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C O N F I D E N T I A L SECTION 01 OF 04 WELLINGTON 000642 SIPDIS

STATE FOR EAP/ANP, EAP/RSP, EAP/EP, INR/EAP NSC FOR VICTOR CHA AND MICHAEL GREEN SECDEF FOR OSD/ISA LIZ PHU PACOM FOR J2/J233/J5/SJFHQ E.O

12958: DECL: 08/22/2015 TAGS: PGOV, PREL, NZ SUBJECT: NATIONAL SHAPING UP AS GENUINE CHALLENGER TO LABOUR, S HOLD ON POWER IN NEW ZEALAND REF: A

WELLINGTON 594 B

WELLINGTON 566 Classified By: Acting DCM Katherine Hadda, for reasons 1.4 (B) and (D).

1

(SBU) This is the first in a series of cables about where New Zealand's political parties stand in the run-up to September 17 general elections

-----Summary -----2

(SBU) Badly battered in the 2002 campaign, New Zealand's main opposition party, the National Party, has reclaimed enough public support to pose a genuine threat to the Labour Government's hold on power

Although Labour has begun to regain the ground that it lost in the polls in recent months, the September 17 general election is still too close to call

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(C) The Party most favored by business and farmers, National is fighting the campaign on key domestic issues, advocating center-right policies such as tax cuts and lighter regulation in a bid to meet the needs and desires of what the Party has called "mainstream New Zealanders." In taking this approach, National is deliberately painting itself as the alternative to a Labour Government that often targets its interventionist social and economic policies to specific sectors of society

By portraying the Government as arrogant and out of touch with the interests of ordinary voters, National's message is especially designed to woo working and middle-class Kiwis who might otherwise vote Labour

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(C) National's spike in the polls in May, following a string of embarrass

ing revelations of Government mismanagement and public discontent over Finance Minister Cullen's budget, caused genuine alarm in the Labour camp. In response, Labour has cast National as the party that is out to destroy public services in order to benefit wealthier New Zealanders.

The Government has recently begun to announce a string of spending initiatives designed to benefit many voters who might be attracted to National's platform.

This has put more pressure on National to deliver a tax cut plan that will appeal to the majority of voters without appearing to cut health, education, and other key services.

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(C) Despite considerable pressure from the media and the Government, National decided to hold its tax plan close to its chest until August 22, the day after the formal start of campaigning.

It did so largely in an attempt to prevent Labour from copying those ideas which would win support in the polls.

National also wanted to avoid the mistakes of the last election, when it announced a string of new initiatives virtually up until Election Day, confusing many voters.

But the anticipation surrounding National's delayed announcement allowed the Government and media to narrow the issues of the campaign.

What should be a race about the proper role of government has instead largely boiled down to one issue: taxes.

Should significant numbers of voters not favor its plan, National is unlikely to win next month.

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(C) The delayed announcement of the tax cut plan has also confirmed some voters' view of National as sneaky and having a hidden agenda.

Labour has worked to raise similar questions in the minds of voters by questioning National's relationship with the United States and its true intentions regarding New Zealand's anti-nuclear stance (reftels).

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(C) Ironically, while National is considered more favorably disposed than Labour toward the United States, not all members of the Party share their leaders' desire for a review of New Zealand's nuclear policy.

Some, even if they generally like us, harbor some suspicions of US policies. In addition, the Party's need to avoid the appearance of being in the United States' pocket will constrain its ability to argue publicly for a re-evaluation of the relationship even if elected to power.

End Summary

-----National's Message -----8

(SBU) Since rising to leadership in October 2003, Brash has moved the National Party further to the political right than it was under his predecessor, Bill English

On the economic side, this has translated into a greater emphasis on free market policies such as lower tax rates for both individuals and businesses, minimized business regulation, and flexible labor markets

On social issues, the Party emphasizes the importance of supporting traditional families with policies that let them make their own decisions

-----The prosperity argument -----9

(C) As in other countries, domestic issues trump all in New Zealand's elections

In recent years, New Zealanders have voted for whomever they perceive offers the best prospect for personal financial prosperity

Seizing on this as a challenge that only the center-right can meet, National's campaign focuses heavily on economic issues

Although earlier in the year National's foreign affairs spokesman Lockwood Smith had told us New Zealand's five-year economic expansion would hurt National's election bid, recent signs of an imminent slowdown will have put a spring in the Party's step

