TRADE POLICY REVIEW MECHANISM

NEW ZEALAND

MINUTES OF MEETING

Chairman: Mr. Rubens Ricupero (Brazil)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. Introducing the meeting, the Chairman noted that the discussion would be based on the report by the Government of New Zealand circulated in document C/RM/G/9 and Add.1, and the report by the Secretariat circulated in documents C/RM/S/9A and Corr.1, and C/RM/S/9B. The report by the Government of New Zealand followed the outline format for country reports agreed by the Council in July 1989 (L/6552). The report by the Secretariat followed its normal format. In line with the Decision establishing the Trade Policy Review Mechanism, the Secretariat had sought clarification from New Zealand on its trade policy and practices with respect to the factual information contained in the first six Chapters of its report.

2. The Chairman recalled that the procedures for the meeting were set out in document C/RM/3. The New Zealand delegation had received advance notices in writing of certain points one participant in the meeting wished to raise.

3. The Chairman thanked the two discussants for their assistance. For the review of New Zealand, Ambassador Rossier would open the discussions and Mr. Rosselli would subsequently make additional remarks.
II. INTRODUCTORY REMARKS BY THE REPRESENTATIVE OF NEW ZEALAND

4. Let me first reiterate New Zealand's support for the TPRM: particularly its aim to increase the transparency of national trade policies. It follows that we are pleased to be among the early group of countries subject to review.

5. Moreover, as regards our practical experience, the process has been valuable and helpful to the New Zealand authorities. We were impressed with the thorough way the Secretariat conducted the review. We welcome their report. The body of it is, in our view, fair and balanced.

6. In my introductory statement I want to focus on some of the salient features of the policies we are collectively reviewing and comment on one or two more specific aspects.

7. First let me note that this review comes at a most interesting stage in the development of New Zealand's trade policies. Only a few weeks ago, on 1 July, New Zealand and Australia completed the phase-in of a complete free trade area under the Australia-New Zealand Closer Economic Relations Trade Agreement. Also within recent weeks, my Government has announced the termination of the few, still remaining import licensing controls by 1 July 1992. The relevant section in the Secretariat's report should be read with that fact in mind.

8. The Council's consideration of reports on other countries emphasized the importance of looking at the trends in their trade policies. I would like to underline the consistent and wide-ranging economic and trade policy reforms which New Zealand has implemented, particularly since 1984. They reflect a commitment to reduce protection, face up to major structural adjustment and open up our economy on the basis of international competitiveness. The main part of the Secretariat's report acknowledges the importance of these reforms and notes the domestic pain the Government has been prepared to face in terms of the effects of restructuring.

9. We think the report somewhat understates the very extensive reform in the agriculture sector. Effectively, New Zealand has eliminated all support and protection for agriculture.

Openness of New Zealand economy: trends

10. Relative to most countries, the New Zealand economy is now remarkably open in important sectors such as agriculture and services. I shall deal separately with manufacturing - previously very highly protected. In some areas of services trade, New Zealand has attained a degree of liberalization well in advance of most other countries. New Zealand today operates a very liberal foreign investment régime. In banking and finance, there is no limitation on the number of institutions which may operate in New Zealand. Nor is there any official limitation on the range of banking activities which may be undertaken. Essentially, if you meet our prudential requirements, you can operate in New Zealand.
11. In the important area of telecommunications, we allow for competition in the provision of basic telecommunications services. Our appreciation of the benefits of such an open régime is one of the principal reasons behind New Zealand's active participation in the Uruguay Round negotiations on trade in services.

Trade policies and practices by measure

12. The Secretariat's description of New Zealand's history as a highly regulated, protected economy which was generally not responsive to international market signals is accurate if applied historically to manufacturing. But, as the report also acknowledges, there has been dramatic change since 1984.

13. On licensing, the main part of the report, though not the summary, notes that import licensing will be completely eliminated by 1992. We regard this as an important achievement: in eight years from 1984 New Zealand will have reduced licensing from 25 per cent of import items to the current (1989) level of 3 per cent to nil in 1992. This reference inevitably brings to mind the old days, quite a number of years ago, when New Zealand was subjected to balance-of-payments consultations under Article XII. Clearly, it is a different story now.

14. To return to our tariffs, which the Secretariat's report describes as "still high", there has nevertheless been a significant reduction in recent years. New Zealand is not aware of any Contracting Party which has reduced its protection levels further over the period in question, with the possible exception of Mexico. Tariffs on industrial products will be progressively reduced by about half by 1992.

15. We are pleased that the report also picks up the important point that the Government's recently announced plan for post-1992 tariff reform should reduce tariffs for most imports to a maximum of 10 per cent by 1996.

16. New Zealand welcomes the very full and carefully balanced description in the main part of the report of New Zealand's quarantine régime and the specific circumstances which make this régime necessary. However, in this context, the statement in the Summary Observations, that New Zealand's quarantine procedures are a "potentially highly restrictive trade measure" is not an acceptable characterization. The measures are not in place to "restrict trade". New Zealand's prosperity is highly dependent on maintaining itself free of a number of pests or plant diseases. Adequate sanitary and phytosanitary security is a matter of economic life or death. Our concern about the unjustified use of SPS measures underpins New Zealand's active part in the relevant Uruguay Round negotiations, reflecting our commitment to the achievement of improved disciplines.

17. As for our own use of SPS measures, we are prepared to address seriously any concerns. But I can assure the Council that our approach is based on sound scientific evidence and application of the concept of managed risk. Further, our dependence upon overseas customers imposes its
own quite considerable constraints on our approach to the use of sanitary measures.

