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SUBJECT
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PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T69A/83.

Prime Minister

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Prime Minister
Wellington
New Zealand

24 May 1983

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON

Dear Margaret,

I am writing at first opportunity on my return to New Zealand to thank you most sincerely for meeting with me and hosting the luncheon for my wife and me.

As I remarked at the luncheon, your time during this vital period was of extreme importance to you, and for this reason, your willingness to give me a portion of this valuable asset, meant a tremendous amount to me.

I enjoyed my visit to Hungary and it enabled me to gain a much more informative insight than I had imagined into the country's economic and trading fields.

Need I say who will win on the 9th of June - may it be a resounding victory which will be a just reward for the total contribution I know you will make.

Yours sincerely,

Rob Muldoon

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NEW ZEALAND

NEW ZEALAND HIGH COMMISSION NEWS BULLETIN

EMBARGOED TO 6.00 P.M. MONDAY, 16 MAY 1983

SPEECH NOTES

ADDRESS TO LONDON CHAMBER OF COMMERCE & INDUSTRY

by the Rt. Hon. R.D. Muldoon C.H.
Prime Minister of New Zealand
and Minister of Finance.

NEW ZEALAND AND THE EUROPEAN COMMUNITY: THE NEXT TEN YEARS

As a working politician who subscribes to the theory that a week is a long time in politics, I have a natural suspicion of those who choose to speculate about the future in after-dinner speeches, and on similar occasions. More often than not, I have found myself where you are - down in the audience - listening to somebody else up here on the podium remembering the future and imagining the past.

Sam Goldwyn said: "Never prophesy, especially about the future". In a similar vein, Mao Tse-tung said: "Those who forecast should forecast often". When we get people as diverse as Sam Goldwyn and Chairman Mao agreeing on the same point, perhaps we ought to listen.

My subject, however, "New Zealand and the European Community: The Next Ten Years", compels me to turn aside from advice that spans the spectrum of opinion from Hollywood moguls to Chinese Marxists. It forces me to consider the shape of New Zealand/EC relations at a rather distant point in the future. There is a much more basic, a much more fundamental question to answer first: Does New Zealand have a future in respect of the European Community ten years hence?

I was in London almost exactly a year ago. My primary purpose on that occasion was to attend the celebrations of the centenary of New Zealand's first shipment of frozen meat to Britain. As we raised our glasses to toast one hundred years of a commercial relationship of profound importance to New Zealand and maybe of some significance to Britain, it was natural enough to wonder about the prospect of some future Prime Minister of New Zealand celebrating the second centenary of the trade.

Let me be frank. There are factors in the European Community's policies which must give rise to doubts as to whether 10 years hence - let alone 100 years from now - the trading, and hence political, relationship will be in as good shape as it is now.

As leader of New Zealand's National Party I am head of what would be described by British political commentators as New Zealand's equivalent of the Conservative Party. In fact, translated into the New Zealand idiom, ideological terms such as "Conservative" are not very instructive. However, I am enough of a Conservative in the traditional sense to believe that a trading and political relationship that spans a century of rapid change might just be valuable. It might even be something we would wish to preserve.

To put the proposition in the starkest possible terms, the future health of our ties depends upon a number of decisions yet to be made in Brussels and European capitals. I am not a born pessimist - in my profession you can't afford to be. Nevertheless, at some point this relentless chipping away at New Zealand's historical position in the British market, without giving offsetting opportunities in the European market, will have to stop or there will be nothing left.

In the long run, and how long that run is has yet to be determined, all of European history says that the Community as an entity will not survive. My view is that if one thing will bring its demise it is the Common Agricultural Policy.

A few months ago, I looked at the question of New Zealand/EC relations from the other end of the telescope. I wrote an article in The Times, giving a New Zealand view of the past ten years - the first ten years of British membership of the Community. I don't know if any of you had a chance to read it - I think The Times came out on a Thursday that particular week. I don't want to cover the same ground tonight but I will refer briefly to the history of our trading relationship traversed in the article.

