

**MINISTRY OF  
FOREIGN AFFAIRS AND TRADE**

**POST-ELECTION BRIEF**

NOVEMBER 2008



MINISTRY OF  
**FOREIGN AFFAIRS & TRADE**  
MANATŪ AORERE

# CONTENTS

<b>A</b>	<b>Role of the Ministry</b> .....	<b>4</b>
<b>B</b>	<b>Step Change</b> .....	<b>7</b>
<b>C</b>	<b>Strategic Foreign and Trade Policy Issues</b> .....	<b>9</b>
<b>1.</b>	<b>The Near Neighbourhood</b> .....	<b>9</b>
	Australia .....	9
	Pacific .....	11
	Special Relationships: Cook Islands, Niue, Tokelau .....	13
<b>2.</b>	<b>The Wider Region</b> .....	<b>15</b>
	North Asia.....	15
	Southeast Asia.....	16
	South Asia.....	17
	Asian Regional Architecture .....	18
<b>3.</b>	<b>Other Key Relationships</b> .....	<b>20</b>
	United States .....	20
	European Union and Key Member States .....	20
	Other Relationships: Canada, Russia, Latin America, Middle East, Africa.....	22
<b>4.</b>	<b>Global Economy and Finance and Building New Markets</b> .....	<b>24</b>
<b>5.</b>	<b>Trade Negotiation Priorities</b> .....	<b>25</b>
	Multilateral Agenda.....	26
	Plurilateral Agenda.....	27
	Bilateral Agenda.....	27
<b>6.</b>	<b>Resource/Environmental Diplomacy</b> .....	<b>29</b>
	Climate Change.....	29
	Continental Shelf .....	29
	Fisheries .....	30
	Antarctica.....	30
	Biological Diversity .....	31
	Other Environmental Issues .....	32
<b>7.</b>	<b>International Security, Disarmament/Non-Proliferation, Peace Support</b> .....	<b>33</b>
	Counter-Terrorism and Counter-Radicalisation Efforts.....	33
	Counter-Proliferation Initiatives .....	33
	Peace Support Operations .....	34
	Disarmament and Non-Proliferation.....	35
<b>8.</b>	<b>International Legal Issues</b> .....	<b>36</b>
	International Criminal Court.....	36
	Extradition Issues.....	36
	International Humanitarian Law.....	36
	Bribery and Corruption Issues.....	36
	Maritime Terrorism/WMD Trafficking.....	37
	Financial Action Task Force.....	37

<b>9.</b>	<b>The United Nations and Other Multilateral Issues</b> .....	<b>37</b>
	United Nations (including UN Reform).....	37
	Human Rights.....	38
	Commonwealth .....	38
	Candidatures.....	39
	Asylum Seekers/People Smuggling.....	39
<b>10.</b>	<b>Consular Issues</b> .....	<b>39</b>
<b>D</b>	<b>NZAID: Contributing to Global Poverty Elimination</b> .....	<b>41</b>
<b>E</b>	<b>Public Diplomacy and Outreach</b> .....	<b>49</b>
<b>F</b>	<b>“NZ Inc” - Interagency Cooperation and Agency Services Overseas</b> .....	<b>51</b>
<b>G</b>	<b>Crown Agencies Associated with the Ministry</b> .....	<b>52</b>
	New Zealand Trade and Enterprise (NZTE).....	52
	New Zealand Antarctic Institute .....	53
	Asia/New Zealand Foundation .....	53
	Pacific Cooperation Foundation .....	54
<b>H</b>	<b>Committees and Boards for which the Minister has Responsibility</b> .....	<b>54</b>
	Public Advisory Committee on Disarmament and Arms Control (PACDAC) .....	54
	New Zealand/France Friendship Fund.....	54
	Fulbright New Zealand .....	55

NB: Certain passages of this document have been withheld under sections 6(a), 6(b)(ii), 6(c), 6(d) and 6(e)(vi) of the Official Information Act.

## A Role of the Ministry

The Ministry of Foreign Affairs and Trade (MFAT) is the Government's lead adviser and operational arm on foreign and trade policy and diplomatic and consular issues, as well as on overseas development assistance through the New Zealand Agency for International Development (NZAID), a semi-autonomous body within the Ministry. The Ministry also provides international legal advice to the Government. The Ministry is the internationally recognised channel for the Government's communications to and from other governments and international organisations.

The Ministry reports to Ministers in three portfolio areas: Foreign Affairs; Trade; Disarmament and Arms Control. NZAID reports on Official Development Assistance.

Under the current arrangement, the Minister of Foreign Affairs is the Responsible Minister who oversees the Government's ownership interest in the Ministry. The Ministry administers two Votes on behalf of the Minister – Vote: Foreign Affairs and Trade and Vote: Official Development Assistance.

There is currently a separate Minister of Trade and Minister for Disarmament and Arms Control. Previously the Foreign Affairs and Trade portfolio areas were combined.

The Ministry's mission is to ensure that **New Zealand's security and prosperity interests are advanced and protected; our voice is heard abroad.**

NZAID's mission is to work towards achievement of the vision of a "safe and just world free of poverty". Its main outcome is: **Poverty eliminated through development partnerships.**

The Ministry fulfils its role in three main ways:

### 1) Working with Other Governments and International Organisations

The Ministry provides advice on the management of the Government's foreign and trade policies abroad, including its Official Development Assistance (ODA) programmes; conducts the Government's relations with other countries and international organisations; advocates and represents New Zealand's positions and views; and negotiates agreements on behalf of New Zealand.

The Ministry works by developing and sustaining relationships with other governments and international organisations, and by accruing and exerting influence on them over time to accommodate New Zealand positions in the decisions they take. The Ministry's main tools are presence, persuasion and negotiation. These are used to undertake specific initiatives and interventions on behalf of the Government. Resources include offshore posts and a global communications network. The Ministry also supports travelling Ministers and official delegations.

Overseas Posts: The Ministry currently operates 53 posts overseas (including Embassies, High Commissions, Permanent Missions, Consulates-General). (Please see map, p5)

### 2) Working with Other New Zealand Government Agencies

The Chief Executive of the Ministry chairs the External Relations and Defence network (ERD), comprising over 30 agencies involved in managing and implementing the Government's external policies. Numerous inter-agency sub-groups meet on specific issues, ranging from cooperation with the New Zealand Defence Force (NZDF) in peace support operations, to joint activities with New Zealand Trade and Enterprise (NZTE) to advance the internationalisation of New Zealand business.

The Heads of New Zealand diplomatic posts abroad are authorised to ensure that all New Zealand Government agencies in a country operate in a coherent and aligned way in pursuit of the Government's goals. Guidelines to assist this process, the Framework for NZ Inc Operations Offshore, were approved in 2007. The Ministry's overseas posts currently provide accommodation and support to some 130 officers from other Government agencies. Ministry staff also deliver services on behalf of other agencies.



New Zealand Government Posts managed by MFAT (established)

### 3) Working with the Wider New Zealand Community

The Ministry provides consular advice and services to New Zealanders abroad, through the travel advisories on its SafeTravel website, and by direct assistance via its overseas posts (see Part C (10) of this brief).

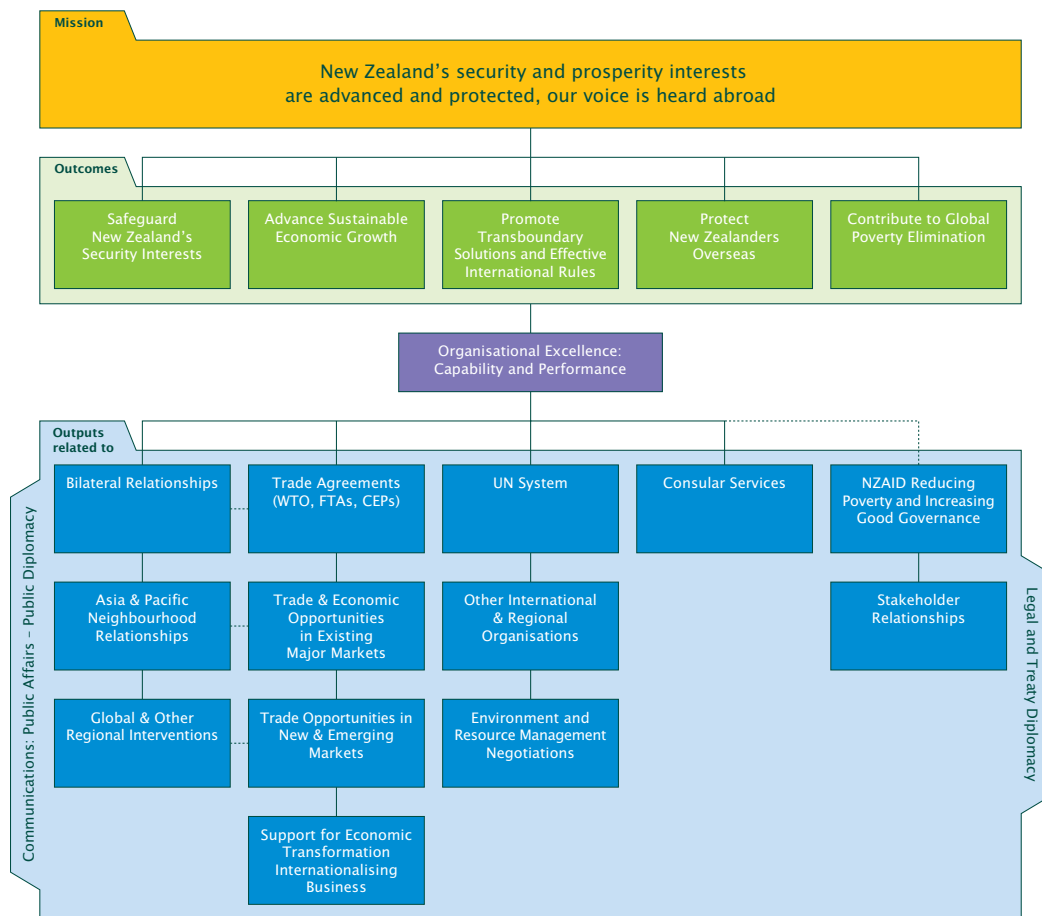
The Ministry also helps New Zealanders at home learn more about the world and encourages them to contribute views on the direction of New Zealand’s foreign and development policy. The Ministry’s domestic stakeholders include business organisations, academia and the media, Maori, non-government organisations (NGOs) and specific interest groups. Engagement with the wider community helps the Ministry to represent New Zealand’s identity and values abroad. The private sector has a key role in the Ministry’s work to negotiate Closer Economic Partnerships/Free Trade Agreements with other countries.

The Ministry currently has five overarching, Cabinet-mandated Intermediate or Strategic Outcomes. These are:

- New Zealand’s security interests are safeguarded;
- New Zealand’s international connections support transformation of the New Zealand economy and sustainable economic growth;
- Transboundary solutions and effective international rules are promoted;
- Poverty is eliminated through development partnerships; and
- The rights of New Zealanders abroad are protected.

These outcomes are achieved by a variety of mechanisms as set out in the Ministry’s Strategic Framework (see below). The Ministry draws on two key cross-organisational services: legal advice and treaty diplomacy; and effective public affairs at home and public diplomacy abroad.

### MFAT’S STRATEGIC FRAMEWORK



This diagram depicts the means by which the Ministry achieves its outcomes. In every aspect of work and in all work units, we draw upon two key whole-of-Ministry services: legal advice and treaty diplomacy by our international lawyers; and effective public affairs at home and public diplomacy abroad coordinated by our communications advisors. These services underpin all activities in the blue field.

## B Step Change

### 2008 Budget Package

The Ministry received a significant increase to its baseline funding over the five years – 2008/09 to 2012/13 – to enable it to maintain current capacity and capability against rising costs, and to respond to challenges in key areas by lifting the tempo of New Zealand’s diplomatic engagement at home and abroad. The budget increase was underpinned by a Business Case prepared in August 2007 that identified seven key areas of challenge for New Zealand:

- increasing stresses and instabilities in the Pacific;
- the dangers of exclusionary regionalism;
- the urgency of building new markets and economic networks;
- a more intense bilateral and plurilateral trade agenda;
- insufficient engagement on counter-terrorism and international security;
- pressures and enforceability of rules around resource diplomacy; and
- public expectations of rapid responses to crises.

### Looking Ahead

The Ministry has recently consulted Ministers in the light of the changed fiscal and economic environment facing New Zealand. With Ministerial agreement, the Ministry has decided on an interim slow-down in its implementation of the growth strategy in areas where expenditure has not already been incurred or committed.

### Funding

The approved “Step-Change” package provided additional operating funding of \$523m and capital funding of \$98m over five years. Around \$30m of the package was ring-fenced for the Crown Entities<sup>1</sup> funded through Vote: Foreign Affairs and Trade.

Of the whole five-year package, \$368m (70 percent) was baselined, and \$155m (30 percent) “pre-committed”, the pre-commitment element being capable of roll-over each year subject to Cabinet approval.

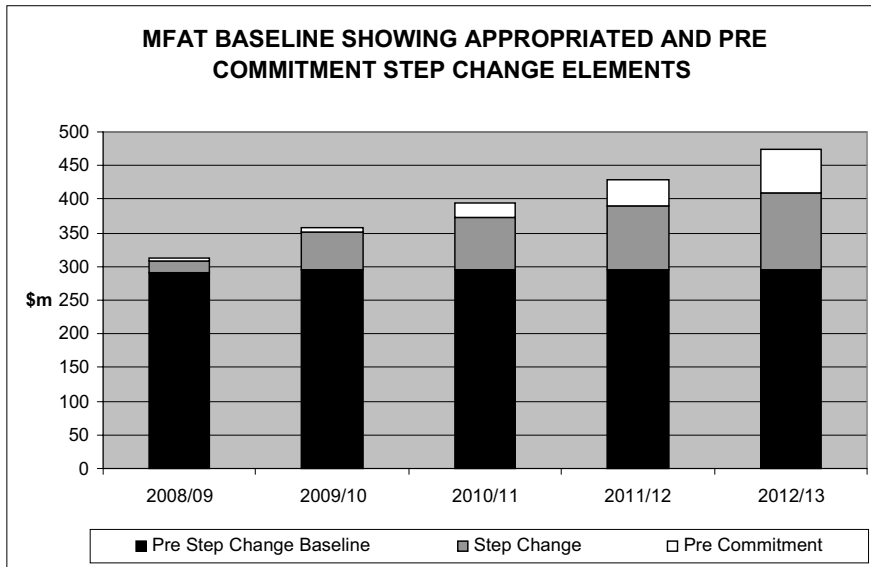
The baselined and pre-committed funding for the Vote is summarised below:

MFAT	\$m				
	2008/09	2009/10	2010/11	2011/12	2012/13
OPERATING	309.089	350.711	373.349	389.787	409.522
CROWN <sup>2</sup>	66.996	66.539	66.795	67.059	66.909
PRE COMMITMENT	3.300	11.900	25.600	44.500	69.400
<b>TOTAL</b>	<b>379.385</b>	<b>429.150</b>	<b>465.744</b>	<b>501.346</b>	<b>545.831</b>

<sup>1</sup> Antarctica New Zealand, Asia New Zealand Foundation and Pacific Cooperation Foundation.

<sup>2</sup> Mainly covers funding for Crown Entities and subscriptions to international organisations.

The following graph compares the amount of annual step-change funding with the Ministry’s previous baseline and shows the split between appropriated and pre-committed funding.



**Make-up of the Step Change Package**

The funding package is broadly split between:

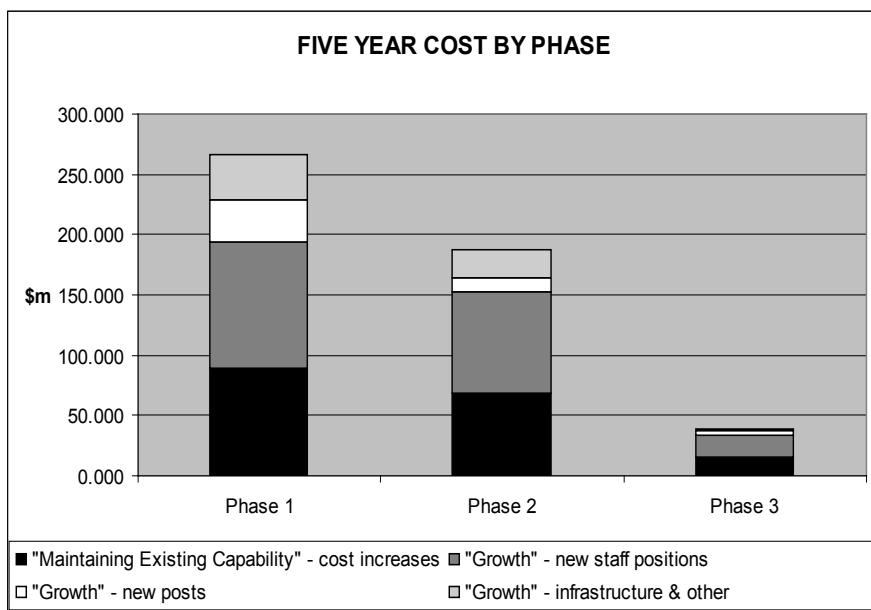
- “Maintaining Existing Capability” – cost increases (\$195m: 40 percent); and
- “Growth” – staff, new posts, infrastructure and systems (\$298m: 60 percent).

The “Maintaining Existing Capability” component of the package encompasses business-as-usual and is largely non-discretionary.

The Ministry’s Business Case separated the “Growth” aspect into three phases:

- Phase One (years one and two) covered essential requirements
- Phase Two (years three and four) covered very important requirements
- Phase Three (year five) covered important requirements.

The following graph shows the five-year cost of each phase.



## Resources Provided by Step Change

The primary focus is on deepening capability. The package also enables the Ministry to continue to upgrade ICT and capital assets that have fallen behind. It allows for some restructuring and enhancement of public diplomacy offshore.

Over the next five years the funding is intended to add approximately 300 positions (including Locally-Engaged Staff offshore) split between Wellington and posts. New Zealand staff offshore are set to rise from 212 to about 320 over five years, a 40 percent increase.

## Progress To Date

Progress is on track in implementing Phase One of Step Change. A significant proportion of the “must do” positions identified for Phase One (114 FTE out of 147) have been established and are being filled. Early weighting has been given to strengthening the Ministry’s corporate services backbone so that it is well-positioned to carry forward the growth package and continue the upgrade of its IT systems and capital assets.

Phase One (FYs 2008 and 2009) of the Business Case will enable better outcomes in the following areas:

- **Asia Division and Asian posts** better able to exploit bilateral opportunities for growing the New Zealand economy and to engage more deeply with emerging regional architecture.
- **Pacific Division and Pacific posts** able to deepen engagement and influence to respond to regional instability, state fragility and negative outside influence.
- **Trade, Economic and Legal Divisions and relevant posts** able to progress trade negotiations, exploit emerging opportunities (eg with the US, Korea, India, Japan, the Gulf countries), ramp up responses to trade access issues, and better coordinate NZ Inc offshore (see Part G of this brief) – in part adding support to NZTE where it has no presence and strengthening it where it has.
- **Multilateral units and posts** able to deepen New Zealand’s engagement and enhance influence within the international environment and security agendas with direct bearings on New Zealand’s interests.
- **Corporate services units** able to ensure enhanced HR management, property management and asset management, a modernised and fit-for-purpose secure IT system and better organised public diplomacy and outreach and information management. The purpose is to reinforce the Ministry’s corporate ‘backbone’ and avoid unacceptable risk to its support systems.

As directed by Ministers, two new posts, an Embassy in Stockholm and a Consulate-General in Brisbane, were opened in July 2008. In October, the Ministry took over from NZTE the Consul-General position in Melbourne and is on track to do similarly in Sao Paulo. These moves are designed to free up NZTE resource and add an MFAT policy and NZ Inc leadership element in key emerging economies in support of the Government’s economic transformation and business internationalisation agendas and safeguarding New Zealanders.

## C Strategic Foreign and Trade Policy Issues

The Ministry conducts an annual forward-looking scan of the international environment, to identify current trends and key drivers of change. Key strategic foreign and trade policy issues facing New Zealand are described below.

### 1: The Near Neighbourhood

#### Australia

Australia is New Zealand’s most extensive and important relationship. It is our largest trading partner, closest defence ally, and key foreign policy partner. Australia’s stake in the New Zealand economy is large and many Australian policy and regulatory settings are fundamental to the good working of the New Zealand economy. There is intense contact at all levels of government, business and society. New Zealand’s diplomatic representation in Australia was expanded in 2008 and now includes the High Commission in Canberra, and Consulates-General in Sydney, Brisbane and Melbourne.

Australia demonstrates assertive self-confidence at home and abroad. Its economic and political influence as a middle power continues to grow. Australia is becoming a regional economic powerhouse and a global investor. Prime Minister Rudd is strongly engaged internationally in advocating improvements to the international financial system. A formal alliance with the United States is a bi-partisan centrepiece of Australia's foreign policy. Australia also attaches priority to strengthening relationships in Asia. The Rudd government has stressed the need to rebuild Australia's profile in multilateral organisations and in the Pacific.

New Zealand's relationship with Australia delivers mutual benefit. There has been a shared disposition in recent years to manage it actively. Structured political engagement led by the Prime Ministers is recognised as being important in setting a positive tone, affirming overall priorities and objectives, and managing differences. Annual Prime Ministers' meetings have taken place since 1997. The regular contact that occurs between other ministers draws from and builds on this focused contact.

