a year. It was of value even if one could not put a terminal date on licensing. *Mr Anthony* said he would like his people to take a note of that. It would be helpful if New Zealand could do some graphs on how it saw trade developing up until 1990. He wanted arguments to help him in explaining the situation. *Mr Clark* said that if an exporter had 5 percent of the market under the existing formula, this would be doubled in 7½ years. That 10 percent would then be doubled in the following 7½ year period to 20 percent. If this Australian competition was with an industry that hitherto had been tightly controlled then a 20 percent share of the domestic market meant that one was rapidly going to the point where import licensing ceased to be protective; one did not have to wait for 100 percent penetration before import licensing ceased to be

effective. *Mr Anthony* said that would no doubt depend on New Zealand's attitude to global quotas as well but any work New Zealand could do would be a help. *Mr Woodfield* explained that it was hard to make accurate prediction by trying to impose static analysis on a dynamic situation. This could lead to some half-pie estimates. *The Prime Minister* noted that an exercise had already been done on this.

Tendering of Exclusive Licences

The Prime Minister said that New Zealand saw considerable merit in a tendering approach, both as an effective method of licence allocation and as assistance towards judging when removal of items from CER licensing control could be contemplated. New Zealand had yet to be shown a better alternative. It would not wish to see any 'second class' status attach to Australian licences, and agreed that tendering should not operate in such a way as to undermine the value of Australian exporters' access opportunities. Consultations could be held if Australia considered that the use of tendering in particular circumstances would frustrate the achievement of CER access objectives. In these conditions, New Zealand considered that tendering would be a generally valid procedure and hoped that this issue could be resolved satisfactorily on this basis at officials' level.

The Prime Minister went on to say that the introduction of tendering had caused considerable anxiety in New Zealand. It was rather unorthodox and the idea had required some selling. The Prime Minister himself and some of his colleagues had had some reservations. But now the situation looked better. He hoped the approach could be merged into the CER context without difficulty

Mr Anthony said he had some reservations. It had the appearance of an additional impost. However consultations could take place before tendering was undertaken. That would be essential and it would probably meet Australia's interests. He suggested that officials keep working on it.

AGENDA ITEM 3 (E)

Treatment of Deferred Goods

The Prime Minister introduced this subject by observing that New Zealand's Deferred Category list was somewhat longer than that currently proposed by Australia. There were good reasons for this. The New Zealand Government had carried out extensive consultations with all sectors of the commercial community particularly manufacturers. This had brought to the surface most anticipated product problems. The initial reaction of many New Zealand industries was to seek deferment. The Government had, through the process of consultation, persuaded the majority of these to accept that deferment was not appropriate. Most of the original opposition had been overcome. New Zealand's current industry study programme had been given new impetus only recently (post-1979 Budget). There were several deferrals proposed for reasons of industry studies.

Those industries that remained on New Zealand's Deferred Category List were those for which the New Zealand Government believed deferral was fully justified.

New Zealand agreed with the basic principles governing deferrals—

- (a) no permanent deferrals
- (b) the list to be kept as short as possible
- (c) interim, partial application of tariff/access formulae
- (d) length of deferred period for each item to be as short as possible
- (e) a plan and schedule to be provided for each product nominated.

Mr Anthony said his reaction was that the list was a bit extended at present. He was not talking of the number of items but rather of the period for which they might be left on the Deferred Category. At present New Zealand was talking of about 10 years. He thought there should be more work to see if a tighter arrangement could be achieved. *The Prime Minister* thought that that might be possible for some items but for others, such as motor vehicles, a longer period could be appropriate. *Mr Anthony* suggested that officials might look at the wording. For some items deferral might be 10 years—perhaps apparel, and the automotive industry, no-one knew. Perhaps words could be found to convey that deferment should be no longer than absolutely necessary.

The Prime Minister noted that 10 years was seen as likely to be appropriate only in exceptional circumstances. It was not to be the normal period. This would be clear from the guidelines which were to be conveyed to the Industries Development Commission. He also noted that New Zealand agreed that there would be a plan and schedule providing an indicative time frame for each deferred item. *Mr Adams-Schneider* recalled that they were discussing only the short residual list of difficult industries. Governments had been able to come a long way.

Mr Anthony said his briefing suggested that in exceptional selected cases, (he cited apparel and motor vehicles) the final outcome of deferment might not be finalised before signature of the agreement. But in all other cases there should be a plan and schedule before signature.

Mr Clark suggested it might be more appropriate to state the general rule first but then acknowledge that there was a hard core of issues that might need special treatment. *The Prime Minister* agreed that some more work might be done on it on that basis.

Mr Adams-Schneider recalled that a number of the items on the New Zealand list were under industry study. It was not possible to know at this stage how they would come out. *Mr Anthony* acknowledged that they would have to be looked at on an ad hoc basis but considered it would be more satisfactory if officials could state before conclusion of the CER agreement how they would see each

item being handled. He did not think it was up to Ministers to look at each item from this viewpoint at the meeting.

The Prime Minister agreed this was a reasonable approach. He did not want to get into a position of agreeing to something he could not deliver. While New Zealand would accept as far as possible the establishment of a plan and schedule, in the case of goods under industry study it was difficult to foresee.

Mr Anthony agreed with this. He reaffirmed that Australia wanted to see the Deferred Category as short as possible, and as much precision as possible on the way goods would come off the list. He expressed concern that the IDC might recommend deferral for up to 10 years. That would be difficult. He enquired what was meant. *The Prime Minister* then read the Cabinet Economic Committee minute on which the IDC's guidelines were to be based. It made it clear that 10 years was only to be considered in exceptional cases.

The Prime Minister remarked that the general pattern of IDC recommendations was to reduce the current level of protection. They tended to be a great deal tougher than the Government had been prepared to carry out. *Mr Anthony* said the words the Prime Minister had read were a great deal better than those he had seen. *The Prime Minister* confirmed that it was intended that the IDC recommendations should make New Zealand industries leaner and more competitive. *Mr Anthony* proposed that appropriate words be drafted to incorporate this concept. But 10 years should only be in extremely exceptional circumstances. *The Prime Minister* recalled that they were discussing only a handful of goods in the whole economy. The only really long term one he could see was the motor industry which involved a whole range of componentry and was both complex and politically difficult.

Mr Anthony said he was still worried about encouraging industry to think of 10 years as a possibility. He was looking for words that would obviate this risk. *The Prime Minister* reread two of the proposed IDC guidelines which underlined the exceptional circumstances which alone would justify consideration of such a long period deferral.

Mr Adams-Schneider mentioned that adoption of the tobacco study would cut production by about half. But this had to be done in a planned way.

Mr Anthony said the formulation was very nearly right. He thought the right words could be found. For some industries even 10 years might not suffice. He would prefer that no finite period be mentioned.

Mr Clark noted that by the time the IDC items and the 'funny items' were taken out of the New Zealand list, it was not a long list.

The Prime Minister noted that orange juice was not nominated for deferment by Australia. *Mr Anthony* said he understood that if Australia agreed to include orange juice in its SPARTECA coverage, within one year New Zealand would agree to its removal from the Deferred Category. *Mr Adams-Schneider* said New

Zealand had agreed to the inclusion of orange juice in its SPARTECA coverage subject to review after 10 years.

The Prime Minister said he did not consider orange juice was a major problem. It was the question of a 10 year maximum in the IDC guideline that needed to be given further thought.

At the Prime Minister's invitation, *Mr Anthony* said that he did not wish to discuss each of the goods nominated for the Deferred Category, but he did wish to comment on wine.

Wine

Mr Anthony said that New Zealand's recent decision on wine imports had caused concern. There had been a strong reaction to New Zealand's decision to raise the duty for five years and to leave open what it would do after that. There had been 'a pretty strong reaction to the way in which you handled this'. It had been a 'pretty bold move' in the light of CER discussions. The Australian wine industry had reacted strongly. *Mr Adams-Schneider* noted that this decision gave Australia better access and there would be more Australian wine coming in. *Mr Anthony* said that he had received a cable from the Australian wine industry. It said that while Australia would benefit to some extent from the decision, the initial phase was more significant because of 'pipeline filling'. Per kilometre, the Tasman was one of the most expensive stretches of water, which afforded New Zealand considerable natural protection. In addition a high tariff on Australian wine would disrupt the Australian wine exporters' consumer franchise. Their share of imports into New Zealand would be constant or increasing but the share of imports in the market would contract. The aim of the New Zealand decision could only be to cut back imports.

The Prime Minister noted that the New Zealand Government got letters like that too. The New Zealand wine industry presented a very real difficulty. It was expanding rapidly. In some respects it was internationally competitive. There would soon be an export surplus. Production at the moment was no more than one-tenth of the Australian production. Plantings were proceeding fast but vineyards were not yet into production and there would be more plantings. The industry was in a very vulnerable state. More new plant for the high quality end of the market was being established but the real pay back would not be for some time when the vineyards and the plant were in full through-put but this would be some years away. There had been very rapid growth over the past 10 years and would be for the next 10 years. The industry was too delicate to face much competition at this stage. The Government's decision was not intended to penalise Australia. More Australian wine would come in and compete at the proper level for quality. There was an unofficial premium on imported wine. This was a temporary phenomenon. There was much greater acceptance of quality in New Zealand wine than 5-10 years ago. But the New Zealand Government could not in any circumstances let an expanding and vulnerable industry be torpedoed

by imports. *The Prime Minister* believed that the volume of Australian wine imports would grow in time. Some years hence there was no reason why there should not be more competition from Australia. The new tariffs were aimed at cheap imported wine because frankly, New Zealand wanted to keep it out.

Mr Anthony said that the New Zealand decision had produced a sour note 'Where do we go with wine in the CER'? It was seen as a rebuff by the primary industry group. What Mr Muldoon had said about wine was accepted over a lot of commodities. Neither side wanted to hurt expanding industries but 'let us approach wine as we do some other commodities'. Australia did not want to see New Zealand wine as a closed shop. *The Prime Minister* said that Australian exporters would sell more.

Mr Anthony said that it might be necessary to get the wine industry people of Australia and New Zealand together since there were major differences on this question. He accepted that the New Zealand industry was not opposed to Australian wine as such. *The Prime Minister* said that the decision deliberately provided for more Australian imports. New Zealand wanted Australia to supply a higher percentage. It already supplied 50 percent of high quality wine imports. The decision would enable the New Zealand wine resellers to sell imported wine. The high imposts had been placed on low quality wine. *Mr Anthony* noted that New Zealand wine was protected by both quantitative restrictions and duties whereas on the Australian side New Zealand wine exporters faced no quantitative restrictions and only 9 cents a litre duty compared to about \$1 to \$1.50 extra per bottle in New Zealand's case. The Australian wine industry had been stung by this decision. There had been no consultation with the Australian Government about it. *Mr Adams-Schneider* said that the new decision had removed import licensing and increased import quantities by 25 percent. *Mr Anthony* said that it was a tariff quota and that the Australian Wine Board did not see the situation in the same way. It would be better to get the two sides to look at it. It could 'play merry hell with CER'. The wine industry was a pretty good lobby when one considered that the Australian Government did not tax wine imports. *The Prime Minister* noted that New Zealand wine was taxed substantially—all liquor paid substantial taxes. *Mr Anthony* noted that the Australian wine industry was not subsidised. *The Prime Minister* said that the understood there were various schemes to help Australian wine producers. *Mr Anthony* said that the New Zealand side would find it hard to pinpoint this for wine. He acknowledged that New Zealand had an infant industry but said it need not be so discriminatory against Australia.

The Prime Minister said that if the quota gave greater access to Australia, he could not accept that the Australian industry had any case for complaint. *Mr Anthony* reiterated that it would be necessary to get the two industry boards to discuss this to let them put their heads together in the context of the CER—they might come up with ideas, as the two Governments would ask the dairy industries to do. *The Prime Minister* said that the New Zealand industry was

fairly relaxed about what the Government had done. He was not aware of any hard feelings concerning the Australian industry. *The Prime Minister* said that the New Zealand industry was fairly relaxed about what the Government had done. He was not aware of any hard feelings concerning the Australian industry. The Prime Minister went on to say that the Government accepted that the wine producers were in a growing and vulnerable position. The Government knew the industry well and had advocated that it would move to better quality wines. By all means the Governments should let the two industries get together to clarify and discuss. *Mr Adams-Schneider* suggested that it might be necessary to write to the Australians concerning getting the boards together after this meeting. *The Prime Minister* said that New Zealand now had one body speaking for the wine industry.

Mr Anthony said the Australian wine board could speak for the Australian industry since it handled the export side of industry. Could both sides be empowered to look at the long term? *The Prime Minister* said certainly but with the only proviso that when rapid growth was being undergone it was hard to see what the situation would be in 5–6 years. New Zealand wine was saleable internationally; it was starting to penetrate international markets. It would be hard to say where the New Zealand industry would be. *Mr Anthony* said it could lead to a useful conclusion but the current situation was a cause of resentment.

As a result of this discussion, both sides had now got a better perspective. 'Who knows, we might get a better approach from the two industries.'

AGENDA ITEM 3 (F)

Stand-Out Product Issues: Whiteware

The Prime Minister said New Zealand was willing to negotiate positively with a view to agreeing to a package for whiteware that took account of the particular circumstances of trans-Tasman trade in whiteware. He indicated that New Zealand officials would be discussing the proposed special arrangement with the New Zealand industry. He said it had been put to him that the access levels proposed by Australia sought far too sudden an increase and were not acceptable. Nonetheless, New Zealand officials would be taking a positive approach to the negotiations with a view to reaching agreement on a package which would enable whiteware to be kept out of the Deferred Category and would permit further development of a trade of real importance to New Zealand.

Mr Anthony said Australia understood the situation. They awaited the response when the proposal had been discussed with the New Zealand industry. *Mr Anthony* remarked that whiteware had been a problem area for years. If these negotiations could be successfully concluded it would be an achievement.

Furniture

The Prime Minister expressed satisfaction that the NAFTA Schedule B Furniture Arrangement had been renegotiated for 1981/82 to provide for increased two-way concessional trade.

This arrangement could provide the basis upon which to apply CER trade liberalisation formulae.

Mr Anthony noted that an announcement had just been made covering the renewed arrangement. The trade was going well.

Mr Adams-Schneider commented that these industries worked very well together. They were an excellent example. The business had grown from nothing to \$7 million in each direction.

AGENDA ITEM 5

Future Action

Mr Anthony expressed appreciation of the Prime Minister's personal involvement in the meeting. He thought the meeting had done very well. It had laid down a format for further work to proceed.

Mr Anthony summarised the outstanding issues

- On import licensing there remained the knotty problem of concluding the restrictions.
- On export incentives, the meeting had come a long way towards dealing with the problem.
- On wine, he would like to see the industries work out the problem.
- On dairy products he believed the industries could come together.

The Prime Minister agreed. Those were the issues. There was some distance still to go on some of them. Officials should talk about what should talk about what should happen next. There would now be a joint press conference. They agreed that they would not go into too much detail on the timetable for CER. In response to questions from *Mr Anthony* *the Prime Minister* said he would like to fudge some areas which were increasingly sensitive. He did not see a Prime Minister's meeting in the immediate future. There might be available a few minutes at CHOGM, not enough to reach finality, but a discussion perhaps with a view to finalising early next year.

Mr Anthony said that in any event one could say that industry groups were going to have to follow-up discussions and that this could take some time. A meeting later this year between *Mr Muldoon* and the Australian Prime Minister was possible, but may be even that was not convenient this particular year.

Ministerial Considerations

The pace of proceedings slowed after the meeting between Muldoon and Anthony. It was necessary to acquaint the public fully with the proposals and so a period of several months passed while the public digested the 'exposure drafts' and submitted responses to Governments. On 29 September 1981 Fraser and Muldoon met for talks during the Commonwealth Heads of Government Meeting in Melbourne. They set a date of March 1982 for completion of the agreement and 1 January 1983 for the start of the operation of the agreement.

In 1982 Anthony reported to Cabinet several times on the progress of the negotiations. As a result, the months from April to October were taken up with hard bargaining between officials and political negotiations by Anthony. Final agreement was reached between Muldoon and Anthony on 28 October 1982 and this was followed by Cabinet approval on 1 November, in the case of New Zealand, and 9 November in the case of Australia.

Australian Documents

171 LETTER FROM ANTHONY TO FRASER

Canberra, 4 June 1981

As agreed in Cabinet on 5 May, I met with the New Zealand Prime Minister Mr Muldoon and other senior New Zealand Ministers in Wellington on 11–12 May 1981 for discussions on the question of a closer economic relationship between the two countries.

I pointed out that the meeting was the first joint Ministerial review of the detailed studies which have been undertaken by Australia and New Zealand officials in accordance with the guidelines established by yourself and Mr Muldoon in March 1980,¹ and it was not my objective to obtain formal agreement or endorsement of any specific proposals. I suggested that the approach should be to seek to advance discussion of the concept by reviewing progress of the work undertaken by officials, isolating the areas of difference, and obtaining a clearer picture of the considerations underlying these differences. This approach was accepted by New Zealand Ministers.

Early in the talks it was confirmed that the two sides are on common ground in respect of a number of the topics which were put to study last year, including the formulae for the progressive elimination of duty and licensing barriers, measures for handling intermediate goods problems, and appropriate consultation and safeguard provisions.

There was every indication during the discussions that the New Zealand Prime Minister and his colleagues were of a mind to work positively towards resolving outstanding issues. In respect of agriculture some progress was made on the question of New Zealand's monopoly import arrangements for wheat and certain fresh fruits and I believe that a satisfactory solution will be possible on this issue. On dairy and wine, scope is seen for industry to industry discussions, and in fact the two wine industries have already been brought together. There seems to be acceptance that the existing measures governing the import of sugar and sugar products into each country need not be disturbed. In addition I have alerted the Australian sugar industry to the possibility that New Zealand might seek an arrangement guaranteeing supplies at prices equivalent to those applying under the Australian domestic system.

1 See Document 93.

There has been recognition by New Zealand Ministers that, in the long term, retention of performance based export incentives would be inconsistent with a closer economic relationship.

New Zealand Ministers have also agreed that some acceleration of the general formulae could be contemplated to meet Australia's concerns on whitegoods and specific proposals are being explored by officials.

On the issues of particular concern to the New Zealand Prime Minister, Mr Muldoon has publicly confirmed that the banking and financial issue has been satisfactorily resolved and a New Zealand mission, led by the Minister of Trade and Industry, is currently in Australia discussing with State Premiers and Ministers the question of State Government purchasing.

There is still some way to go on key issues before any package can be considered and we agreed in Wellington on the need for additional time to explore possible solutions more fully before further Ministerial negotiations. Given the need for further work to be completed, for consultation and full public presentation, it seems unlikely that the matter can be brought to finality until next year and March 1982 could well be the appropriate time for the next Ministerial meeting.

In the meantime discussions will proceed between officials and with industry as appropriate. Also a group of officials is currently visiting State Capitals for a further round of consultations. These are designed to bring the States up to date and to exchange views on the implications of the package which is taking shape.

[NAA: A1209, 1981/508, iii]

172 EXTRACT FROM REPORT BY BUREAU OF AGRICULTURAL ECONOMICS

Canberra, September 1981

Comparitive Efficiency between Australian and New Zealand Dairy Industries and Implications for trans-Tasman Trade

SUMMARY AND CONCLUSIONS

Objectives and Scope

The aim in this report is to analyse comparatively the position of the dairy industries in Australia and New Zealand, and to assess the implications for the Australian dairy industry of trans-Tasman trade liberalisation.

- It should be emphasised at the outset that the report is not oriented toward assessing the net gains to the Australian and New Zealand economies from freer trade in dairy products across the Tasman.

- It is essentially concerned with the equity issue, i.e. assessing the possible disruption that could occur in Australia's dairying areas if freer trade were permitted.
- Basic factual information about the industry and details of government intervention in the two countries are also documented.

Trans-Tasman Trade

Trade relationships between Australia and New Zealand in relation to dairy products are determined more by informal agreements than by formal barriers such as tariffs.

- Such tariff barriers as do exist could be removed with little or no direct effect on trade.
- Mutual agreement has been reached to limit imports of cheddar cheese from New Zealand (presently at 1220 t a year), and to have inter-industry consultations in respect of all other cheese.
 - Cheese is the only significant item of dairy imports into Australia, and imports from New Zealand account for about 5 per cent of domestic cheese consumption.
- There are no net imports of butter into either country.

Generally, the current level of dairy product imports from New Zealand is low and supplants an insignificant proportion of milk production in Australia (about 1 per cent).

General Comparisons

The dairy industry is relatively much more important to New Zealand's economy than it is to Australia's, but the difference is small in terms of the total volume of milk produced.

- Milk production is trending downward in Australia but is generally stable in New Zealand.
- In Australia, there is a higher rate of farm exits from the dairy industry and a relatively slower growth in milk production per cow compared to New Zealand.

Subject to limitations inherent in the comparison of average estimates, it appears that New Zealand is a much more efficient producer of milk than Australia.

- Manufacturing milk production per hectare in New Zealand was 1.6 times the level in Australia as a whole and 1.3 times that in Victoria.
- The production cost per kilogram (butterfat) of manufacturing milk in New Zealand was 16 per cent lower than in Australia. In 1977–78 and 25 per cent lower in 1979–80.
 - Much of this difference in production costs can be explained by New Zealand's resource endowments (mainly its favourable climate), with government protection contributing in only a minor way.

- If it were not for the higher on-farm cost subsidies to milk production provided by the New Zealand Government, on-farm costs of manufacturing milk production would have been 22 per cent lower in New Zealand than in Australia in 1979–80, as against the 25 per cent referred to above.

Import Competition

The effect of competition from New Zealand on the Australian dairy industry would depend on the extent to which the landed prices for dairy product imports from New Zealand were lower than the prices for domestic dairy products sold on the Australian market.

To explore the impact of New Zealand's price competitiveness on the Australian dairy farming industry, two analyses were undertaken for each of the different industry circumstances in 1977–78 and 1979–80.

- The analyses apply to two static sets of circumstances, and the results presented are meant to be indicative rather than predictive.
 - They are thus intended as bench-marks providing approximate orders of magnitude that are aids to judgment about the range of possible effects under free trade conditions.
- Although the results apply to the past, they reflect a range of probably circumstances which could apply in the future.
 - 1977–78 results can be regarded as effectively providing a most pessimistic limit to the possible adverse effects of trade liberalisation.
- It is assumed that cheaper New Zealand imports, actual or potential, will force down Australian domestic prices and place an additional proportion of Australian farms and milk production 'at risk'.
- The farms at risk are additional to those already at risk because of low or negative incomes and the fact that farm numbers are continually declining even without trade liberalisation.
- It is crucial to note that farms identified as being placed 'at risk' will not necessarily leave the industry, or face a welfare problem if they did, for the reasons to be explained subsequently.

In 1977–78 circumstances, the landed prices of New Zealand imports into Australia were estimated to be 9 per cent lower than the Australian ruling domestic prices, when based on actual average (i.e. pool) prices received by New Zealand farmers from all markets.

- It was estimated that such a degree of competitiveness would have placed at risk about an additional 6 per cent of farms and milk production in Australia, unless affected farmers took countervailing measures to increase their productivity and incomes.
- This was the least disruptive possibility for Australia in 1977–78 circumstances.

To explore the impact on Australian industry had New Zealand exploited its competitiveness fully in the 1977–78 situation, landed prices based on marginal milk production costs in New Zealand were considered. This was the most disruptive possibility for Australia in 1977–78 circumstances, and corresponded to the effects of New Zealand competition if landed prices for New Zealand imports were based on prices prevailing in less profitable markets outside the EEC in 1977–78 circumstances. On this basis:

- New Zealand's competitiveness was associated with landed prices which were 24 per cent below the ruling Australian domestic price.
- About an additional 10 per cent of farms and milk production would have been placed at risk in Australia, unless affected farmers took countervailing measures.

In 1978–80 circumstances, when world market prices for dairy products and farm profitability in Australia were higher than in 1977–78, the extent of New Zealand's competitiveness, its competitive potential and the possible contractionary pressures on the Australian dairy industry were considerably reduced.

- The landed price for New Zealand imports in Australia, based on average prices received by New Zealand farmers from all markets, was estimated to exceed the Australian domestic price in 1979–80, thereby implying that imports from New Zealand would not have been competitive on the Australian market in these circumstances.

Even New Zealand's potential competitiveness was reduced in the 1979–80 situation compared to the earlier period, because of the convergence between domestic and export prices in Australia.

If, on the other hand, it is assumed that New Zealand imports will not enter Australia at price levels equal to or below what Australia could gain for its own exports, New Zealand would not be able to use its greater efficiency in milk production to undercut Australian prices (by basing landed prices on its marginal costs of milk production).

- At this floor, namely, the level of unit returns on Australian exports, the maximum extent to which New Zealand could reduce its prices on the Australian market becomes confined to about 18 per cent below the ruling Australian domestic price, i.e. the difference between the Australian export and domestic prices.
- This was the most disruptive possibility for 1979–80.
- At this level of landed prices for New Zealand exports, an additional 3 per cent of Australian farms and milk production could have been placed at risk, unless affected farmers took countervailing measures.
- The effect in this situation is similar to that which could have resulted if New Zealand competition were based on prices in markets other than the EEC.

The significance of the comparison between the two periods lies in the fact that the 'least disruptive' possibility for Australia in the 1977-78 situation had more adverse implications for the Australian dairy industry than the 'most disruptive' possibility in the 1979-80 situation, in terms of the additional proportion of Australian farmers and milk production that could have been placed at risk as a result of free trade.

These results are sensitive to future exchange rate movements which are likely to favour New Zealand, and so enhance its competitive potential on the Australian market from the levels identified.

Structural Adjustment Implications

Although farms and milk production are said to be placed 'at risk' when lower prices due to competitive pressures cause total costs to exceed total returns, it does not necessarily mean that farmers would leave the industry beyond this apparent break-even point, for several reasons.

- The definition of costs adopted excludes the capital value of land, etc., but includes a return to operator labour at award rates.
- Farmers could take countervailing measures to increase their productivity and incomes.
- Farmers may get additional returns of a non-pecuniary nature, such as the rental value of a house, and the benefits from perquisites, which have not been measured.

Even if farmers are forced out of dairying, they may still not necessarily face a welfare problem because of the possible availability of profitable alternatives, particularly of beef production.

- There is historical evidence that ownership change does not occur in as many as 70 per cent of dairy farms which have left the dairy industry and that incomes tend to increase on farms subsequent to their exit from the industry.
- There is evidence that most (over 80 per cent) of the resources that left dairy in the past went into beef production because beef production involves many of the same inputs as milk production.
 - Obviously, whether past experience is relevant to the future will depend on the future profitability and practicability of making the shift to alternative enterprises.

New Zealand's Export Capacity

New Zealand exports over six times as much milk as would be required to supply the Australian market in the most competitive situation referred to above, with about half of this quantity going to less profitable markets outside the EEC.

- Therefore, it is within New Zealand's capacity to meet the requirements of the Australian market under liberalised trading arrangements, given appropriate price relativities, even if New Zealand imports were based at the

lowest (most competitive) level identified in the analysis, when up to an additional 10 per cent of Australian milk production could have been placed at risk.

Since New Zealand's exports to lower priced markets outside the EEC amount to almost three times the amount of milk required to supply the Australian market under even the most competitive circumstances considered, the New Zealand dairy industry would not be likely to need to attract additional resources from other industries in order to produce additional milk to supply the Australian market; it could simply divert dairy products from less profitable markets.

— In fact, it is conceivable for the New Zealand dairy industry to contract significantly and still have the capacity to supply the Australian market.

Government Protection

In 1979–80, the effective rate of protection for Victoria (the most comparable manufacturing region) was 16 per cent when the consumer transfer on market milk was excluded, as against 30 per cent for New Zealand when the EEC access benefit to New Zealand was excluded.

— When the EEC access benefit was included, the effective rate of protection in New Zealand changed from 30 per cent to 70 per cent in that year.

In butterfat terms, the level of protection to the Victorian dairy industry was not significantly different from that in New Zealand, when the consumer transfer on market milk was excluded for Victoria and the EEC access benefit was excluded for New Zealand.

— When the EEC access benefit was included, the level of protection in New Zealand exceeded that in Victoria by about \$A 0.19/kg bf in 1979–80.

If New Zealand were to export to Australia at prices that are not less than those received for its exports to third markets in the market circumstances considered, it is unlikely that New Zealand government protection to production and marketing (i.e. the protection excluding the UK–EEC benefit) would enhance New Zealand's competitive ability on the Australian market.

If the higher levels of government protection to production and marketing in New Zealand were reduced to comparable Australian levels, the resulting increase in cost-based landed prices of between 12 per cent and 15 per cent would have meant that some 3 per cent fewer farms would have been at risk.

— This provides an approximate measure of the significance of New Zealand's additional competitiveness attributable to its higher levels of government protection to production and marketing i.e. to the point of export.

The economic significance of the higher levels of protection given to production and marketing to the point of export in New Zealand is small when placed in the perspective of other pressures that are likely to influence the prospects of the Australian dairy industry.

Context for Evaluating Results

The policy of trade liberalisation is fundamentally inconsistent with the present policy of protection to the price structure for dairy products on the Australian domestic market.

- Trade liberalisation to any degree automatically implies reduced protection to the domestic pricing structure in the longer term.
- The Australian dairy industry may prefer to lower its own prices to pre-empt the entry of cheaper imports from New Zealand, rather than allow the entry of imports and have to accept even lower prices on the export market, thereby implying a reduction of protection to the domestic pricing structure.
- If it is possible for the domestic pricing structure to be protected to some degree even after trade liberalisation, access to the higher prices paid by Australian consumers could be available to the New Zealand industry as well as the Australian industry.

Other factors that are independent of the trans-Tasman trade liberalisation process could have a major influence on the profitability of and prospects for the Australian dairy industry.

- Future world market developments, particularly policies in the EEC in relation to the CAP and New Zealand, and the devaluation of the New Zealand dollar could increase New Zealand's competitiveness in relation to Australian exports in third markets.
- If the present high prices for dairy products on the world market should prove to be short-lived and/or the outlook for beef production is relatively brighter than for milk production, there could be a movement away from dairy farming in Australia as a normal management response to market signals.
- New technologies, particularly UHT milk, could reduce the profitability of high-cost market milk farms in Australia.
 - This could result in a reduction in the number of farms in dairying.
 - But it could also increase the access, and therefore profitability, of farms previously excluded from the market milk market.
- If milk production falls further in Australia, the consequent reduction in the exportable surplus could be expected to increase returns to, and therefore the profitability of, remaining farmers, as a smaller proportion of milk is utilised on the lower priced export market and a larger proportion is diverted on to the higher priced domestic market.¹

[NAA: A1313/113, 82/1381, iii]

1 An additional paper, complementary to this main report and intended as a discussion paper, was forwarded by the Bureau to Departments on 8 December 1981.

173 BRIEF FOR FRASER'S MEETING WITH MULDOONCanberra, September 1981¹

CONFIDENTIAL

**Proposed Closer Economic Relationship between Australia and
New Zealand (ANZCER)***1. Present Position*

Studies and consultations to develop a mutually acceptable ANZCER in accordance with the agreement between Prime Ministers have been proceeding since March 1980.

Mr Anthony's meeting with Mr Muldoon and other senior New Zealand Ministers in May was the first joint Ministerial review of the detailed studies which have been undertaken by Australian and New Zealand officials

— the meeting confirmed that there is a great deal of common ground between the two sides and a determination to work positively towards resolving outstanding issues.

The major outstanding issues still requiring specific solutions are

For Australia

- *Import Licensing* (we are seeking a timetable for the elimination of New Zealand quantitative import restrictions on trans-Tasman trade more in keeping with the agreed timetable for the elimination of tariffs)
- *Export Incentives* (although New Zealand has joined the GATT Subsidies Code we are still seeking a commitment from them on the timetable for the termination of their performance based export incentive schemes in trans-Tasman trade)
- on *wine* we are concerned at New Zealand's intention to defer this product from ANZCER trade liberalisation principles for at least five years, and the lack of any specific arrangements for its inclusion in a ANZCER package. Industry officials talks are proceeding
- on *horticulture* we are concerned at the impact on some of our industries (e.g. frozen peas and beans and processed potatoes) of New Zealand system of export incentives and of other measures of assistance
- on *steel* we are concerned at the lack of any programme by New Zealand to remove this product from the deferred category
 - we fear an expanded New Zealand industry without trans-Tasman industry co-ordination could result in entrenched excess production and pressure by New Zealand to keep steel out of the ANZCER in the long term.

¹ The brief is annotated: 'Briefing provided for PM's discussion with Mr Muldoon on 29/9/81', but is otherwise undated.

For New Zealand— *Dairy Products*

- New Zealand accepts our view that any growth in trans-Tasman dairy trade must be orderly and based on inter-industry co-operation but are seeking specific solutions on how this objective may be achieved.

— *Government Purchasing*

- New Zealand is concerned that their objective of domestic supplier status in State government purchasing has not been advanced following their approaches to the States.

2. *Future Timing*

It has been agreed by officials that the earliest practical implementation date for an agreement with New Zealand would be 1 January 1983.

If this is to be achieved it will be necessary for the two Governments to have reached agreement on the Heads of Agreement as basis for public presentation by the end of March 1982.

The subsequent steps would involve

- public scrutiny and comment, any final adjustment and formal agreement of Heads of Agreement by 30 June 1982
- a six month formal grace period from 1 July 1982 during which time legal drafting of the agreement would take place
- signature of final agreement in November 1982.

3. *Consultations*

New Zealand officials have adopted the view (apparently endorsed by their Ministers) that in view of the extensive consultations they have held with interested parties throughout they see no need for public presentation and consultation after Heads of Agreement formulated in March 1982.

In your statement to Parliament in March last year you said that

- no decisions will be taken until the studies have been completed and there has been full consultation with interested parties in both countries
- the details of any proposed new arrangements emerging from the studies and consultations will be made public before substantial decisions are taken.

Australian officials have been consulting with Australian industry and State Government interests during the progress of the negotiations

- and have taken the view that in accordance with your statement no final commitment can be taken by the Australian Government until the 'details' are completed and made public
 - public scrutiny must also provide a real opportunity for the views of interested parties to be taken into account (i.e. the possibility of changes being made to the 'detail' must be left open).

In these circumstances the Government's options in the face of any criticism received would seem to be

- proceed as agreed, should objections be only minor
- seek to agree with New Zealand on modification of the package should objections be of more substance. This may be achieved by seeking to accommodate the points in the drafting of the agreement text without changing the Heads of Agreement.

We cannot guarantee that problems of a significant magnitude will not confront the Government at this final stage. However, the process of continuous consultation and negotiation is designed to result in a package which in the judgement of the Government is capable of being made public without creating pressures which would require significant modification.

[NAA: A1313/111, 81/2446, iii]

174 CABLEGRAM FROM DEPARTMENT OF FOREIGN AFFAIRS TO AUSTRALIAN HIGH COMMISSION IN WELLINGTON

Canberra, 9 October 1981

O.CH991149 CONFIDENTIAL

Closer Economic Relations discussions during CHOGM

Prime Minister met with Mr Muldoon on 29 September and discussed progress of the closer economic relations exercise. The Minister for Trade and Resources was present for the latter part of the discussion.

2. As foreshadowed Mr Muldoon raised the question of timing and steel. Two other outstanding matters, dairy and wine, were canvassed in very general terms but there was no detailed discussion on any issues.

3. On timing Mr Muldoon did not question Australia's need for the details of the package to be made public before final decision. He was, however, anxious to be able to comment on CER in the election period and to predict a 1.1.83 starting date. The Prime Minister suggested that the objective should be to start at the beginning of 1983 but wished to confirm this timing with Mr Anthony.

4. It was recognised that this timetable would require rapid progress on the package and it was agreed that the Prime Minister and Mr Muldoon should meet next March or April at the latest to 'wrap up' the negotiations. It was acknowledged that this would mean considerable prior work by officials which Mr Muldoon suggested could be stepped up after 28 November.

5. On steel the Australian position put to New Zealand officials at the September working party meeting had apparently made an impact in

Wellington.¹ Mr Muldoon explained his need to make a statement on expansion of the New Zealand industry before the end of the month but was receptive to elements of harmonisation in this industry across the Tasman. It was agreed that officials and industry should meet on this.

6. On dairy Mr Muldoon indicated he was now more relaxed as the idea was getting through in New Zealand that any further access to the Australian market must be gradual and without disruption to Australian industry.

7. On wine Mr Muldoon thought that the continuing industry discussions were resolving the problem.

8. The Prime Minister suggested that Mr Anthony and Mr Muldoon should take the opportunity to discuss any points of detail at a separate meeting.

9. The further meeting took place on 5 October. As neither side had been prepared for substantive detailed talks it was thought that the focus would be on confirmation of the points made at the discussion with the Prime Minister and a generalised checking off of the issues where progress was still to be made. Accordingly the Minister was not given any written briefing and was accompanied only by Mr F. Anderson. In the event the mood of the meeting encouraged frank discussion which provided some useful indications of movement by Mr Muldoon towards Australian positions on some of the important issues.

10. On terminal dates for import licensing Mr Muldoon confirmed he could make no movement at present. However he was more receptive to the thought of some commitment to a terminal date at the time of the Prime Minister's meeting in March.

11. Mr Muldoon also conceded that it seemed reasonably clear that New Zealand's present system of export incentives would have to go by 1985 to meet the expectations of the USA.

12. In respect of dairy products, Mr Muldoon confirmed his comment to the Prime Minister. He thought he would be able to accept the Australian approach and that we should proceed to get the industries talking.

13. It was brought to Mr Muldoon's attention that, in response to a Wine and Brandy Corporation invitation to a second meeting, the New Zealand industry had questioned the point of a further meeting at this time. He accepted that the industries had not yet addressed the question of CER and agreed that this needed to be done quickly. He would seek to encourage the New Zealand industry to cooperate if Australia saw a meeting as necessary and commented that if the industries could find a solution it would make his task much easier.

¹ The New Zealand Government had earlier given official support to a proposed expansion of the New Zealand steel industry. Australia was concerned about the implications for the Australian industry and for a CER and had emphasised that any expansion plans must be consistent with the trade liberalisation principles of a CER.

14. There was some further discussion on steel where Mr Muldoon reiterated his need for an announcement this month which the Minister countered by pointing to the difficulty we had had on the Australian side in obtaining information of New Zealand's intentions. It was pointed out that the foreshadowed meeting between the top executives of BHP and New Zealand Steel in Toronto would not seem to be sufficient to cover this issue. Mr Muldoon agreed that the industries should be got together 'right away' with officials.

15. The Minister pointed out that Mr Muldoon's earlier undertaking to look at the possibility of action on selected horticultural products would not solve Australia's political problem in this sector. The action taken should apply to the industry as a whole.

[NAA: A1838, 370/1/19/18, xxv]

175 MINUTE FROM ANDERSON TO SCULLY

Canberra, 9 December 1981

CER Dairy Products

There has been little progress towards the development of appropriate arrangement for dairy products within a CER

— in view of proposed meeting of Permanent Heads in late January/early February and the March/April meeting of Prime Ministers there is an urgent need to speed up progress on this key issue.

Cabinet agreed in May on industry to industry consultations on dairy products and at the Ministerial talks in Wellington Mr Anthony proposed that such consultations would be under the umbrella of the two governments.

Within this Department we have reviewed various options for fitting dairy into a CER. We are coming to the view that

- industry consultations should certainly be central in the formation of a government umbrella which would provide for growth in New Zealand's access to the Australian market
- to rely on annual industry to industry consultations to set access limits would lead to repeated dead-locks with governments being drawn in to find solutions
- there must be a high degree of automaticity in the access growth.

There have been no inter-industry talks to date

- and from the comments of DPI representatives at a CER Inter-departmental meeting yesterday, they are still very reluctant to take any initiative to ensure that the two industries talk together
 - and again seem to be suggesting a minute from Mr Anthony to Mr Nixon is necessary.

It might assist progress if you talk to Mr Duthie on

- the steps necessary to ensure industry discussion at the Joint Dairy Industry Consultative Committee Meeting in January
- and on the appropriate officers to contact on this matter within his Department.

[NAA: A1313/113, 82/1381, iii]

176 MINUTE FROM BARRATT TO ANDERSON AND LIGHTOWLER

Canberra, 18 December 1981

CONFIDENTIAL

Closer Economic Relations with New Zealand

This morning the Secretary spoke to me on the above subject following a telephone discussion between himself and Sir Geoffrey Yeend.

2. Sir Geoffrey told the Secretary that he had discussed the CER exercise with the Prime Minister and the Prime Minister had instructed that there was to be no further contact with New Zealand on the subject until such time as Mr Anthony had brought a submission to Cabinet and Cabinet had taken a decision thereon.¹

[NAA: A1313/113, 82/1095, iv]

177 EXTRACTS FROM MINUTE FROM ANDERSON TO ANTHONY

Canberra, 26 January 1982

CONFIDENTIAL

Meeting with Executive of the Australian Dairy Farmers Federation: Closer Economic Relations with New Zealand

You have agreed to meet the executive of the ADFFF on Wednesday, 27 January at 2.30 p.m. to discuss the proposed closer economic relationship with New Zealand

- they will be seeing Mr Nixon at 10.30 a.m.

¹ A handwritten note on the document reads: 'The Secretary confirmed to Mr Anderson and myself that this did not preclude continuing discussion with N.Z. at the "technical" level—to be taken as any level'.

Their approach is likely to be similar to that taken when they met with you in May 1981

— you explained the Government's firm intention was that dairy would be included.

Subsequently, you have indicated that the Australian industry should consult with the New Zealand industry with a view to finding a way to ensure that the Australian industry would not be exposed to unfair competition

— in particular, you advised Mr Manners, Executive Director of ADFP and also Secretary of ADIC that Mr Muldoon had agreed that inter-industry discussions should take place. (NZ acknowledges that any further access should be gradual and without disruption to the Australian industry.)

Substantive inter-industry discussions have not been held so far, largely because a meeting of the Joint Dairy Industry Consultative Committee (JDICC) has been deferred from November 1982 to mid February 1982.

We plan to meet with key industry representatives before that meeting takes place.

We also expect to take part in a meeting in DPI late Wednesday afternoon with the same ADFP delegation and envisage that a range of possible options for covering dairy in CER will be canvassed.

Our reading is that the dairy farmers are still opposed to any imports of New Zealand butter and are considering campaigning against CER

— moreover, some industry representatives seem ready to argue their case against CER on the basis of their particular interpretation of selected extracts from the BAE study of comparative efficiency¹ of the two industries (published late last year).

Talking Points

The ADFP delegation is likely to urge that New Zealand be given no better access than they currently enjoy and that no NZ butter will be allowed to come in

— in view of the unfair advantage which the NZ industry would gain in the Australian market as a result of the differing support/stabilisation arrangements operating in the two countries.

Suggest you say

— repeat assurances that have already been given to the industry that the differences in NZ and Australian industry arrangements must be taken into account in any CER arrangement on dairy and will not be permitted to unfairly disadvantage the Australian industry.

At the same time if there is to be a CER, dairy must be included and that this will mean some increased trans-Tasman trade in dairy products.

