GENERAL AGREEMENT ON
TARIFFS AND TRADE

EXPANSION OF TRADE - AGRICULTURAL POLICY

Report of Committee II on the Consultation
with New Zealand on Agricultural Policies

1. In accordance with the Decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with the individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with New Zealand. The Committee had before it (i) a synopsis, furnished by the Government of New Zealand, of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers, and (ii) a document giving detailed information on the commodities entering importantly into world trade on which the CONTRACTING PARTIES had agreed the consultations should in the main be concentrated. In conducting the consultation, which was completed on 1 February, the Committee referred to the "plan" contained in Annex A to document COM.II/5 and adopted by the CONTRACTING PARTIES at the fourteenth session. The present report summarizes the main points discussed during the consultation.

A. General Agricultural Policy
2. In his opening statement, the representative of New Zealand drew the Committee's attention to the comprehensive statement on the agricultural policy of New Zealand and the measures taken to implement it which had been furnished by his Government to the Committee and then outlined the main factors in the New Zealand economy which determined its agricultural policy.

3. Because of advantageous natural factors, New Zealand was particularly well suited to grassland farming and, with the application of sustained scientific efforts to raise efficiency and to maximise production in this type of farming, New Zealand had become one of the world's largest and most competitive exporters of livestock products such as wool, meat and dairy produce. New Zealand's methods of farming were based essentially on the grazing of stock out of doors all the year round; thus, productivity was high and the number of people directly engaged in farming was surprisingly small.

4. Although as part of its economic development New Zealand's manufacturing industries were expanding, New Zealand remained primarily an agricultural country. Over one quarter of the national income was derived directly from export trade.
which was composed almost entirely of agricultural products. New Zealand's population was increasing at the high average rate of over 2 per cent per annum and demand for imports would continue to expand at about the same rate. New Zealand was dependent on imports for supplies of raw materials and capital equipment as well as for some consumer goods and the external finance for these had to come almost entirely from the export of a limited range of agricultural products. In these circumstances, the general objectives of agricultural policy were of necessity directed towards increasing efficiency and output still further in those export products in which her comparative advantages were greatest.

5. Despite the vital importance of expansion of high quality production for export to world markets, the Government did not attempt to dictate production policies. The physical environment under which farming was undertaken in New Zealand did not in fact permit of great variation from the established pattern of livestock products. The Government endeavoured to assist producers through research, extension and advisory services, the improvement of quality standards and the maintenance of a general environment under which farm production could expand.

6. Producers in New Zealand were well aware of the importance of orderly marketing and the Government had met the wishes of the producers to have some authority in the marketing of their products by investing the various producer Boards with statutory powers to enable them to perform their controlling and supervisory functions. However, the Boards and marketing organizations remained essentially private bodies; the Government was represented on the producer organizations but did not control their policies. State-trading methods were employed only in respect of wheat, which was not produced for export.

7. Price fluctuations had a particularly serious impact upon agricultural exporting countries such as New Zealand whose export trade was almost wholly made up of primary products. These price movements could be mitigated only to a very limited degree by the methods of buffer stock-piling employed in the case of certain industrial raw materials. Virtually all countries with substantial agricultural industries had therefore implemented schemes of various kinds to help stabilize returns to their primary producers. Through their own organizations, farmers in New Zealand had endeavoured to stabilize their returns by using reserve funds which they themselves had collected from levies on export receipts; these funds were managed by the farmers' organizations and the Government did not give any direct financial assistance to stabilization programmes. In the most recently developed stabilization schemes such as for meat, the deficiency payment principle, based on the farmers' own funds, was employed; this had the great advantage of allowing the market to take its natural course while cushioning the producer against severe price falls. In the case of products with a guaranteed price, the aim was again to achieve flexibility through paying regard in price fixing to actual and expected market realizations. The greatest part of New Zealand's agricultural products were sold on the export markets and efficient production kept them fully competitive wherever they could obtain access to world markets. There was no subsidization of exports and no Government schemes to reimburse producers for losses on exports; Government assistance to farming was directed almost entirely towards improving productive efficiency and quality standards. Some products carried consumer subsidies which encouraged a higher level of domestic consumption and thus helped to keep some supplies off world markets.
8. Quantitative restrictions were at present imposed on all imports for balance-of-payments reasons but imports of agricultural products had scarcely been affected. New Zealand had imported its full requirements of raw materials such as jute, fibres and vegetable oils and of those tropical foodstuffs such as sugar, tea, coffee, cocoa and fruits, which had to be imported. Quite apart from balance-of-payments import restrictions there were quarantine and hygiene restrictions to protect New Zealand's plant and animal life. These regulations, which were in accord with international conventions, had to be carefully administered because New Zealand, as a young, geographically isolated country, was fortunately so far free from some of the worst animal and plant diseases found in other countries.