18. In the area of agriculture, recent studies show that New Zealand has the least assisted agriculture sector in the OECD. Our farmers are fully exposed to international market signals - indeed the Secretariat's report observes that effective rates of assistance for New Zealand's farmers are now negative. Producer subsidy equivalents for New Zealand are around 5 per cent, which compares favourably to the OECD average for 1989 of 39 per cent (with some country PSEs reaching 79 per cent).

19. We note that the report draws attention to the various voluntary export restraints that New Zealand faces in major markets. New Zealand is participating actively in the Uruguay Round safeguards negotiations, inter alia to try to re-establish multilateral control over the grey area.

20. On New Zealand's involvement in trade disputes, I am pleased to be able to update the report's section on beef access to the Republic of Korea. New Zealand and Korea have now concluded talks on a timetable up to 1992 for implementing the GATT panel's recommendations. I reported this to the Council at its 11 July meeting.

21. The Secretariat's report in its penultimate paragraph speaks of the serious damage to New Zealand's trade caused by the protective border measures in major markets. It also refers to the serious effects of world market distortions caused by the farm support policies pursued by the major economies, particularly subsidized exports of surplus agricultural production. The estimated costs to New Zealand's economy from agricultural protectionism far exceed the costs to any other OECD country. We suspect they would be equalled, in a relative sense, only in one or two of the Cairns Group developing countries.

22. Developing countries and efficient agricultural producers have no hope of obtaining any degree of economic security and prosperity whilst agricultural subsidizing nations continue to deprive us of our livelihood. Our deep dissatisfaction with this state of affairs underlines the urgency with which New Zealand as a member of the Cairns Group is pressing for substantial and progressive reductions in agricultural support, protection and export subsidies in the Uruguay Round. Action in these areas is also in the interests of the open multilateral trading system on which all of us here rely.

23. Mr. Chairman, that concludes my opening remarks. The New Zealand authorities welcome this opportunity for a detailed external scrutiny of our trade policies and relevant factors. We feel sure New Zealand can be regarded as pursuing policies that are fully consistent with our GATT obligations; also that the trend in them is towards significantly more liberal trade.
III. STATEMENT BY THE FIRST DISCUSSANT

24. Compared to the Contracting Parties whose trade policies have been reviewed in the last few days, New Zealand is a considerably smaller trader, ranking forty-eighth amongst world exporters and fifty-first amongst importers. New Zealand's economic performance was comparatively sluggish during the past, but New Zealand is at a turning-point of its economic and trade policy history, which gives to this review an exceptional value.

25. New Zealand is what economists call a small open economy. Merchandise trade corresponds to about 40 per cent of GDP. The share of primary commodities in exports is about 70 per cent, making the economy vulnerable to price fluctuations on the international commodity markets. Despite this high percentage in the export basket, agricultural production represents only 6 to 7 per cent of the GDP.

26. Trade developed very dynamically in the recent past. Merchandise exports grew by 24 per cent in 1987 and 21.2 per cent in 1988. However, the growth rates of merchandise imports look comparatively modest, the respective rates being 19.5 per cent in 1987 and only 0.4 per cent in 1988. Trade with Australia, Japan and the five Asian countries has been particularly dynamic, and one may assume that New Zealand will considerably benefit in the years to come from its geographical position in the Pacific Basin that is one of the world's most dynamic and economically successful regions.

27. Although New Zealand has always been heavily dependent on exports of merchandise, its internal market was until recently largely insulated from developments in the global economy by measures such as import licensing, high tariffs, trade monopolies and foreign exchange restrictions. Only since the late seventies, and notably since 1984, important steps have been taken to reduce import licensing, to cut tariffs, to reduce public assistance and to remove foreign exchange restrictions. Financial controls and rules on foreign direct investment have been relaxed. New Zealand's economy has become more open to external competition and to market forces. Much has been done, yet much remains to be done. In many areas substantial level of assistance and protection through high tariffs and non-automatic import licensing persist. In view of this situation, we can make a few comments and raise some questions.

28. New Zealand has undertaken a comprehensive programme of de-regulation, privatization and trade liberalization. This is a programme which can be considered as very impressive through its growth and the conditions under which the implementation took place. We should not under-estimate the difficulties in the implementation of such a programme for a small country which is very much export-dependent and which has a limited range of export products. We have to welcome the efforts and encourage the New Zealand authorities under the present circumstances. But taking into account the scope and the importance of the programme, both for New Zealand and its trading partners, we would be interested in knowing what the experience has been with this programme in terms of structural
adjustment, employment and growth of GDP and trade. What lessons will New Zealand's authorities and businessmen draw for the nature and speed of further liberalization?

29. New Zealand's export revenue remains heavily dependent on a limited number of primary commodities and are therefore most vulnerable to fluctuating commodity prices. What are the possibilities available to New Zealand to diversify exports outside primary commodities, and what policies, or policy change, could help to bring such change about?

30. What is the rationale for maintaining industry plans in certain areas and what are their objectives? What instruments are used to achieve these objectives? What is the time horizon for industry plans still in place? Are their new industry plans under consideration? Are private businesses pressuring heavily on the Government to implement new plans?

31. Import licensing has been significantly reduced in New Zealand during the last five years. Why does New Zealand find it necessary to maintain in some sectors such as footwear, textiles and apparel non-automatic licensing in addition to high and unbound tariffs?

32. Since 1985, goods not produced in New Zealand have generally been given duty-free entry. While this measure facilitates market access for foreign exporters, it implies also a considerable risk. Since tariffs soar back to their initial level, this may result in a sudden loss of the foreign competitors' market.

33. The maintenance of producer and marketing boards, enjoying special privileges, seems to contradict the spirit of reform steps aiming at promoting competition. We would be interested in knowing what the authorities' assessment is of the scope and the influence of these marketing boards over trade. Does New Zealand envisage to change the present system of producer and marketing boards?
IV. SUPPLEMENTARY REMARKS BY THE SECOND DISCUSSANT

34. May I once again begin by expressing my thanks to the authorities of New Zealand and to the Secretariat for the reports they have produced to serve as a basis for our discussions, and also to Ambassador Hannah for his opening remarks.