¹ Document 172.

Issue now is for industries to come to a mutually satisfactory arrangement consistent with the basic principles underlying CER.

The Government has yet to consider in any detail what options it considers may be suitable and is looking to the industry for positive suggestions.

[matter omitted]

If the delegation seeks to draw on the BAE study to support its argument that NZ receives significantly greater support than the Australian industry you could say:

The Government is well aware of differences in the nature of support measures available to the respective industries and had taken the BAE study fully into account before it was released publicly.

Do not wish to enter technical discussions of BAE paper

- there are aspects of the BAE's study which highlight conditions which can be interpreted as implying increased opportunities for access to NZ products in a free trade situation
- however, the Federation will appreciate that in overall terms the BAE has observed that support for the industries (including the consumer transfer to the Australian industry flowing from high domestic prices for dairy products in Australia) was roughly equivalent, and that the different means by which that support is provided is a key consideration in the CER exercise.

As a general observation, could remind ADFE executive that Australia has to be consistent in its policy approaches when dealing with questions of trade liberalisation

- international credibility (including that of dairy industry) is prejudiced if we pursue policies and practices similar to those about which we complain to our dairy trading partners (e.g. EEC trade barriers and export subsidies, US Section 22 quota restrictions, Japanese price and access limiting devices, Canadian cheese import restrictions).

Moreover it does harm to dairy industry's image here and overseas when industry itself promotes the idea that it is inefficient and uncompetitive.

[NAA: A1313/113, 82/1381, iii]

**178 LETTER FROM AUSTRALIAN DAIRY FARMERS' FEDERATION
TO ANTHONY**

Melbourne, 3 February 1982

On behalf of the Executive Committee of the Australian Dairy Farmers' Federation, I would like to thank you for the opportunity to discuss the proposed closer economic relationship with New Zealand last Wednesday (27th January).¹ Following our meeting, we held further discussions with officials from the Department of Trade and Resources and the Department of Primary Industry.

While the dairy industry will be pursuing the course of action agreed to in your office, i.e. attempting to reach agreement directly with the New Zealand dairy industry, it was clear from our meeting with officials that there will be considerable difficulty achieving agreement along the lines discussed with you.

The Government, through yourself, the Prime Minister and the Minister for Primary Industry, has given the dairy industry an unequivocal commitment that:

1. Consultations will take place between the industry and the Government before any agreement on dairy products as part of the Closer Economic Relationship with New Zealand.
2. No arrangement will be entered into that will result in disruption to Australia's domestic marketing arrangements for dairy products.
3. The Australian dairy industry will not be disadvantaged by unfair competition from New Zealand.

In the present circumstances, relaxation of the existing formal and informal restrictions on Trans Tasman trade in dairy products would be inconsistent with the second and third of these undertakings. The only opportunity for expanded Trans Tasman trade in dairy products is in the event of the inability of the Australian industry to meet domestic market demand for dairy products.

If the Government is to honour its commitment to the industry, there is no room for compromise on this issue. The Australian Dairy Farmers' Federation intends to inform all Cabinet Ministers to this effect.

C. R. MANNERS
Executive Director

[NAA: A1313/113, 82/1381, iii]

1 See Document 177.

179 LETTER FROM NIXON TO AUSTRALIAN DAIRY CORPORATION

Canberra, 9 February 1982

I am writing to you in the light of my request at our meeting on 27 January 1982 to list closer economic relations (CER) with New Zealand on the agenda of the forthcoming meeting of the Australia – New Zealand Joint Industry Consultative Committee (JICC) in Melbourne on 15 February 1982.

To assist you in this matter, I have set down below seven conditions which I outlined in my speech to the Australian Agricultural Council meeting in Melbourne on Monday, 8 February 1982, as forming a basis for progressing the dairy issue in discussions with New Zealand.

1. The Australian Government must retain the power to prevent domestic prices from falling in times of depressed world prices. It must be possible to prevent disruptive short-term trade diversion. This is an integral part of our domestic stabilisation policy.
2. Specific provision must be included to ensure that product is not dumped in Australia (otherwise product would be diverted from the lowest returning New Zealand markets even when Australian domestic prices were equal to average international levels).
3. New Zealand should be seen as the preferred supplier in times of domestic shortfall.
4. Specific approaches should be developed to encourage co-operation in third markets (in recognition of the fact that both countries have efficient dairy industries, when compared with the rest of the world).
5. In determining acceptable price levels for any sales of New Zealand product in Australia, due regard must be given to the 'package' offered, including credit terms accompanying sale and any agreements regarding promotion.
6. Any agreement must not be in conflict with the spirit of CER. In other words, the effect of any agreement must not reduce trade below current levels; and, trade should be allowed to develop in both directions where there is economic benefit to both countries.
7. Provision should be made for operating domestic policies so as not to confer an unfair competitive advantage to either industry.

I would advise that Officers of my Department and the Department of Trade and Resources will be available to discuss this matter with you and other members of the Australian delegation to the JICC, plus one or two other industry representatives, in Melbourne on Thursday, 11 February 1982.

In the light of developments at the forthcoming JICC meeting, I will review the position reached and consider further the basis for progressing dairy products in a CER context.

I have enclosed a copy of my speech to Agricultural Council so that you might appreciate the underlying considerations which were influential in my assessment of the dairy position.

[NAA: A1313/113, 82/1381, iii]

180 EXTRACT FROM MINUTE FROM LAURIE TO HUGHES AND LANG

Canberra, 15 February 1982

CONFIDENTIAL

CER

Mr ...¹ of Trade 'phoned me on 12 February to inform me of very recent developments on the CER front. He asked that his information be carefully protected and I would ask you to do the same. I have briefed the Secretary orally about the following:— Templeton rang Anthony on 12 February and said that he was coming over to Australia in the near future for talks with relevant authorities about State purchases. He asked whether he could visit Canberra for discussions with Ministers. Following discussions between Mr Anthony and Mr Scully, Scully rang Templeton and gave him a lengthy outline of current developments for the CER situation. He also said that a visit by Templeton would be welcome but the timing would have to be carefully considered. Apparently since the last Cabinet meeting, Trade have been developing a strategy of future action on the CER and with this in mind they sought to guide Templeton on his contacts with Ministers. Apparently Trade plan to put forward two Submissions to Cabinet;

[*matter omitted*]²

Against this background, it has been agreed that Templeton should come to Canberra as guest of Government on 10–11 March and have discussions with Ministers. It will be put in the context of a courtesy, getting to know you type of visit rather than specifically linked with CER consultations. In response to questions, Trade will, of course, acknowledge that CER issues quite naturally were discussed.

[NAA: A1838, 370/1/19/18, xxvi]

1 Material identifying the informant has been exempted under S.36 (1) of the Freedom of Information Act 1982.

2 Omitted material has been excluded in accordance with advice from the Department of the Prime Minister and Cabinet.

**181 LETTER FROM CONFEDERATION OF AUSTRALIAN INDUSTRY
TO STREET**

Canberra, 22 February 1982

I wrote to you on 21 January to advise you of CAI's interest in Australia's relations with New Zealand and, in particular, to identify what we saw as the key elements in a more equitable CER. They were the termination of import licensing by some predetermined date and the removal or harmonisation of export incentives on trans-Tasman trade. I also expressed CAI's concern that, unless negotiations are finalised in the near future, the opportunity to establish a satisfactory CER may be lost forever.

Two recent events prompt me to write to you again on this subject. The first was the speech given by the Minister for Primary Industry, the Hon P J Nixon, to the Australian Agricultural Council in [Melbourne] on Monday 8 February. Much of that speech dealt with the problems caused by New Zealand's very generous export incentives and the Minister's remarks are heartily endorsed by CAI. The Minister then went on, however, to discuss the situation in the dairy industry at some length in which he appeared to suggest that the Australian dairy industry should receive preferential treatment under CER and that the negotiation of such preferential treatment may prevent the early implementation of a CER. I believe it would be regrettable if resolution of the major inequities which exist under the present NAFTA for a wide range of other products were to be deferred, perhaps indefinitely, because of the demands of one industry.

The second event was the reported address by the New Zealand Minister of Trade and Industry, Mr Hugh Templeton, to the New Zealand Manufacturers' Federation in Wellington on 10 February, in which he expressed very strong support for a CER with Australia. That enlightened approach by no means has general acceptance in New Zealand, where our counterpart organisation, the NZMF, is clearly opposed to any CER which covers all industry and which specifies a terminal date for import licensing. It is CAI's view that Australia should seek to capitalise on the spirit of co-operation expressed by Mr Templeton by progressing the negotiations as quickly as possible.

CAI is well aware that a CER on the terms currently being discussed may cause problems for some industries, both primary and secondary, particularly if there is any significant gap between the provision of duty free access to Australia and the removal of import licensing and export incentives in New Zealand. There will, however, be safeguard provisions to handle such problems in any new agreement and they should not be used to delay CER, nor even to exclude certain products from it. CER should be a package which applies, as nearly as possible, to all industries in Australia and New Zealand and deferrals from it should be kept to an absolute minimum.

I therefore reiterate, Minister, the concern of Australian industry that a satisfactory CER with New Zealand is negotiated in the coming months and that perceived industry-specific problems are not allowed to frustrate the achievement of an open and equitable trading relationship.

H. G. ASTON
President

[NAA: A1838, 370/1/19/18, xxviii]

**182 CABLEGRAM FROM AUSTRALIAN GOVERNMENT TO
AUSTRALIAN HIGH COMMISSION IN WELLINGTON**

Canberra, 10 March 1982

O.CH20860 RESTRICTED

Australia – New Zealand Closer Economic Relations

The following points relating to timing and outstanding issues could be noted as appropriate in discussions with New Zealand contacts.¹

[*matter omitted*]

New Zealand has stated that it is in a position to sign an agreement on CER. On the Australian side, however, we do not consider that, to date, a common basis for such an agreement has been identified. There remains a small number of very important issues to be resolved before agreement is reached on a CER package which could be put forward to Governments for final decision.

Some of the outstanding issues are quite fundamental to what we in Australia would regard as a appropriately structured CER. These issues have been well publicised in New Zealand, particularly since the meeting between Prime Minister Muldoon and the Minister for Trade and Resources in May 1981. The fixing of a firm date for the ultimate elimination of import restrictions in trans-Tasman trade and the future of performance-based export incentives figure prominently in this regard. As well, there is the need to establish the conditions surrounding trade in dairy products under a CER.

Considerable progress has been made in bringing together the positions on outstanding issues. The two dairy industries are currently engaged in discussions which, hopefully, will result in agreement on arrangements, consistent with the spirit and principles of a CER, which can then be endorsed by the two Governments. Discussions are also taking place on items such as whitegoods,

¹ Prepared in anticipation of increased media interest stimulated by the visit of New Zealand Trade and Industry Minister Templeton to Australia.

steel, carpet and aspects of horticulture which will also have an important bearing on the final package.

It should be noted that the timetable also provides for detailed consultations with industry organisations and State Government, and for public release of the package before final decisions are taken by the Australian Government.

Again referring to remarks reported in O.WL11721,² it is a fact that the process of consultation is somewhat more complex in Australia. The broader-based economy referred to by Mr Muldoon means that we have a larger community to consult. Moreover, there is the need, (not found in New Zealand) to consult with State Governments. The need for consultation is a continuing one. However, before we get to the stage of being ready to sign any agreement, we must have a final package on which to consult. That stage has not been reached.

[NAA: A1838, 370/1/19/18, xxvi]

183 EXTRACT FROM RECORD OF DISCUSSION BETWEEN FRASER AND TEMPLETON

Canberra, 12 March 1982

CONFIDENTIAL

Record of the Prime Minister's Discussion with the Hon. H. C. Templeton, Minister of Trade and Industry and Minister of Customs in the New Zealand Government 11 March 1982

After an initial exchange of pleasantries, the *Prime Minister* said that Australia was looking to progress negotiations for a closer economic relationship (CER), but that he had doubts about a January deadline. It needed to be understood that there should be equal opportunities for both sides—export or interest rate subsidies must be equalised.

Mr Templeton said that NZ's view was that the relationship should be opened up gradually. Their decision to move on import licensing was an historic one and adjustments should take place slowly. NZ manufacturers were of the view that under the proposed access formula Australian manufacturers would do very well in the NZ market. He admitted that NAFTA arrangements worked in NZ's favour but claimed that some 'breathing space' would be needed if their manufacturers were to be exposed to Australian competition.

2 Cablegram O.WL11721, dispatched from Wellington on 9 March 1982, noted that Muldoon was reported to have said that 'political considerations in Australia are holding up the conclusion of a CER agreement'.

The *Prime Minister* said that from Australia's viewpoint there must be a fixed and agreed timetable—one that cannot be unilaterally altered.

Mr Templeton said NZ manufacturers found this difficult to accept and even had problems with a terminal date of 1995 for the cessation of import licensing—NZ manufacturers saw this as their final chance of protection.

The *Prime Minister* stated that such a terminal date was unacceptable to Australia—import licensing would need to be terminated when the tariff phasing was completed, i.e. five years after the commencement of any CER. This was not a negotiating point. In *Mr Templeton's* view, this approach caused difficulties; with the phased reduction of tariffs, import licensing would no longer be a problem. The *Prime Minister* replied that if it were not a problem there should be no difficulties in abolishing it.

Mr Templeton then turned to the question of wine to illustrate his point that Australia's share of the NZ market would increase appreciably under CER. Following agreement between the Australian and NZ wine industry, Australia's market share had moved from 6th to 2nd and was likely to be 1st very shortly. He argued that this type of situation would pose some adjustment problems for NZ, and therefore a reasonable time should be allowed before complete free trade occurred.

Mr Clark of the NZ Department of Trade and Industry stated that the benefits which would accrue to Australia in the phasing out period were not generally appreciated in Australia—the quality of access would be very much better than at present: NZ would merely receive benefits from the abolition of Australian tariff barriers. Australia, on the other hand, would benefit from the abolition of NZ tariffs and from greater 'quality' of access, i.e. we would be placed in a preferred position, vis-a-vis the rest of the world.

Mr Templeton said that the strength of the NZ economy was dependent on agricultural exports and these would need continued support. The *Prime Minister* replied that export incentives needed to be treated equally. *Mr Templeton* said that NZ had always accepted that by 1985 it would need to do 'something' about export incentives, because of its accession to the GATT code.

The *Prime Minister* said that export incentives and interest and agricultural subsidies must be equalised across the Tasman.

In *Mr Templeton's* view, this was not possible.

The *Prime Minister* reiterated that it must be possible to reach a judgement so that neither side received an overall advantage of government support—the 'fair go' principle. *Mr Templeton* said that this was feasible provided time could be given so that NZ manufacturers were 'massaged' into accepting the arrangements. Australia, as the larger economy, should accept that the smaller economy would need support. He also said that New Zealand was reviewing its policies on export incentives this year, Mr Anthony had informed him that

horticultural incentives posed particular difficulties and they are to examine this aspect carefully.

On dairying, *Mr Templeton* said that the NZ Dairy Federation had been given clear guidance that they should achieve a sensible agreement with the Australian Dairy Board, a fair go for both agricultural industries which were both efficient producers in the world market. The desirable outcome would involve an agreement that they do not compete in each other's domestic market but join forces for a joint assault on the world market.

The *Prime Minister* indicated his support for this proposal which may provide a solution to a very real problem.

[*matter omitted*]

[NAA: A1209, 1981/508, v]

184 NOTE FROM O'SULLIVAN TO YEEND

Canberra, 29 March 1982

Closer Economic Relations with New Zealand

This note outlines the proposed program for discussions with New Zealand.

The Joint Working Party is to meet in Wellington this week (30 March to 1 April). During the Joint Working Party meetings an 'exposure draft' is to be discussed with New Zealand. This draft has been prepared as a possible basis for public presentation of a final CER package to meet the Government's undertaking in relation to consultations with State Governments and other interested parties.

The text of the exposure draft is based largely on Part I of the draft Joint Report of Permanent Heads.¹ Work on the draft is without prejudice to the preparation of a final version of the Joint Report of Permanent Heads in the light of further negotiations.

Mr Scully proposes to chair a meeting of Australian Permanent Heads on Tuesday 13 April in Canberra to discuss the exposure draft and Australia's negotiating tactics.

A meeting of Australian and New Zealand Permanent Heads is then to take place, in Canberra, on Wednesday 14 and Thursday 15 April (carrying on to 16 April if required) with a view to producing an agreed draft for consideration by both Governments.

Mr Anthony is tentatively scheduled to visit New Zealand in the week beginning 19 April for further negotiations with New Zealand Ministers.

[NAA: A1209, 1981/508, v]

1 Document 139.

185 FILE NOTE BY LIGHTOWLER

Canberra, 2 April 1982

NOTE FOR FILE

Mr F. E. Anderson rang me from Wellington Thursday, 1 April to advise that the Australian and New Zealand dairy industries had arrived at an agreement on trans-Tasman trade in dairy products. Mr Anderson said he believed the industry agreement would be acceptable and suitable for inclusion in a CER agreement with New Zealand.

Mr Anderson asked that I advise the Minister that agreement had been reached between the two industries and I requested Mr Barker of the Minister's office to pass this message on to the Minister.

[NAA: A1313/113, 82/1381, iii]

**186 LETTER FROM AUSTRALIAN DAIRY CORPORATION
TO NIXON**

Melbourne, 2 April 1982

Closer Economic Relations (CER) with New Zealand

You will recall that in your letter of 9th February¹ you asked that the question of the place of dairying within CER should be taken up at industry level. On the 17th February I reported to you on the outcome of the first round of discussions on this subject held with New Zealand representatives at the meeting of the Joint Industry Consultative Committee (JICC) on 15th February.

A further meeting of JICC specifically to discuss CER took place in Wellington on 31st March and 1st April and I am pleased to advise that agreement has been reached on all the basic issues. Currently our officials are preparing a final form of words for formal endorsement by both the Australian and New Zealand sides. When this is available, it will be forwarded to you in the form of an official submission to Government for ratification as part of the overall CER agreement. I am enclosing, for your confidential use at this stage, a copy of the draft document submitted today to our New Zealand colleagues. I understand you have already received a telex copy of this document from Mr. Miller of the Department of Primary Industry.

For your information I am also enclosing a copy of a joint media release made at the conclusion of this week's meeting.

M. L. VAWSER
Chairman

[NAA: A1313/113, 82/2479, iv]

¹ Document 179.

187 REPORT BY JOINT WORKING PARTY TO PERMANENT HEADS 8 April 1982

ANZCER Joint Working Party Report to Permanent Heads

Progress Report

The following progress report sets out:

- (1) Issues identified for Permanent Heads by the Joint Working Party (JWP) as requiring resolution;
- (2) Points agreed by the JWP.

BACKGROUND

Australian and New Zealand Permanent Heads met in Wellington in December 1980 to consider the detailed studies and consultations undertaken by Working Parties. A further meeting of Permanent Heads was held in Wellington in March 1981. Arising from these meetings a report¹ was prepared for Prime Ministers which detailed the objectives, principles and concepts on which possible new trading arrangements might be based, along with a draft Heads of Agreement for an arrangement to govern the economic and trading relationship.

The Joint Report of Permanent Heads revealed that a broad area of agreement had been reached among officials on the possible techniques and modalities for liberalising trade. Despite the broad area of consensus, Permanent Heads also isolated a number of key issues on which agreement had not proved possible. Since that Report there has been a Joint Ministerial review of the CER exercise,² a meeting of Prime Ministers and several meetings of the Joint Working Party. As a result of those meetings there has been a narrowing of differences. Outstanding differences, and new issues which have emerged, will need to be considered by Permanent Heads.

1. ISSUES REQUIRING RESOLUTION

1.1 *Import Licensing—Terminal Date*: At issue is whether a terminal date should be set at the outset for the elimination of all import restrictions within a reasonable time. Australia's position is that there should be a firm timetable for the elimination of quantitative import restrictions more in keeping with that for the elimination of tariffs. There should be a review of import restrictions in 1990 with the objective of drawing up a timetable and arrangements for the removal of such restrictions by 1995.

New Zealand is prepared to have a review after five years and subsequent reviews to consider whether revision of the growth formula is necessary to fulfil the objective of liberalisation within reasonable time. But New Zealand is opposed to any formal pre-fixing of an end date.

1 Document 139.

2 See Document 170.

Since the Ministerial meeting in May 1981 officials have sought resolution of this issue. However Australian industry, through CAI, has subsequently confirmed its strong commitment to a terminal date and the importance it attaches to the early elimination of licensing.

New Zealand indicated that, while import licensing policy *inter alia* is under Government review, there is strong opposition in the New Zealand business community to any commitment at present to the setting of a terminal date.

New Zealand also emphasised the inter-relationship between this issue and the development of appropriate safeguard arrangements.

The JWP noted the following additional options which could form the basis for further consideration by Permanent Heads:

- (a) one of the objectives of the general review to be to determine the scope for early elimination of import restrictions;
- (b) to set a date at the time of the general review;
- (c) to set a terminal date in advance of the implementation of CER, and to review its appropriateness five years before that date.

1.2 *Export Incentives*: At issue is a termination date for performance-based export incentives in trans-Tasman trade.

Australia's position is that performance-based export incentives including export suspensory loans should be eliminated in trans-Tasman trade by 1987, and that such incentives should be eliminated immediately in specific areas such as horticulture. In addition eliminated schemes should not be replaced by other assistance measures having similar trade distorting effects. Consideration should be given to the scope for harmonisation of non performance-based export incentive schemes.

New Zealand agreed:

- that maintenance of incentives long-term under CER is inconsistent with the concept of a single domestic market
- that a review should be undertaken in 1982 to examine the effects of incentives schemes and to consider remedial action where appropriate.

New Zealand has not been prepared to accept that the objective of this review should be the elimination of performance-based incentives by 1987.

1.3 *Horticulture*: Australia is seeking a package of measures which accommodates the special problems of the horticulture industry in trans-Tasman trade. This should include immediate removal of performance-based incentives on horticultural products and, as a minimum, on the following products of particular sensitivity

- frozen peas and beans
- processed potato products
- fresh and processed mushrooms

- frozen and canned corn
- berry fruits.

Australia would agree to the 10 per cent access formula being applied to the guidelines for frozen peas and beans.

Australia also wishes to ensure that anti-dumping procedures are adequate to deal quickly and effectively with dumping situations in horticultural products.

The New Zealand position is that horticulture should be subject to the CER principles governing access and exports incentives. In particular this means that as the frozen pea and bean guidelines are not a formal quantitative restriction they cannot be considered a base on which to apply the 10 per cent access formula.

New Zealand has indicated a willingness to examine specific cases where it can be demonstrated that performance-based export incentives have resulted in an unfair trade advantage. It has recently advised that the products of concern to Australia, namely frozen peas and beans, fresh mushrooms and frozen corn, have been made ineligible for loans under the Rural Export Suspensory Loan Scheme. The other items, namely processed mushrooms and canned corn are already ineligible under the RESL Scheme. Berry fruits however remain eligible for loans on plant, equipment and buildings but only at the harvest and post-harvest stages of existing production.

New Zealand considers that the agreed anti-dumping procedures including the facility to impose cash securities and the other safeguard provisions of the agreement would meet Australian concerns.

1.4 *Government Purchasing*: New Zealand is seeking reciprocal exchange of preferences for national and state government purchasing. To achieve this goal New Zealand is negotiating with State Governments. A paper setting out the respective positions is attached (Annex 1).

1.5 *Deferred Category*: The product coverage in the deferred category is still under examination by both countries in accordance with the principles already agreed. Documentation defining the plan and schedule for the movement of products from the deferred category is attached (Annex 2).

Whitegoods: Negotiations are continuing on a special arrangement for whitegoods taking into account the special circumstances prevailing in that sector. A paper is attached (Annex 3).

Steel: The conditions for treatment of steel under CER are the subject of continuing negotiation. A paper setting out the current position is attached (Annex 4).

1.6 *Safeguards*: the issue of safeguards in the context of adjustment to CER has not been resolved. An initial proposal by New Zealand and a response

paper by Australia is attached for consideration by Permanent Heads (Annex 5).

1.7 *Access*: Both sides have exchanged access calculations. Papers are attached setting out the position on some issues which remain unresolved, namely synthetic carpet and furniture (Annex 6).

1.8 *Tendering of Import Licenses*: The possibility of allocating increased access opportunities by tender remains unresolved. A paper setting out the position is attached (Annex 7).

1.9 *Intermediate Goods*: Procedures for handling intermediate goods problems have been broadly agreed (Annex 8). However, the question of whether or not to establish a benchmark for determining what constitutes a substantial intermediate goods problem has been left for consideration by Permanent Heads. It might be noted that in November 1980 a NZMF/CAI Working Party reached an agreed position on this question. When this question is resolved, it is proposed that the note on intermediate goods be included with the other texts referred to in paragraph 2.7.

1.10 *Fish*: Australia is seeking early removal of performance-based export incentives on fresh and frozen fish. Australia is also seeking confirmation that New Zealand joint venture fishing operations have equal opportunity to sell fish in the New Zealand market in competition with local fishermen, subject to the normal commercial considerations of price and quality. The rules of origin aspects of these issues are still under examination.

New Zealand's position is that the question of export incentives on fish under CER should be covered in the context of any overall commitment by New Zealand on export incentives. New Zealand confirms that there is no impediment to joint venture companies marketing joint venture-caught fish in New Zealand except that it must not be dumped on the domestic market, i.e. at a price below the ruling port price as determined by sales of the same species caught by New Zealand vessels. Concerning Rules of Origin, it is New Zealand's view that fish caught in New Zealand's EEZ by domestic or joint venture fishing vessels is produce of New Zealand. The determination in respect of joint venture-caught fish is made under section 7(2) of the Fisheries Amendment Act 1963 by a condition imposed by the Minister that 'catch will be New Zealand property unless prior approval is given to a variation by the Ministry of Agriculture and Fisheries'.

1.11 *New Zealand's Supplementary Minimum Price Scheme (SMP)*: The BAE is nearing completion of a study which examines the possible impact of the SMP Scheme on trans-Tasman trade. An issue which is emerging is the potential for encouragement of overproduction of coarser wool types and the consequences for the operation of the Australian minimum reserve price scheme. A report on the BAE examination will be made to Permanent Heads.

1.12 *Interface with NAFTA*: The JWP has examined NAFTA and associated arrangements to assess those aspects which will need to be covered in some form in a CER and those which will become redundant. It is considered that the future of some arrangements should be the subject of further consideration by Permanent Heads (Annex 9).

2. POINTS AGREED BY THE JOINT WORKING PARTY

The JWP has reached agreement on the following issues:

2.1 *Monopoly Import Items*: Based on understandings reached at the Ministerial talks in May 1981,³ satisfactory solutions have been reached relating to New Zealand's monopoly purchasing arrangements for pineapples, bananas, citrus fruit and fresh grapes, wheat and wheat flour. These understandings are reflected in proposed amendments to the Joint Report of Permanent Heads (Annex 12).

2.2 *Sugar*: The existing measures governing the import of sugar (raw and refined), golden syrup and treacle into each country need not be disturbed.

2.3 *Agricultural Support/Stabilisation Measures*: In addition to the special arrangements agreed in respect of existing measures, provision should be made to ensure that new schemes and amendments to existing schemes are consistent with the agreement.

2.4 *Dairy Products*: Industry-to-industry consultations have resulted in agreement on conditions under which dairy products will be traded within CER. Basically, the agreement is an extension of the current forms of co-operation between the Australian and New Zealand dairy industries. An important feature of the agreement is that it proposes that the NAFTA quota on cheddar cheese be abolished and trade in cheddar would be absorbed within the overall level of cheese traded under the understanding. New Zealand will share in future growth in the Australian domestic market for cheese.

The JWP considers that the agreement reached represents an acceptable solution and should be endorsed by the two Governments. (A text of the agreement is contained in Annex 10.)

2.5 *Co-operation in Third Markets*: Provision should be made for the encouragement of co-operation in third country markets.

2.6 *Wine*: Industry-to-industry discussions have resulted in agreement on conditions for the inclusion of wine within the CER. The CER formulae for liberalisation of tariff quotas would apply to the quota element as from 1/1/83. There would be limits on the use of this quota in respect of wine under \$2 per litre. The liberalisation of the tariff element would be deferred

3 See Document 170.

until 1/1/86. The tariff would be phased to free in 5 steps instead of the 6 provided for under the general CER formula.

The Joint Working Party agreed that the industries had reached an acceptable solution. A copy of the industry report is attached (Annex 11).

2.7 Amendments to Joint Report of Permanent Heads: Since the last meeting of Permanent Heads in March 1981, officials have agreed a number of changes to the Joint Report⁴ designed to improve the meaning of the document. Many of these do not alter the Report in any substantive way while other changes involve the addition of new words or deletion of existing words. These are submitted to Permanent Heads for endorsement (Annex 12).

2.8 Explanatory Notes: As an aid to the future operation of the agreement the JWP is devising some explanatory notes. It is proposed that these would not form part of the Joint Report of Permanent Heads but should have the status of an agreed Joint Working Party document. Permanent Heads may wish to note the agreed texts relating to:

(a) *Deflator:* Agreement has been reached on the deflators which will be used to calculate access adjustments in real terms (Annex 13).

(b) *Anti-dumping Arrangements:* Agreement has been reached on procedures for handling anti-dumping actions under CER (Annex 14).

(c) *Access Growth:* Agreement has been reached on the means by which increases or decreases in global licences will be taken into account in determining such exclusive licences as may be necessary to ensure that access opportunities are increased by 10% per annum in real terms. Agreement has also been reached on the treatment of liberally licensed goods and second-hand goods (Annex 15).

(d) *Transition from NAFTA:* The JWP has discussed arrangements necessary to ensure a smooth transition from NAFTA to CER (Annex 16).

(e) *Harmonisation of By-law and other Concessionary Import Provisions:* Agreement has been reached that the harmonisation of or adjustment to by-law and other concessionary provisions may be desirable in particular cases to ensure that the objectives of CER, are met (Annex 17).

(f) *Phasing Formula for Composite Duties:* Agreement has been reached on the means by which the ad valorem equivalent of composite rates of duty will be determined in order that tariffs may be phased out consistent with the agreed formula (Annex 18).

(g) *Rules of Origin*: Agreement has been reached on the rules of origin to be applied to trade under a CER (Annex 19).

(h) *Sugar*: An explanatory note has been prepared specifying the sugars and sugar products covered by import controls which may be maintained by each country (Annex 20).

2.9 *Other Trade Distorting Factors*: The JWP has agreed that harmonisation of such requirements as standards, technical specifications, testing procedures, domestic labelling and measures relating to restrictive trade practices should be encouraged and that provision should be made for action to be taken where problems occur (Annex 12).

2.10 *Grace Period*: The JWP agreed that, for the agreement to enter into force by 1 January 1983, the Heads of Agreement would need to be initialled by 1 July 1982. It was considered that the extensive consultations which will have been undertaken with interested parties and the notice of intended implementation date more than adequately covers the need for the year's grace period that the DHOA had originally envisaged before tariff phasing commences.

2.11 *Exposure Draft*: The JWP has agreed to circulate separately to Permanent Heads a draft prepared by Australia which could provide the basis for further work on a report covering public release of the CER package before final decisions are taken by the two Governments. The draft, presented as a report by officials, draws heavily on Part 1 of the Joint Report of Permanent Heads and envisages attaching the draft Heads of Agreement and appropriate annexes, e.g. Investment in the Financial Sector, joint industry understanding on dairy products. The JWP agreed to submit the draft to Permanent Heads for consideration and finalisation in the light of further discussion on outstanding issues.

[NAA: A1838, 370/1/19/18, xxvii]

188 DAIRY INDUSTRIES AGREEMENT

13 April 1982

Australia – New Zealand Closer Economic Relations

MEMORANDUM OF UNDERSTANDING ON DAIRY PRODUCTS

1. The Governments of Australia and New Zealand look to their respective dairy industries to develop and maintain understandings on the means whereby dairying will be included in the Closer Economic Relationship (CER).

To this end, the industries have formed a committee—the Joint Dairy Industry Consultative Committee (JICC) which is currently made up from representatives

from the New Zealand Dairy Board and representatives from the Australian industry, including the Chairman of the Australian Dairy Corporation, and representatives of the Australian Dairy Farmers' Federation and the Australian Dairy Products Federation. Government officials are invited to attend as observers.

2. The members of the Joint Dairy Industry Consultative Committee recall:

(a) The two industries share common origins and enjoy a similar degree of economic efficiency in relation to dairying elsewhere. Trans-Tasman trade in dairy products has been virtually free of quantitative restrictions, and tariffs are at negligible levels.

(b) From the very outset of the establishment of central dairy industry boards in both countries in the 1920s, there has been a continuing practice of consultation and exchange of information, the mutual objective being to sustain confidence and to optimise returns to both countries.

(c) Over the past decade, the direction of their respective trades has diverged. In Australia, production has declined, to the extent that the bulk of milk production is presently sold on domestic markets. Nonetheless, exports remain a significant outlet, currently utilising around 25% of manufacturing milk production and being of vital significance to Victoria and Tasmania. Although the New Zealand industry is the principal supplier to its domestic market, its size and structure require it to be directed primarily toward international markets at large, which currently utilise 75% of total whole milk production.

3. The members of JICC have noted that:

(a) The Prime Ministers of Australia and New Zealand have agreed that the central trade objective of the CER will be '... a gradual and progressive liberalisation of trade across the Tasman on all goods produced in either country on a basis that would bring benefits to both countries'. Both sides recognise that trans-Tasman trade will be liberalised progressively under the CER in such a way as not to result in unfair competition between industries or disruption to industries of either country.

(b) Where tariffs remain on the trans-Tasman dairy trade, they will be liberalised in accordance with the provisions of the CER.

(c) In order to prevent disruption of any industry, the Governments intend to establish safeguard procedures within the CER as a whole. It is understood that these safeguards would apply, for example, to cases of distortion arising from dumping or subsidising of exports, or where the objectives of the agreement were being frustrated.

(d) In any event, it is the intention of the industries that trans-Tasman dairy trade shall proceed on an orderly basis and in a manner consistent with their mutual objectives.

4. The members of JICC accordingly place on record the following:

(a) The JICC will normally consult twice per year. The consultations will include:

- (i) the review of production, and of trade, in milk and milk products;
- (ii) the intentions of the industries in each other's domestic dairy market;
- (iii) the respective policies and practices in export markets;
- (iv) any changes in domestic policies which may affect the dairy industries in either country.

(b) The consultations shall have the mutual objectives of:

- (i) sustaining the confidence of the industries in both countries;
- (ii) not undermining the returns to the industries of either country, and
- (iii) not undermining the established price structure in each other's domestic markets, taking account of all relevant terms and conditions of sale.

(c) The industries share concern at the possible effects of a major collapse in international prices, arising from the actions of third countries.

In this event, the JICC will consult as to how best to respond in their mutual interests.

(d) Governments in Australia have the right to set domestic prices and also the right to prevent these prices falling at times of depressed international prices.

(e) In New Zealand, the Government has no significant role in domestic price determination, as this derives through a smoothing mechanism from realisations from international markets.

(f) (i) For cheese the parties agree to consult as to their intentions in each other's domestic market and in their discussions will have regard to market growth.

(ii) The current understanding on New Zealand's level of cheese imports into Australia will continue, with New Zealand's sales being related to the growth in the Australian market.

(iii) In relation to cheddar:—

(a) The existing NAFTA by-law arrangements will be abolished.

(b) Future sales of New Zealand cheddar cheese in Australia will also be related to total market growth.

(iv) The JICC consultative process will include an exchange of information on the activities of each industry aimed at increasing total growth in the Australian cheese market.

(g) Fluid milk industries in both countries are controlled by separate specific legislation. The New Zealand Milk Board has responsibility for the domestic market, but the New Zealand Dairy Board is responsible for export.

In Australia, the responsibility for supply of fluid milk to the domestic market lies with the respective State milk authorities, but the Australian Government is responsible for export controls.

As fluid milk and cream make important contributions to returns to producers in both countries, any trade in these products would not take place without prior consultation in the JICC to ascertain whether such trade would be consistent with this understanding.

(h) Both industries acknowledge the principle of preferred supplier in the event of a domestic shortfall. The continuing process of consultation and exchange of production and marketing information should facilitate the achievement of this objective to the extent possible.

(i) Consistent with the increasing degree of co-operation between the two countries, which is envisaged in the CER, the JICC would like to see more specific action by the New Zealand Dairy Board and the Australian Dairy Corporation to develop further co-operation in international markets, in the interests of optimising returns to the industries in both countries.

(j) Consultation between the Board and the Corporation on the advice which they offer to their respective Governments on international dairy trade policy issues, and in combating agricultural protectionism and export dumping, is of considerable value and will continue.

(k) The industries in both countries attach great importance to their respective domestic arrangements, which can influence the size and structure of the industries in each country.

Within this context, both industries agree to consult in regard to domestic policies.¹

(R. G. CALVERT)

On behalf of New Zealand Delegation

(M. L. VAWSER)

On behalf of Australian Delegation

[NAA: A13/113, 82/2479, iv]

¹ The file copy is endorsed with the words, 'This is the final version signed by the 2 industries'. The Australian Dairy Corporation forwarded it to Nixon under cover of a letter dated 7 May 1982.

189 MINUTE FROM McNAMARA TO FRASER

Canberra, 16 April 1982

Closer Economic Relations with New Zealand (CER)

Australian and NZ Permanent Heads met in Canberra this week to prepare for the forthcoming meeting between Mr Anthony and NZ Ministers in Wellington on 20 April.

A good deal of progress occurred but the issues which have been outstanding for some time remain unresolved. In particular, NZ officials were not authorised to offer views on the major matters of concern to Australia:

- a terminal date for import licensing;
 - we presented the Cabinet view that this was an essential prerequisite for any CER and that the terminal date should be 'before the presently envisaged date of 1995' (Decision No. 17679 of 15 March 1982)
- the elimination of performance-based export incentives in trans-Tasman trade;
 - Cabinet agreed to 1987 as the terminal date, but we argued for 1985, the date which Mr Templeton had inadvertently referred to in discussion with Mr Anthony
- the immediate removal of performance-based export incentives in horticulture;
 - we formed the view from officials that this is not a particular difficulty in NZ in relation to unprocessed goods
- the conditions for treatment of the proposed expansion of the steel industry under CER;
 - we were unwilling to accept the imposition of import licensing which would result in a loss of trade. There is also the question of NZ Government assistance to its steel industry, which would be inconsistent with the 'fair go' principles of CER.

New Zealand officials stated (and we agree) that these are matters which can only be resolved at the Ministerial level.

The outcome of next week's Ministerial meeting cannot be predicted with confidence—while our position is clear, NZ has not demonstrated that it is willing to come to grips with those issues. Our (tentative) assessment is that NZ will accept our position, but the degree of acceptance cannot be predicted.

It is also possible that the meeting may not produce a clear-cut outcome and there are presentational reasons for this in both countries. In NZ, the Government's position is quite precarious—its majority of one seat is subject to legal challenge, and two Senior Ministers have suffered heart attacks recently. On our side, the unresolved issues on horticulture could pose difficulties in the Tasmanian context.

Mr Anthony is to discuss a possible 'exposure draft' with NZ Ministers. This document, subject to its endorsement by both Cabinets, would be the vehicle for public comment on the details of the proposed CER. However, as a result of those presentational issues, it is likely that the exposure draft may not appear for some time.

We shall keep you informed on developments.¹

[NAA: A1209, 1981/508, vii]

190 AGREED MINUTES OF JOINT PERMANENT HEADS MEETINGS [22 April 1982]¹

Agreed Minutes of Meetings of Australian and New Zealand Permanent Heads

In their discussions on closer economic relations held 14–15 and 21–22 April 1982, Permanent Heads agreed that the following points should be placed on the record.

Proposal for a Terminal Date: Interpretation of 'by 1995'

Permanent Heads noted that the term 'by 1995' could be variously interpreted. It could, for instance, be construed to mean 'before the commencement of 1995'. Noting that New Zealand's import licensing system operated on the basis of a 1 July/30 June year, Permanent Heads agreed that reference to 1995 in this context should be interpreted as meaning 'by 30 June 1995'.

Export Incentives

Permanent Heads agreed that export incentives applied to trans-Tasman trade are not in harmony with the objectives and principles of the closer economic relationship. Agreement was not reached on a date by which performance-based incentives would no longer be applied to trans-Tasman trade. In respect of non-performance-based incentives, however, Permanent Heads agreed that there should be prior consultations when changes were contemplated by either country. This would imply that Australia would consult with New Zealand on any changes proposed as a result of a review currently in progress.

¹ Fraser annotated the document with the instruction: 'There must be no compromise on the basics which represent the minimum fair position for Australia. M. F.'

¹ The file copy was utilised at a later date for what appears to be an overview paper. It is marked 18/8/82.

Permanent Heads noted that in New Zealand export incentives are operated on the basis of a 1 April – 31 March fiscal year as compared with a 1 July – 30 June fiscal year in Australia. It could be expected that any changes to export incentive schemes would coincide with those dates in the respective countries.

Forest Products

The future of the NAFTA Arrangements covering forest products should be considered by Governments in the light of industry to industry discussions before the entry into force of CER. These arrangements deal with newsprint, packaging materials, pulp, tissues, certain other papers and the JCCFI.² Both Governments would be willing to maintain those arrangements which were considered still to be of value.

The two Governments would encourage the industries to pursue discussions aimed at co-operation and rationalisation in respect of the Australian and New Zealand markets and the development of trade across the Tasman and with third countries.

Intermediate Goods

Permanent Heads have reached agreement on the text of an explanatory note which identifies considerations relevant to the assessment of intermediate goods problems arising from differences in tariffs against third countries. In this context they discussed the possibility of establishing a benchmark figure for determining the existence of a 'substantial intermediate goods problem', as reflected in differences in the total cost for manufacture and sale of the relevant final goods.

Permanent Heads decided that a benchmark figure would not be included in the explanatory note. They agreed, however, that, where either side was approached by industry on this aspect, it could be explained that a possible benchmark figure of 10 per cent had been discussed, but it was recognised that a higher or lower figure may be appropriate in individual circumstances.

Quality of Access

There are three factors which determine the quality of access of Australia to the New Zealand market:

- quantitative access
- New Zealand tariff level
- duty advantage accorded to Australia over third countries.

New Zealand undertakes that for tyres, electronics and writing instruments which have been subject to industry studies but on which Government decisions are still pending, Australian access will be such that when the three factors above are weighed it will be at least equivalent to the quality of access that New Zealand

² Not identified.

would be required to provide should the normal CER provisions apply. Specifically on these three items:

(i) Access: as a minimum, access phasing on the basis of the CER formula may begin on day one. Should subsequent decisions result in a more rapid creation of global access opportunity it will be at least equal to the quality of access which would otherwise have been achieved by Australia.

(ii) Tariffs: should the decisions taken by the New Zealand Government result in a different tariff, the new tariff will be the base for an agreed tariff phasing formula.

It is expected that the decisions on all three industries will be announced before 1 January 1983.