National also points to Brash's long-term experience as New Zealand's central banker as proof of the party's financial capability

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(SBU) National's major theme - that economic growth is necessary if New Zealand is to achieve first-world levels of health care and education - is largely similar to that espoused by the Labour Government. But National argues Labour's economic redistribution policies are inefficient, overly reliant on state involvement and light on personal responsibility. Instead, National argues, the country needs greater individual freedom and fiscal responsibility through tax cuts on personal and corporate income. It has also called for welfare reform and reduced government bureaucracy in education and other areas-

National has also introduced proposals such as tax credits for childcare that it argues will maximize parents' choices instead of forcing them to rely on state programs

-----It's the Tax Cuts, Stupid -----11

(SBU) A recent poll shows 62 percent of people believe they are paying too much tax

National is betting that tax reform will prove to be the defining issue of the election and believes that it can work this sense of public dissatisfaction to its advantage

It is confident that this will resonate with the electorate more than the targeted spending packages that Labour has favored

Widespread public disaffection for Labour's last budget, which - despite a hefty surplus - provided only limited tax relief beginning in three years -- seemed to vindicate National's reading of the public mood

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(SBU) National avoided announcing the details of its much anticipated tax plan until August 22, presumably to avoid having Labour steal its thunder (It didn't entirely work: recognizing its vulnerability on the tax issue, Labour announced on August 19 its own targeted plan -- a retooled and expanded version of its "Working for Families" subsidies.) The Party has pledged to cut taxes by a total of NZ\$9.4 billion (US\$6.5 billion) over the next three years

The first year would see decreases in personal taxes by lifting tax rate thresholds

(The current highest rate of 39% kicks in for annual salaries equivalent to only \$45,000 US.) Corporate tax reductions would kick in during the second and third year of the plan, providing there is room in the budget for this

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(SBU) National's decision to put personal tax reductions ahead of business demonstrates how crucial lower- and middle-class voters are for its campaign

Sensitive also to Labour's claims that the tax cuts will mean massive reductions in public services, National has pledged not to decrease any current spending on health, education, or superannuation (pensions)

It says it will finance the plan through cutting Government spending by 2% and slowing down the rate of future spending

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(C) To some extent National has been a victim of its own success, in that Kiwis were so hyped on the idea of tax cuts that National's delay in announcing the plan made the Party seem secretive and possibly dishonest

It has also drawn attention away from other aspects of National's policy, so that if the plan fails to excite voters National has little chance of winning the election

It remains to be seen whether National's plan as announced will do the trick

-----Curb the "brain drain" -----

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(SBU) National argues that, despite the benefit of the best international trading conditions New Zealand has enjoyed for many decades and despite reasonable levels of economic growth as a consequence, most New Zealanders are, in real terms, no better off

National frequently cites low comparative income levels as an underlying reason for the flight of talented New Zealanders to Australia and other countries, commonly referred to as the "brain drain." 16

(SBU) National argues that immediate tax reform would encourage New Zealanders to stay in the country

Lowering corporate taxes would also encourage more overseas investment in New Zealand, lifting salaries

These issues - income levels and the sense that the most talented of New Zealanders are more inclined to leave the country rather than stay resonate with voters

But National's confidence that it could appeal to New Zealand's ever increasing educated middle class with this approach took a beating when the Government announced it would abolish interest on student loans

-----Race Relations and "Mainstream New Zealand"
-----17

(SBU) Following Brash's "nationhood" speech to a Rotary Club at Orewa in early 2004, where he expressed opposition to Maori racial separatism in New Zealand, National temporarily received the biggest one-off gain, 17 percent, in the history of New Zealand's most well-known political poll

Though the sentiments expressed in the Orewa speech differed little from established National Party views, the ensuing nation-wide support the Party received after delivery, largely a result of timing and effective spin, indirectly provoked changes of emphasis in Labour's policy agenda

The themes of the Orewa speech continue to resonate with many New Zealanders, particularly the middle class, and is for National a key component of its claims that it is the only Party representing "mainstream New Zealanders." One of National's most popular billboard is a picture of Helen Clark underneath the word "Iwi" (the Maori word for tribe) alongside one of Don Brash underneath the word "Kiwi." 18

