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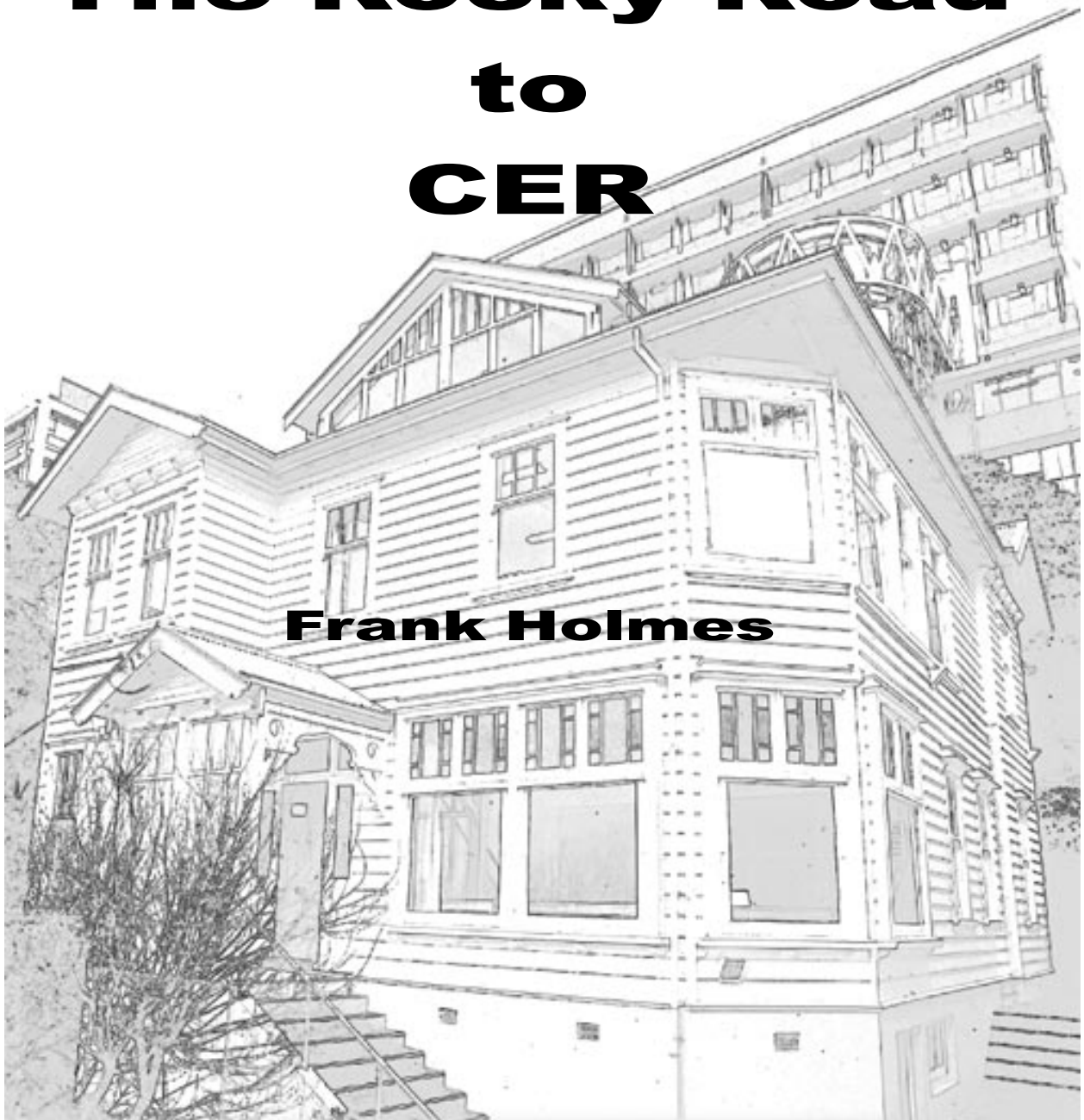
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The Rocky Road to CER

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The Rocky Road to CER

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Abstract

This paper is a history of discussions, debates and arrangements leading up to the Australia New Zealand Closer Economic Relationship (CER), which was launched 20 years ago. While a large volume to celebrate the anniversary has been published by the Australian and New Zealand governments, in fact the events covered by this official publication were preceded by another 20 years or so of negotiations, debates and discussions, some unofficial and some official, on both sides of the Tasman. While the author of this policy paper was never an official negotiator, he was a major driving force behind the arguments for a regional free trade area, and this account of what led up to CER has not only historical validity and depth of detail but also personal acuity and insight.

Introduction

Twenty years ago, on 1 January 1983, the Australia New Zealand Closer Economic Relations Trade Agreement (CER for short) was launched. To celebrate the anniversary, the Australian Department of Foreign Affairs and Trade, collaborating with New Zealand's Ministry of Foreign Affairs and Trade, has published a 746-page volume. It contains selected documents from ministers, officials and others engaged in the difficult negotiations that took place over a five-year period preceding the inception of the agreement.

The earliest document selected is one from the Ministry in Wellington to the New Zealand High Commission in Canberra on 2 September 1977. The road to CER was much longer than that. The New Zealand Australia Free Trade Agreement (NAFTA),

a very limited free trade agreement, came into effect in 1966. This in turn had been preceded by considerable debate on the pros and cons of freer trade across the Tasman among politicians, business people and academics, especially in New Zealand. Without NAFTA, there would probably have been no CER.

My interest in the possibility of freeing trade between Australia and New Zealand was stimulated by a year's study at Chatham House in Britain in 1957. My topic was the implications for Britain, New Zealand and the Commonwealth of the Rome Treaty to establish a European Economic Community being negotiated that year. It was useful to be able to cooperate in work on the issues with Henry Lang, then Economic Counsellor at the New Zealand High Commission, and colleagues from Industries and Commerce and Customs there. I was already concerned about the debilitating effects on Britain of the Second World War and the growth of subsidisation of agriculture there. I could foresee an increase in pressures for Britain to join the Community that the six original EEC members were establishing.¹ This increased my concern about New Zealand's dependence on the British market for our narrow range of pastoral exports.

I began to argue publicly that arguments that had induced the Western Europeans and Latin Americans to take regional free trade arrangements seriously were highly relevant to the problems with which Australia and New Zealand were likely to be confronted.

I was never an official negotiator. My first postwar job in the Prime Minister's and External Affairs Department and my teaching responsibilities at the University, especially in public economics for the Diploma of Public Administration, meant that I knew well many of the officials who participated in the negotiations. These included old colleagues in External Affairs who worked on Australian affairs in Wellington or were posted to work in our High Commission and consulates in Australia. My links with the leaders of the Treasury, then leading negotiations through chairmanship of the Officials Economic Committee, were also helpful to my research and other activities. Industries and Commerce (later Trade and Industry) had the closest interaction with

the manufacturers. Debates on strategy and tactics with their participants in the negotiations played an important part in the development of my own thinking on the issues and how best to deal with them.

I hope that these reflections on my own involvement in the discussions and debates that led to CER will provoke some of the officials now in a position to do so to respond and to tell their part of what is a fascinating story.

From the time I returned from Britain early in 1958, I was speaking and writing frequently about our relationship with Australia in a variety of activities in which I was involved. These included the early publications of the New Zealand Institute of Economic Research and the New Zealand Association of Economists. The issues were debated often at the meetings of the Economic Society of Australia and New Zealand, especially in its lively Wellington branch. I raised them in my presidential address in 1967 to the Economic Section of the Australia New Zealand Association for the Advancement of Science (ANZAAS). They featured in several of the continuing education and Pacific cooperation links that I was establishing with universities, research institutes and financial institutions in Australia. In the process, I got to know several of the Australian officials and others whose continued positive interest was so important in eventually achieving a successful outcome.

The case for freeing trade with Australia was an important aspect of the policy issues featured by two advisory agencies established by the New Zealand Government, of which I was made chairman, the Monetary and Economic Council and the New Zealand Planning Council. I became heavily involved in the manufacturing politics of the issues when I worked for a period as a senior executive of the Tasman Pulp and Paper Company, which was one of the leading forest products enterprises involved in the debate.

My various publications and speeches on the issues from the late 1950s until 1983 are a useful reminder of the rocky road that had to be travelled before the CER arrangements were consummated. At a small private dinner held in Wellington to celebrate the twentieth anniversary of CER, the leading Australian negotiator, Doug Anthony, was kind enough to recognise that my activities during this period had

proved useful to him in sustaining Australian government interest in bringing the negotiations to a successful conclusion.

Why Consider Free Trade with Australia?

At first, it was difficult to provoke interest in the private sector and the academic community in the possibilities of freeing trade across the Tasman. Some officials were interested, but others, reflecting the general attitudes in the manufacturing sector in particular, were hostile. The older Sir James Fletcher was among a small number of industrialists in the late 1950s who favoured the idea of a form of economic union between Australia and New Zealand as a reaction to the UK's expected association with the EEC.²

While interest in free trade was small, there was some interest in improving opportunities in one another's markets. Trade missions were exchanged between Australian and New Zealand business people in the late 1950s. Discussions between the two governments, focused on possible newsprint and other forest products development, led to the establishment in 1961 of an Australian/New Zealand Consultative Committee on Trade.

NZIER Discussion Paper No. 1

My arguments for taking freer trade seriously were summed up in the first discussion paper issued by the recently created New Zealand Institute of Economic Research in 1961.³ I pointed out that New Zealand's rate of growth had been one of the slowest in the world in the previous decade. The economy remained extremely dependent upon a narrow range of export products, subject to wide fluctuations in price. Agricultural protectionism in overseas countries clouded prospects for several products. Government policy had promoted industrialisation behind the wall of protection, so that New Zealand might make at home some products previously imported. Far from reducing the vulnerability of the economy, industrialisation had so far merely created a new kind of vulnerability.

The range of New Zealand export products had scarcely changed. Its imports were in the main now 'essential' consumers' goods and materials or equipment for its industries and services. Consequently, if exports

fell, the country was quickly in danger of a contraction of economic activity and the emergence of unemployment due to lack of imported supplies, unless there were adequate reserves of overseas exchange or the country was able and willing to borrow.

New Zealand's ability to maintain employment and improve living standards of what was then a rapidly growing population continued to depend heavily on its ability to maintain an adequate increase in the volume of exports or of the production of efficient domestic substitutes for goods previously imported. New Zealand's dilemma was that the more the process of import substitution was pushed, behind the wall of protection, and within the confines of a relatively small market, the greater were the attendant difficulties. It was more likely to prejudice the development of its existing export industries, and of its industries and services generally, by raising their production costs. It would be driven to attempt to produce at home more capital goods, intermediate products such as chemical and petrochemical products, and components for durable consumer goods. For those products, because of their technical complexity, the size of the market was a most important condition of productivity.

Faced with a similar problem, the Economic Commission for Latin America had come to an uncomfortable conclusion:

The continued development of production in watertight compartments [i.e. within the confines of the individual national markets] will steadily widen the gap between the yield on the new capital investment necessitated by the march of industrialisation and the results obtained in great industrial centres with broader markets at their disposal.

Australia had also adopted protectionist policies. These were based mainly on relatively high tariffs rather than the quantitative restrictions that New Zealand had elected to retain through its import licensing system. Australia faced less pressing but similar difficulties to New Zealand's.