9. The representative of New Zealand concluded his statement by stressing that New Zealand's agricultural economy was based on the full utilization of its natural advantages in certain branches of agriculture, but influenced always by the requirements of and conditions in world markets. Measures had been taken in New Zealand to mitigate the effects on returns to farmers, and hence on the economy generally, of fluctuations in world demand and prices for her products. The New Zealand Government believed that these marketing policy measures had proved their value, but they also knew from experience that in the long run they could not be divorced from world market trends. With fewer restrictions and with less emphasis on policies of self-sufficiency in agricultural products that entered world trade the natural and expected periodic fluctuations in prices and demand would be more easily manageable, and a sounder basis for world trade in agricultural and industrial products created.

10. The Committee expressed appreciation for the clear statement of the New Zealand representative and for the comprehensive and detailed documentation which had been furnished by the Government of New Zealand. At the outset of the discussion on the statement made by the representative of New Zealand and the documentation furnished by the New Zealand Government, one member of the Committee noted that one of the main objectives of New Zealand's agricultural policy was the greater intensification of production by, among other measures, increased land development. He expressed some concern that, given the favourable natural conditions of New Zealand, the attainment of this objective might lead to greater surpluses of agricultural products and thereby increase international difficulties in trade in those products. He enquired whether the New Zealand Government had taken into account the possibility that the development of world demand might lag behind increases in world production; butterfat, for example, was an expensive fat compared with vegetable oils which were produced largely in less-developed tropical countries. The representative of New Zealand stated that the whole question of the economic use of resources was involved. New Zealand, which had no mineral resources, was an agricultural country with natural advantages in that direction; she was able to compete in markets for agricultural products 12,000 miles away and was able to pay a high level of farm wages. New Zealand could not accept the premise that she should change to less economic production simply because the markets for the products which she could produce economically and without the help of subsidies might be ever-supplied with heavily subsidized products. As to future world demand for the goods produced by New Zealand, the New Zealand authorities considered that consumption could increase if prices were not artificially held high in consumer countries. In the New Zealand dairy industry in particular, there was full and proper rationalization and use of resources. The New Zealand Government appreciated that if
There was little or no demand for a product, changes of production would have to be considered. As a result of the low butter prices which had obtained in 1958, the New Zealand authorities had given much thought to the question of diversification of production but had concluded that, despite the possibilities which had appeared to exist at first examination, possibilities of diversification of production in New Zealand were, for technical and economic reasons, very limited. In any case, as had been demonstrated in the case of butter, rapid market changes might render changes in production unnecessary. New Zealand, which lacked resources for industry, was compelled to export primary products to finance her economy and considered that there was nothing fundamental in the world market situation which might justify changes in the pattern of production at the present time. Changes might have to be made in some products, but New Zealand as an economic producer of commodities for which it had natural advantages should be the last country to be expected to plan large-scale changes in production.

11. In reply to questions, the New Zealand representative stated that the New Zealand Government had no short or long-term agricultural production targets or objectives apart from the general aim of increasing exports to finance the import requirements of an expanding population.

12. Some members of the Committee expressed their concern at what appeared to them to be a high degree of Government intervention in the marketing arrangements for New Zealand's agricultural products and found it difficult to appreciate the reasons why New Zealand producer organizations were prepared to submit to this if no Government financial support was granted to them. The representative of New Zealand stated that it was unfortunate if the documentation furnished to the Committee had created the impression that a high degree of Government intervention was involved as the tendency since 1947 had been away from such intervention. At the request of the farmers, statutory authority had been granted to producer boards to assist the marketing and co-ordination of shipping arrangements for agricultural products and since the war, during which Governmental bulk purchasing arrangements had been in force, there had been a marked tendency away from Government intervention. There were variations in the degree of Government intervention according to products; the Government was represented on the Boards but the main policy decision, e.g. pricing arrangements for dairy products, were for the producers themselves and there was little or no Government intervention in the marketing of export products.