*Key New Zealand interests include:*

> Deepening economic ties under the **Australia New Zealand Closer Economic Relations Trade Agreement (CER)** and the **Single Economic Market (SEM)** process. The economic and trade relationship with Australia is a key part of New Zealand's efforts to enhance its own economic performance, foster globally competitive firms and increase international connectedness. CER has proved to be a great success, removing almost all barriers to free flows of goods and services and facilitating flows of people and capital. The major focus is now on the creation of a Single Economic Market – a seamless trans-Tasman business environment. This will have benefits not only in reducing the costs of doing business in either country, but in providing a stronger platform for economic engagement with the wider Asia-Pacific region, and in increasingly globalised trade, investment and finance markets.

> Managing our extensive **foreign policy, security and defence cooperation**. Australia is a significant partner for New Zealand in the Pacific and in a wide range of foreign policy areas. Australia's support and resources are often important to the success of New Zealand policy initiatives. We have developed consultation mechanisms to manage differences of emphasis, including regular Foreign Minister-level meetings.

> Australia is New Zealand's only formal ally and an indispensable **defence** partner. The alliance delivers significant benefits to New Zealand by multiplying, enhancing and enabling the use of our defence force assets, and by lifting New Zealand's operational, training and procurement capacities. The performance of the New Zealand Defence Force (NZDF) in the Pacific, Afghanistan, Timor-Leste, and in disaster relief operations, has added strength to trans-Tasman relations. Cooperation and interoperability were emphasised in a Closer Defence Relations statement agreed by Defence Ministers in 2008.

> Nurturing extensive **people-to-people** links. The Trans-Tasman Travel Arrangement allows New Zealanders and Australians to live and work in the other country with the minimum of bureaucracy. Every year significant numbers of New Zealanders and Australians take advantage of this freedom of movement which reflects and protects the special nature of the relationship. In 2007, more than 470,000 New Zealand citizens were visitors and residents in Australia, with more than 63,000 Australians then resident in New Zealand. Australia is New Zealand's largest source of foreign tourists, accounting for one-quarter of total tourist expenditure in New Zealand (\$1.7 billion). Australia is New Zealand's most popular tourist destination.

*Current areas of focus include:*

Sustaining momentum towards a **Single Economic Market**, and leveraging it into advancing our own economic transformation agenda requires concerted political leadership on both sides of the Tasman. The Rudd reform agenda offers significant opportunities for New Zealand to influence Australian economic and regulatory policy direction – eg building on the openness shown by Australian Ministers towards a greater degree of New Zealand involvement in the reform work of the Council of Australian Governments. The role of business champions is very important in fostering private-sector networks.

Negotiations on a **CER Investment Protocol** are due to conclude in the first half of 2009. Australia is keen to see an ambitious outcome in market access (the investment screening threshold).

The Australian Productivity Commission is due to release a review of the **Trans-Tasman Mutual Recognition Arrangement** on 14 November. One of the Review issues likely to be raised with the incoming Government at some point is the **Australia New Zealand Therapeutic Products Authority**. This was agreed in a 2003 Treaty but in 2007 did not receive sufficient support in the New Zealand Parliament to be brought into law. Both governments agreed in 2007 to place the authority in limbo, pending sufficient New Zealand Parliamentary support.

The next formal hearing of New Zealand's legal challenge in the **World Trade Organisation** to Australia's ban on the import of New Zealand apples is scheduled for March 2009, with the WTO Panel expected to deliver its ruling in mid-2009.

Work is continuing in new areas of **cooperation on climate change**, where New Zealand and Australia have made mutual efforts to ensure that our respective emissions trading schemes (ETS) are not incompatible, given the potential for differences to have consequences for the wider economy.

New Zealand has committed to investigating its level of participation in support of an Australian bid to win the hosting rights for the world's largest radio telescope project, the **Square Kilometre Array (SKA)**. A New Zealand officials group chaired by DPMC is developing advice on the potential scientific and economic benefits for New Zealand from involvement in the project, before reporting to Ministers.

### **Pacific**

New Zealand has close relationships with most Pacific countries, especially in Polynesia. It has specific responsibility for Tokelau and constitutional links with Niue and Cook Islands, and a Treaty of Friendship with Samoa.

New Zealand's national identity and interests are closely intertwined with the Pacific. There is a domestic dimension through the presence of large Pacific island communities in New Zealand.

New Zealand has broad political, security, economic, environmental and human rights interests in the region.

The security and development outlook for the Pacific remains fragile within a variable and increasingly contested "consent environment" for international engagement. Many states in the region continue to face challenges around weak institutions of state, poor overall economic growth further threatened by the current global financial/economic turmoil, environmental vulnerability, political instability, adverse social trends and further demands of globalisation.

The delicate stability in Tonga and Solomon Islands and ongoing tensions in Fiji underscore the need for carefully targeted, collaborative whole-of-Government responses, involving Pacific partners, other key partners (particularly Australia) and regional and international institutions. Where positive examples of good governance and economic management exist, efforts must be made to support and reinforce them. Concerns over loss of sovereignty and scepticism about the value of regionalism will need to be countered by demonstrating the benefits of regional approaches in addressing key issues (such as the Forum's bulk fuel procurement initiative). The complex environment highlights the need for effective public diplomacy to ensure that New Zealand's policies are fully understood by both external and domestic constituencies.

While bilateral engagements will continue to be a key focus for New Zealand, there is also a growing need to encourage effective regional mechanisms and coordinated regional approaches in the Pacific.

**Fiji** remains a major focus of political attention in New Zealand. In **Solomon Islands**, the future shape and operation of the Regional Assistance Mission (RAMSI) will continue to require close monitoring. Beyond these immediate "crisis" areas, there is a range of other relationships, including with Polynesia, that inevitably attract close domestic scrutiny and need to be maintained, broadened and strengthened in order to advance New Zealand's interests.

The trend towards greater instability in the Pacific is taking place at a time when there has been an increased focus on broader regionalism, being pursued through the Forum and related regional bodies. With the potential for the Pacific Agreement on Closer Economic Relations (PACER)-Plus trade negotiations to begin as early as next year, the regional trade agenda is expected to grow in significance. Other priorities include fisheries, the broadening security agenda, environment, and engagement with regional agencies, many of which are struggling to cope with increased expectations to deliver regional outcomes.

It is clear that the Forum and other regional agencies are finding it difficult to meet the diverse and differentiated needs of their memberships. With a new Forum Secretary General, Tuiloma Neroni Slade, one of New Zealand's key concerns will be to promote greater effectiveness of regional cooperation.

Against this background, and in close consultation with NZAID, the Ministry's efforts remain directed at promoting an enabling environment for good governance, economic growth, sustainable development and stability. The Ministry has also continued to promote enhanced regional integration, particularly under the umbrella of the Pacific Plan. The whole-of-Government effort to address security issues gives the Ministry a growing role in coordinating Pacific policy with other New Zealand Government agencies. This component of the Ministry's work is expected to become more demanding.

*Key New Zealand interests:*

New Zealand's identity and destiny are closely intertwined with the Pacific. The character of New Zealand's interests is unlike those with any other region. New Zealand seeks to be a reliable neighbour and friend, working with Pacific island partners to pursue development, growth and stability.

New Zealand has 10 posts in the Pacific: High Commissions in Cook Islands, Fiji, Kiribati, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu; and a Consulate-General in New Caledonia. We are accredited to American Samoa, Marshall Islands, Federated States of Micronesia, French Polynesia, Nauru, Palau, Tuvalu and Wallis and Futuna.

*Current areas of focus include:*

**Security:** Corruption, poor governance, ethnic tensions and compromised institutions of state are challenging efforts to build regional coherence. New Zealand is working with other donors to help Pacific island countries (PICs) meet new mandatory international requirements in areas such as counter-terrorism legislation, transport security, finance and border control. PICs are increasingly having to respond to or engage with a variety of international actors, both government and private sector entities from wider regions.

**The Pacific Plan** represents the agreed framework for prioritisation of regional initiatives among Forum island countries, with many of the objectives reflected in members' individual development plans. Current priorities include cooperation on fisheries; energy; trade and economic integration; climate change; transport; information and communications technology; health; education; good governance; and land. Progress has been patchy, but the Plan has proved a useful vehicle to promote regional cooperation.

**Trade:** Annual two-way trade between New Zealand and the Pacific in goods is now worth over NZ\$1 billion and trade in services (mostly tourism to the Pacific) is increasing in value each year. The aim is to encourage a process of trade and economic cooperation in order to create favourable conditions for private sector-led growth and to stimulate economic development in the region. PACER (Pacific Agreement on Closer Economic Relations) provides a framework. New Zealand and Australia have been encouraging progress through informal officials' level discussions. At this year's Forum, Leaders called for the development of a detailed road map on PACER Plus, with a view to agreeing to the commencement of negotiations at the 2009 Forum. The next informal officials' meeting takes place in Tonga on 12–14 November.

**Labour Mobility:** New Zealand's Recognised Seasonal Employer (RSE) policy commenced in April 2007. It enables up to 5,000 foreign workers a year to gain seasonal work in horticulture and viticulture, with preference being given to workers from PICs (excluding Fiji). The scheme has been well received in the Pacific and a number of PICs have made clear their desire to see concrete bilateral commitments from both Australia and New Zealand on labour mobility, including for unskilled labour, in the PACER context.

**Working with External Partners:** Competition for influence in the Pacific is increasing, with more external actors jockeying for diplomatic and commercial advantage. In its dealings with other players and partners in the Pacific, New Zealand has highlighted the importance of engagement that is geared towards the longer-term development needs of the region. Collaboration and coherence with other regional partners, including the European Union, United States, France, Japan and China remain central to New Zealand's Pacific diplomacy.

As the two developed country members of the Forum, New Zealand and Australia work to ensure a “joined-up” approach in addressing Pacific issues. Under the Rudd government, Australia has reaffirmed that close cooperation with New Zealand is an integral part of its new Pacific strategy. Detailed policy discussions on Pacific matters are an increasing focus of trans-Tasman Ministerial and Prime Ministerial meetings.

*Key foreign policy and ODA issues for New Zealand in the Pacific include:*

**Fiji:** Seeking an early restoration of democratic government in Fiji in unity with Forum partners. The 2008 Forum sent a clear message to the Fiji Interim Government (FIG) that further delaying a return to democracy will have significant consequences, including possible Forum suspension. The Communiqué set out a viable “exit strategy” for the FIG, involving an election by March 2009 under the current Constitution, preceded by a political dialogue that would enable appropriate understandings to be reached with other stakeholders. The remaining weeks of 2008 will be an important time for the FIG to engage on the Forum-endorsed exit strategy. The **Forum Foreign Ministers Contact Group on Fiji** (comprising Tonga (Chair), Australia, Tuvalu, New Zealand, Papua New Guinea, Samoa) **may visit Fiji** in early December; followed by a possible **Special Leaders meeting** in Papua New Guinea. New Zealand has been encouraging all Forum members and external partners to take appropriate opportunities to underline their support for the ongoing Forum-led effort on Fiji.

**Solomon Islands:** Promoting good governance and stability especially through the Regional Assistance Mission to Solomon Islands (**RAMSI**) and ODA. A number of important initiatives are currently underway, including a Solomon Islands “Parliamentary review” of RAMSI and the development of a new RAMSI/Solomon Islands Government Partnership Framework. As the second largest contributor to RAMSI, New Zealand seeks to work closely with Solomon Islands, Australia (which provides the bulk of resourcing for RAMSI) and regional partners to ensure that our views on the future shape and operation of RAMSI continue to be taken into account. Regional unity and support for RAMSI remain essential to its ongoing credibility and success.

**Polynesia:** A number of positive developments, including **Tonga’s** progress towards a more broad-based democracy. New Zealand concluded a bilateral WTO accession agreement with **Samoa** on 8 March 2008 and fully supports Samoa’s bid to accede to the WTO, although conclusion of the process is likely to be some years away.

**Melanesia:** An increasing focus of New Zealand’s diplomatic efforts. The socio-economic indicators of some Melanesian countries are almost on a par with those of sub-Saharan Africa, and internal volatility, land conflicts, and ethnic tensions further drive down standards of living. As a result of significant financial gains from the successful exploitation of its mineral wealth, **Papua New Guinea** has become a more crowded playing field. New Zealand will need to continue to work hard to maintain its level of engagement and influence.

#### **Special Relationships: Cook Islands, Niue, Tokelau**

The Cook Islands and Niue are “self-governing in free association with New Zealand”. Tokelau is a dependency. The citizens of each have New Zealand citizenship and a majority have made their home in New Zealand. Successive New Zealand Governments have committed to providing economic and administrative support to enable these three separate parts of the Realm of New Zealand to function as viable and forward-looking communities.

**Cook Islands** has the most mature relationship with New Zealand. It has moved past the stage where it requires direct budget support. In 2001 a Centenary Declaration was negotiated setting out the state of the relationship. A fundamental principle is the obligation on both governments to consult closely as partners on foreign affairs and other issues of shared interest. Cook Islands has developed a separate international identity over the last 18 years, the implications of which are the subject of regular discussion between Wellington and Rarotonga.

Since the last Cook Islands elections in September 2006 the political situation has remained relatively stable on the surface. The Cook Islands economy has been performing relatively well and prior to the latest external economic pressures had been expected to continue growing. Tourism is the dominant sector but remains vulnerable, despite record visitor numbers in 2007. Pearl exports, a major contributor to local economies in the Northern Cook Islands, continue to be the largest earner. Fisheries exports have declined in recent years but have the potential to grow significantly. The largely subsistent outer islands are the focus of New Zealand’s development assistance which totalled \$7 million in 2008/09. A further \$10 million over three years to 2009/10 has been made available for infrastructure relating to cyclone recovery.

The 2006 Cook Islands census recorded a population of slightly under 20,000. In the New Zealand census of the same year 57,000 people described themselves as Cook Island New Zealanders.

**Niue**, self-governing since 1974, is facing substantial challenges to maintain a functioning community on the island. In elections in June 2008 one of the island's few prominent businessmen, Toke Talagi, a former Finance Minister, defeated Young Vivian 14-5 to secure the Premiership. After an early official visit to New Zealand and successful chairing of the Forum Leaders' meeting in August, Premier Talagi has passed his first budget and is now focussing on ambitious initiatives to reverse Niue's decline.

In 2008/09 Niue will receive \$16 million in assistance from New Zealand and a further \$5 million contribution to the Niue International Trust Fund. Niue's population continues to decline from almost 5,000 in 1974 to about 1,200, fewer than one thousand of whom are Niuean.

**Tokelau's** needs are largely met by New Zealand. Tokelau is considered at the annual meeting of the United Nations Special Decolonisation Committee. Two self-determination referenda in the past two years have not achieved the levels of support needed for a change of status. Increased efforts by Tokelau and New Zealand are being directed to improving the availability of basic services on the atolls. Considerable effort continues to be made to enable Tokelau to take responsibility for the management of its affairs. The post of Administrator of Tokelau remains, but the associated powers have been largely devolved to the village council on each atoll, and through them to the Council for the Ongoing Government of Tokelau.

New Zealand provides funding for Tokelau's social and economic development through a three-year Economic Support Arrangement, amounting to \$40 million for the period 2007/08 to 2009/10. Further funding of \$4 million has been provided for major infrastructure projects. A 25-year dedicated shipping charter to provide assured shipping links between the atolls and with Samoa is expected to come into service in the second half of 2010.

The three atolls of Tokelau have a population of about 1,450. More than 8,000 people in the 2006 New Zealand census identified themselves as Tokelauan.

## 2 The Wider Region

Asia is of critical importance to New Zealand's long-term economic, political and security well-being. The region is undergoing rapid change driven by the growing economic and political influence of China and India, and the need to develop more effective regional mechanisms ("architecture") to manage economic, political/security and societal change.

Nimble bilateral and regional responses are required from New Zealand to safeguard our national interests. New Zealand's standing in the region is high – we are seen as a fully engaged and natural partner in Asian regionalism and as a valued friend by bilateral partners. Asia is now the destination for 35 percent of New Zealand's exports, a major source of investment and people-to-people links, and a key focus for New Zealand's engagement, including work on FTAs. The current financial crisis and the slow-down in the world economy will have an impact on the region, although high Asian growth rates and strong economic fundamentals and reserves are expected to temper downside risks.

### North Asia

North Asia has emerged as a primary engine of global economic growth, largely driven by China. Economic integration continues, with intra-regional trade accounting for over half the region's total trade. North Asia is geopolitically complex, characterised in particular by the potential for instability on the Korean Peninsula, and across the Taiwan Strait despite recent improvements in Taiwan's relations with China. Progress has recently resumed in the Six Party Talks (6PT) on the verification procedure to confirm independently the content of North Korea's declaration of its nuclear programmes. Regional rivalries, historical issues relating to Japan's colonial and wartime legacy, and territorial disputes also affect regional relations. Japan has made significant progress with both China and the Republic of Korea to improve the tone of these relationships and set the stage for closer cooperation.

- North Asia is a vital economic partner for New Zealand, containing four of our top ten trading partners.
- North Asian countries are major players on the regional and global stage. The state of relations between the countries of North Asia and with the US, and the management of tensions on the Korean Peninsula and across the Taiwan Strait, affect stability in the wider Asia-Pacific region.
- There are strong people-to-people links between North Asia and New Zealand. New Zealand communities of North Asian origin are contributing significantly to domestic economic growth.

China, Japan and Republic of Korea are priority relationships for New Zealand.

**Japan** is the cornerstone of New Zealand's engagement with North Asia. Japan was instrumental in helping New Zealand to secure membership in the East Asia Summit (EAS). New Zealand has strongly supported Japan's Closer Economic Partnership in East Asia (CEPEA) initiative. We are committed to strengthening the relationship across five broad areas: economics and trade; security and defence; science and technology; the environment and climate change; and Asia-Pacific regional issues. In May 2008, the two Prime Ministers concluded a joint statement setting out a framework for closer cooperation and agreed to start a joint study of a **Japan–New Zealand Economic Partnership Agreement (EPA)**. (See Trade Negotiations section below.) Disagreements with Japan over whales conservation and some aspects of fisheries policy require ongoing careful management.

**Greater China:** New Zealand's relationship with **China** is in good shape. The New Zealand China Free Trade Agreement (FTA) entered into force on 1 October 2008. New Zealand remains the only developed country with which China has concluded a FTA. New Zealand has a whole-of-Government effort underway to implement the FTA. The political relationship is fundamental to New Zealand's engagement with China. While we occasionally experience tension around human rights issues, including Tibet, and New Zealand's management of relations with Taiwan, the relationship is solid and friendly, with frequent bilateral exchanges and high-level contact. FTA considerations have not constrained New Zealand's regular discussions with China on human rights.

New Zealand and **Hong Kong** have a strong and constructive relationship. We see potential to encourage further growth and diversification of bilateral trade and investment, including through partnering with New Zealand enterprises into China. There have been some discussions about resumption of Closer Economic Partnership negotiations.

While New Zealand's one China policy limits our ability to engage with **Taiwan** in other than a few international fora (eg APEC and the WTO), we have a strong economic and cultural relationship with Taiwan, based on trade links, cooperation in the education and science sectors, and the growing relationship between Taiwan's indigenous peoples and Maori and Pacific island populations of New Zealand.

**Republic of Korea (ROK):** New Zealand's engagement with Korea has grown significantly over recent years under the Partnership for the 21st Century framework. Links between respective Government agencies have thickened and Korea has become an increasingly important partner in science and technology, investment and film. New Zealand and Korea are holding two rounds of preparatory talks on a Korea-New Zealand FTA in 2008. (See Trade Negotiations section below.) New Zealand has designated ROK as the focus country for its Cultural Diplomacy International Programme in 2008-09. A major event will take place in Seoul in April 2009, profiling New Zealand film, tourism, culture and lifestyle in the Korean market

**Democratic People's Republic of Korea (DPRK):** New Zealand is committed to supporting the Six Party Talks (6PT) process aimed at denuclearising North Korea and encouraging its return to the international community. The US has removed North Korea's designation as a state sponsor of terrorism and in return North Korea has resumed the disablement of its nuclear facilities. New Zealand has given some NZ\$8.5 million in assistance to the DPRK since 2004, including contributions toward heavy fuel oil purchases and humanitarian aid. A scholarship programme is proposed. New Zealand has sought to ensure that any assistance is delivered contingent upon the DPRK honouring its 6PT commitments expeditiously and in full.

### **Southeast Asia**

New Zealand's involvement in Southeast Asia is multi-faceted. In 2007, the ten countries of ASEAN were New Zealand's third largest merchandise export market, worth NZ\$4.6 billion. The market for New Zealand merchandise has grown by 24 percent per year over the past three years.

**Indonesia** has emerged as one of the more dynamic and stable democracies in Southeast Asia. This year marks the 50th anniversary of the establishment of diplomatic relations between New Zealand and Indonesia. A more confident Indonesia is re-asserting its leadership role in ASEAN and is helping New Zealand to consolidate its position in the emerging regional architecture. Indonesia is also helpful in other areas, including counter-terrorism, inter-faith dialogue and the Alliance of Civilisations. It is New Zealand's largest trade partner in Southeast Asia and seventh largest export market worldwide. The **New Zealand/Indonesia Trade and Investment Framework** was concluded in 2007. As a result of significant reform in the Indonesian military and strengthening of the relationship in 2006, New Zealand resumed low-level cooperation with the Indonesian Armed Forces (TNI). This is being carefully managed.

New Zealand's relationship with **Thailand** is underpinned by a Closer Economic Partnership (CEP). There is considerable political interchange, strong people-to-people contacts and good institutional links. We cooperate well regionally. Restrictions which New Zealand placed on the relationship following the September 2006 Thai coup were lifted following democratic elections in December 2007. The political situation remains uncertain. Further legal cases against the current government are pending. New Zealand needs to manage relations with Thailand through this period judiciously without prejudicing future opportunities. Thailand is likely to remain pre-occupied with domestic concerns. This may complicate the conduct of regional meetings as Thailand is the Chair of ASEAN until December 2009. Thailand is New Zealand's 14th-largest export market and 10th largest bilateral trading partner, as well as our 4th most important source of fee-paying students.

