

dti

the department for Enterprise

②
CCPCPine Hunter
cop
16/4.
mt

PRIME MINISTER:

VISIT TO AUSTRALIA AND NEW ZEALAND

Lady Young and I paid an official visit to Australia from 29 August to 3 September. We then visited New Zealand as guests of the Government from 3 September to 8 September.

AUSTRALIA

My objective in Australia was to build on the success of your visit, and, in particular, to maintain the momentum in the fields of trade and investment.

All the ministers and businessmen I met spoke warmly of your visit. It was also clear that the ministers welcomed your initiative in proposing a return match next summer. In my meeting with Hawke, he agreed that it would be a good idea to organise a conference of British and Australian businessmen to coincide with the ministerial visit. Indeed, a similar suggestion had been put forward by the Australian equivalent of the CBI. I intend to write to my Australian counterpart in the next few weeks proposing outline arrangements for the conference and an outline agenda.

It came as something of a culture shock to find a Labour Government fostering such sensible economic policies. I met several ministers as well as Hawke, including Keating (Treasurer), Duffy (Minister for Trade Negotiations) and Senator Button (Minister for Industry, Technology and Commerce). My discussions covered a wide range of aspects of economic, industrial and trade policy. They could not have been conducted

in a more constructive and friendly atmosphere. Australian ministers were appreciative of our efforts in pressing for reform of the CAP. Obviously, however, they would prefer it if the pace of change could be accelerated.

In my speaking engagements and in my meetings with businessmen, I concentrated on the success of the British economy and the opportunities for trade and investment flowing in both directions. I built on your message that Australia and the UK have much to offer one another, in particular pointing out the advantages of using the UK as a gateway into Europe and of using Australia as a springboard into the Pacific rim.

My decision to refer the Goodman Fielder Wattie bid for Rank Hovis McDougall to the Monopolies and Mergers Commission was, not surprisingly, misunderstood by many people as a political act designed to prevent a British household name from falling into Australian hands. This might well have detracted from my message that the UK would welcome investment from Australia and New Zealand. I therefore took every opportunity to explain the concerns about competition in the bread market which lead to the referral. I covered the point at some length in one of my speeches, which was reproduced in the influential Australian Financial Review.

There is no suggestion that the Australians will react to the GFW decision by seeking to block British investment in Australia. It was helpful that I was able to explain the genuine - if indirect - competition concerns which led to the referral. But the issue was raised at nearly every meeting and I believe that this illustrates how important it is that merger decisions are taken primarily on competition grounds. If we are seen to react to jingoistic political pressure, our companies will quickly find overseas investment opportunities blocked to them.

NEW ZEALAND

In contrast to Australia, there is much pessimism about the state of the New Zealand economy. Output is stagnant and unemployment is rising fast. But this masks impressive achievements. The New Zealand Government has reduced inflation from 25% to 3% and is successfully tackling the problems of overmanning and inefficiency in its nationalised industries, as a preparatory step towards wholesale privatisation. The situation is very similar to the UK's in the early 1980s. I was constantly asked, both by businessmen and ministers, about the measures we had taken in the UK to stimulate new businesses and to reduce unemployment.

The main external issue on New Zealanders' minds is the state of world trade in agriculture. New Zealand is concerned that its preferential access to the British and European markets for butter and for sheep meat should be maintained. I was able to assure them that Britain wished to see a satisfactory outcome to these issues.

Australia and New Zealand are both likely to play an important role in bridging the gap between the EC and the US on the liberalisation of trade in agriculture during discussions in the current GATT round. As this is likely to be one of the most important issues discussed at the GATT mid-term meeting in Montreal in December (which I shall attend), it was very useful to have had a series of meetings with the ministers who will be leading both the Australian and New Zealand delegations. It was also helpful to be able to assure ministers in both countries that the completion of the single market in Europe will not lead to any new barriers being erected externally.

It appears likely that the New Zealand privatisation programme will involve many sales of assets to overseas investors because the New Zealand capital markets are not developed enough to absorb so much stock so quickly. I pressed the case for British companies being allowed a fair crack at the whip, particularly the case of British Airways who are in competition with Qantas to buy a stake in Air New Zealand. A decision on this is imminent.

I should place on record my appreciation of the efforts of John Coles and Robin Byatt and their staffs for making such excellent arrangements for my visits.

I am copying this minute to Nigel Lawson, Geoffrey Howe and John MacGregor.



DY

16 September 1988

Department of Trade & Industry