13. One member of the Committee pointed out that the main feature of New Zealand agricultural policy was a system of stabilization funds to iron out annual fluctuations in returns to producers. He stated that insofar as this was a device for dealing with excessive short-term fluctuations there could be no criticism of the system but in his view the system had tended to go beyond this by masking long-term changes and thus preventing the influence of economic trends in world markets making itself felt on production patterns in New Zealand. The use in 1957/58 of the dairy industry funds and of the meat fund in 1959/1960, both of which had been accumulated in very different market circumstances from those obtaining recently, was an insulation of the producer from the full impact of market forces. These stabilization funds were begun as part of the general economic policy of New Zealand relating
not to agriculture as such but to internal stability of prices as a whole; they still appeared to play a role in terms of the whole economy and were not solely a device for dealing with excessive short-term fluctuations. Furthermore, if the dairy fund was a stabilization fund pure and simple, it was difficult to appreciate the role of a guaranteed price for butter related to the costs of production. Use of this criterion could lead to insufficient flexibility in the method of fixing the producer price and thus to a slow and imperfect adjustment of production to the trends of the market. He considered that this lack of flexibility and the consequent slowness of response that could be inherent in a system based on production costs was demonstrated by the fact that in response to market conditions in 1958, when butter prices had been very low, there had been an adjustment from threepence to sixpence in the premium favouring cheese over butter in the guaranteed price for butterfat in 1959. By the time this adjustment came into force, butter prices had risen considerably. For a country as dependent as New Zealand on sales on the world market, it was surely essential to limit stabilization activities to the smoothing out of excessive short-term fluctuations alone.

14. The representative of New Zealand stated that one of the major problems in the development of New Zealand's agricultural exports was to determine what were short-term fluctuations and what were long-term movements. The stabilization funds were used to iron out short-term fluctuations but the administration of these funds in recent years also took long-term trends into account. So far as the dairy industry was concerned, there had been uncertainty in the butter market long before the expiry of the bulk purchase contracts in 1954, and the industry had reached agreement with the Government that the existing rigidity of the price fixing system should be reduced, that costs of production should play a less important role in the calculation of the guaranteed price and that the funds should cover over a period be self-balancing. In 1958, because of the low butter and cheese prices resulting from heavy subsidies in other countries the dairy industry funds were exhausted more rapidly than could have been foreseen. The representative of New Zealand could not agree that there was insufficient flexibility in the fixing of the level of the guaranteed price. The 1956 Amendment Act provided for a 5 per cent annual fall in the guaranteed price for butterfat which could represent a 10 per cent reduction in a farmer's income and, for the 1958/59 season, the appropriate part of the Act had been suspended and the guaranteed price had been fixed at 10.3 per cent lower than the preceding season. That there was a reasonable degree of flexibility in the system was demonstrated by the fact that the guaranteed price for butterfat had not been raised this year and that although the funds of the meat industry reserve account were substantial, nevertheless the Meat Export Prices Committee had taken into account the possible trend in world prices and had reduced the floor price for lamb by 2d. per lb. for the present season with a further reduction likely for the next season if market prospects indicated that this was necessary. In determining the level of the guaranteed price for butterfat and the general administration of stabilization funds, both the position of the farmer and the general economic position had to be taken into account. Exports of agricultural products accounted for almost one third of the national income and therefore a diminution in farm incomes would have serious repercussions on the economy as a whole. In determining the level of the guaranteed price for dairy products for which, as had been shown in the documentation, the cost of production (which had formerly played an important role in price-fixing) was now only one of a number of
criteria to which the Dairy Products Prices Authority had regard, the main consideration was to cushion the producer against severe price falls. The Government was, however, represented on the dairy and meat industry boards and their views would inevitably be affected by the general economic state of the country as a whole. Since the country was dependent on exports it was impossible to divorce producers' incomes from the general economic position of the country but these considerations could not affect the conclusion that the funds concerned were stabilization funds.