Carpet

To enable trans-Tasman trade in synthetic carpet to be conducted, the normal area content rules of origin would oblige synthetic carpet manufacturers in both countries sourcing their synthetic yarn from the single yarn manufacturer in the area. This manufacturer is located in Australia.

The bounty paid by the Australian Government on synthetic yarn manufacture gives rise to a prospective intermediate goods problem. It is agreed that New Zealand is required to demonstrate that an intermediate goods problem exists of sufficient dimension to warrant remedial action. In terms of the agreed formula covering intermediate goods problems it is also agreed that if a significant problem exists, action will be taken to overcome New Zealand's disability. Such action could include the deletion of pile content from area content calculations or a reduced area content requirement.

[NAA: A1313/113, 82/2989, ix]

191 LETTER FROM ANTHONY TO FRANCIS

Canberra, 24 May 1982

I refer to your letter of 20 May 1982¹ informing me of the decision by the New Zealand Cabinet Economic Committee on proposals to be put to Australia in relation to key outstanding elements of the CER package.

At the outset I wish to stress that, as I pointed out to Prime Minister Muldoon in Wellington, my Cabinet colleagues had been very reluctant to accept 1987 as a terminal date for export incentives. Indeed, their view was that incentives should cease with the expiry of existing New Zealand legislation in 1985. They finally accepted 1987 only because that terminal date had previously been put forward by Australia in terms of harmonisation of incentives between the two countries.

¹ Document 243.

For these reasons I wish to express my very deep concern in relation to the offer being made on the question of export incentives and ask that you convey my views to your Prime Minister as a matter of urgency.

At their meeting in Sydney on 10 May the representatives of the Confederation of Australian Industry and the New Zealand Manufacturers Federation confirmed their earlier agreement to the phasing out of significant disparities in export incentives across the Tasman from 1 April 1985 to 30 June 1987. In a more recent briefing of Australian national industry associations it was very evident that Australian industry attitudes on the question of a date for final abolition of performance-based incentives had hardened considerably.

Australian industry representatives generally accept that the legislative commitment in New Zealand to 1985 sets a time limit to the commencement of any removal of incentives by New Zealand. However against the background of the IAC inquiry into the Australian export incentives and Australia's adherence to the GATT Code on Subsidies and Countervailing Duties, industry associations are forcefully expressing views that any extension of New Zealand incentives beyond 1985 would be inequitable. This view is reinforced by their apprehension that performance-based export incentives may not be extended beyond 1983. It is important that the position agreed on trans-Tasman export incentives under CER should not be seen as unnecessarily prolonging the inequity. This will be particularly important when viewed in the light of the decision which the Australian Government will take in the next few months on the future of export incentive arrangements.

To enable me to bring the proposal to Cabinet on 1 June prior to my departure for overseas, I would request that New Zealand urgently reconsider its proposal on the terminal date for export incentives. If this is not satisfactorily resolved, I do not believe that I could recommend to my Cabinet colleagues, or that they would accept, a proposal which allowed for the continuation of performance-based export incentives in trans-Tasman trade beyond 1 April 1987.

I am sure you would share my concern that we should have come so close to achievement only to see all the work founder on a question of 12 months in time. I can only repeat that, from our side, 1987 as an elimination date for performance based incentives in trans-Tasman trade has been stated as an essential prerequisite since discussions started.

As to other elements of the package, and in the light of the recent Ministerial meeting in Wellington, I am pleased to have confirmation that New Zealand can agree to 30 June 1995 as the termination date for quantitative restrictions subject to Australian acceptance of the safeguards provisions negotiated by officials. I note the importance that New Zealand places on substantial progress on all aspects affecting the liberalisation of trade including State Government purchasing and harmonisation of standards is the context of the 1988 review.

192 LETTER FROM NIXON TO ANTHONY

Canberra, 27 May 1982 .

I have received from the New Zealand High Commissioner a copy of his letter to you dated 20 May 1982¹ proposing that, subject to Australian acceptance of the safeguard provisions negotiated by the officials, New Zealand could agree to set 30 June 1995 as the terminating date for quantitative restrictions and could phase out export incentives after 31 March 1985 terminating by 31 March 1988.

I believe that these proposals are unsatisfactory and should not be accepted.

In my discussions with industries likely to be affected by a CER with New Zealand the most universal complaints are that Australia will have phased out *all* of its tariffs within five years from 1 January 1983 (sooner for some products) and will then offer a *totally* unrestricted and duty free market for New Zealand exports.

Meanwhile, however, the market in New Zealand would remain restricted and almost all of New Zealand exports to Australia will continue to benefit from very large and unwarranted export incentives. As you are aware, these export incentives take the form of tax-free cash grants equivalent in most cases to 10.5% or more of export value—regardless of any growth performance. In other words if a New Zealand exporter sells \$100,000 of a product to Australia he receives \$10,500 by way of a tax-free cash grant. This to me is excessive and unwarranted especially to an unrestricted market such as Australia.

Against this, Australian exports to New Zealand continue to be faced with very stringent import licensing which very effectively prevents any trade growth or at best limits it to very low access levels. For many products, particularly agricultural products, the access provided by the CER formula represents miniscule openings into the New Zealand market which will not increase to reasonable levels for many years.

I feel that if we are to effectively 'sell' the CER to industries concerned in Australia the final balance sheet must be seen in large measure to redress these basic inequities. The latest New Zealand proposals do not seem to adequately do this.

As regards import licensing, I believe that 1995—thirteen years hence—is by far a too distant date to be considered the basis for providing a 'fair go' trading opportunity across the Tasman.

[*matter omitted*]²

A date thirteen years distant for elimination of licensing cannot—to my mind—be considered to provide for a 'fair go' trading situation.

1 Document 243.

2 Three sentences concerning Cabinet matters omitted on advice of the Department of the Prime Minister and Cabinet.

On export incentives, I am firmly of the view that slippage of the date for total abolition of New Zealand export incentives beyond 31 March 1987 would create a most unfair imbalance on Australian industries, particularly rural industries. In my view New Zealand should begin its general phase out of export incentives (on trans-Tasman trade) on 31 March 1985, the date on which the current scheme expires, and complete the phase out no later than 31 March 1987. Even this termination date, which in all probability will be four years after Australia abolishes performance-based export incentives, will, justifiably, be considered inequitable by Australian producers.

I would urge that these comments be taken into account in you further negotiations with New Zealand prior to Cabinet consideration of the package on 1 June.³

[NAA: A1209, 1981/508, viii]

193 MINISTERIAL SUBMISSION TO STREET BY LAURIE

Canberra, 28 May 1982

RESTRICTED

CER Agreement with New Zealand

PURPOSE: To provide you with up-dated background information and brief talking points on the Cabinet Submission by Mr Anthony for consideration on 1 June. (Attached is Copy No. 9 of the Submission—Submission No. 5487.)

[*matter omitted*]¹

3. Mr Anthony's discussions with Mr Muldoon in Wellington on [20/21] April and subsequent negotiations by officials have now led to a package which meets major outstanding Australian objectives, notably termination dates for New Zealand export incentives (30 June 1987) and import licensing (1995). New Zealand has obtained arrangements satisfactory to its interests on safeguards and government-to-government purchasing. On 18 and 19 May state officials and industry organisations were briefed on the stage negotiations had reached. New Zealand's final agreement on export incentives was obtained only on 25 May, following direct industry-to-industry talks (which had made clear the firmness of the Australian position) and an urgent message on 24 May from Mr Anthony to Mr Muldoon.

3 Nixon sent a copy of the letter to Fraser.

1 A paragraph concerning Cabinet matters omitted on advice of the Department of the Prime Minister and Cabinet.

4. You may wish to draw on the following points in Cabinet's discussion of the submission:

- the agreed package at this stage represents very satisfactory progress towards a CER agreement after prolonged and in many issues closely argued negotiations with New Zealand. The eventual agreement will be a significant milestone in relations with New Zealand, which while close have seen recent strains such as the passport issue² last year and possible damage to this year's Commonwealth Games resulting from New Zealand sporting links with South Africa.
- the arrangements now proposed meet Australia's objectives in the negotiations and could be expected to give Australia some economic benefits, notably in offering new opportunities for Australian exports. New Zealand has set much store by the achievement of a new trade agreement; and, despite continuing concern among New Zealand manufacturers at the prospect of competition from Australian imports, general public reaction to the CER proposals has been favourable. The export incentive and import licensing termination dates are not yet known publicly and may provoke some negative reaction in New Zealand, but the overall attachment to finalising and agreement is likely to prevail.
- the broad thrust of the proposed agreement is a practical and early illustration of aspects of the proposals which the Prime Minister has advocated to participants in the forthcoming Versailles Summit.³ (PM&C will be making a similar point in the Prime Minister's Cabinet briefing.)
- joint briefings with New Zealand officials of senior officials in Pacific developing countries have been set in train; these are intended to allay any concern that the CER agreement may have adverse consequences for their trade, particularly exports to New Zealand.
- it will be important to ensure that Governments of important trading partners in Europe, the Pacific and South East Asia are informed of the contents and implications of CER to minimise any possibility of misunderstanding or misrepresentation.⁴

[NAA: A1838, 370/1/19/18, xxvii]

2 As part of the CER process, the Australian Department of Immigration had moved to tighten up trans-Tasman movements by introducing a passport requirement for visitors from New Zealand. It came into effect in October 1981. New Zealand introduced a similar requirement for visitors from Australia in November 1987.

3 The G7 Economic Summit at Versailles, 4–6 June 1982.

4 Street endorsed the document: 'Noted. A. S. Street 31-5-82'.

194 MINUTE FROM McNAMARA TO FRASER

Canberra, 31 May 1982

**Major correspondence on Closer Economic Relations with
New Zealand (CER)**

Mr Wran and Mr Cain have written concerning CER and you have also received a copy of Mr Nixon's letter¹ to Mr Anthony on this matter (copies attached).

Mr Nixon has expressed concern that while all Australian tariffs will be phased out within five years from 1 January 1983 New Zealand will maintain its import licensing until 1995. He also argues that New Zealand should commence its phasing out on export incentives on 31 March 1985 and complete the process no later than 31 March 1987.

Comment

Mr Nixon's concerns on export incentives were against the background of a New Zealand offer of 31 March 1988. As New Zealand has now agreed to phase out incentives by 30 June 1987 he may no longer have a problem there.

We can appreciate Mr Nixon's concerns on import licensing and our Cabinet briefing note indicates the possibility of similar concerns coming forward from the States and industry. Just what constitutes a fair trade-off is a matter of judgement (rather than arithmetic) and timing is only part of the issue. In 'selling' the CER it will be possible to point out that the Australian market is already very 'open' to import from New Zealand—much of the trade is duty free and our tariffs against New Zealand are, in general, quite low. New Zealand, on the other hand, has higher tariffs and has import restrictions. Thus Australia has little to 'offer' to New Zealand in terms of improved market access. On the other hand, the New Zealand offer constitutes a gradual, if initially modest, opening up of their market for Australian exports, from a position where our ability to compete has been very restricted.

The telexes from *Premiers Wran and Cain* argue that a programme of structural adjustment assistance should be part of the CER package. State officials made similar comments at a recent briefing and were informed that the proposed agreement was not intended to include an Adjustment Assistance Programme but that Premiers would be free to raise the question with you if they wished.

Comment

On the assumption that Mr Anthony's recommendations are accepted by Cabinet, there will be a need to provide the States formally with a copy of the draft agreement with New Zealand. We recommend that, at that time, you could acknowledge the concerns raised by the Premiers and indicate that their views

¹ Document 192.

will be taken into careful account before the Government takes final decisions on closer economic relations with New Zealand.

[NAA: A1209, 1981/508, viii]

**195 EXTRACT FROM RECORD OF DISCUSSION BETWEEN FRASER
AND MULDOON**

Canberra, 10 June 1982

CONFIDENTIAL

Record¹ of discussion between the Prime Minister of Australia, the Rt Hon. Malcolm Fraser, CH, MP, and the Prime Minister of New Zealand, the Rt Hon. R. D. Muldoon, CH, MP, on Thursday 10 June 1982 at Kirribilli House, Sydney

Also present:

Australia

- Sir Geoffrey Yeend — Secretary, Department of the Prime Minister and Cabinet
- HE Mr J. J. Webster — Australian High Commissioner to New Zealand
- Mr Cliff Walsh — Senior Economic Adviser, Prime Minister's Office
- Mr F. E. Anderson — First Assistant Secretary, Department of Trade and Resources
- Mr J. D. Anderson — Assistant Secretary, Department of the Prime Minister and Cabinet

New Zealand

- Mr Gerald Hensley — Secretary, Prime Minister's Department
- HE Mr L. J. Francis — New Zealand High Commissioner to Australia

The discussion began at 3.15 p.m.

[*matter omitted*]

Closer Economic Relationship

Mr Muldoon said that he had no difficulty with the timing envisaged by Australia for securing approval for CER. *Mr Fraser* said he expected to go to Cabinet early in August.

1 The record was prepared by Prime Minister and Cabinet.

Mr Fraser suggested that the conclusion of the CER agreement should be marked as a particularly Australia – New Zealand occasion and not tacked on to the South Pacific Forum meeting in Rotorua. *Mr Muldoon* said he thought *Mr Fraser* was right and this presented no problems for him.

Mr Muldoon said that some industry groups had raised problems. He had stated publicly that if there were genuine practical problems that could not be resolved, New Zealand would have to seek amendments to the draft agreement. He did not however anticipate that there would be much change from the New Zealand side. *Mr Fraser* said that anything New Zealand industry groups could do with their Australian counterparts to avoid undermining the agreement would be appreciated.

Mr Fraser said that the Confederation of Australian Industry had criticised some aspects but it was early days yet and Ministers would be monitoring reactions during the consultations period.

Mr Muldoon said that he had received representations in respect of some processed foods but he thought the problem was manageable. *Mr Fraser* said Australian producers also had some concerns on processed foods but it had to be accepted that in a comprehensive arrangement like CER there had to be gainers and losers on both sides.

Mr Fraser said the consultation process in Australia was more complex than in New Zealand because of the need to consult the States. Initial reactions of the States were to raise the question of structural adjustment assistance, which he rejected. He said in particular New South Wales and Victoria could be difficult. *Mr Muldoon* said that New South Wales had most to gain as 50% of New Zealand imports from Australia were sourced from there. Victoria accounted for about 30% of New Zealand's imports from Australia and also stood to gain considerably.

Mr Fraser said it could be helpful if *Mr Muldoon* were to take any opportunity that arose to make that point to the New South Wales and Victorian State Governments.

[NAA: A1838, 370/1/19/18, xxx]

**196 EXTRACTS FROM CABLEGRAM FROM DEPARTMENT OF
FOREIGN AFFAIRS TO POSTS**

Canberra, 10 June 1982

O.CH040879 RESTRICTED

Australia – New Zealand: Closer Economic Relations (CER)

With the public release by the Australian and New Zealand Governments of a report outlining proposals for new arrangements to cover trade under a closer economic relationship (CER), departments would like to ensure that posts accredited to the governments of our major regional and other trading partners possess adequate background material on the contents and implications of CER.

[*matter omitted*]

4. One of the guidelines was that any new arrangement should be outward looking. The expectation is that a sustained expansion of trans-Tasman trade under CER would lead to the more effective use of each country's resources and provide a stronger basis for expansion of trade links with other countries particularly those in the region. The proposed new arrangements take full account of obligations under international and bilateral trade agreements. They related fundamentally to the treatment of Australian and New Zealand products entering trans-Tasman trade and will not require the withdrawal of any concessions applying to developing countries.

5. Governments in South Pacific Island developing countries are currently being briefed jointly at senior official level by Australian and New Zealand representatives. These briefings, which take account of New Zealand's special interests and concerns in the South Pacific region, should allay any concern that a CER might have adverse consequences for their trade including exports to New Zealand. Apart from the South Pacific it is not intended that briefings be initiated, e.g. for ASEAN or Australia's other trading partners, at this stage, particularly in view of the 'no commitment' nature of the package which has been released. New Zealand officials have given preliminary indications that, in the case of the EC, they would see no need for a joint Australian – New Zealand briefing, the South Pacific having been a special case. We understand that New Zealand officials are likely to seek bilateral talks with the Commission and member countries to underline New Zealand's continuing need for access for its butter and sheepmeat. In general, departments believe that the material provided to posts should be adequate to handle any enquiries. It could if necessary be suggested that more detail be obtained through follow-up by missions in Canberra.

[NAA: A1838, 370/1/19/18, xxx]

197 MINUTE FROM LIND TO SCULLY

Canberra, 4 August 1982

CER Phasing Out of Export Incentives

During informal discussion in Wellington on 28 July, initially with Ted Woodfield and later with more junior officers, I raised questions relating to how export incentives were to be phased out from 1985.

The responses I received created a growing doubt in my mind that New Zealand acknowledges any commitment to phasing. I did not have time to pursue the matter again with Ted Woodfield, but asked Al Page to follow up.

Al Page is forwarding, by bag, a record of his discussion, but the key elements appear to be:

- New Zealand officials do not accept that there is a commitment to phase out from 1985
 - the phasing offer related to the 1988 terminal date, which Australia did not accept.
- The New Zealand Government is not committed to NZ industry beyond 1985.
- The Government is expected to announce on 5 August its intention to consider the future of export incentives by the 1983 Budget.
- Phasing is one option, as is 1985 removal
 - if Australia seeks resolution of this question now, it could lock New Zealand in.

During the April Ministerial meeting in Wellington, both Mr Muldoon and Mr Anthony talked in terms of phasing from 1985, the unresolved question being the terminating date.

Sir Laurie Francis wrote to the Minister on 20 May¹ advising that New Zealand could accept phasing from 1 April 1985 with 1988 as the terminal date. The Minister's reply² recalled that CAI/NZMF had agreed that significant disparities in incentives should be phased out between 1 April 1985 and 30 June 1987 and stressed the importance of 1987 as a terminal date if the CER package was to be acceptable in Australia.

Subsequently, Mr Muldoon and the Minister agreed on the telephone that performance-based incentives should be terminated in the 1987 tax year. We are not aware of any suggestion that, in agreeing to 1987, the offer of phasing lapsed, but we have no formal record nor personal knowledge of the conversation.

1 Document 243.

2 Document 191.

There was no specific references to phasing in the draft Heads of Agreement circulated, but we told the New Zealand High Commission that we regarded this as an oversight and that we would be informing interested parties that phasing would apply as from 1 April 1985. New Zealand has not previously contested this.

Cabinet and industry have been told by the Minister, in writing, that the export incentive arrangement involves phasing out from 1985, with the formula yet to be determined. If there is drawing back from this, it could be used to discredit the whole package and the integrity of the negotiations.

I suggest we consider the situation again in the light of the expected announcement of 5 August. It may then be appropriate for you to ring Harry Clark on the matter.³

[NAA: A1313/113, 82/2594, vi]

198 MEMORANDUM FROM HUGHES TO FERNANDEZ

Canberra, 5 August 1982

M.CH142433 RESTRICTED

Australia – New Zealand Closer Economic Relationship (CER)

Thank you for M.BS5367 and M.B5373 on the approaches made by you and by the New Zealand Ambassador to inform the EC Commission of the proposals for new trading arrangement between Australia and New Zealand. Consultations with the public in both countries on the proposals will soon be complete and we shall advise you of progress.

2. For your own information, the Department of Trade and Resources has not wanted Australia to join in any active way in New Zealand's approaches to the EC, which are seen as essentially a New Zealand responsibility. Departmentally, we can see some cause for concern in the longer term about the EC's response to the CER trade agreement:

- While New Zealand is right to be concerned about such matters as access to the EC for its butter in the wake of CER, it might be wrong to assume that the facts of the situation—the lack of any new market in Australia for New Zealand in dairy products under CER—will prevent the Europeans from using CER as a pretext for reducing New Zealand's access to the European market.

³ Beneath his signature Lind added these words by hand: 'I have mentioned this matter to only a few people in Canberra. N. L.'

- The Europeans could still argue that the CER will strengthen New Zealand and Australia sufficiently to enable both countries to support the 'rationalisation' of New Zealand's dairy industry that would be necessitated by a continuing eroding of New Zealand's market position in Europe.
 - The CER trading agreement, and any subsequent economic or other arrangements intended to contribute to more integrated economic relations, might add to the mistaken impression in Europe and elsewhere that Australia is accepting a special responsibility for helping New Zealand with its basic economic difficulties. (We would suggest that New Zealand's continuing economic viability will depend fundamentally on wide-ranging international trade, including for example, the maintenance and development of its markets in Europe.)
3. You may like to have these considerations in mind in discussions with both the Commission and the New Zealanders on CER-related topics. Your own comments, especially in the light of any Commission responses, would be helpful to us.

[NAA: A1838, 370/1/19/18, xxxi]

199 MINUTE FROM LIND TO SCULLY AND SENIOR EXECUTIVE OFFICERS

Canberra, 6 August 1982

Australia – New Zealand Closer Economic Relations— Countervailing Duties

The release for public comment of the proposal for closer economic relations with New Zealand¹ has generated very strong reaction from Australian State Government and industry interests on the need for prompt and effective action against imports from New Zealand of dumped or subsidised products.

We have advised these interests that the agreement would ensure that the normal anti-dumping and countervailing remedies were available, as does NAFTA.

There has been widespread disappointment expressed that New Zealand is to be allowed to retain performance-based export incentives until 1987 and this has focussed attention on the availability of countervailing as distinct from anti-dumping measures.

There could be a considerable flow of requests for countervailing action against New Zealand. It is also likely that this will provoke retaliatory efforts by

¹ The report, entitled *Proposed Arrangements for a Closer Economic Relationship between Australia and New Zealand*, was released simultaneously in both countries on 4 June 1982.

New Zealand. It is also likely that this will provoke retaliatory efforts by New Zealand industry to have countervailing duties applied against Australian goods entering New Zealand.

Such developments could have implications for Australia's trade with other countries and accordingly are being brought to attention.

[NAA: A1313/113, 82/2594, vi]

200 LETTER FROM FRASER TO ANTHONY

Canberra, 10 August 1982

CONFIDENTIAL

I am writing to you concerning the suggested minimum base access levels contained in the draft proposals for a Closer Economic Relationship with New Zealand.

It has been suggested to me that, in some instances the minimum base of \$NZ200,000 or 5% of the domestic market—whichever is the lower—will be too small to permit an exporter to mount a viable export program. I have also received specific representations from the National Director of MTIA and from the Queensland COD¹ in which increased access opportunities were sought. I am advised that other industry groups have made similar requests.

I would see merit in the question of access levels being given particular attention in the report being prepared by officials examining public reaction to the CER proposals, and in the Submission you are preparing following Cabinet Decision No. 18018 of 1 June 1982.

I am sending a copy of this letter to our colleagues the Minister for Industry and Commerce and the Minister for Primary Industry.

[NAA: A1313/116, 84/2288, i]

1 Not identified.

201 MINUTE FROM LIND TO SCULLY

Canberra, 16 August 1982

CER—Phasing Out of Export Incentives

Further to my earlier minute¹ on this matter Al Page's report on his discussions with Ted Woodfield is attached.

The issue having been uncorked I believe it important that it be mentioned in you next contact with Harry Clark (10 a.m. Tuesday 17/8)²

— it is potentially more destructive than forest products.

You might wish to approach it along the following lines:

— recent indications are that New Zealand is not acknowledging a commitment to phase out incentives from 1985

— appreciate the value of not blocking off the option of complete removal before 1987

— but Minister has told Cabinet and Australian industry that the New Zealand Prime Minister agreed to phasing out from 1985

— we cannot retract from this

— can play it low key along lines:

- details of removal to be worked out after New Zealand review announced in Budget
- make reference to international pressures on New Zealand to remove incentives

— but need assurance that phasing from 1985 is the back marker

— how do we go about getting assurance?

- should the Minister write to Mr Muldoon?

[NAA: A1313/113, 82/2594, vi]

1 Document 197.

2 Words in brackets were handwritten.

202 FILE NOTE BY LIND

Canberra, 17 August 1982

NOTE FOR FILE

*Secretary's telephone discussion with Mr Clark—17/8/82**Phasing out of Export Incentives*

Mr Scully referred to the problem on the question of phasing out of incentives. While he had deliberately not raised it with the Minister yet, he was quite sure that the Minister regarded the phasing as agreed. In his (the Minister) discussion with Mr Muldoon on 1988 and then 1987 phasing had been seen as the fixed star & Cabinet and others had been told this.

Mr Scully offered to attempt to formulate some words which would be helpful to New Zealand without disowning the Australian position. He would come back on this before going to the Minister. It might then be appropriate for the Minister to contact Mr Muldoon on the question.

Mr Clark confirmed the New Zealand position as outlined by Mr Woodfield. He expressed appreciation of the way we were trying to solve the problem.

Subsequently the Secretary commented to me that it may be difficult to find words which met both sides.

[*matter omitted*]

[NAA: A1313/113, 82/2594, vi]

203 MEMORANDUM FROM MORAN TO SCULLY

Canberra, 30 August 1982

CONFIDENTIAL

CER

Having had an intensive series of intra-Departmental meetings on the CER as well as comprehensive industry/State consultations, we are now arriving at a position where our views are crystalising.

We remain firmly of the view that the goals of CER are to the benefit of Australian industry and indeed of the economy. Though we see difficulties in the free trade rather than customs union approach taken by CER our concerns are primarily with the phasing period to general free trade. During this period we feel the draft as circulated unduly prejudices Australian industry.

We are also mindful that any one-sidedness inherent in CER stems from the operations of NAFTA and of Australia's general industry policy which has evolved an assistance regime markedly different from that of New Zealand. The

former of these facets would have to be reviewed in the event that a more embracing economic relationship is not brought about.

The following outlines changes to the draft as circulated which we feel to be necessary.

Access

We are of the view that the overview formula of 5% of the market or \$NZ200,000 (whichever is the lesser) plus 10% real growth is inadequate. We see this as

- an insufficient base for Australian firms to penetrate the NZ market
- lacking credibility in moving to an LOD position given that by 1990 less than 10% of the NZ market will be open and by 1995 less than 16%
 - and these figures would be lower to the extent that the \$NZ200,000 base is less than 5% of the market.

In keeping with a move to LOD by 1995 we would like to see a formula whereby some 30% of the NZ market is opened up by 1990 or 1991. There are various combinations of annual growth and starting points which would make this possible e.g.

- a 10% start point and 15% growth
- a 15% start point and 10% growth
- with a 5% start point, growth of the order of 20–25% would be necessary.

In each case we would wish to see the alternative start point *if higher* at \$NZ500,000 or as a minimum \$NZ350,000.

We are not of in favour of adopting the current formula and improving access on a case-by-case basis since the weight of representations persuades us that the individual cases will prove totally unmanageable to process.

The minimum we can at present envisage as being acceptable to Australian industry and to our Minister would be a formula of 10% start point and 10% growth.

The higher the start point, the fewer are likely to be the individual problems of insufficient access to meet the goal of 'commercial viability'

- but virtually any formula would still leave problems and provision needs to be retained to permit deviation from the formula to tailor specific systems for what may be only isolated product categories.

Allocation

It is not acceptable that NZ industry would have access to 50% of EALs leaving the rest to be tendered. In our view such a provision would not generate rationalisation consistent with market forces

- since it would offer NZ firms an advantage and encourage Australian firms to adapt to this.

One way to reduce this advantage could be to have three equal allocation pools for NZ licences: one to NZ industry nominees, one to Australian industry nominees and one for third parties

- penalties would need to be attached to non-usage in the event that an allocation other than tendering were to be determined upon
- flexibility would be maximised if transfer were to be permitted
- but to ensure some certainty the initial allocation would be required for two or three years with thereafter all growth moving to the third party tender pool
- we would have no objection to NZ allocating licences over and above these levels exclusively to their own manufacturers in the interest of rationalisation.

There is no symmetry between the Australian and NZ system and it is most unlikely that Australia's exclusive NZ quotas could be allocated on the above basis. The availability of past performance may enable us to employ an allocation system not based on tendering or alternatively the full amount could be tendered

- tendering of the full amount would also constitute our 'fall-back' position for EALs should our suggested allocation procedures not be acceptable to NZ.

These provisions would have to be tightly specified in the Heads of Agreement.

Export Incentives

We are now of the view that NZ performance based incentives and suspensory loans would need to be phased out by March 1985 at the latest but that we might need to seek earlier removal for certain products

- the use of the countervailing code provides an analogous solution to the case-by-case solution for import licensing; though it is more flexible than the latter and allows Australia greater control, it has potential shortcomings in stretching our bureaucratic resources as well as creating an adversarial image which would be particularly unfortunate for a free trade agreement.

Safeguards

Broadly speaking we think the safeguards provisions are acceptable. We are of the view that a special purpose advisory body comprising one Australian and one New Zealander should be established and operate on an ad hoc basis (along the lines of the former Textiles Authority though not necessarily linked, formally or informally, to the IAC). Further definition is required to strictly limit the timing of the hearing of complaints, action permissible following receipt of the reports, etc.

Intermediate Goods

There has been extremely slow progress in agreeing within the range of solutions to this issue, specific measures to be applied. To some degree there would appear to be a philosophical difference between ourselves and NZ

- for our part we would wish to see a solution which acts to prevent unfair advantage occurring
- NZ wishes a solution which simply redresses the degree of advantage to the favoured country's industry.

These differences must be resolved.

That aside, the NZ proposals provide a useful basis for a solution provided it is clear that

- in the event of disagreement on the measures to be used, the country being injured takes the action it considers to be most appropriate
- time limits are strictly set
- action on secondary dumping (or probably more correctly 'third country dumping') can be taken.

A further issue is the point at which a disability is recognised as being of sufficient importance to warrant taking action. The extent of meaningful disadvantages will vary from product to product as a result of the products' marketing features, portability etc.

One possibility could be that where an intermediate goods advantage is greater than 10% clear prima facie evidence of the potential trade deflection is constituted; where it is less than 5% there is a lack of such evidence. In between, a judgement is required based inter alia on the importance of transport costs and of price in a product's marketing.

[NAA: A1313/113, 82/2334, vii]

204 LETTER FROM ANTHONY TO FRASER

Canberra, 30 August 1982

I refer to the report of the Departmental monitoring group which was set up at your request¹ to monitor reaction to the Report released on 4 June containing proposals for a closer economic relationship (CER) with New Zealand.

The report of the monitoring group is quite clear that there is overall support for the principle of a CER with New Zealand and that the proposals as they stand represent a considerable improvement on the current position under NAFTA where many inequities exist.

However, despite acknowledgement of the prospect of improved trading conditions there is a general feeling that the phasing out of New Zealand import

¹ The monitoring group was established in early June 1982 and comprised senior officials from Trade and Resources, Industry and Commerce, Primary Industry, and Prime Minister and Cabinet.

licensing and export incentives as proposed, takes too long. Additionally, there is concern that the initial levels of access in some cases are not adequate. These represent the major concerns. They relate to fundamental aspects of the proposals which were negotiated extensively over considerable time taking into account the different situation from which each country had to move.

Other concerns, such as the adequacy of safeguard arrangements, procedures for intermediate goods problems and particular problems of specific industries such as forestry, whitegoods and some sections of horticulture have either been addressed or appear capable of being progressed either by industry and/or officials. In some cases these matters are already in hand.

Against this background, I propose to write to the New Zealand Prime Minister in terms of the attached letter² conveying the nature and extent of the concerns received following release of the draft Report and seeking some strengthening of New Zealand's commitment on the fundamental issues. I will also be seeking improvements on initial access levels.

At the same time, I consider that officials should pursue the other matters referred to above with their New Zealand counterparts, and in the case of particular industry problems with industry representatives where necessary.

I would hope that as a result of this approach it will be possible to put final proposals before Cabinet by the end of September.

In adopting this approach I think it has to be clear in our minds that a final package must reflect an element of compromise by both countries given the widely different base from which we begin working towards free trade.

The main concerns which emerged from the consultation period relating to terminal dates for import licence and export incentives were aspects where it was always clear that each country had a significantly different perspective. The specific proposals on these issues represented significant movement by the New Zealand Government which has found it necessary to sell this compromise to manufacturers in that country in the face of very strong criticism.

Therefore, while a number of concerns can be met through clarification or amendment of the proposed arrangements, I believe it will be exceedingly difficult to obtain a specific improvement in the terminal dates within the proposed agreement itself. However, I will raise these issues with Mr Muldoon in the hope that, even if movement on the dates themselves is not possible, it will at least be possible to obtain some additional assurances from New Zealand. Mr Muldoon's announced review of New Zealand's export incentives may provide scope to meet, in some measure, Australian industry's concerns. On import licensing, it may be possible to obtain stronger assurances from New Zealand that, for many items, licensing will be eliminated well before 1995. On the related question of initial access levels, it may be possible to obtain increases,

2 The letter was not sent until 5 October 1982: Document 209.

according to a broadly based formula rather than a case by case approach, to overcome Australian industry's concern that the levels currently proposed are inadequate or not commercially viable.

I would appreciate your comments on the monitoring group report in respect to the course of action I propose. I am forwarding copies of this letter to the Ministers for Industry and Commerce and Primary Industry.

[NAA: A1838, 370/1/19/18, xxxii]

205 LETTER FROM STREET TO ANTHONY

Canberra, 7 September 1982

I am writing to comment on the stage we have reached in the negotiation with New Zealand of a new trade agreement to succeed NAFTA, in the light of your letter of 30 August to the Prime Minister.¹

I have welcomed the degree of compromise reflected in the package of proposals which we agreed to release for public discussion early in June, and I agree with you that it would be exceedingly difficult to obtain specific improvement on the termination dates for New Zealand's import licensing and export incentive arrangement as they affect trans-Tasman trade. The consultation period has however revealed continuing and deeply-felt dissatisfaction among Australian industry groups and it is clear that, to achieve public acceptance of a new agreement, we shall have to seek some definite improvements from the New Zealanders to the current package. I agree with the terms in which you propose to raise these matters with Mr Muldoon.

The New Zealand Government and press will almost certainly react strongly to our taking up the concerns which have been expressed in Australia and we may be accused of backing away from an agreed position or seeking to undermine the whole processes. Nevertheless I see no alternative to seeking to make the agreement more acceptable to Australian interests.

On timing I believe it could be desirable not to press to finalise a new package by the end of this month. This seems as if it would be a difficult task in the negotiating context in any event. But I also have in mind that such a timetable may coincide with other strains in our relations over the Commonwealth Games. It seems likely that New Zealand may find itself isolated over its policy on sporting contact with South Africa at a Commonwealth Games Association meeting to be held in Brisbane on 27 September and potentially, this is an issue which could cause considerable strains in our relations. It would obviously not be desirable to be pressing New Zealand on CER at that time.

¹ Document 204.

I hope nevertheless that the renegotiation can be completed in time for the new trade agreement to come into effect on 1 January 1983 as originally proposed. Further delay would create a different set of disadvantages for Australian interests by leaving us with nothing to replace the existing outdated and disadvantageous NAFTA. Moreover it would be desirable for the focus in the relationship to move on to other objectives envisaged as part of a CER, and to co-operation on wider international economic and political issues.

I am sending copies of this letter to the Prime Minister and the Ministers for Industry and Commerce and Primary Industry.

[NAA: A1838, 370/1/19/18, xxxii]

206 LETTER FROM NIXON TO ANTHONY

Canberra, [13]¹ September 1982

Thank you for your letter of 30 August outlining a proposed course of action for furthering negotiations on closer economic relations with New Zealand.

I strongly endorse your proposal to reopen with Mr Muldoon the issue of terminating dates for import licensing and export incentives. Strong criticism of the currently proposed dates of June 1987 for the removal of export incentives and 1995 for import licensing has been a consistent theme of almost every representation received by me during the CER consultations.

I have noted your view that it will be exceedingly difficult to obtain a specific improvement in the terminal dates. Nonetheless, the currently proposed dates are clearly perceived as representing a fundamental imbalance in the fair trade concept underlying CER. I must say that this has always represented my own view and in all logic their retention will be extremely difficult to defend in accordance with the 'fair go' concept. We must fully test the prospect of obtaining a commitment to earlier dates in the agreement.

With respect to import licensing, you are no doubt aware that at the last meeting of Agricultural Council, State Ministers of agriculture expressed their strong view to me that the terminating date should be no later than 1987 and called on the Federal Government to negotiate further on this issue. I note that your proposed letter to Mr Muldoon raises the prospect of bringing forward the terminal date and I would hope that Agricultural Council's 1987 proposal could be given serious consideration in the forthcoming negotiations.

During the Agricultural Council discussions and in industry representations the related question of the level of initial access into New Zealand for items subject to import licensing was also raised. This is of particular concern to Australian

¹ The file copy is dated 1982 only but other evidence shows that it was sent on this day.

horticultural industries and to some of the forest products industries where the \$NZ200,000 c.i.f. minimum access level is far too low, particularly when compared with the unrestricted access available to the Australian market. I would support your proposal to try for a broadly based formula approach to increases in initial access levels although for agricultural industries the limited number of items involved could, if necessary, be handled on a case by case basis. If a formula approach does not prove feasible I would hope that we could establish some ground rules which would permit fast and effective determination of the level of access required for commercial viability on a case by case basis.

With respect to export incentives, I believe that the strength of industry representations on this issue requires us to try to obtain an advance in the terminating date specified in the CER arrangement. The request which you propose making of Mr Muldoon—that he *examine* Australia's concerns *in the coming year*—suggests to me that you consider an improvement in the date is not possible in the CER contest. In view of the strong representations received I believe this should be further tested. Should it prove to be the case then in any re-assessment we should urge strongly that Australia's concerns be taken into account in the course of the New Zealand review of its export incentives scheme.

Your letter mentions the need for further discussion with New Zealand in relation to forest products and certain sectors of the horticulture industry.

My prime interest in the horticulture area is to achieve elimination of New Zealand export incentives well before 1987. We have already achieved this for some sectors such as frozen peas and beans and I would like to achieve similar results for the berryfruit and asparagus industries, both of which are likely to face increased competition as a result of vastly increased New Zealand plantings in recent years. I find it most difficult to accept—and to defend to the industries concerned—that where we offer unrestricted duty-free access New Zealand should maintain both tax free export incentives of the order of 10% together with import restraints.

In respect of forest products my views are similar to the above. However, I agree that a combination of industry and official contact is an appropriate way to proceed. Details of the way in which this might be done will no doubt be discussed during our meeting with the industry on 15 September. I would also agree that the other issues aired in your letter—safeguard arrangements, intermediate goods, license allocation—could be pursued by officials over the next few weeks.

Following these discussions and, should they be necessary, your own talks with Mr Muldoon, I assume that Cabinet will again have an opportunity to assess the complete package.

[NAA: A1313/116, 84/2288, i]

207 MINUTE FROM SCULLY TO ANTHONY

Canberra, 17 September 1982

CONFIDENTIAL

CER—MTIA Views

We met with the senior office bearers of the MTIA in Sydney at 2.00 p.m. on 8 September, 1982.

At the conclusion of a very free exchange of view on the worth of the CER the impression that I am asked to convey to you is—

- (1) there is support by the MTIA generally for a well balanced CER
- (2) there is an understanding of the benefits that the elimination in the future of incentives and import licensing will convey long term on Australian manufacturers as well as an appreciation of the cumulative effect of the tariff phase-down in New Zealand and the progressive liberalisation of licensing envisaged.

On the other hand, the MTIA group expressed their strong dissatisfaction with the time that would elapse before the terminal dates come into effect. The particular point that was emphasised was that, because the Australian average tariff is lower than that in New Zealand, New Zealand manufacturers would arrive at duty free treatment in respect of a sensitive range of Australian industries whilst Australian manufacturers exporting to New Zealand still faced high duties and obtained only minimal import access into that country. It was put that this would encourage New Zealand manufacturers to expand their operations, or Australian manufacturers to shift to New Zealand, to exploit the situation in the three years or so before there began to be a position of equality.

Officials pointed to the safeguards provisions in these areas, agreed to strongly support a three month maximum period within which a decision on safeguard action would be taken, and undertook to convey the sensitivities of the specific industry areas to you. These sensitive industry areas are set out in the attached list.

It is suggested that when the Ministers reach a decision as to the future path of negotiation that arrangements be made which will enable the negotiating changes to be transmitted promptly to the MTIA Executive in Canberra for advice. It was agreed that this would be a confidential arrangement not referred to publicly and that we would seek to give the maximum time for responses, bearing in mind that the course of negotiations could well be unpredictable.

[NAA: A1313/113, 82/2593, viii]

208 LETTER FROM FRASER TO ANTHONY

Canberra, 17 September 1982

Thank you for your letter of 30 August 1982¹ concerning proposals for a Closer Economic Relationship (CER) with New Zealand.

I have now seen copies of correspondence you have received from our colleagues the Ministers for Foreign Affairs,² Primary Industry³ and the Acting Minister for Industry and Commerce⁴ on this matter.

I suggest that it would be appropriate, before you proceed further in negotiations with New Zealand, for Cabinet to consider the public reaction to CER proposals together with the extent of any modifications to the proposals which it would wish you to press with New Zealand.

In view of the pressing timetable with New Zealand and the interruptions that are ahead of us in relation to the Cabinet timetable I would therefore ask that you bring forward a Submission in time for Cabinet's consideration next week which takes up the points raised above in the light, inter alia, of views received from Ministers that has now been reached.

I am sending a copy of this letter to our colleagues.

[NAA: A1838, 370/1/19/18, xxxii]

209 MESSAGE¹ FROM ANTHONY TO MULDOON

Canberra, 5 October 1982

CONFIDENTIAL

As a result of our discussions in Wellington in April, our two Governments agreed to the release on 4 June of a report outlining proposals for a closer economic relationship between our two countries. At that time it was envisaged

1 Document 204.

2 Document 205.

3 Document 206.

4 The reply from Fife, Industry and Commerce, dated 10 September 1982, called for 30% access to New Zealand market for Australia by 1990; earlier termination date for export incentives; a substantial share for Australia of exclusive import licences issued by New Zealand in first 4–5 years of CER; and suggested that 1 January 1984 could be the earliest practicable date for implementation.

1 The message was conveyed through Bentley, Australian Deputy High Commissioner, Wellington.

that a period of approximately two months would be available for discussion and consultation with interested parties before final decisions could be taken.

In the light of the extensive consultations and briefings which have taken place in Australia, my Cabinet colleagues and I have given careful consideration to the general reactions and main concerns expressed by State Governments, national industry organisations and other bodies in response to the proposals which we released in June. As a result, I am writing to you outlining our thoughts on the results of the consultation process and the steps we see as necessary to progress the proposals to a stage where the Government could take final decisions on this subject.

First, I should emphasise that there has been general support for the concept of CER within the business community and from State Governments. However, at the same time, there has been strong criticism of a number of particular aspects of the proposals.

The most widespread and substantial concerns, which concerns are shared by the Australian Government, relate to the terminal dates for import licensing and export incentives and the initial access levels generated by the proposed formula. Other widely raised issues include the adequacy of safeguard arrangements, procedures for resolving intermediate goods problems and proposed methods for allocating exclusive licences, where the New Zealand intention is to assign 50 percent of licences to manufacturers. A number of specific commodity issues were also raised.