35. As we have already done in our personal remarks during the other reviews we have carried out in the course of this week, we should like to recall that it is fundamental to bear in mind the purposes of the Trade Policy Review Mechanism, namely to contribute to improved adherence by contracting parties to the GATT system, promote the smoother functioning of the multilateral trading system as a whole, and examine the impact of individual contracting parties' policies.

36. Thus, we have said that, in the light of those aims, we usually ask ourselves a number of objective questions, regardless of the country involved, in order to try to establish in any specific case how that country's trade policies and practices mesh with the objectives of the review mechanism. At the risk of repeating myself, I have said that I habitually ask the following questions. What are the main trade policy instruments? What are the patterns of protection, and is there any selectivity? What is the degree of transparency of these policies? How do they affect the various trading partners? What is the relationship between these policies and the multilateral trading system? Has there been a trend towards liberalization or greater protection in the country concerned?

37. Accordingly, we wish to analyse the specific case of New Zealand in the light of the purposes of the trade policy review mechanism and of these theoretical questions.

38. As Ambassador Rossier rightly pointed out, the case of New Zealand is obviously quite different from that of the other countries examined this week. We are not talking about one of the economic giants; we are talking, as Ambassador Rossier said, about a small open economy, and one of the things that has struck us about this small economy, which was recently in 48th position as exporter and 51st as importer and which accounts for merely 0.3 per cent of world trade, is that it is nevertheless an economy in the throes of transformation, change, opening up and liberalization. It is truly stimulating to see the determination, the resolve, with which a small country with a small population has in recent years undertaken an ambitious, hazardous and we would say courageous plan to review and liberalize its policies.

39. As regards one of the objectives of the trade policy review mechanism, namely to improve the system itself, we must raise the following question, as we did in the case of Hong Kong a few days ago: we are dealing here with a contracting party that is firmly dedicated to a programme of liberalizing and opening up its economy, and very heavily dependent on exports that are concentrated, in this case, in the agricultural sector, but in any case an economy really linked with the world through a high level of world trade. It is an economy that is trying
to open up and yet is encountering, as one of its main obstacles, not domestic protectionist pressures within the country but fundamentally external protectionist pressures, that is to say, difficulties in access to foreign markets, and the influence on its economy of economic decisions taken in other countries or other trading entities which affect and may even possibly seriously frustrate these attempts by a contracting party to open up and liberalize its economy.

40. We would therefore recall that one of the fundamental purposes of this mechanism, namely to improve the multilateral trading system, must also serve to achieve greater coherence in major macro-economic developments in the world economy. This week we have two examples of the need for coherence at the global macro-economic level: the case of New Zealand today and the case of Hong Kong a few days ago are a very clear demonstration of this need for the contracting parties' liberalization policies to find a counterpart in real possibilities of access to third markets.

41. Notwithstanding what I have just said, one of the theoretical questions we always ask concerns the existence of elements of protection, and in the particular case of New Zealand we should like to make a remark concerning what we see as the quite clear remnant of sectoral protection in specific sectors, such as footwear, clothing and motor cars. We note that while the prior import licensing system will disappear in 1992, nevertheless the Secretariat states in its report, in paragraph 101, that these sectors will retain a level of tariff protection higher than the 10-per-cent target the Government of New Zealand has set for 1996. Consequently, one of the questions we should like to ask is that the delegation of New Zealand might explain the reasons why tariff protection will be higher in these specific industrial sectors of the economy.

42. We should also like to refer to an element in the Secretariat report, on which Ambassador Hannah touched in his opening remarks, namely the régime of sanitary and phyto-sanitary protection, the quarantine system, applied by New Zealand, which is really a very strict one that must have an inhibiting effect on trade in the products concerned. We listened with great interest to Ambassador Hannah's remarks to the effect that his authorities see this régime as fully justified for the protection of human, animal and plant health. However, we believe that this very strict system should be kept under continual review by the New Zealand authorities so as to avoid as far as possible any undesirable effects on trade. We would therefore ask how New Zealand thinks it could achieve, or study more carefully the possibilities of achieving, a suitable positive balance between its interest in avoiding contamination and the introduction of pests, diseases or plagues, and the fundamental objective of nevertheless allowing adequate market access.

43. Another point of interest to us concerns the diversification of New Zealand's economy and in particular the growth of its trade with the Asia-Pacific region to which it belongs, and its recent agreement on closer economic relations with Australia. The question is how these integration plans will be developed, and what ideas are currently being discussed in
New Zealand in this respect. What does it want to do in the future, how does it wish to develop this regional scheme, and how do the New Zealand authorities consider that these closer regional links may be suitably compatible with the principles of a multilateral trading system?
V. STATEMENTS AND QUESTIONS BY MEMBERS OF THE COUNCIL

44. Members of the Council thanked the Government and the Secretariat for their reports, and the discussants for their valuable comments. New Zealand's active participation in the Uruguay Round was highlighted. In commenting on New Zealand's trade policies and practices, participants welcomed its liberalization efforts and asked some specific questions on certain areas of concern.

45. The representative of Iceland, speaking on behalf of the Nordic countries, complimented New Zealand for the courageous steps which they had taken since 1984 in formulating its new trade policy. He noted the difficulties encountered when shifting from a highly regulated economy to market orientation with abolition of protective measures. The declining role of non-tariff measures had increased transparency and reduced complications in trade with New Zealand. New Zealand's participation in the Uruguay Round was very constructive and positive, especially the liberal policy adopted by New Zealand regarding trade in services.