15. One member of the Committee pointed to what he considered a large complexity of Government intervention in trade in agricultural products which resulted in the existence in New Zealand of almost every form of State trading. In his view, State trading was one of the most stringent forms of quantitative restriction as was evidenced by the statistics of New Zealand's imports of agricultural products. In reply, the representative of New Zealand could not agree that there was a large degree of State monopoly. So far as exports were concerned, the export of dairy products and apples were in the hands of single authorities but for all other items, except for wheat, exports were in the hands of many private traders. Insofar as the various boards were State trading organizations, they conformed to the requirements of Article XVII of the General Agreement; they engaged only in commercial activities and did not engage in quota fixing, barter arrangements or subsidization of exports. Another member of the Committee considered it unnecessary to maintain strict quantitative restrictions on agricultural items such as butter and cheese which were exported on a very competitive basis by New Zealand; the removal of restrictions on those items was unlikely to have an adverse effect on New Zealand's balance-of-payments position, and in his view, the 45 per cent tariff and surtax imposed on butter and cheese would be a sufficient protection except against imports of subsidized products. He enquired whether the New Zealand authorities, in the absence of anti-dumping legislation, were concerned to protect their balance-of-payments position by the maintenance of quantitative restrictions against supplies of subsidized cheese from other countries. The representative of New Zealand replied that so far as imports of agricultural products were concerned, the current restrictions were part of the comprehensive system of import control imposed on all items in January 1958 for balance-of-payments reasons. The question of dumping was a separate issue and anti-dumping legislation did in fact exist. The levels of the tariff for butter and cheese had been established over fifty years ago and had not been changed because, in the methods of tariff negotiation which had been adopted in recent years, no country had been interested in negotiating reductions in the level of the tariff for these items. From 1952-1957 imports of butter and cheese had been liberalized. In that period, there had been no imports of butter, which was not surprising in view of the low internal price, and virtually no imports of eggs, but there had been some imports of speciality cheeses. With the improvement in the balance-of-payments position, there had been some relaxation of import controls and in this relaxation attention had been given to items for which it was expected that there would be some interest in imports; thus, for 1960 token licences would be granted for the import of speciality cheeses to the extent of 10 per cent of imports from all sources in 1956. The quantitative restrictions applied by New Zealand were under constant review by the authorities; New Zealand had achieved a considerable degree of liberalization prior to 1958 and it was reasonable to assume that such liberalization would be introduced when the balance-of-payments position permitted.
16. In reply to questions about Government assistance to the agricultural industry, the representative of New Zealand stated that there were no direct support schemes in operation and no indirect aids, such as capital grants, the establishment of cold storage plants from public funds, or the provision of credits at specially favourable interest rates to assist the movement of products to the markets. In reply to questions about long-term credits to farmers, the representative of New Zealand stated that these credits were made through the State Advances Corporation which had been set up at the end of the last century for financing on a long-term basis both farmers and householders; apart from favourable interest rates for ex-servicemen after the second world war, ordinary commercial rates of interest were charged.

17. In reply to questions about the powers and the financial operations of the Dairy Products Marketing Commission and the other producer boards, the representative of New Zealand stated that the Commission and the Boards had been established by statute; regulations were not issued by the Boards themselves but by the Government by Order in Council and, in cases of offence against the regulations, the usual processes of the law applied. So far as the financial basis of the Boards was concerned, these organizations had come into being after funds were built up by the producers themselves, except in the case of the dairy industry. The Central Bank had financed the dairy fund until the industry had built up funds of its own and this financing had been carried out at the rate ruling for public account funds, namely one per cent and this rate of interest continued to apply. When the dairy fund was exhausted in 1958, the Government loan of £5 million to the industry, which would be repaid within the next few months, had also carried interest at the same rate.