The purpose of the paper I wrote for the Institute was not to suggest how New Zealand might narrow the large trade deficit between New Zealand and Australia, which

seemed to preoccupy most of those who bothered to discuss trans-Tasman trade. Rather it was to examine possible changes in the trade policies of the two countries that might improve the efficiency of their economies, speed up their rates of growth and improve the standards of living of their growing populations.

Despite the high-sounding objectives of the Canberra Pact of 1944, there had till then been little real effort to work closely together in matters of economic development and trans-Tasman trade. Margins of preference were tending to decline. Protective duties and restrictions, and fears that protection might at any time be increased hampered trade.

I suggested that free trade between Australia New Zealand could stimulate efficiency through increased specialisation, economies of scale and increased competition among producers.

I recognised that there could be some diversion of imports to more costly Australian sources. Competition could require changes in the existing structure of industry and farming. However, the short-term costs involved were unlikely to be high. The barriers could be eliminated gradually, overseas investment would be stimulated by greater efficiency and the capacity of New Zealand to export to Australia would be increased. I therefore suggested that there was a prima facie case for increased specialisation and exchange between Australia and New Zealand. A partial test could take the form of freeing trade in some groups of products in the first instance.

The Views of the Monetary and Economic Council

My colleagues in the Monetary and Economic Council, established as an 'economic watchdog' in 1961, supported this argument. In our first major report,⁴ we wrote:

The Council believes that the Government should explore the possibilities of gradually establishing a free trade area or Customs union with Australia ... The opportunities offered by specialisation to satisfy the requirements of a larger market, unimpeded by duties and restrictions, could result in the long-run in more rapid growth and more efficient allocation of resources in both countries to their mutual benefit.

The governments should ensure that the free trade arrangement included the major products of interest to each partner, and cooperate in policies designed to maintain full employment and balanced development throughout the two countries.

The Council stressed that closer economic union with Australia by itself would not solve the problems of industrial development in New Zealand. Effective planning and macroeconomic policies were vital to provide a stable and expanding market within which efficient industries could plan their growth.

The government could and should also help through taxation changes, education and research services, and the provision of efficient basic facilities, such as power and transport.

The next element of the Council's report was swimming against the tide of current political and industrial opinion. It suggested that it was vitally important to ensure a reasonable degree of competition. Without that, the spur to reduce costs and improve productive methods was severely blunted, not only in secondary industry but in all sections of the economy.

A reasonably competitive market implied that domestic industry should not be excessively protected against competition from overseas. In other words, a policy of gradually freeing trade with Australia should be seen as a stepping stone to lower protection generally. Government should certainly use the tariff to support industries which were reasonably assured of becoming competitive as they grew in size in an expanding market, but which were initially handicapped by temporary obstacles or superficial preferences for imported products. But it should not shelter very high cost industries behind a wall of import control, except in very special circumstances. This was not only unfair to domestic consumers but also resulted in the absorption of labour, capital and other resources which could be more fruitfully employed in other lines of activity.

Government could still accord the degree of protection it considered desirable to domestic industries against imports from sources other than Australia. The advantage would be that it would expose our industries to greater competition from across the Tasman while at the same time permitting those industries to compete more freely on Australia's wider market. This would require rationalisation in some sections of New Zealand

industry. This might often result in the creation of larger productive units. The Council considered that adjustments of this kind were highly desirable:

Competition between small high-cost producers, whose share of the market is largely determined by the allocation of import licences and who require excessive protection from imports, has little economic value.

Free trade with Australia should help enable our industries to compete without the need for high protection.

The Political Scene Pre-NAFTA

Swimming against the tide is an uncomfortable occupation. There was very little political support for such ideas in either of the major parties. The ideas appealed to John Marshall as a long-term vision that the two countries should ultimately seek to achieve. He had to face the political reality that the manufacturing community was almost entirely hostile. Their hostility was not offset by significant support from farmers or other sections of the business community.

Officials were also divided. Bill Sutch and others at the Industries and Commerce Department favoured continued high protection of domestic industry through import licensing. I remember my first face-to-face meeting with Dr Sutch, shortly after I became Macarthy Professor of Economics at Victoria University in 1959. He treated me to a scathing criticism of the ministers and the officials in other departments with whom he had to deal as Secretary of Industries and Commerce.⁵ I was not surprised to learn later that John Marshall had insisted that he should not continue to be involved in negotiations on the possibility of freeing trade with Australia. Jim Moriarty, a former Treasury official who had become Assistant Secretary of Industries and Commerce in 1958, and would replace Sutch as Secretary in 1965, thereafter played an important role in the developing relationship with Australia.

Sutch's views on protection and import licensing, which we shall consider more fully later, remained important, sometimes as a minority opinion, in the advice of the Officials Economic Committee to the Cabinet Economic Committee until 1965. They remained influential well beyond that with the majority of

manufacturers, and through them, in the political attitudes of both National and Labour members of Parliament.

National governments were in office for all but three years from 1960 until 1984, that is for the period covered by the negotiations leading up to CER. Although their political platforms promised more scope for private enterprise and competition, they were very cautious in moving towards lower protection and support for domestic industries.

An increasing number of officials in Foreign Affairs and the Treasury held similar views to those of the Monetary and Economic Council. This was reflected in their advice to successive administrations on the need for a significant change in New Zealand's protection policy.⁶ Many could see gradual freeing of trade across the Tasman as a useful stepping stone towards that objective.

In Australia, the Minister of Trade, John (Black Jack) McEwen, a rather protectionist Country Party leader, was among the most sympathetic towards the idea of a regional association. He believed it was a strategic necessity for Australia to help bolster the strength of what he saw as an ailing New Zealand economy. The close, friendly relationship that he established with John (Gentleman Jack) Marshall, from their first meeting at the Consultative Committee on Trade in February 1961, would play an important part in getting NAFTA off the ground. Political and official momentum began to gather in favour of some form of trans-Tasman trade agreement. But it took over four years of consultation, discussion and debate to get agreement on NAFTA.

Negotiations Leading to NAFTA

I wrote an article early in 1965⁷ based on interviews with Marshall and a variety Australian and New Zealand officials and business people. I noted that the Ministerial Meeting of the Australia-New Zealand Consultative Committee on Trade in April 1963 had initiated a study of measures that might be adopted to expand trade between the two countries and check the trend towards a widening trade gap. In April 1964, an officials committee from both countries had presented ministers with a report on the possibilities of freeing trade in forest products and a number of other items. The Australians had insisted that it had to cover more than the

'Forest Products Community' that New Zealand had originally proposed.

It seemed to have been accepted from the start that a comprehensive free trade area was not then practicable, particularly in regard to 'sensitive' commodities. 'Sensitive' industries were those that enjoyed substantial protection or were deemed likely to require protection in the national interest. Most of the commodities accepted for study already entered the importing country free of duty.

The very cautious approach to what products should be included had been supplemented by great care in providing safeguards against serious injury to industries whose products were included. Despite such safeguards, the New Zealand government had felt it desirable before proceeding further to engage in a prolonged series of discussions with manufacturers. That was the main reason why further progress had not been made. Many important problems had been left unresolved or partially resolved. The main ones were the extent of the list of commodities to be included; the provisions to be made for extension of free trade treatment to commodities not originally included; and, most particularly, what obligations each partner should undertake in relation to quantitative import restrictions.

GATT obligations were given scant attention. Our negotiators were inclined to emphasise the extent to which the benefits that exporters of temperate foodstuffs might have expected from GATT had been frustrated by the protective barriers of industrial countries. They seemed to believe that they could expect sympathy both on this ground and on the ground of differences in the degree of industrial development between Australia and New Zealand and the large imbalance of trade between the two countries.

They were partially right. I had been surprised how much sympathy there was for this last line of argument by several people to whom I had spoken in Australia. It seemed to be accepted there that the agreement had to make a contribution to redressing the adverse balance of trade and to avoid prejudicing New Zealand's industrial development programme.

The Australians hoped that as many goods as possible would be freed from import controls. But many of them had been prepared to accept that it would not be practicable to allow unrestricted as well as duty-free

entry to all scheduled goods from Australia. They were unlikely to press for provisions that threatened to undermine the effectiveness of controls applied, consistent with our international obligations, to protect the balance of payments. The basis existed for a certainly limited, but worthwhile, arrangement between the two countries that would contribute to New Zealand's primary objective of strengthening the competitive position of the forest products industries.

I thought that the Australians were also ready to consider very seriously an extension of the free trade schedule to include other products of interest to New Zealand exporters. These could include frozen foods, aluminium, carpets and chinaware, and even lamb and pigmeats, as part of an endeavour to bring the initial commodity coverage up to a more acceptable level. It seemed that the 'price' to be paid for such extension would not be set too high.

The New Zealand government remained very sensitive to the negative, and sometimes hostile, attitude that many manufacturers, and their trade associations, had taken to the proposals being discussed. The extent of their concern was surprising, given that the proposals were limited in coverage, excluded all the most sensitive industries, and were full of safeguards both for existing industries and for New Zealand's future industrial development.

The Australians were assuming that this was the beginning, not the end of the road to more positive cooperation. They thought such cooperation was increasingly important on political and strategic, as well as economic, grounds. Most Australians were much more aware than most New Zealanders of dangers looming to the north and of relative strategic isolation. Like John McEwen, they saw positive cooperation by the two countries to build up their military and economic strength as an increasingly important objective.

The continued reduction of barriers to trade was only one of the requirements for achieving such an objective. I contended that one major objective was more positive action by the New Zealand government to improve the competitive position of New Zealand manufacturing:

Anyone observing the course of the free trade negotiations must surely be deeply concerned at how few New Zealand manufacturers are

positively interested in gaining freer access to the market and how many are pathologically afraid of the possibility, however remote, of more active competition from Australia. If, as we hope, New Zealand manufacturing is to make a positive contribution to exchange-earning as well as to exchange-saving, this is a situation which calls for urgent remedy.⁸

While the remedy was mainly in our own hands, more cooperation with Australia over a wide front could assist greatly in applying it. I hoped that "unreasonable fears and suspicions by some New Zealand manufacturers" would not be allowed to prejudice the possibility of constructive developments along those lines.

Comments on the Outcome of the NAFTA Negotiations

The editorial in the *New Zealand Economist and Taxpayer* on 1 September 1965 was headed 'More Cheers for Mr Marshall'. At the time, Bryan Philpott, Norman Macbeth and I were shareholder/directors of this journal. We assisted in dealing with its somewhat precarious financial position by writing articles, contributing to a monthly column under the name Tancredo, or assisting with editorials, with payment in shares. I believe that I had a large part in preparing this editorial.

John Marshall had made a statement to Parliament on the results of his negotiations with John McEwen in July 1965 to complete NAFTA. The editorial suggested that he had come back with a very satisfactory answer to those who had cast doubt on his capacity to negotiate with the Australians.

The Australians had agreed to include not only almost all forest products but also lamb and cheese (subject to quota). Frozen and dried vegetables were also included. The statement indicated that, right to the end, consultations had continued with New Zealand manufacturers. After a discussion by Marshall with the Federation on 19 August, New Zealand had been permitted to withdraw from the schedule items which "could have been damaging to New Zealand industries". The right to impose import controls had been retained along with the normal safeguards against dumping and

subsidised exporting. Withdrawal of scheduled items was permitted if that was deemed necessary in the interests of economic development or to prevent serious injury to producers.