Until we find some more scientific means of rebutting Sam Goldwyn and Chairman Mao, we shall have to rely on the past as the best available guide to the future. I commented then that the strength of New Zealand's links with the United Kingdom had been maintained not because of British entry to the Community, but in spite of it. I believe that to be true. I do not for a minute suggest that Britain should not have joined. That is entirely a question for the British Government and people, although my party in New Zealand supported British entry as we believed that it would add strength to the British economy and that some of that strength would rub off on us. But let me emphasise that we have received magnificent support from British Governments in that ten-year period. Nonetheless, I see no point in obscuring the fact that our main market's conversion from free trade to the CAP hit our economy hard.

The past ten years have not been easy ones in the relationship. The point I made in The Times is that our links have survived that test. I wrote at some length about our progressive exclusion from Community food markets. That will come as no great surprise to you or anyone else. It's the old familiar song.

No doubt some of you, on your way here tonight, said "We're going to hear a New Zealander carry on about butter and lamb yet again". Let me tell you that I get no more pleasure from continually playing that record than other people do from listening to it. It is a continuing fact of life however that New Zealand is an efficient agricultural producer and is vitally dependent on agricultural exports. Unless we can maintain reasonable access to the markets we have built up over a century we are in deep trouble. So long as the Community, and others, keep up artificial barriers to agricultural trade, they are doomed to hear successive generations of New Zealand negotiators telling them more about butter and lamb than they want to hear. The only comfort I can offer is that the solution lies in their own hands, and I thank them for their patience.

I consider New Zealand's present level of access to the European Community constitutes an "irreducible minimum". Those words are not lightly chosen. They are somewhat more direct than that wonderful Euro-euphemism, "degressivity". There is a near-universal propensity amongst bureaucrats, and one which is refined to an art form within today's international organisations, to coin comforting, pseudo-sophisticated terms to obscure a rather cruder reality. The bureaucrats cannot totally be blamed for this. In more cases than not, the terminology reflects broader policy shortcomings elsewhere. The language of the international civil servants

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is designed to put an acceptable face to it all.

For those of you who may be less than familar with this particular linguistic gem, "degressivity" describes that policy which continually cuts away at New Zealand's already limited freedom to sell dairy products in the European market. It means telling New Zealand farmers that they can sell X tonnes this year, but X minus Y tonnes next year. Your average New Zealand cow-cocky may not grasp the algebra, but he certainly gets the point. I have heard, but could not repeat, more down-to-earth descriptions.

We have coped with degressivity as best we can through reorganising our dairy industry. However, there have to be <u>some</u> secure sales <u>somewhere</u> to provide a base for restructuring and redeployment. Any further cuts in our entitlements into the Community are hacking away at that base. Any businessman understands that.

Consider this: Suppose you are the managing-director of a medium-sized, profitable, highly competitive family firm. You have done your job well, just as your father and grandfather have done over the last 100 years. Then, out of the blue, your main customer over that period regretfully informs you he will be gradually cutting back on his purchases owing to circumstances beyond his or your control. It is, he says, a head office decree that he doesn't particularly like but is forced to go along with. It has nothing to do with the quality or price of your product which is unsurpassed. It is what those who enjoy a mastery of undergraduate economics would call an "exogenous factor". You and I would call it a rude shock.

What do you do? You do what every rational businessman would do. You instal huge quantities of machinery to enable you to diversify your products. You find different markets for the same product. You alter your production within the practical limits imposed by your circumstances.

All of these things New Zealand has done. They underlie the sharp change in the direction of our total exports. In 1971/72 31 per cent of our exports went to the United Kingdom. Ten years late, 14 per cent went to the United Kingdom.

