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Backup



Foreign and Commonwealth Office

London SW1A 2AH

19 June 1989

Sea Chants.

Visit by the Prime Minister of Australia:
20-24 June

This letter covers briefing on bilateral and regional issues. A separate letter contains briefing on major international issues.

Mr Hawke's visit is in response to the invitation the Prime Minister extended during her visit to Australia last August. It will be the first full bilateral visit to Britain by an Australian Prime Minister since that of Mr Fraser in May 1977.

Our Objectives

We wish the visit to set the seal on the more modern relationship with Australia which has developed since the visits by the Foreign Secretary in 1987 and the Prime Minister in 1988. Our broad objectives are:

- to press home to the Australian Government our commitment to a reinvigorated and forward looking relationship;
- to reemphasise that, besides our purely bilateral concerns, the relationship should also cover cooperation between Britain and Australia on regional and global issues;
- to minimise any possible damage to the bilateral relationship from our decisions not to accede to Australian requests to up-rate pensions and to give Australia an original of the Constitution Act.

The Bilateral Relationship

As the Prime Minister will know from the two action reports submitted to her by the Whitehall Australia Group (WAG), the pace of Ministerial and official exchanges with Australia has quickened in the past year and we intend to maintain the momentum. Since August 1988,

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Australia has been visited by the Secretaries of State for Trade and Industry, Defence, and Education and Science and by the Lord Chancellor, the Speaker and the Attorney General. In the next year or so visits are planned by the Foreign Secretary, the Secretary of State for Scotland, the Lord Chancellor and the Minister for Overseas Development. It is also possible that the Minister of State for Energy and the Minister of Agriculture will pay visits to Australia in 1990.

/ A copy of a Policy Paper on the UK-Australia relationship prepared by the Whitehall Australia Group is at Annex A

Mr Hawke's Government

Politically, things are now going less well for the Labor Government. The economy has developed serious problems and the Government's earlier reputation for good economic management has been damaged. The opposition parties both changed their leaders last month in overnight coups and may emerge better equipped to fight an election. The timing of an election is still unclear, but the most likely date is at the end of this year or during the first quarter of 1990.

Economic Situation

Australians are now worried about the the economy. The current account deficit has increased sharply this year (about 5% of GDP); the inflation rate is up at 7% and likely to rise further; mortgage rates have just risen to 17% and may go higher. Foreign debt has reached a A\$100 billion, (about 31.1% of GDP), although some 60% of it is held by the private sector. The main current policy issue is whether a soft landing is possible. The normally ebullient Treasurer (Keating) looks beleaguered and the Labor Government is facing criticism.

The Prospects for Increased Trade and Investment

In 1988 we overtook the Federal Republic of Germany and became again the third largest supplier to Australia after the US and Japan (market share 7.5%, a slight increase on 1987). Our exports in the first quarter of 1989 were 28% up in sterling terms over the same period of 1988. Our investment has been growing rapidly. We are now the largest investor in Australia with accumulated investment of A\$44 billion.

Australian exports to the UK for the first quarter of 1989 were 7% down on the same period last year. But generally Australian exports have grown quite strongly in



recent years and manufactures eg car engines, machinery, and scientific instruments, represent a growing proportion. Australian investment in the UK has also greatly increased (up 740% 1982-7). The advantages of the UK as a springboard for expansion into the EC, especially post 1992, are increasingly appreciated by Australian companies.

UK Merger Control and Foreign Investment Policy

Mr Hawke is likely to raise the subject of Australian takeover bids and referral to the Monopolies and Mergers Commission (MMC). The DTI's March 1988 review of mergers policy made clear that the effect of a merger on competition in the UK would continue to be the main criterion for deciding on referral. The Prime Minister will wish to say that we encourage inward investment, and Australian bids have actually enjoyed a very good success rate.

/ A background note on referrals to the MMC and a note on the UK-Australia Trade and Investment Conference are at annex B.

Defence

The Prime Minister will wish to stress the value we place on defence cooperation, and thank Mr Hawke for his Government's continuing efforts to facilitate future RN ships' visits. She will also wish to stress our interest in participating in Australia's re-equipment programme.

ANZUS

It would be interesting to have Mr Hawke's views on the estrangement between the United States and New Zealand, in the light of Mr Lange's recent speech at Yale University in which he said New Zealand should consider withdrawing from ANZUS. The Prime Minister will wish to express our concern about the New Zealand attitude. She could also seek Mr Hawke's view of Australia's defence relationship with New Zealand and of prospects for the ANZAC frigate project, a test case for New Zealand.

/ A background note on the defence relationship is at annex C.

Education and Science

Following Mr Baker's visit to Australia, he and Senator Button expect to sign an exchange of letters on



21 June covering:

- exchanges of science teachers;
- co-operation in "distance learning" (provision of courses by the Open University);
- support for post-doctoral scientists and technologists, building on existing exchanges;
- scientific collaboration: each side (for the UK, the Research Councils) will devote cf50,000 pa to exchanges of academics in the fields of global environment/climate, biotechnology/biology/biomedical sciences, enabling technologies (eg materials, robotics) and earth sciences.

The Prime Minister will wish to refer to the importance we attach to closer S&T links.

Indexation of Pensions

The Prime Minister will recall an exchange of letters with Mr Hawke on this subject in March. (Copies of the correspondence are at annex D.) The Australian Government paid solicitors in London A\$10,000 to advise whether a legal challenge in British courts would succeed. The opinion was that it would fail, but the Australian Government was disappointed by the evident lack of research done by the British solicitors. We understand that an Adelaide-based lobby 'The Australian-British Pensioners Trust Fund' may be seeking a second opinion to see whether a case could be mounted by a civil action in the British Courts and, if that fails, through the European Commission on Human Rights.