It was significant that the manufacturers' officials should say that "the agreement negotiated by Mr Marshall is better than we had hoped and not as bad as we had feared". For his part, John Marshall thanked the manufacturers for helping him to negotiate such a favourable arrangement by being "so unreasonable, pig-headed and obstructive".⁹

The main disadvantages of the agreement stemmed from the caution of the governments. "The agreement could be made meaningless if the two governments were to resort to these safeguards indiscriminately." The governments should recognise that, when competition from across the Tasman began to 'bite', this, along with the increasing opportunities to export, was one of the positive merits of the agreement. It should increase the pressure on domestic industry to improve its efficiency and hold down its cost of production.

Government should not ignore the complaints of industries that encountered difficulties. It should examine very seriously the possibility of removing any disadvantages arising from differences in company tax, subsidisation of transport costs, availability of materials and equipment because of import licensing, and so on.

The editorial was disappointed that so little had been said of exploring the possibilities of carrying cooperation further. The establishment of a joint consultative council on forest products was worthwhile. However, it would have been better if the governments had established a joint secretariat responsible for reporting on what further extensions might be made to the mutual advantage of both countries. These included arrangements for joint action on defence, foreign aid, defence supplies, tourism, transport, marketing and the raising of capital for development, for example, to help both countries to make the best use of their resources. Such an institution would have served as an indication to other members of GATT that the parties were serious in the aim of carrying integration as far as it was mutually beneficial to do so.

I was able to summarise the outcome of the NAFTA negotiations concluded on 31 August 1965 in discussion paper No. 10 of the Institute of Economic Research.¹⁰ The analysis indicated that New Zealand had gained a

good deal more than she had conceded, at least in the short run. Australia had not gained much immediate improvement in access to the New Zealand market, but rather the consolidation, with slight improvements, of the present position. The prospect of further progress was not at all clearly defined and depended on regular reviews of the agreement and how New Zealand administered the import licensing regulations.

The fears of adverse effects expressed by certain New Zealand groups had proved to be grossly overstated. In the short run at least, New Zealand manufacturers had not been exposed to any significant increase in competition from Australia. Abundant safeguards had been provided to offset any effects deemed to be contrary to the national interest. The Australians had obviously accepted that sensitivity to the manufacturers' fears was politically important in New Zealand.

Nevertheless I accepted that, if one viewed the arrangements as the beginning of a road of cooperative action to further the development of the two countries, it could be regarded as a document of considerable political and economic significance.

I summed up the prevailing political atmosphere in a later article in the following terms:

It was somewhat surprising, politically, that a New Zealand Government should enter into an arrangement like NAFTA in 1966. There was no significant pressure group advocating such a development, only a few economists and industrialists, and the Monetary and Economic Council. The Labour movement and most manufacturers were positively hostile, even to the extremely cautious Agreement which emerged. By accepting the Agreement, each Government made a partial acknowledgement that cooperation and mutual reduction of trade barriers might be more fruitful than pursuing development behind separate walls of protection. Sensitive to the pressures of interests enjoying high protection in their economies, however, each Government clearly preferred to adopt a pragmatic, ad hoc approach to achieving the objectives. The initial list of products – Schedule A – to be exposed to free trade was severely limited, and hedged around

with numerous safeguard clauses. Important New Zealand rural exports, such as cheese and lamb, were made subject to quota, and important Australian manufactured exports, like motor vehicles and iron and steel, were excluded. There was no plan or timetable for additions to be made to the list.¹¹

The Academic Debate

In the latter part of the 1967 discussion paper, I discussed the major fear of many in New Zealand that the benefit of completely free trade would accrue almost entirely to Australia. That fear had been stimulated by publications of the Canterbury University economist, Wolfgang Rosenberg, and by Dr Sutch. They were both strong supporters of the retention of protection by import licensing. They rightly saw the freeing of trade across the Tasman as a threat to its continuation.

Sutch advocated the development of secondary industry as a counter to 'colonial dependence', as a means of dealing with an intractable deficit in the balance of payments, and to ensure employment for a growing work force. Ideologically he found dependence on Britain demeaning, even at an earlier time when it enabled the country to sustain the third highest standard of living in the world.

In the 1960s, we shared the view that New Zealand could not continue to rely so heavily on the narrow basis of pastoral exports to Britain. I agreed with most of what he had to say about the need to improve education, the arts, industrial design, town planning and infrastructure in New Zealand. We both wanted to see the development of a wider range of industries that could both export and make efficiently in New Zealand things that we would otherwise have to import. Where we differed was on the best means of encouraging such development.

Bill Sutch believed strongly in selective, administrative regulation of imports as a basis for planning the necessary restructuring. Wolfgang Rosenberg shared most of his views. He put additional emphasis on the need for administrative restrictions to prevent the excessive importing that he believed full employment in New Zealand must necessarily entail.

I favoured a more market-oriented approach to the support of industry in the restructuring process. I regarded import licensing as inefficient and ineffective, both in

curbing total imports and allocating the available overseas exchange to best effect. I also believed the gradual exposure of New Zealand manufacturing to greater competition, in the context of a regional arrangement with Australia, would facilitate the development of its capacity to compete more widely. An attack on excessive protection through import licensing was an essential element of the economic reforms I believed the country required.

Particularly during the period when NAFTA was being negotiated, similar debates were occurring among officials in the government, notably between Industries and Commerce on the one hand and the Treasury and External Affairs on the other. Although the differences became less pronounced after Sutch left in 1965, Industries and Commerce continued to reflect more closely the views of the manufacturing industry in favour of continued administrative protection. In doing so, they were of course implementing decisions by successive governments to retain import licensing. They were also reflecting the general attitudes of the ministers who were appointed to that portfolio, such as Warren Freer in the Labour government and Lance Adams-Schneider in the Muldoon administration.

In 1973, with the economy riding high, and the Labour government beginning to take a more liberal attitude towards importing, Henry Lang, as Secretary to Treasury, spoke out more strongly than was normal for a government official on what he saw as appropriate policies for growth and structural change. This reflected the directions which thinking about trade with Australia had taken in the Treasury and in External Affairs throughout the 1960s:

We should be more consciously aiming to create an open, adaptable economy, based on natural advantages and talents. We are some distance from that objective at the present time. Despite great advances in exports of manufactured goods over recent years, many of our industries are still micro-copies of the industries of the large industrial countries in both structure and techniques. That is a direct result of excessive protection and is in my view inappropriate to New Zealand conditions. We have much still to do to shape our industrial

sector to our own individual strengths. I believe that a pre-requisite to the fulfilment of our foreign policy goals, is the implementation of effective innovative industrial policies, embracing market research, technology, fiscal incentives, tariff reforms, adjustment assistance for firms and industries, and active labour market policy ...

As a broad objective of foreign and economic policy, promoting both growth and independence, this prescription will meet with little quarrel. However, when it comes to the question of methods and some of the basic implications, such as the pattern of employment, then the voices of dissent will certainly be heard. There are those who believe that we need high and continuous protection for industrial development and the maintenance of full employment. Many people who hold such views are also opposed to a more open economy generally, to membership of multinational organisations and foreign investment. In essence they believe the right policy for us is a kind of 'Fortress New Zealand'. And this best fits our national aspirations. While such a policy is tenable it is inconsistent with the kind of foreign policy I have discussed earlier, and is also inconsistent with reasonable economic growth.

I believe that the fears expressed by some manufacturers and trade unions at the prospect of the move towards a more open economy are exaggerated and underestimate the basic strengths of large sections of our industry.¹²

Opponents of freeing trade in an orthodox manner found some support from a Hungarian economist who had emigrated to New Zealand to work at NZIER, Peter Elkan.¹³ Peter was strongly in favour of more extensive freeing of trade with Australia than had been arranged up till then, but he argued that the freeing should take place in the context of what he called a "customs drawback union".

He had an ingenious scheme designed to ensure that reciprocity would be achieved in each of a number of categories into which items traded between the two countries would be classified. He described his scheme

as "balanced free trade in compartments". This would be designed to eliminate New Zealand's trade deficit with Australia. He claimed that it would raise the volume of trade between the two countries but prevent undesirable types of international specialisation. By this he meant any contraction of the New Zealand manufacturing sector, and the "polarisation" of industrial activity in "nodal centres" like Sydney and Melbourne.

I argued that New Zealand would not enter any free trade arrangement as an irrevocably poor, underdeveloped rural region. It already had a high per capita income, giving it great capacity for saving and investment. It had a wide range of growing manufacturing enterprises already in existence, with scope for considerable improvements in productivity, especially if they had access to a wide market. It had a skilled labour force, whose skills could be further improved by development of its education and extension services. Moreover, New Zealand would retain its own government, which could give and would be induced by the agreement to give considerable assistance to industry by methods which would have more positive effects than protection in helping industry to improve its efficiency. These points suggested that the fears of the effects of freeing trade between the two countries were overstated.

So long as each country could sustain a satisfactory rate of development and employment and reasonable balance of payments overall, there seemed no economic justification for aiming at balance of trade between Australia and New Zealand. Both of them would continue in the foreseeable future to conduct most of their trade with other countries.

In particular, there seemed no justification for aiming at balance in particular categories of goods. One of the countries might be quite unsuited to produce some of such goods, not only now but also in foreseeable future circumstances. On the other hand, it might have and be likely to retain a substantial comparative advantage in producing other types of goods. The customs drawback scheme would involve undesirable elements of rigidity in this respect. It would also introduce complications and uncertainties into trading relationships that it would be better to avoid.

For those reasons, I suggested that if Mr Elkan's scheme was used, it should be as a basis to help foster

rationalisation in a few selected industries, for example, floor coverings, footwear or motor vehicle components. It should not be the fundamental basis for the freeing of trade between the two countries.

New Zealand needed to consider very seriously whether the negative and restrictive attitude which was generally taken in the country to freeing trade with Australia was really in the country's own interests. It was based on the Sutch and Rosenberg assumption that heavy protection was a major prerequisite for adequate industrial development and full employment. We needed an increasing contribution from manufacturers to earning extra overseas exchange required for equipment, materials and essential consumers goods that could not economically be made in New Zealand. But if a significant number of industries could not be developed over a period of years to the point where they could hold their own in free competition with Australian manufacturers, what hope was there that they would earn increasing supplies of overseas exchange for the country? What hope was there that they would be able to sell over a tariff wall in Australia, let alone in competition with Australian and other manufacturers in alternative markets? What hope was there that they would be able to meet this country's requirements at reasonable costs and prices?

The review by Professor McDougall explored in considerable technical detail Peter Elkan's arguments and reached similar conclusions to my own.¹⁴ He also shared my concerns about the gradual approach to integration taken by the governments. McDougall emphasised the need for much more work than I had done on intensive industry studies to assess both the type and extent of potential scale economies in different industries and the reasons for differences in productivity among them. He generally agreed with my analysis and policy recommendations.

We both considered that New Zealand's currency was pegged at an unduly high level at the time and would need to be devalued as a precondition for any extensive freeing of trade. (This happened not too long afterwards in 1967.)

Not many Australian academics became involved in the debate on NAFTA. A significant exception was my former student and colleague, attracted away to a very desirable post at ANU, Peter Lloyd.¹⁵ He was making an international reputation for his work on trade and trade

policy. We differed to some extent on tactics and on how much 'harmonisation' of policy was needed. But his views on the desirability of integration between the two countries were generally similar to mine.