46. In spite of changes in their structure, New Zealand's tariffs remained high. The representative of Iceland raised some specific questions regarding the impact on industrial development of the Closer Economic Relation Free Trade Agreement with Australia; the effect of preferential tariff arrangements on the level of trade; the effect of privatization on trade and trade policies; the impact of exchange policies on the level of trade by sectors; and the effect of tariff reductions in output and employment. He also asked how New Zealand viewed the development of its trade with traditional markets such as Australia, the European Communities, and Japan vis-a-vis that with the EFTA countries.

47. The representative of the European Communities acknowledged the efforts made by New Zealand, as a small economy, to deal realistically with the complex evolution of world trade. New Zealand was pursuing two major policy objectives: diversification of the product and market structure of its trade and trade liberalization. New Zealand was able to combine active participation in the GATT with membership of a dynamic free trade agreement with Australia. Noting the level from which New Zealand's process of liberalization had begun, he welcomed the tariff reduction programme, although many tariff rates remained high and the level of bindings remained relatively low. He requested further indications of how rates were fixed for the 'approval' and 'determination' items of the New Zealand tariff. Welcoming the progress made in reducing the scope of the import licensing régime, the representative of the European Communities noted with satisfaction that its final phase-out would be in 1992.

48. The representative of the European Communities observed that tendering had remained the main mechanism for licensing. He asked whether New Zealand considered the premium payable to the government for the successful tenderer as being a breach of a GATT binding. Another area of concern was the strict quarantine conditions applied by New Zealand. He asked how it reconciled these requirements with international standards. He noted the continuing importance of state trading organizations in
New Zealand's economy, despite privatization. Finally, the European Communities would welcome New Zealand signature of the Government Procurement Code.

49. The representative of Chile referred to the links which might have existed between the high level of protection in New Zealand's economy and its relatively poor economic performance since the mid-50s, compared to other OECD countries. He noted, however, that since 1986, broad reforms had been introduced aimed principally at liberalizing trade. These reforms were coupled with a reduction of the role of the State in the economy. The representative of Chile observed that for these efforts to be fruitful for New Zealand, they had to be accompanied by increased market access for its export products. Although the trend in New Zealand's trade policy was positive, he said that there was still more to be done. He referred to the remaining import licensing requirements, high tariff rates, the low level of bindings, the complex indirect tax system, and the severe quarantine regulations. Finally, he asked what the New Zealand Government's plans were with respect to marketing boards.

50. The representative of Nigeria said that his comment would apply not only to New Zealand, but also to the other countries reviewed during the week. The common feature was the decline of trade between these countries and the African region, and the high tariffs they maintained on products of special interest to most African countries. Although two of the countries reviewed were substantial aid donors to African countries, aid was only a temporary measure and that trade should be encouraged as a more long term policy. In Nigeria's view, the Uruguay Round was a good opportunity to improve the trade situation of African countries.

51. The representative of Canada noted that until recently, New Zealand had been largely insulated from the world economy through high tariffs, import licensing, trade monopolies and foreign exchange restrictions. Impressive unilateral liberalization measures had been introduced over the past few years, particularly with respect to import licensing where a significant liberalizing trend had been shown. He asked whether New Zealand planned to secure these changes in the GATT to diminish the possibility of their reinstatement later on. However, import licensing still applied to a large number of items and its administration lacked transparency. He welcomed New Zealand's confirmation that the remaining licenses would be phased out by July 1992.

52. Although New Zealand was an active and constructive player in the multilateral system, it had shown a lack of multilateral commitment in the area of tariffs, as it had one of the lowest numbers of bound items among developed countries. He encouraged New Zealand to increase its bindings regardless of the outcome of the Uruguay Round. Referring to New Zealand's general reduction plan for tariffs, he noted that one of the less positive results was an increase in tariff escalation. Unprocessed products could enter duty-free or at minimum levels, while finished goods often bore tariffs of over 25 per cent. This was particularly acute in the primary sectors. He asked what plans to diminish such escalation were being
considered. He also sought information on the degree of ministerial discretion to change specific tariff items.

53. New Zealand was known for its stringent health and sanitary regulations. In Canada's experience, New Zealand was not applying minimum or reasonable risk criteria but continuing to employ a "no risk" policy. Examples were found in New Zealand's prohibition of Canadian fresh and frozen salmon imports. The representative of Canada asked for more information on the provisions of New Zealand's bilateral trading agreements with China, ASEAN countries, and India. Finally, commending New Zealand's initiatives in opening its markets, he encouraged it to move quickly to confirm them in the GATT. There was still some way to go.

54. The representative of Switzerland congratulated New Zealand for its ambitious liberalization programme, which had started from a very high level of protection. The steps announced for the years to come were encouraging. On specific questions, she said that Switzerland considered the Import of Medicines Bill as giving a monopoly power to the Crown to import medicines. A new bill under consideration would extend these powers. The representative of Switzerland sought further information on trade measures and the role of the government in the pharmaceutical sector. Secondly, she asked for information on the review of New Zealand's intellectual property statutes. Referring to the Free Trade Agreement with Australia, she asked whether safeguard measures had been contemplated and if the "laws on fair competition" were the same in both countries.

55. The representative of Australia recalled that New Zealand was an original signatory to the GATT and that it was strongly committed to the multilateral system and the successful conclusion of the Uruguay Round. As New Zealand's economy was heavily dependent on trade in agricultural and other primary products, it was greatly affected by the continued use of protective measures in its major markets. He commended the New Zealand Government for having persevered with its trade policy liberalization, despite continued problems associated with the emergence from the recession of 1986-88. As a result of domestic reforms, the tariff was the principal industry assistance measure used by New Zealand. However, tariffs were still high compared to other developed countries, and the level of bound tariffs was low.