New Zealand's relationship with **Singapore** is warm. There are few problematic issues. Trade, which is governed by the CEP agreement of 2001, is significant: Singapore is New Zealand's 8th largest bilateral trading partner. There is currently a trade imbalance in Singapore's favour. There is scope for New Zealand exporters to develop their market presence in Singapore. With its influential position in ASEAN and other groupings, Singapore is a key ally in New Zealand's ambition to be considered a partner in Asian regional initiatives. The EAS and P4/US negotiation are likely to dominate attention in coming months. Remaining on Singapore's radar screen requires work. Scientific research and creative industries have been identified as areas for closer cooperation, as well as maintaining strong defence links.

**Malaysia** is important to New Zealand for strategic, political and economic reasons. Historical links through Commonwealth membership, the Colombo Plan and shared security concerns provide a valuable base on which to build. The political landscape in Malaysia is changing. Malaysia is New Zealand's 9th largest trading partner and 11th largest export market. New Zealand is seeking to develop links in value-added services in education and training, agricultural technology, biotechnology, ICT, the creative industries and tourism. The seventh round of bilateral FTA negotiations took place in September 2008 in Kuala Lumpur (see Trade Negotiations section below). New Zealand continues to have restrictions placed on the export of halal meat to Malaysia.

The recent pace of change in **Viet Nam** has been rapid. By 2010 Viet Nam's economy is expected to have doubled in size from 2000 and it should have graduated to middle-income status. Viet Nam is our 24th largest export market. New Zealand exports are dominated by dairy, wood products and agricultural commodities. The services sector, especially education and consultancies, continues to thrive. Viet Nam is an increasingly popular tourist destination for New Zealanders. There is greater potential to work together in regional and international meetings. Viet Nam is keen to see development of the relationship on all fronts. Responding presents some capacity challenges for New Zealand.

The **Philippines** continues to face serious challenges. President Arroyo's visit to New Zealand has acted as a catalyst for increased cooperation, including in police, defence, human rights, education and natural resource management. The Philippines is now New Zealand's tenth largest merchandise export market. Exports have grown by 154 percent since 1999. People-to-people links are growing rapidly. An estimated 20,000-25,000 Filipinos live in New Zealand.

New Zealand has a minimal relationship with **Myanmar** and continues to raise human rights concerns and urge the Myanmar authorities to commit to national reconciliation through open and constructive dialogue with all political parties. Travel restrictions prevent visits by members of the ruling junta to New Zealand. We support the UN-led process aimed at improving the human rights and political situation, and consider that ASEAN countries, plus China and India, have the greatest ability to influence Myanmar positively. Myanmar remains New Zealand's ASEAN dialogue partner until late 2009, requiring careful management.

Cooperation with **Brunei, Cambodia** and the **Lao People's Democratic Republic** largely in the context of ASEAN forms the core of our relationships.

**Timor-Leste** is struggling to put in place the institutions and mechanisms of nationhood. The security environment remains fragile. New Zealand has assisted with security and development since before independence. There are around 120 New Zealand Defence Force personnel attached to the International Stabilisation Force (ISF) and 25 New Zealand Police attached to the UN Mission (UNMIT). Australia is considering whether ISF numbers can be reduced in light of the improved security situation. We are working closely with Australia on this question. Although security has improved, we assess that more work needs to be done before it will be possible for the Timorese military and police to take responsibility for security. New Zealand has favoured an extension of the UNMIT mandate when it comes up for renewal in February 2009. Offers by New Zealand (and Australia) to help Timor-Leste with advice on security sector reform have yet to be taken up. With support of the Timor-Leste Government, the New Zealand Police are about to embark on a pilot community policing programme to support the long-term professional development of the Timorese Police, drawing extensively on New Zealand community policing experience.

## South Asia

**India** is now the world's fourth-largest economy. In the last two decades economic growth averaged over 7 percent. India is also an increasingly assertive player on the world stage. It was in part responsible for the breakdown of WTO negotiations in July. Its ongoing refusal to sign the Nuclear Non-Proliferation Treaty (NPT) and its testing of nuclear weapons in 1998 leave it outside international norms in this area. India's growing regional and global influence makes it an important focus for New Zealand's efforts to broaden and deepen relations. The Governor-General visited in September 2008. The legacy of Sir Edmund Hillary continues: the Government recently announced a Sir Edmund Hillary Fellowship to facilitate one high level visit each year from India (or Nepal). India is a fast growing market both for commodities (eg coal, wool, timber) and services. Tourism from India is increasing by 10 percent a year, New Zealand's fastest growing market in Asia. The tour by the Indian cricket team to New Zealand in January 2009 will be a further promotional opportunity. Some 4000 Indian students are studying in New Zealand, up from 200 in 1998.

New Zealand and Indian officials are continuing to work towards the early conclusion of a **Joint FTA Study** (see Trade Negotiations section below). The US-India Civil Nuclear Co-operation Agreement posed difficult questions for New Zealand. We worked constructively with like-minded countries (especially Ireland and Austria) to bolster the non-proliferation elements of the agreement. The finally agreed package, which included a range of non-proliferation commitments by India and the imposition of IAEA safeguards on its civilian programme, coupled with India's robust non-proliferation record, enabled a consensus to be reached within the Nuclear Suppliers' Group in October.

**Pakistan** returned to democracy in 2008, after nine years of military rule. New President Asif Zardari faces a worsening economic outlook and serious political tensions, including in the border areas with Afghanistan. He will struggle to exercise control over the military and intelligence services, some of whom may be covertly supporting the Afghanistan insurgency. Pakistan has a nuclear weapons programme. Questions remain about the strength of Pakistan's command and control arrangements especially in times of political instability. Pakistan and New Zealand have a modest relationship, focused on Commonwealth linkages. Trade is limited: there are openings in agriculture and education. Pakistan's proliferation and human rights record remains a concern.

**Sri Lanka** is in the midst of an increasingly violent civil war. New Zealand has raised concerns in UN bodies about Sri Lanka's human rights record, and is actively considering designating the LTTE (Tamil Tigers) a terrorist entity. Sri Lanka is a useful market, particularly in dairy.

After centuries of monarchy and a turbulent past eight years, **Nepal** became a Republic on 28 May 2008 following elections and the establishment of a Maoist government. The bilateral relationship builds on Sir Edmund Hillary's legacy, and modest ODA contributions channelled through UN agencies and NGOs.

### **Asian Regional Architecture**

New Zealand has political, security, economic and trade interests in being an active member of open regional institutions, structures and processes. Asian "regional architecture" has been evolving, prompted by a number of factors including Asian responses to the economic crisis of the late 1990s, and the rise of China and India.

New Zealand's broad interest is ensuring that it is fully engaged in – and is not excluded from – the complex of developing regional structures and processes. New Zealand is an active member of the:

- **East Asia Summit (EAS)**
- **Asia-Pacific Economic Cooperation (APEC)**
- **ASEAN Regional Forum (ARF)**

and is following closely the exploration of the concept of an **Asia Pacific Community (APC)** by the Australian Prime Minister's Special Envoy. New Zealand has a strengthening dialogue relationship with the Association of **Southeast Asian Nations (ASEAN)**. These processes allow New Zealand to work towards participating in a more integrated Asian community, and reinforce important relationships with countries of the region. New Zealand has a strategic interest in promoting the EAS rather than the "ASEAN plus three" (ASEAN plus China, Korea and Japan), to which we do not belong, as the basis of community development in the region.

**APEC** represents almost 60 percent of the world economy and 49 percent of world trade. Not a negotiating forum, its scope of work covers trade and investment liberalisation; business facilitation; economic and technical cooperation; and more recently structural reform. Post-9/11, APEC has also embraced a security agenda including counter-terrorism, secure trade and emergency/disaster preparedness. All of these structures provide opportunities for Ministerial engagement, including at Leaders' level at the EAS and APEC summits. Peru is hosting APEC this year and Singapore will host in 2009, APEC's 20th anniversary. **Key issues for the APEC Leaders and Ministerial meetings to be held in Lima in November 2008 are: global financial and market volatility; the state of the WTO/DDA negotiations; regional economic integration issues; the rapidly emerging structural reform agenda; corporate social responsibility; environment and climate change.** Other issues for discussion will include APEC reform, human security/secure trade, emergency preparedness and disaster management.

New Zealand continues to promote strengthening of the **EAS** through participation in regular Leaders', Foreign and Economic Ministers' meetings, liaison with the EAS Unit in the ASEAN Secretariat in Jakarta and contributing to regional activities. The theme for the **EAS Summit in Bangkok on 17 December 2008 will be "human security",**

**with a focus on disaster management.** Leaders can bring other pressing issues to the table, and it is expected that financial and trade/economic issues will be raised.

New Zealand's relationship with **ASEAN** is progressing well, based on a "Cooperation Framework" agreed by Ministers in 2006. The Framework outlines current and possible future activities and is regularly updated. ASEAN is undergoing significant change, centred on its new Charter (giving legal status to ASEAN), which is expected to be ratified by ASEAN Leaders at their Summit in December. New Zealand has expressed an interest in having a regular Leaders' summit with ASEAN as it develops its Charter structures and reorganises its calendar.

APEC's adoption in 2006 of the concept of a **Free Trade Area for the Asia Pacific (FTAAP)** as a long-term prospect has helped to revitalise its trade liberalisation agenda. Implementing a forward work-plan to develop regional economic integration is a central APEC focus this year. New Zealand has also been supporting a "Track II" (non-governmental) study on a possible FTA covering the 16-member country EAS process (known as the **Comprehensive Economic Partnership in East Asia (CEPEA)**). Both these initiatives offer exciting prospects in the longer term, and could serve to link New Zealand to the economic dynamism of the region.

An "**Economic Research Institute for ASEAN and East Asia (ERIA)**" has recently been established to provide research in support of the EAS and ASEAN. New Zealand is represented on the ERIA Governing Board and is seeking a place on the ERIA Academic Advisory Council.

A major recent development was the announcement at the end of August of the conclusion of negotiations for the **ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)**. The Agreement is expected to be signed at the East Asia Summit on 17 December 2008r (see Part C (e) of this brief).

The recent US decision to join the **Trans-Pacific Strategic Economic Partnership Agreement** between New Zealand, Chile, Singapore and Brunei (renamed "TransPac" by the US) will introduce another important mechanism into the emerging regional trade architecture.

The **ASEAN Regional Forum (ARF)** remains the **key regional security process**, comprising 27 members, from Pakistan and Sri Lanka in South and West Asia to the US, Canada and the EU. New Zealand's interest is in contributing to and influencing the ARF's regional security discussions and in promoting security cooperation among a diverse and unique membership. Concerns about sovereignty and non-intervention complicate the ARF's playing a substantive role in resolving the region's security issues. Its first practical exercise (related to disaster relief) involving the deployment of military assets is scheduled for the middle of next year. The value of the ARF is in regular dialogue helping to build regional confidence and personal contacts that can be drawn on should problems arise. New Zealand has agreed to co-chair with Indonesia and Japan a series of meetings on maritime security over the next three years. New Zealand will also contribute to the drafting of a Ministerial 'vision statement' to outline how the membership sees ARF evolving – in broad strategic terms – over the next 10-15 years.

The first meeting of **ASEAN Defence Ministers (ADMM)** was held in 2006, marking the beginnings of the ASEAN defence community. It is likely at some point in the next few years that the ADMM may develop a dialogue process with external partners (ADMM plus). There have been indications that New Zealand and Australia may be early candidates for an expanded ADMM.

New Zealand and Australia were founding members of the **Five Power Defence Arrangements (FPDA)** in 1971 along with Singapore, Malaysia and the United Kingdom. Although designed at the time to be a deterrent to any externally organised or supported attack on Singapore or Malaysia, the FPDA is now seen as broadly contributing to regional security. It continues to conduct sophisticated military exercises of benefit to NZDF, but has also evolved to meet a broader non-traditional security agenda, including maritime security and counter-terrorism.

New Zealand is a member of the **Shangri-La Dialogue**, a joint venture between the London-based International Institute for Strategic Studies and the Singapore Ministry of Defence that has met annually since 2001. The Dialogue includes the key regional players as well as major outside powers. It is the only forum to bring together Defence Ministers, defence chiefs and senior officials, occasionally along with academics, and invited media and business.

It is possible that the **Six Party Talks (6PT)** process on North Korea could spawn a new regional security organisation, **NEAPSM (Northeast Asian Peace and Security Mechanism)**. New Zealand is monitoring evolution of the concept closely.

### 3 Other Key Relationships

#### United States (US)

New Zealand and the United States enjoy a longstanding, close friendship. The US is a key partner for New Zealand. We are working particularly closely in the WTO negotiations and in APEC in pursuit of our shared interest in opening international markets and facilitating trade. A recent significant development is the US decision to enter into FTA negotiations to join the Trans-Pacific Economic Partnership Agreement.

The relationship is currently in very good shape, as a result of purposeful efforts by both sides over recent years to strengthen ties, through a forward-looking approach focusing on expanding cooperation in areas of common interest. Prime Minister Helen Clark's visit to the US and meeting with President Bush in March 2007, followed by Secretary of State Condoleezza Rice's visit to New Zealand and Samoa in July 2008, marked and reinforced the improved relationship. While the nuclear issue remains a point of difference, both sides recognise each other's policy position and have decided that this difference should not define or overshadow the broader relationship, nor inhibit cooperation where both countries' interests coincide.

Over the last few years there has been increased dialogue and cooperation on a wide range of security issues. New Zealand and the US share common interests in and concerns for security and good governance in the Pacific.

There is frequent high-level contact. Security issues have dominated US foreign policy. New Zealand's contributions to regional and international security, particularly in Afghanistan, Timor-Leste and the Pacific, and involvement in efforts to counter terrorism and the proliferation of weapons of mass destruction, such as the Proliferation Security Initiative (PSI), are appreciated by the US.

The US is the world's largest **economy** and New Zealand's second largest individual export destination, third largest source of imports and a major source of foreign direct investment and inbound tourism. US comprehensive participation in the Trans-Pacific Economic Partnership offers an attractive route to achievement of New Zealand's objective of an FTA with the United States. Promoting the initiative with the new US Administration and Congress will be a key priority in 2009.

New Zealand and the US have a strong history of cooperation in Antarctica, especially in the areas of Antarctic science and research as well as transport and logistics. There is extensive cooperation in the environmental area, including through our bilateral climate change partnership and on issues such as fisheries and whaling, as well as in the fields of science and technology, including participation in the International Partnership for Energy Development in Island Nations (EDIN). Educational exchanges, promoted in particular by Fulbright New Zealand, have been operating for many years. Links with the Department of Homeland Security also are increasing, with a number of initiatives underway to enhance cooperation. People-to-people links are extensive and growing, supported by substantial two-way tourism flows and by our respective working holiday scheme and student work travel programme.

The foreign policy implications of the ascension of Barack Obama to the Presidency of the United States in January 2009 are still taking shape. As usual in US foreign policy we expect there to be a good deal of continuity. There is no reason to suggest that an Obama administration would take anything but a positive view of the recent strengthening in New Zealand/United States relations. New Zealand's ongoing contribution to security and development in Afghanistan will continue to be welcomed. It is difficult to know precisely what the implications of an Obama administration will be for New Zealand's trade interests and ambitions, especially progress on the Trans-Pacific Agreement. The incoming President will likely be initially preoccupied with domestic economic issues and fall-out from the global financial crisis.

#### European Union (EU) and Key Member States

New Zealand's relationship with Europe, through the institutions of the European Union (EU), and with individual member states, is long-standing and dynamic. The relationship with the UK is one of our closest globally; France and Germany are also important partners. The EU is New Zealand's largest trading partner after Australia. Both the EU and New Zealand are committed to building a "broader framework for trade and economic relations", with a view to developing a more formalised trade and economic partnership in the future. Bilateral cooperation continues to expand across a range of areas, including economic transformation (eg science, education, innovation policy), environmental policy, and international security. We share a deep commitment to democracy, the rule of law, respect for human rights,

and a sense of good international citizenship – values that see us working together as “natural partners” on many issues, bilaterally and internationally.

There are strong **historical and people-to-people links**. The ability to visit Europe and work there is of key importance to New Zealanders.

The European Union accounts for about one sixth of New Zealand’s total goods trade. In the year to June 2008, New Zealand exports to the EU totalled NZ\$5.7 billion and imports NZ\$7.16 billion. The EU is the world’s largest economic entity and accounts for 31 percent of world economic output. **Access to European markets** on the best possible terms is vital to many New Zealand industries.

We share **similar values and traditions** with Western Europe in particular. New Zealand works together with European partners in a wide range of areas, particularly in international negotiations and standard-setting.

In September 2007 New Zealand and the EU adopted the **Joint Declaration on Relations and Cooperation between New Zealand and the European Union**. This sets out the directions in which the relationship has moved and proposes areas for future cooperation. A key aspect is to explore ways in which we might develop the framework for trade and economic cooperation.

A “broader framework for trade and economic relations” would enable us to build on regular high-level contacts and annual talks on agricultural trade, fisheries issues and overall trade. Negotiations on a comprehensive “open skies” air services agreement are due to begin in Brussels on 24–26 November. A bilateral customs cooperation agreement and a wine agreement are also on the cards. Although the EU remains a particularly valuable market for New Zealand’s primary products and a source of tourists, its economic importance to New Zealand is much greater than simply as a market.

As a single economic bloc with an increasingly cohesive foreign and security policy, the EU is an important player in international trade negotiations through the WTO and in developing international standards in areas such as human rights and the environment. Our positions tend to be similar and it is in both our interests to work in close cooperation.

**High-level visits** in both directions help strengthen New Zealand’s relations with older and newer partners within the EU. There is a regular cycle of consultations at Foreign Minister level with each holder of the EU’s six-monthly rotating Presidency. The next meeting (with France) is scheduled for **8 December 2008** in Brussels. The following round will be in the first half of 2009, with the Czech Presidency.

The Ministry works to ensure that the special New Zealand–**United Kingdom (UK)** relationship is not taken for granted by either side. The UK is overhauling its immigration regime. New Zealand has lobbied successfully to retain favourable access arrangements for New Zealanders. We welcomed the UK decision to retain ancestry visas and six-month leave to enter for tourists and business visitors. The final outcome of the new Youth Mobility Scheme is also positive. New Zealand and UK officials worked closely to develop the scheme.

There is regular dialogue with **France** at political and official levels. New Zealand supports France’s constructive role in the Pacific region, where we cooperate closely including on maritime surveillance and disaster relief. During its EU Presidency from July to December 2008, France has an ambitious programme of EU diplomacy under way in areas of close interest to New Zealand, notably sustainable development. Much of the current vibrancy of the France–New Zealand relationship is derived from deepening cultural links.

A number of events are planned in 2008 to mark the 90th anniversary of the end of World War I. New Zealand has a Shared Memories Arrangement with France, as well as with Belgium, and the Belgian region of Flanders, focused on preserving and nurturing the memory of shared sacrifices.

The **German**/New Zealand bilateral relationship is founded on extensive links across many sectors, including education; science; immigration; tourism; cultural exchange; and international cooperation in trade, environment, Pacific affairs, and peacekeeping. We have worked persistently to broaden and deepen the relationship. Key aspects are: a very successful working holiday scheme; a film co-production agreement; the 2007 Ministerial review of the 1978 Science and Technology Cooperation (STC) Agreement; and a strategic alliance between Auckland and Hamburg cities, established in April 2007.

The **Netherlands** is an important partner, underpinned by significant people-to-people links. The establishment of the New Zealand Embassy in **Poland** in January 2005 and **Sweden** in July 2008 reflects growing cooperation with other large EU member states. Interaction with **Spain** is diversifying. The King and Queen of Spain are due to visit New Zealand in mid-2009.

**Kosovo:** Some 47 countries have formally recognised Kosovo's independence. New Zealand's normal practice is not to make a formal statement of recognition or non-recognition. Serbia has strongly opposed Kosovo's unilateral declaration of independence (UDI) and recently submitted a proposal for the UN General Assembly to refer the question of the UDI's legality to the International Court of Justice for an advisory opinion. Along with like-minded countries New Zealand abstained in a vote on Serbia's proposal. This is consistent with New Zealand's support for the rule of law and use of UN dispute resolution settlement mechanisms.

### **Other Relationships**

**Canada** is an important partner in trade, tourism and investment in both directions. As of December 2007 it was New Zealand's 16th largest trading partner. The trading relationship is generally good, with the exception of difficulties over Canada's policy of supply management in some agriculture sectors and market access for New Zealand beef and dairy products. These can face high Canadian tariffs and quota restrictions (dairy in particular). Last year New Zealand and Canada negotiated a new, more liberal Air Transport Agreement (ATA) which will allow for daily flights between the two countries. It is hoped that the new ATA will be ready for signing in early 2009.

**Russia's** political weight and economic potential make it an important partner for New Zealand. It is a permanent member of the UN Security Council and retains a significant nuclear arsenal. It is also the last major economy which has yet to accede to the WTO. As one of the world's three largest emitters of greenhouse gases, Russia's approach to climate change is also significant. Its size and geographic distribution make Russia the only nation with a presence and stake in both Europe and the Pacific Rim. It is a member of APEC. Russia has growing potential as a market for New Zealand. Trade and economic relations are well below potential. Despite the growth of Russian consumer incomes since 2000, New Zealand companies find it difficult to exploit market opportunities.