Tasman and Manufacturing Politics

In September 1967, I surprised friends and colleagues by resigning my chair at VUW to become Economics Manager of the Tasman Pulp and Paper Company in Kawerau. On about the same day as I arrived, the Managing Director of the company, Geoff Schmitt, gave notice that he would resign at the end of the year. Geoff had head-hunted me to assist his management team to carry forward ambitious plans to undertake a major expansion at Tasman which would produce linerboard for the Australia-New Zealand market. He was relying heavily on being permitted, indeed encouraged, to take advantage of the provisions of NAFTA, by competing without any official impediment for the available business in that segment of the market.

Schmitt had played an important part, working with New Zealand officials, such as Jim Moriarty of Industries and Commerce and Lindsay Poole of the Forest Service, and Alan Westerman, a leading trade official in Australia, in encouraging and assisting the two governments to make the agreement. One of the accepted major aims was to enable New Zealand to improve its economy and balance of payments by developing exports of forest products.

Geoff Schmitt completed a memoir before he died in 2003 of his experiences in the early years of Tasman.¹⁶ He published this privately and restricted its circulation to a few people on the understanding that it would not be made available more widely until after his death. The memoir contains a fascinating account of the tortuous negotiations involved in getting NAFTA off the ground. Tasman was one of the few New Zealand enterprises that had any enthusiasm for the gradual freeing of trade with Australia. Even in forest products, the largest company, NZ Forest Products, still had plant operating on a relatively small and uncompetitive scale. It therefore still relied heavily on protection against imports from Canada and Scandinavia. Its concept of forest products trade under NAFTA, at least in the short term, was 'free trade one-way'.

Schmitt shows that Trade Minister John Marshall and New Zealand officials supported Tasman's initial proposal to expand in linerboard. It would cater for the most rapidly developing part of the Australian market for forest products. It was a more profitable means, for both the Company and New Zealand, of using the volume and type of wood available than expansion in pulp or newsprint would have been.

Political pressures on both sides of the Tasman against the linerboard proposal began to undermine Schmitt's expansion plans in 1967. Trans-Tasman ministerial meetings resulted in the companies in the forest products sector being advised to resolve their differences by consultation and cooperation, rather than to compete for the available market.

Schmitt already faced some problems arising from this philosophy. His competitive position in newsprint and pulp had not been enhanced when the Australian newspaper publishers, owners of Australian Newsprint Mills (ANM), had been invited to become shareholders of Tasman (in addition to the New Zealand Government, Fletchers, Bowaters and Reeds). He was unhappy when his chairman, no doubt responding to the governments' pressure, began to intervene in the negotiating process with APM on linerboard. He was reluctant to agree to move in the direction of a collusive agreement with APM and some form of joint holding company or merger with NZ Forest Products.

At about the same time, he was forced to defend his management team against what he considered to be an unprofessional and unfair critical report on Tasman's operations by a visiting mission. After visiting Bowaters to discuss these issues in September 1967, he felt obliged to tender his resignation.

My appointment went ahead, but in circumstances very different from those Schmitt and I had envisaged. My duties gave me insights into the workings of NAFTA, and the forces impinging on it, from a very different perspective from that of my former academic and public advisory roles.

The Tasman board did not take long to abandon the linerboard proposal. With ministers having insisted on a cooperative approach, Tasman had to make alternative plans for expansion in pulp and newsprint. One of my early duties was to be sent solo to restore diplomatic relations with the leading Australian manufacturer of

packaging materials, APM. APM had given notice of its intention to terminate its pulp contract with Tasman when it expired. It had cut back purchases to the minimum contract quantities. APM's managing director, John Wilson, made me welcome and showed readiness to cooperate in a program to take expanded volumes of New Zealand pulp.

Later with Maurie Kjar, Tasman's commercial manager, I was involved in negotiating contracts with APM and other Australian companies which would supply the bulk of the market for the pulp element of Tasman's next major expansion. I was not involved in the negotiation of the newsprint contracts, which were regarded as the preserve of Bowaters.

Ministers meeting in Canberra in April 1968 agreed Australia should accord New Zealand pulp a preferred position in the Australian market. The Australian government referred the issue to the Tariff Board. It requested the Board to recommend what tariff and/or other measures should be applied to imports of pulp from other sources to ensure that import requirements were met first by suitable pulp of New Zealand origin. A condition was that the pulp should be available on terms and conditions no less favourable than those on which pulp was available under normal trading conditions from other sources.

I was asked to lead submissions to the Tariff Board on behalf of Tasman, NZ Forest Products and Caxton. I had a strong supporting cast from the three companies. The Board recommended, and the Australian Government later agreed, that specified softwood pulps be made dutiable at a rate of 20%. However, provisions were made for by-law admission for importers to avoid this duty if New Zealand pulp was not available on suitable terms, or if the Minister was satisfied importers would voluntarily undertake to import adequate volumes from New Zealand.

One of my other responsibilities was to represent Tasman at meetings of the Auckland Manufacturers' Association (the most protectionist of the associations at the time), and at the New Zealand Manufacturers' Federation. I was normally in a small minority when issues of protection arose.

At the 1968 annual meeting of the Federation, the Canterbury Association put forward a motion that represented some weakening of the normal Federation

line on retention of import licensing. This was badly received, especially by many Auckland members. Overnight, they prevailed on Canterbury to agree to withdraw the motion. A few of us considered that the opinion of the Federation as a whole on the issue should be tested. We successfully argued that the Canterbury motion be put to the vote. This caused considerable consternation, especially as there were some doubts as to how many from each Association were entitled to vote. Once this was settled, the Auckland delegation ensured that members of their team, like Jim Doig of UEB, who were attracted to the Canterbury motion, would not be chosen as representatives for voting purposes. The motion was resoundingly lost.

I also represented Tasman at the Forestry Development Conference. I was elected chairman of the Forest Industries Working Party. The FTC became part of the broader National Development Conference held in 1969. The issue of the means of protection and support of industry, so relevant to the progress of NAFTA, became a prominent and contentious issue at the conferences.

In his Economic Review for 1969, Mr Muldoon, as Minister of Finance, summed up what he described as the highlights of the conference decisions and discussions. Among these was the following summary of resolution 209A:

Industrial policy should be aimed at encouraging the establishment and expansion of growth industries. More mature and rational criteria for industrial development and for protection of local industry need to be introduced. It was widely accepted that, over a period, the import licensing system with its built-in rigidity should be generally replaced by the more flexible instrument of tariff protection. New concepts in industrial policy including methods of tariff setting should be investigated urgently.¹⁷

The National Party decided to adopt this approach as policy for the 1972 election. The manufacturers and the unions organised a vociferous campaign against it. Leading members of the National Party considered that their adoption of this policy was one of the main reasons why they lost that election. This attitude

coloured their views on trade policy and on negotiation under NAFTA throughout the Muldoon administration elected in 1975.

NAFTA in the Early Seventies

I returned to VUW in 1970 to a new Chair of Money and Finance. I continued 'networking' on issues of trans-Tasman trade individually, through the MEC and NZPC and various continuing education activities. I also cooperated closely with Bill Scollay, John Utz and others in their efforts to establish a broadly based ANZ Businessmen's (sic) Council

In an article published in the *Bank of New South Wales Review* late in 1973, I reviewed developments under the Agreement in its first few years of operation. Exports to Australia had risen from \$NZ 35 million to \$NZ 131 million. New Zealand had doubled its share of the Australian import market.

Commenting on statistics of the development of trade across the Tasman from 1964-65 to 1972-73, the article¹⁸ noted that the proportion of New Zealand exports going to Australia still represented only about 3% of Australia's imports. Australia was supplying a rising proportion of New Zealand's import market. However, the percentage of New Zealand's imports from Australia included in Schedule A, while growing, was still less than 50%.

The percentage of Australia's imports from New Zealand in Schedule A has steadily and appreciably declined. Some improvement was expected as major new projects in the New Zealand pulp and paper industry found significant export outlets in Australia. Nevertheless, Schedule A remained relatively limited in its product coverage. Expansion of trade between the two countries owed much more to other factors than to the reduction or elimination of duties under the Agreement.

The direct contribution of the Agreement to trade expansion had been disappointing, even when one took account of special arrangements made under Article 3:7 of the Agreement. Article 3:7 arrangements usually involved duty concessions by Australia in return for provision of extra import licences by New Zealand. They had resulted in two-way trade totalling \$58 million from their inception in 1967 until March 1973. The Agreement had certainly led to much greater contact and

consultation among industrialists, traders and government officials in the two countries, from which some of the expansion of trade had flowed. It had also helped to improve the climate for cooperation in both the public and private sectors by comparison with the unfortunate bickering that often previously prevailed in trans-Tasman trading relationships. But, it said, “the ritual satisfaction expressed by governments each year after consultations under the Agreement has recently given way to recognition that the progress made in achieving the objectives of NAFTA has in fact been disturbingly slow”.¹⁹

Several factors explained the slow progress. The agreement itself left the timing of reductions in trade barriers entirely to the discretion of the governments. The philosophy underlying the Agreement that its operation should not significantly damage existing industries in either country had continued to prevail, and been rather rigidly interpreted by governments, both in nominating and accepting additions to Schedule A.

The fact that Australia imposed duties on several materials and components which New Zealand admitted duty-free, had caused resistance by Australian producers to freeing imports of finished goods in which they are embodied. So had New Zealand’s continuing resort to import licensing.

With governments relying heavily on the advice of domestic industries in what they were prepared to do, progress had rested heavily on the willingness of protected industries to expose themselves to greater competition. In an attempt to reduce this problem, there had been somewhat more nominations for inclusion by government rather than industry, especially by New Zealand’s. In 1972, the joint working party of officials had explored an industry-by-industry rather than item-by-item approach to adding goods to Schedule A. However, only a very small part of the range of goods produced by the four industries involved (glass and glassware, furniture, biscuits and bakery, and sporting goods) was included in the Schedule issued in July 1973.²⁰

I was able to report more positive attitudes to NAFTA by both the government, which by then was the Labour party under Norman Kirk, and by the Manufacturers’ Federation. Mr Kirk had dubbed the agreement an outstanding success. Fred Turnovsky, the President of

the Federation, acknowledged that New Zealand’s industrialists had generally viewed NAFTA with suspicion in its early years, but he believed that they had now “moved towards a recognition that NAFTA has a positive and dynamic role to play in the future”. However, the address²¹ in which he made this comment made it clear that he was not speaking of the kind of free trade agreement that I was advocating.

Rather he favoured a continuation of gradual negotiated progress, with industry agreement. The Federation had put forward the idea of ‘conditional listing’ on schedule A as an inducement to more manufacturers to try out exposure to more competition without irrevocably committing themselves to the concept. Apparently, they did not believe that they could rely on using the extensive safeguards already built into NAFTA. Turnovsky quoted with approval the approach agreed by the Australian and New Zealand Labour Ministers of Trade that NAFTA should be used as a basis for developing complementary use of resources and that the two countries could possibly use special measures to protect one another’s production. He saw great scope for Australia to replace the United Kingdom as a source of New Zealand imports as the latter joined the European Economic Community and preferences were phased out. The emphasis was still on voluntary cooperation between industry groups, with government encouragement and support.