56. A major feature of New Zealand's domestic reform programme had been the broad dismantling of non-tariff measures. Quantitative restrictions had been largely removed, import licensing had been drastically reduced, voluntary restraints were not imposed on imports, and remaining import prohibitions were applied only for such reasons as environmental protection, health and safety. The representative of Australia found New Zealand policy on public procurement transparent and generally non-discriminatory.

57. With respect to health, safety and environmental concerns, Australia supported New Zealand's view that, wherever possible, methods other than import prohibition and restrictions should be used for control. Australia also encouraged New Zealand to provide maximum transparency in the area of
quarantine restrictions. In relation to State trading enterprises, the representative of Australia noted that a number of marketing boards still operated as monopolies. He expressed an interest in elaboration of the counter-trade activities of the Dairy Board.

58. The representative of Australia applauded and encouraged the use of alternatives to trade restrictions in dealing with internal and external imbalances. He noted the provision of funds for a domestic "buy New Zealand" campaign and asked for more information on New Zealand's export promotion activities. Finally, he recognized that New Zealand's trade policy trends were both positive and pronounced.

59. The representative of Brazil noted that New Zealand's economy was highly dependent on agriculture. He asked the New Zealand delegation how far its liberalization efforts were linked to a successful agreement of the farm sector in the Uruguay Round. He sought more information on New Zealand's GSP scheme. Asking for more information about the review of New Zealand's intellectual property régime, he questioned why this aspect had been included in the trade policy information provided. He also wanted to know the extent to which the financial sector of New Zealand had given enough coverage in 1984 for the profound trade policy changes.

60. The representative of the United States recalled that, historically, New Zealand's attitude toward trade had been highly protectionist, and that this had been reflected in the poor performance of the economy during the past years. Since 1984, New Zealand had changed its course of trade policy toward opening its market. Tariffs were being cut, quantitative restrictions lowered, internal support reduced, and most export subsidies phased out. The United States supported New Zealand's efforts to liberalize its trade régime. Commenting on the pace of New Zealand's reform programme, he noted that although tariff reductions had been significant, they had started from an unusually high base for a developed country. Tariffs still tended to escalate and vary considerably, particularly in the agricultural sector. New Zealand's high tariffs were quite discriminatory, considering its free trade agreement with Australia. The discriminatory effects and the resulting trade distortions were larger than in other free trade areas.

61. Recognizing that the exposure of protected domestic industries to the rigours of free international competition had brought adjustment difficulties, he remarked that New Zealand's liberalized trade régime was beginning to show positive results. He noted the significant steps taken by New Zealand in recent years to liberalize its import licensing system. He welcomed New Zealand's plans to eliminate import licensing completely by July 1992. The United States urged New Zealand to avoid using "industry development plans" for temporary protection in future. He also welcomed the rapid dismantling of New Zealand's once massive subsidy system.

62. Commending New Zealand for its comprehensive programme to open its markets, the representative of the United States noted that New Zealand had been an active and constructive member of the GATT since its founding. The United States shared many of New Zealand's objectives in the Uruguay Round,
in particular the elimination of agricultural export subsidies. Finally, he encouraged New Zealand to diversify its export base beyond commodities.

63. The representative of Japan recognized New Zealand’s efforts to liberalize its economy, especially in the fields of tariffs, import licensing, and export subsidies. He appreciated the future plans for tariffs reductions up to 1996 and the elimination of import licensing by 1992. More transparency was needed in the area of laws and regulations regarding the determination of origin of imports. New Zealand Government purchasing practices still favoured domestic production; however, he welcomed New Zealand’s intention to consider joining the Government Procurement Code.
VI. RESPONSES BY THE REPRESENTATIVE OF NEW ZEALAND

64. The representative of New Zealand thanked the GATT Secretariat for its work, and all participants for the interest they had shown on New Zealand's trade policies and practices. He expressed his appreciation to the two discussants for the considerable efforts they had taken.

65. He first addressed questions relating to the level of tariffs and tariff bindings. Average tariffs were seen as high; however, since 1986, when the average was 20.4 per cent, tariffs had been cut each year. The Secretariat's assessment of New Zealand's tariff offer in the Uruguay Round showed that the average rate which would result would be 12.9 per cent, with 6 per cent on agricultural products and 13.2 per cent for industrial products. With respect to the possible distortive effects of preferential arrangements in relation to m.f.n. tariff rates, he said that Australia and New Zealand had made substantial cuts in m.f.n. rates concurrent with reductions under the Closer Economic Relations and Trade Agreement between the two countries. Australia's share of New Zealand's imports had not risen between 1984 and 1989, while that of the United States had grown. New Zealand's low level of tariff bindings reflected the failure of past negotiating rounds to address agriculture. Fifty per cent of New Zealand's tariff lines were bound; viewed in sectoral terms, 80 per cent of the value of agricultural imports and 66 per cent of industrial imports were under bound items. Noting that Article II of the GATT referred to a Schedule of Concessions, he suggested that the correct question should be why New Zealand had made relatively few concessions in previous negotiating rounds. New Zealand was willing to move in a positive direction depending on the outcome of New Zealand's tariff and non-tariff measure requests to its trading partners on items of interest to it, namely agricultural products. If New Zealand achieved a satisfactory result on agriculture, it would be willing to consolidate the recent liberalization efforts substantially.

66. In relation to individual sectors where relatively high tariff protection would remain, he recalled that these had been among the most highly protected at the start of the reform programme, and thus the least competitive. By the end of the programme, they would have been subject to the greatest reductions in protection. Future reforms would have to be addressed both by New Zealand and its trading partners. Referring to tariff escalation on processed products, he noted that the general effect of a formula-based tariff reduction of the type used by New Zealand was to reduce tariff escalation, since higher tariffs would come down further than lower ones.