Regular Foreign Ministry consultations with Russia, the next round being due in Wellington in early 2009, provide an opportunity to discuss bilateral and international issues. New Zealand has a considerable stake in Russia's accession to the WTO. We have concluded the main bilateral goods and services negotiations; those to secure access for New Zealand beef are ongoing. The outcomes will not come into effect until Russia joins the WTO – the timing is still indeterminate. New Zealand also has an interest in developing people-to-people links and co-operation with regard to Antarctica. Russia is New Zealand's largest source of inter-country adoptions, requiring ongoing issues management. There is a growing Russian community in New Zealand.

Recent investment by the Russian baby foods giant Nutritek in New Zealand Dairies Ltd (NZDL) in South Canterbury was approved on the basis that it would create new job opportunities, introduce new technology and increase export receipts and market competition. There are indications that Nutritek may increase its capital investment in NZDL. As a global trend, outward investment by Russian companies is increasing.

**Latin America** is an increasingly important region for New Zealand. Its population is expected to reach 625 million by 2015. The region has significant economic potential. Regional structures and institutions are emerging. Brazil, Mexico and a number of other countries are increasingly exercising influence in multilateral affairs.

New Zealand's Latin America Strategy has been in place since 2000. Its aim is to increase links between New Zealand and the region in three broad areas: political and diplomatic; economic and trade; and people-to-people. The Strategy is supported by a Ministry baselined fund of \$250,000 per year. The strategy is focused on Argentina, Brazil, Chile, Mexico, Peru and Uruguay.

**Brazil's** importance to New Zealand is growing in line with its emerging status as a global player on priority issues for New Zealand, such as the WTO (as a major agricultural exporter) and multilateral environment negotiations. New Zealand's relationship with **Chile** is underpinned by the Trans-Pacific Strategic Economic Partnership. New Zealand has indicated interest in pursuing a closer economic partnership, or 'FTA plus', with **Mexico**, our largest trading partner in Latin America.

New Zealand exports to the region were worth NZ\$1.2 billion in the year to December 2007. Almost half of this trade was with Mexico – New Zealand's 4th largest dairy market. Dairy trade with Venezuela (NZ\$359 million) and Cuba (NZ\$114 million) is also significant. New Zealand is increasingly focused on investment and joint ventures, particularly in the agri-business sector. Fonterra has significant dairy investments and partnerships in Chile, Brazil and Argentina. PGG Wrightson's development of New Zealand-style dairy farming in Uruguay is New Zealand's second largest investment in South America. There is also growing trade in services with the region (3,541 students in New Zealand in 2007; over 30,000 Latin American visitors in 2008 to August).

Regular Foreign Ministry consultations are due with Argentina, Chile, Mexico, Uruguay in Wellington in the first half of 2009.

Cabinet is due to be consulted on the next three year phase (2009–2012) of the Latin America Strategy in early 2009, following a meeting of the New Zealand Ambassadors in Latin America in early February.

The **Middle East** is a strategic fulcrum, the stage on which major international political and economic challenges are being played out. The Middle East contains over 60 percent of the world's oil reserves and oil and its revenues continue to dominate most Middle East economies. The global financial crisis will dent the oil economy, but its effects are unlikely to be anywhere near as severe as for the vulnerable developing economies of Africa.

New Zealand seeks to play a constructive role in Middle East security issues and maintains substantial ongoing NZDF deployments, most prominently in Afghanistan. New Zealand's trade with the region has rapidly expanded on the back of high oil and food prices. The region is a growing market for New Zealand services, especially education. Exports have risen by over 70 percent since 2001, to reach \$1.8 billion (year ended December 2007).

New Zealand has since 2002 made a major contribution to peace-building in **Afghanistan**, centred on the Provincial Reconstruction Team (PRT) in Bamyán Province and a development assistance programme. The PRT commitment currently extends to September 2009. Decisions will soon be required on the future of the New Zealand engagement. Officials have prepared advice for Ministers in late 2008. Despite progress in many areas, Afghanistan remains dogged by a stubborn insurgency and is heavily dependent on outside support. NZAID's Afghanistan programme targets women, education, human rights and alternative rural livelihoods.

New Zealand has made significant progress in negotiations towards a free trade agreement with the six member states of the **Gulf Cooperation Council (GCC)**: Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman. The GCC takes over 50 percent of New Zealand exports to the Middle East and supplies, directly and indirectly, over 50 percent of New Zealand's imports of oil and oil products (see Trade Negotiations section below). Emirates Airlines runs 28 flights a week to and from the region and further improvements are expected.

New Zealand is firm in its demands that **Iran** should meet IAEA and UNSC requirements about its nuclear activities, and comply with its international human rights obligations. Our trade with Iran is hampered by international sanctions, but New Zealand maintains a useful political dialogue aimed at encouraging improved Iranian engagement with the international community. Iran's nuclear ambitions have sparked major international tensions, with speculation about possible Israeli and/or US military attacks, but both the US and Israel seem committed to diplomatic action.

New Zealand is supportive of negotiations towards a settlement of the **Arab/Israel dispute**, currently part of the US-sponsored Annapolis process. The outlook for a final settlement is not good, however, with continuing political uncertainties especially on the Israeli and Palestinian sides. New Zealand maintains longstanding peacekeeping deployments to the **Sinai Multinational Force and Observers (MFO)** and to the **UN Truce Supervision Organisation (UNTSO)**, and assists Palestinian refugees through the **United Nations Relief and Works Agency (UNRWA)** and other multilateral bodies.

**Turkey** is a generous and supportive host of the annual ANZAC Day commemorations at Gallipoli, which are jointly organised by New Zealand and Australia. With expectations of increasing public attendance in the lead-up to the centenary commemorations in 2015, and site capacity limitations already being experienced, options for management of future services are being developed by Australia and New Zealand in consultation with Turkey. The Governor-General is to represent New Zealand at the 2009 Gallipoli commemorations. Turkey is an emerging economy with EU accession aspirations. Efforts to strengthen the bilateral relationship in recent years have been warmly reciprocated by the Turks.

Relations with **Israel**, restored following settlement of the 2005 passport fraud issue, remain complicated by continued Israeli occupation of Arab lands and Israel's conduct particularly in the occupied Palestinian territory. New Zealand continues to press Israel to comply with its international human rights and humanitarian obligations.

The future of **Iraq** is crucial to the restoration of stability and security in the Middle East. The situation shows signs of improvement, but major challenges are still to be met.

**North African** markets, including **Egypt**, are of growing importance to New Zealand exporters. The New Zealand Embassy in Cairo was opened in November 2007, and concerted efforts have been made to strengthen the relationship with Egypt, long considered a leader in the Arab world. Following a visit by the Minister of Trade this year to **Algeria, Morocco and Libya**, moves have been made to strengthen links with those countries through improved representation and more regular dialogue.

The Ministry has a modest footprint in **Africa** – Cairo and the single sub-Saharan African post in Pretoria. New Zealand maintains traditional Commonwealth links, closely monitors developments in Africa, particularly through the UN, and contributes to the resolution of security issues and the relief of human suffering as it can. New Zealand welcomes African ownership of the continent's development and the need for growth of democracy and good governance.

New Zealand's relationship with **South Africa** is the keystone of our links with the region. South Africa dominates the southern African economy and is the largest African economy. South Africa is likely to weather the global financial crisis better than the rest of the continent. It is a major power in African institutions such as the Southern African Development Community and the African Union, a leading proponent of the New Partnership for African Development, and a leading voice for African countries in the United Nations. Strengthening New Zealand's relationship with South Africa has been a recent focus. South Africa will open a High Commission in Wellington by April 2009, thereby becoming the only African state to have a resident diplomatic mission in New Zealand.

The Government welcomed progress between political parties in **Zimbabwe** to form a unity government. This is only the first step, however, in Zimbabwe's long road back to representative democracy. While New Zealand and the international community stand ready to assist Zimbabwe's recovery, real change will need to come. Issues of particular concern are humanitarian access, political freedom, human rights, economic reform and governance issues, and civilian oversight and reform of the security services.

The situation in **Darfur** and the ongoing insecurity elsewhere in Sudan and the wider region remain of serious concern. New Zealand has voiced strong support for the deployment of a full UN peacekeeping force in Darfur as soon as possible. We have contributed to international efforts to resolve the conflicts in Sudan through offering humanitarian, political and some peacekeeping support.

#### **4 Global Economy and Finance and New Markets**

The ongoing **global financial crisis** will have important implications over the next 18 months to two years. The Ministry has two significant roles: monitoring developments as they unfold through its overseas posts and analysing the implications for New Zealand, working closely with other Government agencies. New Zealand's diplomats are able to use their contacts to access senior overseas officials, private sector leaders and other experts to obtain first-hand perspectives on global economic developments that would not otherwise be available to Wellington policy-makers. Work being led by Treasury with input from the Ministry, Reserve Bank and Ministry of Economic Development is underway to identify New Zealand's core interests in the debate on international financial reform. A report will be produced shortly for Ministers' consideration.

The Ministry also works to ensure that New Zealand's interests are protected in the context of international and regional responses to the global financial crisis and responses of key partners such as Australia. It is necessary to develop and promote New Zealand's position with respect to international and regional economic diplomacy, as the institutional frameworks within which governments will address these issues become clearer. The issues will be discussed in a range of international forums, such as the **Organisation for Economic Cooperation and Development (OECD)**.

Aside from the obvious intensification of competition for market share amongst exporters as import demand slackens, there is also a particular concern about the potential rise of trade protectionism as a new pressure affecting our interests. This will require attention both bilaterally and in relevant forums, particularly the WTO.

The Ministry has an ongoing important role in coordination of the Government's external efforts to take forward New Zealand's economic objectives, including in support of innovation and growing globally competitive firms. **New Zealand Trade and Enterprise (NZTE)** has a new support and facilitation programme aimed specifically at such firms. It takes on added significance because of recessionary influences in key markets. The Ministry's role overlaps with the work of the **Ministry of Research, Science and Technology (MORST)**, the **Ministry of Education**, the **Tertiary Education Commission (TEC)** and **Immigration New Zealand (INZ)**, in jointly building international linkages around science and technology, education and migration. The Ministry needs to be responsive to both domestic and international developments, including international obligations which constrain Government intervention.

For economic development objectives to be achieved, New Zealand will need to:

- work to increase market access, assist with provision of market knowledge and support, and ensure a favourable policy environment surrounding in-bound and out-bound foreign direct investment;
- build on New Zealand's relative investment in emerging economies; and
- continue to engage in our traditional markets.

Through its posts the Ministry identifies opportunities to enhance New Zealand's international connectedness in relation to economic development priorities. It supports the efforts of other agencies to develop their off-shore linkages (eg in the area of innovation), including where they have no off-shore presence. Another key aspect is drawing lessons from comparator countries. Ministry posts contribute to market intelligence, and assist with research and/or policy dialogue on specific issues to feed into the New Zealand policy debate.

The Ministry plays a lead role in coordinating and managing the Government's engagement with the OECD to draw on research to inform policy thinking.

In close coordination with other economic agencies, the Ministry is actively engaged in work to position New Zealand business to take advantage of opportunities, and minimise risks, from the increasing global focus on sustainability issues such as climate change. Activities include regular market intelligence reporting to businesses on sustainability trends and developments in key export markets (working closely with NZTE); engaging in development of international standards around sustainability issues (eg greenhouse gas footprinting); and coordinating the Sustainable Food Exporters Group, a model Government/industry partnership originally set up to address market access issues for food produce that had arisen as a consequence of greater awareness of climate change, and which has now refocused on broader sustainability issues facing the food and beverage sector.

The Ministry works with NZTE to ensure that New Zealand firms are well-placed to take advantage of opportunities in overseas markets. In addition to continued strong emphasis on its 'core business' of maintaining and enhancing market access, the Ministry is increasing its focus on supporting NZTE, including by providing support in those markets that NZTE has identified as being of lower priority, and through providing diplomatic support and access to key overseas decision-makers.

In collaboration with other economic agencies, the Ministry works to help realise the opportunities secured through negotiation of FTAs, by ensuring that business is fully informed and has effective implementation plans.

The Ministry manages **Growth and Innovation Framework (GIF)** funds totalling \$4.4 million which allow Government agencies engaged in trade negotiation and implementation to undertake research, outreach and constituency-building, capacity-building and participation in negotiations.

## 5 Trade Negotiation Priorities

A key Ministry focus and contribution to the Government's economic agenda is to secure increased market access for New Zealand through successful outcomes to trade negotiations. Our objectives are to improve access to international markets, ensure fairness for New Zealand business (protecting against unfair competition) and provide certainty to business through transparent, stable trading rules.

New Zealand's trade negotiating agenda is pursued on three fronts:

- Multilateral negotiations, through the WTO;
- Regional or plurilateral Free Trade Agreement (FTA) negotiations; and
- Bilateral FTA negotiations.

Particularly in respect of the latter two, the Ministry emphasises that the totality of New Zealand's relationships with potential partners is crucial, and successful trade diplomacy will need to be constantly underpinned by wider relationship management and development strategies using the Ministry's core expertise, as well as "NZ Inc" assets, coherently deployed.

Notwithstanding their slow progress, the **Doha Round of World Trade Organisation (WTO)** negotiations remain a key priority for New Zealand. The current Round offers the prospect of substantial reductions in subsidies which distort international trade, particularly in agricultural products. The WTO is an essential mechanism, as the largest subsidisers (the EU, US and Japan) are unwilling to negotiate on subsidies in a bilateral or regional trade context. The WTO also provides an efficient mechanism for New Zealand to achieve tariff reductions across 153 member states in one negotiation. As a small international player, New Zealand has a strong interest in maintaining the rules-based trading system that the WTO offers.

Limited progress in the WTO has led to increased interest in negotiating bilateral and regional arrangements, particularly in the Asia-Pacific region. These negotiations seek to improve New Zealand's access in goods, services, investment and intellectual property, as well as to secure commitments from our trading partners on labour and environment. We also need to be mindful of our position relative to our competitors: negotiating our own bilateral or regional agreements is a way of ensuring that New Zealand firms are not operating at a competitive disadvantage in key markets.

The **US-Trans-Pacific Economic Partnership Agreement** negotiation is likely to be New Zealand's most significant outside the WTO process – both in terms of potential benefits, and in terms of resource intensity.

The international trading framework is also being affected by increasing concerns about the **environment and food security** – the latter flowing from steep increases in international food prices. There is growing consumer interest in how goods are produced, particularly the impact of their production on the environment, leading to popularisation of the simplistic concept of "food miles" and, more importantly, carbon footprinting. Governments are likely to follow this trend with regulation and labelling, which will require new New Zealand thinking about the nexus between trade rules and environmental outcomes.

### **The Multilateral Agenda**

Since its launch in December 2001, the current Round of WTO negotiations (the "Doha Development Agenda") has been characterised by a number of highly publicised breakdowns and walk-outs from WTO summits. At Davos in January 2008, Ministers expressed a commitment to concluding an overall deal by the end of this year. After a number of setbacks, that objective was revised to one of reaching agreement on final "modalities" for agriculture and non-agricultural market access (these determine the content of the schedules that detail tariff and subsidy cuts to be made by each member.) Even that now seems to be in doubt after the breakdown of the most recent Ministerial talks in Geneva in July.

New Zealand's key interest in the negotiations is in achieving a good market access result for our exports, particularly agriculture, which remains the most distorted sector in international trade. Export subsidy elimination alone could be worth around \$300m annually to New Zealand (based on a medium world price scenario), with further substantial gains to be derived from the expansion of tariff rate quotas and tariff reductions. Reform of agricultural trade is unlikely through bilateral free trade agreement negotiations: the US and EU have been unwilling to negotiate on subsidies outside the WTO. New Zealand also has a strong interest in preserving the integrity of the WTO rules-based trading system and its mandatory dispute settlement. Failure of the Doha Round could place that system at risk.

The immediate future remains unclear. Publicly, members continue to declare their commitment to reaching a deal on modalities in the key areas in the near future, emphasising the progress that was achieved in the lead-up to and at the July Ministerial. The Chair of the agricultural negotiations (Crawford Falconer) has resumed consultations in Geneva, as has his industrial goods counterpart.

## The Plurilateral Agenda

**P4-US:** The **Trans-Pacific Strategic Economic Partnership** between New Zealand, Chile, Singapore and Brunei (formerly known as **P4**) entered into force in 2006. The Agreement was designed as a high-quality undertaking with the potential to lead to greater economic integration in the Asia-Pacific region. On 22 September 2008, negotiations were launched for the United States to join the Trans-Pacific Agreement. US involvement has increased the interest of others (eg Australia, Peru, Viet Nam) in joining and discussions are underway on the Agreement's further expansion. The US had previously been participating in negotiations between the Trans-Pacific Partners on investment and financial services, underway since early 2008.

The US decision to negotiate has significant strategic and commercial implications, particularly for New Zealand: commercially, through the elimination of trade barriers to the US; and strategically, through the fillip that the initiative will give to broader regional trade and economic integration. As it proceeds, the Trans-Pacific initiative will enhance New Zealand's profile in Asia and strengthen relations with key countries in the region.

Comprehensive negotiations involving the US and potentially others in the Asia-Pacific region are planned to begin in March 2009. Before the negotiations get underway, officials will begin a process of public consultation and will seek guidance from Cabinet on the New Zealand mandate.

**ASEAN-Australia-New Zealand FTA (AANZFTA):** On 28 August 2008 in Singapore, Ministers from ASEAN, Australia and New Zealand announced substantive conclusion of the ASEAN-Australia-New Zealand FTA (AANZFTA) negotiations. The Agreement is expected to be signed at the East Asia Summit (EAS) in the third week of December 2008. AANZFTA represents a significant milestone in New Zealand's ongoing integration into one of the world's most economically dynamic regions. It is also the first time that ASEAN as a group has negotiated a comprehensive agreement as part of a 'single undertaking'. The outcome simultaneously spans goods, services and investment, as well as the other areas such as intellectual property and competition policy. New Zealand's priority countries for these negotiations were Indonesia, Viet Nam and the Philippines, the larger members of ASEAN with which New Zealand does not have an existing FTA or an FTA under negotiation.

## The Bilateral Agenda

New Zealand's priority objectives for securing new FTA negotiations are **Korea, Japan, India**, and, the medium term, the **EU**. Meanwhile ongoing FTA negotiations with the **GCC, Malaysia** and **Hong Kong** are at varying stages. A targeted Trade Ministers' travel programme, as part of a wide whole-of-Government approach, is important.

For **Korea**, following officials' FTA preparatory talks in November, a Minister's introductory letter and a visit in the first quarter of 2009 could set the scene for a subsequent Prime Ministerial visit. (New Zealand cultural events are planned for April.)

For **Japan**, an early Ministerial visit would allow us to inject momentum into the process of agreement on Terms of Reference for a Joint Study of an FTA.

With **India**, completion of the current Joint Study on an FTA should hopefully lead to agreement to launch an FTA negotiation.

For the **EU**, the first six-monthly Foreign Ministers' consultations in April 2009 will keep contacts moving, but an early Trade Minister visit is important both in terms of the EU's leading role multilaterally, as well as to reinforce bilateral links, and EU awareness of our FTA interest.

With the **US**, there may be merit in a visit by the Minister of Trade to Washington in February or March 2009 to meet key counterparts.

**Republic of Korea (ROK):** Leaders agreed in May 2008 to two rounds of preparatory talks on an FTA during 2008. The objective is to discuss the scope, content and level of ambition of a Korea-NZ FTA and to clear the way for negotiations. The first round was held in Seoul on 29-30 September, with a second round expected in November. Based on the results of an earlier private-level joint study, an FTA would offer proportionately less economic benefit to Korea than to New Zealand. Korea also has a heavy negotiating agenda, with other larger partners vying for its attention. These factors complicate progress and New Zealand does not yet have a commitment from Korea to enter into negotiations. The timing of a decision to negotiate may be influenced by the timing of the Korean ratification of

the Korea/US FTA. The objective is to achieve, over a relatively short timeframe, a high-quality, comprehensive FTA with New Zealand's sixth-largest trading partner.

Cabinet has agreed to a general mandate for the preparatory talks based on established New Zealand principles and positions and reflecting New Zealand's previous FTA outcomes. If FTA negotiations are launched in early 2009, a detailed negotiating mandate will be sought from Cabinet once more information is available on Korea's interests and objectives.

**Japan:** Prime Ministers Clark and Fukuda agreed in May 2008 to undertake an authoritative joint study of the potential benefits of an Economic Partnership Agreement (EPA). Terms of reference for the study are to be agreed at Joint Economic Consultations in December 2008.

Japan is New Zealand's third-largest export market and fourth-largest trading partner (exports of \$3.4 billion and imports of \$3.9 billion in the year to December 2007). The agreement to undertake an authoritative joint study on an EPA is a welcome step in the process to significantly lift the relationship.

Sustained diplomatic effort, including at the Ministerial level, will be important, as will ongoing wider contact with Japanese business constituencies and opinion.

**India:** Ministers agreed in 2007 to undertake a joint study into the implications of a free trade agreement (FTA). The study is being undertaken by a Joint Study Group (JSG) consisting of officials from both countries. Four JSG meetings have been held so far in 2008, and officials expect that the study will be completed before December, although early Ministerial guidance may be needed on some points.

The New Zealand/India trade and economic relationship is growing strongly but is well below potential, not least because of tariff and other barriers that keep most New Zealand agricultural products out of the Indian market.

Subject to the successful conclusion of the study, officials will prepare a Cabinet paper for Ministers' consideration, which is likely to recommend proceeding to a negotiation.

**Gulf Cooperation Council (GCC):** New Zealand and the GCC have held three FTA negotiating rounds. The fourth was to be held in October 2008, but in September the GCC announced suspension of all of its 13 FTA negotiations for up to six months, to allow for a stock-take of its negotiating agenda. It is unlikely that negotiations with New Zealand will resume before March 2009.