Advice to adopt a timetable and schedule for a gradual approach to freeing trade in substantially all products had still not commended itself to government or industry in either country. The Minister of Overseas Trade in Australia, Dr Cairns, and New Zealand’s Minister of Trade and Industry, Mr Freer, had agreed that the activities of manufacturers on both sides of the Tasman must be coordinated through better inter-industry liaison. The manufacturers’ bodies had reacted by establishing industry panels in respect of several products to consider the basis of access to each other’s markets, complementary industrial development, cooperation and development of other markets, and problems relating to the source of raw materials.

I summed up by saying that current governmental and private attitudes seemed well-disposed towards faster progress under NAFTA than had taken place in the past. I suggested they would be even better if the

governments were prepared to show the political will to devise self-executing provisions, subject to exceptions and safeguards, which would reach the goal of freeing substantially all the trade between the NAFTA partners within a defined period of time. The article suggested the establishment of a small independent advisory agency charged with the task of advising the government and public and the two countries on measures to be taken jointly and severally to achieve NAFTA's objectives.

However, governments had not seen the need for this sort of approach. And the New Zealand Labour Government's willingness to reduce import licensing protection had evaporated as the balance of payments deficit blew out through high spending and the effects of the first oil crisis.

Hardening Australian Attitudes 1977-78

I paid a visit to Canberra on 23-24 May 1977 to have discussions with ministers, officials and academics, primarily on trans-Tasman relations.²²

Australian ministers and officials had become increasingly concerned about the current state and future prospects of Australian manufacturing industries. Growing mineral exports had driven up the value of the Australian dollar. The 'Gregory thesis' suggested that this would remain a serious problem for other export industries, notably manufacturing, in the longer term. A White Paper on manufacturing was being written on how these problems should be approached in policy. Some ministers and departments were giving serious consideration to the reintroduction of quantitative restrictions in some areas, particularly on labour-intensive manufactures such as textiles and clothing.

Bill McKinnon, then the Chairman of the Industries Assistance Commission, summed up the views of several officials I met when he said that the rapid development of manufacturing in New Zealand, specifically designed to take advantage of Australian protection in those areas, was exercising the minds of ministers and officials. There had been increasingly vocal complaints from Australian manufacturers about lower input costs enjoyed by New Zealand competitors because of the different tariff structures in New Zealand.

Several officials sympathetic to acceleration of the freeing of trade across the Tasman felt that this problem should be addressed by working towards a customs union. The negotiation of a common external tariff would be a two-way process, said one official, with some of Australia's rates on raw materials moving down to New Zealand rates and some New Zealand rates moving up to Australia's.

Pressures coming from ASEAN for improved access into the Australian market were becoming of increasing concern. In Mr McKinnon's view, most politicians had vastly overestimated the effect on the employment situation of the 25% tariff cut that the Whitlam government had made. There was a tendency for ministers to lose their nerve. "We are not really winning against the protectionists."

At a dinner meeting of the Pacific Institute in Melbourne, the Australian Prime Minister, Malcolm Fraser, was quoted by our Consul General as saying "despite our requests for restraint, New Zealand has persisted in flooding the market with directly competitive goods. Several Australian companies have been forced into bankruptcy and hundreds of people have been put out of work as a result". He went on to claim that "the New Zealanders" had taken "unfair advantage of our leniency towards them in the past. To make matters worse their idea of access for Australian goods is to reduce tariffs on one hand but to keep out our manufacturers with their quotas on the other. They have not played the game".

He suggested that "the New Zealanders got quite shocked the other day when Doug Anthony and Bob Cotton went over there and announced that we had had enough; that from now on New Zealand goods entering Australia would be subject to quotas the same as goods from anywhere else. We cannot have countries exploiting a preferred position on the Australian market but keeping Australian goods out of their own market".

Others interviewed claimed that the temporary difficulties being faced by Australia were making it very difficult for politicians to take the sorts of initiatives required in the Australia/New Zealand relationship. Nevertheless, there was a much greater recognition by ministers of the need to develop and enhance that relationship than there had been 20 years

before. I asked some officials what would be the reaction within Australia if New Zealand proposed a radical step forward in the NAFTA. Most felt that this had not been regarded as a serious prospect, but there could be merit in floating the idea, particularly within academic circles.

Some emphasised that NAFTA did not stir the attention of Australian ministers. This was simply a question of the relative importance of the agreement to each country's total economic circumstances. Most officials appreciated that the problems of Australian manufacturing were not really the result of New Zealand import penetration. As one put it, "the basic problem is that Australia has priced itself out of world markets".

The New Zealand High Commission, in a detailed paper on trends in Australian protection policy in June 1977, had emphasised indications that attitudes to New Zealand and the NAFTA in some ministerial and official quarters had hardened during the life of the current government. Ministers like Doug Anthony and Bob Cotton had made statements that reflected an apparently consistent view that Australia was not getting what it would regard as a fair deal out of NAFTA. New Zealand could not rely on appeals to our "special trading relationship" to carry all that much weight.

Yet Mr Anthony's occasional public and private references to the possibility of forming a customs union suggested that he for one still saw the Australia/New Zealand economic relationship as a key factor. There was a very good understanding of the potential benefits for Australia at senior official level. The desire of Australia and New Zealand to develop an increasingly efficient, export-oriented industrial sector had always been an underlying rationale for the NAFTA.

When the renewal of the NAFTA had come before the Australian Cabinet in 1976, it had developed enough momentum to proceed. It was therefore renewed for a further 10 years. But the New Zealand High Commission felt obliged seriously to ask whether recent political and economic developments could be leading the Australians in the direction of allowing the NAFTA to atrophy. Against this New Zealand remained Australia's main export market, indeed

almost its only major market for manufactures. Manufacturing industries with the service industries were the great employers. As the White Paper remarked, "manufacturing retains its central importance in Australia's economic structure".

Evidence to the Crawford Group 1978

I visited Canberra again in July 1978 to give evidence, as Chairman of the New Zealand Planning Council, to a Study Group on Structural Adjustment that the Australian government had established under the chairmanship of the distinguished public servant and academic, Sir John Crawford. One of its members was Bob Hawke, then President of the Australian Council of Trade Unions.

In introducing my submission to the Crawford Study Group,²³ I drew their attention to an agreement made between the Prime Ministers in March 1978 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 situation and prospects for the industries concerned in the other country. The consultative mechanisms should be established to make possible consultation between governments before decisions are taken on these questions ...

I argued that relations with New Zealand fell within the terms of reference of the Study Group, especially as New Zealand provided the largest single market for Australia's exports of manufactures. I told them that, after discussions with the Australian government, the New Zealand government had suggested to me that the Group might find it useful to receive, from a New Zealand source, a submission on Australian relationships with New Zealand.

I saw the main purpose of strengthening the bilateral relationship to be to help both countries to cope effectively with the challenges of external political and economic forces in which they had a mutual interest.

I quoted Alan & Robin Burnett on 'The Australian and New Zealand Nexus' as

... a mixture of a common heritage in the

British Empire and Commonwealth, geographic proximity in the South Pacific, a tradition of allowing movement of people between the two countries with a minimum of restriction, a close military association embodied in the word Anzac and a highly preferential trading relationship. While each country has developed a distinctive national spirit people speak with similar accents and share similar cultures.

The Planning Council saw the development of much closer relationships between Australia and New Zealand as a most important element of any strategy designed to increase our general efficiency. I suggested that similar political, strategic and economic pressures confronted New Zealand and Australia. The Council had therefore concluded that a central aim of external policy should be to give new impetus to trans-Tasman cooperation. This could extend beyond trade and defence to external marketing and tourist development, to social and cultural projects, and programmes of overseas assistance. Progress was being made towards greater integration of defence effort and interchange on policy issues of mutual interest. I registered concern at the lack of progress towards the original aims of NAFTA.

The Council had recommended that serious consideration be given to the possibility of eliminating most barriers to trade between the two countries over a period of 10 or 15 years. We had acknowledged that a list of exceptions might be necessary to deal with cases of special difficulty on each side, but contended that such a list should be small.

The suggestion for close cooperation and freer trade across the Tasman was not put forward as a means of insulating the countries from the rest of the world. Our philosophy was in tune with that expressed by Sir John Crawford in a recent lecture. He had noted how protectionist both Australia and New Zealand had been in respect of finished manufactured goods. He had drawn attention to the interactions between high protection and inflation. He had commented that the brave new world of the post-war era ushered in by GATT, IMF and other ventures in international cooperation was under great stress.

Sir John had recognised that economic conditions in Australia, particularly high inflation and high

unemployment, were making it difficult to respond adequately. He saw this as no excuse for evading the issue of restructuring the Australian economy. There needed to be considerable change in the structure of industries and away from highly protective import substitution policies. The compass was set for freer trade. Australia would need a gyroscope to steady the path as many cross currents, even gale force winds, beset the course.

I said that similar comments applied to New Zealand. A bold move to freeing trade across the Tasman would be an important element in the changed approaches that both countries needed for their future development.

The trade relationships between the two countries were set on an unfortunate course which could well lead to the atrophy of the agreement or even to its breakdown through recriminations and retaliations. This was reflected in the outcome of negotiations on possible additions to the schedules of the agreement, which I listed as follows:

11th review (1975)

Carpet (wool) *with quota* (NZ only
importers facing quota)
doorbells and gongs, non-electric, of
base metal
poultry brooders
ring-type grinders of type used in
laboratories
cast-iron vee pullies
bowls (lawn and indoor)

12th review

socket-head screws
horseshoes in high carbon steel
air, gas or steam silencers
(for industrial purposes)

13th review (1.7.76)

meat extract preparations in solid forms
(e.g. Oxo)
heraldic badges and crests (polyester)
photomechanical process plates (*not*
aluminium grained and anodised, and
not further worked) for use as
lithographic printing plates

14th and 15th reviews – no additions

16th review (1.1.78)

phenolic formaldehyde foam (as used by florists for fixing arrangements)
vinyl floor coverings (long-term nomination by New Zealand)
golf bags
travellers' cheques
terracotta roof tiles
malleable cast-iron pipe fittings
cable climber winches
fire engines and fire escapes.

Somewhat embarrassed by the slow progress with additions to schedule A, the governments had conceived in 1973 the idea of adding new schedules B,C and D. These would permit the freeing of trade in agreed products subject to safeguards by quotas or other arrangements against unrestricted competition. Schedules C and D had not been used. Only furniture and certain types of luggage had been brought in under schedule B. The slow progress reflected the continuing great sensitivity of governments on both sides of the Tasman to any opposition to freeing of trade by interest groups concerned about potential competition.

Despite this relatively limited progress in reducing restrictions, trans-Tasman trade had multiplied six times since NAFTA had come into effect. New Zealand's exports had increased ten-fold, so that the balance of trade in Australia's favour had been reduced from about 3.6:1 to 1.8:1. The trading arrangements and the stimulus they had provided to greater interaction had played a part in the expansion. But other factors had been more important, such as exchange variations and the changing absolute and relative economic conditions in the two countries.

These changing conditions, especially in Australia as the competitive position of significant sections of Australian manufacturing had diminished, had led to a resurgence of protection. This had included restrictions on imports from New Zealand, which frustrated gains that New Zealand exporters had expected to make on the Australian market. Similar frustration had, of course, been felt by many potential Australian exporters to New

Zealand who had been confronted by import licensing throughout the currency of the agreement.