My Ministerial colleagues and I are very concerned that the principal issues raised by State Governments and key industry organisations in Australia should not become stumbling blocks in the Australian Government's final assessment of the package. Australian Ministers are fully conscious of the fact that the terminal date for import licensing and export incentives were the outcome of extensive consultation and negotiations between us. However they have been particularly concerned by claims that the objectives of fair competition and equality of trading opportunity are set too far into the future.

The date for termination of performance-based export incentives is regarded as a crucial factor by Australian firms despite the understanding that export incentives will commence phase-out from 1985. They see it as a perpetuating unfair competition for almost five years from the proposed date of implementation.

I have noted the comments which you and your Ministerial colleagues have made in relation to the review of New Zealand's export incentives. In the light of those comments and the deep concern expressed by Australian industry on this aspect of the proposed CER, I must ask that you seriously reconsider the possibility of undertaking within CER to eliminate performance-based export incentives across the Tasman in 1985.

Early action on export incentives could also avoid a spate of anti-dumping/countervailing actions which could have adverse implications for the

general climate of trans-Tasman trade and encourage the development of similar attitudes on the part of third countries.

The issues of the terminal date for import restrictions and initial access levels have provoked similarly strong representations. These have contrasted the greater freedom of access into Australia which will result from the removal of tariffs by 1988 with the situation in New Zealand where only modest increases in access will have been effected by that date under the formula for liberalisation of import restrictions. This is not seen as consistent with the principle of fair competition. I must therefore ask that you seriously consider also the possibility of bringing forward the terminal date and increasing initial access levels.

This situation would also be ameliorated by strengthening the commitment, already in the proposed Heads of Agreement, for the earlier removal liberalisation of import restrictions on a case-by-case basis as circumstances permit.

Initial access levels and a number of matters including safeguard arrangements, intermediate goods procedures, licence allocation, certain aspects of export incentives and specific product issues could be perused by officials in their current discussions in Wellington. I feel that the principles already set out in the proposed Heads of Agreement provide scope for further elaboration which should take account of most of these substantial concerns.

You will be aware that two main industry areas, forest products and whitegoods, remain unresolved. I would hope that through a combination of industry-to-industry consultations and/or official contact these important groups can be satisfactorily incorporated into the arrangements. There are some other industries which have expressed concern at the inequality of the arrangements which would apply to them, for example copper and aluminium and certain sections of horticulture, but I believe these too can be satisfactorily pursued at the officials level for the moment.

I look forward to your comments on the matters I have raised, with the aim of being able to put final proposals before the Australian Cabinet by the end of October.

[NAA: A1838, 370/1/19/18, xxxiii]

210 EXTRACT FROM RECORD OF MEETING BETWEEN FRASER AND MULDOON

8 October 1982

CONFIDENTIAL

Meeting between the Prime Minister, Mr Fraser and the Prime Minister of New Zealand, Mr Muldoon, Brisbane, Friday, 8 October 1982

Also Present: Sir Laurie Francis
New Zealand High Commissioner
Mr T. Groser, Foreign Affairs Adviser to Mr Muldoon
Sir Geoffrey Yeend¹

CER

Mr Fraser asked Mr Muldoon what he had on his agenda. *Mr Muldoon* responded immediately 'CER'. *Mr Fraser* said that in two States at least this was likely to be made a political issue and would then be picked up by the Leader of the Opposition. The problems were in respect of terminal dates and levels of access.

Mr Muldoon said that there was no way that terminal dates could be shifted as far as New Zealand was concerned. On levels of access it may be possible to negotiate some change. New Zealand manufacturers were keeping very close to this issue and were keen to get it together. They were holding their troops together but would lose them if terminal dates became the issue. Some specific industries—forestry and the steel industry in Australia—had obviously realised the need to look closely at CER.

Mr Fraser said the State Governments were honing in on the issue as were industry groups. Terminal dates were the main problem. There was no way that the present document can be accepted without major political argument in Australia. To *Mr Muldoon's* comment that it therefore became a matter of specifics, *Mr Fraser* said not entirely. It would depend on whether import licensing could be phased out quickly; or the steps be made bigger in the earlier years, so that the last years do not matter so much.

Mr Muldoon said there may be some flexibility in this respect. The details were not in his head but there were some commitments in New Zealand to review incentives anyway. Some aspects of taxation law were being amended at the present time. As soon as that was finished the New Zealand Government would want to move into the questions of incentives for manufacturers and farmers. He said it may be an area where New Zealand could make some commitment vis-a-vis Australia, but it was six months off. There was already a commitment to the US to do something about export incentives by 1985.

¹ Yeend prepared the report.

Mr Muldoon commented that Australia of course had a bounty system. *Mr Fraser* responded that there were none on exports that he could think of but agreed with *Mr Muldoon's* comment that bounties would have some influence on New Zealand exports into Australia. *Mr Muldoon* said that if there were changes New Zealand would want to look at this question of bounties in Australia. But he was not making any firm comment. He did not see difficulty in introducing some flexibility on implementation. He did however see no flexibility on terminal dates.

Mr Fraser said that if that was New Zealand's position on terminal dates there would need to be bigger initial steps in reducing import licences to sell CER in Australia. That is what had influenced *Mr Anthony's* letter.² He did not want to see the matter become a political problem in Australia.

Mr Muldoon saw no political problem in New Zealand on the matter. But to *Mr Fraser's* comment that there would be one in Australia, commented that he supposed the States would not be helpful. *Mr Fraser* said State attitudes necessitated movement on dates or steps particularly in the manufacturing area. There were two paths that could be pursued to mollify Australian industry and this was one of them.

Mr Muldoon said he would have to see what could be done. In New Zealand, to those opposed to CER, the New Zealand Government had said 'bad luck it is going to happen'. An example was Wattie's Industries. There were others—for example a fishing rod manufacturer—who would go out of production—although acknowledging *Mr Fraser's* comment that it was often a matter of improving efficiency *Mr Muldoon* thought that 1995 would allow manufacturers to cover their investments. Anything less he thought was impossible. State preferences in Australia were still a problem—acknowledging *Mr Fraser's* comment that the Commonwealth Government opposed them.

To *Sir Laurie Francis's* comment that *Mr Paul Keating* was a supporter of CER, *Mr Fraser* said that that could not be relied on. The Labor Party would determine its own attitude and members would be obliged to conform. *Mr Muldoon* commented that Australia had given large depreciation allowances to manufacturing industry which had the same effect as export incentives. *Mr Fraser* commented that we were trying to match European efforts in their industries—but we were still behind. *Mr Muldoon* said that export incentives were 20% on diminishing value in New Zealand with some specific cases being made, but there was of course sales tax on plant. In any comparisons in this area there had to be a high degree of precision.

Mr Muldoon went on to comment that the other aspect was whether the scheme could commence on 1 January. Technically it would be possible for New Zealand to do so. But if 1 January was missed there would then be some difficulty.

2 Document 209.

New Zealand could not legislate until later in the year—possibly July or August—maybe a little earlier. He said he was calling the New Zealand Parliament together at the end of May but it would mean well into 1983 for a commencement. *Mr Fraser* responded that the Australian Cabinet had not discussed the start date and would not be doing so until there was progress on other areas. To *Mr Muldoon's* question whether legislation was required in Australia, *Sir Geoffrey Yeend* responded that it would be required. *Mr Muldoon* said officials were waiting on guidelines to continue with their meetings. There would then be talks with Mr Anthony on the fine detail. *Mr Fraser* agreed that this area could be pressed on vigorously.

[NAA: A1838, 370/1/19/18, xxxiii]

**211 CABLEGRAM FROM AUSTRALIAN C.E.R. DELEGATION,
WELLINGTON, TO DEPARTMENT OF TRADE
AND RESOURCES**

Wellington, 8 October 1982

O.WL13942 CONFIDENTIAL

CER: JWP discussions

For Trade—Please ensure appropriate departments alerted.

On the basis of discussion to date New Zealand officials are preparing a paper for consideration by Cabinet Economic Committee (CEC) on Tuesday 12 October.

Our objective has been to provide New Zealand officials with clear statement of Australian position on issues where Australia is seeking specific improvements/modifications in existing package in order that they can seek CEC mandate. Hopefully this will lead to a basis for agreement being reached by JWP in discussions next week, leaving a limited number of issues for consideration, and looking to a Permanent Heads meeting in Canberra on 18–19 October.

2. We have not specifically addressed the two terminal date issues. However, in knowledge of Mr Muldoon's 7 October letter¹ rejecting possibility of earlier terminal dates and without prejudice to Australian Ministerial reaction, we have foreshadowed that Australia would be looking for 'substantial increase' in initial access. As a delegation, we have not felt able to venture a view as to what Australia might judge as an acceptable increase in this regard without further instruction from Canberra. New Zealand officials need to obtain a negotiating mandate from Tuesday's CEC if this issue is to be progressed. It seems desirable that CEC should be able to consider either a firm Australian proposal or some 'ball park' indication of what we would be seeking.

1 Document 254.

3. In conversation outside the meeting New Zealand officials have indicated they were thinking along lines of dollars NZ 300,000 being the minimum or taking the 18 month figure proposed in the 'revised access offer list' as the basis for 10 percent annual increases.
4. There are a number of possible opening positions which might be put to the New Zealand officials to obtain a reaction. One option would be 'a doubling of present access provisions'. This would mean a dollars 400,000 minimum or 10 percent of the market, whichever the lesser and a doubling of the annual growth rate to 20 percent. Such a proposal would result in a doubling of access every four years. A less controversial approach in terms of likely New Zealand reaction would be a dollars 500,000 minimum and no change to the other elements.
5. We would appreciate guidance on the approach we should adopt. Advice by close of business Monday New Zealand time would be the latest for Tuesday's CEC.
6. Discussion on performance-based export incentives revealed that New Zealand Ministers do not see the phasing offered by Mr Muldoon when initially proposing a 1989 termination date at the April Ministerial meeting as an element in the subsequently agreed package date of 1987. We have assured New Zealand officials that Mr Anthony was of the very firm view that phasing remained an essential element of New Zealand's offer. Other Australian Ministers and indeed State Governments and industry had been advised on this basis. As far as Australia was concerned, phasing is part of the existing package.
7. In view of Mr Muldoon's response on terminal date we have suggested to New Zealand that significant front end phasing-out performance-based export incentives would need to be offered before Australia could see any improvement in the package as it currently stands. We have suggested that they give serious consideration to effecting a major reduction of benefits available on 1 April 1985 or to commencing a more gradual phase down prior to 1985 to achieve the same result.
8. Discussions on cash securities/countervailing threw up a further significant issue relating to export incentives. New Zealand officials have presented the view that agreement on the removal of export incentives within CER obviates the justification for Australia resorting to countervailing action in the meantime. We have left them in no doubt that as provided in para 13.04 of the D. H. O. A. we regard countervailing measures as a legitimate recourse available to Australian industry under CER. Indeed, we had frequently drawn attention to this fact when seeking to reassure parties critical of the export incentives termination date during the consultations held in Australia.

**212 CABLEGRAM FROM DEPARTMENT OF TRADE AND
RESOURCES TO AUSTRALIAN C.E.R. DELEGATION,
WELLINGTON**

Canberra, 11 October 1982

O.CH66229 CONFIDENTIAL

CER: JWP Discussions

For Trade/from Trade
Attention: CER Delegation

Mr Anthony has considered the issues outlined in O.WL13942¹ and has given the following directions:

2. In respect of the key issues of import licensing and export incentives the Minister has directed the following proposals be put to New Zealand.

A. Import Licensing

(1) The present minimum access offer of dollars NZ200,000 or five per cent of the market whichever is the lower be increased to a minimum access figure of dollars NZ400,000 [or 10 per cent of the domestic market whichever is the lower]² with an annual growth rate of ten per cent per annum in real terms.

(2) For those item codes where the base access level is above dollars NZ400,000 but less than dollars NZ1 million the annual growth rate be 20 per cent per annum in real terms until such time as it reaches dollars NZ1 million and ten per cent thereafter.

B. Export Incentives (underline)

As outlined in your paras 6 and 7 you should reiterate to New Zealand officials that there is no doubt on Australia's side that phasing was an essential element of New Zealand's offer and that Ministers see a need for a significant front end phasing out as a minimum.

Mr Anthony has requested that this be conveyed as his position and that he considers that this question of incentives is one that should be left for resolution between he and Mr Muldoon rather than be canvassed by officials.

In the light of the review of export incentives currently being undertaken by New Zealand, Australia also seeks a firm commitment that its very serious concerns about the continuation of New Zealand's export incentives in trans-Tasman trade be a major consideration in the New Zealand Government's determination of its future policy in this area.

1 Document 211.

2 Material in square brackets inserted from correcting cablegram O.CH66383 from Wellington, dispatched 11 October 1982.

C. Other Issues (underline)

Although export incentives and import licensing are the major issues Mr Anthony has also directed that the other issues identified in the monitoring group report such as specific product issues government purchasing, intermediate goods and transitional safeguards be vigorously pursued.

[NAA: A1838, 370/1/19/18, xxxiii]

**213 CABLEGRAM FROM AUSTRALIAN C.E.R. DELEGATION,
WELLINGTON, TO AUSTRALIAN GOVERNMENT**

Wellington, 13 October 1982

O.WL13984 CONFIDENTIAL

CER: Joint Working Party discussions

For Suva: please bring to attention of Sir Geoffrey Yeend.

Following outline of progress in JWP is being provided in response to reftel given possibility of early discussion between Prime Minister and Mr Muldoon. A more comprehensive account will be provided at the end of discussions on Thursday.

Further to our O.WL13942,¹ NZ Cabinet Economic Committee (CEC) on 12 October considered Australian proposals for improvements/modifications in CER package. As conveyed to us by NZ officials, CEC reactions on major issues are set out below. Note that delegation has not raised issues of terminal dates for export incentives and import licensing covered in correspondence between Mr Anthony and Mr Muldoon or commencement date for CER.

Access Levels: (underlined)

In accordance with Mr Anthony's directive (O.CH66229² refers) we proposed that minimum initial access levels of dlr NZ 200,000 or 5 percent of domestic market whichever is lower be doubled (underline one) to dlr NZ 400,000 and 10 percent. We proposed that growth on base access levels remain at 10 percent p.a. in real terms with the exception of items for which initial access levels ranged between dlr NZ 400,000 and dlr 1 million. Here we proposed a 20 percent p.a. increase in access until such time as access opportunities reached dlr 1 million, thereafter 10 percent growth would apply.

We were advised that NZ Ministers are disposed to see some movement in initial access levels. However, they are concerned at the size of the increase which Australia has proposed and at possible adverse industry reactions in NZ. Urgent

1 Document 211.

2 Document 212.

soundings of selected private sector representatives are being undertaken. NZ officials are currently assessing the full implications of the proposed increases in access and hope to give a more detailed response by the end of next week.

Export Incentives: (underlined)

As directed by Mr Anthony we have conveyed but not canvassed the phasing out of export incentives leaving this for resolution between Mr Muldoon and Mr Anthony. Notwithstanding Australia's disputed claim that phasing is part of the existing package, NZ Ministers have agreed to the phasing out of performance-based incentives. However they do not wish to prejudice the outcome of the review of export incentives announced in the 1982 budget and wish to maintain maximum flexibility in this regard. Accordingly they wish to reserve their position on the issue of front-end phasing (bigger initial steps) pending the review.

NZ is prepared to give an unequivocal assurance that Australia's very serious concerns about the continuation of export incentives in trans-Tasman trade will be a major consideration in the review of future policy on incentives. The JWP has yet to discuss the precise form which such an assurance might take.

Countervailing Duties: (underlined)

NZ Ministers are very concerned at the possibility of countervailing action against imports from NZ which receive export incentives. They believe that once a terminal date and phasing arrangements for export incentives have been agreed between as part of CER, the export incentives issue has been resolved and that Australian industry should not have access to an additional 'solution'. On instruction from Ministers, NZ officials have requested that the JWP find some means whereby, under CER, the risk of countervailing action pre-empting the agreed means of dealing with the export incentives issue can be avoided.

We have pointed out that Australian industry has a legal right of recourse to countervailing procedures. Anti-dumping/countervailing is the only means of remedying the unfair trading situation created by export incentives until the incentives are removed.

Other Issues: (underlined)

Discussions are continuing on a number of issues including government purchasing, methods for allocating import licences, intermediate goods, safeguards and specific products. There has been some progress and we expect that a number will be resolved to Australia's satisfaction.

Further Steps: (underlined)

It is envisaged that major remaining unresolved issues will be considered by Australia and NZ Permanent Heads in Canberra next week.

214 MINUTE FROM ANDERSON TO ANTHONY

Canberra, 21 October 1982

URGENT CONFIDENTIAL

Australia – New Zealand Closer Economic Relations (CER)

Intensive discussions on CER have been held with New Zealand officials over the past three weeks

- Joint Working Party met in Wellington on 6–15 October
- Permanent Heads met in Canberra 19–20 October.

Considerable progress has been made in establishing a basis for agreement on a number of modifications/improvements in the draft package, consistent with the approach endorsed by Cabinet. These include

- certain aspects of the import licensing and export incentives issues
- special arrangement for whitegoods
- safeguards
- intermediate goods
- government purchasing
- specific product issues (copper and aluminium products).

However the key issues of terminal dates, initial access levels/growth formula and phasing of export incentives have been reserved for Ministers

- while acknowledging some room for movement, New Zealand officials have not given a detailed reaction to our access proposals.
- New Zealand can agree to phasing of export incentives
 - but wishes to reserve any commitment on timing and degree pending the review of incentives announced in the 1982 Budget.

We are hopeful that we can allay New Zealand concerns on countervailing by an assurance that alternative solutions will be sought through consultation.

Exchanges are continuing on some other aspects of the package and it is our expectation that these can be agreed by officials.

Ministerial meeting

New Zealand Permanent Heads have been left in no doubt that your forthcoming meeting with Mr Muldoon represents 'make or break' for CER

- and that, in your judgement, the proposals put to New Zealand on initial access/growth formula and the need for a significant front-end phasing of performance-based export incentives are the very minimum which the Government could accept as part of a final package.

As discussed with Mr Barker, we have informed New Zealand officials that you could be available for discussions with Mr Muldoon in Wellington on Thursday 28 October and for dinner at Vogel House that evening.

A letter to the Prime Minister requesting approval to travel to Wellington and for use of a RAAF Special Purpose Aircraft is attached for your signature.¹

[NAA: A1313/113, 82/2593, viii]

215 MINUTE FROM LIND TO SCULLY

Canberra, 22 October 1982

CER Ministerial Meeting: Travel to Wellington

Arrangements are in hand for the Minister to meet with Mr Muldoon in Wellington on 28 October for discussions which will have a major bearing on the future of the proposed CER.

Given the importance of this meeting and the range of issues which may be canvassed in the Ministerial discussions or separately by officials, it would seem appropriate that the Minister be accompanied by most members of the Department's CER Task Force. Accordingly, it is recommended that Mr Anderson (subject to availability), Mr Hawes and I be included in the officials delegation.

The Minister has received approval to use an RAAF special purpose aircraft and will depart from Fairbairn mid-afternoon on 27 October with return from Wellington on Friday 29 October timed to reach Coolangatta by mid-morning. Subject to availability of the aircraft, it is proposed that the accompanying officials would then be returned to Canberra. However against the possibility of non-availability of the VIP aircraft, it would seem desirable to have ticketing by commercial airline from Coolangatta to Canberra on 29 October.

As there may be residual paper work arising from the Ministerial discussions and in view of the other matters which may need to be tidied up at the officials level, I believe we should also plan on Mr Hawes and myself remaining for discussions on Friday morning with return ticketing by commercial flight on Friday afternoon.

Your approval is sought for travel arrangements to be made on the above basis.¹

[NAA: A1313/113, 82/2593, viii]

¹ Anthony wrote 'Noted. Anthony 21 Oct 1982' on the document.

¹ Scully endorsed the document: 'Agreed. P. Scully 25/10'.

216 LETTER FROM FRASER TO ANTHONY

Canberra, 25 October 1982

I am writing to you in relation to negotiations with New Zealand concerning the possible agreement on Closer Economic Relations.

With negotiations on these issues at an advanced stage, one of the considerations we have to bear in mind is not only the attitude of our own manufacturers and other industries in relation to the proposal, but also the attitude which might be adopted at the end of the day by the States—in particular New South Wales and Victoria.

I believe that the responses from those States concerning the proposals, which I attach for ease of reference, do suggest that the present proposals would not be acceptable without major political argument in Australia. I drew Mr Muldoon's attention to these issues in discussion in Brisbane on 8 October 1982.¹ I would therefore ask that the positions adopted by the States be taken into account in further negotiations with New Zealand so that political disputation may be avoided in Australia.

I am copying this letter to our colleagues the Ministers for Primary Industry and Industry and Commerce.

[NAA: A1313/113, 82/2989, ix]

217 MINISTERIAL SUBMISSION TO STREET BY LAURIE

Canberra, 26 October 1982

CONFIDENTIAL

New Zealand – CER negotiations

PURPOSE: To advise you of the stage reached in the CER negotiations with New Zealand.

2. Ministers decided on 28 September (during your visit to New York for the UN General Assembly) that Mr Anthony should press New Zealand for improvements in the proposed new trade agreement, giving highest priority to securing earlier termination dates for import licences and export incentives. Other areas for further negotiation included government purchasing, intermediate goods, transitional safeguards and a number of specific product issues. Ministers agreed that Mr Anthony should report on the new negotiations in October, and decided they would not consider the question of an implementation date until the outcome was known.

1 See Document 210.

3. Mr Anthony wrote to Mr Muldoon on 4 October¹ setting out Ministers' views following their consideration of the public reaction to the proposals as circulated in June, and asking New Zealand to reconsider the aspects causing concern in Australia. Mr Muldoon replied on 7 October² explaining the difficulties for New Zealand involved in any renegotiation of the termination dates, but suggesting that it should be possible to explore other aspects of import licensing and export incentives with a view to ensuring that Australian concerns about the objectives of fair competition and equality of trading opportunity were met.

4. Accordingly Australian officials from Trade and Resources, Industry and Commerce, Primary Industry, Prime Minister and Cabinet and this Department had discussions at working party level with their counterparts in Wellington from [5] to [15] October, and on 19 and 20 October further negotiations were held at Head of Department level in Canberra.

5. Progress has been limited. While acknowledging New Zealand's difficulties, the Australian side—Industry and Commerce in particular—emphasised the continuing presentational difficulty in Australia of the termination dates and pressed New Zealand for significant improvements in access to the New Zealand market for Australian manufacturers in the early stages of operation as an alternative means of responding to this problem. New Zealand was not prepared at this stage to accept a suggestion by Mr Anthony for doubling the initial access proposals in the present package, while Industry and Commerce let it be known that even this offer might not prove acceptable on the Australian side. Similarly on export incentives Australian officials have underlined the importance of significant phasing out beginning 1985 (e.g. 50% of the incentives currently applying to trans-Tasman trade), while New Zealand would still prefer slower phasing and is in any case reluctant to make any definite commitment before the review of the overall export incentive scheme intended in the 1983 budget.

6. The discussions have seen further progress on outstanding detailed issues including countervailing and anti-dumping measures and trade in whitegoods, carpets and forestry, horticultural and plumbing products.

7. Negotiations have now advanced as far as possible at official level. Mr Anthony is to have discussions in Wellington with Mr Muldoon on 28–29 October. He will then report to Ministers. The possibility still exists of implementation on 1 January, assuming Ministers on both sides agree to a new package of proposals by mid-November and the two Prime Ministers initial the Heads of Agreement in early December. However Mr Muldoon in an address to the influential New Zealand Manufacturers' Association has already spoken of

1 Document 209. It was usual to send the text of a Prime Ministerial letter by cablegram to the Office of the High Commissioner with the request that it be passed to the Prime Minister. This sometimes resulted in a slight disparity in the dating of the letter. A signed copy of the letter was sent by bag.

2 Document 254.

slippage to October 1983 or even January 1984. In any case, the acceptability in Australia even of a renegotiated package is not certain. The Department of Industry and Commerce, for example, remains unconvinced that there would be any disadvantage for Australia in abandoning the proposed new trade agreement and allowing NAFTA to lapse at the end of 1983, at which time the current preferential tariffs for New Zealand would terminate. The Department of the Prime Minister and Cabinet is concerned at the domestic political implications of a proposed agreement which State Governments, notably in NSW and Victoria and to some extent Queensland, have explicitly criticised.

8. We would nevertheless be concerned about the wider implications for relations with New Zealand if the CER process were to collapse. Without a new agreement the trading relationship would become complex and disputatious. Many New Zealanders (including the Government) would seek to blame Australia for their economic difficulties and for the failure of the CER effort. A New Zealand feeling that Australia had pressed for too much could in turn and in time have negative consequences for co-operation in other important areas such as ANZUS and the South Pacific.

9. The CER negotiations are not likely to continue beyond the negotiation of a new agreement to succeed NAFTA: New Zealand ideas for other areas of closer economic co-operation such as investment and banking seem to lack real content, and we do not favour the idea of a broader agreement covering such issues as migration and civil aviation (which we believe are better pursued in their own right).

10. Our tentative assessment, shared by Trade and Resources, is that New Zealand will overcome the objections of its manufacturing sector and agree to the substance of Mr Anthony's initial access proposals. If this occurs and if Ministers approve the revised package, we think that the CER negotiations could come to a reasonably amicable and mutually advantageous close. We will provide you with further briefing material before Cabinet considers the question again.

11. For information.³

[NAA: A1838, 307/1/19/18, xxxiii]

3 Street endorsed the submission with the words 'Noted. A. A. Street 27-10-82'.

218 BRIEF FOR ANTHONY'S MEETING WITH MULDOON

Canberra, 28 October 1982

CONFIDENTIAL

Australia – New Zealand Closer Economic Relations (CER)**Ministerial Meeting****Wellington, 28 October 1982****Brief***A. Overview*

Your meeting with Mr Muldoon marks a major crossroad in the progress of proposals for a CER

- will determine whether he is able to give sufficient ground on the key issues of export incentives and import restrictions to meet your specific negotiating objectives [and]¹ enable finalisation of an overall package which could be expected to receive Cabinet endorsement.

Your discussions will focus heavily on export incentives and import restrictions however, subject to progress made by officials, it may also be necessary for you to discuss countervailing, allocation of licences, forest products and canned fruit.

Failure to resolve the two key issues will almost certainly mean abandoning the target implementation date of 1 January 1983 and could necessitate a complete reassessment of the future of the initiative which was formally launched by the two Prime Ministers in March 1980.

Movement on the key issues will not be easy for Mr Muldoon particularly given the different approach to consultations adopted by New Zealand both prior to and in the light of public release of the 'exposure draft' on 4 June.

New Zealand consulted closely with industry on the impact of the liberalisation formulae throughout the negotiations leading to the exposure draft

- firm terminal dates for performance based export incentives (1987) and import restrictions (1995) were ultimately established in the face of very strong industry objection in New Zealand
- consultations since June have placed emphasis on educating groups throughout New Zealand on the full details of the proposed new arrangements [and] promoting public acceptance of the main elements.

In Australia although key industry bodies and States were kept generally informed and their views invited, emphasis was placed on the Prime Minister's initial commitment that no substantive decisions would be taken until the details

¹ The format of the document has been modified slightly to improve readability.

of any proposed new arrangements were made public and all interested parties had the opportunity to comment. Accordingly release of the exposure draft provided State Governments, members of national industry bodies, etc., with their first opportunity to comment on the overall package.

Australia's objective in this latest round of negotiations is to obtain a number of improvements/modifications in the draft CER package

- in accordance with the approach agreed by Cabinet following consideration of a monitoring group report which revealed widespread in-principle support for the objectives of CER [and] acknowledgement that the proposed arrangements will result in an improvement, over time, in the inequities of the situation under NAFTA

but

strong criticism of a number of elements, including those relating to the fundamental issues of import restrictions and export incentives, in addition to the initial levels on which increased market access is to be based.

[*matter omitted*]²

[*matter omitted*]³

In light of Mr Muldoon's response, you instructed Working Party officials to

- put a request for a doubling of the minimum access level to \$NZ 400,000 cif or 10% of the domestic market, whichever is lower with provision for a 20% real annual increase for item codes where base access was between \$NZ 400,000 and \$NZ 1 million.
- reiterate that Australia has seen phasing as an essential element of New Zealand's offer to eliminate performance-based export incentives by 1987 and that you would wish to resolve with Mr Muldoon the question of a significant front-end phasing of incentives which Australian Ministers see as a minimum
- seek a firm commitment from New Zealand Ministers that Australia's very serious concerns about the continuation of New Zealand's export incentives in trans-Tasman trade will be a major consideration in the New Zealand Government's review of future policy in this area.

The issues identified by Cabinet have been the subject of intensive discussions with New Zealand officials during October

- Joint Working Party met in Wellington 6–15 October
- Permanent Heads met in Canberra 19–20 October.

2 A paragraph concerning Cabinet matters omitted on advice of the Department of the Prime Minister and Cabinet.

3 The omitted matter summarises Anthony's letter to Muldoon (Document 209), Muldoon's reply (Document 254) and notes Muldoon's meeting with Fraser (Document 210).

Considerable progress has been made in establishing a basis for agreement on a number of modifications/improvements in the draft package, consistent with the approach endorsed by Cabinet. These include

- certain aspects of the import licensing and export incentives issues
- revision of the proposed special arrangement for whitegoods
- transitional safeguards
- intermediate goods
- government purchasing
- certain of the specific product issues. Details of these and other aspects which have been agreed or which are expected to be finalised by officials are summarised in *Section C*.

However, the key issues of terminal dates, initial access levels/growth formula, and phasing of export incentives have been reserved for Ministers

- New Zealand can agree to phasing of export incentives but wishes to reserve any commitment on timing and degree pending the current review
- New Zealand has not responded in detail on our revised base access/growth proposals for import licensing although some scope for movement has been acknowledged
- we are working with New Zealand officials to overcome their reluctance to allow for countervailing action which they regard as inappropriate under CER in view of their agreement to removal of export incentives, however it seems likely that this will also need to be addressed by Ministers
- briefing on the key unresolved issues is contained in *Section B*.

[NAA: A1313/116, 84/2288, i]

219 MINUTE FROM LINCOLN TO LAURIE, HUGHES, VERNER Canberra, 29 October 1982

CER—Mr Anthony's Negotiations in Wellington

Geoff Bentley has just rung to advise of progress:

- (a) New Zealand has agreed to the phasing of export incentives at 50% phase out in 1985, 75% in 1986 and complete termination in 1987;
- (b) New Zealand has agreed to a \$400,000 figure as the basis for initial access under import licensing, but discussion is continuing on the details—they have proposed a starting figure of \$400,000 or 5% (we have sought 10%) with a rate of increase of 15% a year up to \$1 million (we have sought 10%).

2. This seems to suggest that the distance between the two sides has considerably shrunk.

3. Nevertheless the T and R officials in the Australian delegation report Mr Anthony as not optimistic that Australian Ministers will accept the new package (despite this morning's press accounts).¹

(I. S. LINCOLN)

New Zealand Section

Mr Laurie: Trade and Resources have confirmed the above account this morning. Mr Muldoon conceded on the phasing of export incentives almost immediately. The NZ offer on import licensing is felt to give a little less initial access than we sought but a faster rate of increase in the earlier stages; and to be as far as New Zealand could go. Trade and Resources are now preparing a Cabinet Submission for consideration early next week, which will recommend the new package. They believe they will have the support of both PM & C and Industry and Commerce. They will convene an interdepartmental meeting in the next day or two.

(I. S. LINCOLN)

1 November 1982²

[NAA: A1838, 370/1/19/18, xxxiv]

220 MEMORANDUM FROM MULLINS TO DEPARTMENT OF FOREIGN AFFAIRS

Wellington, 2 November 1982

MWL10107

New Zealand: Closer Economic Relations with Australia

Reactions to the visit of Deputy Prime Minister Anthony last week have been cautious and optimistic.

2. Prime Minister Muldoon, speaking to journalists after Cabinet on 1 November, confirmed that Cabinet had approved the agreement reached with Mr Anthony. He repeated several times that the substance of the agreement would not be disclosed 'to anyone' until it had been considered by both Cabinets (i.e., New Zealand and Australia). He said that the terminal dates remained

1 Laurie forwarded the minute to Henderson with the annotation: 'This is the first news. We'll be in touch with T&R. R. L. 29/10'.

2 Lincoln added this postscript to the end of the minute on 1 November. Laurie annotated it: 'Thanks. Pls keep me V closely informed. R. L. 1/11'.

non-negotiable but that there had been some changes on the question of access ('I think we have been able to help him a little without damaging our own manufacturers. But I cannot go beyond that'). Mr Muldoon said 'we have an agreement' on CER, subject to confirmation from the Australian Cabinet, and added that Mr Anthony was 'hopeful' of obtaining this confirmation quickly. Asked about the situation should such confirmation not be forthcoming, Mr Muldoon said 'I think really we have just about got to the end of the possibility of negotiating any further changes'.

[NAA: A1838, 370/1/19/18, xxxiv]

221 EXTRACTS FROM MINISTERIAL SUBMISSION TO STREET BY LAURIE

Canberra, 8 November 1982

CONFIDENTIAL

CER Negotiations—Cabinet Consideration

PURPOSE: To provide background and briefing for Cabinet's consideration of the Australia – New Zealand CER.

[*matter omitted*]¹

Australian officials from Trade and Resources, Industry and Commerce, Primary Industry, Prime Minister and Cabinet and this Department had discussions at working party level with their counterparts in Wellington from 5 to 15 October, and on 19 and 20 October further negotiations were held at Head of Department level in Canberra.

On 28 October, Mr Anthony had discussions in Wellington with Mr Muldoon during which agreement was reached on a new package which goes some way to meet the concerns of Australian industry groups. As expected, New Zealand has not felt able to advance the termination dates for its import licensing (1995) and export incentive (1987) schemes as they affect trans-Tasman trade. However, as alternative methods of achieving the desired result of giving Australian manufacturers better access to the New Zealand market in the early stages of the operation of a new agreement, New Zealand has agreed to phase out 50 per cent of the export incentives in 1985, a further 25 per cent in 1986, and the remainder in 1987. On import licensing it has agreed to double (to \$NZ400,000) its earlier minimum access entitlement offer.

¹ Two paragraphs concerning Cabinet matters omitted on advice of the Department of the Prime Minister and Cabinet.

We share the Department of Trade and Resources' assessment that the renegotiated package is a real improvement on the proposals circulated in June,² and judge that New Zealand will go no further (there have already been reports of revived domestic criticism in New Zealand of the agreement on the grounds that too much has been given to Australia). We recognise that there remain aspects which some industry groups, the ACTU and some State Governments will criticise, but it seems clear enough that a point has been reached beyond which the agreement would cease to be politically viable for the New Zealand Government.

The question therefore is whether to proceed with the agreement as now negotiated, or whether to allow NAFTA to lapse next year and not to be replaced with a new and more comprehensive trade agreement. On balance we share the view of Trade and Resources, also held with some qualifications by the other economic departments, that it would be preferable to proceed with CER.

In interdepartmental discussions we have avoided arguing that the agreement should proceed for foreign policy reasons if it does not meet Australia's specific trading interests as we have regarded these interests as paramount in consideration of this issue.

We would nevertheless be concerned at the negative consequences for overall relations if at this stage agreement is not reached. Without a new agreement the trading relationship could become increasingly complex and subject to dispute. Australia could be increasingly prone to blame within New Zealand—including blame from the Government—for the country's economic difficulties. Tensions in the economic sphere could over time have negative consequences for co-operation in other areas such as ANZUS and the South Pacific. It could also heighten already existing New Zealand tendencies towards insularity which cause us and the US some concern.

We do not see the CER negotiations continuing beyond the negotiation of the new agreement. New Zealand ideas for closer economic co-operation in areas other than direct trade seem to lack real content. We would not favour a broader agreement covering such issues as migration and civil aviation, which we believe are better pursued in their own right. One possible area for exploring further economic co-operation is the possibility of relaxing foreign investment restrictions as they apply between Australia and New Zealand (though Treasury is not enthusiastic).³

[NAA: A1838, 370/1/19/18, xxxiv]

2 See Document 193.

3 Cabinet approved the agreement on 9 November 1982.

New Zealand Documents

**222 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 19 May 1981

NO 1564. CONFIDENTIAL PRIORITY

ANZCER: Government Purchasing

As the mission is now being led by the Minister of Trade and Industry we assume the main objective is negotiating a mutually satisfactory accommodation with the States on this issue. If so, given the brief amount of time the mission will have in each state capital, we can only concur with Melbourne's observation¹ that the Mission's primary focus should be the broad policy issue arising from the application of preferences to local tenders, and that too detailed a discussion of specific complaints should be avoided. The broad policy issues for the mission to address are:

(a) *Preferences*: Here we need to distinguish carefully between (i) local/regional preferences, (ii) instate preferences, and (iii) preferences for tenders from other Australian states. From a negotiating point of view, our main interest is in securing access to tendering procedures which are broadly equivalent to those enjoyed by Australian companies. In practical terms, however, there would be no point in homing in on the local and/or regional preferences: Our main target will be the instate preferences, applied to local companies against those of other states, and those available to companies in other states competing with overseas companies. We face something of a dilemma in that with some states (e.g. Victoria and South Australia) the chances of our negotiating elimination of instate preferences are relatively good, while with other States (e.g. NSW and Western Australia) the best we can hope for realistically is 'most favoured state' status. The concept of 'equivalence of access' seems to us sufficiently flexible to cover both these circumstances. Where we are able to negotiate only 'most favoured state' access, an agreement to review the arrangement after a specified period to determine the impact, if any, on access could be an important ingredient in the settlement. In States where it is clear that negotiations of instate or other-Australian-State preferences are not on, an agreement to re-open talks on the issue at some later stage would be worth securing.

¹ In a message from the New Zealand Consulate-General in Melbourne.

(b) *Procedures*: In States where it is clear that we are not able to negotiate any substantive improvement in access, it should be possible nevertheless to satisfy ourselves that the procedures for notifying tenders take full account of our interests. Officials in both Queensland and NSW have observed that the loadings are applied to only a small number of tenders in any one year. Further investigation may reveal that this is not because competitive tenders from other States or from overseas are so few, but because in many instances tenders are called for only locally (e.g. through an advertisement in a local newspaper) or selectively. In many cases, however, tendering authorities have a list of companies which are notified automatically when a tender likely to be of interest to them is coming up: This list usually includes out-of-State as well as overseas suppliers who have a 'track record' in winning successful tenders. Perhaps some form of procedure can be devised which locks NZ companies into the notification stage of tendering better than at present. This could be a complex process, involving separate discussions with a wide range of bodies in each State. For the purpose of the mission, what we are looking for is an undertaking by the Premier's Dept or Treasury to the effect that such discussions between State authorities and NZ companies may take place.

(c) *Presentation*: In terms of presenting the NZ case to the States, we will need to avoid giving the impression that from the point of view of the NZ Government's purchasing procedures, we are prepared to discriminate between suppliers in different Australian States (e.g. that we accord more favourable treatment to Victorian and S.A. companies than to those in W.A. or Queensland.) This point was made to us very forcefully by Lind some time ago (our 411 of 11 February refers). Pages 2-3 of the brief, on the other hand, seem to imply that we should discriminate between suppliers in different States, and that to the extent that State purchasing policies differ, we should be prepared to offer access to NZ Government purchasing on the same basis as NZ enjoys in each particular State. From the Federal Government's point of view, any such discrimination could not be tolerated: They will continue to require Australian companies to be treated as an 'indivisible' entity for the purposes of trade with another international entity. But does this apply to advertising tenders? Surely if we get better treatment from some, they can't all expect us to let them know what we need.

3 Given that we will be talking to each State individually this Federal Government position does cause some problems. They could be resolved, however, if we approach these negotiations on a conditional basis: NZ is prepared to modify its government purchasing procedures provided that:

- the Federal Government reciprocates,
- an 'acceptable' accommodation with State governments (not necessary² on the same terms for each state) can be reached.

2 Perhaps 'necessarily' was meant.

The line we could take is that as the Federal Government has indicated its readiness to accord the same treatment to Australian and NZ suppliers, the question is whether NZ can secure equivalence of access in the States. From the States' point of view, appropriate modifications in NZ's procedures should yield substantial benefits.

4 This form of presentation would avoid any suggestion that we are prepared to discriminate between the States, as well as leave our options open so that we can decide at the end of the mission whether the balance in the package is sufficient to enable us to meet the Federal Government's position (a 'reciprocal exchange of preferences at the State Government level'), and if not, whether other options should be explored with the Federal Government.

5 Again on presentation, an important issue we need to address amongst ourselves is how to dispose of the other parts of the CER negotiations about which some States at least will be anxious to hear from us. (In discussions with Federal officials, NSW has taken the line that its readiness to accommodate NZ on the government purchasing issue is contingent to some extent on satisfactory arrangements on the other CER issues). We should avoid being drawn into too detailed a discussion on the 'other' CER issues, however and here again, perhaps the conditional approach would be best, i.e. 'provided that you can live with the settlement reached by the Federal Government on the other issues, to what extent would you be prepared to negotiate a mutually satisfactory arrangement on government purchasing policies ...?'

6 Given, however, the request that we understand Mr Anthony made of the team, at the talks last week—i.e. that it be briefed to cover the dairy issue with the Victorian Government, it would be helpful if the team could come with a piece of paper which could be handed across on any of the other CER issues which may be raised. Not all the issues need to be covered in this way—those most likely to crop up are the commodity issues e.g. dairy, horticulture, whiteware, wine, peas and beans and potatoes.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 36

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

223 FILE NOTE: RECORD OF MEETING BY TURKINGTON
Wellington, 26 May 1981

CONFIDENTIAL

**Meeting of Prime Minister with Mr I G Douglas,
Executive Director, NZ Manufacturers' Federation,
2 pm Tuesday 26 May 1981**

Mr Douglas began by explaining that the situation among his members was now considerably quieter than when the Federation first sought a meeting with the Prime Minister to discuss the Anthony visit.¹ At that time a small minority was arguing that manufacturers did not know enough about the negotiations. Since then MANFED officers had talked with officials. Mr Douglas commented that the Government had handled the CER issue in a masterly way, keeping the Australians positive without stirring up sensitive local elements.

The Prime Minister said that the exercise is coming along quite well and that Mr Anthony had been very helpful. The wine industry decision had presented a problem, partly because some senior Australian Ministers are very involved with the industry. Mr Anthony, however, was much more relaxed about the decision after it had been explained to him.

The Prime Minister outlined the areas of agreement, referring to garments, footwear and the financial sector. He also mentioned the extension of the Preferences Agreement² for two years or to when CER comes into force. Progress had been made on export incentives without final agreement having been reached. Lance Adams-Schneider was away on a mission looking further into the question of government purchasing. On the deferred goods' category, the Prime Minister had pointed out to Mr Anthony that for some products a longterm qualification of the concept of free trade was required and that absolute purity was unlikely to be achieved.

The Prime Minister said that export incentives and import licensing were still unresolved. Mr Douglas responded that these were difficult ones for the Federation which could possibly move to a terminal date for quantitative restrictions of 1995 but could not say so now.