The GCC is a valuable market for New Zealand dairy and meat products, in particular. Exports to the GCC averaged NZ\$680 million per year between 2004 and 2006, attracting an average of \$32 million of duties per annum. Only 7 percent of our goods enter the GCC duty free, while 87 percent of our exports face the GCC's 'common external tariff' of 5 percent. Exporters have urged officials to pursue the FTA to ensure that the competitiveness of New Zealand exports to the GCC is not eroded via more preferential access extended to major competitors (eg the EU and Australia) through bilateral FTAs.

**Malaysia:** After suspension of negotiations on the Malaysia-New Zealand FTA in April 2006 (due to Malaysian sensitivities on some key New Zealand objectives), Ministers agreed that they should be put on to a slower track until re-engagement might enable a conclusion. Following Ministerial agreement to resume negotiations in 2008, the seventh round was held in Kuala Lumpur in September. This round provided a shared sense of the basis for ongoing negotiations. New Zealand will host another round of negotiations in November 2008.

New Zealand has a commercial interest in securing a high-quality and comprehensive FTA with Malaysia that goes further than our and Malaysia's commitments in the ASEAN-Australia-New Zealand FTA. An agreement with Malaysia would also be another step in broadening and deepening New Zealand's integration into the ASEAN region.

**Hong Kong:** FTA negotiations between Hong Kong and New Zealand were suspended in 2002 pending the conclusion of New Zealand's FTA negotiations with China. Now that the New Zealand-China FTA has been completed, both sides have expressed an interest in the possible resumption of talks.

Hong Kong is essentially a services economy. The treatment of services is therefore a key element in determining the benefits for New Zealand of an FTA with Hong Kong.

## 6 Resource/Environmental Diplomacy

The international environment agenda is expanding and increasingly taking centre stage in international diplomacy. The 1992 Rio Earth Summit initiated a “blueprint” for global sustainable development. The Summit concluded framework conventions on climate change and biodiversity which continue to shape global policy with flow-on effects for domestic decision-makers. Multilateral environment agreements already in place seek to develop and implement rules to protect the environment from a range of threats. New environmental treaties (eg for forestry) are under consideration. New Zealand seeks to play an active and targeted role in international environment negotiations, both to pursue solutions which deliver the “global good”, and also to maintain the competitiveness of the New Zealand economy. International negotiations on climate change, biodiversity, atmosphere, forestry and trade in hazardous substances have policy and trade implications for New Zealand. The Ministry works closely with domestic agencies to identify the full range of interests in international negotiations to which New Zealand is a party.

### Climate Change

International progress in addressing climate change might be at a tipping point, thanks to a growing perception that the effects are already being felt. Two parallel negotiating tracks are underway under the **United Nations Framework Convention on Climate Change (UNFCCC)** and its **Kyoto Protocol**. A post-2012 global framework may involve a broad but thin global agreement, shored up by a raft of bilateral, plurilateral and regional agreements. Climate change increasingly needs to be seen as an energy security, economic and development issue, as well as an environmental one.

New Zealand’s key goal in climate change negotiations is to seek a comprehensive, environmentally effective international agreement. Climate change action is required by major emitters, including the US and big developing countries (which do not have emissions reduction targets in the current period), and fair burden-sharing of emissions reduction commitments.

Core objectives in New Zealand’s negotiating approach include effective least-cost solutions, efficient carbon markets, environmental integrity, rules that make allowance for New Zealand circumstances, ‘rules before commitments’, and effective action on adaptation, especially for the Pacific. New Zealand also seeks rule changes to **Land Use, Land Use Change and Forestry (LULUCF)** to increase flexibility in changes between agricultural and forestry land use.

New Zealand’s interdepartmental climate change work is led by the Ministry for the Environment, while this Ministry leads the international negotiations. New Zealand chairs or co-chairs three bodies of the UNFCCC and vice-chairs two working groups of the Intergovernmental Panel on Climate Change (IPCC).

The need to engage on detailed climate change negotiations on multiple fronts will require more skilled negotiators, more interdepartmental and public-private consultation, and better analytical and legal capability than at present. New Zealand will face increasing demands to support Pacific neighbours’ climate change mitigation and, especially, adaptation efforts.

Parties to the UNFCCC meet in Poznan, Poland, 1-12 December 2008 to advance negotiations towards the post-2012 global framework, due to be decided in December 2009 in Copenhagen. Ministers responsible for Climate Change issues attend the last three days of the talks, and Finance Ministers will meet early in the second week. We understand that New Zealand is unlikely to be invited to a related Industry Ministers meeting.

While emissions reductions targets for the post-2012 commitment period are unlikely to be agreed this year, New Zealand will soon need a position on what those targets should be, on the mechanisms that may be used to attain them and on the quantum of financing that can be committed to assist developing countries with adaptation, mitigation and technology transfer.

### Continental Shelf

The UN Commission on the Limits of the Continental Shelf (CLCS) issued its recommendations confirming the outer limits of New Zealand’s continental shelf in September 2008.

The area of New Zealand’s continental shelf beyond the EEZ amounts to approximately 1.7 million km<sup>2</sup> – about six times the size of New Zealand. New Zealand has exclusive rights to the resources of the seabed of the continental shelf (such as petroleum or gas deposits). The CLCS considered the limits and supporting data put forward by

New Zealand, and made recommendations to New Zealand largely confirming the limits proposed (more than 98 percent of the proposed shelf was accepted). Although the CLCS's recommendations are not technically binding, they have considerable authority and New Zealand is expected to have due regard to them. Cabinet approval is being sought to proceed with regulations to declare the outer limits of New Zealand's continental shelf on the basis of the CLCS's recommendations. Cabinet's guidance is also being sought on policy and legislative implications for management of New Zealand's extended continental shelf.

One important issue will be how to handle New Zealand's unresolved continental shelf boundaries with Fiji, Tonga and possibly France (in respect of New Caledonia). The Ministry will advise Cabinet on possible options.

### **Fisheries**

New Zealand is party to three important Regional Fisheries Management Organisations (RFMOs): the **Western Central Pacific Fisheries Commission (WCPFC)**; the **Commission for the Conservation of Southern Bluefin Tuna (CCSBT)**; the **Commission for the Conservation of Antarctic Marine Living Resources (CCAMLR)**. The WCPFC manages the highly migratory fish stocks of the Western and Central Pacific. CCSBT manages a single stock – Southern Bluefin tuna – throughout its geographical range. The CCAMLR manages Antarctic fish resources including toothfish (see section on Antarctica below.)

New Zealand is a major proponent in the negotiations to establish a new **South Pacific Regional Fisheries Management Organisation (SPRFMO)**, which will put in place a regime to manage the non-highly migratory fisheries of the South Pacific – notably orange roughy and alphonsino on the western side of the Pacific and jack mackerel off the coast of Chile.

**WCPFC:** The WCPFC aims to manage the last relatively healthy tuna stocks in the world – the bigeye, yellowfin, skipjack and albacore that migrate through the high seas and EEZs of the central and western Pacific. Collectively, the tuna stocks caught in the WCPFC area are valued at more than US\$3 billion per annum. WCPFC has made good progress in establishing initial management measures for a range of target stocks but is struggling to reach agreement on more effective measures to reduce pressure on Pacific bigeye and yellow fin. Another challenge is how to deal with the pressure – especially from the Northern Hemisphere and Latin America – to access the resource as tuna resources elsewhere have become depleted. New Zealand fishers have a small presence in the Western and Central Pacific tuna fisheries. The major focus of New Zealand's participation is to try to ensure that the stocks are managed sustainably for long-term benefit of the Pacific islands countries – for many of which these stocks constitute their most important economic resource.

**CCSBT:** Southern bluefin tuna is one of the world's most valuable fish species, with the price of a single fish now measured in the tens of thousands of dollars. The stock has been in serious crisis for some time. Despite major reductions in catch quotas, future prospects for this stock are bleak.

**SPRFMO:** New Zealand and Australia took the initiative to promote the negotiation of the SPRFMO as a means of managing fishing for orange roughy in the high seas beyond our respective EEZs and to fill the significant management gap for non-highly migratory species in the South Pacific. Chile joined as the third cosponsor, its principal interest being to secure controls over the large jack mackerel fishery that straddles its EEZ and the adjacent high seas and which is being increasingly targeted by Chinese, EU and other northern hemisphere fishers. To date there have been six rounds of negotiations. The participants have agreed on interim measures to limit fishing, including bottom trawling in the high seas beyond the New Zealand EEZ, and there is an emerging agreement on key features of the new regime. It is hoped that the negotiations will conclude in 2009.

### **Antarctica**

The Ministry has the lead role in pursuit of New Zealand's interests in the Antarctic Treaty System (ATS), including the conduct of New Zealand's diplomatic relations with other countries in respect of Antarctica. It also coordinates the development of advice to the Government on Antarctic policy issues and assists the Minister of Foreign Affairs in carrying out responsibilities under the Antarctica (Environmental Protection) Act 1994.

Given its proximity to Antarctica and territory there (the Ross Dependency), New Zealand has a strong interest in the maintenance of peace and stability of the Antarctic Treaty area, which starts at 60 degrees South latitude, and the protection of its environment. These interests are served through New Zealand's effective participation in the ATS.

The Antarctic Treaty protects our sovereignty position in the Ross Dependency, which is part of the Realm of New Zealand and has been New Zealand territory since 1923. The Ross Dependency includes all the islands and territories between 160 degrees East longitude and 150 degrees West longitude south of 60 degrees South latitude. New Zealand's Scott Base was one of the earliest operational bases on the continent and has supported our continuous presence in the Ross Dependency since 1957.

While New Zealand cooperates with a number of countries both in the Antarctic Treaty System and on the ice, our key partner in Antarctica is the United States. This partnership embraces cooperation on logistics, science and policy.

New Zealand is one of the original signatories of the **Convention on the Conservation of Antarctic Marine Living Resources (CCAMLR)**. CCAMLR provides a framework for the management of Antarctic marine living resources, including the valuable toothfish species. New Zealand earns some \$20 million annually from the toothfish fisheries in the Ross Sea and around Antarctica.

A recent report commissioned by the Ministry of Economic Development estimates the total economic benefit of Southern Ocean and Antarctic-related activity to New Zealand at \$282m annually.

Increasing commercial interest in Antarctica's resources, including through fishing and tourism, presents a challenge to the ATS.

**Illegal, Unreported and Unregulated (IUU) fishing** in the CCAMLR area for toothfish is a serious problem. This transnational criminal activity is largely directed by syndicates based in Spain and Hong Kong. New Zealand dedicates considerable resources to carrying out Ross Sea surveillance using RNZAF P3K Orion aircraft under 'Operation Mawsoni' which is a multi-agency operation led by the Ministry. There are concerns that the IUU fishing fleet which has been active in the Indian Ocean sector of the Southern Ocean south of Australia will try to move into the Ross Sea. These patrols involve follow-up diplomatic activity. New Zealand has scored some notable successes against IUU fishing but needs to remain proactive. The Navy's new ice-strengthened Offshore Patrol Vessels will make an important contribution to Operation Mawsoni.

**Antarctic tourism** is expanding and diversifying rapidly. Tourist numbers have more than tripled in the six seasons during 2000 to 2007 (to 37,552). Very large cruise vessels (up to 3,700 persons) are now visiting Antarctica, increasing environmental risks and posing a challenge to search and rescue planners. New Zealand is working with likeminded Parties at Antarctic Treaty Consultative Meetings to improve the regulatory framework around tourism activities and shipping in the Antarctic Treaty area. Tourism is capable of disturbing the practical accommodation among governments on the question of sovereignty which is at the heart of the Antarctic Treaty.

### **Biological Diversity**

The **Convention on Biological Diversity (CBD)** is a broad-ranging environmental agreement with a demanding work programme. The CBD's mandate takes in both the conservation and sustainable use of biodiversity, including in forestry and agriculture, alongside "classic" conservation measures such as protected areas. The CBD also has the potential to spin off negotiations on new instruments, such as the current negotiation on an international regime on access to genetic resources.

The CBD's mandate touches on key New Zealand trade and economic interests. It has the potential to affect domestic policy choices, for instance on the regulation of genetic modification. Negotiations on an international regime on access to genetic resources (sometimes referred to as "bioprospecting") have potential implications for innovation in New Zealand's primary production sector, and for the Crown's ability to respond to the Wai262 claim currently before the Waitangi Tribunal.

The next full meeting of the Convention will be held in Japan in October 2010. 2010 is the global target date to reduce the rate of biodiversity loss. The limited evidence currently available suggests that COP10 will confront the political challenge of a target that has not been met.

2010 is also the deadline for completion of negotiations on an international regime on access to **genetic resources** and the sharing of benefits arising from that access e.g. the creation of a commercial product such as a pharmaceutical. The negotiations are complex, and a number of key issues, including what constitutes a "genetic resource" and what activities are to be covered, are as yet undecided.

The CBD is the parent convention for the **Cartagena Protocol on Biosafety**, which regulates the trans-boundary movement of living (genetic) modified organisms (LMOs). The CBD's work in this area can influence domestic regulation of genetic modification and could have implications for New Zealand's trade in agricultural products. As required under the Protocol, negotiations are currently underway on rules and procedures on liability and redress for damage resulting from trans-boundary movements of LMOs. While negotiations were supposed to have concluded this year, the deadline has been extended to 2010 (immediately before COP10). The negotiations have been contentious with sharp divisions between potential exporters of LMOs and potential importers. However, at the last meeting in Bonn in May agreement was reached on the broad parameters of the outcome to be negotiated, namely a legally binding "administrative" regime dealing with obligations to clean up damage to biodiversity caused by internationally traded LMOs, plus non-binding guidelines on civil liability, but with a binding component specifying the elements that should be included in any civil liability regime.

### **Other Environmental Issues**

**Ozone Depleting Substances:** New Zealand was a leading player during the negotiation of the **Montreal Protocol on Ozone Depleting Substances**. A current issue is the use of methyl bromide, which is controlled under the Montreal Protocol except for quarantine and pre-shipment use (QPS methyl bromide). New Zealand has phased out the use of methyl bromide for fumigation in the strawberry industry, but it is still used for forest product fumigation at our borders and to meet importing countries' requirements. China, Japan, Korea, Malaysia and India require fumigation of imported logs with methyl bromide. International discussion is moving towards possible restrictions on QPS methyl bromide. New Zealand is exploring alternatives, but our forestry trade meanwhile remains vulnerable to potential international restrictions until alternative fumigants acceptable to our trading partners are found.

**Trans-boundary Movement of Hazardous Wastes:** The Basel Convention on the Trans-boundary Movement of Hazardous Wastes is expanding to develop international guidelines for the management of electronic waste (including telecoms equipment, computers and computer peripherals). This has implications as New Zealand moves to implement the Waste Minimisation Act. There are also trade implications associated with the Convention's "Ban Amendment" (which essentially bans hazardous wastes exports from OECD countries to non-OECD countries). New Zealand, along with Australia, Japan and Canada, has not ratified the amendment. The Ban Amendment has the potential to curtail New Zealand's trade in used goods to recycling facilities in developing countries eg the export of used lead batteries to the Philippines. This has implications for our domestic waste management policies.

**International Forestry:** New Zealand engages in bilateral, regional and multilateral level discussions of forestry issues, including reducing greenhouse gas emissions caused by deforestation and forest degradation in developing countries; addressing trade in illegal timber and wood products; and strengthening capacity-building and technology transfer for sustainable forest management in developing countries. New Zealand is working internationally to encourage sustainable forest management practices and to advance its environmental as well as trade interests. We are exploring the potential for a legally-binding international agreement on sustainable forest management and a range of domestic and international measures to address illegal logging and its associated trade.

**Global Environment Facility (GEF):** The GEF is the primary international organisation providing finance to developing countries for projects that benefit the global environment. New Zealand has committed some NZ\$33 million to the GEF since its inception in 1996. The fifth GEF Replenishment Round is scheduled to begin next year. A preliminary GEF meeting this November in Washington will kick-start the process, providing background and budgetary information for donors. New Zealand committed NZ\$8.4 million to the last GEF Replenishment. A similar level is anticipated for the fifth GEF Replenishment.

**Whales:** The **International Whaling Commission (IWC)** both regulates whaling and seeks to conserve whale stocks. A diplomatic process is underway within the IWC to explore ways to move away from the divisive and polarised dynamics of the past. The aim is to develop a package of options over the next year to address the substantive issues dividing the IWC. New Zealand is a member of the relevant working group. New Zealand's position has been to advocate for the maximum conservation of whales, and to support the current moratorium on commercial whaling. Meanwhile Japan continues to hunt whales under a "scientific" programme. This summer the Japanese whaling fleet is expected to operate in and around the Ross Sea, within New Zealand's area of search and rescue responsibility. The potential exists for clashes and the escalation of violence between whaling and protest vessels. The Ministry is working with relevant agencies on strategies to manage the upcoming whaling season, including coordination of responses to any incident involving threats to safety at sea.

## 7 International Security, Disarmament/Non-Proliferation, Peace Support

### Counter-Terrorism and Counter-Radicalisation Efforts

Since 2001, terrorism has been a defining challenge for the international security agenda, with the range and scope of counter-terrorism measures increasing exponentially. While government responses worldwide have made it more difficult for terrorist groups to operate, the risk of further attacks persists. Increasingly governments are taking a broader approach to counter-terrorism that involves a mix of 'hard power' conventional responses, and 'soft power' initiatives aimed at countering radicalisation that can lead to violent extremism.

While the threat of a direct terrorist attack in New Zealand remains relatively low, New Zealand is committed to being neither the target nor the source of terrorist activity. Given the size of the New Zealand diaspora, and the number of New Zealanders travelling overseas, there is a risk of our citizens being caught up in offshore terrorist attacks.

New Zealand has made a strong contribution to the international campaign against terrorism through actions taken domestically, regionally and globally, in particular in Afghanistan and the Persian Gulf. This has enhanced our reputation as a small but willing and able player in international security.

New Zealand attaches importance to its compliance with international counter-terrorism instruments. It has ratified 12 of the 16 international instruments and maintained up-to-date reporting to the United Nations. The UN Global Counter-Terrorism Strategy is a key reference point.

New Zealand's counter-terrorism efforts in the Pacific have been implemented with key partners and through regional fora. New Zealand assists Pacific island countries' understanding of, and compliance with, the international counter-terrorism agenda, with a strong focus on legislative and operational capacity-building projects many of which are funded under the Pacific Security Fund.

In Southeast Asia, New Zealand is actively engaged with key partners, in particular Indonesia, on traditional counter-terrorism initiatives such as law enforcement capacity building. New Zealand is also increasingly focussed on counter-radicalisation efforts aimed at addressing some of the underlying factors that lead to terrorism. Both our hard and soft power interventions in the region are funded from the Asia Security Fund.

Strategies aimed at countering radicalisation and violent extremism are recognised as being crucial to preventing terrorism in the medium to long term, and thereby improving regional and global security. New Zealand has been a leading proponent of the **UN Alliance of Civilisations** – the key global inter-cultural initiative – and is a co-sponsor of the Asia-Pacific Regional Interfaith Dialogue.

New Zealand needs to do more work, such as pursuing ratification of remaining instruments and implementing reforms of the anti-money laundering and counter-terrorist financing regime, to meet Financial Action Task Force (FATF) standards in advance of an April 2009 evaluation.

New Zealand automatically designates terrorist individuals and entities designated by the UN Security Council's 1267 Committee (dealing with Al Qaeda, Taleban and their associates). Unlike our close security partners, however, we have yet to designate any individuals or entities pursuant to UN Security Council Resolution 1373 (which imposes obligations on member states to criminalise global terrorist activities). One statement of case has been prepared to date, and another is close to completion.

The Ministry is currently taking a strategic look at New Zealand's counter-terrorism engagement in the Pacific and investigating the possibility of pursuing a gaps analysis with selected Pacific island countries to identify appropriate opportunities for bilateral capacity-building assistance.

### Counter-Proliferation Initiatives

The **Proliferation Security Initiative (PSI)** is an international effort launched by the US in 2003 to counter the illegal trafficking of weapons of mass destruction (WMD), their delivery systems and related materials, in a manner consistent with national and international law. New Zealand endorsed the PSI in 2004 and is an active member of its 20-strong Operational Experts Group (OEG). We have led the development of a Model National Response Plan to help countries improve their domestic counter-proliferation frameworks, hosted an OEG meeting (Auckland, March 2007), and hosted a PSI exercise (Exercise Maru, Auckland, September 2008). New Zealand will be considering possible participation in these exercises.

The **Global Initiative to Combat Nuclear Terrorism (GICNT)** is a voluntary, activity-based initiative launched by the US and Russia in 2006. The aim is to increase cooperation to combat the threat of terrorist attacks using nuclear or radiological material, and to complement existing mechanisms by providing political and diplomatic momentum to address any gaps. New Zealand endorsed the GICNT in November 2007 and has attended one major meeting (June 2008 Political Meeting). New Zealand is currently working on planned contributions to the GICNT approved by Ministers and announced to GICNT partners. These include: hosting a workshop for Pacific island countries in April/May 2009 on the security and safety of radiological material; increasing our regular contribution to the International Atomic Energy Agency's Nuclear Security Fund; exploring possibilities for a modest contribution to nuclear and radiological security work in Southeast Asia; and looking to hold a tabletop exercise for New Zealand agencies in 2009 to ensure we have appropriate systems in place to respond in the event of an incident in this country.

New Zealand has signed but not yet ratified the two key international instruments underpinning the GICNT – the **Nuclear Terrorism Convention** and the **2005 Amendment to the Convention on the Physical Protection of Nuclear Material**. Ratifying these instruments – through the passage of the Radiation Safety Bill – would send a strong signal of New Zealand's determination to combat the threat of nuclear/radiological terrorism.