Constitution Act

The Australian Government has requested permanent loan of one of the two originals of the Commonwealth of Australia Constitution Act. The Prime Minister agreed that we should offer the Australians an Exemplification of the Act making it clear that we could not go any further. The preliminary Australian reaction has been negative. Mr Hawke is unlikely to raise this as Mr Hawke's Cabinet Secretary has specifically asked to discuss it with Sir Robin Butler.



Cleaning Up of Nuclear Test Sites at Maralinga

If Mr Hawke raises this subject, (the Australians tell us that he won't), the Prime Minister can say that we must await the report by the Technical Assessment Group due in mid-1990.

75th Anniversary of Gallipoli

Australia wishes to make much of the 75th Anniversary, not least because by the Centenary none of the survivors of Gallipoli will be alive. Mr Hawke plans to go to Turkey for the Anniversary. Consideration is being given to attendance by the Foreign Secretary but no decision yet.

REGIONAL ISSUES

China

The Prime Minister may wish to exchange views with Mr Hawke on the situation in China. Our policy is to register in the strongest terms our disapproval of the violent suppression by the Chinese authorities of peaceful demonstrations. We have suspended all scheduled Ministerial exchanges and high-level military contacts and have banned arms sales. The proposed visit of The Prince and Princess of Wales will not take place so long as those responsible for the atrocities in Peking remain in control of the Chinese Government. At the same time we recognise the need to keep open some channel of communication to the Chinese authorities, not least because of our responsibilities for Hong Kong.

The prospects do not look very bright for a return to more moderate policies. The new hardline leadership is now consolidating its position. Political instability seems likely in the longer term. Deng Xiaoping has had to turn to the conservative veteran leaders and the army to bolster his authority. There is now no obvious successor to Deng.

Mr Hawke has cancelled his own proposed visit to China in October, a forthcoming Australian naval visit to Shanghai, and a visit by a Chinese trade delegation to Australia. He has also written in strong terms to Premier Li Peng condemning Chinese actions.



Hong Kong

As regards the impact on Hong Kong and the territory's prospects, the Prime Minister will wish to make clear that, while we do not want to play down the damage to confidence, we share a common interest in rallying round Hong Kong at this difficult time. The international community should do all it can to demonstrate its faith in Hong Kong's future.

Japan

Japan is Australia's foremost trading partner and Australia enjoys a small visible trade surplus. But there are difficulties over Japanese restrictions on imports of Australian agricultural products and over the rapid rise in Japanese property investment in Australia. The Australians are nevertheless keen to promote Japanese inward investment. The Prime Minister will wish to:

- seek Australian support in pressing for structural reforms of the Japanese economy. This will be a major British objective at the Paris Summit.

Japan is seeking to adopt a higher international profile more commensurate with her wealth. Her neighbours are ambivalent about this. But Japan's influence can also be a considerable Western asset. The Prime Minister might therefore:

- stress that we wish to see Japan better integrated into the Western political and economic system;
- elicit Australian views on Japan's growing international role, particularly in the Asia/Pacific region.

Cambodia

We expect the Vietnamese to withdraw their troops by the end of September. The French are pushing ahead with plans for an international conference co-chaired with Indonesia, to be preceded by a round table between the Cambodian factions in July.

The main point of disagreement between the factions is what to do about the Khmer Rouge. No one wants them to take over. The issue is how to prevent them provoking a civil war.



We believe that that the better tactic is to include the Khmer Rouge minus Pol Pot and his cronies in an interim administration.

The Australians seem to accept the inevitability of a civil war and tend to look more favourably on a deal which excludes the Khmer Rouge.

The Prime Minister might therefore:

- note apparent movement towards a settlement;
- express concern that the Paris International Conference should not simply establish an International Control Mechanism to verify Vietnamese withdrawal in the absence of an internal political settlement;
- argue that the international community should make every effort to prevent civil war and therefore support inclusion of a decapitated Khmer Rouge in an interim administration;
- urge Australia to put pressure on Vietnam and the PRK to be more flexible;
- (if asked) express HMG's willingness in principle to participate in a well prepared international conference, but warn that at least the main features of a political settlement should be agreed between the Khmer factions before a conference can play a useful role.

Vietnamese Boat People

The Geneva Conference went well. Resettlement offers totalled approximately 56,000 places, sufficient to clear the backlog over the next three years, including in Hong Kong. There was significant progress towards the establishment of a regional processing centre in the Philippines. The conference unequivocally endorsed the principle that screened out non-refugees have no alternative but to return to Vietnam, and gave a mandate to pursue this immediately. Multilateral progress will be slow due to American hostility. But bilateral talks with the Vietnamese are encouraging: they will not appear to condone forcible repatriation, but they are beginning to cooperate over the return of non-refugees to Vietnam.

Australia has been most helpful. Their objectives coincide with ours. In his statement at the Conference



the Australian Foreign Minister offered to resettle 11,000 refugees and to help finance a Refugee Processing Centre in the Philippines. He suggested the establishment of an international fund to meet more of resettlement and repatriation expenses. Australia has announced a A\$49,000 aid grant for boat people in Hong Kong.

The Prime Minister will wish to:

- thank the Australian Government for its help and generosity.
- express appreciation for UK/Australia cooperation over the Conference - encourage further cooperation notably:
 - to sustain pressure on Vietnam to cooperate fully on repatriation of non refugees.
 - for early establishment of Refugee Processing Centre in the Philippines.
 - to discourage Americans from making an issue out of mandatory repatriation.

The Conference did not pursue the Australian idea of an international fund. If Mr Hawke raises it, the Prime Minister can say that we will study it carefully.

South Pacific

Mr Hawke may touch on some South Pacific issues which affect Australia.