67. In relation to trade with developing countries, particularly with the African region, the representative of New Zealand underlined that his country was a small and distant market, with poor shipping links with Africa. The recent major downturn in the New Zealand economy during the restructuring period had affected the volume of its imports across the board. However, New Zealand was confident that developing countries would also benefit from the improved market access conditions brought about by its liberalization process. New Zealand's GSP scheme had a wide product
coverage and was simple and transparent. It had no specific safeguard provisions, and rules on product and country graduation were transparent. Data on GSP trade was submitted to the GATT Secretariat. New Zealand's offer on tropical products was the largest among all participants in the Uruguay Round, proposing a tariff cut of 45 per cent covering all product groups and benefiting primarily developing country exporters. Trade promotion agencies in New Zealand were also ready to help developing countries develop new opportunities in the market.

68. Import licensing covered only approximately 3 per cent of imports and would be entirely eliminated by July 1992. Import licence tendering had been a central part of the process for liberalizing the system and had helped to expand access substantially. New Zealand authorities wanted to make sure that the way in which import licence tendering had been operating did not represent a duty or a charge on imports, but an internal market-based system for allocating licences.

69. Industry plans largely pre-dated the Government's general tariff liberalization programme. They were essentially a legacy from the past. It had been essential to ensure an orderly transition from the plans to the tariff reduction programme. The general tariff reduction programme applied to all items outside specific industry plans. Goods covered by these plans had their own tariff reduction programme, and when those plans expired they came automatically into the general tariff reduction programme. Most plans had already terminated, except for electrical ceramics, textiles apparel and adult footwear. All these except apparel would end by July 1991; the apparel plan would end in July 1992. The goods concerned would then come on to the general tariff reduction programme running up to 1996. The only exceptions to this process were apparel and footwear, which would bear a maximum tariff of 25 per cent by July 1996, and some motor vehicles, which would bear a rate of 30 per cent by 1994. These were areas where extremely high tariffs, including specific rates, and quantitative restrictions had previously applied. In future only ad valorem tariffs, at considerably reduced rates, would be in force.

70. Organizations affected by the process of "corporatization" or "privatization" did not benefit from concessional credit rates. The broad philosophy underlining New Zealand's financial deregulation was to let the market allocate credit in terms of risks and efficiency. With respect to other privileges for such organizations, the future situation would depend on the specific sector involved. Privatization covered a vast range of sectors in some of which privileges had been removed and where, as a result, new competition or other new investments was being introduced or considered.

71. In the area of phytosanitary regulations, New Zealand was trying to find the right balance between international standards and the urgent need to protect human and plant health. New Zealand's major concerns were to maintain its unique ecosystem while, at the same time, fulfil its international commitments. Its disease profiles were very different from those of even relatively close neighbours. Phytosanitary regulations were not intended to protect sectors which were already competitive.
New Zealand had been moving away from a "no risk" policy toward a "managed risk" or "bioeconomic" risk assessment. New Zealand was a strong supporter of international standards but had to deal with the problem of specific application of general provisions. Referring to the issue of salmon, raised by Canada, the representative of New Zealand said that his country was willing to import farmed salmon if the competent Canadian authority could certify that farms from where this product came were free of the relevant diseases; for ocean salmon, New Zealand was also trying to find ways to satisfy exporters' concerns.

72. Regarding pharmaceuticals imports by the Government, the representative of New Zealand explained that the new legislation was not yet in force. Its general objective was to reduce the costs of imported pharmaceuticals, which were regarded as excessive by international standards. The final version of the legislation did take into account concerns expressed by trading partners. The whole of copyright and industrial property legislation, most of which had been inherited from the United Kingdom, was still under review. In this exercise, the Government was constantly considering the evolution of the Uruguay Round of negotiations on this issue, New Zealand was in favour of a strong agreement on intellectual property within the GATT.

73. Future developments in the Closer Economic Relations and Trade Agreement with Australia would aim at widening and deepening its coverage, in particular with regard to greater liberalization in the services, civil aviation and some other key sectors. Evidence was that there were gains in efficiency, industrial development and trade for both countries. The Agreement's specific provisions on safeguards related only to the transitional period until free trade in goods was reached. From 1 July 1990, anti-dumping actions had been eliminated between both countries. Although the respective competition laws had not been fully harmonized and still had independent status, there had been some changes in domestic laws in order to incorporate the changes from anti-dumping policy to the use of competition law, for example in the concept of "dominant position" and the taking of evidence by one country's courts in the other.

74. Bilateral trade agreements with certain countries - India, ASEAN countries, and China - were essentially consultative documents. They followed m.f.n. principles and had no special characteristics. Relations with Canada, Britain and Malaysia were a residue of the Commonwealth preferential system, with very limited product coverage remaining. They also provided largely for consultations. Closer economic co-operation in the Asian-Pacific area was being developed in the framework of the multilateral trading system. Asian-Pacific Ministers had made a clear commitment to the success of the Uruguay Round and to discouraging regionalisation in trade and economic co-operation.

75. In reply to a question concerning foreign exchange policy, the representative of New Zealand emphasized that his country did not have an exchange policy as such; the New Zealand dollar was in a "clean" float. The tight monetary policy implied had had quite a severe impact on trade in all sectors.
76. Non-participation in the Government Procurement Code could be essentially explained by the lack of benefits perceived by New Zealand. However, the representative of New Zealand said that his country’s position in this respect was under review.