18. The Committee noted that approximately 15 per cent of the total labour force of New Zealand was employed in the agricultural industry and that farmers' income represented about 25-30 per cent of total national income. This was in marked contrast to the situation in many other countries. They noted also that the agricultural labour force was more than 10 per cent lower than in 1938, while production for 1958/59 was 56 per cent higher. In reply to a question, the representative of New Zealand stated that the increased production was principally due to improvement of working techniques and not to an increase in the area under cultivation. In discussion on the section of the documentation relating to the total cost of Government support programmes for agriculture and farm net income, some members of the Committee questioned whether the subsidies on wheat and flour, milk, butter and eggs were entirely consumer subsidies or whether in some circumstances they did not contain some element of producer subsidy. The representative of New Zealand stressed that no support schemes for agriculture were operated from Government funds. The subsidies to which reference had been made were genuine consumer subsidies and not support for the producer and in his view the test of whether they were consumer subsidies was whether the producer would receive more for these products in the absence of the subsidies. In his view, apart from a slight marginal effect which might result from a small depression of prices overseas with lower returns for all butter producing countries, as a result of slightly larger exports, particularly of butter and to some extent of cheese, there would be no effect on the New Zealand producer who secured his price whether he sold on home or overseas markets. The primary object of the subsidy on eggs was to ensure that these moved in satisfactory quantities from areas of production to areas where supplies would otherwise be deficient: it was thus in the nature of a transport subsidy for the benefit of consumers. In regard to wheat, the
controlled price to farmers was increased in 1958 with the aim of increasing production to meet New Zealand's balance-of-payments difficulties, but was then still less than the import price. At the present time the home and import prices were roughly balanced. In reply to a question regarding the effect on farm net incomes of the use of the industry stabilization funds, the representative of New Zealand stated that it was not possible to assess this exactly because in the case of the wool scheme wool was bought in at the floor prices and sold later, invariably at a profit. In general, however, it could be said that farm net incomes for the years 1956-57 and 1957-58 would have included the £28.7 million of dairy reserve funds held as at 30 June 1956.

19. The Committee noted that a subsidy on the carriage of lime was in operation to encourage its use by farmers. In reply to questions, the representative of New Zealand stated that until 1945, the Government had paid the whole of the cost of this subsidy but that since 1945, 85 per cent of the cost had been borne by the primary industries themselves while the Government paid 15 per cent, i.e. to cover the estimated proportion of products consumed locally. The scheme was now operating in a modified form pending negotiations with the dairy industry after the exhaustion of the dairy industry account.

20. The Committee noted that a mixing regulation with respect to tobacco had been in operation since 1947 and that manufacturers of tobacco products were now required to use in their manufacturing processes 30 per cent of home produced leaf. One member of the Committee pointed out that at the present time New Zealand tobacco manufacturers by agreement used 32\(\frac{1}{2}\) per cent of home produced leaf and asked about the possibilities of increased production of tobacco and whether a further increase in the mixing regulation percentage as an incentive to New Zealand production was contemplated. In reply, the representative of New Zealand stated that the acreage to tobacco production had been static and there was no possibility of a substantial increase in this acreage, but there had been some increase in yields in the last few years. No increase in the mixing regulation percentage was contemplated. Consumption was expected to increase in the long term and if local production did not increase a larger volume of imports would have to be permitted. However, the 1958 budget had imposed a heavy increase on the price of tobacco and cigarettes which had probably had quite a strong effect on consumption and it was therefore unlikely that the position on imports would change for some time.

21. One member of the Committee stated that, while he recognized that New Zealand was free from plant and animal diseases, nevertheless the experience of exporters of his country had shown that her controls were operated in such a way as to restrict severely or, in some cases, to prohibit completely imports of several items, notably flower bulbs and nursery products. In his view, the expansion of international trade would be severely hampered if all countries applied such stringent regulations and he requested the New Zealand delegation to bring the matter to the attention of the New Zealand Government. In reply, the representative of New Zealand undertook to bring the request to the attention of his authorities but emphasized that it would be necessary to quote specific cases. He added that the restrictions were imposed on technical grounds for which there was ample justification in the light of New Zealand's aim to continue free of some of the worst animal and plant diseases found in other countries.