The Prime Minister concluded that, while there are still some things to discuss, he had no feeling that we are going to give anything away. He thought that finally the Australians will come our way as the alternative would be that we do not proceed. The Australians want some conclusion to the exercise although it is dependent on Mr Anthony being able to bring his Cabinet along.

Mr Douglas shifted the discussion to the general question of protection which he felt was something the Federation had to face up to. He outlined a speech which

1 Presumably a reference to Anthony's visit from 11-13 May for Joint Ministerial talks on CER.

2 The 1977 Agreement on Tariffs and Tariff Preferences.

he is to make in Auckland which represents a backtrack on the issue of industry studies. Mr Douglas now feels that the industry studies approach has more disadvantages than advantages. The alternative is a macro approach. While it must be recognised that certain industries will require longterm licensing protection, for the others a date could be set 10 or 15 years out when import licensing would cease and be replaced by tariffs. In the meantime existing protection would be maintained.

He saw the development plan concept being fraught with problems. A macro approach would minimise the conflict between industry and Government and would reduce the cost of adjustment to the Government. It would allow industry to get on with the job and his feeling was that manufacturers would take action sooner rather than later. The generosity of the time span would not result in the same pressure on the political system which was greatest when the time span is shorter.

The Prime Minister did not react directly to Mr Douglas's suggestions but commented that he did not know how the CER is going to mesh into overall policy. He felt that the CER could be brought together and was hopeful that officials could get the detail tidy within a couple of months so that he is in a position to talk to Mr Fraser. The Prime Minister saw March next year as being a likely date for agreement. Mr Douglas could see no problem with that timing. The Prime Minister did not want the issue argued through the election campaign. He mentioned Watties, McKechnies and NZ Steel as special problem areas. Mr Douglas felt McKechnies were playing for time over this issue.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 36

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

224 TELEGRAM FROM ADAMS-SCHNEIDER TO MINISTRY OF FOREIGN AFFAIRS

Perth, 3 June 1981

NO 128. IMMEDIATE

Government Purchasing Mission

I have now seen four State Premiers and am very much encouraged by the reception our proposal has so far been getting. The following is a summary of the reactions of each of the States we have so far visited:

Victoria

The Acting Premier (now the Premier designate) confirmed that there was no difficulty in principle in extending to New Zealand the same arrangement which Victoria has with South Australia. There would no doubt be some practical problems and perhaps some difficulties with some of Victoria's manufacturers

but he expected that this could be worked through in detailed talks between officials.

Queensland

Again the Premier said he saw no difficulty in principle but said that the proposal would need to be looked at in detail by officials and then come up to Ministers in the usual way. It was left that Queensland officials would study the question more closely, trying to quantify the implications and the potential, and would then come back to us when they were ready to talk again. The Queensland Minister (Mr Hewitt) who has responsibility in this area was happy to go along: 'if it's good enough for Joh,¹ it's good enough for me'.

New South Wales

Last week New South Wales officials and their responsible Minister were chilly. They emphasised the importance of preferences to New South Wales and did not believe that in-State preferences could be given to New Zealand short of a comprehensive abolition of preferences among the States. However when I saw Mr Wran yesterday he was much more open-minded. By implication he seemed to accept that the preferences against New Zealand should be treated as part of the CER negotiations and kept quite separate from the question of interstate preferences. He also accepted that the discussion was about in-State preferences and unlike his Minister did not rule this out or urge us to settle simply for most favoured State treatment.

Wran said he would take our proposal seriously but he would need to look at it from all angles and in particular to see whether it would raise any hackles among his own manufacturers. Specifically he said that he would:

- talk to Canberra and check out the national position
- put our proposal to the next meeting of the New South Wales Manufacturing Industries Advisory Council which would provide the best means of assessing local business and union attitudes.

He said that he understood the need to give us an answer as soon as possible after the Council meets.

Western Australia

The Premier began by saying that he could, without the need to consult his colleagues, say that New Zealand would never be given less favourable treatment than the other Australian States. He did not however see any obvious problems about going further and granting in-State preferences. He implied that he would like to do so to create the right atmosphere to attract more New Zealand bids for private sector business in the State. His real problem with preferences, he said, had nothing to do with New Zealand. It was the means of preventing 'dumping'

¹ Joh Bjelke-Petersen, Premier of Queensland.

by eastern state manufacturers. He said that he would look into the question, talk to his colleagues and to the Stores Board which comes under his portfolio. 'I think you will find that after I have talked to the Stores Board we should have no problem in working out something suitable.'

His Minister for Industrial Development suggested later that they would also want to consult with their local manufacturers—some sectors like electrical switchgear firms might be sensitive to NZ competition. The Premier did comment as an aside that he might have some difficulty with reactions from other States if he was to make public what he was prepared to do for New Zealand. I took it that he was signalling that his position would be easier if most of the other States were also prepared to give us domestic supplier status. The Minister commented that the August Industry Ministers' Conference was the best opportunity to get a collective response from the States and promised to give us Western Australia's answer before then.

In the light of the reactions we have had so far I am becoming more hopeful that our objective can be achieved, although clearly considerable work will be required at the next stage in nailing down firm commitments.

For Canberra. The High Commissioner may wish to brief Mr Anthony on progress so far.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 37

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225 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION IN CANBERRA

Wellington, 29 July 1981

No 2646. CONFIDENTIAL

CER: Government Purchasing

Ministerial Meeting

1 Thank you for keeping us informed about developments stemming from the Minister's wish to attend the August meeting.¹ Our 2599 conveyed Minister's understanding of situation, and his willingness not to press for attendance at the meeting. However some weeks ago the Minister spoke to MANFED in some detail about his mission, and told them he was expecting to attend the meeting. Now that Australia has evidently decided not to confirm the invitation, some New Zealand manufacturers will inevitably, in the circumstances, interpret this negatively.

¹ The Commonwealth/State Conference of Industry Ministers, which Adams-Schneider had been invited to attend.

2 We were somewhat surprised at the turn of events, given that Hawkesworth (please protect) had told us that he understood four of the six states to have already endorsed MTI's attendance. Hawkesworth also thought there was still some possibility that Federal-State relations would still be so tense, that the meeting might not even be held at all. Your comments on that would be appreciated.

3 Your 2205, paras 5 and 6. Now that the Minister is unlikely to attend the August meeting, the question of tactics is not of such immediate concern. However, it may be useful to rehearse our overall objectives. We have been forced to deal with the states individually because the Commonwealth cannot impose on them the solution we need. That said, we remain convinced that if we can negotiate agreements with the states that are consistent with one another, so much the better. It is not our purpose, at this stage, to seek bilateral agreements with individual states, without regard to the collective views of all of the states, or of the Federal Government. We should continue to keep the Commonwealth Government informed, in general terms, of our dealing with the individual states. For the time being we would wish to see first of all what comes of the Minister's visits and letters to the states, and then the Federal/States meeting.

4 For the moment MTI has only received the one reply (from Tonkin). We will send you a copy of this by bag. In essence it agrees to New Zealand's request, but says South Australia would prefer 'to consider entering a bilateral agreement with New Zealand, after the situation regarding preference schemes in Government purchases within Australia has been resolved'.

Short Term Action

5 We agree that it would now be appropriate for New Zealand to sound out the states on their response or likely response to the Minister's mission, and his subsequent letters to each Premier. We are happy that this be done through the Posts as you suggest, subject to your coordination as appropriate. In arranging this you should make it clear to posts that the follow-up at this stage is to get reaction of states, rather than an opportunity to review the issues involved. (Obviously South Australia can be excluded from this at this stage.)

6 At the Federal level, we are considering the possibility of a follow-up letter from MTI to Sir Philip [Lynch], which would give an opportunity to reiterate the views he expounded during the tour. Your comments on this would be appreciated.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 37

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226 TELEGRAM FROM FRANCIS TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 6 August 1981

NO 2449. CONFIDENTIAL PRIORITY

Agricultural Council Meeting: Darwin

1 Mr Talbot, Under-Secretary, will doubtless be reporting in full on the recent Council meeting.¹ Here follows some of the matters which were discussed:

2 In a round-robin of talks with all the states in regard to the CER, the responses generally were favourable, Tasmania especially so. Dr Amos, Minister, stated that consultations have proceeded well. He had been to New Zealand and had arranged for Tasmanian farmers to go to New Zealand.

3 Both Western Australia and Queensland Ministers expressed the wish that they have the right to deal with New Zealand Dairy Board to supply butter to both states. Both mentioned that the Australian Dairy Board's efforts in regard to quality left a lot to be desired. Both Ministers indicated that they were in deficit always in butter and would welcome a supply from New Zealand through the Dairy Board.

4 Victoria and South Australia Ministers mentioned potatoes and the wine industry respectively. From South Australia and from Mr Nixon, criticism of new wine tariffs.

5 Mr Nixon appeared to be in a very amenable frame of mind and stated that a lot of fears in the dairy industry have evaporated but he felt that there should be no forced time table for conclusions of CER without further consultations.

6 There appeared to be very little, if any matters concerning the State of Queensland and the Western Australia Minister in particular emphasised that a CER relationship was highly desirable and should be proceeded with forthwith.

7 To sum up, therefore with the exception of potatoes and wine, the CER climate had improved most noticeably. It was also interesting that Mr Lindsay Duthie took the opportunity to talk to Mr Talbot on what he considered to be a remarkable opportunity for New Zealand to come into the Parmesan and Camembert cheese markets in Australia. He indicated there was a \$6 million export availability to New Zealand with quota of any form being applied and indicated that the New Zealand Dairy Board should move in this area.

[*matter omitted*]

[ABHS 950/Boxes1221-1226, 40/4/1 Part 38

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1 Apparently a meeting of Commonwealth and State Ministers of Agriculture, sponsored by the Australian Agricultural Council.

**227 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 15 September 1981

No 3220. CONFIDENTIAL PRIORITY

ANZCER: Timetable

You will recall the discussion at the JWP meeting¹ on Mr Fraser's commitment to a three-month period for full consultations with state governments and interested parties before any 'final' agreement would be reached on ANZCER. It seems strange to us that an agreement struck between the two governments should then be submitted to other 'interested parties'. Would they be able to demand changes? NZ could hardly be expected to reopen a package already negotiated and balanced. If they could not demand changes then the consultations would be a purely internal matter, to be undertaken before the agreement actually enters into force. The Prime Minister will want to clarify this during his talk with Mr Fraser at CHOGM. There was, however, a suggestion that the Australians would set out their views on a piece of paper, spelling out what this might involve for the timetable. We would be grateful for more details of the Australian position as soon as possible.

2 At the JWP Australian officials made reference to Mr Fraser's statement to the House of Representatives. We assume they were referring to his statement on 25 March 1980 (sent under cover your memo 89/4/1 of 27 March). This makes commitment to consultations before 'substantive decisions are taken' but there is no mention of a three month period as such. Is there another statement? Grateful for any general light you may be able to throw on this, in addition to whatever the Australian paper may reveal.

[ABHS 950/Boxes 1221-1226, 40/4/1 Part 39

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1 Held on 2-3 September in Canberra.

228 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 18 September 1981

No E (81) 168. CONFIDENTIAL

**Australia/New Zealand Closer Economic Relations:
Joint Working Party Meeting***Introduction*

1 On 15 September, the Committee noted a report of officials who attended a joint working party (JWP) in Canberra on 2/3 September that examined outstanding issues arising from the current negotiations on a closer economic relationship between New Zealand and Australia (CEC E(81) 165 refers).

2 The Committee also noted that officials were to submit a separate assessment paper on the outstanding issues where further discussions with Australia are required.

3 A number of papers were exchanged at the Canberra meeting covering methods of allocation of exclusive Australian import licences, possible solutions to monopoly import arrangements, whiteware, intermediate goods, transitional arrangements for integrating NAFTA into CER and deferral of implementation of CER for certain goods. Officials have compiled a checklist of matters now requiring New Zealand and Australian responses and these will be actioned progressively.

4 The present paper comments on the overall approach to the talks by Australian officials, gives a brief assessment of several key issues, and seeks approval for the general approach which officials recommend should be adopted in further discussions with Australian officials on outstanding issues.

Australian government Position

5 Summarising the two days of discussions with Australian officials, officials noted in E(81) 165 that there was an overall positive attitude on the Australian side towards the resolving of outstanding issues. However, the sense of commitment to make progress was more manifest in the approach adopted by officials from the Department of Trade and Resources than in that of officials from the Department of Industries and Commerce, or more notably, the Department of Primary Industry.

[*matter omitted*]¹

6 Although the Australian Cabinet has not been asked formally to review progress since March, officials understand Mr Anthony reported orally on the

1 A sentence concerning Australian Cabinet matters omitted in accordance with advice from the Australian Department of the Prime Minister and Cabinet.

May meeting² and key ministers are being kept briefed on major developments by their departments. The differing degrees of enthusiasm displayed by the major Australian departments involved probably reflects that it is Industries and Commerce and Primary Industries that have the main task in persuading and carrying with the exercise those elements of the producer lobbies and the Australian manufacturing sector that may be antagonistic. While the Australian Government has given its blessing to the negotiation of a CER agreement, it is not currently focussing on the issue. Maintaining the commitment of the Australian Government is therefore of prime concern as the negotiations move into what should, it is hoped, be their final phase.

OUTSTANDING ISSUES

Import Licensing

7 As noted in last week's paper reporting on the Canberra meeting, Australian officials suggested a possible compromise approach aimed at resolving New Zealand's objections to a terminal date being set for the removal of quantitative restrictions on Australian imports into New Zealand. Australia proposed a review of the progress towards liberalisation of import licensing at the end of the tariff phasing period, with the aim of producing at that time a terminal date for the removal of import licensing. Officials consider the proposal represents a significant effort by Australian officials to advance towards a mutually acceptable solution. It may not be acceptable in its present form, but it nevertheless provides a useful basis for reviewing New Zealand's present position. Officials consider it could well be appropriate for New Zealand to seek a relatively small but significant variation to the Australian proposal, whereby the review at the end of the phasing period should consider whether a terminal date for ending restrictions could be set, rather than definitely to set the date. Officials accordingly seek the Committee's approval to discuss formulations along these lines with the Australians on an informal and non-committal basis.

8 The Committee was advised last week that Australian officials suggested a formulation under which they might accept tendering of Exclusive Australian Licences. Officials do not consider that New Zealand should show any disposition to accept a formulation that would convert the tendering system from a method of licence allocation to a de facto means of automatically increasing the rate of growth in Australian access to the New Zealand market. Officials do not see the tendering of licences question as a potential threat to the outcome of the overall negotiations and do not see any need at this stage for New Zealand to change its current position.

2 He visited Wellington from 11-13 May for Joint Ministerial talks on CER.

Government Purchasing

9 Australian officials made it clear that the Commonwealth Government considers there is no further initiative it can take to persuade the individual states to drop their preferences against New Zealand and that there would probably be no satisfactory resolution of the matter until all interstate preferences had been eliminated. They did not, however, exclude the possibility that further bilateral approaches to selected states, with the aim of achieving our objectives with those states individually, could be successful.

10 The New Zealand delegation gained the impression that while the Commonwealth Government would like to see the end of inter-state preferences, and in that context would be happy to see New Zealand treated similarly, it feels unable to encourage states to eliminate this preference in relation to purchases from New Zealand while it is maintained on an interstate basis; as that would amount to encouraging states to discriminate in favour of another country against other states in the Commonwealth of Australia.

11 The elimination of Australian preference on most purchases by the Commonwealth Government, which is expected shortly to be confirmed, would still leave a reasonable benefit to New Zealand in that it refers to the elimination of preferential loadings while retaining the notional application of any tariff which might be applied to any particular Commonwealth Government purchase. The CER involves the phasing out of all tariffs and therefore the notional application of the tariff will eventually phase out also leaving Australian and New Zealand government purchases duty-free across the Tasman

12 A letter from Sir Philip Lynch to the Minister of Trade and Industry, reporting on the recent meeting of State and Federal industry ministers,³ which briefly considered the government purchasing issue in relation to CER, is expected shortly. Proposals will be submitted to ministers in due course on the follow-up required for the approaches that have already been made to individual states.

Horticulture

13 Officials from the Department of Primary Industry continue to refer to difficulties relating to horticulture. Australian officials have failed to quantify alleged disadvantages to their own horticulturalists arising from New Zealand's export incentives. These sensitivities appear more political than economic. Although New Zealand will continue to emphasise its willingness to examine specific problems if and where they are identified, it is considered that in the absence of any such cases being identified the onus will be on Australia to obtain acceptance by its horticulturalists of inclusion in CER. In this connection the firm position taken by Mr Anthony with the potato growers⁴ is helpful but there

3 Presumably the meeting referred to in Document 225.

4 See paragraph 15 below.

is still little sign that other major horticultural lobbies have been pressed to come to terms with CER. The exchange of letters between the New Zealand [Ministry] of Trade and Industry and Mr Anthony on the potato issue is attached as Appendix I.

Deferred Items

14 Apart from the automotive and apparel industries, where it was acknowledged at the May ministerial meeting that perhaps no definite timetable could at this stage be set for the removal of these items from the deferred list,⁵ Australia has been determined to have as few items as possible included on the list and for it to be made clear when those that are, would be removed.

15 This attitude was clearly conveyed during the course of the discussions although Australian officials were at pains to stress that they were declining a considerable number of requests for deferment from Australian industry. They noted the linkage between a satisfactory resolution to the question of import licensing and the keeping of goods out of the deferred category. If the former was not able to be presented in a sufficiently acceptable 'package', they could not give an assurance that they could 'hold the line' on their thus far negative responses to deferral requests. The recently reported unequivocal statements from Australian Ministers to the respective Australian producer organisations that dairy products and potatoes and potato products would be 'in CER' from its implementation, have been most helpful. The Australian and New Zealand dairy industries will also have to discuss the CER at some stage.

16 As noted in last week's paper to the Committee, steel has now been highlighted as a major concern to Australia, and New Zealand officials draw the Committee's attention to the fact that careful consideration will need to be given to CER implications within the context of the New Zealand Steel Development Plan. On the issue of wine, Australian officials underline[d] the sensitivity of their Ministers and indicated that it would be crucial to have an acceptable formula for subjecting wine to the CER tariff phasing/increasing access provisions after the current 5 years deferral period.

17 Discussions between officials will continue in the coming months with a view to reducing the number of items on the deferred list to a minimum and developing possible terms for those to be recommended for eventual deferral. Officials will report progress to the Committee.

Consultation and Implementation

18 As noted in E(81)165, there was brief discussion at the recent joint working party on a possible implementation date for CER. A difference of emphasis became apparent concerning the degree of consultation that would be held once a final package had been agreed upon. The New Zealand delegation noted that

5 Elsewhere known as 'Category 3'.

the major consultation with industry in this country is taking place concurrent with the negotiations and made it clear that New Zealand would be unlikely to entertain any significant revision once a package had been agreed by the two governments.

19 No further meeting of the joint working party for the remainder of this year is envisaged, although some specialised meetings to deal with specific matters (eg steel, whiteware, wine) might be necessary. As also noted in last week's memorandum to the Committee on CER, Australia perceives the need for permanent heads to meet to settle the package on which the Australian officials would prepare a submission to their Cabinet in advance of a formal Ministerial meeting.

Recommendation

20 It is recommended that the Committee:

- (a) *note* this assessment of officials on the ANZCER joint working party held in Canberra on 2/3 September 1981;
- (b) *approve* the general approach to be adopted by officials in seeking to narrow outstanding issues in the way of a closer economic relationship with Australia, as outlined in paragraphs 7 to 19, subject to instructions on specific issues being sought from the Committee as appropriate.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 39

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229 RECORD¹ OF DISCUSSION BETWEEN MULDOON AND FRASER Brisbane, 29 September 1981

Call on Prime Minister of Australia—the Rt Hon Malcolm Fraser **Hilton Hotel, Tuesday, 29 September 1981**

At Mr Fraser's invitation Mr Muldoon called on him at his hotel. Mr Fraser asked Mr Muldoon how his post-arrival press conference had gone. Was the auditorium satisfactory? Mr Muldoon said it was technically good on the whole. Mr Fraser then invited Mr Muldoon to lead off on either bilateral issues or CHOGM-related matters.

Mr Muldoon said he thought the meeting opened the opportunity for the two of them to clear their minds on 3 or 4 CER issues, the first of which was the timetable. Mr Muldoon said it was his impression that the timetable was extending a little on the Australian side. While that caused no problems for

1 Authorship uncertain; probably drafted by Murdoch.

New Zealand he said it was important that both countries had the same understanding on timing, whether a July 1982 start up, as originally intended, was feasible or not.

Mr Fraser replied that one reason for Australia's 'going slow' was the New Zealand election. Australia did not want to 'wake up' any issues which might prove difficult to New Zealand because of the election.

Mr Muldoon said there were no real political problems in the sense Mr Fraser suggested. New Zealand manufacturers were now very positive about CER. Mr Fraser responded that his fear was that Australian manufacturers or dairy farmers could 'make noises' about CER which might cause their New Zealand counterparts to wonder afresh about CER. Mr Muldoon said that in manufacturing and agriculture (dairy and wine) the respective industries were talking to each other with the result that the initial impact of CER apprehensions had diminished. Mr Fraser noted that the Australian dairy industry still had some real concerns, and their 'sounding off' might produce some questioning of the overall benefits of CER in New Zealand.

Mr Muldoon said that worried him less than the need for him to be able to give an intelligent reply when asked what had happened to the starting target. He had in mind January 1983. Mr Fraser said he thought Mr Anthony should join the meeting but he was happy enough for Mr Muldoon to say that January 1983 was an agreed 'objective'. Mr Muldoon said that July 1982 now looked a little tight. Mr Fraser affirmed January 1983, noting, however, that it was better to describe that as an 'objective' not a hard fact because there were always imponderables to some extent. Mr Muldoon said he could talk in more detail with Mr Anthony during the CHOGM if Mr Fraser was happy. He replied that he was, and that if it would help Mr Muldoon he could also say that 'they had agreed that good progress had been made and while there was more to be done, both Prime Ministers were satisfied by-and-large.'

Mr Muldoon said that there were one or two difficult issues still, and a new one in steel. New Zealand Steel had put before the Government a proposal for a very large expansion which would involve extracting vanadium as a by-product to add to the return.

New Zealand Steel would have to be export oriented and by their own estimates they would be competitive. Mr Muldoon said he believed the Australian industry had excess capacity in more sophisticated areas which would require increased basic steel production for full utilisation of plant. The New Zealand Government, close to the point of decision on the New Zealand expansion (with a few more estimates to make) had to deal with the place of steel in CER. The New Zealand company had said they would need some protection until 1989.

Mr Fraser said that the steel industry and Government officials from both sides should be talking. Mr Anthony could be briefed accordingly. The Australian Government, he said, regarded the steel industry as basic to the Australian

economy: it was unsubsidised and competitive. Extensive depreciation provisions had been introduced by the Government to encourage the industry to stop being a 'repair-of-plant' operation and introduce the latest generation of equipment which was seen to be essential if the industry was to stay internationally competitive. If it was possible it would be better for the New Zealand and Australian industries to complement each other rather than compete. Mr Muldoon agreed that harmonisation was the desirable course: it was 'way down the track', but the prospect perhaps existed that the two industries might even take a financial interest in each other.

Mr Fraser asked whether the New Zealand Government could hold off its decision on the New Zealand Steel project until the industries, and officials, had talked. Mr Muldoon said he thought so, noting that the industries would come together first at an international meeting in Toronto in mid-October. Mr Fraser urged that officials, as well as the two industries should 'get talking'.

When Mr Fraser asked whether there were any other CER issues to be raised, Mr Anderson mentioned wine. Mr Muldoon said he did not see wine as a problem in this context because there had been good talks between the Australian and New Zealand industries. The New Zealand industry no longer feared a flood of imported wine from Australia—any more than the Australian dairy industry now feared a flood of New Zealand imports after the recent inter-industry discussions. It could be assumed that the wine industries would continue talking. Mr Muldoon noted that decisions taken earlier in the year by the New Zealand government should lead to increased sales of quality Australian wines in New Zealand, while it had been made harder for cheap wines from any overseas source to enter. The protective regime would affect wines priced below \$2.50 per litre. Mr Fraser said he did not mind a regime which encouraged Australian wine makers to strive for better quality in export wines. Mr Muldoon said he thought most Australian wine imports already came into the higher quality bracket, and that accordingly the Australian industry was pretty relaxed.

Mr Muldoon then raised the Government purchasing issue and the obstacles apparently posed to New Zealand exporters by interstate preferences. If Mr Fraser agreed, New Zealand would like to continue talking with individual states. New South Wales, which generally accounted for 50% of all New Zealand economic interests in Australia, was likely to be the most difficult, just as on CER generally Tasmania appeared the most uncertain. Mr Fraser agreed. He said anything the New Zealand Government could do to get the States off their 'crazy' preferences system would be welcomed by the Commonwealth Government.

Mr Muldoon then said there was a further issue—that of internal consultations. He said he understood Mr Fraser had undertaken to allow a period for consultation. Mr Muldoon said the New Zealand Government had been consulting interested industries throughout and he appreciated that both Governments would have to 'keep selling' the CER.

Mr Fraser wondered when he and Mr Muldoon should schedule their next meeting—early in the New Year? Mr Muldoon suggested late February or early March. Mr Fraser agreed that it should be said that the Prime Ministers would talk in March with the objective of a CER start up in January 1983.

[*matter omitted*]

[ABHS 950/Boxes1221–1226, 40/4/1 Part 40

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230 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 1 October 1981

NO 2976. CONFIDENTIAL NZEO PRIORITY

ANZCER: Prime Ministers Discussion at CHOGM

Trade (Lind) has given us a report of the discussion between Mr Muldoon and Mr Fraser on CER matters at CHOGM. His version is based on contact with Anderson who was present at the meeting.

2 Australian officials regard the contact between the two Prime Ministers on CER as very worthwhile. The discussion served to signal a degree of commitment to the exercise on Mr Fraser's part which so far Australian officials have been reluctant to assume. Lind noted that there was an excellent rapport on what needed to be done to bring the negotiations to a conclusion. Of particular significance to the Australians was Mr Fraser's ready acceptance (or suggestion?) that the two Prime Ministers should meet in March, or 'in April at the latest' to complete the negotiations. This acknowledgement by Mr Fraser of the preferred New Zealand timetable has led officials to rethink the procedures for public presentation of the CER package they had earlier proposed (our 2893).

3 While interdepartmental consultation on this development is not complete Lind indicated that pressure was now on all departments to accept that consultations would need to be virtually completed before the Prime Ministers met. This would not rule out some final consultations on the agreed package but he said 'You can forget about the three months periods'. Lind also noted that the revised procedures would compress the period for negotiations before March. It would be necessary to resolve or advance all the matters currently in dispute and obtain a final Cabinet mandate before the Prime Ministerial negotiations.

4 Lind understood that the Prime Ministers endorsed the idea of industry discussions on steel. A meeting was to be arranged within the month and officials would be involved.

5 The Prime Ministers also noted that a further meeting was to be held to discuss wine. Lind thought that the Australian industry body might already have contacted the NZ Wine Institute proposing a meeting late in October.

6 Finally Mr Anthony is being briefed on 'important issues' eg dairying for the further meeting with the Prime Minister on Monday or Tuesday that Mr Fraser suggested. Australians see this meeting as opportunity for the Ministers to review briefly progress since the May Ministerial meeting. Lind was not certain what matters Mr Anthony may wish to raise. However, we gathered that he could well be briefed to ask if consideration had been given to the latest Australian formulation for the elimination of import licensing in reasonable time and the significance of New Zealand's acceptance of the GATT subsidies code for the export incentives issue.

7 You or CHOGM delegation will no doubt let us know if any briefing required from here and whether any assistance from mission required at the meeting.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 39

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231 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION IN CANBERRA

Wellington, 9 October 1981

NO 3548. CONFIDENTIAL NZEO IMMEDIATE

CER: Elimination of Import Restrictions in Reasonable Time

1 Further to our separate message, you should know that very informal soundings have been taken of Manufacturers Federation Secretariat and Stevens (President) only of elected officers. A wider consultation with the Manufacturers Federation at this sensitive time (Federation conference later this month) would inevitably bring an unhelpful reaction.

2 We have taken account of their reactions in suggesting following approach in your response to Australian officials. We suggest you initially try the following formulation:

'At the end of the tariff phasing period, there would be a review which would examine the progress towards liberalisation of access restrictions and assess what further action may be necessary consistent with the objectives of a closer economic relationship.'

Depending on the Australian response you might then want to move to the following:

'At the end of the tariff phasing period, there would be a review which would examine the progress towards liberalisation of import restrictions and assess

what needed to be done to effect complete removal of the remaining restrictions by a terminal date to be considered at the review and which would be consistent with the objective of "reasonable time".

This is in line with the approach put to the CEC.

3 Point made in para 3 of our earlier immediate message replying to your 3004 of course applies.

[ABHS 950/Boxes1221-1226, 40/4/1 Part 39

Archives New Zealand/Te Whare Tohu Tuhihuinga O Aotearoa, Head Office, Wellington]

232 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 12 October 1981

NO. 3031. CONFIDENTIAL PRIORITY

ANZCER: Discussion with Anderson

Thanks your 3541, 3548,¹ 3549 and 3550 which formed a useful basis for our discussion with Anderson.

2 **IMPORT LICENSING:** Commenting on the record of the Muldoon/Anthony discussion² (CHOGM Melbourne's 15) Anders[on] said that he thought the Prime Minister³ had gone a little further than the record seems to acknowledge. As the cable records, he explained the political difficulty in advancing the issue much further in the next couple of months. But he had gone on to say that he felt there would be scope for movement early next year. This was, Anderson noted, an important acknowledgement in Mr Anthony's view. Lind added that the issue had to be seen against the background of the CAI's firm position that a terminal date for import licensing must be set now so that Australian businessmen know at the outset when full free trade will come into effect. In communications with officials they had not shifted from this position, and had even gone as far as to say that unless a date was fixed at the outset they would find it difficult to support the concept of a CER. Australian officials had therefore gone well beyond their brief in canvassing with us the formula they had floated at the last joint working party meeting. Since the Muldoon/Anthony discussion, however, the question that was likely to occur to Australian ministers was whether New Zealand would not be prepared to accept a terminal date for import licensing at the outset.

3 We explained that New Zealand ministers had been briefed on the discussion on import licensing at the last JWP, and that officials had obtained authority to

1 Document 231.

2 For the discussion see Document 174, paragraphs 9-15.

3 i.e. Muldoon.

continue discussions, both with MANFED and Australian officials. We then read to them the first formulation in your 3548, stressing that the specific wording had not been cleared with Ministers and that it should not be regarded as a firm New Zealand response to the Australian formulation. Anderson said he thought that it would be impossible for them to sell such a formulation to the CAI, given the strength of their position on the issue. Furthermore he wondered whether it adequately reflects the tone of what the Prime Minister seemed prepared to accept during his discussion with Mr Anthony. In the light of this response we floated the second formulation, pointing out that it went a considerable way towards meeting the Australian requirement for a terminal date. Anderson and Lind agreed. They thought the second formulation was indeed a 'useful step' which officials could probably agree to—but that is not the point. It had the inconsiderable disadvantage of being less saleable to the CAI than their own formulation and probably unacceptable to Ministers. They undertook nevertheless to look at it closely.

4 At this point in the discussion Lind suggested that there was yet another way of satisfying the Australian requirement for a terminal date: it was to declare that all obstacles to trade (ie, including import licensing) would be removed by Year X, but that a review would be held which would examine whether extensions beyond that date are justifiable for some industries/products. Lind was careful to stress that as with other formulations, this 'idea' had no official status, and he did not want to divert our attention from the other formulae being discussed. But it has the merit—which the others do not—of having a date set, and it may be necessary to pick up this suggestion later depending on reaction to those being discussed.

5 WINE: Lind said that officials are planning a session with the Wine and Brandy Corporation shortly, preliminary to a meeting between the industries. It is fundamental to the Australian approach on wine that some form of Government-to-Government commitment is necessary underscoring whatever agreement the industries may reach. At the moment Australian officials felt they were in the rather unsatisfactory position of an agreement having been reached between two chairmen (that is, not necessarily between the two industries) one of whom has departed from the scene.

6 There are, in Lind's view, some significant differences between the two industries' approach to the problem which need to be resolved. As far as the CER issue is concerned, the New Zealand industry has tended to take the line that the New Zealand Government's decision, implying as it does indefinite deferral, effectively disposes of the issue. Considerable work will be required if the issue is to be wrapped up by the end of March with a firm commitment on when CER phasing will begin. Lind is, nevertheless, reasonably confident that an understanding between the industries on the short term issue (that is the action that would be taken in the event of Australia's marketing opportunities in

New Zealand being prejudiced) should go a considerable way towards resolving the longer term CER issue.

7 **TIMING:** Anderson said that Australian officials will be working towards a meeting with Permanent Heads at the end of January in the expectation that Prime Ministers will be meeting March/April. The Prime Ministers' undertaking to meet will make it necessary for the bulk of substantive consultations at the Australian end to be completed by then—hence the gap between Permanent Heads meeting and Prime Ministers.

8 This scenario would result in the Heads of Agreement being published in April with an announcement to the effect that, eg it 'will be signed in four weeks'. This would enable the Australians to observe their constitutional formalities in respects of consultations with the states. Any issues thrown up in the course of these consultations were unlikely to be major ones, provided officials had done their homework in the period leading up to the Prime Ministers' meeting.

9 We drew Anderson's attention to the slight difference in timing recorded in the meeting with Mr Anthony (Prime Ministers meeting 'April/May') from that suggested by the Prime Ministers themselves ('March/April'). Mr Anthony had subsequently suggested 'March/April' as a more flexible guide. In the later meeting with the Prime Minister, Mr Anthony had referred to 'April/May'. This difference probably reflected to Mr Anthony's sharper—and therefore slightly more cautious—view of the political difficulties that could be involved in obtaining full Cabinet endorsement of the final agreement. As far as officials are concerned, however, work is proceeding on the assumption that Prime Ministers will meet in March.

[ABHS 950/Boxes1221–1226, 40/4/1 Part 39

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**233 LETTER FROM MULDOON TO CHAIRMAN,
MANUFACTURERS' FEDERATION, NAFTA WORKING PARTY**
Wellington, 9 November 1981

This is to acknowledge your letter of 2 November regarding the possibility of the Federation participating in CER discussions.

I agree with your suggestion that a joint working party should meet to discuss the total CER package and I will advise the Chairman of the Government Committee to contact you to arrange the details.

[ABHS 950/Box 1228, 40/4/2 Part 1

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**234 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 14 December 1981

No 4874. CONFIDENTIAL IMMEDIATE

ANZCER: SPARTECA and Pacific Island Arrangements

1 The following is a background brief for a discussion of ANZCER and our commitments to the Pacific Island countries for your talks with Australian officials this week.¹

2 Both Australia and New Zealand acknowledge the need to assist economic development of the South Pacific region. (Bilaterally through the Prime Ministers' communiqué, March 1980,² the draft Heads of Agreement³ and the Nareen statement⁴ and multilaterally under SPARTECA itself.) More specifically, in their communiqué, the Prime Ministers agreed: 'that an appropriately structured closer economic relationship would bring benefits to both countries and improve the living standards of their peoples. They believed that this could be achieved in a manner consistent with their obligations to the developing countries of the region, enhancing their prosperity as well as that of Australia and New Zealand.'

3 That opening the New Zealand market for certain tropical products to competition from Australia could affect the Pacific Islands' export prospects has been recognised by both sides in the negotiations, most recently, during the discussions with Mr Anthony in May this year (see unofficial record of discussion page 25 agenda item 3(c).⁵ In that case discussion focused on New Zealand's monopoly import arrangements for citrus fruit. The question obviously goes wider than that, however, and we have not so far looked at it in detail. It now seems desirable that we should both do so, in order that we may establish the terms on which the question would be dealt with in the CER Heads of Agreement.

4 Our starting point is that both Australia and New Zealand accept that CER must take account of existing commitments to the Pacific Island countries. There are the SPARTECA commitments that both countries have entered into. The issue does not stop there however. New Zealand in particular has other commitments to the Cook Islands, Niue and Western Samoa that pre-date and are protected under SPARTECA. This is the reason for the inclusion of a number of products on our Appendix 3 negative list under SPARTECA.

1 Joint Working Party talks were to be held.

2 See Document 93.

3 Document 139.

4 See Document 1.

5 See Document 170.

5 New Zealand will need to discuss with the Australians, how our special arrangements with the Cooks, Niue and Western Samoa are to be accommodated in CER. The problem is not easily settled administratively.

6 Once Australia and New Zealand have considered how CER and SPARTECA inter-relate, there will be a need for early consultations with the other SPARTECA members about the implications for them of expanding access to the New Zealand market for Australian goods. SPARTECA has been in force for less than a year and we would not want to weaken the undertakings given to the FICs under that agreement.

7 It is important to bear in mind that this is not just a New Zealand problem. The Australians have their own commitments under SPARTECA and PATCRA that they will no doubt want to talk to us about. In particular, we should be interested to know what the prospects are for changes in their current SPARTECA positive list once the IAC hearings on orange and tangerine juice are complete. We might also explore a little in discussion what added benefits the FICs may expect to enjoy under CER.

8 We would be grateful for any preliminary reaction you may be able to glean from the Australians before our talks with them start on Wednesday.

[ABHS 950/Box 1228, 40/4/2 Part 1

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

235 MINISTRY OF FOREIGN AFFAIRS INTERNAL NOTE

Wellington, 12 January 1982

ANZCER: Duration of the Agreement

1 In s.2.34 of the JPHR,¹ it is recommended that the duration of the new agreement should be open-ended. (See also the corresponding s.13.03 in DHOA.) This is not comparable to the provisions of the NAFTA which has a fixed, but renewable, term of ten years. NAFTA was last renewed in 1976.

2 New Zealand manufacturers have indicated a preference for a terminating CER agreement along NAFTA lines. The Australian Government has made it clear it would be opposed to a terminating agreement. If the CER required renewing at, say the end of ten years, virtually all the protection afforded Australian industry against imports from New Zealand would have been phased out whilst it is quite possible that there would still be protection in New Zealand through import licensing. No doubt the Australians foresee a situation in which it would seem to be in New Zealand manufacturers' interest to freeze the status quo at that point and oppose an extension of the CER trade liberation processes.

1 Joint Permanent Heads' Report, Document 139.

3 Aside from not introducing a contentious negotiating point at this stage in the CER, it seems desirable to maintain the commitment to an open-ended agreement. It is only in the medium to longer term that the beneficial dynamic economic impact of the CER will begin to be felt in New Zealand. Further, an open-ended agreement is fully in conformity with two important CER principles—automaticity and predictability. If industries believed there was a reasonable chance that the CER would *not* be renewed, there might be a tendency to avoid making the adjustments required to more competitive conditions. A terminating agreement might also introduce some uncertainty in the minds of investors looking to assured long-term access to Australia/New Zealand area market.

4 Manufacturers' representations on this point appear to have been consistent but not a strong element in their case to the Government. Their concerns could be met at least in part by emphasising:

- (a) The flexible nature of CER including appropriate safeguard mechanisms to deal with specific cases;
- (b) The opportunity to rectify any underlying problems in the general review of CER;
- (c) That it will be necessary, as in most trade and economic agreements, to include a clause providing for the worst case when either party may withdraw from their treaty obligations after a period of notice.

[ABHS 950/Box 1228, 40/4/2 Part 1

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236 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 19 February 1982

NO 443. CONFIDENTIAL NZEO PRIORITY

CER

The High Commissioner saw Scully and Anderson yesterday for a general discussion about CER. The main burden of their comments was that it was vital to move quickly to bring the negotiations to a conclusion. The Australian political environment could only become more uncertain and more troubled in the months ahead. The Government was being subjected to increasing criticism of its economic policies. Interest rates were expected to go sky high. Unemployment was likely to increase significantly and the possibility could not be ruled out that Mr Fraser would decide to call a general election before things deteriorated too far.

2 Anthony had a difficult job ahead of him to bring his Ministerial colleagues into line over the CER. There was no outright opposition but a tendency for some Ministers to raise objections, call for more information, and generally stall.

3 Mr Templeton's proposed visit to Canberra would therefore present an important opportunity to provide the 'political goodwill' that would be needed if the exercise were to be successful, to emphasise the benefits that would flow to both countries from the CER and to point out that tough decisions would have to be taken on both sides of the Tasman. A visit by Mr Cooper would be similarly important in this regard.

4 Assuming that all went well in the Cabinet and that the Permanent Heads were able to make satisfactory progress Anthony envisaged that it would probably still be necessary for him to go to Wellington in late May for further discussions with Mr Muldoon to make sure that everything was in place before the Prime Ministerial meeting.

5 Scully then injected the disturbing note that it was his conclusion that if the worst came to the worst and 'Anthony was defeated in the Cabinet' the best thing would be to shelve the whole CER exercise for say two or three years. To carry on with negotiations when the political will was not there would be the surest way of killing off the whole idea.

6 We were taken aback by this comment. While it would perhaps be a mistake to read too much into it the fact that Scully thought it necessary to make it suggests that he, at least (and his relationship with Anthony is very close), regards the possibility of failure as a real concern and reinforces the argument in favour of applying as much political pressure as possible over the next few weeks.

[ABHS 950/Box 1228, 40/4/2 Part 2

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237 TELEGRAM FROM TEMPLETON TO MULDOON

Canberra, 11 March 1982

NO 679. CONFIDENTIAL IMMEDIATE

CER: Discussions with Doug Anthony and John Howard

I was encouraged by the discussion I was able to have this morning with Doug Anthony, and John Howard. Although Doug did most of the talking, the fact that John Howard was present was also of some significance.

2 There can be no doubting Doug Anthony's on-going commitment to the CER concept. He agrees that if we don't get a CER now, then both countries will lose. Furthermore he is also strongly of the view that we must keep the pressure on to

complete the package now rather than later, otherwise both Governments run the risk of seeing their constituents turn back on the exercise. He also sees it as vital for NZ to make most of the running; no initiatives will come from Australia, as they have too many other preoccupations. In this context he welcomed my visit and the work I have been able to do in focussing people's minds on the matter over here. In Doug's view, if we are to keep up with the timetable (of introduction 1 January 1983) then it is essential to make some early progress on Australia's two main outstanding problems—import licensing and export incentives.

3 On import licensing he reverses our line of argument by saying that as, under the formula, licensing on Australia won't mean too much by 1990, we should have no difficulty in setting a terminal date now. I presented the line that the review after five years would be the key date in deciding whether a terminal date needs to be set, and if so what it should be. Anthony said Australia needed to be shown that NZ was willing to set a terminal date, and that this issue would be a sticking point with their Prime Minister (as indeed it turned out to be—see my separate message).

4 On export incentives the message was that a positive phasing out or harmonisation process needs to be set now, and that this should provide for earlier progress on export incentives on horticultural products. This latter element would help him a great deal with the Tasmanians.

5 I rehearsed our arguments on both these issues, and we agreed that they, and probably dairy products, were the most likely issues to be left over for settlement at political meeting.