The constitutional position in Fiji remains unresolved. The process of producing a new constitution is being extended and interim Government now looks like continuing into next year. There is little likelihood of an application for readmission to the Commonwealth in the foreseeable future. Ratu Mara has said he will stand down at the end of the this year when the Interim Administration's original two year mandate expires. Mara has withdrawn his request for a legal draftsman (we proposed Sir William Dale) so we are deprived of a potential channel of influence. Fiji's relations with Australia remain prickly. Our aid programme has continued uninterrupted (mostly medical but also courses for military officers). Australia has latterly made its aid conditional on constitutional progress and recently announced the withholding of the next tranche.



The Prime Minister may be interested in Mr Hawke's views on the prospects for the Lange administration in New Zealand. Mr Lange looks increasingly like losing the next election, due by October 1990. The Opposition National Party has a 33-point lead in opinion polls and Mr Lange looks more and more embattled. Labour's slump is due to lack of any tangible rewards for the tough economic policies of the past 5 years, increasing worries over race relations, and Mr Lange's erratic style of leadership.

Australia is very concerned at sabotage of foreign mines and secessionist moves in North Solomons Province of Papua New Guinea. PNG government military and administrative resources are stretched and the Australians are expecting to be approached for assistance. Given her close relationship with PNG, Australia naturally wishes to do whatever possible to help PNG but does not wish to become embroiled in a military solution to the troubles. Although Britain does not share the same close interests in PNG as Australia, there is an increasing British investment there (c £500 million) and the country's potential petrocarbon and other mineral wealth (in which BP and RTZ have major stakes) points to greater opportunities.

Elections in New Caledonia on 11 June passed off peacefully. Since the Matignon Accords the territory has been less of an issue regionally. Franco/Australian relations have improved as a result. The assassination of the Kanak leaders Tjibaou and Yeweinie in May so far appears not to have disturbed the process.

I am copying this letter to Trevor Woolley (Cabinet Office).

Jane.
Stephen Wall

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UK/AUSTRALIA: PARTNERSHIP INTO THE 21ST CENTURY

(A basis for giving greater emphasis to the Bilateral Relationship)

SUMMARY

I AUSTRALIA'S POSITION IN THE WORLD

In international terms a medium sized power but regionally a major power.

International position based on the strength of her economy, (13th in the world); her active involvement in international cooperation; and as a major supplier of minerals and agricultural commodities.

Australia's situation on the periphery of Asia makes her relations with Asia vital but complicated.

Her long term economic prospects are likely to lie in seeking to participate in the economic growth of the Asian Pacific countries.

Over time this could mean that Australia's political interests may shift still further towards Asia and away from the West.

II UK-AUSTRALIA TRADE AND INVESTMENT

The two-way flow of trade and investment is the core of the bilateral relationship.

An estimated annual trade balance in our favour of approx £1½ billion. We are the third largest supplier of imports behind Japan and the USA.

There is more accumulated British investment in Australia than in any other foreign country except the USA.

Potential exists for British companies to use Australia as a base for further expansion of UK commercial interests in the Asian Pacific Rim where this ties in with individual characteristics and strategies. Australia's ambitious defence capital equipment

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We need to encourage regular parliamentary and youth exchanges. The Secretary of State for Education's visit in May 1989 identified several new areas for increased education and cultural exchanges.

VII FUTURE ACTION

To reinvigorate the relationship and achieve the objectives set out in section V above we need to:

- i) pursue actively the opportunities identified in the Consultancy report on trade and investment prepared for the June Trade and Investment Conference and follow up the possibilities opened up by the Conference
- ii) establish and develop the schemes for educational, scientific and technological cooperation agreed in principle during the Secretary of State for Education's visit to Australia (May 1989)
- iii) initiate and develop the bilateral work experience scheme
- iv) organise a programme of official inward visits by Australian Ministers to pursue specific objectives
- v) ensure we exploit fully the opportunities offered by regular bilateral visits and consultations
- vi) continue to look for new types of exchanges and new areas of cooperation.

Whitehall Australia Group
June 1989

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UK/AUSTRALIA: PARTNERSHIP INTO THE 21ST CENTURY

(A basis for giving greater emphasis to the Bilateral Relationship)

INTRODUCTION

I AUSTRALIA'S POSITION IN THE WORLD

II UK-AUSTRALIA TRADE AND INVESTMENT

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IV AUSTRALIAN INTEREST OTHER THAN BILATERAL TRADE

V OBJECTIVES OF AN ENHANCED RELATIONSHIP

VI MEANS TO ACHIEVE THE OBJECTIVES

VII FUTURE ACTION

INTRODUCTION

The Prime Minister visited Australia in August 1988, the first formal bilateral visit at that level since 1957. She was struck by the extent of our commercial interests and the potential which exists for developing a closer more productive bilateral relationship. On her return she expressed the wish that Ministers should ensure that their Departments took full advantage of the momentum created by her visit and by Mr Hawke's return visit to Britain (June 1989).

This paper examines the nature of Britain/Australia relations, assesses the significance of each country for the other, and explores the basis for a reinvigorated relationship which avoids condescension and is founded on an appreciation of mutual interest. Although we have decided to give relations with Australia a greater priority, as far as we know the Australian side to date has not taken a corresponding decision. The situation is somewhat one-sided. After a period of taking each other for granted, particularly since our entry into the European Community, the Australians will need some persuading that there are valid reasons for forging a closer relationship with the UK. Their fears of a 'fortress Europe', and what happens to Australian exports to Europe after 1992, will be an important element in this. Nevertheless, Australian ministers have told us that they considered relations were transformed by Mrs Thatcher's visit. They frequently state that the priority attached by Australia to relations with Asia does not mean that they wish to see relations with Britain and Europe weakened. The Australian Prime Minister made a notably warm speech on the bilateral relationship during Mrs Thatcher's visit and very readily accepted her invitation to him to visit Britain.