### Peace Support Operations

The number of peace support operations worldwide, whether UN, coalition, or regionally-led, continues to increase. Currently about 400 New Zealand Defence Force (NZDF) and 75 New Zealand Police personnel are deployed in 11 peace support missions in 13 countries.

New Zealand sustains multiple small-scale deployments, the largest being in Timor-Leste, Afghanistan and Solomon Islands. New Zealand also has deployments in the Sinai (26 NZDF), Israel/Lebanon/Syria (8 NZDF), Persian Gulf (6 NZDF), Iraq (1 NZDF), Bougainville (5 NZ Police), Tonga (4 NZ Police), Korea (3 NZDF), and Sudan (3 NZDF).

This high level of deployments comes at a time when the NZDF is rebuilding and modernising, leaving limited capacity to contribute to new or expanded missions. Involvement in new long-distance peace support operations needs to be weighed against capacity to respond to Pacific contingencies.

Engagement in support of fragile states requires a balance between security, political and development interventions, and a corresponding need for coordination between, and within, governments. New Zealand has implemented a whole-of-Government approach to engagement in the three complex integrated operations in the Solomon Islands, Timor-Leste and Afghanistan.

New Zealand is a leading contributor to the **Regional Assistance Mission to Solomon Islands (RAMSI)**. RAMSI plays a crucial role in bringing security to Solomon Islands and rebuilding the institutions of state. New Zealand currently contributes up to 50 NZDF personnel, including the deputy military commander, 35 police and a number of civilian personnel including the RAMSI Deputy Special Coordinator. New Zealand also provides substantial NZAID assistance to the Solomon Islands (\$33 million in 2008/09), which includes some support for RAMSI. In August 2008, Cabinet extended the mandates for NZDF and NZ Police deployments to RAMSI to 30 September 2010.

New Zealand is a key contributor to the stabilisation of **Timor-Leste**, as part of the Australian-led International Stabilisation Force (ISF) and with the UN Mission in Timor-Leste. Currently 148 NZDF personnel are with the ISF and two provide training to the Timorese defence forces. Two NZDF officers are serving in the UN integrated mission in Timor-Leste (UNMIT) including the Chief Military Liaison Officer (colonel-level). Twenty-five NZ Police are with UNMIT. NZAID bilateral assistance to Timor-Leste for 2007/08 is NZ\$5 million.

New Zealand was one of the first countries to deploy combat forces (SAS) to **Afghanistan** as part of the international campaign against terrorism. After the defeat of the Taliban government, the Afghanistan mission changed into a combination of security, development and peace-building. In this context, New Zealand agreed to assume leadership of the Bamyán Provincial Reconstruction Team (PRT). The New Zealand PRT is mandated for up to 140 NZDF personnel, and operates under the NATO-led International Security Assistance Force (ISAF). Other NZDF deployments include two officers training the Afghan National Army, five officers in ISAF headquarters in Kabul, and one officer with the United Nations Assistance Mission in Afghanistan (UNAMA). Three NZ Police are based in Bamyán working with the European Police Mission in Afghanistan (EUPOL). At the Paris Conference in June 2008, New Zealand pledged NZ\$21 million in aid over the next three years.

Officials are currently drafting post-election Cabinet papers that will provide options to the incoming Government on New Zealand's future integrated participation in Timor-Leste and Afghanistan.

### **Disarmament and Non-Proliferation**

Achieving progress on disarmament remains challenging in the current international security climate, with the focus largely on curbing the proliferation of weapons of mass destruction (WMD). There is a growing recognition, however, that action on both disarmament and non-proliferation is required. Proliferation concerns are growing in relation to some countries and non-state actors.

New Zealand is party to all of the major multilateral disarmament and non proliferation structures, and is seen as a leading credible voice in many disarmament and non-proliferation bodies. We support a range of non-proliferation initiatives outside the UN system. Together with other members of the **multilateral export control regimes**, New Zealand continues to strengthen export controls on military and dual-use goods and technologies, and support outreach to encourage compliance, both domestically and internationally.

Nuclear disarmament and non-proliferation remain a key New Zealand focus. New Zealand is an active proponent of the **Nuclear Non Proliferation Treaty (NPT)** and is working for the strongest possible outcome on nuclear disarmament in the lead up to, and during, the next NPT Review Conference in 2010. We are part of a group that is promoting action on the de-alerting of nuclear weapon systems in the UN General Assembly.

New Zealand has just taken up a two-year regional seat on the **International Atomic Energy Agency (IAEA)** Board of Governors in Vienna. New Zealand's IAEA priorities are related to nuclear safety and security, particularly the IAEA's safeguards programme and the transport of radioactive materials. New Zealand works in a small group of countries with shared views to ensure that any discussion on nuclear power takes into account important issues related to safety, security and waste management. The renewed interest globally in nuclear power has the potential to increase proliferation challenges.

New Zealand is an active participant in both the **Chemical Weapons Convention** and the **Biological Weapons Convention** where it works to eliminate these entire classes of WMD.

New Zealand has taken a strong position on the humanitarian impact of cluster munitions. The lack of progress toward such an instrument in the UN led a group of countries to steer the 'Oslo Process' on cluster munitions outside of the UN framework. New Zealand played a leading role in the development of the **Convention on Cluster Munitions** which was endorsed by over one hundred countries in May 2008. Following New Zealand's signature of the Convention in Oslo on 3 December 2008, a Cabinet paper will recommend ratification subject to satisfactory completion of the Parliamentary examination process and passage of implementing legislation.

New Zealand is committed to promoting adherence to the **Ottawa Convention** banning anti-personnel mines. We are also party to all the Protocols to the **Convention on Certain Conventional Weapons (CCW)**, addressing weapons that are excessively injurious or have indiscriminate effects.

New Zealand continues to address international **small arms and light weapons** issues through the UN Programme of Action and is supportive of the work toward an **Arms Trade Treaty (ATT)** which could place stronger disciplines on conventional weapons.

**Iran's nuclear programme** remains the subject of strong international concern. Investigations by the IAEA are ongoing. The UN Security Council has imposed three rounds of sanctions on Iran. These were reinforced by another UN Security Council Resolution in late September.

New Zealand will be monitoring closely implementation of the US-India civil nuclear co-operation agreement.

## 8 International Legal Issues

### International Criminal Court

The International Criminal Court (ICC) came into existence in 2002, the product of the international community's resolve to ensure that those who commit genocide, crimes against humanity, and war crimes are brought to justice. The ICC has four situations under investigation. Three were referred to the ICC by the states concerned (Uganda, Democratic Republic of the Congo (DRC), and the Central African Republic) and the fourth, Darfur, by the UN Security Council. The ICC has issued a number of arrest warrants and there are currently four persons in custody in The Hague awaiting trial.

New Zealand strongly supported the establishment of a permanent international criminal court and in 2000 became the 17th state to ratify its Statute. We are a member of the Bureau of the Assembly of States Parties (ASP).

Two high-profile cases currently before the ICC are against Thomas Lubanga for war crimes relating to child soldiers in the DRC; and President al-Bashir of Sudan in relation to genocide, crimes against humanity and war crimes.

The main annual meeting of the ICC ASP takes place in The Hague from 14 to 22 November 2008. There will be a number of sessions of the Special Working Group on the Crime of Aggression which is negotiating amendments to the Statute. The objective is to conclude these negotiations in 2009 but some difficult issues remain, not least the question of what role, if any, the Security Council should have in relation to a prosecution for the crime of aggression. This year's ASP may well be overshadowed by developments in the Darfur and DRC cases above. The terms of six judges on the ICC expire early in 2009 and elections will be held at a resumed session of the ASP in late January. It will be necessary to seek Ministerial directions on voting before that session.

### Extradition Issues

Effective extradition laws and processes help to ensure that New Zealand is not seen as a safe haven for criminals fleeing other countries. Work is currently in progress on two unrelated extradition issues.

**Treaty Negotiations with the United States:** The aim is to replace the 1970 United States–New Zealand extradition treaty with a more modern treaty that will cover a broader range of offences. Negotiations began in 2006 and identified several issues that required further work. The next round of negotiations will take place in early 2009.

**Provision of technical assistance to Rwanda:** The second issue concerns technical assistance to Rwanda with the preparation of extradition requests.

### International Humanitarian Law

New Zealand signed the **Third Additional Protocol** to the **Geneva Conventions** on 19 June 2006. The Protocol establishes a new emblem, commonly referred to as the red crystal, for use alongside the red cross and the red crescent as a protective symbol in armed conflicts where neither the red cross nor red crescent would be seen as neutral. Eighty-seven states have signed the Protocol and 33 have ratified it. Approval of a stand-alone Bill in the 2009 legislative programme will be sought to enable New Zealand to ratify.

### Bribery and Corruption Issues

The OECD Working Group on Bribery (WGB) has made a number of recommendations for legislative reform and administrative action to improve New Zealand's compliance with the **OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions**. New Zealand is required to report back to the WGB by December. The Minister of Justice, in consultation with other Ministers, has approved New Zealand's response which flags the intention to make several legislative changes in 2009.

The **United Nations Convention Against Corruption (UNCAC)** codifies measures to combat corruption in the public and the private sectors. New Zealand signed the UNCAC in 2003 and is working towards ratification which will require some amendments to the Crimes Act 1961 and the Financial Transactions Reporting Act 1996. It is intended that the Ministry of Justice will submit a Cabinet paper early in 2009 seeking approval for legislative changes flowing out of the WGB and those needed for implementation of UNCAC.

New Zealand enjoys an international reputation as one of the world's least corrupt countries. It consistently ranks at the top of Transparency International's Corruption Perceptions Index. New Zealand is an exporting country and many of its businesses operate in countries with high levels of corruption. New Zealand needs to respond effectively to the OECD report and ratify UNCAC to maintain its international reputation in this area.

### **Maritime Terrorism/WMD Trafficking**

In 2007 New Zealand signed the Protocol of 2005 to the **Convention for the Suppression of Unlawful Acts (SUA) against the Safety of Maritime Navigation** and the Protocol of 2005 to the **Protocol for the Suppression of Unlawful Acts against the Safety of Fixed Platforms on the Continental Shelf**. The Protocols introduce offences relating to maritime terrorism and trafficking in weapons of mass destruction, as well as a boarding regime which sits within existing international law. New Zealand was closely involved in negotiations leading to the Protocols. Implementing legislation is required to give effect to them in New Zealand. Officials plan a Cabinet paper in early 2009 setting out the proposed method of implementation, submitting a National Interest Analysis and seeking approval to ratify subject to completion of the treaty examination process and passage of the necessary legislation. Ratification of the SUA Protocols would provide a strong signal of New Zealand's commitment to countering the threat of global terrorism and preventing the proliferation of WMD.

### **Financial Action Task Force**

New Zealand is a member of the Financial Action Task Force (FATF) that issues standards to promote anti-money laundering and countering terrorist financing (AML/CTF) and has recently begun work to counter WMD financing. Members agree to implement FATF standards and to undergo implementation reviews through mutual evaluations. Legislative reform is needed to make New Zealand's regime fully compliant. New Zealand's next mutual evaluation will take place in April 2009. In September 2008 Cabinet directed officials to report back with final policy proposals by the end of February 2009, with a view to legislation being introduced to Parliament by April 2009. There are reputational and financial risks to New Zealand from a negative evaluation in 2009. These will be diminished provided that credible progress is made towards compliance by introducing reform legislation by the time of the FATF evaluation of New Zealand in April 2009.

## **9 The United Nations and Other Multilateral Issues**

### **United Nations**

The United Nations remains the pre-eminent global organisation. It continues to face multiple challenges. There are differing expectations of the role it should play in peacekeeping, in political and humanitarian crises and in issues affecting the global community such as food security, terrorism and climate change. The UN continues to attempt reform of both its administrative structures and its key organs and processes.

A strong, effective and efficient United Nations helps underpin and secure the most fundamental economic and security objectives of the New Zealand state. It provides a forum for sharing and advocating New Zealand values and beliefs with the aim of influencing others.

Headline issues relevant to New Zealand include: poverty and hunger (including food security); sustainable development; environmental management (including protection of the global climate and oceans governance); Small Island Developing States issues; international justice and the rule of law; human rights; gender equality; civil and political rights; international peace and security; disarmament and arms control; selected country-specific security and governance issues. Reform of the Security Council, UN management and administration and UN work streams are additional areas of engagement.

"The impact of the global food crisis on poverty and hunger" is a focus of this year's 63rd UN General Assembly. The Secretary-General's High-Level Task Force on the Global Food Crisis is coordinating the international response. New Zealand supports its "Comprehensive Framework for Action", especially recommendations to lift investment to boost weak agricultural production, expand social protection and achieve further agricultural trade reform.

Poverty elimination, sustainable development and environmental protection are subject to separate UN work streams. Reviews of the Millennium Development Goals and financing for development are underway. Climate change is the subject of intensive negotiations. Small states issues, including those directly relevant to our Pacific neighbours, arise in these contexts.

UN members are testing the international justice system by arguing different views on the admissibility of new cases for the International Criminal Court and the International Court of Justice. The UN continues to scrutinise security and political developments including in the Middle East, Afghanistan, Fiji, Myanmar and Zimbabwe.

Progress is being made in bringing together diverse UN operations on the ground in developing countries via a process known as "One UN" reform. Another reform area making progress is international governance of the environment. Some reform proposals, however, are testing entrenched interests among UN members and resistance within the UN bureaucracy. Reform of the Security Council, after 14 years of inconclusive debate at working group level, moves to full intergovernmental negotiations by the end of February 2009.

Some UN members want to bolster capacity, through the Security Council, to protect against ethnic cleansing, genocide, war crimes, and crimes against humanity when peaceful means prove inadequate and national authorities fail to act. Others consider that the concept of the UN's "Responsibility to Protect" encroaches too far into national sovereignty. The debate is moving on to more detailed operational planning. A report by the Secretary General is due soon.

### **Human Rights**

Human rights are, along with security and development, one of the three pillars of the United Nations. New Zealand is a signatory to the seven UN human rights conventions, the most recent being the **Convention on the Rights of Persons with Disabilities**, which New Zealand ratified on 26 September 2008. The **UN Human Rights Council** was established in 2006. Debates in the Council, and in the annual Third Committee of the UN General Assembly, are often contentious, with attempts to engage on the worst country situations often blocked.

New Zealand is a candidate for election in May 2009 to the Human Rights Council. For all its imperfections, the Council is the recognised international forum for discussion of the human rights agenda. New Zealand's first **Universal Periodic Review** of its human rights record by the Council will take place in May; a draft report is currently under preparation.

A draft report on New Zealand's compliance with the **UN Convention on the Rights of the Child** is nearly completed. A report on compliance with the **International Covenant on Economic, Social and Cultural Rights** will be submitted in early 2009 following consultation with Ministers. Decisions will be required on a New Zealand approach to the **Durban Review Conference** to be held in Geneva in April 2009 as a follow-up to the 2001 **World Conference Against Racism**. That conference was so contentious that some Western countries have downgraded their participation in preparations for the next one. In 2007 New Zealand voted against the adoption of the **Declaration on the Rights of Indigenous Peoples** because its contents were at variance with New Zealand law and practice. While that stance continues to attract controversy, New Zealand seeks in discussions of indigenous issues to highlight areas such as the promotion of indigenous languages, where our policies are in advance of international norms.

### **Commonwealth**

New Zealand's membership of the Commonwealth provides access to political leaders from 53 diverse states. Its twin pillars of development and democracy deliver practical assistance on the ground for most members and act as a force for good governance and respect for human rights, liberty and fundamental freedoms. Regular Ministerial meetings and the biennial Commonwealth Heads of Government meeting (CHOGM) are where policy directions are determined. The next CHOGM will be in Trinidad and Tobago in November 2009.

New Zealand seeks an efficient and focused Commonwealth to act as an effective vehicle for strengthening democracy, the rule of law, good governance and economic and social development. Membership links us to countries that are located at the farthest reach of our international engagement. New Zealand contributes \$6.3 million annually to support the Commonwealth's activities, including the Commonwealth Small States Office in New York.

Secretary-General Kamallesh Sharma is directing Commonwealth attention to the reform of the World Bank, the IMF and the global system of environmental governance. He is also promoting Commonwealth consensus on the

achievement of the MDGs and on food security. New Zealand is a member of the nine-member Commonwealth Ministerial Action Group on the Harare Declaration (CMAG). It addresses democracy and human and civil rights issues arising in member countries. Fiji is the only country currently under CMAG's consideration. Other current issues concern the Commonwealth Secretariat scales of assessment, last reviewed in 1989, a review of the Commonwealth Fund for Technical Cooperation (the main development assistance window) and the possibility of establishing a Commonwealth Small States Office in Geneva.

### **Candidatures**

New Zealand is currently running two major campaigns – for membership of the **UN Human Rights Council** for the term **2009–2012** (voting in May 2009); and election to a non permanent seat on the **UN Security Council** for **2015–2016** (voting in 2014).

At this stage New Zealand faces an uncontested slate for the Human Rights Council, with 3 declared candidates (Belgium, Norway and NZ) for three available slots for the Western Europe and Others Group (WEOG). New Zealand has already secured substantial support in writing, largely on the basis of reciprocal vote swap agreements for various UN bodies. Successful candidates usually need to secure around 120 votes.

The UN Security Council bid is yet to move into high gear. New Zealand has notified UN member states and secured the support of a number of countries including Pacific Islands Forum members. The experience of our successful 1992 UNSC election (for the 1993-1994 term) suggests 2010 as the best time to commence concerted lobbying.

### **Asylum Seekers/People Smuggling**

New Zealand implements the 1951 Convention and 1967 Protocol relating to the **Status of Refugees**, with the result that every person seeking asylum on arrival in New Zealand has the right to protection if refugee status is proven. New Zealand also implements the 2003 **Convention on Transnational Organised Crime** and its **Protocols on People Trafficking and Smuggling** with strict penalties for those found guilty of either.

Each year the US State Department prepares a report to Congress on countries' efforts to counter people trafficking. The report attracts significant media attention. It assigns a ranking to each country from Tier 1-3, Tier 1 being the most favourable. New Zealand has been able to maintain a Tier 1 ranking. New Zealand plays a leading role in the **Bali Process on People Smuggling and Trafficking** which was established in 2002 to provide a forum to address these issues in the Asia-Pacific region.

## **10 Consular Issues**

The Government provides consular services for the welfare and protection of New Zealand citizens overseas. The core task is helping New Zealanders in difficulty offshore – eg in cases of arrest, illness and death. Other tasks include the issuing of emergency travel documents and provision of electoral services and legal and notarial functions, any emergency response to a major overseas crisis involving New Zealanders (such as the Boxing Day tsunami, the Bali bombings or the Gaza kidnapping), as well as contingency planning for overseas events involving large numbers of New Zealanders. Consular services are provided not only by Ministry staff but by staff of other agencies offshore who have consular status, such as designated NZTE officers.

New Zealand works closely with its core consular partners (Australia, Canada, United Kingdom and the United States). The United Kingdom acts on New Zealand's behalf if necessary in countries where we are not represented, as it does for other Commonwealth members. New Zealand provides consular assistance on behalf of the UK in Tonga, Vanuatu and Timor-Leste.

Consular services are a high-profile resource-intensive area of the Ministry's work. Public expectations of the assistance that can be provided are high and require constant management. The Ministry has introduced new tools and processes to help manage consular work, and more are under development.

In 2007/08, the Ministry dealt with 1554 consular cases, provided over 8,000 legal and notarial services and responded to over 40,000 general consular enquiries.

In 2006, the Ministry launched its SafeTravel campaign, comprising:

- a website [www.safetravel.govt.nz](http://www.safetravel.govt.nz) to provide authoritative information about travel safety and consular services, and accompanying brochure;
- an internet-based registration database, to enable us to locate New Zealanders overseas in an emergency; and
- establishment of a Safe Travel Advisory Group, which works with the Ministry to advise on and promote the safe travel message.

The Ministry also introduced a consular case management database, enabling cases to be recorded and tracked more efficiently. A new information technology system is under discussion for crisis or event management to enable more efficient coordination and communication, both within and outside the Ministry, in a consular crisis response situation. This solution will also involve NZAID given its lead role in response to a natural disaster in the Pacific.

Consular training courses – compulsory for staff being posted overseas – have been updated and offshore regional courses reinstated. Additional training is provided for those volunteering for Emergency Response Teams (to be sent overseas in an emergency). The Ministry participates fully in inter-agency planning for a pandemic, and chairs the External Working Group.

A programme of updating plans for evacuating nationals from Pacific countries is underway in conjunction with the New Zealand Defence Force. The Ministry has also recently completed a more detailed Response Plan for an Overseas Hostage-Taking in light of recent experience.

Two new funds, the Consular Major Event Preparedness Fund and the Consular Emergency Response Fund will, respectively, enable the Ministry to provide emergency response support on a contingency basis for major overseas events, and enable responses to unforeseen crises.

## D NZAID: Contributing to Global Poverty Elimination

The role of the New Zealand Agency for International Development (NZAID) includes:

- effective management of the official development assistance (ODA) programme;
- policy advice to Ministers on international development issues and the ODA programme;
- international engagement with developing countries, donors and international agencies on development issues;
- representation of New Zealand interests and positions at international development meetings; and
- public outreach and development education.

### Structure

NZAID is a semi-autonomous agency (SAB) within the Ministry of Foreign Affairs and Trade. Established on 1 July 2002, NZAID is managed by an Executive Director with authority delegated from the Secretary of Foreign Affairs and Trade.

NZAID manages Vote : Official Development Assistance (ODA). In 2008/09 the total Vote : ODA is \$481.9 million. This is nearly a 100 percent increase since 2002. The Agency's operating context therefore is a dynamic one in terms of policy, the international context and institutional growth and change.