(SBU) Overall, National says that Labour has been, and continues to be, excessively concessionary when it comes to Maori claim settlements stemming from the 1840 Treaty of Waitangi

National says it will set a deadline of 2010 to settle all claims

It has also taken a resolute line against consultation with Maori on resource management issues, any program it can plausibly call race-based, some Treaty settlements and official deference to Maori spiritual and cultural values

-----National's Vulnerabilities: Anti-nuclear policy at issue -----

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(C) Foreign relations rarely command center stage in a general election campaign

But Labour is determined to take advantage of National's perceived vulnerability regarding New Zealand's 1987 legislation that bans nuclear-powered and nuclear-propelled ships from its harbors (reftels)

National has done a relatively poor job of deflecting these charges

By simply repeating that it does not have plans to change the law and would not do so absent a referendum, the Party has begged the question of why it would even call for such a vote

This has made it easier for Labour to convince voters that National has a hidden agenda

-----Seeking a return to traditional alliances ----
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(C) National is publicly committed to multilateralism, but it places greater preference on New Zealand's relationships with traditional allies - the United States, the United Kingdom and Australia -- than does Labour

National maintains that these traditional alliances, especially with the United States and Australia, have unnecessarily deteriorated under the present Labour Government, leaving New Zealand dangerously isolated

National is mindful, however, of the anti-American sentiment that has seized many New Zealanders

Party officials have quietly told us that they seek to address this, but are equally honest that to do so will be very difficult

It's worth noting that even Party stalwarts such as former PM Jim Bolger would not want to see New Zealand totally remove its nuclear policy

(NB: We will report septel on the campaign's implications for U.S foreign and defense interests.) 21

(C) National has been very critical of the Government's spending on military capability

However, it has not committed to any defense spending above the Government's recently pledged \$4.6 billion Defence Sustainability initiative

National recognizes that the military cannot absorb anything more than this over the shorter term

The Party's strategists also realize that the Party is vulnerable on defense issues: Labour has made a lot of hay during the campaign trumpeting the fact that Don Brash indicated some months ago that he would have sent troops to Iraq

-----Background on Brash -----22

(U) Dr

Don Brash served as New Zealand's central banker for 14 years (1988 - 2002)

After studying at the University of Canterbury, he gained a PhD in Economics at Australian National University in 1966

He was an economist at the World Bank for five years, general manager of Broadbank Corporation for 10 years, managing director of the New Zealand Kiwifruit Authority from 1982-1986 and managing director of the Trust Bank Group from 1986-1988

Brash became leader of the National party in October 2003 following an inte

rnal coup that toppled former leader Bill English
Since becoming Leader of the Opposition, Brash and National have enjoyed
an upswing of public support with party membership doubling under his l
eadership.

-----Comment -----23

(C) Although most Kiwi politicians believe the anti-nuclear law is a third-rail
issue, it is unlikely to greatly affect the election outcome
Even if National were believed to be planning to repeal the nuclear-powered-
vessels part of the law, that alone would probably not cost it the support o
f swing voters

Potential National voters are far more likely to be drawn to the Party becau
se of their concerns over the size and role of the state - doubts about the
government's managerial competence; political correctness/Treaty of Waitangi
issues, and especially taxes and spending patterns

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(C) In addition to the tax issue, it is likely that the fortunes of National wi
ll increasingly be tied to how the country responds to Brash as a possible prim
e minister

As the election becomes increasingly presidential in style and substance, t
here will inevitably be closer comparisons made between him and the Prime M
inister as leaders

This may be a problem for National

According to National Party strategist Peter Keenan (protect), the Party regar
ds Brash's lack of political experience as both his greatest asset and vulnera
bility

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(C) Clark is a tested leader who is widely considered as capable and experi
enced

Although she is not widely seen as likable, to date she maintains a comforta
ble lead over Brash in polls asking voters to name their "preferred Prime Mi
nister." Cerebral and awkward, Brash is still untested, and -- as three rece
nt debates have proven -- is not as comfortable on the stump as his opponent
Clark

On the other hand, as a political novice who entered politics in 2002, Brash
does not carry the sort of obvious political baggage that the highly experien
ced Clark carries after her many years as a politician

New Zealanders are conventionally wary of career politicians, and this may
work in Brash's favor in the end

End comment