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I AUSTRALIA'S POSITION IN THE WORLD

In global terms Australia is a medium sized power with a bigger role on the international scene than is suggested by the size of her population (16m). Regionally she is a major power in Asian Pacific terms, and the dominant power in the South Pacific.

Her international position is based on the strength of her economy (13th in the world) and her active involvement in international cooperation. As a major supplier of minerals and agricultural commodities, with a narrow manufacturing base and limited domestic market, she is dependent on international trade, vulnerable to price fluctuations outside her control, and has a strong interest in the preservation of the multilateral world trading system, although she is protectionist where her own manufacturers are concerned. Japan is her largest trade partner, Britain her third largest after the United States. The main features of her international relations are:

- a) Her staunch support for western democratic values, and alignment with the western alliance. She is a valuable contributor to western intelligence
- b) The crucial political, economic, and defence relationship with the United States. The US is Australia's principal ally, specifically in ANZUS. Australia hosts important US defence facilities (but not bases)
- c) The maintenance of a close political and economic relationship with Japan through regular ministerial consultations
- d) Cultivation of good relations with the other Asian Pacific countries. Australia sees the Asian Pacific economic area as offering the best potential for the expansion of her overseas markets. She regards herself and wants to be regarded as part of the wider region. Early cultivation of China is paying commercial dividends. She also sees a large potential market opening up in the Soviet Far East
- e) Relations with the South Pacific. Australia has an obvious

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interest in the stability and development of the island states. She is the major aid donor (A\$ 300m to Papua New Guinea, A\$ 70m to the rest of the region) and has defence agreements with PNG. But as the giant in the area she has to tread warily to avoid trampling local sensitivities

- f) Active involvement in certain areas of international cooperation and international organisations, notably
- in GATT, as a leader of the Cairns Group working for reform of agricultural trade;
 - in the UN in the disarmament field (special Ambassador for Disarmament since 1983, initiatives on chemical weapons) and as a frequent contributor to peacekeeping forces (eg currently in Namibia);
 - through her interest in the Indo-China problem, where she is ready to help (she has taken 6,184 Vietnamese refugees from Hong Kong in the last 10 years);
 - through her membership of the Commonwealth
- g) Cultural, historical, personal, and trade ties with Britain (and to a lesser extent Europe).

Australia's situation on the periphery of Asia makes her relations with Asia vital but complicated. Although she is in Asia she is not of it. Her population and traditions are mostly not Asian. Her cultural isolation is daunting when measured in terms of the population ratio. By the year 2000 20m Australians will look across at 4000m Asians. Fear of the yellow peril has in the past been a major factor in Australia's attitude. Whereas her geographic isolation tends in fact to enhance her security, psychologically it leads to a sense of vulnerability. Although Asian immigration and business contact have brought some change in attitudes, fears of excessive Japanese investment in some areas and of a long term threat arising from land hunger in Indonesia and elsewhere in the Asian Pacific, still persist. Nevertheless, trade with the Asian Pacific is growing. Export markets there offer her the chance of overcoming the handicap of her small domestic market.

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Australia's comparative advantages and disadvantages in pursuing her international ambitions are as follows. She has the advantage of:

- a) considerable mineral wealth
- b) efficient large scale agricultural production
- c) political stability
- d) a relatively equitable distribution of wealth
- e) an educated work force
- f) secure frontiers, no natural enemies, relatively well trained and equipped defence forces
- g) the English language
- h) acceptability in the international community
- i) influential allies.

She has the disadvantages of:

- j) a small population
- k) an inhospitable hinterland
- l) a small domestic market
- m) heavy dependence on imports
- n) high labour costs
- o) difficult labour relations with many restrictive work practices.

Australia's long term prospects, in the economic field, are likely to be in increasing the value added component of her main exports, boosting her service sector, and participating in the economic growth of the Asian Pacific countries. The latter offer Australia the potential of rapidly expanding markets for her exports. Over time this could mean that Australia's political interests may shift still further towards Asia and away from the West. But for the foreseeable future Australia is likely to continue to have a major interest in retaining her export markets in the United States and Europe. Add this factor to her cultural and political heritage and it is clear that a significant part of Australia's future will continue to lie in her commitment to the West and her ties with the United States and Britain.

II UK-AUSTRALIA TRADE AND INVESTMENT

The two way flow of trade and investment is the core of the British-Australia bilateral relationship. Notwithstanding a remorseless decline post war and the consequences of our entry into the European Community, our trade links remain very substantial. But the Australians are concerned about the impact which the introduction of the Single European Market in 1992 could have on their trade relations with the UK and the rest of the EC.

Visible Trade

Taking visibles and invisibles together Australia provides us with our second largest trade surplus after the US, with an estimated annual balance in our favour of around £1½ billion. However our share of Australia's imports has declined from about 50% to some 7.5% since World War II. Japan and the USA are now her principal suppliers, each with about 20% of the market, with the UK third, and West Germany fourth, with about 7%. Latterly several other EC members, some NIE's and New Zealand, have substantially increased their market shares. Our relative decline has been mainly due to our inability to beat the competition in the market's biggest growth sectors eg machinery and capital equipment. We have lost out to Japanese and American domination in high-technology areas such as IT, consumer electronics and, until recently, aerospace. As a result, most of our competitors (but possibly not Japan and the USA in the last 5 years) are achieving higher growth in the market than the UK.