6 Other issues we touched on included safeguards (okay to have them, but they must not be too all-embracing—presumably a reference to our wish to include import licensing within the safeguards arrangements), Government purchasing (the Federal Government would continue to do what they could to help us on this, but it might not be much), and whiteware (a solution is foreseeable, there being only narrow differences remaining between the two sides).

7 We also discussed the on-going timetable, and canvassed the possibility of Doug Anthony coming to NZ the week after the Permanent Heads meet (ie in week beginning 19 April). I undertook to check that timing with you. He will decide in the light of next week's Cabinet discussions.

8 The other matter was that of how much publicity should be given to the draft Heads of Agreement¹ and when. There seemed to be a consensus between us that the DHOA should be published as soon after the Permanent Heads meeting as possible. An important point was that at that point there should be no square brackets or the like in the text, lest they be given the wrong emphasis in the media.

1 Document 139.

9 All in all this was an encouraging meeting which presaged a favourable outcome for the discussions by the Australian Cabinet next week. If that indeed turns out to be so, we now need to refine our negotiating positions on Australia's two main areas of concern, import licensing and export incentives, in the near future. While Permanent Heads may not be able to resolve these and the few other 'stand-out' problems (eg dairy) the negotiating parameters do now need to be much more tightly drawn.

[ABHS 950/Box 1228, 40/4/2 Part 2

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238 TELEGRAM FROM BIRCH TO TEMPLETON

Canberra, 31 March 1982

NO 889. CONFIDENTIAL IMMEDIATE

1 At my meeting with Mr Anthony this afternoon I asked if he would comment on his colleagues attitude to CER following your recent visit [to] Australia. While he did not answer the question directly Mr Anthony said that the trip was well timed, 'had helped set a tone' and did a lot of good for CER. Mr Anthony also said that he had heard no adverse comments and helped modify concerns.

2 In a reference to the recent Australian Cabinet decision on CER Mr Anthony observed that he had 'got what (the decision) he wanted to proceed when there might have been difficulties'.

3 Mr Anthony was positive about CER and said that once minds are made up things should be done quickly—without being politically stupid. In his view undue delay now would do no good and investment programmes on both sides of the Tasman need some certainty or they would be adversely affected.

[ABHS 950/Box 1228, 40/4/2 Part 3

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239 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 5 May 1982

No E(82)74. CONFIDENTIAL

ANZCER: Outcome of Ministerial Meeting*Introduction*

1 This paper summarises the outcome of the discussions on ANZCER held between Ministers and Mr Anthony on 20 and 21 April.

Endorsement of Agreements Reached at Officials' Level

2 At the commencement of the meeting the two Ministerial delegations endorsed the agreement reached at officials' level on a range of matters associated with the CER negotiations. A list of these matters is annexed to this paper. They include, inter alia, the handling of government purchasing and the possibility of tendering import licences.

3 In the case of government purchasing, the agreement does not complete action on the issue, in particular the Australian State Government dimension. It acknowledges that, pending the complete elimination of all government purchasing preferences favouring home (in-state) producers, New Zealand will be free to apply the principle of reciprocity in relation to goods from the various states.

4 The agreement on tendering of import licences in effect removes Australia's opposition in principle to the allocation of Exclusive Australian Licences (EALs) by tendering. However New Zealand has acknowledged an obligation to ensure that the operation of a tendering system does not create commercial difficulties that disadvantage Australian exporters.

Deferred Category¹

5 Discussion took place against the background of a general concern conveyed at the preceding week's Joint Permanent Heads' meeting² that the list of deferred items proposed by New Zealand was unacceptably long and would, in the Australian view, invite strong opposition from the manufacturing sector in Australia and would cause New Zealand's commitment to a full free trade agreement to be challenged in the Australian Cabinet. Australian Permanent Heads had urged that New Zealand delete from its deferred category nomination list those items where the value of Exclusive Australian Licences generated by the application of the standard access formulae would be low and therefore not pose a threat to the New Zealand industry.

1 Elsewhere known as Category 3 (or III).

2 For the Agreed Minutes of that meeting see Document 190.

6 Discussion at the Ministerial meeting took account of the fact that the Australian problem was partly substantive but partly presentational. The New Zealand side agreed to delete from its nomination list margarine and electric motors. In respect of a number of items on which the Government has yet to receive recommendations as a result of industry studies or to take decisions on such recommendations, it agreed to consider a new approach. That approach would be to agree to the inclusion of the products in CER from the outset on the basis of the normal access formula and on the understanding that where the Government decision in the light of the industry study was taken to increase tariff levels, the tariff could be increased on Australia, although the new tariff would then become subject to an agreed tariff phasing formula. Where such a tariff increase was made, Australia would wish to be assured that the total quality of its access was maintained. (This, for instance, could be achieved if the rate of access possibility created by means of the phased liberalisation of global access exceeded the CER formula.) It is envisaged that, subject to completion of industry consultations the adoption of this approach may permit tyres and writing instruments to be taken off the New Zealand deferred nomination list.

7 The Ministerial meeting also agreed to alter the basis on which variations from the standard CER formulae will be presented in the context of the exposure draft and a subsequent agreement. Hitherto, any goods on which phasing would commence later than Day One or on which an agreed phasing programme was slower than the standard formula were regarded as deferred. It is agreed that henceforth the term 'deferred' will be applied only to the very limited list of goods which both sides have agreed should be deferred for a period, the duration of which may not yet be fixed. Items that fall within that category are included in Annex 2, List C, attached. Other goods where the application of the formula is delayed (or indeed accelerated) or modified, but nonetheless predetermined, will be listed in schedules attached to the exposure draft and subsequent agreement, but will properly be described as included within CER on a modified basis from the outset. Such goods can be divided into two categories, those subject to an agreed modified plan and schedule for entry into CER, and those subject to agreed minimum access provisions pending further decisions by the Government on industry study reports/plans (see paragraph 6 above). The goods included in these two categories are listed in Annex 2, Lists A and B respectively.

8 It should be noted that because of the changed definition, List A includes a number of items which, while their treatment varies from the standard CER formula, have never been included in a deferred nomination list. It was considered by officials, meeting subsequent to the Joint Ministerial meeting, that the inclusion of goods such as cheddar cheese, certain horticultural products, and whitegoods, where the pace of liberalisation will actually be greater than the standard CER formula, is an appropriate way of bringing a non-standard treatment to the attention of the public and in addition will help presentationally to counter-balance those items where the pace of liberalisation is to be slower than the standard CER formula.

Other Product Issues

9 The meeting briefly discussed progress that had been made towards bringing whiteware, carpet and furniture into the CER. The whiteware package has almost been completed, the only outstanding area being the size and nature of the action which would appropriately be taken to compensate for a recognised intermediate goods problem. The industries in both countries are now to be advised of the details of the package.

10 The Australian Government supports the inter-industry agreement on carpets as the basis for their inclusion in CER. Mr Anthony was informed that the New Zealand Government had not yet reached a position on this issue which had important implications in New Zealand for the wool-rich policy. A separate paper on carpet is being submitted to the Committee.

11 On furniture, it was accepted that the existing inter-industry (Schedule B) arrangement will remain in effect pending further discussions by the industry on the timing and phasing for eliminating the remaining restrictions on trans-Tasman trade in future.

Horticulture

12 The areas of Australian concern have been narrowed down to peas and beans, processed potato products and canned corn. New Zealand Ministers indicated a willingness in principle to resolve the issue by the elimination of accelerated phasing out of export incentives in return for the abandonment of the guideline quantity limitations on trade in peas and beans, and the accelerated phasing out of the Australian duties on processed potato products and frozen and canned corn. This question is elaborated in a separate paper being submitted to the Committee.

Fish

13 Australia has requested the elimination of export incentives on New Zealand fish exports to Australia. The availability of these incentives on fish exported from New Zealand that had been caught by joint venture vessels was said to be a particular irritant with the Australian industry. While New Zealand Ministers expressed willingness, subject to a review of their commitments to the New Zealand industry, to consider removing export incentives on fish exports to Australia, they drew attention to the relatively small proportion of the exports which were drawn from Joint Ventures. This point was supported by figures subsequently conveyed to Australian officials. Statements made by Mr Anthony in Australia during the last week suggest, however, that he is still looking for movement by New Zealand on export incentives on fish.

Safeguards

14 The discussions effectively confirmed the willingness of the Australian Government to provide the scope, during the period of liberalisation of a product, for safeguard action on import licensing as well as tariffs. It is envisaged that

quantitative restraints would only be used where tariff-related measures would not be sufficient. It is accepted that such action would be of limited duration (two years) and would only be justified where the liberalisation process gives rise to severe material injury. In return, New Zealand Ministers accepted that safeguard action could apply where inequality of trading opportunity was involved. However, they insisted that it would still be necessary for severe material injury to have resulted from the inequality of trading opportunity in order for safeguard action to be justified.

15 New Zealand pressed its demand that safeguard action should be available in cases of demonstrable threat of severe material injury as well as those where such injury has actually occurred. Mr Anthony appeared to accept the inclusion of demonstrable threat, although with some misgivings as Australia is anxious to avoid the need to investigate numerous claims of threat of injury.

16 Mr Anthony was also anxious to ensure that manufacturers in New Zealand did not see the safeguard provisions as offering a way of extending import licensing beyond an agreed terminal date. Both sides agreed that officials should find a way of making clear in published CER documents that the safeguard provisions would not be available for this purpose. Subject to this, safeguard action would still be available in a genuine case of severe material injury in the year following termination of import licensing and such action could be applied for up to two years.

17 Transitional safeguard provisions along these lines will give considerably more assurance to New Zealand industries than action restricted to tariffs which was all Australia was, until recently, prepared to agree to. This clearly has implications for consideration of a terminal date for import licensing.

Terminal Date for Quantitative Restrictions

18 Mr Anthony made it clear that a terminal date was an absolute prerequisite of Australian agreement and he had been charged with gaining agreement to a date as far as practicable in advance of 1995. New Zealand Ministers emphasised the strength of manufacturers' opposition to a terminal date. They indicated that the New Zealand Government could accept a 1995 date on the basis that it was first discussed between the Confederation of Australian Industry and the New Zealand Manufacturers' Federation. If the two industry organisations were able to reach agreement on a different date then the two Governments should be prepared to accept that date. New Zealand Ministers expected the Manufacturers' Federation to press for a later date and they indicated that they could see difficulty in concurring if industry representatives came back with an earlier date. If such an agreement between the industries was not reached, however, then New Zealand could agree to 1995. Mr Anthony accepted this approach on the basis of his expectation that the CAI would press for an earlier terminal date—probably 1993.

Export Incentives

19 After indicating that it was probable that all performance-based export incentives in Australia would be eliminated by 1984, Mr Anthony said that 1987 was the latest date for the complete elimination of performance-based incentives on trans-Tasman trade that he was authorised to accept. After reiterating the existing commitments, both domestic and international, New Zealand Ministers indicated that they could contemplate phasing out incentives between 1985 and 1989. An earlier date than 1989 would not, however, be possible. Mr Anthony undertook to convey the New Zealand position to this government.

Review of the Agreement

20 It is proposed that there should be a wide-ranging review of the agreement after five years—ie in 1988. Mr Anthony also raised the question of a possible review five years before the end of the transitional period and suggested that that review might examine the continued appropriateness of the safeguard mechanisms as well as a plan and schedule for completing the liberalisation process. On the basis of the 1995 terminal date, that would mean a second review in 1990, only two years after the first. In effect, the difference may be more apparent than real. The review could be envisaged as one requiring considerable research, consultation, and time to complete, and, though commenced in 1988 (the New Zealand manufacturers would be very reluctant to see it start later), it may well not be brought to a conclusion before 1990.

Inter-Industry Discussions

21 Since the conclusion of the Ministerial meeting, the Prime Minister has met leaders of the Manufacturers' Federation who have agreed to enter into urgent discussions with their Australian counterparts. They were informed, on an appropriately confidential basis, of the substance of the Ministerial discussions on the terminal date question. They have also been informed of the difference that still exists in the area of export incentives. Those issues, together with the proposed safeguard provisions, are likely to be the focus of a meeting which has now been arranged with the CAI for 10 May.

22 The Manufacturers' Federation will report back to the Government following that meeting, and a further paper will then be prepared for the Committee assessing the situation reached and making recommendations concerning the next phase of the negotiations.

Recommendation

23 It is recommended that the Committee *note* this report.

[AALR 873, W4446/Boxes 312–313, 61/Aus/2/2/1 Part 2

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

240 MINUTE FROM TEMPLETON TO MINISTERIAL COLLEAGUES Wellington, 7 May 1982

CER

Grateful if you would consider this memorandum to officials and letter to Mr Moore¹ MP and clear with Cabinet and Caucus.

You would need to consider whether the letter to Mr Moore could be released after Cabinet or only after it has been to Caucus. I feel Mr Allen should keep Mr Douglas informed and might well show him this memorandum.

Attachment [1]

SECRETARY OF TRADE AND INDUSTRY
COMPTROLLER OF CUSTOMS
7 May 1982

CER: Parliamentary Procedures

As discussed, it seems important to decide on the Parliamentary procedures for CER.

Timing

Mr Anthony has indicated that he hopes to take the agreement to the Australian Cabinet early in June. This would be helpful in relation to the Prime Minister's visit to Sydney on 10 June. Following that, as Mr Anthony is away for three weeks, it could not be done until the beginning of July.

Opposition

The Labour Opposition is seeking some indication of the way the matter will be handled. Attached is a copy of a letter. I think it is important to be ready to act as soon as Cabinets have reached agreement, hopefully early in June. Labour will want the matters referred to Select Committee. As you know, I have been discussing this with the Leader of the House.

White Paper and Exposure Draft

As you are aware we are committed to the publication of an Exposure Draft so that the public and interested groups can see the basis for the CER agreement. Given the degree of Parliamentary interest I believe we should consider embodying that Exposure Draft in a White Paper. I understand you feel the Prime Minister has indicated this at his Press Conference. I should be grateful if you would confirm this with the Rt Hon David Thomson.²

1 A leading Labour Party MP.

2 In his capacity as Leader of the House.

Would you please consider what form the White Paper might take. I would like to see a reasonable historical, political and economic analysis that would set the background and rationale for the Agreement. The Exposure Draft might then be embodied in the White Paper.

You should also consider the extent to which explanatory notes were needed for articles in that Exposure Draft.

We might of course simply publish the Exposure Draft on its own. But I believe it might require so much explanation that we should consider fuller exposition at this stage.

Foreign Affairs Committee

My discussions with Mr Speaker suggest that the interest in CER will require reference to a Select Committee. A reasonably detailed White Paper would certainly provide a good basis for this and could be done immediately in the Parliamentary session resumed. This would head off complaints about lack of information.

The Foreign Affairs Committee has the advantage of set procedures. It would enable Members of Parliament to be fully briefed in confidence; and controlled decisions on calling submissions or witnesses. This might be necessary for example, for the Manufacturers Federation, Federated Farmers and the Federation of Labour.

Action

Would you please consider these possibilities. Would you please consider when the Customs (tariff) legislation should be ready and introduced. (I still think it desirable to draft such legislation as soon as possible.)

I should be grateful if the officials team could proceed with drafting. The matter should go to Cabinet on my return or soon after. In the meantime the Acting Minister and Leader of the House will clear my thinking with Cabinet and Caucus.

H C TEMPLETON
Minister of Trade and Industry

Attachment [2]

DRAFT LETTER TO MR M MOORE, MP
Wellington, 7 May 1982

Thank you for your letter of 6 May 1982 about CER and the procedures we might follow in the next Parliamentary session.

As you know, I am committed to the development of an exposure draft so that all those interested can be given a clear view of what is involved. My aim was to make this public as soon as the two Cabinets had agreed on the bases for CER.

Such an exposure draft would of course be available to Members of Parliament. Given the degree of complexity and the importance of the issue, I am considering embodying that draft in a white paper so that Members of Parliament in particular can be fully briefed. This would certainly provide the basis for debate as at the moment we can see the need for relatively minor legislative change.

I hope to consider the matter in more detail on my return and firm up on the procedures to follow.

[ABHS 950/Box 1228, 40/4/2 Part 4

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

241 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 11 May 1982

E (82) M 16 PART IV. CONFIDENTIAL

ANZCER: Outcome of Ministerial Meeting¹

Officials explained briefly the current position on a terminal date for import licensing and export incentives within a proposed CER arrangement. Following a meeting between the Manufacturers Federation of New Zealand and the Confederation of Australian Industries, the situation on import licensing was that the Manufacturers Association had agreed to a terminal date of 1996 while the CAI was adhering to 1993. The large gap between these two dates and Australia's inflexibility was very apparent. Officials proposed to cable this position to Paris for comment from the Prime Minister and the Minister of Trade and Industry. A subsequent paper for the Committee would be prepared. The Chairman directed that this paper be considered by Cabinet on Monday, 19 May, and referred to the Cabinet Economic Committee on Tuesday, 18 May.

On export incentives, 1987 had been agreed by the respective federations as the latest date for the complete elimination of performance-based incentives on trans-Tasman trade. Officials explained that all export performance-based incentives were included in this understanding and that some other types of input incentives were not included.

In response to questions from the Committee, officials explained that markets in third countries were not covered by the proposed CER arrangements.

There was nothing to report on safeguard action on import licensing and tariffs during the period of liberalisation of a product as the respective federations had not raised it.

¹ This document records the Committee's discussion of the paper published as Document 239.

The attitude of the New Zealand Manufacturers Federation towards CER overall was sounded out by the Committee. Officials were cautiously optimistic that on the evidence to date the majority of those manufacturers within the Federation would support the existing position. It was difficult to be definite about other manufacturers.

In concluding the discussion, the Committee:

- a *noted* the contents of the report attached to memorandum E(82)74;
- b *directed* a paper on the latest position to be submitted to Cabinet on Monday, 17 May, for subsequent reference to the Cabinet Economic Committee meeting of 18 May.

[ABHS 950/Box 1228, 40/4/2 Part 4

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242 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 19 May 1982

E (82) 89. CONFIDENTIAL

Cabinet Economic Committee

The Chairman of the Officials Economic Committee recommends as set out in the copies of the cables¹ sent to the Prime Minister and Mr Templeton that the Committee:

- a note the terms of the New Zealand Manufacturers' Federation communication;
- b agree, subject to Australian acceptance of the safeguards provisions negotiated by officials, that Australia be informed the New Zealand Government can accept:
 - i 31 March 1988 as the terminal date for performance based export incentives with phasing to commence after 31 March 1985;
 - ii 30 June 1985 as the terminal date for quantitative restrictions;
- c agree that Australia be informed that at the time of the 1988 review of CER New Zealand will wish to establish that substantial progress has been made on all aspects affecting the liberalisation of trade including state purchasing and harmonisation of standards.

1 Attached to the submission.

Attachment [1]

CHAIRMAN, CABINET ECONOMIC COMMITTEE

NZCER/MANFED Position

Attached are copies of cables which have been sent to the Prime Minister and Mr Templeton tonight.

The first and major cable contains the following recommendations which officials now put to the Committee:

[*matter omitted*]²

Attachment [2]TELEGRAM FROM SENIOR OFFICIALS TO MULDOON AND
TEMPLETON³

Wellington, 19 May 1982

No 3299. CONFIDENTIAL IMMEDIATE

For Prime Minister from Clark/Hensley

ANZCER: MANFED Position

This morning in response to a MANFED invitation Clark and Hensley visited MANFED Executive meeting *before* the Executive arrived at any decisions on the major CER issues. Purpose of visit was to respond to one or two points of clarification arising from the exposure draft which had been handed to the Executive yesterday on a confidential and informal basis. At that meeting it was clear that MANFED, as they had at the Sydney meeting with CAI remained concerned about non-tariff barriers, particularly State purchasing and the harmonisation of standards. They seemed inclined to want to link any acceptance of terminal date of 1995 for import licensing with obtaining assurances that Australia would 'deliver' on above issues.

2 This afternoon Stevens and Christie called on Clark and delivered following paper which sets out the Federation's response.

Begins:

1 As stated in our letter of 19 March to the Prime Minister the NZMF sees a CER as part of a whole in relation to the future policy for the development of New Zealand industry and appropriate protection policies related to that development.

2 NZMF therefore sets considerable importance on the Prime Minister's reply of 22 April as we see a direct correlation between our understanding on the protection issue in its wider context and our ability to respond positively on the

2 As set out in the main paper immediately above.

3 Muldoon was in London and Templeton in Bonn.

outstanding CER issues. Our position would have been greatly assisted if these discussions had already been held.

3 Coming to the major issues under CER we would comment as follows:

(a) We do not see a problem in accepting 31 March 1988 as the phasing-out date for performance related incentives.

(b) As far as quantitative restrictions are concerned we do not believe that a terminal date at this stage is in the best interests of New Zealand manufacturers or for that matter of New Zealand as a whole.

We are still of the opinion that this matter should be deferred until the 1988 review.

4 However if the Government finally decides to accept 1995 as a terminal date for the elimination of all quantitative restrictions both ways, we believe that the degree of acceptance of such a date by manufacturers will of necessity be conditioned by:

(a) The quality of assurance NZMF can obtain from Government on safeguards during the transition and post-transition period.

(b) The extent to which the Australians are seen to deliver in respect of non tariff barriers such as State purchasing and the harmonisation of standards. We appreciate that constitutional problems are involved as far as the Federal Government is concerned but the fact remains that these matters are of very real importance to many New Zealand exporters. We believe therefore that Australian performance in these areas must be taken into consideration at the 1988 review.

(c) We would therefore need a firm assurance that at the 1988 review New Zealand's ability to deliver 'in toto' by 1995 must have regard to the Australian performance in respect of (b) above.

Ends.

3 In explaining the foregoing paper Stevens said that the first three paragraphs were a formal statement of MANFED position. But the remainder (paras 4 a to c) represented 'advice' intended to be helpful to the Government. Officials responded that steps had already been taken to reorder certain parts of the exposure draft to give greater prominence to New Zealand concerns on Government purchasing and standards in light of comments made at the morning meeting. Stevens thought such changes would be helpful.

4 On para 4(c) officials pointed out to Stevens that it would be very difficult to introduce the sort of linkage proposed at this stage in the negotiations and to get it into the formal language of the draft Heads of Agreement or exposure draft. That was not to say however that it could not be the subject of an informal 'understanding' with the Australians. Stevens said that the assurances were needed now and might not appear to be quite so important once trade under CER began to flow. For that reason MANFED was not insisting upon an explicit

agreement between Governments in respect of 4 (c) and wanted it understood that it was more an assurance from the New Zealand Government to the Federation that was required. It would have to be of sufficient 'quality' to bring along doubters.

5 The following recommendations will go before Cabinet Economic Committee at 9 am tomorrow (Thursday). Ministers to:

[*matter omitted*]⁴

Attachment [3]

TELEGRAM FROM SENIOR OFFICIALS TO MULDOON
AND TEMPLETON
Wellington, 19 May 1982

No 3298. CONFIDENTIAL IMMEDIATE

For Woodfield/Groser—Please show to Prime Minister

ANZCER: Briefing

1 Clark this morning briefed Federated Farmers (Elworthy, Senior Vice President, in absence abroad of Storey) of state of play on ANZCER. Briefings covered decisions of CEC on approach to horticultural products and Government's acceptance in principle of industry-to-industry agreement on carpets (subject to Wool Board's response).

2 Elworthy indicated that Federation had taken the clear position in favour of CER in the broad sense. He could not say there would not be some discontent in the Federation's meat and wool section at the prospect of synthetic carpets gaining a place in the New Zealand domestic market but that would not swing Federated Farmers away from their overall support for CER and they would not come out in opposition to the carpets arrangement. Elworthy indicated that he would talk to the Wool Board about it today. He did not say he would seek to persuade the Board to favour the inter-industry agreement but we would expect his intervention to be generally helpful.

3 Federated Farmers have raised no problems concerning horticulture. We are giving a separate briefing to Vegetable Growers Federation.

4 At conclusion of briefing Elworthy commented helpfully that Federation would like earliest possible advice of contents of 'exposure draft' after 1 June in order that the Federation could publicly adopt a position of support for CER agreement.

5 Clark has talked to Douglas, FOL, but it has not yet been possible to arrange a time for a briefing meeting with the FOL.

[ABHS 950/Box 1228, 40/4/2 Part 4

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4 As set out above.

243 LETTER FROM FRANCIS TO ANTHONY

Canberra, 20 May 1982

CER: Export Incentives/Quantitative Restrictions

The New Zealand Cabinet Economic Committee has agreed to a package containing the following elements being put to Australia:

(I) Subject to Australian acceptance of the safeguards provisions negotiated by officials, agree that Australia be informed that the New Zealand Government can accept:

(a) 31 March 1988 as the terminal date for performance based export incentives with phasing to commence after 31 March 1985.

(b) 30 June 1995 as the terminal date for quantitative restrictions.

(II) Agree that Australia be informed that at the time of the 1988 review of CER, New Zealand will wish to establish that substantial progress has been made on all aspects affecting the liberalisation of trade including state purchasing and harmonisation of standards.

I am also directed to inform you that it was only with great difficulty that New Zealand Manufacturers were persuaded that we should not directly link progress on the issues in (II) to confirmation at the review of the 1995 terminal date.

I trust that you will agree that the above represents confirmation of New Zealand's attitude in regard to two of the most difficult issues in the CER negotiations and would appreciate your comments.¹

[NAA: A1313/113, 82/1226, v]

**244 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 28 May 1982

No1871. RESTRICTED IMMEDIATE

ANZCER: Export Incentives

The Prime Minister rang Mr Anthony today to inform him that New Zealand, after consulting with the Manufacturers' Federation, would accept a phase-out date for export incentives of 31 March 1987 (or 1 April 1987, if Mr Anthony prefers).

The Prime Minister also mentioned that it would be necessary to reach a quick resolution of the outstanding intermediate goods issue on whiteware. You should make the point that a tidy agreement on whiteware is of considerable importance

¹ Francis sent copies of the letter to Nixon, Scully and Duthie.

to the New Zealand Government's ability to present an acceptable CER package. Since New Zealand has met the Australian viewpoint both on export incentives and the terminating date for quantitative restrictions, we trust that there will be a comparable readiness to accept the New Zealand viewpoint that any remedy of an intermediate goods problem in whiteware should be by way of an export tax.

[AALR 873, W4446/Boxes 312-313, 61/Aus/2/2/1 Part 2

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

245 SUBMISSION TO CABINET ECONOMIC COMMITTEE

Wellington, 28 May 1982

E (82) 96. CONFIDENTIAL

ANCER:¹ Release of Exposure Draft

1 This paper asks the Committee to approve proposed procedures for the release of the CER Exposure Draft in New Zealand, assuming that there is agreement between the two governments to proceed with release following Australian Cabinet consideration of a final package at its meeting on 1 and 2 June.

2 It was agreed during Mr Anthony's visit² that there should be simultaneous release in New Zealand and Australia. Australian officials have indicated that they expect to proceed with public release when they have received the Minute containing the Australian Cabinet decision, probably on Friday, 4 June. Accordingly it is proposed that release should take place in New Zealand at 9 am on that day.

3 It is proposed that the Exposure Draft should be released under cover of a Prime Ministerial Press Statement which would explain that the release of the material marks the conclusion of the second phase of the CER negotiations, the building out through negotiation of the broad guidelines contained in the Prime Ministerial communiqué of March 1980.³ The statement would invite public consideration of the Exposure Draft on the basis that the proposals it contains represent a total and balanced package agreed by the two Governments which could only be subject to limited amendment without endangering that balance. Within this limitation interested parties would be invited to propose amendments only in respect of inconsistencies or anomalies which from their experience would affect the practical operation of the CER.

4 The statement would emphasise that the objective of CER commencing on 1 January 1983 remains uppermost in the Government's thinking. The statement

1 i.e. ANZCER.

2 From 19-21 April.

3 Document 93.

would also detail the arrangements for a period of consultation which would conclude on Friday 30 July. Representations received after that date could not be taken into account by the Government. Ministers may wish to consider the timing for tabling any Parliamentary White Paper. Arrangements will be made for the signature of the draft Heads of Agreement by the Prime Ministers of the two countries.

5 On the day of release, in order to supplement the information contained in the Press Statement and the Exposure Draft itself it is proposed that there should be a media seminar in the Beehive Theatre at 11 am at which the Minister of Trade and Industry accompanied by Permanent Heads would give on-the-record explanations of the issues and technical matters covered by the Exposure Draft. Background information dealing with the history of the Australia/New Zealand economic relationship and providing simple guidance for public followup of the Exposure Draft would be prepared for handing out to the Press.

6 A print run of 4,000 copies of the Exposure Draft has been ordered for 4 June. Of these 2,800 are already committed to the Manufacturers Federation which wishes to circulate its full membership. Copies will also be distributed to Members of Parliament, the Press gallery, other special interest umbrella organisations (eg Federated Farmers, Federation of Labour) and New Zealand's diplomatic missions. Further copies would be made available to members of the public and other interested groups (eg universities) upon application to the Department of Trade and Industry and/or from the Government Printer.

7 During the consultation period, it is proposed that a task force approach should be adopted to deal with industry and public representations about CER. The lead Department would be the Department of Trade and Industry drawing, as necessary, upon Customs, Treasury, Ministry of Agriculture and Fisheries and Ministry of Foreign Affairs for support. In addition to coordinating preparation of responses to written submissions arising from public assessment of the Exposure Draft the officials concerned would undertake, as a government initiative under the direction of the Minister of Trade and Industry, a programme of visits to centres outside Wellington where a presentation of CER and the Exposure Draft would be given to interested parties. Regional offices of the Department of Trade and Industry would make the necessary preparations. Similarly, for any seminars or meetings arranged by the Manufacturers Federation or other umbrella organisations this group of officials could be made available upon request.

Recommendation

8 It is recommended that the Committee approve the arrangements proposed in this paper for the public release of the Exposure Draft and for the subsequent period of public consultation between 4 June and 30 July 1982.

246 CABINET ECONOMIC COMMITTEE MINUTE

Wellington, 1 June 1982

E (82) M 21 PART IV. CONFIDENTIAL

ANZCER: Release of Exposure Draft

The Chairman¹ recapitulated on the proposals put forward in the memorandum E (82) 96,² pointing out the programme of visits to major sectional groups by teams of officials. Ministers were asked to volunteer their help in the task. It was suggested that if the 'second fifteen' of officials were defeated in their initial endeavours the 'first fifteen' of Ministers and others would secure the necessary understanding and cooperation. Officials said that some major organisations would receive the exposure draft and a letter on Thursday before the Friday, 4 June, news media seminar.

On the matter of preparing and tabling a Parliamentary White Paper, the Committee had differing views. The Chairman advanced the view that a White Paper should be circulated to the members of the Parliamentary Select Committee on Foreign Affairs as soon as possible. It was commented that the Parliamentary Opposition had been briefed on CER three times already and that one more such session with the Select Committee would be desirable. It was highly likely that Opposition members would request this action once the exposure draft was released anyway.

With regard to a suggestion that the Select Committee only consider the White Paper, it was observed that it had special proceedings making it very suitable for the approach of conducting a briefing rather than a hearing. Both sides of the House had been supportive to date and this approach it was hoped would not be a charade because of the document's finality.

Other members of the Committee questioned firstly whether a White Paper was needed at all and secondly whether it should not be tabled after the initialling of the draft Heads of Agreement by the two Prime Ministers. On the first point some members thought it a waste of time for Parliament to be given the opportunity to attempt changing a document that as a contract could not be altered without renegotiation with the Australian Government. In support of the second point it was observed that both NAFTA and the 1979 GATT document (at the conclusion of the Tokyo Round) were tabled after the Heads of Agreement had been signed in the first case and after the formal initialling in the second.

The response to these two contentions by other members was that some document was definitely needed because of the historic importance of the proposed CER arrangements. Parliament was entitled to receive such a document

1 Hugh Templeton.

2 Document 245.

and the press would most probably ask about it at the media seminar on 4 June. It was in any case a White Paper designed to record an intended agreement and was not meant as a 'green' discussion paper.

One suggestion that the White Paper be reserved as an option only to be implemented 'in due course' was considered but not accepted by the Committee. The Opposition and the Press would ask for something more specific it was thought.

There was some discussion on dates of the two months for the exposure period. The end date of 30 July was dictated by the timing of the Australian Cabinet's consideration of the matter on 27 July and the initialling of the document by the two Prime Ministers at the Pacific Forum between 8–10 August. The main difficulty from New Zealand's point of view with this two month period according to officials was the expected criticism from a number of major sectional groups about the superficiality of the treatment their submissions on the exposure draft would receive from the Government because of the one week between the closing date and the initialling of the document. Originally, these groups had been told that the period would be two or three months and not just two months. A matter of major importance noted by the Committee was that New Zealand needed to consider what the Australian Cabinet might decide on timing that day (1 June) and liaise with them on how they intended to handle the timing. Nevertheless, the Committee did express a preference for the timing as recommended by officials in the memorandum.

In concluding, the Committee:

- a noted the need to liaise with Australia on their arrangements for dissemination of the exposure draft;
- b approved the arrangements proposed in the memorandum E (82) 96 for the public release of the Exposure Draft and for the subsequent period of public consultation between 4 June and 30 July 1982;
- c agreed that a Parliamentary White Paper should be prepared.

[AALR 873, W4446/Boxes 312–313, 61/Aus/2/2/1 Part 3

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**247 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 9 June 1982

NO 1615. CONFIDENTIAL NZEO IMMEDIATE

**Prime Ministerial Meeting, Sydney, 10 June:
CER: Ongoing Timing**

1 Thanks your 2002. We understand that AHC has since been asked to brief you on the latest developments on the ongoing timing aspects of the CER. At the possible risk of some duplication we repeat here our understanding of the new situation.

2 Further discussions with Prime Minister's Department here have shown that contrary to the expectation in our 1548, which was based on Trade and Resources thinking, it is not now expected that Australian Cabinet will consider the outcome of the consultative period on CER until about 24 August. This target date was, we are told, conveyed by Mr Anthony to Mr Templeton after they had earlier considered whether initialling might be able to take place at the time of the Rotorua Forum meeting.¹ We understand that since then Mr Fraser, without consulting Mr Anthony (who is anyway overseas), has indicated that Cabinet's consideration of CER may have to be delayed. He is believed to be sensitive to the need to provide for a full two months for consultations. Thereafter the time-consuming procedures for the preparation of papers for Australian Cabinet combine with the budget on 17 August to bring about the possible further delay.

3 It is clear that the Australian Prime Minister wishes the consultative process to be meaningful. He has apparently instructed that Ministers be made fully aware of all the public and commercial community reaction to the CER package, and that they give them due consideration. Also he wrote to the States last Friday asking them to inform him of their views on the proposed CER. An inter-departmental group is to meet to ensure appropriate machinery is in place for the monitoring, reporting, and analysis of views expressed.

4 The above perspective obviously puts paid to the possibility of initialling the HOA at the Rotorua meeting early in August. Furthermore Australian officials are unable at this stage to be specific as to when (or if) in September the Cabinet will be able to consider the final summing-up on CER. Mr Fraser may be able to be more specific as to what he has in mind when he meets Mr Muldoon tomorrow.

5 It is not yet clear what impact these delays will have on any Australian requirements for legislative changes, etc. We will report further on this, but preliminary sounds indicate that Australian officials foresee few technical/legal

1 9-10 August.

problems in still starting CER off on 1 January 1983 if the relevant political decisions have been made. They may even be prepared to legislate retrospectively. (We have just received your 2003, and will use it to explore Australian position more thoroughly.)

6 For the meeting in Sydney the Australian delegation is now likely to include only Yeend, plus Duncan Anderson (International Division, PM & C) as formal note-taker, and possibly Mr Webster (we gather he would like to attend if possible). Also Frank Anderson will be at Kirribilli, on call to answer any queries of detail which may crop up.

7 Since the above was typed the High Commissioner has spoken personally to Anderson and Scully and it is quite clear that despite any inferences which may be drawn from the foregoing, the Australian Prime Minister is still fully committed to implementation of the agreement by 1/1/83.

[ABHS 950/Box 1228, 40/4/2 Part 4

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248 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN CANBERRA TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 15 July 1982

NO 2002. CONFIDENTIAL PRIORITY

ANZCER: Consultations

The IDC monitoring CER met this week. We talked to Anderson and Lind before the meeting and talked to Hawes again afterwards. Anderson has confirmed that there has been a strong flow of representations to Ministers on CER. Most of the enquiries and/or criticisms seem to be readily answerable but officials will have to sift through responses carefully at the end of the consultation period so as to determine issues/problems which may require further Ministerial attention and/or bilateral negotiation. You will have noted that Lind plans to spend a day in Wellington following the Agricultural Council Meeting at the end of this month and officials may be better placed by then to indicate which issues seem to require further attention.

2 On the reaction he has encountered in visits around the States, Anderson says that there is 'widespread and consistent' dissatisfaction with the terminal dates. The official line in response has been as elaborated in our 1851—essentially that these dates are part of a negotiated compromise and that there is no further room for negotiation.

3 At this stage officials are confident that dissatisfaction with the terminal dates will not prove significant provided that commodity issues can be resolved.

4 You should know, however, that Sir Phillip Lynch is expected to write to Mr Anthony shortly formally seeking an extension by one month of the consultation period. The question of an extension has been discussed within the IDC and Trade are keen to resist any formal extension of the consultation period although they have acknowledged to us that they will need to be reasonably flexible about receiving late submissions. Mr Fraser has not yet answered a similar request from Mr Tonkin (Premier, South Australia) but PMandC officials have sent to him a draft reply which is clearly unsympathetic to any formal extension of the period for consultations.

5 The areas most likely to require Ministerial attention at this stage are forest products, horticulture and whitegoods, and of these three forest products seem to present the greatest political problem. This arises from the fact that all the States—including even Western Australia—have made representations to ministers on the subject. As owners of State forests all the States have been actively concerned at the downturn in the building industry and the effect of recession on the housing market. Anderson informs us that even Mr Anthony has expressed misgivings about the political problems which the forestry sector may create for CER, and that this stands in contrast to his otherwise fairly forthright defence of the CER arrangements in response to criticism from other sectors. Mr Nixon informed State Ministers at the recent special meeting of the Agricultural Council that their first line of approach should be an industry-to-industry arrangement ('along the lines successfully negotiated by the dairy and wine industries'),¹ but he too is also concerned about the political damage that the absence of an industry-to-industry arrangement could give rise to.

6 In meetings with officials forest industry representatives have emphasised that they are not seeking increased protection from New Zealand imports or deferral from the CER formulae, (any such request would be unrealistic anyway given that most products in the sector are duty free already). On the contrary, they could live with the current level of trans-Tasman trade provided that there were no impediments/ incentives in either direction. They are therefore seeking the elimination of export incentives and import licensing from Day One, and in return for this could also agree to having tariff rates (eg current duty of 15 per cent on particle board) reduced to zero at the outset. This request for free trade in forest products from day one may be expected to surface at the industry meeting next week. (Officials here claim it is what NZ sought back in 1965.)

7 Even though there is virtually no New Zealand trade in the product we gather that it is the particle board companies which have been the most vocal within the industry. (The provision for initial access to New Zealand of \$200,000 for particle board they regard as a 'joke' as the item code has a number of other products in it anyway.) Their activities have focussed the attention of the sector

1 For the dairy industry arrangement see Document 188.

on CER and have resulted in virtually industry-wide pressure for elimination of export incentives/import licensing. These pressures are, in officials view, consistent with the free trade objective of the agreement and would complement what has already been achieved in the course of the NAFTA for the greater part of the industry. According to Anderson, it is difficult to contradict the Australian industry's view that their New Zealand counterpart is a mature, sophisticated, and efficient industry which does not need the assistance provided by export incentives. On the other hand, we recall that some NZ particle board companies were very nervous about CER. However, even if it were difficult to exempt all board products from the outset, officials (Anderson and Lind) hope that the New Zealand Government can encourage the industry to consider significant increases in initial allocations.

8 We expressed concern that the industry does not seem to have a clear view of the effect of assistance to the New Zealand industry on export prices in Australia and that the downturn in the building industry seems to have muddied the political waters. Anderson and Lind agreed: it was fair to say that the industry was not really too interested in the facts—on the other hand, however presented, the facts would not diminish the force of the political pressures that were building up on Australian ministers.

9 On the horticultural issues Anderson said he thought it significant that at the meeting of agricultural ministers Mr Nixon was 'very supportive' of CER arrangements (this confirms the impression which the High Commissioner formed following his conversation with Mr Nixon immediately after the meeting). In both his opening presentation and subsequent discussions he emphasised that the proposed arrangements were a comprehensive and integrated package, the overall effect of which would benefit Australia. There will, however, be a range of 'small' requests which Australia may need to make in the horticultural area (details of these were foreshadowed in our 1901). More work will be required to assess the significance of these.

10 Officials also feel that considerably more work may need to be done on the package of measures for the whitegoods industry but these will be covered separately in the light of further discussion with the industry.

[ABHS 950/Box 1228, 40/4/2 Part 4

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249 CABINET SUBMISSION BY TEMPLETON

Wellington, [20] July 1982

ANZCER: Seminars

1 The programme of seminars organised by the Government to explain and offer the opportunity for questioning and comment on the CER proposal concluded on Friday 9 July. Over the preceding four weeks 21 seminars were held in 17 centres. Each seminar was led by a Minister, Under-Secretary or, in one case, by the Speaker. In the four main centres separate seminars were held for manufacturers under the auspices of the local Manufacturers' Associations, in addition to the open Government seminars. A schedule of the seminars held, leader and approximate attendance is annexed to this paper.

Attendance

2 Attendances totalled some 2,500, ranging from almost 1,000 at the two Auckland meetings to 13 at Greymouth. In addition to the manufacturing sector, which was strongly represented at most of the provincial as well as the main centres, a wide range of interests were represented and, from time to time, expressed their concerns through questions and comment. They included retailers, the farming sector (including wheat producers, hot-house growers, dairy farmers and apiarists), trade union representatives, secondary and tertiary students, and numerous members of the public with no apparent affiliations to particular interest groups.

Publicity

3 The seminars were widely advertised through the media (newspaper advertisements and free spots on local radio) as well as by organisations such as Manfed, Chambers of Commerce and local Export Institute and productivity groups.

General Assessment

4 The seminars can be considered to have successfully achieved the following objectives:

- (i) they have provided an opportunity to explain the background to and reasons for pursuing CER. Only a handful of the persons attending the seminars demonstrated antagonism to the concept;
- (ii) they have fulfilled the Government's commitment to consult the public at large on the proposal; and it was made clear at each meeting that further observations and questions could be addressed to the Government up to the end of July. The Government's initiative in holding the seminars seemed to be very much welcomed, especially in the smaller centres;
- (iii) they enabled numerous manufacturers and others to seek clarification of aspects of the proposal and to identify particular concerns. The main issues raised are summarised below. While none of them is new, we now have a

better idea of the issues that are particularly preoccupying the manufacturing and the agricultural sector in particular.

Questions Raised

5 **IMPORT LICENSING: TERMINAL DATE:** Clearly this is a concern to most manufacturers and it was referred to by Manfed speakers at each of the seminars in the main centres sponsored by the Federation as being contrary to their wishes. Nonetheless there was little reference to this issue in the body of the sessions. A 1995 terminal date for import licensing appears to have been largely accepted, albeit reluctantly, as a 'given'.