There were encouraging signs that senior New Zealand ministers, particularly the Deputy Prime Minister, Brian Talboys, who had recently had a meeting with Australian Prime Minister Malcolm Fraser at Nareen, wanted faster progress towards the liberalisation of trade and closer relationships. It was encouraging also that New Zealand's Prime Minister Rob Muldoon had said that comments in the Planning Council's reports on New Zealand's relationship with Australia were, "in general, soundly based". "There is no doubt", he had said, "that the future of our two countries lies together if only because of our geography and this will remain true as we develop ethnically in different directions. If however we are to diminish trade barriers between the two countries we shall have to go into that exercise without too many reservations".

Both governments seemed to be arguing that not much progress could be expected because of serious short-term problems. I expressed the personal opinion, based on long experience, that if we carried on in that way, it was unlikely that governments would ever find the circumstances right for significant movement for the freeing of trade, especially in 'sensitive' areas. Progress would continue at a snail's pace and important opportunities that could be grasped through a bolder approach would be lost.

An essential requirement for real progress was a commitment by both governments to free trade in most products over a defined time period, in accordance with an agreed plan embodying principles on which the reduction of barriers would be based. The time period could be as long as 15 years or so, so that necessary adjustments could be made gradually and progress reviewed regularly to see that both sides were gaining. We would probably find, as the original Six did with the EEC, that the problems were not as great as some had feared and that progress could be accelerated. The governments could exclude some products from the process entirely, if compelling social, strategic or economic reasons justified this. I hoped that the exempted list would be kept short.

In discussing the question 'what's in it for Australia?', I acknowledged that the future economic relationship with New Zealand had to be judged by whether it

assisted or hindered Australia in the pursuit of its larger interests elsewhere in the world. I quoted a recent article by Dr Clive Edwards in the *Australian Economic Review* in which he argued that –

... the Australian manufacturing sector is vulnerable, and each time it succeeds in getting more protection its vulnerability increases. Protection increases profits today, but permits managers to ignore the difficult decisions required to achieve long-term cost competitiveness in an international context ... the decision to modernise Australia's manufacturing sector in a way which encourages manufacturers to extend their vision beyond Australia needs to be made now.

I suggested that the freeing of trade across the Tasman would be entirely consistent with such a policy decision.

The liberalisation of trade with New Zealand would not in any way cut across Australia's desire to strengthen its trading links with other countries, especially the members of ASEAN. Rather it should be seen as a means of assisting the capacity of industries in both countries to operate more competitively in international markets, with lower protection overall.

I declared my own preference for a free trade area approach rather than for customs union, at least in the first instance. There could be a case for some harmonisation of tariffs, controls or other policies in areas of significance to either party. It would be easier to negotiate such partial adjustments than to achieve the full harmonisation required by complete customs union. I hoped that Australia would not let short-term problems and fears prevent it from sharing in an opportunity of longer-term benefit to both countries from an agreed form of economic integration.

Cautious Acceptance of the Need for a New Approach

Attitudes on the New Zealand side had started to become more positive by 1978. The visit by Brian Talboys to Australia in March of that year, in which he explored various proposals to strengthen economic cooperation, was well received. His meeting with Malcolm Fraser at

Nareen was valuable. It indicated that the Australian Prime Minister shared his desire for further cooperation on a number of fronts. He had decided to replicate New Zealand's proposal to establish a Foundation to help strengthen relations. He and Talboys approved of the recent private initiative to form an Australia-New Zealand Businessmen's Council. But the communique on their talks²⁴ offered no suggestion of radical change to the current approaches to the freeing of trade. The Nareen Statement implied that because of the difficult economic circumstances, it was not an appropriate time to consider a major expansion of the economic relationship. Happily, 18 months later, the reverse seemed to apply.

Fraser's more positive attitude to cooperation encouraged the New Zealand delegation to the 1978 NAFTA ministerial meeting to seek an expression of the intention of the two governments to expand free trade coverage of NAFTA substantially within a period of 10 to 15 years. It would appear that Malcolm Fraser was rather sceptical of the seriousness of New Zealand's intent on this matter, as the following submission to Brian Talboys from Frank Corner on 16 October 1978²⁵ indicates:

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. 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.

Corner suggested that many influential Australians saw the NAFTA relationship as being of decreasing importance. Simply to maintain access to the Australian market would probably require increased effort by New

Zealand. The attitude of Australian politicians, particularly Mr Fraser, would be critical. Fraser seemed to view the overall relationship in terms of New Zealand's credibility in the trade field. It followed therefore that the foreign policy arguments very strongly favoured a positive response to the Australians on the market integration question.

“Time for a Commitment to Progress”

As Chairman of the Planning Council, I continued to press the case for a full free trade area. The Ministry of Foreign Affairs published a copy of a submission I made to the Select Committee on Foreign Affairs on 1 August, 1979 in the *New Zealand Foreign Affairs Review* for July-December 1979, in which I argued:²⁶

In the affairs of nations as in the affairs of men much depends on circumstances and on timing in determining the directions which developments will take. In the mid-1960s, the circumstances were propitious from Australia's viewpoint for a considerable move forward towards more integrated development of the two Tasman neighbours. However, the opportunity was lost, largely through fears on the New Zealand side which may have seemed justified to many at the time, but in retrospect were shortsighted and greatly exaggerated. Now, in the late 1970s, these New Zealand fears are greatly reduced and there is a growing appreciation that some bold new initiatives are needed if the countries are to break out of economic adversity which no-one would wish to see persist. It is evident that the initiative towards the negotiation of a commitment to more integrated development must come from the smaller partner.

I suggested that there were more positive attitudes emerging that should enable negotiators to move on from the past cautious, sector-by-sector approach to freeing trade. Recent statements by Mr Anthony suggested that senior Australian ministers now favoured a more positive approach. The Australian Leader of the Opposition also appeared to favour moves in that

direction. The political climate in New Zealand was more conducive to a bold move forward, not only on the government's side. Mr Rowling, now Leader of the Opposition, had spoken favourably about closer trans-Tasman links, with the possible ultimate development of a free trade area. He had noted, in my view correctly, that closer links would involve “both sides getting rid of some of their inhibitions” and general agreement at prime ministerial level to get the relationship moving again.

One of the most encouraging developments had been the changing attitude of the Manufacturers' Federation to trade strategy. This changing attitude, and the general thrust of the early discussions of the Businessmen's Councils in Australia and New Zealand, suggested that government decisions to adopt a bolder approach could now secure a positive response from most sections of the business community.

I reiterated my usual contention that the essential requirement for progress was a commitment by both governments to free trade in most products over a defined time period of up to 15 years, subject to review, with a short and diminishing list of exempted items.

My paper summarised the key issues that needed to be addressed. I gave similar addresses to audiences on both sides of the Tasman. The title I gave to one at a Conference of the ANZ Businessmen's Council in March 1980 – ‘An Outward Looking Coalition’ – sums up the spirit of my approach.

It was gratifying that at a conference on the relationship held at the ANU later in 1980,²⁷ Sir John Crawford, summing up, concluded, “So let us welcome Frank Holmes' terms for an economic free trade area and settle for an active coalition of outward-looking partners”. His entire summary is worth reading, but the spirit of it is reflected in the following selection of quotations:

[Manufacturers] have not, in either country, been through the restructuring process to the degree that the rural industries have been ... if we allow the high cost sub-sectors ... in either country to call the tune for the whole sector and for our total economic relations, then we will want our heads read ... The more exceptions that are allowed the less the gain is for New

Zealand and Australia ... the more we cripple the bilateral relationship, the more we weaken any prospect of securing an effective multilateral dividend from our relations with other countries ... If the bilateral relationship is not whole hearted, I believe it will harm our multilateral prospects.

Anthony Provokes More Action

My confidence that a better basis for negotiation was emerging proved to be justified, but not quickly. The major political breakthrough came when Hon. Doug Anthony visited New Zealand in April 1979 for the annual ministerial review of NAFTA. The official documents now available, and Mr Anthony's own reflections on that visit, make it plain that he left little doubt that Australian ministers saw no merit in continuing the rather fruitless negotiations that had been taking place under NAFTA.

The following is his own memory of his approach, as he told an anniversary gathering in Wellington in March 2003:

CER was born largely out of exasperation and frustration on a flight from Hong Kong to New Zealand with the head of my Department, Jim Scully. We had been in Europe, North America and Japan catching up on our trade negotiations under the GATT round. Trading blocks were being talked about in Europe, America and Asia. With mounting unease I thought about the unimaginative framework that governed our trade with NZ. I re-read my brief. It was a tired re-run of trivial issues that had dogged us for years. NZ was focussed on wallets, taps and cocks, and frozen peas. Australia had a begging list for improved quotas into NZ. If the discussions had turned out successfully it would not have made a material difference to a company, let alone a country. It was trivial. It did not warrant a meeting at any level. Certainly not a Ministerial one.

So at our first meeting with Ministers and Officials, I asked that the agenda be put aside and that we begin to think and develop a new framework for economic co-operation.

Everything should be on the table without any preconceived ideas about the nature of any agreement.

I of course had no Cabinet backing. The NZ Ministers naturally had no basis to begin talking until Prime Minister Muldoon was sounded out. A meeting was urgently arranged. I noted that NZ Ministers and officials were receptive, but initially Rob Muldoon was quiet and said little. I suspect that he was looking for an Australian ambush. By the end of the meeting we had the go-ahead to explore possibilities. There were certainly many hitches and stumbling blocks in the early years, but I must say I had a very good rapport with Muldoon. Strangely, I seemed to have his confidence. Maybe because I was a good listener and only worried about the nitty-gritty bits.

Speaking to New Zealand ministers across the table, Anthony also apparently revealed a deep Australian concern about what was seen to be New Zealand's continuing failure to face up to economic realities in its policies. According to one New Zealand official,²⁸

... as directly as decency allowed, he pointed to the need for New Zealand to adopt policies designed to reduce inflation, remove distortions from the economy and set the scene for economic growth. He implied that New Zealand was increasingly becoming an economic backwater, and that unless the government introduced policies designed to take advantage of resources we had [people and energy were mentioned] New Zealand would 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.

Most importantly from the viewpoint of future progress in trans-Tasman negotiations, Mr Anthony established a relationship of mutual respect and confidence with New Zealand Prime Minister Muldoon. Mr Muldoon, in writing shortly after that visit to Malcolm Fraser, with whom he could not establish an easy rapport,

said that he had found his discussions with Doug Anthony “a stimulating exchange”. The time had come to make a broad reassessment of the longer-term relationship between the two countries. It was essential that they should begin to do some solid work on the options.

In August 1979, Muldoon had a useful talk with Fraser at a Commonwealth Heads of Government Meeting in Lusaka. There they agreed that the NAFTA, valuable though it had been in the past, was no longer providing sufficiently strong impetus for economic cooperation that made sense in the current difficult economic environment. In pursuing cooperation, sudden dislocations of the economies would have to be avoided. Whatever was worked out would have to benefit each country, otherwise it would not endure or command public support. Their agreement gave the necessary green light to officials on both sides to continue working towards a much more satisfactory arrangement with the objective of allowing the Prime Ministers and other appropriate ministers to meet not later than February 1980.

In New Zealand, there were still many manufacturers who wanted to retain the status quo. Officials in most departments had by then concluded that this was no longer an option. A Ministry of Foreign Affairs Draft Discussion Paper for the Officials’ Working Group in New Zealand, released for the first time in the Negotiation documents,²⁹ pointed out that the status quo was at variance with the trend in Australian policy thinking, and indeed with the way in which official thinking had moved in New Zealand. The NAFTA was not a free trade area, but a preferential area approach. Competition had been consciously avoided, by means such as panels, a positive list of items included and highly disaggregated additions to the free trade schedules.