Nevertheless, Australia is our 14th largest visibles market with about £1.3 billion exports a year, almost all manufactures. In 1988 our exports increased strongly by 12.6%, while imports to the UK rose by 10%, thus widening the trade gap in our favour to £632 million, an increase of 15% on 1987. In the first 3 months of 1989 our exports to Australia rose by 28%. Our main visible exports are manufactures, specialised machinery, road vehicles, chemicals, food and beverages, books, and power generating equipment. Australia is the second biggest market in the world for British books. It is the BBC's most valuable overseas market.

Our imports from Australia have generally run at about half the

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level of our exports. We remain an important market for Australia, (after Japan, USA, New Zealand, Hong Kong and Korea), accounting for about 4% of all Australian exports (but less than 1% of total UK imports). Major Australian exports to the UK include non-ferrous metals, metalliferous ores, coal and textile fibres.

Invisibles

Accurate statistics are hard to come by, but we calculate that there is currently a UK surplus of about £700 million a year in our invisible trade with Australia. This makes her still one of the most profitable markets for UK services.

Most of the UK's invisible income is derived from insurance, financial services, travel and investment income. Australian visitors spend more money in Britain than anyone except Americans, Germans and French. In 1987 nearly half a million Australian visitors accounted for expenditure of £302m.

Investment

There is more accumulated British investment in Australia than in any other foreign country except the USA. Its total value is estimated at about £11 billion, some 20% of all foreign investment, although Australian figures put this much higher at about £17 billion. Britain continues to invest over £500 million annually in Australia (more than anyone except the US and Japan), making it our fourth largest net recipient of investment.

The level of UK investment has more than doubled in the past 5 years. UK companies, such as BOC, Unilever, P & O, BTR and Rugby Group took advantage of the October 1987 stock market crash and the subsequent weakness of the Australian dollar to purchase outright their holdings in a number of Australian subsidiaries. Over 1,500 UK companies are thought to be directly represented through subsidiaries in Australia. Many manufacture locally and remit profits. Cadbury Schweppes (UK) exports nothing to Australia but its local subsidiary provides 20% of the group's world-wide turnover. British Petroleum's investment in Australia is higher than in any country except the US and the UK.

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Australian investment in the UK is estimated to have increased seven-fold in the past 5 years to about £3 billion. But this may be an understatement. The wish to have a base of operations within the single European market is an underlying factor. Recent acquisitions have included Elders-IXL's take-over of Courage, National Australia Bank's purchase of Midland Bank's Scottish and Irish subsidiaries and the Bond Corporation's takeover of Airship Industries. About two-thirds of Australian investment in the EC continues to be in the UK (mostly in the form of mergers and acquisition rather than 'green-field' developments).

Access to Asian Pacific Rim Markets

Opinions tend to be divided about the advantages of using Australia as a base for further expansion of UK commercial interests in the Asian Pacific Rim. But many large UK public companies (for example BP, BTR, Cadbury-Schweppes) have invested heavily in Australia to develop their business in what is now generally acknowledged to be the world's fastest growing economic region. A recent study by Canberra showed that out of 60 British firms examined 48 are now exploiting 2 or more Asian markets from Australia. Others however have concluded that the region can be better served from elsewhere eg Hong Kong, and to a lesser extent Singapore.

High Australian unit labour costs and distances from the more dynamic markets of North-East Asia are often cited as major reasons for not developing new or existing operations in Australia. Others are discouraged by the levels of competition experienced, and by the disparate nature of many of the markets in the region, with the result that companies such as Hawker Siddeley service individual markets direct from the UK. In the longer term the option of using Hong Kong as a base for penetrating the region might become less attractive. Ultimately much will depend on the extent to which Australia can demonstrate sufficient comparative advantage to persuade UK companies that their individual corporate marketing strategies can best be advanced by locating at least part of their regional operations in Australia.

Australia as a Market for Defence Sales

Australia's ambitious capital equipment programme, estimated to be

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worth A\$25 billion over the next 10 years, presents a challenging opportunity to the UK defence industry. Our principal objective over this period must be to increase the UK's percentage of Australian defence imports (currently running at 10%). A vital step in this will be to ensure that UK sub-systems are well represented on board the ANZAC-frigate. (UK sub-systems currently specified as options are currently worth £350-500m). This will be our main aim over the next year. Following the recent award to GEC Marconi of a A\$15 million contract for an initial phase of the over the horizon radar project, we are also well placed to compete for the very valuable contracts which will be awarded in the later phases.

III UK INTERESTS OTHER THAN TRADE

Political

The UK has a political interest in:

- The continued success of democracy in Australia as an inspiration for democracy elsewhere, particularly in the South Pacific and wider Asian region.
- Australia's continuing alignment with the western alliance. British and western interests would suffer if Australia moved to non-alignment.
- The political stability and security of Australia as a factor in the security of trade routes linking the Asian Pacific to Europe.
- Our participation with Australia in the Five Power Defence Arrangements (FPDA) for the defence of Malaysia and Singapore.
- Australia's efforts to resist Soviet attempts to increase its influence in the Pacific at the expense of the United States.
- Australia's continuing support for the multilateral world trading system.
- Continued access to Australian intelligence and analysis on Asia and the South Pacific where they are sometimes better informed than we are.
- Australia's relations with Japan, China and other Asian Pacific countries as offering us a different perspective on Asia.
- Cooperation with Australia on Antarctic issues.
- Cooperation on Commonwealth issues.

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- Maintenance of our traditional links. Eight million residents of Britain are thought to have relatives in Australia. Nearly 2 million residents of Australia are entitled to British passports.

Strategic and Defence

Australia's strategic importance to the UK lies largely in her support for Western security interests as a whole through her contribution to the stability and security of Asia and the South Pacific. Her role in this respect can only increase in significance as the US continues its gradual reduction in military presence West of Hawaii. Although Britain's direct defence interests in the region will be very limited after the withdrawal from Hong Kong in 1997, we will rely heavily on cooperation with Australia to make the best of the resources we make available to meet those commitments that remain (eg to the FPDA).