NZAID was established as a SAB in order to impart "a distinctive profile and new focus the New Zealand's ODA programme" (Cabinet Min (01) 28/8), to give greater standing to development perspectives in policy formulation, and to create professionalism around the management of the ODA programme.

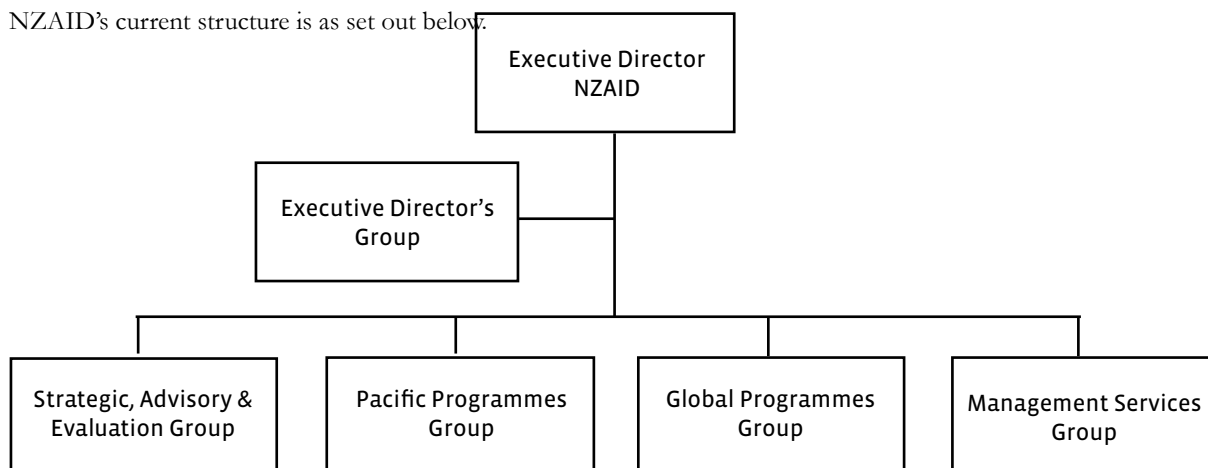
The key features of the semi-autonomy agreed by Cabinet are that NZAID has:

- responsibility for providing ODA policy advice direct to Ministers;
- its own Vote and management arrangements;
- an Executive Director, who is appointed by and reports to the Secretary of Foreign Affairs and Trade;
- strategic direction and leadership consistent with the Government's strategic directions for foreign policy and ODA;
- staff appointed by the Executive Director with human resource policies and pay scales internal to the agency ; and
- a shared services arrangement that covers any shared corporate costs and services between the Ministry and NZAID domestically and off-shore

The current protocols and responsibilities between NZAID and the Ministry are described in the Relationship Document (2002), some features of which are:

- the Executive Director attends meetings of the Ministry's Senior Management Group and SMG's meetings with Ministers;
- relationships with Ministers, Parliament, central agencies, other governments and multilateral/regional organisations, contractors and the media may all be managed directly by NZAID on the understanding that the Ministry and NZAID will keep each other informed of issues relevant to each other;
- the ED has responsibility for ensuring that NZAID has planning, budgeting and performance reporting arrangements that enable the Secretary to discharge his responsibilities under the State Services Act and the Public Finance Act and that these are delivered in line with Ministry standards and timelines; and
- there is an agreement allowing for staff exchanges between the Ministry and NZAID.

NZAID's current structure is as set out below.



### International Development Context

Recent international development practice has put priority on addressing poverty - including through economic growth. A focus on growth alone can leave many people impoverished, with severe social, human rights and political and security consequences. In 2000 the global community, through the UN, endorsed a set of poverty reduction targets known as the Millennium Development Goals (MDGs), to be achieved by 2015.

Poverty may manifest as unmet basic needs, or a lack of opportunity, or may result from vulnerability to natural or man-made catastrophes. Efforts to reduce poverty may be direct, for example through improving basic services, or indirect, for example through improved governance.

When Cabinet established NZAID it mandated poverty elimination as its central focus, and directed a complete overhaul of policy and the integration of the MDGs into New Zealand's ODA framework.

Responding to the higher priority accorded to the poverty gap and development challenges on the international agenda, many traditional donors have pledged to increase their ODA: New Zealand has set an interim target of an ODA to GNI ratio of 0.35 percent by 2010/11.

### Aid Effectiveness

Along with increased volume there has been a major push to make aid more effective through a variety of measures, embodied in the Paris Declaration of 2005 and the Accra Agenda for Action of 2008.

The aid effectiveness agenda stresses 5 principles:

- **'ownership'** by developing countries of their development process;
- **'alignment'** by donor countries with developing partner country needs and priorities, including the use of partner country systems wherever possible;
- **'harmonisation'** of donor activities to lower transaction costs and procedural burdens on partner country administrations;
- **'managing for results'** by both the donor and partner to ensure aid can be effectively monitored for delivering tangible positive impacts; and
- **'mutual accountability'** of aid, which establishes shared accountability and responsibilities for the effectiveness of aid.

The proliferation of aid donors, with an expanding number of new donors and specialised funds and a rapidly increasing number of aid activities (totalling well over 70,000), poses a great challenge to achieving greater aid

effectiveness. New Zealand is responding by itself engaging in fewer, deeper and longer development activities within programmes to maximise its development effectiveness.

### Policy Framework

NZAID operates to a set of Ministerially approved policies to implement the Government's strategic directions for ODA.

The Agency has an overarching policy statement and 9 sectoral/thematic policies. The table below illustrates the policies within each category.

Over-arching Policy Statement "Towards a Safe and Just World Free of Poverty"		
Cross-sectoral policies	Sectoral policies	Mainstreaming policies
Growth and Livelihoods	Education	Human Rights
Conflict Prevention and Peace Building	Health	Gender
Governance	Trade	
Environment		

Ways of working, the 'how' of development, are set out clearly, in terms of prioritising people, working with local partners and with other agencies, including governments, civil society organisations, communities and other donors; understanding the local context; using medium to long term planning horizons; and focusing programmes on the following outcomes - fulfilment of basic needs, sustainable livelihoods, sustainable and equitable development and, safe, just and inclusive societies.

NZAID is operating to a set of strategic priorities, agreed with Ministers in 2005, which provide a long-term focus to ODA. These are:

- **achieving economic growth and improved livelihoods** – through fostering the creation of policy environments that support economic growth; making markets work for the poor; and supporting rural livelihoods and food security. Fostering broad-based national economic policies, practices that provide opportunities for individuals and communities to address poverty. This includes the provision of infrastructure to support growth and a focus on growth and employment generating sectors such as fisheries, agriculture and tourism.
- **strengthening governance** – through supporting good leadership at all levels, especially in the Pacific region. Ensuring a respect for human rights and fostering the development of societies where communities and individuals have a voice in decision making; supporting the development of strong and vibrant civil societies; and encouraging stable, responsible, accountable and effective government, including through strengthening the institutions of central and local government.
- **improving education and health** – through improved access to, and completion of, a good quality basic education as well as increased opportunities and choices through skills development and training. Strengthening access to primary health care and improved health delivery systems.
- **reducing vulnerability** – through achieving safer, more resilient communities to manage conflict and respect human rights. Increasing capacity to sustainably manage natural resources and better disaster management and preparation.

### Programme Framework

With the above strategic areas as a guide, programmes, whether at a country, thematic or institutional level, are Ministerially agreed engagements comprising a set of activities managed and resourced by the agency related to a development goal, underpinned by a multi-year (generally 5-10 year) strategy and a performance framework.

The Agency operates seven programme types: Major Bilateral Partners; Bilateral Partners; Constitutional Relationships;

Regional/Thematic Programmes; Multilateral and Pacific Regional Agency relationships; NZ Agencies; and Funds. Currently there are 33 agreed programmes within these headings as shown over:

TYPE	PROGRAMME PACIFIC	PROGRAMME GLOBAL
<b>Major Bilateral Partners</b>	<ul style="list-style-type: none"> <li>• Papua New Guinea</li> <li>• Solomon Islands</li> <li>• Vanuatu</li> </ul>	<ul style="list-style-type: none"> <li>• Indonesia</li> </ul>
<b>Bilateral Partners</b>	<ul style="list-style-type: none"> <li>• Samoa</li> <li>• Tonga</li> <li>• Tuvalu</li> <li>• Kiribati</li> <li>• Fiji</li> </ul>	<ul style="list-style-type: none"> <li>• Timor-Leste</li> <li>• Viet Nam</li> <li>• Philippines</li> <li>• Cambodia</li> <li>• Lao PDR</li> </ul>
<b>Constitutional Relationships</b>	<ul style="list-style-type: none"> <li>• Cook Islands</li> <li>• Niue</li> <li>• Tokelau</li> </ul>	
<b>Regional/Thematic Programmes</b>	<ul style="list-style-type: none"> <li>• Pacific Governance</li> <li>• Pacific Growth</li> <li>• Pacific Social Development</li> <li>• Pacific Environment and Vulnerability</li> </ul>	<ul style="list-style-type: none"> <li>• Asia Regional</li> <li>• Asia Trade</li> <li>• GMS capacity building</li> <li>• Africa Regional</li> <li>• Latin America Regional</li> <li>• Humanitarian</li> </ul>
<b>Multilateral and Pacific Regional Agencies</b>	<ul style="list-style-type: none"> <li>• Regional Agencies</li> </ul>	<ul style="list-style-type: none"> <li>• Multilateral Agencies</li> </ul>
<b>NZ Non-Govt Agencies</b>		<ul style="list-style-type: none"> <li>• Civil Society</li> </ul>
<b>Funds (outside bilateral, regional, thematic and multilateral Programmes)</b>	<ul style="list-style-type: none"> <li>• Pacific NZ Government Agencies Fund (GAF)</li> <li>• Pacific Island Countries (PIC) Participation Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Asia Development Assistance Fund (ADAF)</li> </ul>

Cabinet directed that NZAID should have a core focus on the Pacific and the Agency has been steadily increasing the proportion of ODA to the region to over 50 percent of total ODA.

Financial Year	02/03	03/04	04/05	05/06	06/07	07/08	08/09
<b>% of ODA going to the Pacific</b>	39.9%	44.1%	47.0%	49.2%	52.0%	53.7%	53.5%

Additionally around 80 percent of all bilateral funding now goes to the Pacific, as seen in the following table:

Financial Year	07/08	08/09
	\$000	\$000
Total Bilateral	\$175,849	\$204,508
Pacific Bilateral	\$137,849	\$163,708
<b>Pacific Bilateral as a % of all Bilateral</b>	<b>78%</b>	<b>80%</b>

NZAID has reduced the dispersal and increased the concentration of New Zealand's ODA in order to achieve more effective outcomes. Ninety per cent of bilateral ODA now goes to 23 countries, down from 31 in 2002, with a very high proportion going to Pacific and South East Asia country programmes, though smaller regional programmes continue in Latin America and Southern Africa. The number of multilateral agencies supported with core funding has dropped from 27 to 22. The number of countries eligible for scholarships has dropped from 96 to 49.

Particular programme issues to which attention needs to be drawn are:

- NZAID is managing the provision, from 2011, of an improved shipping service to Tokelau by a newly-built, purpose-designed vessel under a charter arrangement for up to 25 years.

- Increasing state fragility in the Pacific in the face of increasingly complex state functions, is seeing a changed ODA role, to support state budgets and regional pooling of resources.
- The impacts of the global fuel and food price crises and climate change on partners and the increasing need for ODA as part of the mitigation required.

### Vote: ODA

Successive New Zealand Governments have stated the intention to achieve the international target of 0.7 percent of GNI for Official Development Assistance as and when resources permit.

In Budget 2007, Ministers agreed to a four-year series of funding increases that would see New Zealand report ODA as 0.30 percent of GNI in 2007/08 and 2008/09, rising to 0.33 percent in 2009/10 and then 0.35 percent in 2010/11. By comparison, according to stated intentions by all other OECD donor nations, the average ODA:GNI ratio reported by these countries in 2010 will have risen to 0.56 percent of combined GNI.

New Zealand's projected percentages have been advised to and published by the OECD DAC. NZAID has committed to a range of programme initiatives based on these levels in line with priorities agreed with Ministers.

The following table shows overall aid expenditure since 2001/02 and the resulting ODA:GNI ratio reported. It includes projected ODA for the next two years as ODA rises to 0.35 percent of GNI by 2010/11.

Year (\$m)	Actual					Projected		
	2001/02	03/04	05/06	06/07	07/08	08/09	09/10	10/11
Vote ODA Departmental	16.545	19.456	23.353	26.19	32.74	37.58	44.136	44.926
Vote ODA Crown	225.578	245.562	301.968	347.66	406.13	444.32	509.27	577.78
<b>Total Vote ODA</b>	<b>242.123</b>	<b>265.018</b>	<b>325.321</b>	<b>373.85</b>	<b>438.87</b>	<b>481.90</b>	<b>553.407</b>	<b>622.707</b>
ODA in other Votes	25.0m	35.1m	38.2m	38.2m	38.2m	38.2m	38.2m	38.2m
<b>Total Reported ODA</b>	<b>267.123</b>	<b>300.118</b>	<b>363.521</b>	<b>412.05</b>	<b>477.07</b>	<b>520.10</b>	<b>591.61</b>	<b>660.91</b>
Reported ODA:GNI Ration	0.22%	0.24%	0.27%	0.26%	0.28%	0.30%	<b>0.33%</b>	<b>0.35%</b>

Approximately 93 percent of reported aid expenditure is from Vote ODA. The majority (97 percent) of the remainder is delivered through three departments: Labour/Immigration New Zealand for the first year resettlement costs of refugees; Defence for a variety of offshore operations in developing countries; and the Ministry principally for subscriptions to a variety of international agencies.

Vote: ODA has four Crown appropriations – Pacific Bilateral, Global Bilateral, International Agencies (funding for multilateral agencies), and New Zealand Agencies as follows:

<b>Programme</b>	<b>08/09</b>	<b>% of Total</b>
Pacific Bilateral	\$222.52m	51%
Global Bilateral	\$96.56m	22%
International Agencies	\$82.42m	20%
New Zealand Agencies	\$32.83m	7%
<b>TOTAL</b>	<b>\$434.32m</b>	<b>100%</b>

Appropriations do not necessarily match reported expenditure in the Vote (as seen in comparing the two tables above). This is a result of the introduction in the 2004 budget of multi-year appropriations (MYAs). These MYAs apply to the Pacific and Global appropriations only. They are set for three years at a time, and NZAID is able to roll over up to 20 percent of the appropriation in years one and two of each three-year period, and bring forward up to 10 percent of the appropriation in the same years. This approach allows for better planning and ‘smoothing’ of expenditure of what are by definition long-term and complex programmes. It is these rollovers that cause allocations to differ from appropriations.

The current multi-year appropriation (MYA) concludes at the end of f/y 08/09. NZAID will be seeking a further MYA in Budget 2009.

On current GNI projections, this will see Vote ODA rise from its 2008/09 level of \$481.9m to approximately \$622m in 2010/11.

### **Organisational Matters**

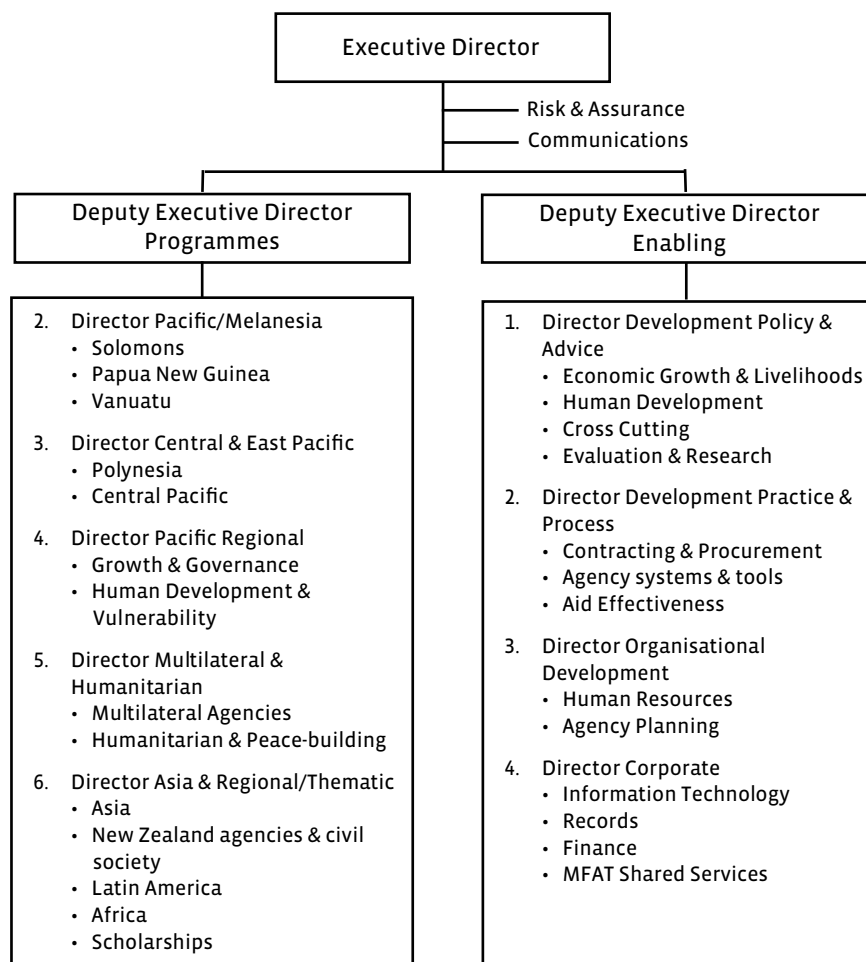
The dynamic international development context, New Zealand’s scaling up of its aid effort, and the growth in ODA resources have meant that NZAID as an institution has been required to adapt and change, both in Wellington and at posts overseas. The central objective has been to increase the effectiveness and efficiency of the Agency to provide quality advice to Ministers and deliver a quality ODA programme.

Since 2002, there has been growth in capacity in the Agency, with staff numbers changing from 137.6 FTEs in 2002 to 266 FTEs in 2008 - where 171.0 are based in Wellington and 95 are based offshore (including many locally employed nationals). This mirrors the doubling of aid volumes since 2002. Capacity enhancements, such as increasing policy advice capability, the strengthening of the offshore operation and the enhancement of corporate operations, have taken place during this period within the Agency.

Following the Budget 2008 confirmation that ODA would lift to 0.35 percent by 2010/11, NZAID commenced a broader organisational development review. The review, named the Organisational Development Framework (ODF), is assessing how the agency would need to change and organise itself in terms of staffing, structures and systems, including in Wellington and at posts, in order to handle the projected growth. On current projections the agency will be managing 30 percent more ODA funding in 2011 than in 2008.

The ODF has taken a thorough look at NZAID’s operating environment and business model and concluded that re-structuring of the agency will be required in terms of how core and enabling functions are clustered and the tiers of management needed for the larger organisation of the future. Functional gaps and role requirements have been identified.

The proposed new organisation structure is shown over:



Following further consultation internally about the interface between the new structure and the core Ministry, as well as with Ministers, implementation, if agreed, is expected to take 12-18 months.

Growth and the changing public sector operating context for contracting have also imposed considerable strain on business systems and processes. In the 2007 annual audit NZAID was rated “poor” in respect of its control environment and contract management, though no actual risk was realised.

While this finding was borne out by the parallel but broader performance audit of NZAID’s management of overseas aid programmes undertaken by the Office of the Auditor General, the OAG also found that NZAID had a long-term approach to planning, and was working well with its development partners and other international development agencies in setting up and implementing its activities. However, the OAG did note that NZAID staff were often stretched and that the Agency would benefit from additional monitoring and evaluation of its activities.

As a consequence of the findings of both these audits, NZAID has put in place a two-year Control Environment Strengthening Programme (CESP). In the 2008 audit, NZAID’s rating has improved one rating to “needs Improvement”, which is good progress after one year of implementation.

### Reviews and Audits of ODA and NZAID

Since its establishment in 2002, NZAID has undergone four key reviews and audit processes. All recommendations have been responded to and have influenced NZAID’s proposed organisational structure.

*OECD Development Assistance Committee (DAC) Peer Review (2005)*

The OECD Development Assistance Committee’s five-yearly review in 2000 identified systemic issues in the management of NZODA which were addressed in the creation of NZAID.

The next DAC Peer Review in 2005 found that 'the reorientation of New Zealand's development cooperation has been impressive' and 'the creation of NZAID can be considered a success'. The following significant positive changes since 2000 were noted:

- the successful establishment of NZAID and the building up of a competent and dedicated team of development specialists;
- a clear and welcome focus on poverty elimination as the central objective for NZAID;
- the creation of a range of new policies and capacities and a strong culture of results-based programming and implementation;
- the development of capacity to deliver state-of-the-art programmes;
- a welcome shift in emphasis to strengthening access and delivery of basic education; and
- NZAID's commitment to continually reviewing and improving its development programmes in particular towards more comprehensive and long-term activities that have more significant impacts.

The recommendations were for increased aid levels, the need to match new policies to well-focused programmes and strengthening NZAID's field presence.

*Ministerial Review (2005)*

The main aim was to ascertain to what extent the Cabinet's decisions on the establishment of NZAID (CAB Min (01) 28/8) had been fulfilled.

Findings with regard to ODA were generally positive. The review concluded that of the 16 key decisions in the Cabinet paper, 14 were fully implemented and 2 were underway but not yet complete. Of 25 recommendations, six were for Cabinet and suggested that New Zealand should agree on a path by which it might move towards the internationally agreed ODA target of 0.7 percent of GNI, and that ODA policies and strategies should apply to all Government departments and be monitored by NZAID.