As Les Castle had 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”. There had been an exceptionally high degree of administrative intervention. The form of intervention had been quite unbalanced in New Zealand’s favour. There had been no provision for the harmonisation of policies that might lead to accusations that competition was unfair. A decision by New Zealand to opt for the status quo was likely to be negated in due course. It would result in loosening of economic ties and increasing

frictions in the trading relationship. The foreign policy implications of a decision not to pursue the options for a closer economic relationship with Australia were likely to be very serious.

The Manufacturers Accept the Need for Change

The manufacturers’ organisations on both sides of the Tasman were gradually coming to accept that the old NAFTA approach would have to change. At the industry association meetings in 1978, the Australian manufacturers had made it plain that this approach was no longer acceptable to them. At that stage they were proposing that a customs union might be phased in when NAFTA was due to expire seven years later. At meetings in September 1980, the Australian manufacturers had taken a hard line on the need for reciprocity. They indicated that they would recommend that the government should terminate the current agreement on textiles and apparel.

Some members of the New Zealand delegation at that meeting were still trying to get acceptance that inter-industry consultations should be the building blocks of any CER. However, industry leaders, such as Laurie Stevens and Fred Turnovsky, had by then accepted that this approach was no longer acceptable. The relatively new Businessmen’s Council, in which some of these leaders were involved, was even further along the road to acceptance of the objective set by the Prime Ministers in their communique after a meeting in March 1980. The endorsement by Fraser and Muldoon of “a gradual and progressive liberalisation of trade across the Tasman of all goods produced in either country on a basis that would benefit both countries” was a milestone of great importance in setting a positive underlying tone to the negotiations.

By the early 1980s, there had been a significant improvement in the confidence of New Zealand manufacturers in their capacity to compete with their Australian counterparts. One should not underestimate the role played in New Zealand by Ian Douglas as Executive Director of the Manufacturers’ Federation in shifting the balance of opinion towards contemplation of a commitment to a significant freeing of trans-Tasman trade on a planned basis. He was also engineering a dramatic shift in Federation policy towards planning for

an increasing proportion of manufacturing output to be exported from about 10% in 1979 to about 16% by 1984 and 20% two or three years after that.

In a meeting with Prime Minister Muldoon on 26 May 1981,³⁰ Douglas was reported as saying that the unresolved issues of export incentives and import licensing were still difficult ones for the Federation. They could possibly move to a terminal date for quantitative restrictions of 1995, but he could not say so at that time. However, he felt that the Federation had to face up to the general question of protection. Detailed industry studies, upon which the Federations and governments had put so much emphasis as the precursors to progress in NAFTA, had more disadvantages than advantages. A macro approach (such as that embodied in the Federation's new approach to planning) was preferable. When the Prime Minister told him that he saw March 1982 as being the likely date for agreement on CER, Mr Douglas could see no problem with the timing.

The Continuing Problem of Political Sensitivity

Nevertheless, Prime Minister Muldoon and other senior ministers continued to be very concerned at the political implications of any rapid change in the relationship. They continued to place considerable weight on avoiding public statements that might strengthen the position of manufacturers and others opposed to any change in the import licensing regime and other policies of support to producers.

Notes of a discussion I had with the Prime Minister on 28 March 1980 as Chairman of the Planning Council illuminate his sensitivity on issues of protection. Bill Birch, as Minister of National Development, had taken me to see him to discuss the relationship between the Planning Council's work and other work going on in government. Senior officials from the Treasury and Prime Minister's Department were present.

In the course of the discussion, Mr Birch noted that the Council had helped establish a climate for change of policy on CER. I applauded the initiatives the Prime Minister was taking in relation to the agreement. In response, the PM said that he and Fraser had isolated some very real difficulties that had to be dealt with in the political context. It was not helpful for the Planning

Council to make theoretical statements about it. Even if he had some sympathy with the suggestions, they could intensify the difficulties he had in getting support for his policies from manufacturers like Laurie Stevens.

He was critical of a major report that we had commissioned and published from Dr Peter Lloyd of the ANU on trade policy. In retrospect this was probably because Lloyd's report recommended a much more rapid phasing out of quantitative restrictions by New Zealand than the manufacturers and Muldoon at that stage were prepared to contemplate (and indeed than I had been advocating). "Economists advocating something politically unacceptable", he said, "are not good economists".

The Prime Minister was also critical of a document called *He Matapuna*. This was a collection of essays on issues of Maori development that the Council had organised on the basis of suggestions by its senior Maori member. Mr Muldoon thought that we had provided a forum for radical statements that did not represent the broad views of Maori leaders. I argued that the Council was charged in its Act with responsibilities for issuing such documents as those we had commissioned from Lloyd and the Maori writers to promote discussion of important development issues. The Prime Minister responded that the government could "uncharge" the Council with some of those responsibilities.

The differences between Mr Muldoon's private stance and what he was saying in public caused some confusion and concern. For example, Alan Wright, the president of Federated Farmers, was surprised in mid-1980 that, while Muldoon was adopting a public stance of coolness towards a possible agreement, he was in fact "gung ho" on making progress. Statements that Muldoon made in the budget statement in July 1980 caused some concern in Australia about his commitment. The Australian High Commissioner felt it necessary to reassure Canberra, on the basis of conversations with Hugh Templeton and me, that the Prime Minister still seemed to be committed to the process.

Muldoon's counterpart across the Tasman, Malcolm Fraser, was also sensitive to political pressures from Australian producers attempting to influence the course of the negotiations. He was unwilling to commit himself to meetings which might not have a positive political outcome for him and his government. His reservations

led to some delay in the progress of the negotiations in early 1981.

The attitudes of the Prime Ministers to one another were something of a problem right up to the end of the negotiations. According to Doug Anthony, in a speech at an anniversary function in Wellington on 27 March 2003,

Their attitudes were as different as their heights and on a couple of occasions I mentally observed the CER wheels spinning in reverse. I recall that Malcolm Fraser dreaded the possibility that when all was concluded Rob would declare that he had bested Australia. Sure enough a couple of months later, Rob made a public statement that he believed he had got the best of the bargain. Within an hour the press descended on me. I replied that if he feels like that I am happy. Then with a smile on my face said, 'As a cattle dealer I have always made my customer feel that he got a good deal'. They laughed, and the matter was forgotten.

Resolving the Key Issues

New Zealand officials at a joint meeting of permanent heads on 10-11 December 1980 found it disappointing in comparison with the progress previously achieved.³¹ They told the New Zealand Cabinet Economic Committee that the three principal outstanding issues were access to Australia for New Zealand dairy exports, differences on the speed of phasing out the licensing of Australian imports into New Zealand and the purchasing arrangements of state governments in Australia.

It had been hoped that the Prime Minister's might meet again in February 1981. However, at the beginning of that month, Muldoon³² told the Australian High Commissioner that he saw substantial political obstacles in the way of agreement. In some instances, the problem areas appeared to be insurmountable unless proposed agreements were substantially altered.

It took Anthony some time to get agreement from Fraser and his ministerial colleagues that he should visit New Zealand again to try to resume progress at the political level. Another constructive meeting between Muldoon and Anthony on 11 and 12 May 1981 seemed to clear away many of the less important outstanding

issues and to concentrate the attention of officials on a briefer list that needed to be addressed.

Muldoon made it clear that the New Zealand government did not share the view of the Manufacturers' Federation that the agreement should be of finite duration and subject to review and renewal, with no commitment to complete liberalisation of imports from Australia. The government looked towards a lasting relationship that would 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.

New Zealand had proposed an access formula that would rapidly expand opportunities for Australian exporters. It would be prepared to have a review after five years and subsequent reviews to consider whether revision to the formula was needed to fulfil the ultimate objective. However, New Zealand was opposed to any formal pre-fixing of an end date because that would greatly strengthen opposition to the whole exercise.

Muldoon said that there was no basic difference between New Zealand and Australia in their philosophy on deferred items and access creation. Australia was more anxious to foresee a final date. Both sides wanted fair conditions of trade, with Australia having particular concerns 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. He wanted a positive discussion on these issues, taking account of the political factors.

Mr Anthony confirmed that Australia was sensitive on issues like export incentives, which it was trying to cut back; it had just announced a 50% reduction. It was also concerned about import licensing and wished to reach the ultimate objective of free trade in a meaningful period of time.

With other New Zealand ministers and officials from both sides, Muldoon and Anthony went through a long list of both major and minor items of difference. At the end of the meeting, Mr Anthony summarised the outstanding issues. These were import licensing, where there remained the knotty problem of concluding the restrictions; export incentives on which the meeting had come a long way; wine on which he would like to see the

industries working out the problem; and dairy products where he believed the industries could come together. The Prime Minister agreed that those were the issues. There was some distance still to go on some of them.

Discussing a press conference following the meeting, Muldoon and Anthony agreed that they would not go into too much detail on the timetable. The Prime Minister said he would like to fudge some areas that were increasingly sensitive. He did not see a Prime Ministers' meeting in the immediate future. Perhaps he and Fraser could spend a few minutes together at CHOGM, not enough to reach finality but a discussion looking to finalisation early in 1982. Mr Anthony concluded by observing that a meeting later in 1981 between the two Prime Ministers was possible, but even that might not be convenient in that particular year.

More Consultations and Delays 1981-82

Against the background of these observations, it is not surprising that the pace of proceedings slowed after this meeting. Both sides felt it necessary to acquaint the public fully with 'exposure drafts' on the present state of the proposals and consider their responses. The Prime Ministers did meet on 29 September 1981 at CHOGM. They set a date of March 1982 for completion of the agreement, and 1 January 1983, rather than July 1982 as previously intended, for the start of the operation.

It would in fact take until about the end of October 1982 before another meeting between these two men would finally set the stage for completion of the agreement. In the middle of 1981, the Ministry in Wellington was becoming concerned that the Australian government was giving very little attention to CER. At CHOGM Mr Fraser indicated that one reason for Australia's 'going slow' was the New Zealand election. Australia did not want to wake up any issues that might prove difficult for New Zealand because of the election. Mr Muldoon said there were no real political problems in the sense Mr Fraser suggested. This is another example of the intrusion of political considerations affecting the timetable of negotiations.

In February 1982, Australian officials were warning the New Zealand High Commissioner that it was vital to move quickly to bring negotiations to a conclusion. They believed the Australian political environment and

economy would become more uncertain and troubled in the months ahead. The government was being subjected to increasing criticism of its economic policies. It could not be ruled out that Mr Fraser would decide to call a general election before things deteriorated too far.

Against this background, it was significant and fortuitous that Hugh Templeton, an enthusiast for progress with integration, should have been made Minister of Trade Industry by Muldoon. He had previously preferred a minister with protectionist inclinations, Lance Adams-Schneider. Templeton visited Australia for discussions with Doug Anthony and John Howard in March 1982. The meeting made progress towards a closer meeting of minds on major sticking points. It was apparently helpful to Anthony in getting Cabinet backing for the negotiating brief he wanted to help overcome difficulties in the next phase of his efforts to reach agreement.³³ That the import licensing and export incentive issues remained politically difficult was, however, evident in Templeton's meeting with Fraser on the following day.³⁴

A meeting of Australian and New Zealand permanent heads in Canberra shortly afterwards made progress, but New Zealand officials were not authorised to offer views on the major matters of concern to Australia. Officials agreed that they were matters that could only be resolved at ministerial level. An Australian official report to Fraser was pessimistic about the outcome of the ministerial meeting scheduled for the following week. In his view New Zealand had not demonstrated that it was willing to come to grips with the critical issues.