77. The overall lesson learnt from New Zealand’s reform experience had been extensively discussed within New Zealand and in institutions such as the World Bank. The main question was the best "sequencing" of the reforms. The consensus among analysts appeared to be that governments should first attack labour market distortions, then, within the framework of a macroeconomic package, remove trade barriers and finally move toward financial deregulation. In fact, New Zealand’s experience had illustrated the difference between a theoretically optimal approach to restructuring and the practical possibilities open to governments. In 1984, New Zealand had faced a potentially serious foreign exchange crisis, an atmosphere in which it was difficult to design a theoretically perfect adjustment plan. New Zealand’s first reforms had been in the financial sector, where the floating of the exchange rate had been the principal instrument used. Subsequently, policy structures had been put in place to ensure a comprehensive programme of reform, in which trade had been a vital ingredient.

78. In moving towards lower and more uniform levels of protection, New Zealand’s objective had been to try to shift resources into areas where it had a comparative advantage. In this context, the external environment, where serious distortions existed in world markets for raw and processed agricultural products, had greatly complicated the adjustment process. Although resources had moved out of uncompetitive sectors, there had been no external incentive to move into areas where New Zealand was more competitive. Employment in agriculture had not increased; inputs used by agriculture had declined. External conditions had thus seriously limited the gains from New Zealand’s unilateral liberalization.

79. The policy of tariff "approvals" and "determinations" was largely eliminated in 1986, except for motor vehicles. This was largely replaced by a more general "concessions" policy. Essentially, "determinations" involved the possibility of raising the tariff for protective purposes and "approvals" permitted the lowering of the tariff for liberalization. Determinations had been eliminated and approvals have been replaced by the concessions policy. This policy was straightforward and transparent. The criteria used for granting concessions were linked to the existence of domestic manufactured production with at least 25 per cent of local content. Proposals concerning concessions were published and the possibility of lodging an objection was open. As a general principle, tariffs would not be increased; concessions would only be used where a substantial reduction in the tariff was not feasible; and guidelines were to be clean and publicly available.

80. The representative of New Zealand referred to the programmes outlined in the Economic Statement of March 1990. The first programme related to the Business Development Strategy in which the government provided general assistance to industries through business advisory services and development
boards. The second programme, which was still under review, would be directed essentially at business growth, excellence and quality management. Finally, the "Buy New Zealand" grant was, very small (250,000 New Zealand dollars); it was intended to remind the public that New Zealand manufacturers were operating in a competitive environment, and that consumers could buy domestic products with confidence: not to say that New Zealand products were better than imports. This campaign had no implications for Government procurement and was not intended to undermine imports.

81. In referring to marketing boards, the representative of New Zealand recalled that, in the past, virtually all of New Zealand's farm output had been aimed towards the British consumer. Farmers formed cooperative companies which often channelled products through central marketing boards. The trend in New Zealand's recent policy had been to diminish the importance of marketing and producers' boards. In recent years, a number of these had been abolished. Remaining boards had reduced powers and were exposed to a more competitive environment. However, a number of important boards continued to exist. The most important was the New Zealand Dairy Board - the world's largest dairy company - which was responsible for all exports of dairy products. Distortions in international commodity markets were a reason for caution in going further in the process of abolition of marketing boards. In international markets, New Zealand boards were price-takers; international prices were fully reflected in the returns to farmers.
VII. CONCLUDING REMARKS BY THE CHAIRMAN

82. The aim of the reviews undertaken in the framework of the Trade Policy Review Mechanism is to provide a collective evaluation of the full range of individual contracting parties' trade policies and practices and their impact on the functioning of the multilateral trading system. In these closing remarks, I do not wish to substitute for the appreciation made by the Council of New Zealand's trade policies and practices but rather, on my own account, to bring out some of the salient points that have been made in this review.

83. The Council noted that New Zealand was a small, trade-dependent economy, at considerable geographical distance from most major markets. In the face of serious economic growth, employment and balance-of-payments problems, the Government had, in particular since 1984, pursued a policy of thoroughgoing economic reforms.

84. The Council welcomed the major steps taken to liberalize New Zealand's trade. As a result, New Zealand's economy had become considerably more open. Present policies aimed to continue this process.

85. Other elements in the reform process encompassed changes in monetary and fiscal targets, the removal of exchange controls and the floating of the currency, reform of the laws relating to competition, services sector de-regulation and a more receptive attitude to foreign investment. A substantial deregulation and privatization of the State sector and reform of Marketing Boards had also taken place.

86. The Council noted the substantial reduction in the product coverage of import licensing. Licensing on all products not included in industry plans had been terminated in 1988. Under present policies, all import licensing would end in 1992, when all remaining industry plans would have been terminated.

87. Members also welcomed the unilateral tariff cuts made by New Zealand. Particular note was taken of the reductions made under the General Tariff Reduction programme since 1987, and the commitment of the New Zealand Government to reduce the maximum tariff on most products to 10 per cent by 1996.

88. Direct subsidies had been virtually dismantled. It was observed that the overall level of support for agriculture in New Zealand had been reduced to a very low level. New Zealand's farm exports remained highly competitive on international markets.

89. Members noted with interest the agreement between New Zealand and Australia not to apply anti-dumping measures to trans-Tasman trade. The question was raised whether there was also agreement not to apply safeguard measures in trade between the two countries and whether the competition laws applied in each country were similar.
90. While expressing their strong support for the general direction of New Zealand's trade policies and practices, Council members drew attention to several areas of concern:

(i) Members asked whether the New Zealand authorities planned to increase the relatively low level of tariff bindings. The lack of such bindings created uncertainty for exporters to New Zealand.

(ii) Substantial tariff protection and tariff escalation remained. The need for such protection was queried.

(iii) Less rapid and far-reaching tariff reductions were to be made for textiles, apparel, footwear and motor vehicles than for most other products. Tariffs in these areas would remain high.

(iv) Questions were asked regarding the remaining import licensing measures in force. Reference was made to the complexity of the licensing system.