6 **EXCLUSIVE AUSTRALIAN LICENCE:** There were questions at a number of seminars as to how Exclusive Australian Licences would be distributed. The meetings were told that this had not been decided definitively by the Government as yet but that, having regard to the desirability of giving manufacturers some assistance in the efforts they would be making to rationalise their activities with Australian counterparts, the Ministers of Trade and Industry and Customs and Trade and Industry officials had concluded that making available something like 50 per cent of the EALs to manufacturers would be appropriate. This figure would be varied for some industries. It was mentioned also that a paper was being drafted by officials for consideration by Government that took account of views expressed by the different industries during the current seminars and consultations. Some manufacturers pressed that their sector should be given 100 per cent of the EALs while some retailer representatives asserted that manufacturers should not be specially privileged at all. There was also some objection voiced to tendering of import licences both generally and in the CER context.

7 **CUSTOMS ISSUES:** Questions related to the handling of anti-dumping complaints, the proposed CER rules of origin and the means of coping with suspected fraudulent evasion of the origin rules loomed large in the manufacturers' questioning. There was some private sector scepticism of the Government's capacity to deal quickly with cases as they arise but general acceptance of the Government's determination to key-up its capacity to do so utilising the newly installed computer facility and with the benefit of close cooperation with the private sector.

8 **INTERMEDIATE GOODS:** There were numerous questions seeking elaboration of the approach that will be adopted in dealing with intermediate goods cases that may arise.

9 **REGIONAL ISSUES/NATIONAL PRICING:** In the provincial centres in particular several specific concerns were identified:

- the possible abandonment of national pricing by distant (eg, Auckland-based) suppliers of essential inputs such as steel and sugar;
- the impact of the railway monopoly and the cost of the Cook Strait crossing on long distance freight haulage;

- in the South some feeling that these factors (along with the sentiment that they are not benefiting as they should from the lower cost of South Island energy resources) will mean that once access for Australian goods has been liberalised, the Australians will be better able to compete in the Auckland region than will the Southern producers;
- there were some concerns that CER might circumscribe the Government's ability to apply policies to encourage regional development. The assurance was given that CER did not inhibit such activity.

10 **AGRICULTURAL/HORTICULTURAL ISSUES:** In general there was relatively little discussion on these questions. Two particular concerns raised were the impact on the Southland wheat industry once the restrictions are lifted on imports of wheat flour in 1995, and the need for the glasshouse industry to diversify away from its concentration on tomatoes, also after 1995. There was some discussion of the place of quarantine and hygiene restrictions in CER. Some participants in the seminars commented that they were concerned that Australia may use quarantine restrictions to inhibit trade while others expressed their anxiety that New Zealand should not, in consequence of CER, relax its own genuinely necessary measures. At several seminars the latter point was made especially by bee-keeping interests. There were a few enquiries about the explanation of the special treatment of export incentives on canned corn, frozen peas and beans and processed potato products. Once the background was explained there was no debate about this.

11 **COVERAGE AND CONCEPT OF THE PROPOSED AGREEMENT:** In most centres a number of questions were asked as to the impact CER would have on New Zealand's independence of action in a variety of ways; on why the Government had not opted for a customs union; and why exchange rates were not to be linked, etc. With very few exceptions questions seemed to be genuinely aimed at seeking information and the questioners appeared satisfied by the responses.

12 **IMPACT OF CER ON EMPLOYMENT:** Some concerns were expressed by workers' representatives about the possible impact of CER on employment in specific industries, notably clothing, footwear and motor vehicles. It was possible to point to the optimism of many New Zealand garment and footwear manufacturers about their ability to compete in the Australian market, subject to improved conditions of access; and to the deferral of motor vehicles.

13 **INVESTMENT:** The feeling was expressed by manufacturers on a number of occasions that it would be necessary at an early stage to make progress towards freer opportunity for trans-Tasman investment in production and distribution industries.

14 **STATE GOVERNMENT PURCHASING:** Concerns were expressed that purchasing policies in the States would inhibit opportunity for New Zealand exporters for an indeterminate period but questioners seemed reasonably satisfied at the equity envisaged in the reciprocal approach the Government intended to take until the question was finally resolved.

Future Timetable

15 The Government has told the manufacturers and other private sector interests that they should ensure that their considered views reach the Government by the end of July. At present the CER proposal is being considered by the Foreign Affairs Select Committee of the House. It is envisaged that meetings of the Select Committee for this purpose will conclude on 4 August and that the Committee will report back to the House, permitting a debate before mid August.

16 The Australian Government will be completing its consultations with the private sector and the States at the beginning of August and it is envisaged that the Australian Cabinet will take a decision on the proposal in the light of the consultations on 24 August. Having regard to these time parameters it would appear appropriate that the Government aim for a paper bringing together the results of the New Zealand consultations and any feedback we have from Australia, and serving as a basis for a Government decision to be considered by the Cabinet Economic Committee on Tuesday, 17 August. It could then be referred to Cabinet for Monday, 23 August.

[ABHS 950/Box 1228, 40/4/2 Part 4

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**250 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 23 July 1982

NO 2086. RESTRICTED ROUTINE

ANZCER: The ALP

In the last couple of weeks there have been some indications that the ALP may be positioning itself to come out against the proposed CER arrangements. Until now the ALP attitude has been certainly flexible and on the whole reasonably positive. These indications are far from unequivocal however, and even today the AFR carries a small story to the effect that the ACTU President, Cliff Dolan, supports CER.

2 However, you will have seen (our 1994) the text of a statement issued last week by Chris Hurford (shadow Minister for Industry and Commerce) and also signed by John Brown (shadow Minister for business and Consumer Affairs) and John Kerin (shadow Minister for Primary Industry). While the statement seems to have been occasioned by lobbying from forestry interests, its criticism of the CER arrangements was cast in fairly general germs. In the highly charged political atmosphere following the ALP conference and leading up to the vote for the leadership, this statement may not necessarily have been very representative of party thinking but if so, we have not as yet been able to see Hurford to make

an assessment, and nor has he sought a briefing from Federal officials. It is clear however, that whitegoods and car componentry interests in his urban Adelaide electorate have lobbied him fairly actively, and he may feel he has to take these into account. For example, we understand that representatives of unions involved in the white goods industry called on Sir Phillip Lynch a couple of weeks ago to register their dissatisfaction with the CER arrangements and that Hurford himself has asked some rather pointed questions of Mr Anthony about the arrangements for whitegoods. What is unclear therefore is whether the criticisms Hurford has made of the CER arrangements reflect views within the ALP caucus as a whole, or merely spring from specific electoral pressures which Hurford himself is particularly sensitive to.

3 According to Melbourne's 615 to you, representatives of the ACTU and the NZFOL were scheduled to meet in Wellington to discuss attitudes towards CER. This meeting could also have a bearing on ALP attitudes. Do you know whether the meeting took place, and if so, what the outcome was?

4 Hurford himself is going to be out of Canberra for the next couple of weeks but we have pencilled in an appointment for 18 August.

5 We will report further.

[ABHS 950/Box 1228, 40/4/2 Part 4

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

251 SUBMISSION BY NORRISH TO COOPER

Wellington, 6 August 1982

South Pacific Forum: Discussions with Mr Street

1 Although Mr Street was unable to accept your invitation to visit New Zealand prior to the Forum,¹ it seems likely from the Forum programme that there will be time available, should either of you wish to discuss matters of current interest in the Australia/New Zealand bilateral relationship.

2 If that opportunity presents itself you may wish to draw upon the following material:

(a) Closer Economic Relations

Officials have recommended to Mr Muldoon that, if time permits, he should review the state of play in CER with Mr Fraser. In particular we are concerned by reports that there may be a growing willingness on Mr Fraser's part, in

1 The 13th meeting of the South Pacific Forum (now the Pacific Islands Forum) was held in Rotorua on 9 and 10 August 1982. Street was a member of the Australian delegation.

response to pressure from State governments and parts of Australian industry, to extend the consultation process in Australia by a month (ie into early September) and perhaps for a further full round of negotiations after that, with the inference that some of the fundamental aspects of the package, notably terminal dates for import licensing and export incentives could be re-opened. As the Prime Minister has said already, the attitude of the New Zealand Government is that the Exposure Draft represents an agreed and balanced package to which New Zealand could contemplate only limited amendments arising from the consultation period. Furthermore we perceive certain dangers in stringing out the negotiating process. The proposed start-up date of 1 January 1983 could be jeopardised. This in turn could lead to increased pressure upon the Government and industry groups (many of which have come to accept CER as inevitable) to widen the exemptions, delays and deferrals from automatic CER coverage.

The Australian attitude may be conditioned in part by the fact that the consultation period is the first major information exercise the Australian government has done on CER, whereas in New Zealand consultation has been going on, in practice for the last two years. CER has been more of an unknown to Australian industry than to New Zealand's. Furthermore, the effects of the international recession are now biting in Australia: some Australian industries which might have been relatively relaxed about increased New Zealand exports under CER a year ago, are now looking much harder at whether the trade-off, in terms of improved access for them to the New Zealand market is fair and equal. In doing so they are understating one of the earliest and most central implicit agreements of CER—that New Zealand needs somewhat longer to adjust to CER conditions than Australia because parts of New Zealand industry have enjoyed a wider range of protective measures under NAFTA, and are therefore more vulnerable.

The Australian Cabinet is expected to focus again on CER in the second half of August, at which time extension of the consultation period, or a request for further negotiations are likely to be among the issues considered. Mr Anthony has often hinted that he has faced no easy task in Cabinet on the CER and, as he said, 'needs all the friends (he) can get'. Although these are not matters which New Zealand can negotiate if the Australian Government decides they are political necessities, you may wish nonetheless to make the following points to Mr Street in any discussion of CER you have with him:

- (i) There is widespread public and industry acceptance in New Zealand of the importance of CER for the future development of trans-Tasman trade, and the relationship generally.
- (ii) New Zealand industry has come to regard CER as inevitable, but remains nervous and cautious about it because, despite its gradualism, it will impose real adjustment pressures on many sectors. In particular the Manufacturers Federation has not yet formally agreed to the termination date for import licensing.

(iii) Delays at this stage in finalising the negotiating process by either government could encourage back-sliding, and could cause investment decisions which ought to be made now to be deferred by some industries in case the 'rules of the game' can be changed at the last minute. Such changes could only detract from the economic impacts both governments expect CER to bring through strengthening competitive factors in the marketplace.

(iv) The various problems which have surfaced during the consultation period are, in New Zealand's view, manageable within the existing framework of the agreement and do not require reopening the 'package'. A decision by the Prime Ministers to set a date for initialling heads of Agreement (by the end of September, for example) would concentrate attention on finding solutions.

[*matter omitted*]

[ABHS 950/Box 1228, 40/4/2 Part 5

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252 CABINET MINUTE

Wellington, 24 August 1982

CM 82/34/7. CONFIDENTIAL

Proposed Closer Economic Relationship Between Australia and New Zealand (ANZCER): Outcome of the Consultations

At the meeting on 23 August 1982, on the recommendation of the Cabinet Economic Committee, Cabinet *approved* the initialling of the Draft Heads of Agreement *subject to* the outcome of the consultation on the CER proposal in Australia and the satisfactory resolution of outstanding intermediate goods issues affecting whiteware and carpets.

[ABHS 950/Box 1228, 40/4/2 Part 5

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**253 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO
NEW ZEALAND HIGH COMMISSION IN CANBERRA**

Wellington, 21 September 1982

No 3331. CONFIDENTIAL PRIORITY

ANZCER

For High Commissioner

Thanks your interesting 2679 and 2692. It is disappointing that Australian Cabinet consideration of CER will not now take place this week but in the circumstances, we have little choice but to swallow any frustration we feel about timetable problems. We are at this stage very much in Australian hands on the timing of further round of discussions. But whatever practical difficulties may loom ahead with the 1 January 1983 start-up date if the Prime Ministers are not able to initial an agreement fairly soon, we must try to avoid a situation where inadequate time is available for officials to prepare for meetings of ministers. There would be little point in rushing into a further round of officials meetings before we have a reasonably full reading of Australian Cabinet reaction to Mr Anthony's report on the consultation exercise. Comments of Hayes reported in your 2679 are interesting as far as they go but we will not be able to assess their significance until we know where Australian ministers stand. (Did Mr Anthony in particular raise other issues than forestry?) We have an open mind on the need for full-fledged JWP or Permanent Head meetings. The format of such meetings will very much depend on the degree of substance in issues the Australians want to raise. What is of concern is that the timing should allow us to consult Ministers as soon as possible after a Cabinet decision.

2 It is of concern that the forest products issue is threatening to become a stumbling block. We agree with Mr Anthony that the problem stems from the differences that persist in the attitudes of the two industries. For the Australian industry, the current economic downturn appears to be the critical factor. The New Zealand industry, on the other hand, is approaching CER on the basis that it is unreasonable for their Australian counterparts to use their current economic difficulties to open up within the framework of CER questions that were not at issue under NAFTA. We agree in principle that resolution of Australian industries current¹ could lie in inter-industry understandings. We are less than certain that a further meeting of the kind now being proposed would in practice reach the kind of understandings that would be required to meet Australia's apparent concerns. We would be happy to ask the New Zealand industry to have another go with its Australian counterpart if Mr Anthony insists that this is essential, and the Australian industry formally extends an invitation. We could not, however, give any advance undertaking as to the likely outcome of the meeting if the Australian

1 A word or words appear to have been omitted from the text.

industry maintains a non-accommodating approach. In this regard, Mr Anthony's talk about countervailing duties does not auger well.

3 Following cable contains comments of Prime Minister in a speech that he gave yesterday to the Wellington Manufacturers Association. This was after Cabinet had on Monday reviewed CER timetable question.

[ABHS 950/Box 1228, 40/4/2 Part 5

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

254 MESSAGE¹ FROM MULDOON TO ANTHONY

Wellington, 7 October 1982

Thank you for your letter of 5 October, 1982² in which you set out your Government's views on the current proposals for a closer economic relationship between our two countries. Now that the consultation process has been completed on both sides of the Tasman we are in a position to consider whether changes to the proposals are required to complete the negotiations in a way that maintains the confidence of our business communities and other interested parties.

I would like to make it clear that it is the view of New Zealand Government that no changes can be made to the terminal date for import licensing (1995) or the date for the elimination of export incentives on trans-Tasman trade (1987). From your own extensive involvement in these negotiations you will be well aware of the difficulties the New Zealand Government faced in entertaining these two commitments. They were, however, agreed at ministerial level and, in the end, the New Zealand business community accepted this as a necessary step towards concluding negotiations. To propose any major changes now would require a fresh round of consultations with no likelihood of such changes being accepted.

Having said that, I note that the comments in your letter on access and export incentives are not confined to the question of terminal dates. I believe that on the basis of further discussions between officials it should be possible to explore other aspects of import licensing and export incentives with a view to ensuring that Australian concerns about meeting the objectives of fair competition and equality of trading opportunity are met.

I hope that within the limits described above, our officials might be able to put together a package which could be presented to our Cabinets by the end of the month.

[NAA: A1838, 370/1/19/18, xxxiii]

1 The message was conveyed through B.W.P. Absolum, New Zealand Deputy High Commissioner, Canberra.

2 Document 209.

255 NOTE FROM MURDOCH TO NORRISH

Wellington, 18 October 1982

. CER

Attached is a draft overview paper¹ for the Permanent Heads meeting.² It is a convenient enough summary of where the Joint Working Party stopped last week. It does not expose all of the options available to the Permanent Heads meeting to negotiate a new compromise document satisfactory to both sides, and nor does it delineate the shape of any possible packages, although in some areas the possible trade-offs are clear enough.

2 Some of the apprehension all of us felt recently about the Australian will to reach finality on CER in time for a 1/1/83 start-up was removed by the performance of Newton Lind and the Australian JWP officials in the meeting just concluded. They were positive and constructive, apparently anxious to clean up as many of the outstanding peripheral issues as possible. Several times Lind reminded the NZ side that on such issues what he needed was forms of words which would make the given issue cosmetically more acceptable, and 'saleable' for Mr Anthony.

3 However these are atmospheric, and nothing more than that. Their importance for wrapping up CER can be over-stated. After all these Australian officials have been with CER for 2–3 years: they have an institutionalised interest in 'bringing it off'. Far more critical must be the approach of the (less involved) senior Australian officials and political figures, especially Mr Fraser.

4 At its crudest, the Australian public consultation phase on CER must be judged a fiasco if the requirements for changes to the DHOA now before NZ are any guide. The cumulative effect of the new requirements put to us by Lind and the JWP (fleshing out Mr Anthony's letter to Mr Muldoon³) is that of a new negotiation, in that virtually none of the main points agreed leading to the release of the DHOA have been left untouched by the Australians. Australian industry appears to have 'woken up' to CER just in time to put together a very substantial roar of opposition to it. It is not clear yet whether a bit of acceleration here, a change of market share percentage there—will meet the clear political need for Mr Anthony to demonstrate that he has significantly improved the package. If it was tempting to think that some bringing forward of either the 1987 or 1995 terminal dates could have secured the CER much earlier, that is not the case now: not just because it remains the point at which Mr Muldoon has drawn the line, but also because one would have to have real doubt that such changes would be sufficient by themselves any longer to meet Australian objections.

1 The final version is published as Document 256.

2 Due to take place on 19 and 20 October.

3 Document 209.

5 From the New Zealand perspective there could well be real limits to the amount of amendment to DHOA that the Government can entertain. Within our own JWP delegation some of the old interdepartmental problems resurfaced in the past week as Treasury fought to preserve as much of the export incentive sector as possible, and DTI nervously did their sums with MANFED on what the new Australian bids for initial access would do to CER's 'gradual' impact on New Zealand industry. Permanent Heads may feel less constrained to defend such conflicting interests than junior officials. One hopes so because the immediate consequence of such internal tensions (apparent even in the JWP) is that New Zealand's package response to the new Australian demands must be negotiated first within our own team to establish a set of NZ agreed common factors which could then turn out to be fairly low in comparison with Australian demands. In other words the means of bridging the gap between what we think we can manage and what the Australians think they can live with may not be explored as fully as it should be at this stage in proceedings.

6 The nagging question is 'what then, if this meeting of senior officials doesn't provide a package which both governments can accept?' Another Ministerial meeting? That is highly likely in that Mr Anthony already wants to deal directly with Mr Muldoon on the issue of the revise[d]⁴ phasing required for export incentives. In Brisbane⁵ Mr Fraser turned aside Mr Muldoon's enquiry about holding to CER startup next year with the observation that implementing (as distinct, implicitly from negotiating) CER had not been considered by the Australian Cabinet.

7 Any Ministerial meeting would, presumably, have to take place against a publicity background of some proportions. The obvious temptation would be for industry in both countries to seek to bolster their government's final positions by putting some public pressure on them. Lind has already cautioned the NZ JWP that any leaks from the NZ MANFED about the negotiating position taken by Australian officials would evoke the strongest counter-reaction from Australian private sector sources.

8 Perhaps the key to all this is the amount of momentum the CER negotiations have achieved. If it is now a question of 'just one more roll' on the downhill slope for this large stone, Australia can probably be brought along: the bureaucratic commitment and the (dwindling) political interest is probably still there. However if the stone has stopped, or is about to stop, the mere thought of the amount of political muscle required to push it the last few yards may be enough to put one side or the other off. The Permanent Heads meeting should expose this more clearly than any earlier meetings.

4 Handwritten correction in an unknown hand.

5 The two Prime Ministers had met in Brisbane on 8 October. See Document 210.

Footnote

9 This may all seem rather gloomy. It is a 'plan for the worst' and 'hope for the best' outlook. A more sanguine approach would note that the fundamental objective of CER (free trade by 1995 or earlier where possible on a product basis) has not been criticised. All New Zealand has been asked to do is 'grease the track' more, especially the early stages. Greater emphasis could perhaps be put on the fact that the need for gradualism on New Zealand's side, and the ability of Australia to cope with that need (by accepting imbalance in the rate of liberalisation) have been changed as economic conditions in Australia have begun to match those in New Zealand in the past year.

10 In discussing how to include the amendments in the CER Heads of Agreement, the Australians have suggested that these should all be published as an annex to the exposure draft.

[ABHS 950/Box 1228, 40/4/2 Part 5

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

**256 EXTRACT FROM BRIEF FOR NEW ZEALAND
PERMANENT HEADS**

Wellington, [19] October 1982

**Objectives for New Zealand Permanent Heads,
19–20 October 1982**

We are now in the 'crunch' stage of the CER negotiations. Considerable progress has been made in the last round of working party discussions on such issues as intermediate goods, government purchasing, and transitional safeguards. Agreed amendments to the DHOA on these matters have been referred to Permanent Heads for their approval. In addition, with the exception of the import/export tariff issue, a package of modifications for whitegoods has been agreed.

These are all significant steps towards securing the overall agreement. However, unless Permanent Heads succeed in putting together this week accommodations on the key issues of export incentives and import licensing which can be recommended to ministers, insufficient time will be available to provide for implementation of the agreement from the beginning of next year. There must be some likelihood, bearing in mind the constant possibility of an Australian general election (and a change of government) as to whether delay now would put CER startup in 1983 in jeopardy.

The Australians have come up with some new proposals on these two key issues as a result of the consultation process. They reflect intense concern in Australia that the proposed arrangements 'favour' New Zealand by imposing undue restrictions on Australian access to the New Zealand market, and by 'excessively'

long adjustment periods in respect of the terminal dates and 'equalization' of export incentives. As a result the exchange of correspondence between the Prime Minister and Mr Anthony,¹ the Australians accept that the terminal dates for import licensing and export incentives provided for in the DHOA are not negotiable, however, they are just as adamant that to the extent that these dates cannot be changed, New Zealand must move to improve the terms of Australia's access, and to phase out export incentives as fast as possible, consistent with the terminal date of 1987. Mr Fraser repeatedly made the point to Mr Muldoon in Brisbane² that Australia saw two ways of proceeding to wrap up CER. He clearly means the blunt instrument (bringing forward dates) or the surgeons knife (a series of final adjustments across the board).

These Australian requests are ambitious at this stage of the negotiations, but they may nevertheless represent a 'bottom line' for Australia. An important objective of the Permanent Heads' meeting this week, therefore, is to test the extent of the Australians' flexibility as far as these requests are concerned. Indications from middle-level officials at last week's meetings are that Mr Anthony's requests fall some way short of what other departments considered Australia's opening bid should have been. If so, Australian Permanent Heads may not feel able to recommend to their ministers a settlement on terms any less than Mr Anthony's latest offer, unless we are able to persuade them that the New Zealand response to their requests will meet their objectives in a different way (ie will deliver them substantially the same degree of benefit).

On access elements in the New Zealand response could include:

- Meeting all individual Australian complaints above³ lack of commercial viability in initial access levels. This would involve
- Recalculation of the minimum access level on the basis of first 'year' of access whose duration is effectively eighteen months;
- The application of the growth factor to the eighteen months period in the second full year;
- The bringing forward of the review to a date which would enable improved terms/access to be authorised earlier than at present;
- A commitment written⁴ review's terms of reference which would provide for an accelerated pace of liberalisation to coincide with our tariff phaseout (IL 1987) so that there is no 'earthquake' of adjustment in 1994–5.

On *export incentives*, given Mr Anthony's expression of preference to negotiate directly with the Prime Minister, it may not be possible to explore with

1 For Anthony's message see Document 209, and for Muldoon's reply see Document 254.

2 At their meeting on 8 October. See Document 210.

3 Perhaps 'about' was meant.

4 Some words are apparently missing here.

Australian Permanent Heads a range of options to quite the same degree as for import licensing. However, given the threat of countervailing action against imports from New Zealand, and the damage this could do to our overall position on export incentives in the CER, it will be important to rehearse New Zealand concerns in this area and to explore the scope for discretionary action by Australian ministers to waive countervailing actions in a situation where there is a commitment by New Zealand to terminate performance based export incentives. Starting in 1985 (this, of course, would leave unaddressed one Australian concern that whereas there will be no Australian incentives available in trans-Tasman trade from 1 July 1983, New Zealand exporters would have all or some benefits available until 1987).

It will also be important to obtain a reading from Australian Permanent Heads on whether it is considered that another ministerial meeting may be necessary before the negotiations are concluded. If so, it may be worth canvassing dates for a meeting. CER can probably go ahead on 1.1.83 even if a Treaty has not been signed beforehand, but would be signed soon after (ie February/March?). This presupposes the substantive conclusion of treaty negotiations by Christmas. To achieve this the final step of negotiations (initialling of DHOA by Ministers) would have to be complete before the end of November at the latest. That suggests any final Ministerial negotiating session probably has to take place as early as⁵ November as possible.

[ABHS 950/Box 1228, 40/4/2 Part 5
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257 RECORD OF DISCUSSION BETWEEN ANTHONY AND MULDOON

Wellington, 28 October 1982

AUSTRALIAN/NEW ZEALAND EYES ONLY

ANZ/CER: Visit by Rt Hon J D Anthony: 28 October 1982

After the Prime Minister had welcomed *Mr Anthony*,¹ referring to their previous private discussion in the Prime Minister's office, *Mr Anthony* said that he hoped that this would be last time Ministers of the two Governments met to discuss the CER since negotiations had been protracted. He said that good progress had been

5 Perhaps 'in' was meant.

1 Both ministers were accompanied by sizeable delegations of officials, and in Mr Muldoon's case by the Minister of Trade and Industry and the Minister of Customs.

made and that there was widespread acceptance of the broad virtues of this sort of relationship by industries in Australia and New Zealand. He said that when he had last met with the Prime Minister their discussions had gone far enough for him to approach the Australian Cabinet and obtain permission to promulgate a 'draft proposal' on CER so that Australian industry reactions could be obtained. As a result of that process, overall Mr Anthony said he was quite encouraged, although the reactions had been of varied strength, including messages to the Prime Minister, Mr Fraser, from the Premiers of New South Wales and Victoria. He noted that these same Premiers had not reacted as strongly on the question of CER to the New Zealand High Commissioner as they had in their letters to the Prime Minister. There had been a particularly strong reaction from the Australian Metal Trade Industry Association which, like a number of other umbrella organisations in the private sector, was becoming progressively more cantankerous with the government generally as the Australian economy tightened. This led Mr Anthony to feel that the sooner the two governments could wrap up the CER negotiations (and start up at the earliest time) the better it would be.

Mr Anthony then said that two main points had emerged from the public consultation period in Australia:

- (a) the length of the period during which import licensing would be phased out; and
- (b) the remoteness of the terminal date for New Zealand's performance based export incentives.

Mr Anthony said he was aware of the commitment and declarations which the New Zealand Government had made to New Zealand industry on these points and he acknowledged that it would be difficult for the government to alter these significantly. Nonetheless he said he had been asked by the Australian Government to raise the possibility with Mr Muldoon, even though he said he could well imagine the Prime Minister's reaction. That said, Mr Anthony expressed his hope that there would nonetheless be some other areas of the existing CER proposal where changes and modifications could be made.

Mr Muldoon said that the Government felt that it still had the interested private sector parties in New Zealand 'on side'. By 'parties' principally, he meant the Manufacturers Federation, some of whose members objected totally to CER, despite which the government had publically stated it would proceed with CER. He said that the issue of the terminal dates was the breaking point with MANFED. New Zealand would, however, do what it could to meet some of the difficulties Mr Anthony had encountered short of interfering with the terminal dates.

Mr Muldoon then turned to the first Agenda item, informing Mr Anthony that on 27 October the Cabinet Economic Committee had considered and approved all the changes so far negotiated by officials to the Draft Heads of Agreement.

Mr Muldoon suggested that officials should exchange lists to ensure that there were no disparities.

Mr Muldoon then turned to the question of forest products suggesting that there were no issues which need take up the time of the two ministers during the morning session of their talks. *Mr Anthony* observed that forestry was a difficult issue for Australia, because there were deep feelings in the Australian timber industry. He admitted he had overlooked this factor during previous Ministerial discussions but even so forestry was still an issue. New Zealand timber had become very competitive on the Australian market at a time when Australian domestic demand was declining. There were very strong views among Australian producers about New Zealand export incentives and a request had been made for the Australian Government to consider dumping and countervailing duty complaints. *Mr Anthony* said he sincerely hoped that Australia would not find itself having to take CVD action. This was a position he took based on his views as 'an international trader' because he recognised that such a course of action would have international ramifications. Nonetheless he was obliged to observe that a strong lobby of support was building up behind that option in Australia. He had hoped that inter-industry discussions would have fixed the problem. Now it was in the hands of officials and he hoped that pricing arrangements could be worked out to overcome the present problems in regard to paper, pulp, veneer products, fine paper and reconstituted panel boards. *Mr Templeton* observed that the leading powers within the New Zealand forestry industry were now involved in a further round of inter-industry discussions and their presence could help to influence those who had previously stood out from an industry-imposed solution. *Mr Anthony* replied that he had considerable confidence in Australian industry leaders and he was aware that they too were prepared to come to the table. *Mr Templeton* said that it seemed therefore that the good people on both sides were now focussed on the problems.

Mr Muldoon turned to the second part of the agenda item—canned fruits—another product area where agreement appeared to be close between the two sides but had not yet been fully achieved and where further work by officials looked promising. He said that the New Zealand Government's final decision on the Industry Development Commission's report would not be unfavourable to Australia. On the basis of the IDC's final report which had been a split decision, he noted that the majority view of the Commissioners which was the more generous, would not be unfavourable to Australia. There had been no Ministerial decisions yet, he said, but as far as CER was concerned he could foresee no problems from the New Zealand side in meeting a commitment on quality of access for Australia. *Mr Anthony* said so far as he was concerned it was a question of working out how the assurance the Prime Minister had given him just then (and earlier in writing) was going to apply in practice. He thought he might need to look at the IDC report and assess it in light of the position of the Australian industry. *Mr Muldoon* said they had seen it already in confidence.

Mr Templeton said that he expected the report would be approved for public release and consultation with New Zealand industry on 2 November.

On synthetic carpet, the *Prime Minister* said that the New Zealand carpet industry had reacted unfavourably to the latest Australian proposal noting that while the *quantity* of carpet that would be covered in two-way exports was the same it would amount to 5% of the New Zealand carpet market but only 1% or less of the Australian carpet market. The New Zealand industry, he said, would rather abandon the present inter-industry agreement than accept the proposition put forward by Australia. He then suggested that perhaps officials should attempt to progress this issue further, repeating that the government had had no success with the New Zealand industry on the proposition put forward by Australia in its present form.

On Government purchasing, *Mr Muldoon* said that in essence the New Zealand Government had accepted the new drafting required by Australia. The situation overall was untidy and not especially satisfactory given New Zealand's original objectives. There was little New Zealand could do about the positions taken by individual states at this point in time. *Mr Templeton* added that the Government had come under quite a degree of pressure on this issue from New Zealand manufacturers. It had been able to 'hold the line' on the basis that the matter could best be progressed as a second generation CER issue. *Mr Anthony* observed that New Zealand had made progress towards reciprocity of preferences with some States.

On the modified (deferred) category² *Mr Muldoon* said officials had made some progress. *Mr Anthony* agreed but noted that there was still 'something to be done' on copper products. *Mr Muldoon* agreed, observing that New Zealand's willingness to remove this item from the modified category had a condition (regarding the scrap embargo) attached to it which New Zealand officials could discuss with their Australian counterparts. He noted that the loss of deferred status would not be well received by the New Zealand producer concerned. He then confirmed that the decision reached by officials on aluminium products and on taps, cocks and valves was acceptable. On ceramic sanitaryware he noted that the deferral would be maintained.

On the question of the allocation of exclusive Australian licences, *Mr Muldoon* and *Mr Anthony* agreed that the revision of the guidelines undertaken by officials was getting to an acceptable level.

Export Incentives

Mr Muldoon noted that the New Zealand Government was conducting a general review of its export incentives schemes. He noted that the Government had encountered opposition from the Manufacturers Federation to any suggestion of

2 Elsewhere known as 'Category 3'.

bringing forward the 1987 terminal date and therefore his discussion with Mr Anthony had to focus on the question of phasing. He suggested that perhaps there was some concession in this regard that could assist Mr Anthony. *Mr Anthony* replied that it was very important for him to be able to show some progress on removal of export incentives as a result of this meeting. He recalled that as a result of the previous Ministerial discussions Australia had accepted the 1987 terminal date with phasing to commence in 1985. Following the public consultation period in Australia a number of proposals had been made in regard to that phasing including one for a 75% cut in 1985. In his view that was a harsh proposal and he would prefer to be able to promote a 50%–25%–25% phasing alternative so that it could be claimed in public that within a year or so of the commencement of phasing New Zealand's incentives would be three-quarters gone. *Mr Muldoon* replied that although it would require some effort by the Government to 'sell' such proposal he could accept it. *Mr Anthony* observed that this issue had become more sensitive since their last meeting because of the decision taken by the Australian Government to abolish its comparable schemes from May 1983. If the New Zealand schemes were only to last 18 months beyond that time he felt he would be able to press the viewpoint on Australian industry that within such a time frame they ought not get too cantankerous about the apparent differences.

Countervailing Duty Actions

Mr Muldoon said it was New Zealand's understanding that there was certain binding obligation upon the Australian Government arising from domestic legislation. He accepted that there was not much New Zealand could do to circumvent CVD problems in light of that fact. However, he said, New Zealand remained concerned that CVD action should not become a common practice on the part of Australian industries because it would be contrary to the whole spirit of CER. Constant recourse to the CVD option would cut across the CER, he said. The New Zealand Government would be faced with a reaction from the New Zealand business community which would say that the Government had made a deal (on export incentives), but an entirely new factor in the form of CVD action had been subsequently introduced. *Mr Muldoon* said he did not know what type of solution would be possible to meet both the Australian and New Zealand points of view. *Mr Anthony* said that the possibility of CVD action 'cut both ways'; it was a normal provision in the commercial law of all countries where a real need for it could be demonstrated. He felt that the area of prime risk in this regard lay in the two years between 1983 and 1985 and both governments should seek solutions as quickly as possible on a case by case basis when the risk occurred. *Mr Muldoon* referred to the work done by officials on an Explanatory Note in this regard and suggested that perhaps the two governments could do no more than take the steps covered in that note. *Mr Anthony* then described the Australian position by reference to the Australian version of the draft

Explanatory Note. *Mr Muldoon* said that from the New Zealand side some additional drafting was desirable.

Initial Access

Mr Muldoon said this was the other major question for these talks. Despite the obvious problems, he said he recognised that New Zealand had to be 'somewhat flexible'. The problem was that there was a wide variation in the impact of any changes New Zealand might accept on particular industries. They range from negligible to major, whether in terms of the market share base of the cash base and where the problems were serious the New Zealand Government would encounter real difficulties.

Mr Anthony said that following the Australian consultation period it had been pointed out by officials that by 1995, as a result of starting from a low access base, in many cases Australian penetration of the New Zealand market would reach no more than 16%. He suggested that the system should be so designed that by the time of the 1988 review of CER the rate of access could be changed, wherever possible, in order that by 1995 most products were either Licence-on-Demand or would require only one small further step to achieve unrestricted access to the New Zealand market. *Mr Anthony* added that there had been widespread criticism of the CER in Australia on the grounds that it allowed New Zealand to protect its domestic market for an unduly long time. Given the fact that there could be no bringing forward of the 1995 terminal date Australia had been forced to turn its attention to the possibilities of opening up the New Zealand market faster in the early years. He said that with a low initial access base increasing by only 10% per annum, access would still be at a low level by 1995, especially where there was growth in the New Zealand market for the product concerned. The \$200,000 minimum base was an unrealistic starting point not only because it did not represent a worthwhile opportunity commercially but also because the market share percentage to which it equated was so low that the phased increase in it appeared farcical. Accordingly Australian officials had been instructed to promote a doubling of the base from \$200,000 to \$400,000 or 10% market share, while maintaining the 10% growth factor. Also, Australia wanted a doubling of the growth rate to 20% for those items where initial access base was between \$400,000 and \$1 million. (This covered, in practice, product groups where trade was already taking place.) *Mr Muldoon* said he felt more at ease with the latter proposal than with the former. Even so he said that in the \$400,000 to \$1 million category New Zealand had four sensitive item codes where it would be necessary to maintain the growth rate at the existing 10% per annum (real). *Mr Anthony* said that he could accept that there should be some way of identifying these sensitive items. Four from a total of fifty did not look too problematical. *Mr Muldoon* said that the items concerned were ceramic tableware: tubes and pipes of copper and of aluminium and locks and padlocks. *Mr Anthony* confirmed that Australia would seek a way to meet the sensitivity described by the Prime Minister and added that provided it could be established

that Australia was obtaining a fair share of the global trade in these products he could not foresee any problems.

Mr Muldoon said that in regard to *Mr Anthony's* first proposal New Zealand was very worried about doubling the bad reaction amongst Australian industry. *Mr Clark* recalled that during the New Zealand public consultation period officials had explained the CER on the grounds that \$200,000 would be the minimum base. Those New Zealand industries—about 30 to 35—which responded that \$200,000 represented significantly more than 5% of their market had been dealt with by reverting to the 5% option. New Zealand officials could not predict how many more industries would claim that with a \$400,000 cash base, that they preferred to be categorized by fixing a percentage share of their market. *Mr Anthony* said that it was vital for him to be able to say in Australia that some movement had been made in this area. *Mr Muldoon* asked *Mr Anthony* whether New Zealand's acceptance of a 20% growth rate in the second category he had sought to introduce did not represent some 'help' to *Mr Anthony* when taken together with the acceptance of a doubling of the cash base to \$400,000 in the first category. *Mr Anthony* replied that he did not think he could obtain Cabinet approval for the CER on that basis. Some of his Ministerial colleagues would laugh at the CER unless there was some movement on the market share base. He said he was happy for New Zealand officials to itemise specific problem areas but in general terms he would have to be able to say that in 1988 reasonable progress had been made towards the phasing out of import licensing.

Mr Muldoon responded that the process of re-examining initial access levels implied difficulties for a larger number of small New Zealand industries which in practice were of little consequence individually in trans-Tasman trade but were collectively capable of presenting a strong public face against the CER in New Zealand. *Mr Anthony* said that from his point of view the 5% market share looked very minimal. *Mr Muldoon* pointed out that by agreeing to *Mr Anthony's* requests in regard to the second category, the larger trading enterprises had in fact been dealt with. They were the ones who 'mattered'. He suggested that there might well be very little interest in the product areas of the smaller New Zealand industries from the Australian exporters. *Mr Anthony* said that in that category there were potential exporters who had never had to deal with import licensing before. *Mr Muldoon* said that there was not a lot of trade involved. *Mr Anthony* replied that the issue was one of symbolic importance on both sides. *Mr Muldoon* repeated that while he could accept a nominal doubling of the cash base to \$400,000 he remained worried about the prospect of doubling the 5% market share base. In response to *Mr Templeton*, who stressed the importance of gradualism for the small New Zealand manufacturer, *Mr Anthony* said that he could not see that there was any better form of gradualism than having only 20% of the domestic market exposed by the halfway point in the transition period. He pointed out that in order to achieve termination by 1995 it would be necessary to have a much steeper curve in liberalisation after 1988. He wondered

whether that would in fact prove more difficult for New Zealand when the time came. But he concluded that officials should have a closer look at the problems that have been outlined during the discussion.

End of Morning Session.

Mr Anthony opened the afternoon session by referring to a list of outstanding issues which had been further refined by officials during the break. Summarising, he said that in the problem area of increasing the access rate, two sides were agreed in principle and that the bottom line which he could take back to Canberra and promote within Australia was the doubling of the cash base to \$400,000. He said he recognised that New Zealand's problem lay in the area of sensitivity of small companies which could not tolerate a base of \$400,000 and therefore looked to the market share alternative. He wondered whether officials could devise a formula which would not allow too much deviation from the bottom line but would permit some industries to be excluded, although not to the extent that it would erode the meaningfulness of the \$400,000 base. *Mr Galvin* commented that officials had explored the possibility of retaining the option of a 5% market share together with a new \$400,000 base. In all there were some 327 item codes where initial access would fall at \$400,000 or below. If one assumed that the crossover point (at which a company would derive greater gradualism by opting to move to \$400,000 at 10% growth rather than holding to a 5% market share base with a 20% growth rate) was \$260,000 there could be about 119 codes in which the 5% route would be attractive. *Mr Anthony* responded that while he had few difficulties with the 35 companies which had already opted for a 5% market share (when the cash base was \$200,000) his position in the Australian Cabinet would be very much weakened if that number escalated three times (from 35 to 119) under the new formula proposed.

Mr Muldoon said his difficulty was that there would be pressure on the New Zealand Government directly proportional to the number of companies which were 'dragged up' to the new \$400,000 starting base. Most of the companies in this category had not given much thought to Australian competition on the New Zealand market because under NAFTA it had been minimal. *Mr Anthony* asked whether the doubling of the market share base to 10% was too much (in political terms). *Mr Muldoon* replied that New Zealand could live with \$400,000 or 5% of the market (whichever was the lower) with a 20% growth rate: *Mr Anthony* then noted that Australian manufacturers had expressed during the consultation period 'just how puerile' the Australian penetration of the New Zealand market would be under the formula as it was in the Exposure Draft. He said he felt obliged to return to them with an adequate answer to that criticism. *Mr Templeton* then noted that the Government would not wish to have to receive representations during the 1983-1988 period from industry saying that a process which would offer Australia 20% of the domestic market had turned out to be too tough for them. He suggested that it was more important to bring the smaller industries along gradually. *Mr Anthony* replied that he had said that individual cases for

exemptions could be examined and he reiterated that even with a 10% market share base (at a 10% growth rate) market penetration would only be about 16% by 1988.

Following an intermission *Mr Anthony* summarised to the effect that the discussions had concentrated on New Zealand's concern about offering a 10% market share as an alternative to a \$400,000 cash access base. He said it had been suggested that those who opted for a market share (below \$400,000) would attract a 20% growth rate. He then suggested the alternative of putting all trade below the ceiling of \$1 million on a 20% growth rate except for the 35 'sensitive' industries which had already opted for the 5% market share. *Mr Muldoon* replied that the other option was to set a 10% growth rate for all those who opted for \$400,000 base but a 20% rate if the 5% market share base was invoked. This was the option he had already advanced. By contrast, *Mr Anthony's* proposal was for a 20% growth rate regardless. He said he had the feeling that the burden being placed on New Zealand to sell such an approach to manufacturers outweighed the gains it would bring to Australia. It would mean that the Government would have to say that the outcome of the negotiations had been to move in Australia's direction on all points and New Zealand industry had received very little consideration. *Mr Anthony* commented that the public perception could well be that the Prime Minister had been adamant about not shifting the terminal date and people would realise that the only alternative then available to Australia was to 'open it up' at the initial access 'end'. *Mr Muldoon* reminded *Mr Anthony* that the Exposure Draft was perceived as the consequence of agreement being reached between them and that what had followed in subsequent negotiations, might well appear to be a watering down from a point agreed several months ago. He said he thought that even though improved initial access for Australia was now accepted by the New Zealand public in general terms, *Mr Anthony's* new proposal for initial access went too far. *Mr Anthony* said he had in fact offered the option of holding onto a 5% market share for some industries in order to accommodate the New Zealand position and that his proposal for an across-the-board 20% growth rate when presented had the sort of simplicity he would require in presenting the issue in public in Australia. *Mr Muldoon* said that the negotiating mandate approved by the Cabinet Economic Committee did not extend to that point and it would be necessary for him to take the matter up at Cabinet level. *Mr Anthony* said that he imagined that the retention of the option of a 5% market share in some cases would help to meet *Mr Templeton's* feeling for the apprehensions of the small New Zealand manufacturer about Australian market penetration under CER. However he also had a problem. Australian industry had not proved to be as cooperative as he might have hoped. Initial access was a major selling point for CER in Australia and some presentational improvements were required. *Mr Clark* commented that to isolate the number of companies which would wish to opt for a 5% share of the market rather than a \$400,000 cash base would not be easy. It would require consultation with the industries likely to be concerned. He emphasised that the 119 item codes

mentioned previously was an imprecise estimate. As a result of consultations with industry that number could shrink or it could grow. *Mr Anthony* responded that with the 5% base option the 119 codes would be covered.