Another 12 recommendations applied to NZAID. Key among these were:

- NZAID should, as a matter of priority, reassess the number, spread and focus of its bilateral programmes to ensure they become focused on achieving the strategic framework determined by Cabinet; and
- Resources and personnel should be directed to completing new gender and environmental policies, implementation of these policies should be suitably resourced and their approaches should be mainstreamed across NZAID programmes and activities.

NZAID has continued to reassess its programmes to reduce spread and increase focus, as evidenced by the increased ratio of funding to the Pacific, and the fact that the number of activities has held steady or has decreased over the last six years while total ODA has doubled.

NZAID has also developed gender and environmental policies. They have been resourced, implemented and are mainstreamed into programmes and activities.

Other NZAID-specific recommendations were focused around training and NZAID's relationship with other entities. All have been implemented or are approaches that continue to be observed.

*NZAID Funding Arrangements Audit Review Report (October 2007)*

*OAG's Performance Audit Report (January 2008)*

Between July and September 2007 Audit New Zealand carried out a focussed review of NZAID's procurement and contracting practices and financial management systems and identified a number of weaknesses resulting in an overall rating of 'poor'.

During 2007 the Office of the Auditor-General conducted a performance audit of NZAID's management of official aid programmes. This audit was wider in scope than the Funding Arrangements audit and looked at the planning, implementation, monitoring and evaluation of aid programmes based on a detailed examination of three programmes. The OAG found that NZAID had a long-term approach to planning, and was working well with its development partners and other international development agencies in setting up and implementing its activities. However, the OAG

noted that NZAID staff were often stretched and recommended that the Agency strengthen the planning and reporting for monitoring and evaluation of its activities. The audit confirmed Audit New Zealand's findings around NZAID's contracting practices/financial management systems.

As a consequence of both sets of findings, NZAID has put in place a two-year Control Environment Strengthening Programme (CESP).

Good progress has been made. In the 2008 audit, NZAID's rating was improved to the point where financial management is now assessed as 'good' by Audit New Zealand and the rating for contracting has moved up one step to "needs improvement".

In its management letter to MFAT for 2008, Audit New Zealand advised:

“ NZAID is on track to full implementation of its Control Environment Strengthening Programme over the two year target timeframe (by June 2009)

There has been a noticeable improvement in the quality of contract management file information being documented, good practice being followed, and improved focus on risk management and observance of probity matters such as recognition of potential/perceived/real conflicts of interest.”

Audit New Zealand noted that there is still work to be done, but concluded that: “NZAID have done well to get to where they are in less than a year. To do this both in Wellington and the challenging environment in overseas posts is commendable.”

## E Public Diplomacy and Outreach

### Public Diplomacy

The Ministry's communications strategy is targeted towards influencing offshore constituencies key to achieving the Government's foreign and trade policy objectives. The Ministry is placing special emphasis on public diplomacy, with the aim of more systematically presenting New Zealand's positions and priorities to a range of key audiences and opinion-makers in countries of importance to us. Domestically, the Ministry engages with the New Zealand public to improve understanding of the Government's foreign policy priorities and to provide opportunities to contribute to policy development.

The Ministry has recently established a stand-alone Public Diplomacy and Outreach Division to strengthen its ability to undertake these tasks.

The Ministry works closely with the New Zealand media, including through regular background briefings and provision of comment on topical issues. It has regular interaction with universities and think-tanks on foreign and trade policy issues. The Ministry also provides speakers and sometimes financial support for university courses and institutes including the NZ Institute of International Affairs, Centre for Strategic Studies and Institute of Policy Studies at Victoria University of Wellington.

### Overseas Promotional and Representation Funds

A variety of promotional and representation funds support the Ministry's public diplomacy activities. All overseas posts receive funding for targeted representational work, totalling some \$2 million per year, to enable staff to build relationships with key stakeholders in their countries of accreditation. This funding is supplemented by targeted regional and thematic project funds for eg the Latin America Strategy, Pacific Security, Asia Security and Governance, and Foreign Direct Investment.

## **Websites**

The Ministry's websites are increasingly its principal publishing medium. The main websites (mfat.govt.nz, nzaid.govt.nz, and safetravel.govt.nz) have been supplemented by several specialist sites over the past year, focussed on eg the Wellington Cluster Munitions Conference, Proliferation Security Initiative – Exercise Maru (nzpsi.govt.nz), and New Zealand's Human Rights Council candidature (votenz4hrc.org).

The Ministry also manages an inter-agency site - chinaFTA.govt.nz - to assist New Zealand exporters and others engaged in economic activity with China to benefit from the recent FTA. That site will be a model for future FTA sites.

The Ministry supports 35 websites (nzembassy.com) at its overseas posts, with several under development. These act as a key promotional tool and a portal to New Zealand Government sites. Post websites also help to deliver the Ministry's consular services to New Zealanders abroad.

## **Cultural Diplomacy**

Promotion of New Zealand's unique and creative cultural identity is funded through the Cultural Diplomacy International Programme (CDIP), managed by the Ministry of Culture and Heritage in cooperation with the Ministry and its overseas posts. The current focus of CDIP is Asia, especially North Asia, through projects designed to boost broader economic, tourism and diplomatic interests. Major promotions are planned for Korea this year, with events around the Shanghai Expo the focus in the coming two years. Overseas posts work on a 'NZ Inc' basis to assist visiting New Zealand cultural groups and in-country promotions.

## **Works of Art**

New Zealand creativity and ingenuity are displayed through the Ministry's works of art holdings at overseas posts. The current programme focuses on installing vibrant, high-quality, low-cost New Zealand art at new posts, and improving holdings at other posts as funds allow. Recent acquisitions include photographs, prints, paintings, kete, carvings and glass art.

## **Publications**

For 46 years the Ministry has produced the United Nations Handbook. This is the only comprehensive printed guide to the UN and is used extensively within and outside the UN system, including by journalists, business, libraries, academics and schools. The Ministry produces targeted printed information on international trade and diplomatic work, including several recent publications on specific trade agreements and a special publication commemorating 50 years of cooperation with the United States in Antarctica. This year's major exercise is a new edition of "About New Zealand", a key booklet used by posts overseas.

## **Maori Policy Unit**

The Maori Policy Unit (MPU) is the Ministry's principal adviser on Māori issues. It advises the Ministry on engagement with Maori, acknowledging the significant contribution Maori make to domestic economic transformation, and the potential for that transformation to develop opportunities in the international arena. MPU keeps the Ministry informed of current or emerging trends in Maori business.

MPU provides advice and policy input on a range of topics, such as intellectual property, traditional knowledge, bioprospecting, Treaty of Waitangi matters, trade and economic issues, relationships with iwi authorities and Māori businesses, and Māori input to visitor programming. Outreach activities to iwi (eight in 2007/08), universities and a range of conferences have ensured Maori are aware of different areas of the Ministry's work, and are an opportunity to acquire first-hand knowledge of activities undertaken by iwi and Māori organisations that have an international flavour.

The Ministry is kept informed of current or emerging trends in Maori social and cultural developments. MPU is the key contact point in the Ministry for repatriation of ancestral remains from overseas. Work undertaken by museums to mount a major Māori exhibition into Europe has also involved MPU in advising and assisting with the processes.

Close working relationships are fostered with other government agencies such as Te Puni Kokiri, the Ministry of Economic Development, the Ministry for Culture and Heritage, and the Ministry for the Environment. This is also a valuable mechanism that enables MFAT to participate with other departments in whole-of-government consultations with iwi and Māori organisations. Internally and at posts, MPU provides a range of learning opportunities for staff to develop an understanding of the Māori language and culture of New Zealand. Maori songs and dance and welcome ceremonies are made available as an opportunity to hone cultural skills for use in future roles at posts.

## F “NZ Inc” – Interagency Cooperation and Agency Services Overseas

In a globalised world, international issues and cross-border impacts can be drivers of domestic policy as much as national issues and developments. Building effective international connections is central to developing pro-active policy responses to the opportunities and risks posed by globalisation. The number of staff deployed overseas by other Government agencies has risen significantly in recent years. Of the 360 New Zealand-based staff serving at Ministry posts offshore, over one-third (ie 130) are from other agencies – eg NZTE (33), Defence (28), Immigration (23), Police (9), Education (8), Customs (5), Agriculture and Forestry (3), Research, Science and Technology (2). A number of agencies such as NZTE, Immigration and Internal Affairs operate branches within or alongside Ministry posts, sometimes run by local employees. In every case it is the Ministry’s Head of Mission who is responsible to the host country for the conduct of all New Zealand diplomatic and consular staff.

The Ministry supports staff from other agencies by assisting with their pre-posting training and transfers and providing, through its network of overseas posts, a secure diplomatic platform for them to work from. A number of projects are underway to improve delivery of the Ministry’s services, eg IT connectivity.

In 2006, in order to promote greater policy alignment and operational cohesion among agencies working overseas, Cabinet authorised New Zealand Heads of Mission to lead the NZ Inc teams offshore. Practical guidelines were approved in 2007 outlining a set of basic practices to encourage collaborative behaviours.

The Ministry also works closely with other agencies in Wellington to align strategic goals and policy frameworks offshore. The NZ Inc teams at posts take these forward. This often involves defining New Zealand’s value proposition to the country concerned, identifying the decision-makers and constituencies that have the ability to influence the desired outcome, and shaping an overall engagement strategy to build awareness, confidence and a series of mutual interests that will ultimately support a new level of cooperation to achieve the specific benefit sought by New Zealand. The Ministry coordinates, delivers and calibrates continuously to build the logic and momentum for engagement. This is frequently a long-run process taking years, but the synergies and connections act as a multiplier of the total NZ Inc effort and impact offshore. Posts like Beijing, Brussels, Canberra and Washington, now develop annual NZ Inc country strategies along these lines.

NZTE is by far the Ministry’s largest and closest partner offshore. It has its own network of 38 offices as well as staff in Ministry posts. Its offices include five regional “hubs” (Hamburg, Singapore, Hong Kong, Los Angeles, Sydney), as well as 33 “spoke” offices. NZTE is currently progressing two priority objectives. The first is a four-year Asia Expansion Strategy which envisages adding up to five additional offices in China’s second-tier cities and establishing new beachheads and concept centres in China, Japan and India. The Ministry and NZTE have agreed on a set of consultative principles to mitigate any budgetary and operational implications for the Ministry’s own resources and objectives as NZTE’s offshore footprint changes.

NZTE’s second priority is its “Globally Competitive Firms” work-stream, requiring it to engage more intensively with a select group of firms that have the potential to enhance their growth in New Zealand’s major markets significantly. This “narrower and deeper” focus will oblige NZTE to provide more sophisticated and integrated in market business support. The Ministry has an underpinning role through its leadership of NZ Inc and specific contributions to help business – eg sponsoring promotions, access to decision-makers.

In emerging markets where NZTE has limited or no ability to monitor and follow-up longer-term risks and opportunities (eg some parts of Asia, Latin America, the Middle East and Africa, Central and Eastern Europe, and the Pacific), the

Ministry and NZTE are developing a pilot market development scheme. This aims to join up NZTE's knowledge of New Zealand firms and business strategies with the Ministry's local knowledge and connections. Ministry staff familiar with the language and culture of a specific market would have a defined role in prospecting for opportunities which NZTE lacks the resources to explore. By formally linking the two organisations' strengths, the arrangement would provide a more pro-active NZ Inc response.

Issues to be addressed over the coming year include:

- support NZTE's Asia Expansion Strategy and manage implications for existing networks, resources, and relationships;
- pilot a scheme to monitor and follow-up longer-term risks and opportunities to trade development in emerging markets that are not an immediate focus for NZTE;
- provide in-market support to the Globally Competitive Forms initiative and open doors for New Zealand business;
- expand the Ministry's targeted economic and market intelligence reporting to meet the requirements of New Zealand business; and
- focus on strengthening NZ Inc policy alignment and operational coordination including roll-out of an NZ Inc portal to aid IT connectivity.

## **G Crown Agencies Associated with the Ministry**

### **New Zealand Trade and Enterprise (NZTE)**

NZTE is a Crown Agent, with the Minister of Economic Development and the Minister of Trade designated jointly as Responsible Ministers. Government funding for NZTE is channelled through Vote: Economic, Industry, and Regional Development.

A monitoring team for New Zealand Trade and Enterprise sits within the Ministry of Economic Development, and is made up of officials from the Ministry of Economic Development and the Ministry of Foreign Affairs and Trade. It has two key roles to:

- support and provide advice to the Chief Executives of MED and the Ministry of Foreign Affairs and Trade who are specialist advisers on the Board of NZTE; and
- to provide an independent stream of advice to the Ministers on whether Government expectations are being met.

In carrying out this role the team operates within the framework of the Crown Entities Act, the State Sector guidance on monitoring of Crown Entities and the expectations set by Ministers. Some of the functions include: advising on funding and overall performance measures; strategic management support of the relationship between Ministers and Crown Entities; support for delivery of core accountability documents (eg letters of expectations, statements of intent, output plans, quarterly and annual reports); and statutory appointments to the Boards as positions fall due.

The Ministry and MED are conscious that there are costs to NZTE of monitoring and over the years have tried to minimise these without compromising the role and advice expected by the Government and Ministers - eg taking steps to minimise the frequency and extent of reporting from NZTE, while ensuring an adequate flow of information.

A key current priority for NZTE is examining how resources might be re-directed to enhance its engagement with internationalising firms while ensuring that small firms which operate domestically still receive the support they need to make an effective contribution to enhanced productivity. These changes will take time to embed, and still require further thinking about the alignment of current grant schemes and programmes.

NZTE is currently working on a major shift in the way in which it delivers support for New Zealand firms. The Ministry is supporting NZTE in this process.

### **New Zealand Antarctic Institute**

The New Zealand Antarctic Institute (Antarctica New Zealand) was established by an Act of Parliament in 1996 to develop, manage, and execute New Zealand activities in respect of Antarctica and the Southern Ocean, to maintain and enhance the quality of New Zealand Antarctic scientific research, and to cooperate with other domestic and international organisations with similar objectives. Its budget for the 2008/09 financial year is \$12.5m.

Antarctica New Zealand is governed by a Board of Management currently comprising six members. The Chair is Mr Rob Fenwick who reports to the Minister of Foreign Affairs as the Responsible Minister. The Ministry assists the Minister in monitoring the Crown's ownership interest in and overall strategic direction of Antarctica New Zealand.

The major outcomes the Minister seeks from Antarctica New Zealand include maintaining a continuous and effective New Zealand presence in the Ross Dependency, leadership in protecting the Antarctic environment, and facilitating and enhancing high quality science that is relevant to New Zealand and the world. Antarctica New Zealand also contributes technical advice to the Ministry on a range of issues including environmental impact assessments prepared under the Antarctica (Environmental Protection) Act 1994 for which the Minister of Foreign Affairs is responsible.

Antarctica plays an important role in New Zealand's relations with a number of countries, most notably the United States. A 1958 treaty is the basis of the Joint Logistics Pool between the US and New Zealand, which Italy has also joined.

Antarctica New Zealand provides a continuous presence in the Antarctic for New Zealand through the management of Scott Base. This year-round presence reflects New Zealand's sovereignty interest in the Ross Dependency. The maintenance of the Royal New Zealand Air Force's Antarctic resupply capability is also of strategic importance to New Zealand.

New Zealand has recently enhanced its contribution to the Joint Logistics Pool through undertaking a 'proof of concept' project to provide wind energy to both Scott Base and McMurdo Station (US). Before this and other contributions were announced in the 2007 and 2008 budgets, there was a United States' perception that New Zealand was taking out more than it was contributing to the pool. Construction of the three wind turbines starts during the 2008/09 Antarctic summer season, funded by New Zealand.

Five of the current six Board members' terms expire on 30 June 2009. Four may be reappointed, and there is also scope to appoint a seventh member.

### **Asia New Zealand Foundation**

The Asia New Zealand Foundation (until 2000 the "Asia 2000 Foundation") was established in 1994 as a non-profit, apolitical Crown trust dedicated to building links and promoting greater understanding between New Zealand and Asia.

The Foundation is active in a wide range of programmes in education, business, media, cultural, research and policy studies; and develops and coordinates projects and initiatives designed to equip New Zealanders with practical experience of Asia and to strengthen New Zealand/Asia links.

The Foundation has a Board of up to 21 trustees, appointed by and responsible to the Minister of Foreign Affairs and Trade. The Secretary of Foreign Affairs and Trade, the CEO of NZTE and the Secretary of Education are ex officio members. The Foundation also has 17 Honorary Advisers from across Asia, all senior figures in the public and private sectors.

The Foundation's current Executive Director is Richard Grant who took up the position in January 2008. There are 19 staff based in the Wellington Head Office and two in the Auckland Office. The Foundation's budget for 2008/2009 is \$6,318,000 of which \$4,245,000 is provided by the Government.

The Ministry acts as Purchase Adviser and Contract Manager on behalf of the Government. The Ministry assists with the negotiation of the output agreement between the Foundation and the Minister, coordinates the appropriation process, provides financial and performance monitoring, advises on the Foundation's strategic direction and capability and reports to the Minister.

An independent review of the Foundation was undertaken during 2006/07. The findings were broadly supportive of the Foundation's ongoing role in promoting New Zealand's relations with Asia. Cabinet approved recommendations setting out strategic and operational adjustments required to align the Foundation's activities better with New Zealand's foreign and trade policy goals and priorities in Asia. These adjustments include enhancing private sector linkages, taking a leadership role in Track II relationships, stepping up outreach with international networks and offshore partners and building influential networks in the region.

In the wake of the review, the Foundation will be seeking to establish a new level of baseline funding in the 2009/2010 Budget round. The current baseline is \$1.547million, which has been augmented with one-off increases over the past few years to provide annual funding of approximately \$4m pa. The Asia New Zealand Honorary Advisors' Meeting takes place in Singapore on 19-20 February 2009. The Asia New Zealand Foundation has indicated that attendance by the Minister of Foreign Affairs would be of value.

### **Pacific Cooperation Foundation**

The mission of the Pacific Cooperation Foundation (PCF) is to be a catalyst for strengthening New Zealand/Pacific relationships by providing information and independent commentary, brokering outcomes and developing networks within the Pacific region.

The PCF was established as a charitable trust in 2002. Its core funding comes through the Ministry of Foreign Affairs and Trade, with the Purchase Agreement providing for \$1.347m in funding in 2008/09 (an increase of 50 percent). It receives small amounts of income from other sources, including sponsorship.

Under the PCF's Trust Deed, the Minister of Foreign Affairs and Trade appoints trustees on advice from the Board of Trustees. The PCF Board is currently comprised of 12 members, including the Secretary of Foreign Affairs and Trade (ex officio). The Minister of Foreign Affairs and Trade will be asked to take decisions on the composition of the PCF Board early in 2009, including the role of Chair. This is expected to follow the PCF's transition to a new Chair and CEO in the new year.

## **H Committees and Boards for which the Minister has Responsibility**

### **Public Advisory Committee on Disarmament and Arms Control**

PACDAC is a statutory body set up under the New Zealand Nuclear Free Zone, Disarmament and Arms Control Act 1987. The committee comprises the Minister for Disarmament and Arms Control, as Chair, and eight members appointed for a three year term by the Minister of Foreign Affairs. In addition to the Minister, the committee currently comprises Hon Deborah Morris-Travers, Dr Jim Veitch, Alyn Ware, Graham Fortune, Richard Northey, Mary Wareham, Bishop Richard Randerson and Dr David Capie. The term for the current committee will expire in 2010.

The functions of the committee, as set out in the Act, are to advise the Minister of Foreign Affairs on disarmament and arms control issues, advise the Prime Minister on the implementation of the New Zealand Nuclear Free Zone Act, publish reports on these issues and make recommendations on grants from funds established to promote greater public understanding of disarmament and arms control. These funds are the Peace and Disarmament Education Trust (PADET) and the Disarmament Education UN Implementation Fund (DEUNIF). PADET and DEUNIF are administered by the Department of Internal Affairs.

### **New Zealand/France Friendship Fund**

The Fund was established by the French and New Zealand Governments in 1991 to promote friendly relations, in the wake of the Rainbow Warrior affair. The Fund's capital sits in an account in Paris and is administered by a Joint Board comprising three members in each country (a Chair plus two). Groups or individuals apply to either the French or New Zealand side for funding, and the Joint Board meets annually in alternating capitals to approve projects. Both countries have agreed to wind down the Fund by 2021 through a gradual drawdown of the capital.

Priority is normally given to projects which are "visible" and which have a strong people-to-people content, and to those which contain an element of exchange between the two countries. The main aim is to promote friendship

between New Zealand and French citizens, especially young people. Each year some of the approved funding subsidises school exchange trips between New Zealand and France (and the French Pacific territories). The majority of the other approved projects are related to the arts, although there have also been some in the educational, culinary, business and sporting spheres. The next meeting of the NZFFF Joint Board will be in mid-2009.

### **Fulbright New Zealand**

Fulbright New Zealand administers a range of awards for New Zealanders and Americans wanting to study in the other country, including the Fulbright Programme and Ian Axford and Harkness Fellowships. It was established in 1948 to promote international understanding through educational and cultural exchanges between New Zealand and the United States. The Fulbright programme enhances New Zealand's profile in the US and strengthens the US constituency for the relationship.

The Fulbright Board consists of twelve members – six New Zealand citizens appointed by the Government and six United States' citizens appointed by the US Ambassador. Board members are appointed for a three-year renewable term. The current Board members on the New Zealand side include: Barbara Johnson (Chair), Jock Phillips (Treasurer), Stephen Jacobi (Deputy Chair). The Secretary of Education and Secretary of Foreign Affairs and Trade, or their nominees, are ex officio members. The Board is currently considering recommendations to the Minister to fill Government-appointed vacancies created by the recent departure of Charles Royal and Ruth Harley (former Chair), and the upcoming departure of Jock Philips.