A Source of Important Raw Materials

Australia supplies significant proportions of our imports of important raw materials: lead (75%), zinc (34%), coal (16%), iron ore (21%), nickel (7%), copper (5%), aluminium (6%) and certain strategic minerals (16%). UK generating boards obtain about 16% of their uranium from Australia. Australia supplies 21% of our wool imports.

She is also a significant supplier of raw materials to others. She accounts for 64% of world trade in wool. In other key commodities her share is: aluminium 12%, coal 35% (the world's largest exporter and expected to remain so into the next century), iron ore 47%, wheat 18% and sugar 17%. Excluding the Eastern Bloc she holds about 25% of the world's recoverable uranium resources. Her oil reserves are small and although she has been largely self sufficient she could be importing over half her oil requirements by the year 2000. But this estimate could change since she has recently made major discoveries of natural gas offshore, more are expected, and exports of liquified gas to Japan will start this year (1989). She may well eventually become a major gas supplier to the Pacific countries. Australia is a major agricultural producer and is likely to remain an important supplier of foodstuffs to the world market, especially wheat and meat.

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IV AUSTRALIAN INTERESTS OTHER THAN BILATERAL TRADE

It is very much in Australia's interest that we should continue our political support for free trade both within the Community and more widely - particularly, now, in the context of 1992. Australia has a major interest in the success of our efforts to reform the EC's agricultural policies.

It is also in Australia's interest that we should continue active participation in the FPDA and continue our involvement and aid giving in the South Pacific. Our bilateral defence cooperation is of substantial value to Australia particularly for the training experience. So is our intelligence cooperation. We represent a significant source of technology transfer. There are many shared interests too: security of world trade routes, denial of Soviet influence in the Pacific, concern about the environment, narcotics control, AIDS.

Through its relationship with Britain Australia can sometimes profit indirectly from our own separate network of international alliances and relationships eg our own special relationship with the United States, our contacts with Soviet leaders, and our membership of various organisations to which Australia does not belong. We can also provide a useful balance to her very close political and defence relationship with the United States. There are also all the formative cultural, historical and personal links.

V OBJECTIVES OF AN ENHANCED RELATIONSHIP

The overall objective is to advance our national interests. The specific aim is:

- i) To increase two way trade and investment as much as possible.
- ii) To build a close, instinctive, across the board relationship, based on an appreciation of each others interests, which allows us to protect our interests in Australia and to influence Australian policies so that they serve our interests.
- iii) To exploit all the possible opportunities for fruitful

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bilateral cooperation.

- iv) To achieve greater coordination of our international activities and policies.

VI MEANS TO ACHIEVE THE OBJECTIVES

Trade Promotion

The DTI and Posts in Australia have worked out a coordinated strategy for trade promotion and commercial work. Although, because of the diversity of UK exports to Australia it is difficult to target specific sectors without risking missing out on opportunities in other areas, the strategy currently gives emphasis to the following sectors:

- Oil and gas machinery
- Giftware
- Medical equipment and pharmaceuticals
- Pollution control equipment
- Scientific instruments
- Retailing
- Packing and other industrial equipment
- CAD/CAM, industrial automation/robotics
- Clothing
- Jewellery
- Food
- Automotive components and accessories
- Hotels/hotel equipment
- Tourism

Areas like aerospace and telecommunications, where the UK is relatively strong, have not been included because the market is already well covered and/or because DTI assistance is not needed.

Twenty-five DTI sponsored outward trade missions are planned for 1989-90 involving up to 400 small and medium-sized companies. At least one inward mission a year is expected from Australia and a number of store promotions are being supported. The UK organised 7 joint ventures at trade fairs in Australia in 1988/89 and 9 in the current financial year in conjunction with Trade Associations and Chambers of Commerce. To encourage greater technological interchange between companies we are supporting a programme of technology seminars in Australia under the Overseas Seminar Scheme. A seminar on biotechnology has been held, further seminars on advanced manufacturing techniques and interactive video are proposed.

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The DTI are organising a major bilateral trade and investment conference to coincide with Mr Hawke's visit.

Political Exchanges

Regular well targetted visits by Ministers and officials and regular bilateral consultations/talks/exchanges provide the best means of developing close political relations. 1988, bicentenary year, was exceptional for the number of UK Ministerial and other British VIP visits to Australia. We are seeking with some success to prevent a dramatic falling off in 1989 and 1990 (4 and 3 senior ministerial visits respectively) but realistically we cannot expect to maintain the level of the last two years. Nevertheless if a new relationship is to be created and maintained, we should aim at 2 or 3 Cabinet level visits to Australia each year. Aside from considerations of reciprocity, inward Ministerial visits are also very valuable. We must seek to ensure that formal official invitations are extended to Australian Ministers for full programmes, and not just rely on Australian Ministers calling in on their British counterparts during brief stopovers in London, as tends to be the case at present. The value of visits by Ministers with "domestic" portfolios has been clearly shown in the case of recent visits by British Education Ministers.

As regards official contacts, we have recently sought to regularise and to expand the areas covered by official talks, although this may sometimes present the Australians with practical difficulties. Ideally we would like to see annual discussions on politico/military, intelligence, economic, Asia, aid, policy planning and United Nations matters. Where international co-operation is required in particular fields like the environment or narcotics control we hope that Australia will be one of the first countries outside Europe that we consider consulting. We should also look out for areas in which bilateral agreements could be usefully negotiated. We should continue to liaise closely with Australia on aid matters in the region, particularly on aid to the South Pacific. There may be scope for our making more of the fact that we both belong to the Western European and other regional group (WEOG) at the UN.