B. Commodities

22. The Committee conducted a detailed examination of the information submitted by New Zealand on those commodities on which it had been agreed the consultations should be concentrated. This section of the present report summarizes the main points discussed during the examination.
23. One member of the Committee referred to the view which had been expressed earlier in the consultations that the system of stabilization funds might protect the New Zealand farmer to an undesirable extent from the effects of market forces. In his view, there would not have been such large increases at the end of 1959 in the price of butter in those countries where market forces were allowed to be felt if the effects that the very low prices ruling in 1958 had had on production and consumption had not still remained some eighteen months later. The price rise at the end of 1959 had been due to a large extent to the limitation of butter production in some countries and to the increase in consumption, both of which had resulted from the low prices in 1958, which had continued to a large extent when prices increased again in 1959. While the action taken by the New Zealand Government to limit effects on producers of these excessive price fluctuations was in general reasonable, nevertheless regard should be paid to the general undesirability in the long term for both producers and consumers alike of complete insulation of producers from world market forces. New Zealand production, unlike that of his own country which had declined in 1958 since the price to the producer had been allowed to fall to the export price of butter, had been virtually unaffected. He stressed the view that, even apart from possible long-term trends, the New Zealand Government should take seasonal fluctuations into account when fixing the level of the guaranteed price for butterfat; if this were not done, the New Zealand authorities would contribute to even greater seasonal fluctuations.

24. The representative of New Zealand could not accept the argument that the New Zealand producer was insulated from world market forces and that there had been no effect on production. Over the last five or six years the number of cows in New Zealand had been static although there had been some increase in yield per cow due to seasonal climatic factors. As to the rise in the price of butter in 1959, in his view this had been in the main due to the European drought in that year and the increase in consumption in countries which were previously marginal exporters; it had been to only a very small extent due to a deliberate decrease in production. In any case, however, it remained the view of the New Zealand Government that countries which subsidized production should be the ones expected to change their production policies. As to seasonal variations, there could be little possibility of action during a season to take market fluctuations into account because of technical production and marketing differences between New Zealand and European countries. New Zealand cows were pasture fed all the year round and the level of production during a season depended on weather which determined the level of feeding; all dairy produce was kept in cold storage and it was the month the produce was put on the market, not the time of production, that was important for New Zealand. No variation in the guaranteed price was made during the season; the price was fixed from 1 August and ruled till 31 July and would only be changed in exceptional circumstances such as a large-scale wage increase which might lead to a small increase in the guaranteed price. The representative of New Zealand stressed that there was, however, a great measure of flexibility in the fixing of the guaranteed price. The main criterion for fixing the level of this price was market realizations and there had in fact been a 15 per cent price reduction in two years.
25. In reply to a series of questions relating to the dairy industry reserves, the representative of New Zealand stated that there was no agreement or arrangement, formal or informal, on any figure which should be regarded as the minimum level of reserve fund reasonable to safeguard producers through any price fall crisis. In 1956, the Dairy Industry Fund had stood at £28 million; in the event, this amount had proved inadequate for its purpose and, at the present time, the industry was concentrating on building up the reserves and not on the level at which they should cease to build them. The estimated cost of production of butterfat was 38½d. per lb. Under the terms of the Dairy Products Marketing Commission Amendment Act of 1956, any surplus on the year’s operations must be paid as a retrospective payment to the industry, unless the Dairy Board agreed otherwise. In 1959, the dairy industry had recognized the need for building up the reserves but as the guaranteed price had been set at the low level of 32½d. per lb. (for all butter whether exported or sold locally) it had been agreed after negotiation that 50 per cent of any surplus funds should be paid to the producers and 50 per cent would be put to the reserves. Because of the inherent uncertainties of world trade in dairy products, it had been considered wise not to make any firm commitment about the allocation of reserves beyond 31 May 1960. Negotiations on future arrangements would take place between the Government and industry in the middle of 1960 in the light of the level of reserves at that time and prospects in world markets.

26. In reply to a question as to whether the New Zealand Government would make finance available to meet a guaranteed price if export realisations over a period of four or five years did not reach the guaranteed price level, the representative of New Zealand stated that it was not possible to forecast what action the Government would take but there seemed no reason why there should be any departure from the type of approach that had been adopted in recent times of making finance available on strict loan terms with, if necessary, suspension of the legislation imposing the 5 per cent limitation on the guaranteed price range, such as had occurred in 1958. In reply to a further question about possible future loans to the dairy industry, the representative of New Zealand stated that in all likelihood the same conditions would obtain as in 1958, i.e. in order to avoid subsidization of the industry and possible inflationary pressures in the country, any financing would be by Government loans from funds made available through the Budget.