Other Issues

Mr Muldoon reopened discussion on the question of synthetic carpet by repeating that the New Zealand industry was not willing to accept the latest Australian proposals. *Mr Scully* noted that officials had arrived at the point of an approach which fitted the bill in principle but was unsatisfactory in regard to precise calculations of market share. That suggested to him that officials ought to do further work in that area of calculation, leading to further exchanges, if necessary, between the Prime Minister and *Mr Anthony*. *Mr Templeton* commented that the New Zealand problem was one of equality of access in terms of market share. *Mr Anthony* then raised the question of the allocation of exclusive Australian licenses within the item code covering tomatoes, capsicums and some other vegetables. He asked whether, given the size of the New Zealand market, the initial access level for tomatoes could not be set at 50% of a \$400,000 base for the code. *Mr Muldoon* commented that this could present problems for New Zealand because of its SPARTECA obligations to Tonga. He said that he would not wish to compromise such obligations for a relatively minor CER item although he did not rule out that the access level could be raised a little in the context of an open market but with monitoring of sendings by individual exporting countries.

The meeting broke off at this point. Ministers instructed officials to do further work on the question of the initial access base in the below \$400,000 category for further discussion by the Ministers during the dinner for *Mr Anthony* at the Prime Minister's residence in the evening. As a result of discussions by the Ministers over dinner, compromise solutions were agreed for Cabinet consideration in both countries in regard to initial access. Ministers also reached agreement on a level of access for tomatoes for the New Zealand market.

On the \$1m (NZ) phasing change point, it was acknowledged by Australian officials that that sum was understood to be in dollar rather than real terms.

[AALR 873, W4446/Boxes 312-313, 61/Aus/2/2/1 Part 3

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

Following the Muldoon/Anthony talks on 28 October, in which Mr Anthony had sounded a note of warning on the subject of forest products, relations between the Australian and New Zealand forest industries had deteriorated and, under industry pressure, Australian ministers had initiated action against imports of New Zealand forest products. The following two messages set out New Zealand's response.

**258 TELEGRAM FROM NEW ZEALAND HIGH COMMISSION IN
CANBERRA TO MINISTRY OF FOREIGN AFFAIRS**

Canberra, 17 November 1982

No 3336. CONFIDENTIAL IMMEDIATE

NAFTA/CVD Timber

Further to High Commissioner's telephone call to the Hon Hugh Templeton. High Commissioner called on the Rt Hon J D Anthony, who was attended by Mr Lind, and made the following points:

- (a) That the Australian action imposing cash securities under Customs Notice was not in conformity with the standard practice laid down under GATT as there had been no consultations or provision of information to the New Zealand authorities, and made the further point that in his opinion, such notice was void ab initio because of these deficiencies.
- (b) That the imposition of cash securities against the remaining 37 New Zealand exporters would be most harmful to the negotiations presently being carried out at top level by Mr Walker of New Zealand Forest Products and could end up with a most inimical attitude from New Zealand exporters.
- (c) That if Australia's present techniques were persevered with, there was a possibility of a New Zealand application to the GATT.

Having heard [m]y submissions, Mr Anthony asked Mr Lind if there was perhaps an error in the Australian procedure. Lind replied that the Australians were well versed in NAFTA dumping procedures and perhaps not so well versed in GATT procedures, but stated that Hayes of Industry and Commerce had acted in good faith after advice.

Mr Anthony pointed out that he felt that initially the New Zealand timber interests had not realised the seriousness of their failing to reach agreement with their Australian counterparts. The High Commissioner pointed out that in fact the Australian industries delegation to New Zealand had been badly briefed and actually had as the basis of their submissions that export incentives should be phased out from 1/1/83. Upon their arrival they found this was impossible and an impasse resulted.

Mr Anthony pointed out that he was most anxious that industry should again talk to industry. It was then suggested that it was vital that Australia and New Zealand should confer and urgently on procedures to be adopted under NAFTA dumping and GATT in the future and he suggested that there should be a meeting at the earliest possible moment of representatives from each country, to meet in Australia, and he suggested Monday 22 November as being a suitable date. It was proposed that the Australians would field four officials, including two from Industries and Commerce and he left it to New Zealand to nominate an equivalent number of officials.

(d) I asked for an assurance that in the interim no cash securities would be invoked against the remaining 37 New Zealand exporters and stressed that Mr Justice Lockhart's judgment of Tuesday last was very superficial in regard to their inclusion and said equity and good conscience should prevail. Anthony replied that he could give no assurance on this matter and he would await the outcome of the proposed meeting of officials.

He again stressed the urgency of such a meeting for a full and frank discussion.

I informed Mr Anthony that Mr Peacock, by the telephone, had suggested he had in mind a review of the present legislation which would have the effect of taking such a review away from the courts.

I intimated that that would only leave New Zealand with recourse to GATT. Mr Lind indicated that a way should be found to avoid this procedure and mentioned the delight of the EEC authorities if such a procedure ever had to be adopted.

2. Would appreciate your advice in due course as to the names of the New Zealand team and their proposed times of arrival. On receipt we shall immediately arrange accommodation.

3. Grateful your comments.

[ABHS 950/Box 1228, 40/4/2 Part 5

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259 TELEGRAM FROM MINISTRY OF FOREIGN AFFAIRS TO NEW ZEALAND HIGH COMMISSION IN CANBERRA

Wellington, 1 December 1982

No 4251. CONFIDENTIAL NZEO IMMEDIATE

Prime Minister's Meeting with MANFED: Countervailing

The Prime Minister and Mr Templeton met today with Messrs Richardson, Stevens and Walker of MANFED.

At the outset Richardson thanked the Prime Minister for the firm action the Government had taken over the last 48 hours in despatching a top level officials team to negotiate procedures for handling countervailing enquiries, following the telephone representations made by Mr Templeton with both Mr Peacock and Mr Anthony.

They stressed the very serious concerns the manufacturers continue to feel and Richardson mentioned one or two further instances of New Zealand export industries which had heard that anti-dumping or other action was in prospect. There was a widespread feeling amongst manufacturers that it was essential to

establish a climate of confidence that the objectives of CER would not be undermined at an early stage by such actions.

The Prime Minister confirmed that the Government was equally concerned as was clear from the nature of the action being taken. If necessary the matter would be pursued at the highest political level. There was no doubt in his mind that in negotiating the phasing of export incentives, the Australians had accepted that they could be retained in that form until 1987. It would be quite unacceptable if another route, namely countervailing, were now to be used to attack export incentives per se. In the current cases the Australian authorities had shown scant regard for their obligation to establish that material injury was in reality occurring or threatened as a result of New Zealand 'subsidies'.

The Prime Minister said that the officials delegation would be doing their best to get the right sort of procedures. This would become all the more important if, following the disappointing outcome of the GATT talks,¹ Australia's disillusionment, as instanced by its refusal to sign the final declaration, moved Australia to place less importance on strict adherence to the commitments it had in terms of the GATT and the Codes.² It was essential, therefore, that agreement on a bilateral basis, fully consistent with the CER spirit, while also GATT-compatible, was established.

Richardson acknowledged that scope for countervailing in genuine cases would exist under CER. They could live with isolated cases. What was important was that the very existence of export incentives was not at risk from countervailing action.

The Prime Minister said that there was nothing that could be done that New Zealand was not already doing. On the basis of Doug Anthony's attitude throughout the negotiations, the Prime Minister had confidence that he would take a very reasonable attitude. There was no possibility of New Zealand changing its basic position on the incentives issue, namely that they remained in place until 1987, but he had the hope and some confidence that even if it was necessary to take the issue to the highest political level it would prove possible to resolve it satisfactorily. Mr Stevens welcomed this. It would reassure rank and file members of the Manufacturers Federation who were inclined to interpret the Australian moves as a last-ditch attempt to force New Zealand to abandon export incentives at an earlier stage. The Prime Minister reiterated that there was no possibility of this, and he would be making it clear in the course of the debate due to take place in the House that evening.

At that point the Manufacturers' representatives, having reaffirmed their satisfaction that the Government was taking all steps possible, handed to the

1 A GATT Ministerial meeting, which New Zealand and Australia had hoped would put agriculture firmly on the GATT agenda.

2 The GATT Agreements on Anti-Dumping and on Subsidies and Countervailing Measures.

Prime Minister a copy of a resolution passed by the four district associations (see our immediately following telegram). They said they felt it merely covered the points that he had already been discussed and they inferred from what the Prime Minister had said that he would be prepared to give the assurance sought that New Zealand would not proceed with the signing of a CER Agreement until this matter had been resolved satisfactorily. The Prime Minister said he was not prepared to give such an assurance. First, he said, bringing the current discussions on procedures, and the timber and tiles cases to a satisfactory conclusion may not be possible within the space of a week or two. Secondly, and more importantly, NZ would be in a better position to press for a satisfactory outcome with the Heads of Agreement signed than in the absence of a CER. The Prime Minister stressed that the likelihood of protective action against imports from New Zealand would be greater in the absence of a signed agreement. The fact that the Agreement was signed did not mean that New Zealand would forfeit the right to protect its interests in the event that Australia pursued protectionist policies to our cost after the Agreement came into force.

The Prime Minister noted that the signing would now take place on 14 December. He hoped it would prove possible to resolve the issue by then.

[ABHS 950/Box 1228, 40/4/2 Part 5

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260 MEMORANDUM FROM WILLIAMS TO THOMPSON

Wellington, 6 December 1982

ANZCER: Name of the New Agreement

In his note of 2 December, the Minister of Trade and Industry expressed his reservations about calling CER 'The Agreement Between New Zealand and Australia on Free Trade and Closer Economic Relations'. Mr Templeton expressed his preference for a title which could be known as 'Closer Economic Relations', which retained the old ANZ connotations and which avoided reminders about NAFTA that 'The Free Trade Agreement' would carry.

2. For their part, the Australians have argued that the Agreement deals essentially with free trade across the Tasman and that this aspect should be flagged in the title. Their suggestion was 'Australia - New Zealand Closer Economic Relations Free Trade Agreement'. It is a matter of preference whether the formal title of the Agreement is cryptic or spelt out in full.

3. Taking into account these considerations which narrow the range of words available for a name, you may like to draw the following possibilities to your Minister's attention:

<i>Name</i>	<i>Acronym</i>
The Agreement between Australia and New Zealand on Closer Economic Relations and Trade	ANZCERT (or CER)
Australia New Zealand Agreement on Closer Economic Relations and Trade	ANZCERT (or CER)
Australia New Zealand Agreement on Trade and Economic Relations	ANZATER
Australia New Zealand Agreement on Trade and Closer Economic Relations	CER
Australia New Zealand Closer Economic Relations Agreement	ANZCER (or CER)

4. Alternatively, we could accept the Australian words (perhaps with connectives added in) on the understanding that 'Closer Economic Relations' (CER) is now embedded in common usage and whatever variation is adopted from the words available for a name, the Agreement will continue to be called CER, at least in New Zealand.

[ABHS 950/Box 1228, 40/4/2 Part 5

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261 LETTER FROM THOMPSON TO TEMPLETON

Wellington, 9 December 1982

Attached for your information¹ is a memorandum from the Ministry of Foreign Affairs discussing the question of the possible need for the provision within the Treaty establishing the CER agreement for termination of that agreement in the event that either party consider such a step necessary.

The memorandum was prepared on the basis of a discussion among interested departments and the approach it takes has been endorsed by Mr Clark. In commenting to me on it he remarked that if a sufficiently grave situation in trans-Tasman trade relations were to arise the possibility of one or other side abrogating the agreement was there: but that was a prospect we would not want to contemplate. In view of this provision of the kind floated in paragraph 7 of the attached memorandum would have the merit of defusing private sector concern that the agreement once signed would be in place in perpetuity regardless of the way it might in the future impact on our economy.

¹ Perhaps an odd choice of words, given that the attachment referred to a need for 'ministerial guidance'.

Attachment

Wellington 8 December 1982

CONFIDENTIAL NZEO

CER Treaty: Duration and Provisions for Termination

Australian and New Zealand officials have had one meeting to settle an agreed text for the draft CER treaty. Both sides are now looking at the text separately and will meet again, at a more senior level, in Canberra next week with the intention of finalising the text if possible.

2 The draft treaty text will, of course, be agreed by officials *ad referendum* to their Governments, but there is one issue on which the New Zealand side would like some ministerial guidance before next week's meeting. This concerns the duration of the Agreement and the provisions for its termination.

3 The rules of international law provide that if no specific provisions are included an Agreement between two countries runs indefinitely and can only be terminated with the agreement of both parties. You will be aware as will New Zealand industry that the Heads of Agreement provides that the CER treaty will be open-ended in duration. The Australians would clearly prefer that no specific provision for duration or termination be included in the CER treaty (in line with common practice) which means that the rules outlined above would apply.

4 During the consultations held with the private sector over the last few months New Zealand manufacturers have expressed their concern that while the CER may be of indefinite duration, New Zealand should retain the right to terminate the Agreement unilaterally (after giving due notice to the other party); no doubt they have had in mind the Article 17 of the NAFTA which provides that the Agreement shall remain in force for ten years and shall continue in force after that unless terminated by either side with six months notice.

5 We have considered ways in which this concern in the private sector might be met without our creating difficulties with the Australians at this late stage or both Governments creating the impression here or in Australia that CER is open to renegotiation while its provisions are taking effect in the period up to 1995.

6 The CER Agreement contains ways in which the provisions for safeguard action during the transition phase, for review in 1988, as well as more general provisions to cover measures that either Government may need to take to meet unforeseen problems as they arise during the duration of the Agreement. The long transition phase of CER was negotiated in order to allow industry time for gradual and orderly adjustment to the new trading environment.

7 With these factors in mind, we could float with the Australians next week a variation of the NAFTA provisions along the following lines:

The Agreement to remain in force for
15 years and to continue in force after unless
terminated by either party on one year's notice.

8 The advantages of such a formula would be that, firstly, it would not identify the length of the initial period of duration with either of the milestone dates in the CER: the review in 1988 and the completion of liberalisation by 1995; secondly, it would ensure that such an important step would only be taken on the basis of knowledge of the effects of CER once it had come into full effect and in the light of the evolution of economic relations between Australia and New Zealand over that time; thirdly, that this provision is not identical to that under NAFTA just as CER differs itself from NAFTA.

9 We can take up this idea in Canberra next week. As far as we know, permanent heads or ministers there have not given any thought to this issue and we cannot predict what their reaction might be. The only note of caution that we might enter here is that in the past the Australians have shown some concern that New Zealand might try and reopen points already agreed as CER takes effect (a concern New Zealand might now begin to share regarding the Australians' approach). No doubt both Governments will be concerned to make it clear to their industries that the CER with all the necessary provisions for safeguard, review and consultations will go ahead according to schedule in the expectation that industry on both sides of the Tasman will have sufficient time to adjust as the provisions of CER gradually take effect.²

[AALR 873, W4446/Boxes 312-313, 61/Aus/2/2/1 Part 4

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

² Templeton's response is not recorded, but the final version of the CER Treaty did not contain a provision of this nature.

Signing the Documents

Anthony and Muldoon signed the Heads of Agreement during a two-way satellite transmission at noon on 14 December 1982. Muldoon was at New Zealand's Parliament House in Wellington and Anthony was at the Senate committee rooms at Parliament House in Canberra. Bowen and Francis signed the Agreement in Canberra on 28 March 1982.

Australian Document

262 MINISTERIAL SUBMISSION TO HAYDEN BY NUTTER

Canberra, 15 March 1983

CER

We believe that signature of the CER Agreement as it now stands is in the Australian national interest for the following reasons:—

- The agreement will in time serve to make both economies more efficient besides promoting complementarity and rationalisation.
- It will lead to the expansion of trade between the two countries which is already of the order of \$1.8 billion (New Zealand is our third largest export market and our largest market for manufactures). NAFTA arrangements have in recent years become increasingly restrictive.
- It will lead to greater co-operation between the two countries in international economic negotiations including greater scope for joint marketing.
- Enhanced economic benefits flowing from the agreement will strengthen the geopolitical position of both countries in the South Pacific region especially through increased aid, investment, tourism and greater trade.
- The agreement meets specific Australian trade and industrial interests, e.g. in encouraging Australian industry to be more competitive internationally.
- It complements the free labour market which has long existed between the two countries.
- To the degree to which the agreement leads to a revival in the New Zealand economy it may diminish the flow of unemployed New Zealanders to Australia in the Trans-Tasman Travel Arrangement.
- The present New Zealand Government would be bitterly disappointed should the agreement not be signed and this could affect co-operation in other areas of the relationship.
- The agreement will reinforce the special relationship which has existed between the two countries since 1840 and which has been given visible form in the ANZAC relationship in World Wars I and II, as well as in the 1944 Australia – New Zealand Agreement and our common membership of the ANZUS and ANZAM agreements.¹

[NAA: A1838, 370/1/19/18, xxxvi]

¹ Hayden annotated the submission: 'Noted. W. H. 15/3/83'.

New Zealand Documents

263 CABINET MINUTE

Wellington, [14] February 198[3]

CM 83/4/1. CONFIDENTIAL

CER: Signature of Agreement

At the meeting on 14 February 1983 Cabinet *authorised* New Zealand's signature of the Australia New Zealand Closer Economic Relations—Trade Agreement, 1983, the Agreement to take effect from 1 January 1983.

CS (83) 56 refers.

[AALR 873, W4446/Boxes 312–313, 61/Aus/2/2/1 Part 5

Archives New Zealand/Te Whare Tohu Tuhituinga O Aotearoa, Head Office, Wellington]

264 TELEGRAM FROM FRANCIS TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 28 February 1983

NO 586. SECRET IMMEDIATE

Signing of CER Treaty

Further to my telephone conversations with the Hon Hugh Templeton, here follows scenario and précis of conversations.

Firstly, at approximately 10am on Saturday last, Mr Jim Scully of Trade telephoned to state that the Australian Government had decided that the CER Treaty should not be signed until after the election.¹ He confirms that Mr Anthony was of this opinion. The reason given was that apparently a senior Labour Member had indicated that the Australian Government was being too hasty in signing the agreement with an election imminent. Mr Scully expressed his deep disappointment that the decision had been taken.

On Friday afternoon previously, having agreed upon a text for the interchange of letters for signing the CER Treaty, I had been informed, certainly unofficially, that the signing could take place on Tuesday evening 1st March.

¹ The Australian Federal elections were to be held on 5 March.

The Saturday morning information and Friday information was conveyed to Mr Templeton immediately.

I then attempted to contact Doug Anthony and Messrs Hawke and Keating. Late Saturday afternoon I contacted Mr Anthony at the Picton Show and was able to give Mr Templeton a Sydney telephone number to enable him to ring him on Saturday afternoon.

Yesterday, Sunday, I had great difficulty in contacting Messrs Hawke and Keating. Mr Hawke was in Melbourne early in the morning but later went to Brisbane. Mr Keating was in transit from Brisbane to Sydney. At approximately 7:30pm on Sunday 27th, I had a reassuring telephone conversation with Mr Hawke. My preamble to both Mr Hawke and Keating was simply that the New Zealand Government was concerned that apparently a prominent Labor member had indicated to the Australian Government his opinion that signing the treaty before the election was unduly hasty, and informed both Hawke and Hayden that the New Zealand Government was under attack by the Leader of the New Zealand Labour Party for failing to have the CER Treaty signed. Mr Hawke's response was forthright and friendly. He said that he was replying to me in a confidential, personal capacity knowing, of course, that I would be relaying the conversation to Minister Templeton and the Prime Minister. He indicated that he did not wish any election matter to arise out of his conversation with me and his responses were made on that basis. He indicated quite firmly that the ALP accepted in principle the CER Agreement and was quite happy to adopt it. At the same time he would ensure that if he became the Government the ALP would go through the agreement and would not just accept blindly what the present government had agreed to. He did not specify any item of disagreement but he indicated that if his party became the government he would give the CER Treaty signing the utmost urgency. Quite clearly, after talking to Hawke, I sensed no antipathy whatsoever. Neither Hawke nor Keating indicated who the senior Labor person was who had given notice of 'undue haste.'

Paul Keating telephoned me from Sydney at the New Zealand Residence about 9:30pm last night. His reply was even more forthright and he did not ask for any protection.² He indicated that he thought the agreement had been signed. I pointed out that, in fact it had³ and that all that remained was for the agreement to be put in treaty form for signature. He indicated firmly that he fully supported the CER proposals and that when the matter had been raised in the House two Labor speakers had spoken in support and he saw no reason for himself to speak. He indicated that in the course of the current election campaign he had been asked by the Metal Trades officials whether in view of the promised protection policy of the ALP, that the 'freeing up' proposals for CER would still continue.

2 'protection'—i.e. he was not speaking off the record and would not object to being named or quoted.

3 Presumably a reference to the signing of the Heads of Agreement on 14 December 1982.

He gave an unequivocal assurance that as far as the Metal Trades enquiry was concerned, the proposals of CER would be kept in place and unaltered. I would add that Paul Keating has on at least two occasions since his trip to New Zealand as a VIP guest, assured me that he would always be able to sell CER to the ALP.⁴ There has been no press comment here on this matter.

[AALR 873, W4446/Boxes 312-313, 61/Aus/2/2/1 Part 5
Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

265 TELEGRAM FROM FRANCIS TO MINISTRY OF FOREIGN AFFAIRS

Canberra, 15 March 1983

CER Treaty

Last night I attended a dinner at Government House for High Commissioners to celebrate Commonwealth Day. Prime Minister Ha[w]ke and his wife also attended and I had the happy task of introducing them both to the High Commissioners. In the course of my rounds I thanked Mr Hawke for receiving my call¹ that Sunday while he was in Brisbane campaigning and he said he was glad to have had the conversation and stated that he appreciated the urgency of the matter and indicated that it could come up at Wednesday's Cabinet meeting (the first) or Friday's. He raised no matter anti-the treaty at all. Mr Hawke was in extremely good form. He indicated that he had received letters of congratulations from Prime Minister Muldoon and Cabinet Ministers and later I had an interesting talk with him on trade unions.

2 Also attending the dinner was ...² and what follows please protect, as he indicated that it was really on a personal basis to me. ... indicated that he had spent a considerable time briefing Mr Hayden on CER and its implications, especially the need for Australia and New Zealand to be seen to be moving closer and closer together. Apparently Mr Hayden took on board ... view and did not raise any matters anti-CER. Accordingly it would appear no opposition will come from the new Minister of Foreign Affairs.

4 Despite these encouraging responses from Hawke and Keating (of which Muldoon may have been unaware) Muldoon announced on the same day (28 February) that signature would be delayed until after the Australian elections. In the event the agreement was signed on 28 March.

1 The phone call mentioned in Document 264.

2 Material identifying the informant has been exempted under S.36 (1) (b) of the Australian Freedom of Information Act 1982.

3 At the table the Governor General indicated to me that he personally had been most disappointed that the treaty had not been signed before the election. Apparently the Prime Minister's Department and Attorney-General's Department had fully briefed him on the requirements for the signing.

[*matter omitted*]³

[ABHS 950/Box 1228, 40/4/2 Part 6

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

³ A later message was sent to add the following sentence at the end of paragraph 3: 'I was able to inform him that according to Mr Hawke there appeared to be no difficulties'.

Appendixes

APPENDIX I

Biographical Guide

The following list gives the relevant positions of all persons in the documents at the times in which their names occur in the volume. However, note is occasionally made of an important appointment attained by a person during the period of the volume even though it is after their last appearance in the documents.

Note: In October 1980 the Australian Department of the Special Trade Representative was abolished and its work taken over by the Department of Trade and Resources which, itself, became the Department of Trade in 1983. The Fraser Government was succeeded by the Hawke Government on 11 March 1983.

Absolum, B.W.P.	New Zealand Deputy High Commissioner, Canberra
Adams-Schneider, L.R.	New Zealand Minister of Trade and Industry until end 1981
Anderson, F.E.	First Assistant Secretary, Department of the Special Trade Representative until that Department abolished in October 1980; then First Assistant Secretary, Trade Promotion and Services Division, Australian Department of Trade and Resources
Anderson, J.D.	Assistant Secretary, International Division, Australian Department of the Prime Minister and Cabinet
Andrews, David	Commercial Policy Section, Australian Department of Foreign Affairs
Anthony, J.D.	Australian Deputy Prime Minister and Minister for Trade and Resources until 11 March 1983
Ashwin, C.R.	First Assistant Secretary, Western Section, Australian Department of Foreign Affairs; Ambassador to the Federal Republic of Germany from 26 October 1982
Aston, H.G.	President, Confederation of Australian Industry from 1980
Barker, D.K.	Senior Private Secretary and Department Liaison Officer in the Office of the Australian Minister for Trade and Resources
Barratt, P.H.	Deputy Secretary, Australian Department of Trade and Resources
Bathgate, George	Director, Trade Division, New Zealand Customs
Bayley, N.	Australian Department of Industry and Commerce
Beath, Dr L.A.	Assistant Head, Australia and Americas Division, New Zealand Ministry of Foreign Affairs

Belgrave, J.	Assistant Secretary, New Zealand Department of Trade and Industry
Bentley, G.R.	Australian Deputy High Commissioner in New Zealand
Besley, M.A.	Secretary, Australian Department of Business and Consumer Affairs, and Controller-General of Customs
Birch, W.F.	New Zealand Minister of Energy, of Regional Development and of National Development
Bjelke-Petersen, Joh	Premier of Queensland
Border, L.H.	Australian High Commissioner in New Zealand until February 1980
Bowen, Lionel	Australian Deputy Prime Minister and Minister for Trade from 11 March 1983
Bray, W.H.	Head, General Legal and Treaties Branch, Australian Department of Foreign Affairs
Cain, John	Premier of Victoria
Cameron, M.L.	Director-General, New Zealand Ministry of Agriculture and Fisheries
Carmody, Sir Alan	Secretary, Australian Department of the Prime Minister and Cabinet until 1978
Chaney, Senator F.M.	Senator for Western Australia
Christie, Rick	New Zealand Manufacturers' Federation
Clark, I.	New Zealand Ministry of Agriculture and Fisheries
Clark, J.W.H.	Secretary, New Zealand Department of Trade and Industry
Codd, M.H.	Under Secretary, Australian Department of the Prime Minister and Cabinet
Cooper, Warren	New Zealand Minister of Foreign Affairs and Minister of Overseas Trade from 1981
Coffey, W.S.	Assistant Director, New Zealand Manufacturers' Federation
Corner, F.H.	Secretary, New Zealand Ministry of Foreign Affairs
Cranston, A.	Director, Industries Division, New Zealand Department of Trade and Industry
Currie, N.S. (Sir Neil 1982)	Secretary, Australian Department of Industry and Commerce until 1982 then Ambassador to Japan
Dalrymple, F.R.	First Assistant Secretary, Economic Division, Australian Department of Foreign Affairs; Ambassador to Indonesia from 18 March 1981
Daniel, Roy	Deputy Secretary, Australian Department of the Treasury
Derham, Sir Peter	Chairman, Commonwealth Scientific and Industrial Research Organisation Advisory Council
Dillon, Sir Max	President of Confederation of Australian Industry 1975-80
Dolan, Bill	New Zealand Department of Trade and Industry

Doran, B.F.	Acting Head, New Zealand Section, Australian Department of Foreign Affairs 1979–80
Douglas, Ian	Executive Director, New Zealand Manufacturers' Federation until 1982
Douglas, K.G.	Secretary, New Zealand Federation of Labour
Durrant, K.C.	Deputy Director-General, New Zealand Ministry of Agriculture and Fisheries
Duthie, L.P.	Secretary, Australian Department of Primary Industry
Edwards, A.J.	Secretary, New Zealand Department of Transport
Elworthy, Sir Peter	Senior Vice-President, Federated Farmers of New Zealand
Evans, D.W.	First Assistant Secretary of Europe, Americas and New Zealand Division, Australian Department of Foreign Affairs
Fernandez, R.R.	Australian Ambassador to Belgium
Fife, W.C.	Australian Minister for Education until 7 May 1982, then Minister for Aviation until 11 March 1983; Minister Assisting the Prime Minister in Federal Affairs until 8 December 1979 and again from 3 November 1980 until 11 March 1983
Fitzgerald, Dr V.W.J.	First Assistant Secretary, Trade and Industries Division, Australian Department of the Prime Minister and Cabinet
Flood, P.J.	Deputy Secretary, Australian Department of the Special Trade Representative until that Department abolished in October 1980; then First Assistant Secretary, Commodities No. 1 Division, Department of Trade and Resources
Francis, L.J. (Sir Laurie 1982)	New Zealand High Commissioner in Australia
Fraser, Malcolm	Australian Prime Minister until 11 March 1983
Futter, Ken	Secretary, New Zealand Department of Trade and Industry, later member of Australia – New Zealand Businessmen's Council.
Galvin, B.V.	Permanent Head, New Zealand Prime Minister's Department until 1980, then Secretary to Treasury
Garland, R.V. (Sir Victor 1982)	Australian Minister for Special Trade Representations and Minister Assisting the Minister for Trade and Resources until December 1979; then Minister for Business and Consumer Affairs and Minister Assisting the Minister for Industry and Commerce until 3 November 1980; from 1981 High Commissioner for Australia in London
Gate, R.K.	Assistant Secretary, Americas and New Zealand Branch, Australian Department of Foreign Affairs
Gates, D.J.	Australian Senior Trade Commissioner and Minister (Commercial), Australian High Commission, Wellington, until 1982; then Assistant Secretary, Commodities No. 2 Division, Department of Trade and Resources

Godfrey, A.M.	First Assistant Secretary, Industry Division 2, Australian Department of Industry and Commerce
Groser, T.	Australia and Americas Division, New Zealand Ministry of Foreign Affairs; later Foreign Affairs Adviser, Prime Minister's Department
Halton, C.C.	Secretary, Australian Department of Transport
Harland, Bryce	Assistant Secretary, New Zealand Ministry of Foreign Affairs
Hawes, David	Australian Department of the Special Trade Representative, then Department of Trade and Resources
Hawke, R.J.	President, Australian Council of Trade Unions until 1980; Australian Prime Minister from 11 March 1983
Hayden, W.G.	Australian Minister for Foreign Affairs from 11 March 1983
Hayes, T.P.	Secretary, Australian Department of Industry and Commerce from 1982; and Comptroller-General of Customs
Header, J.V.R.	Senior Foreign Affairs Representative, Sydney Office, Australian Department of Foreign Affairs
Henderson, P.G.F.	Deputy Secretary, Australian Department of Foreign Affairs, then Secretary from 5 September 1979
Henderson, W.J.	Director-General, National Trade and Industry Council, Confederation of Australian Industry; and Executive Director, Australia – New Zealand Businessmen's Council
Hensley, Gerald	Permanent Head, New Zealand Prime Minister's Department from 1980
Holmes, Sir Frank	Chairman, New Zealand Economic Planning Council
Hopwood, J.A.	Executive Officer, Australia – New Zealand Businessmen's Council
Howard, J.W.	Australian Treasurer until 11 March 1983
Hughes, M.W.	Assistant Secretary, Americas and New Zealand Branch, Australian Department of Foreign Affairs
Hunn, D.K.	Head, Australia and Americas Division, New Zealand Ministry of Foreign Affairs; from 1981 Deputy High Commissioner, Canberra
James, Colin	Journalist, New Zealand National Business Review
Kean, J.A.M.	Comptroller of Customs, New Zealand Customs Department
Keating, P.J.	President, New South Wales Labor Party
Kerr, R.L.	Director, Economics II, New Zealand Treasury
Kingsmill, D.J.	Assistant Secretary, Americas and New Zealand Branch, Australian Department of Foreign Affairs
Knox, W.J.	President, New Zealand Federation of Labour
Lang, W.C.L.	Head, New Zealand Section, Australian Department of Foreign Affairs from 1980 until March 1982

Laurie, R.S.	Acting First Assistant Secretary of Europe, Americas and New Zealand Division, Australian Department of Foreign Affairs from January to July 1981 then First Assistant Secretary
Lightowler, M.D.	First Assistant Secretary, Trade Relations and Markets Division, Australian Department of Trade and Resources
Lincoln, I.S.	Head, New Zealand Section, Australian Department of Foreign Affairs from March to December 1982
Lind, N.R.	Assistant Secretary, Trade Relations and Markets Division, Australian Department of Trade and Resources
Lough, N.V.	Secretary, New Zealand Treasury
Lynch, Sir Phillip	Australian Minister for Industry and Commerce until October 1982
McArthur, —	New Zealand Treasury
McDowell, D.K.	Assistant Secretary, New Zealand Ministry of Foreign Affairs
McKinnon, W.A.	Chairman, Australian Industries Assistance Commission
McLean, Fergus	New Zealand Department of Trade and Industry
McNamara, M.J.	Assistant Secretary, Trade and Industries Division, Australian Department of the Prime Minister and Cabinet
MacPhee, I.M.	Australian Minister for Immigration and Ethnic Affairs
Maddern, D.I.	Australian Department of Business and Consumer Affairs
Manners, C.R.	Executive Director, Australian Dairy Farmers' Federation; Secretary, Australian Dairy Industry Conference
Middleton, B.W.	Counsellor, New Zealand High Commission, Canberra
Miller, G.L.	Director, Australian Bureau of Agricultural Economics until 1982 then Deputy Secretary, Department of Primary Industry
Monfries, J.E.	Head, General and Import Policy Section, Australian Department of Foreign Affairs
Montgomery, V.G.	Deputy Secretary, Australian Department of Business and Consumer Affairs
Moore, J.D.C.C.	First Assistant Secretary, Overseas Economic Relations Division, Australian Department of the Treasury
Moore, M.K.	Member of Parliament, New Zealand Labour Party
Moran, A.J.	First Assistant Secretary, Policy Division 2, Australian Department of Industry and Commerce
Morton, David	Director, International Affairs, Confederation of Australian Industry
Muldoon, R.D.	New Zealand Prime Minister
Mullins, P.D.	Third Secretary, Australian High Commission, Wellington

Murdoch, Simon	Economic Division, New Zealand Ministry of Foreign Affairs until 1979; seconded as Foreign Policy Advisor to Prime Minister's Department (Policy Advisory Group)
Neilson, K.J.	Assistant Secretary, Policy Division, Australian Department of Industry and Commerce
Nicolaidi, Mike	Political correspondent, Wellington Evening Post
Nixon, P.J.	Australian Minister for Primary Industry from 27 September 1979 until 11 March 1983
Norrish, Merwyn	Secretary, New Zealand Ministry of Foreign Affairs from 1980
Nutter, D.G.	First Assistant Secretary, South-East Asia and South Pacific Division, Australian Department of Foreign Affairs
O'Donohue, R.F.	Assistant Secretary, Australian Department of the Special Trade Representative
O'Sullivan, T.D.	Assistant Secretary, Trade and Industries Division, Australian Department of the Prime Minister and Cabinet
Page, Al	Australian High Commission, Wellington
Parkinson, N.F. (Sir Nicholas 1980)	Secretary, Australian Department of Foreign Affairs until September 1979, then Ambassador to the United States
Parsons, A.R.	Deputy Secretary, Australian Department of Foreign Affairs
Patrick, Charles	New Zealand Dairy Board
Peacock, A.S.	Australian Minister for Foreign Affairs until 3 November 1980
Plimmer, N.	Deputy High Commissioner for New Zealand in Australia until 1981
Plimsoll, Sir James	Australian Ambassador to Belgium, Luxembourg and the European Communities
Powles, M.J.	Head, Australia and Americas Division, New Zealand Ministry of Foreign Affairs
Price, M.R.	Second Secretary, New Zealand High Commission in Canberra
Pritchett, W.B.	Secretary, Australian Department of Defence
Purcell, K.G.	First Assistant Secretary, Policy Division, Australian Department of Industry and Commerce
Rowling, W.E.	Leader of the New Zealand Opposition
Santer, G.L.K.	Acting Head, Commercial Policy Section, Australian Department of Foreign Affairs
Scollay, W.J.R.	New Zealand Chairman of the Australia – New Zealand Businessmen's Council
Scott, Senator D.B.	Australian Minister for Special Trade Representations and Minister Assisting the Minister for Trade and Resources from 8 December 1979 until 19 August 1980

Scott, Dr G.	New Zealand Prime Minister's Department until 1979, then Assistant Secretary, Treasury and head of the New Zealand Officials Working Group on Closer Economic Relations
Scully, J.	Secretary, Australian Department of the Special Trade Representative until that Department abolished in October 1980; then Secretary, Department of Trade and Resources
Shann, E.W.	Assistant Secretary, Trade Branch, Australian Department of the Prime Minister and Cabinet
Shallcross, Richard	Director, External Relations Division, New Zealand Treasury
Shannon, P.J.	Treaties Section, General Legal and Treaties Branch, Australian Department of Foreign Affairs
Sinclair, I.M.	Australian Minister for Primary Industry until 27 September 1979, then Minister for Special Trade Representations until 3 November 1980
Smith, I.H.	Deputy Secretary, Australian Department of Primary Industry
Smith, —	Department of Immigration and Ethnic Affairs
Stevens, L.H.	President, New Zealand Manufacturers' Federation
Stewart, I.L.G.	Deputy Secretary, New Zealand Ministry of Foreign Affairs
Stone, J.O.	Secretary, Australian Department of the Treasury
Street, A.A.	Australian Minister for Foreign Affairs from 3 November 1980 until 11 March 1983
Talbot, R.L.G.	Parliamentary Under-Secretary to the New Zealand Minister of Agriculture and Fisheries
Talboys, Brian	New Zealand Minister of Foreign Affairs and Minister of Overseas Trade 1976–81 and, until 1980, New Zealand Deputy Prime Minister
Templeton, Hugh	New Zealand Deputy Minister of Finance until 1981, then Minister of Trade and Industry
Templeton, Ian	Assistant Editor and Chief Political Correspondent, New Zealand Newspapers Ltd
Templeton, Malcolm	Deputy Secretary, New Zealand Ministry of Foreign Affairs
Terry, C.	Deputy Secretary, New Zealand Treasury
Thompson, G.F.	Assistant Secretary (Trade Policy), New Zealand Department of Trade and Industry
Thomson, D.S.	New Zealand Minister of State and Leader of the House
Turkington, Dr D.	New Zealand Prime Minister's Department
Turnbull, R.J.	Minister (Commercial), New Zealand High Commission in Canberra
Turnovsky, Frederick	Chairman and Managing Director, Tatra Industries Ltd, New Zealand; former Chairman of Manufacturers' Federation

Utz, J.W.	Australian President of the Australia – New Zealand Businessmen’s Council
Vawser, M.L.	Chairman, Australian Dairy Corporation
Verner, A.J.	Commercial and General Section, Australian Department of Foreign Affairs
Walker, D.O.	Managing Director, New Zealand Forest Products Ltd
Walsh, Professor C.	Senior Economic Adviser, Australian Prime Minister’s Office
Waterman, E.L.	Assistant Secretary, Overseas Economic Relations Division, Australian Department of the Treasury
Webb, J.	Third Secretary, Australian High Commission in New Zealand
Webster, J.J.	Australian High Commissioner in New Zealand from 2 February 1980
White, R.W.R.	Governor, Reserve Bank of New Zealand
Williams, C.H.	Head, Australia and Americas Division, New Zealand Ministry of Foreign Affairs
Willis, C.G.S.	Acting Assistant Secretary, Americas and New Zealand Branch, Australian Department of Foreign Affairs
Woodfield, E.A.	Assistant Secretary, New Zealand Department of Trade and Industry
Wran, N.K.	Premier of New South Wales
Wright, Alan	President, Federated Farmers of New Zealand
Yeend, Sir Geoffrey	Secretary, Australian Department of the Prime Minister and Cabinet from 1978

APPENDIX II

Document Identifications

Note about Australian documents

None of the Australian files cited in this volume is available for public access because, under the *Archives Act 1983*, records are closed for 30 years from the date of their creation. The documents published in this volume were cleared by agreement with the controlling agencies but will not be available to the public, other than as published in this volume, until the expiry of 30 years.

The following is a list of numbered files to which reference is made in document identifications and footnotes. It is not a comprehensive list of materials examined in this volume.

Australia

National Archives of Australia (NAA)

CRS A1209, Correspondence files of the Department of the Prime Minister and Cabinet 1981/508, Australia NZ—Assessment of future relationships. Parts i–iii, v, vii–viii

CRS A1313, Correspondence files of the Department of Trade and Resources, annual single number series 1959–1989

Consignment 111, 81/1440, ii. Dairy. NZ Closer Economic Co-operation: Studies arising from PM's meeting Mar 1980

81/2446, iii. " " "

Consignment 113, 82/1095, iv. Overview " "

82/1226, v. Import Licensing " "

82/1381, iii. Dairy products " "

82/2334, vii. Overview " "

82/2479, iv. Dairy products " "

82/2593, viii. Overview " "

82/2989, ix. Dairy products " "

82/2594, vi. Export and related incentives: NZ Trade Agreement

Consignment 116, 84/2288, i. History of negotiations "

CRS A1838, Correspondence files of the Department of Foreign Affairs, multiple number series (fourth system) 1948–1989

370/1/19/18 Aust–NZ Relations. Political and Economic—closer association. 1979 proposals. Parts i–li, Annexes 5–7

New Zealand

Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington

- ABHS Series 950 Ministry of Foreign Affairs and Trade—Multiple Number Subject Files, 1926–Onwards
[Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]
- AALR Series 873 Treasury—Multiple Number Subject Files, 1913–1991
Accession W4446
[Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]
- AAFD Series 807 Cabinet Office—Cabinet Meetings, 1948–Onwards
Accession W3738
[Archives New Zealand/Te Whare Tohu Tuhituhinga O Aotearoa, Head Office, Wellington]

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Numbers indicating the location of references are document numbers. Letters placed after a document number indicate the following:

- n — the reference is in a footnote (or notes) at the end of the document
- t — the reference is to another document referred to in the main document
- tn — the reference is to another document mentioned/discussed in the text and in a note (or notes)

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Dates are printed in italics to avoid confusion with location references.

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