(v) Despite reforms, the Crown, State-trading organizations and Statutory Marketing Boards retained considerable powers in certain areas. Members asked for greater clarification of the roles of the various bodies, including any actions or plans to reduce or eliminate their trade-related privileges.

(vi) New Zealand maintained stringent health, sanitary and quarantine requirements. While it was recognized that these were specially designed for its particular geographical situation, reference was made to the potential for trade distortions resulting from these regulations. Members asked whether New Zealand would be prepared to rely more on international standards in this area.

(vii) While it was noted that preferences given to local suppliers in government procurement in New Zealand had been largely abolished, New Zealand was asked whether it was now in a position to join the GATT Code on Government Procurement.

(viii) The preferential access extended to Australia under the Closer Economic Relations and Trade Agreement was noted. Some members expressed concern about the trade-diverting effects of the free trade provisions of the Agreement, in particular in view of the continuing high level of tariffs for many products in New Zealand.

(ix) Attention was drawn to the low level of New Zealand's imports from developing countries. In particular, the value of imports from Africa had declined over the past ten years. Reference was made to the high level of tariffs on many products of export interest to most African countries.
Questions were raised on the value of imports into New Zealand benefiting from GSP treatments.

91. Information was sought on New Zealand’s review of its intellectual property laws, on export promotion policies and on bilateral trade agreements with China, the Republic of Korea and Malaysia.

92. Council members noted the problems faced by New Zealand’s main farm exports on world markets. Questions were raised on the prospects for such exports in terms of growth and diversification of export markets.

93. In responding to the questions and comments, the representative of New Zealand stressed the degree of openness achieved by the New Zealand economy in recent years, at considerable pain. The average level of tariffs was declining steadily and tariffs had become more uniform. GATT estimates showed that the weighted average had been just over 20 per cent in 1986; it was now much lower. New Zealand’s offer in the Uruguay Round would, if implemented, further reduce the level of tariffs significantly.

94. M.f.n. tariff reductions had been made in parallel to the cuts under the Closer Economic Relations and Trade Agreement with Australia. Australia’s share in New Zealand’s trade had not increased in the past five years, while that of other trading partners such as the United States had grown. The bilateral agreements with Asian countries, including India, followed m.f.n. principles.

95. The relatively low level of tariff bindings by New Zealand was related to the disappointing results of previous GATT rounds in agriculture. In the Uruguay Round, New Zealand had offered to substantially extend the scope of bindings, subject to a successful negotiation on access for agricultural products.

96. New Zealand’s trade with developing countries, particularly in Africa, was inhibited by distance and poor shipping links, as well as by the recent downturn in the New Zealand economy. Details of New Zealand’s GSP scheme were furnished to GATT: it had no specific limits, and country and product graduation criteria were transparent. New Zealand had made an offer to cut tariffs on tropical products by more than 45 per cent - which was above the average for most participants.

97. Concerns about the import licensing system were virtually academic. All import licences would be abolished by July 1992. Tendering had been used as a central mechanism for liberalizing licensing, by establishing a market-based system for allocating licences. Industry plans were a legacy from the past; the phasing out of the remaining plans for textiles, apparel, adult footwear and electrical ceramics was part of the orderly transition to liberalize trade in these areas. In assessing the higher-than-average tariffs which would remain on footwear, apparel, and some motor vehicles after the termination of industry plans, the high base from which reductions began should be taken into account. The representative of New Zealand then gave some detail on the sequencing of economic reform in New Zealand, and the experience gained in the process.
A new business development strategy was under preparation, emphasizing the quality of New Zealand production. It was not designed to impede the flow of imports.

98. Turning to sanitary and phytosanitary regulations, New Zealand was acutely conscious of the need to find a correct balance between protection of its unique ecosystem and encouragement of international trade. Bioeconomic risk assessment was a key element in establishing this balance. New Zealand was moving towards a "managed risk" approach. It was ready to discuss questions in this area bilaterally, and took an active rôle in the relevant Uruguay Round working group.

99. Some marketing boards had been abolished, and thus also concessional credits. Other marketing boards would remain in the light of the present circumstances of world trade in agriculture.

100. New legislation on pharmaceuticals was aimed at reducing the cost of these products to New Zealand. In drafting the Bill, New Zealand had tried to take into account its trading partners' concerns. On other intellectual property questions, New Zealand was currently reviewing its copyright and industrial property legislation, which needed to be brought up to date.

101. Referring to conditions for credit, the representative of New Zealand stressed that in New Zealand's programme of "corporatization" or "privatization" of State-owned enterprises, all such enterprises were now required to compete for credit on a commercial footing in the market. Access to low-cost credit in agriculture had also been withdrawn. The range of other privileges extended to State-owned enterprises had varied enormously. Generally, the policy was to deregulate, introduce a higher degree of competition and remove special privileges.

102. The New Zealand Government's intention was to broaden and deepen the coverage of the Closer Economic Relations and Trade Agreement with Australia. The representative of New Zealand expected substantial growth in two-way trade and investment to occur.

103. He emphasized that closer economic co-operation in the Asian-Pacific context would be developed in the framework of the multilateral trading system. Asian-Pacific Ministers had made a clear commitment to the success of the Uruguay Round.

104. The Council welcomed the broad thrust of the economic policy reform in New Zealand since the early 1980s, including the changes in trade policies. The hope was expressed that by helping New Zealand to become a more efficient and competitive economy, the process of reform would also enable it to participate more fully in the international exchange of goods and services. It was noted that policy reform in New Zealand would be greatly assisted by improvements in the external trading environment confronting New Zealand, particularly in the area of agriculture. Members welcomed the positive and very active rôle played by New Zealand in promoting the objectives of the Uruguay Round and of the multilateral trading system.