For a country or a business, there is one fundamental truth about such a restructuring: it becomes harder and harder to absorb further cutbacks as the profitable and hitherto secure

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base to your operations is eroded. The first stage is easy. There were probably markets your firm had tended to neglect, not because you and your predecessors were particularly slow to move but because it was more profitable and less risky to stick with what you knew. Your father, who did not have a business degree and thus did not emerge from a university armed with that most powerful of analytical tools, the benefit of hindsight, thought it sensible to stick with the tried and true. Thus the first steps to restructuring - seeking out the second-best markets - are not too painful. These, you could say, are the steps New Zealand was forced to take in the first years of degressivity: unpleasant but manageable.

The subsequent steps - which have to be undertaken because your main customer keeps coming back to say he is forced to buy less and less - become progressively more difficult. Ultimately, there comes a point where you have to say: "you have cut me to the bone, and I cannot take any more." That, ladies and gentlemen, is precisely where the New Zealand dairy industry stands today as it considers the negotiations about to get under way which will determine the level of access for butter beyond 1983.

The battle over cheese has already been fought. The figures tell you how well we did: In 1970 New Zealand sold around 70,000 tonnes of cheese to Britain. At the end of 1977 our access was cut to zero. In 1980 a quota of 9,500 tonnes came into force as a result of the multilateral trade negotiations.

The battle for butter is still going on. In 1973 we were permitted to sell 165,000 tonnes. This year we will be allowed to sell no more than 87,000 tonnes.

These are some of the facts that lead me to assert that we have reached that irreducible minimum. There are no alternative profitable commercial markets to absorb further cutbacks from Europe. Indeed, in dairy generally, the world markets which do exist are endangered by subsidised exports from the United States, Europe and elsewhere. My Government's recurring nightmare is that the United States and the Community, both convinced of their rectitude, might engage in a trade duel, with dairy products as the chosen weapon. My guess is that they would probably miss each other and shoot us instead.

Sheepmeats will be a real test for New Zealand and the Community. New Zealand is a dominant player in international trade in sheepmeats. Historically we have played a major role in supplying the British market, providing around 45 per cent or more of total consumption. Britain's entry to the Community brought with it: first, a gradual phase in of the Community's high 20 per cent common tariff on imports from New Zealand and other external suppliers. (This tariff is bound in the GATT). Second, in 1980, a common marketing regime to govern the production, trade and marketing of sheepmeat in the Community.

These developments have been major ones for our meat industry. That tariff has been a heavy burden. Nobody much wanted a sheepmeat regime but the Community's laws said that there had to be one. What worries us most about the regime is the potential it has to stimulate artificially sheepmeat production in the Community by the complicated system of producer income guarantees which it provides. Increasing Community production not only depresses the market and erodes the established place for our lamb but leads to inevitable pressures to limit imports.

The regime has not been in operation for long but there are already worrying, though still ambiguous, signs that our concerns have been well founded. This should be sounding warning bells in European capitals. When the regime was introduced in 1980 New Zealand undertook to limit sheepmeat exports to the Community to 245,500 tonnes annually in return for a cut in that high tariff from 20 per cent to 10 per cent. This "voluntary restraint" agreement is to be reviewed before the end of March next year. We certainly do not regard the review as offering an opportunity for the Community to wind down our market access and limit further opportunities for trade.

The current agreement represents a balance of interests involving on the one hand a quantity and on the other a tariff. This balance will need to be maintained if the agreement is to continue.

Perhaps it will impress you if I tell you that our second largest lamb market today is Iran, to which this year we will sell 100,000 tonnes. That is the degree of security our producers have.

I have to be very careful when talking about these European matters of high policy. We New Zealanders are gentle folk and we do not like to upset anyone. We are not at all like those other fellows not so very far from New Zealand shores. In fact, through all this, the concept of a "United Europe" retains obvious political appeal. New Zealanders did not

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fight in two world wars for nothing.