Defence Cooperation

Australia attaches considerable importance to the role of the FPDA in the region and has particularly welcomed our recent increased participation in FPDA exercises. But after our departure from Hong Kong, commitments elsewhere will make it increasingly difficult for us to maintain our present level of participation in FPDA exercises. We are therefore looking at ways of maintaining the effectiveness of our contribution, mainly through improved coordination of UK, Australian and New Zealand inputs. Our suggestions in this sense have been well received by the other two countries.

For historical reasons the level of individual service exchanges (86 on each side) is very high, far higher than the broader relationship previously warranted. Nevertheless we envisage maintaining roughly the current level. The plan is to continue at roughly present levels unit exchanges between UKLF and the Australian Army, as well as short-term exchange exercises.

We wish to continue making use of the valuable training and exercise facilities which Australia provides for the Hong Kong garrison and the Special Forces, and the first rank points of call in Australia for RN and RAF deployments.

The numbers of Australians on UK training courses has been declining partly because of increased dependence on US hardware and partly because of increasing self-reliance. We hope numbers will stabilise at present levels (300 per annum). We will continue to allocate Australia 3 places on RCDS (more than any other country except the US). Increased defence sales would probably increase demand for training, which MOD would be happy in principle to meet.

Opportunities for cooperation in out of area operations arise occasionally, eg Australian willingness to help with mine clearance in the Gulf, UNTAG in Namibia, but we would not expect this to happen regularly.

Science and Technology Co-operation

Cooperation with Australia in S & T is an attractive proposition for the UK particularly in materials science, astronomy, meteorology,

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marine biology and biotechnology. There is scope for further cooperation. 50 UK scientists go to Australia annually under Royal Society auspices. Some 300 Australian post-graduate scientists are working in British universities (compare 700 Canadians, 350 Singaporeans, 970 Malaysians). The visit to Australia by the Secretary of State for Education in May 1989 led to agreement that the following proposals in science and technology be considered in more detail before Mr Hawke's visit:

- new post-doctoral fellowship scheme
- programme of scientific collaboration in areas such as the global environment.

An announcement on the fellowship scheme will be made during Mr Hawke's visit. An exchange of letters on scientific collaboration to be signed by Mr Baker and Senator Button is also planned during the visit.

Other Contacts and Exchanges

Parliamentary

Parliamentary links are among the oldest established ties and are highly valued in Australia. The ANZAC Parliamentary Group in the UK is now almost 150 members strong and one of the largest such parliamentary groups. At the end of 1988 a Parliamentary Australia-UK Friendship Association was formed in Canberra. In 1988 The Speaker and the President of the Australian Senate agreed a pattern of regular Parliamentary visits. A UK delegation of 5 or 6 members will visit Australia every year. One Australian member will visit Britain every year. From 1990 or 1991 a larger Federal delegation of 6 members will visit Britain once every three years.

Australian parliamentarians are included in the FCO sponsored visitors programme. Many also travel to Britain privately but undertake official programmes during their stay. Inter Parliamentary Union (IPU) and Commonwealth Parliamentary Association (CPA) meetings provide further opportunities.

Youth, Work Experience

A proposal for a new scheme to encourage young Australians to visit

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the UK for work experience and vice versa has recently been put to the Australian Government. Subject to an initial quota of 500, it would allow Australians aged between 18 and 30, who are in employment in their own country, to acquire work experience in the UK for up to two years. Acceptance of such a scheme will have to be conditional on full reciprocity, thus maintaining job opportunities for the domestic labour force. We hope that early agreement in principle will enable an announcement to be made during Mr Hawke's visit.

Education and Cultural Exchange

In 1989/90 there will be some 75 scholarships and bursaries available to Australians to study and research in the UK under FCO, British Council, and Commonwealth Scholarship Commission schemes. In the same period the British Council will provide academic travel grants for some 130 Britons to make study and research visits to Australia. The League for the Exchange of Commonwealth Teachers arranges around 170 teacher exchanges with Australia per year, its largest exchange programme.

Mr Baker's recent visit identified new areas for cooperation:

- In exchanges of science teachers based on a science competition.
- Between Australian Distance Educational Centres and The Open University.
- In the application of technology, particularly in language teaching.

Mr Baker also announced the expansion of the British Council's Academic Links and Interchange Scheme (ALIS) to offer 10 bursaries a year to Australian post-graduate students. We hope to build this up to 20 per year.

During Mr Hawke's visit to Britain we expect to announce the creation of 10 new annual post-graduate scholarships for Australians to study in the UK, to be financed jointly by the FCO and an industry sponsor.

The British Council has bid for an additional £160,000 from April 1990 recurrently to fund the expansion of its programme in

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Australia. Activities under this programme include

- bringing Australians to Britain for research and to expose them to British practice, particularly scientists, planners, and administrators
- supporting links between British and Australian institutions of higher education for collaborative research and curriculum development in science and technology
- promoting the sale of British books
- supporting British arts events (British Council seed-corn money usually attracts four fold sponsorship).

Tourism

Britain and Ireland account for the third largest number of visitors to Australia (over 250,000 each year). New relatively inexpensive direct charter flights to Australia by Britannia may increase this number.

Over 300,000 Australians visited Britain in 1988, a rise of 5%. The British Tourist Authority maintains an office in Sydney.

VII FUTURE ACTION

To reinvigorate the relationship and achieve the objectives set out in section V above we need to:

- i) pursue actively the opportunities identified in the Consultancy report on trade and investment prepared for the June Trade and Investment Conference and follow up the possibilities opened up by the Conference
- ii) establish and develop the schemes for educational, scientific and technological cooperation agreed in principle during the Secretary of State for Education's visit to Australia (May 1989)
- iii) initiate and develop the bilateral work experience scheme
- iv) organise a programme of official inward visits by Australian Ministers to pursue specific objectives
- v) ensure we exploit fully the opportunities offered by regular bilateral visits and consultations
- vi) continue to look for new types of exchanges and new areas of cooperation.