Australian officials believed that New Zealand would ultimately accept the Australian position, but the degree of acceptance could not be predicted. There were presentational reasons in both countries why the meeting might not produce a clear-cut outcome. The New Zealand government's position was seen as quite precarious, with a majority of one seat subject to legal challenge and two senior ministers having suffered heart attacks. Mr Anthony would discuss a possible exposure draft with New Zealand ministers, but as a result of those presentational issues, it might not appear for some time.

Anthony's meeting with New Zealand ministers on 20 and 21 April did make some further progress on both substantive and presentational issues. Neither side was prepared to come to a final conclusion on the most

important differences without further consultation with affected interests. But New Zealand advanced things greatly by undertaking that, if an agreement between the manufacturers' organisations was not reached, New Zealand could agree to 1995 as a terminal date for quantitative restrictions.

Subsequent discussions by officials led to a package which meant the major outstanding Australian objectives on termination dates for New Zealand export incentives (30 June 1987) and import licensing (1995) had been met. New Zealand had obtained arrangements that seemed reasonably satisfactory to its interests on safeguards and on government-to-government purchasing. The two governments agreed to the release on 4 June of a report outlining proposals for a closer economic relationship between the two countries.

At a meeting between the Prime Ministers in Sydney on 10 June 1982, Mr Fraser said that he expected to go to Cabinet early in August. Mr Muldoon said some industry groups had raised problems. He had felt obliged to say 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 there would be much change from the New Zealand side. Mr Fraser also indicated that there had been criticisms from the Confederation of Australian Industry and some other groups. The consultation process in Australia was more complex than in New Zealand because of the need to consult states. States had raised the question of structural adjustment assistance, which he rejected.

The consultations and briefings that took place in Australia led Anthony, on behalf of the Australian Cabinet, to write to Muldoon on 5 October wishing to discuss further a number of concerns. The concerns were not confined to terminal dates for import licensing and export incentives and the initial levels generated by the proposed formula for access. They extended to the adequacy of safeguard arrangements, procedures for resolving intermediate goods problems, proposed methods for allocating exclusive licences and a number of specific commodity issues.

This caused some consternation and some internal tension among the New Zealand officials, although Australian officials had implied that a form of words that would make the issues cosmetically more acceptable for

Mr Anthony would suffice. As Simon Murdoch put it to Merwyn Norrish,³⁵ it was a "plan for the worst and hope for the best" outlook. He noted that the fundamental objectives of CER had not been criticised. What New Zealand was being asked to do was to 'grease the track' more, especially the early stages of access for Australian producers.

Much haggling occurred on a variety of issues at a meeting between Muldoon and Anthony on 28 October. Although progress was made towards reconciling differences, the officials were still left with several knotty problems to resolve. These were subsequently complicated further by some trouble over forest products, which had provoked some administrative action in Australia against New Zealand imports. In addition, the manufacturers in New Zealand wanted assurances that the government would not sign the agreement until some problems over countervailing duties were resolved. The Prime Minister would not give them that assurance. He told them that signature of the agreement would take place on 14 December.

There was some debate on the name of the new agreement. The main point of contention was Australia's wish that the title should include the words 'free trade'. It was decided that the 'Australia New Zealand Closer Economic Relations Trade Agreement' would be acceptable. Anthony and Muldoon felt able to sign the Heads of Agreement during a two-way satellite transmission at noon on 14 December 1982.

This was not quite the end of the matter. On 28 February 1983, the Australian government decided that the Treaty should not be signed until after the Australian election. This was a disappointment to Jim Scully, leader of the official negotiations for Australia, as well as to New Zealand. However, New Zealand's High Commissioner, Laurie Francis, had managed to contact the leaders of the Labour Party, Messrs. Hawke and Keating. They had reassured him that they would be in sympathy with the arrangements. Laurie Francis and Lionel Bowen finally signed the Agreement in Canberra on 28 March 1983.

Conclusion

After this tortuous political process, what had previously been considered unrealistic or politically impracticable had become a practical reality. We had a commitment

by both governments to free trade in practically all products over a defined time period in accordance with an agreed plan.

Sir Robert Muldoon came to regard the negotiation of CER as one of the great achievements of his term as Prime Minister. In public, he always emphasised that he was fighting to retain the continuation of licensing protection and the tax incentives that were a hallmark of his brand of policy. He never gave the impression that he was fully committed to the importance of achieving a free trade agreement with the Australians. His public stance was geared to keeping the manufacturers with him and his own party in office. The negotiation documents indicate that he was in fact playing a more positive and constructive role in the negotiation process than his public statements suggested.

The prime ministerial brinkmanship involved on both sides did threaten from time to time to derail the process. The final successful outcome owed a great deal to the patient diplomacy of his colleagues Talboys and Templeton, the dedicated work of senior officials on both sides of the Tasman, and the continuing goodwill and political skill of Doug Anthony in mustering sufficient support from his Prime Minister and Cabinet colleagues.

The Muldoon government was swept away by the snap election of 1984. The political change did not threaten the continuity of CER. The senior ministers mainly responsible for trade policy found it congenial. CER provided a very useful stepping stone for Roger Douglas's policy of opening up the New Zealand economy to greater competition. David Caygill was always favourably disposed to freer trade. And Mike Moore, who once thought that he would make political capital opposing economic integration with Australia, had become a convert to the CER idea.

Accordingly, CER has continued to enjoy bipartisan support from the major parties. As I had expected, the 1995 deadline for which Sir Robert had fought so hard was not in fact required. Once the idea of gradually eliminating barriers had been accepted, it was possible to achieve the virtually complete freeing of trans-Tasman trade in goods by 1990.

Endnotes

- ¹ See FW Holmes (1957) 'The Commonwealth and the Free Trade Area'. In *The European Common Market and Free Trade Area*, London: University of London and Institute of Bankers, pp 58-73.
- ² GJ Schmitt (2002) *Tasman: The Early Years*. Privately published by the author, indicates that Sir James made the suggestion of some sort of free trade agreement at a Fletcher annual meeting in 1957. JC Fletcher and Arthur Jewell had apparently thought it was made at a Tasman annual meeting.
- ³ FW Holmes (1961) 'Should We Have Free Trade between Australia and New Zealand?', NZ Institute of Economic Research Discussion Paper No. 1.
- ⁴ Report No. 2 of the Monetary and Economic Council – Economic Growth in New Zealand, May 1962. Government Printer, pp 33-35.
- ⁵ The leading manufacturer, Fred Turnovsky, who generally admired and supported the views of Sutch, apparently had similar experiences. He noted that Sutch "forcefully expressed his views as though they represented a self-evident truth". He had a "compulsive urge for acknowledgement by his peers"; he was "most of ease ... when his dominance went unchallenged". See Fred Turnovsky (1990) *Turnovsky, 50 years in New Zealand*, Allen and Unwin, p 119.
- ⁶ An example is a substantial paper prepared in the New Zealand High Commission in Canberra in May 1964 on the free trade project. It warned Wellington that New Zealand's objectives for trade in forest products were being undermined by the approach that favoured market sharing and wanted to see no damage to any interest group. Jack Shepherd, in sharing ideas with me, said "We will get nowhere unless this subject becomes an issue of informed public debate".
- ⁷ FW Holmes (1 March 1965) 'Freer Trade with Australia?', *New Zealand Economist and Taxpayer*, pp 503-506.
- ⁸ Op. cit.
- ⁹ John Marshall, *Memoirs, Vol. 2: 1962 to 1988*, p 28. For his account of the negotiations, see chapter III, pp 19-28.
- ¹⁰ Pages 4-10 of this discussion paper were recommended for a summary of the provisions of the Agreement and for "an excellent description of events leading up to the signing" by Professor Ian McDougall of Massey University in 'New Zealand-Australia Free Trade Area Agreement – a Review', in *New Zealand Economic Papers*, Vol. 1, No. 2, Autumn 1967.
- ¹¹ FW Holmes (1973) in 'The Future of NAFTA – Problems of Expanding the New Zealand Australia Free Trade Agreement', *Bank of New South Wales Review*, December, p 15.
- ¹² HG Lang (August 1973) 'The relationship between economic and foreign policy', *New Zealand Foreign Affairs Review*, pp 16-25.
- ¹³ References to the articles written between 1961 and 1967 by Peter Elkan, Bill Sutch, Bruce Bentick,

Alan Robinson and me on the issue of free trade across the Tasman are listed at the end of the McDougall Review cited above.

- ¹⁴ McDougall (1967), op. cit., pp 42-48.
- ¹⁵ See PJ Lloyd (1976) *Economic Relationships between Australia and New Zealand*. Department of Economics, Research School of Pacific Studies, ANU, Canberra.
- ¹⁶ GJ Schmitt (2002) op.cit.
- ¹⁷ Hon RD Muldoon (1969) *Economic Review*, Wellington: Government Printer.
- ¹⁸ Holmes (1973), op. cit., p 16.
- ¹⁹ Ibid.
- ²⁰ Holmes (1973), op. cit., p 17.
- ²¹ F Turnovsky, President, New Zealand Manufacturers' Federation. The Future of NAFTA. In the Proceedings and Papers of a Seminar on New Zealand-Australia Cooperation organised by the Department of University Extension, Victoria University of Wellington, in conjunction with The Centre the Continuing Education, Australian National University, 31 August to 2 September 1973, pp 68-94.
- ²² Sir Frank Holmes (September 1978) *Some Reflections on a Visit to Australia*, New Zealand Planning Council No. 10, pp 8.
- ²³ Sir Frank Holmes (July 1978) *Australian Relationships with New Zealand: a Presentation to the Study Group on Structural Adjustment, Canberra, ACT*, New Zealand Planning Council.
- ²⁴ Nareen Statement. In *The Negotiation of the Australia New Zealand Closer Economic Relations Trade Agreement 1983 (The Negotiation)*, Australian Department of Foreign Affairs and Trade and New Zealand Ministry of Foreign Affairs and Trade (2003) pp 1-4.
- ²⁵ The Negotiation (2003), pp 28-29.
- ²⁶ Australia-New Zealand Relations: Time for a Commitment to Progress, pp 26-31.
- ²⁷ Robin and Alan Burnett (eds) (1981) 'Australia-New Zealand Relations – Issues for the 1980s', Proceedings of an ANU Public Affairs Conference, 12-14 August, 1980, Canberra: ANU Press, p 177.
- ²⁸ Note from Shallcrass to Lough, *The Negotiation* (2003), pp 32-33.
- ²⁹ Op. cit., pp 258-266.
- ³⁰ See File Note: Record of Meeting by Turkington, Wellington, 26 May 1981. *The Negotiation* (2003) pp 606-607.
- ³¹ Op. cit., p 409.
- ³² Op. cit., p 433
- ³³ Op. cit., pp 628-30.
- ³⁴ Op. cit., pp 542-44. *The Negotiation* volume makes it difficult to follow the course of discussions chronologically, in part because it separates the Australian documents from the New Zealand ones. This Australian document on the Templeton visit, for example, is over 80 pages away from the New Zealand document on his visit.
- ³⁵ Op. cit., pp 661-663.

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