27. One member of the Committee pointed out that, since the quantity of town milk on which the guaranteed price was paid was fixed somewhat in excess of the eventual uptake of liquid milk and since the subsidy was also paid on this excess which was used for manufactured products, it appeared that there was a slight export subsidy on the milk products produced from this excess. The representative of New Zealand agreed that this might be so but that the amount of the subsidy, if any, was infinitesimal. Only 10 per cent of the total milk production of New Zealand was town milk and only a very tiny percentage of this 10 per cent was used for the manufacture of butter and cheese.

28. One member of the Committee enquired whether the subsidy arrangements in respect of eggs passing across the egg floors also applied in respect of egg products which were exported when surplus to New Zealand requirements.
The representative of New Zealand confirmed that the subsidy arrangements would apply in respect of egg pulp. The New Zealand egg producers levied a fee to cover the operations of the egg pulp account. The aim of egg policy was to keep a balance between supply and domestic demand; only occasionally was there a very small surplus for export.

29. In reply to a question about imports of cheese, the representative of New Zealand stated that the Dairy Products Marketing Commission did not control the marketing in New Zealand of private commercial imports of cheese. In reply to a question about export prices of cheese in 1957 and 1958, the representative of New Zealand stated that the price of New Zealand cheddar cheese on the United Kingdom market had been 246s. per cwt in January 1957 and 131s. per cwt at the end of 1958.

30. In relation to the level of the New Zealand tariff on butter and cheese, one member of the Committee pointed out that, while recognizing that there had been no requests for negotiation of reductions of these tariffs, nevertheless there was nothing to prevent the New Zealand Government taking unilateral action to reduce them.

Meat

31. Members of the Committee noted that the Meat Industry Reserve Account had at present reached a level of £43 million, i.e. about 50 per cent of the value of New Zealand's annual exports of meat. One member of the Committee enquired whether, in view of these substantial reserves and in view also of the depletion of the funds of the dairy industry, there might not be a tendency at some stage or another to maintain the prices for meat at a more favourable level than those for dairy products relative to price trends in world markets. The representative of New Zealand stated that, despite these substantial reserves, the same criteria for establishing the floor prices for meat had been followed for some years and no change was contemplated. There had been reductions in recent years in the floor prices for lamb and mutton reflecting the degree of reduction in world prices. As to the reference to the depletion of the dairy industry funds while the meat industry reserves stood at a high level, the two accounts were entirely separate and it would not be possible to tax the meat industry to support the dairy industry.

32. One member of the Committee stressed his view that the present high level of the meat industry's reserves represented a strong insurance for the New Zealand industry which would enable it when necessary to make deficiency payments on exports over a fairly long period. In October 1958, a decision had been taken that deficiency payments of 2½d. per lb. should be made on exports of lamb. In view of New Zealand's position as the world's largest exporter of lamb, the high level of the reserves and the fact that world prices were falling, it was possible that the New Zealand action in making deficiency payments on exports would contribute to the lowering of prices and add to the effects of other countries' activities in this direction. He asked whether assurances could be given by the New Zealand authorities that the meat industry's reserves would not be used in the future to gain more than a fair share of the world trade in lamb. The representative of New Zealand stated that the floor prices for lamb had been reduced by over 1d. per lb. since 1957/58, which was an indication.
to the producer that the market was not as strong as it might be. It was, however, difficult to diversify production in New Zealand, and while it was probable that production would continue to increase under these price stabilization measures the New Zealand Government was convinced that such increases in production would not depress prices if New Zealand was allowed access to markets. As to the deficiency payments to which reference had been made, the payments instituted in October 1958 had ceased in November/December 1958 as prices in London had risen and obviated the necessity for them. No payments were being made at the present time and it seemed unlikely that any would be made for some time to come. As to the assurances that had been sought about future deficiency payments from the reserves in relation to fair shares of the world trade in lamb, he emphasized that the funds concerned belonged to the producers themselves. If the producers had used their funds when these were earned in the period between 1942-1954, they could have used the money to increase production at that time which would have presented a different picture of New Zealand’s share of past trade. However, the New Zealand Government held to the view that comparative advantages were involved in the concept of a fair share of the market, and did not agree that changes in production techniques, patterns, etc., could be disregarded to support a claim by any producer of a right to a fixed percentage of trade that he might have achieved in a previous period. New Zealand was fully aware of the provisions of the General Agreement relating to producers’ funds in relation to exports but considered that her arrangements were fully in accord with these provisions. In reply to further questions on the level of the reserves, the representative of New Zealand stated that part of the funds were invested in technical improvement facilities such as cold storage plants, etc.