WHITEHALL AUSTRALIA GROUP June 1989

ANGLO-AUSTRALIAN TRADE AND INVESTMENT CONFERENCE: 22 JUNE 1989

- 1 The Department of Trade and Industry (DTI) will be hosting a conference on trade and investment between Australia and the UK at the Queen Elizabeth II Conference Centre on 22 June 1989.
- 2 The decision to hold a one-day conference derives from the wish of the Prime Minister and the Secretary of State for Trade and Industry to follow up their separate visits to Australia last year to develop the economic and strategic relationship between the two countries. The Prime Minister of Australia supported by two senior trade/industry Ministers will make keynote speeches at the conference which will provide the main focus for discussions on trade and investment matters. Lord Young will co-chair the conference with his Australian counterpart, Senator Button, and a number of business leaders from both countries including Sir Ralph Robins of Rolls-Royce and Richard Branson of the Virgin Group will be taking part in the various presentations which are planned.
- 3 Each country has invited a carefully selected audience of approximately 150 participants to attend the Conference. Australian participation has been organised through the Confederation of Australian Industry and the CBI, the Australia and New Zealand Trade Advisory Committee (ANZTAC), and The Australia - British Chamber of Commerce (ABCC) have been involved in identifying the names of speakers and companies to attend from the UK.
- 4 A report on Australia-UK trade and investment has been jointly commissioned by both Governments from Coopers & Lybrand for the Conference. This will form the main basis for discussion and while its findings and conclusions break little new ground, it does confirm that numerous opportunities exist to further develop trade and investment links between the two countries. This is especially so given the access which both markets can offer to the rest of Europe and the Pacific Rim.
- 5 Australian interests in the conference are likely to centre on the industrial sectors they have already identified as priority areas eg communications and information industries, aerospace, biotechnology. Other targets include downstream mining and food processing activities, financial services, health-care and tourism. UK interests are likely to focus on the mutual benefits that can be obtained by the development of these activities through collaboration and on the opportunities for further investment.

MERGERS AND MONOPOLIES

1. Investment in the UK by Australian companies whether by direct investment in greenfield sites or by acquisition of UK companies is welcome - is part of the process of market forces operating in the UK economy and increases competition.
2. Merger control provisions are not operated in a protectionist way. The nationality of a bidder is not in itself a factor in mergers policy.
3. References to the Monopolies and Mergers Commission are made primarily on competition grounds - this has been expressed clearly and often.
4. Of some 13 acquisitions by Australian companies in the UK in the last 3 years qualifying for investigation by the MMC only 3 have been blocked.
5. Reference may exceptionally be made to the MMC on other grounds - which can include protecting strategic interests and many include very high leveraging where this is a threat to the public interest.

BACKGROUND

VISIT TO BRITAIN BY THE PRIME MINISTER OF AUSTRALIA: 20-24 JUNE 1989

UK STRATEGIC AND DEFENCE INTERESTS

1. Australia's strategic importance to the UK lies in her support for Western security interests through her contributions to the stability and security of Asia and the South Pacific. Her role can only increase in significance as the US continues gradually to reduce its military presence. Although Britain's direct defence interests in the region will be limited after the withdrawal from Hong Kong in 1997, we will rely heavily on cooperation with Australia to make the best of the resources we can make available to meet remaining commitments (eg to the FPDA) and to make a contribution to overall Western activities in the region.

BILATERAL DEFENCE RELATIONS

2. Although close, they are necessarily of a different order from those with our NATO allies. There are frequent exchanges of personnel from all three services and joint exercises; British units often exercise in Australia; large numbers of Australians attend military training courses in the UK and around 25 senior officers (one-star rank and over) visit Australia every year.

SHIPS' VISITS/NCND

3. The last RN ships' visits to Australia were for the bicentennial celebrations in 1988, when HMS ARK ROYAL and HMS EDINBURGH were subjected to anti-nuclear demonstrations. Those incidents had implications not only for future visits but also for the effectiveness of Australia's role in the Western Alliance. The Australian Government have been highly cooperative and, with our encouragement, are taking steps to avoid a repetition. They are publicly committed to acquiring ocean-going tugs for the Royal Australian Navy so that ships' visits can be handled without trade union assistance. On the dry-docking of visiting naval ships, we shall be taking up with the Australians the question of a public formula which does not compromise our NCND policy. We expect these arrangements to be in place by the time the next naval deployment to the region takes place in 1990.

AUSTRALIAN DEFENCE POLICY

4. The 1987 White Paper, which places Australia's defence policy firmly within the framework of the Western Alliance, projects capital expenditure of over £20 billion over the next 10-15 years. This procurement programme gives the British defence industry an excellent opportunity to improve on the rather small share of the Australian defence sales market which they have achieved so far.

/AUSTRALIA

AUSTRALIA/NEW ZEALAND/US (ANZUS)

5. Provocative remarks by Mr Lange during his recent visit to the US about possible New Zealand withdrawal from ANZUS have focussed renewed attention on the 5 year old dispute between New Zealand and the US. The dispute led in 1985 to the breaking off by the US of military cooperation with New Zealand and later to the suspension of its security commitment under the ANZUS treaty.

6. The New Zealand Government is advocating defence cooperation with Australia, despite differences over the nuclear issue. A key question is whether New Zealand will replace its four ageing frigates under a joint Australia/New Zealand (ANZAC) programme, despite fierce domestic opposition.

Defence Department
12 June 1989

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