We live in an age in which there is no alternative to co-operation amongst sovereign governments. My quarrel is not with the European Community as such, but with its persistent failure to reform its agricultural policies. The argument I hear frequently is: "Remove the CAP and what have you left?" I am an outsider in this debate but I regard this argument that the CAP is the core of the European idea as rather strange. You only have to observe the strains the CAP puts both on political relationships within the Community and on the Community budget to wonder whether failure ever to come to grips with the CAP would pose serious dangers to the broader Community concept itself. I believe that it would.

When Pan Am was in its deepest financial difficulties it was proposed that the building that housed the headquarters be sold. I understand that at a crucial meeting someone put the question: "Why not sell the airline and keep the building?"

Why not, I wonder, change your agricultural policies and keep the Community? I suggest that by basing the Community concept on the CAP, you may be seriously underselling the concept of Europe. You might even be surprised after all these years of consultation, how resilient the underlying concept is.

I have dwelt on the basis of our trading relationship with Europe because I think that will determine the strength and durability of our overall ties. When I became Prime Minister in 1975 I said that, for New Zealand, foreign policy was trade. It was a deliberate choice of words, designed to signal my Government's priorities at home and to our friends abroad. It has been reflected in the main foreign policy initiatives we have taken since then, such as, for example, the conclusion of the CER, or Closer Economic Relations Agreement with Australia. This agreement will remove all remaining barriers to trade between our two countries according to an agreed plan and schedule. Another example is the Sparteca agreement which we and the Australians negotiated with the small island States of the Pacific. This gives them unrestricted duty-free access into our domestic market for all but three or four items. For New Zealand, the trade and political elements are thus inseparable.

New Zealand has been dealt rather poor cards over the last ten years. They would have been much worse, but for Britain's

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staunch support. We simply have to make the best use of whatever political and economic resources we have available.

My basic conclusion, therefore, is that any assessment of where New Zealand/EC relations might stand ten years from now must be heavily influenced by decisions yet to emerge in the trading area. If the decisions are positive, then the relationship will prosper - and well beyond the next ten years. We will be back in 99 years to celebrate that second century. The basic reason why this is so lies in the nature of changes taking place within the New Zealand economy. Let me sketch one or two of them to demonstrate the opportunities that exist for Europe.

I have already referred to our trade and economic agreement with Australia. For European investors the significance of this agreement which got under way on the first of January this year, lies in the fact that it will create a single Australian and New Zealand market. The advantages to any operation in New Zealand are considerable. Instead of looking to service a market of 3 million people, companies can plan ahead to service 17 million people; in fact, more than that, if companies have sufficient vision.

For years our economy suffered from the Down-Under syndrome. Economically, New Zealand would have been better placed in the middle of the English Channel than half-way across the globe as the fact of our geography dictated. Today, however, that apparent disadvantage looks very different. Over the course of the 1970s the Pacific Basin region where we are placed has emerged as the world's most dynamic growth region. New Zealand's economic and political links are growing accordingly.

Our expectation - it is more than a hope - is that there will be growing numbers of companies which will utilise the secure domestic marketing base of a combined Australian and New Zealand market to exploit the wider opportunities in the fast-growing economies of the Pacific Basin region.

Let me give you one concrete example of how I think freer trade between Australia and New Zealand will lead to this broader development. For some years we have had what is very close to free trade between New Zealand and Australia in forest products. In fact, it was our desire to have freer trade in forest products that led ultimately to the formation of a limited free trade area in 1965. The early years caused a little bit of pain, considerable rationalisation and then a period of settling down. One thing it did, of course, was to get the companies talking to each other and this is significant because some of the largest companies in New Zealand and, to a lesser extent in Australia, are forestry companies.

This seems rather distant now. Today, two of the largest companies, NZ Forest Products and Australian Paper Mills, have not only managed to find a modus vivendi in the Australian and New Zealand market - though we still get hiccups from time to time - they have now joint sales offices in Hong Kong, Singapore and Kuala Lumpur: three centres of Pacific regional growth. In addition to joint marketing, they also promote joint engineering ventures.

The pattern, then, can be summarised readily enough: Two young countries finding something they both can do well, getting their bilateral act together, moving out through stronger and more experienced companies into dynamic and competitive regional markets. It is a pattern that we will see more and more of. Given our liberal foreign investment regime, it is a pattern that good European companies with a longer-term vision can take part in.

Forestry is in fact a good example of the changing structure of the New Zealand economy. There is a saying that if you can grow it, New Zealand can grow it well. The New Zealand climate and other conditions are so favourable that our major species - Pinus Radiata - grows two to three times as rapidly as it does in its native California. New Zealand is already a significant exporter of forest products. In 10 years' time and beyond we will be a major force to be reckoned with in world forestry markets.

Again, this is not wishful thinking. This is based on expected yields from plantings already undertaken and ready to come on stream. We have well organised companies to do the job that is required. This is a major winner for us in the future.

New Zealand is also well-endowed with energy resources. We have abundant coal, hydro, geothermal and natural gas reserves, and we are finding oil. We are making good use of them.

The oil shocks hit us very hard. Although the volume of oil imports has fallen by about 20 per cent since 1973, our oil import bill has risen from $114 million to more than $1400 million in 1982, or about 20 per cent of total merchandise imports. The policy problem my Government faced - and it is a

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very awkward one - was to use our non-oil energy resources to plug that hole in our balance of payments.

We have set about this in a bold way. At the centre of these energy-based developments is the Maui gas field, which is large in world terms and very large in relation to the size of our economy. We are building a synthetic gasoline plant at a cost of 1500 million New Zealand dollars, using Mobil technology to use part of the Maui gas. This will eventually supply about one-third of New Zealand's total gasoline requirements. Other uses of gas include ammonia urea production, methanol, compressed natural gas and, later, processing natural gas liquids extracted from the Maui gas stream for conversion to various petrochemicals.

At the other end of the scale, we are now producing excellent light white wines of the German type owing to a remarkable similarity in climatic and topographical conditions between certain areas of New Zealand and the Rhine region.

We also have seen the rise of numerous new horticultural crops, led by the kiwifruit industry, which I now find served up to me and my wife on a French airline travelling across the American continent - such is the spread of its popularity.

The growth of New Zealand manufactured exports still retains its capacity to surprise me. From being a source of less than one per cent of export receipts in 1956, manufacturing now provides 26 per cent of New Zealand exports. In the past six years - and that was a period of a general slow-down in world trade - manufactured exports from New Zealand have quadrupled.

I have highlighted some of these features of the New Zealand economy because I want to get one central point across. Ten years from now the New Zealand economy will look fundamentally different from the traditional image of a pastoral economy. I view this period in New Zealand's history as a period of transition.

This is not just a difficult time for Governments. It is a difficult time for everyone. It takes sometimes a bit of courage, perhaps even a bit of nerve, to press on. In some ways New Zealand <u>is</u> a developing country.

With good management, I have no doubt New Zealand will emerge in a rather interesting light ten, fifteen years from now:

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still strong in agriculture, but over a much more diverse product base; enjoying a high degree of energy self-sufficiency; a vigorous exporter of specialised manufactured goods; and plugged right into the dynamics of the Pacific Basin region.

Ten years from now, and provided we avoid gross errors of judgement in the commercial and political relationship between us, New Zealand can offer you the continuing prospect of being a small but useful and profitable market for your exports, a base for regional operations and investment and, politically, as we have demonstrated, a good friend when you need one.

That is not too bad a package, I think.

That package, however, could unravel with remarkable speed if New Zealand's traditional exports to this market continue to be squeezed out, doing incalculable damage to New Zealand's economy.

For the last 100 years that export trade has been of fundamental importance to the New Zealand economy. Cut that out and you cut at the heart of an economy which has been built by subjects of the British Crown, who on the other side of the world maintain their pride and loyalty to the traditions of their forebears.

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