33. In reply to questions about the establishment of floor prices, the representative of New Zealand stated that these were carefully adjusted for different types of meat to follow market trends for those types and therefore enabled market forces to have their effect on the producer. The floor price for a representative type of meat for each class was established at the beginning of the year and these floor prices did not change throughout the season; levels at which these floor prices were established reflected the experience in prices of the previous two or three years. Noting that one of the functions of the Meat Producers Board was the regulation of shipments to assist in ensuring a stable market in the United Kingdom, one member of the Committee enquired whether the Board took positive action to control exports to markets other than the United Kingdom or whether control was exercised only in relation to that market. The representative of New Zealand emphasized that the Meat Board did not actually control exports to any markets. He stated that the general regulation of shipments did cover other markets, but there were more difficulties involved in the case of other markets since shipping services to them were often not available. The co-ordination of shipments was for the purpose of avoiding surpluses or shortages in the markets; the export trade was entirely in private hands although the Board assisted private exporters with shipping arrangements and could to some extent influence private exporters in their choice of markets.

Fruit

34. Members of the Committee noted that Fruit Distributers Ltd., a registered company owned by trade interests and established by agreement with the Government, had the sole right of importing and marketing citrus
fruits, bananas and pineapples and that the Citrus Marketing Authority controlled the collection, distribution and marketing of New Zealand grown citrus fruits, selling these at agreed prices to Fruit Distributors Ltd. One member of the Committee enquired whether the assured outlets for citrus which were involved in the operations of these two bodies, together with producer prices, had been sufficient to stimulate citrus cultivation. The same member of the Committee asked why the New Zealand Government considered that a monopoly was necessary to handle imports of these fruits only. In reply, the representative of New Zealand stated that there were no guaranteed prices in operation for citrus fruits and the two bodies to which reference had been made were concerned solely with marketing arrangements. The citrus industry in New Zealand was small; there had been some increase in grapefruit production in recent years but a 20 per cent decline in production of standard lemons in the last five years. The New Zealand Government considered that the import monopoly arrangements were the most effective means of securing the rational distribution throughout all areas of New Zealand of the tropical fruits which had to be imported. Fruit Distributors Ltd. had no monopoly in perpetuity; their rights expired in 1962 and the Government could refuse to renew these if it was not satisfied with the operations of the body. However, the arrangements worked satisfactorily and had not caused any difficulties with traders or consumers. There was therefore no reason to believe that the monopoly rights would not be renewed.

35. One member of the Committee enquired as to the relationship which existed between the Citrus Marketing Authority's schedule of agreed prices for domestic producers and import prices. He also enquired whether the object of the operations of the Citrus Marketing Authority and Fruit Distributors Ltd. was to ensure a complete and absolute monopoly for domestic produce in the home market, irrespective of consumer choice or prices. In reply, the representative of New Zealand stated that in the main there was no relationship between the Citrus Marketing Authority's schedule of agreed prices and import prices; New Zealand's domestic production of citrus fruits was mainly of standard lemons and imports consisted mainly of sweet oranges. Only so far as there were some small imports of lemons from time to time was there any relationship between scheduled and import prices. It was not the object of the arrangements to secure a monopoly in the domestic market for locally grown produce; local supplies of lemons were invariably, however, much cheaper than imported supplies and the Authority therefore attempted to secure supplies locally when possible.

36. In reply to questions about the functions of the Apple and Pear Board, the representative of New Zealand stated that the Board had as its two main functions the regulation of supplies over the year to the New Zealand market and exports to the best possible advantage. New Zealand prices for apples were lower than prices ruling overseas, and the Board's reserves were built up from profits on these exports. These profits were to some extent used to finance sales to the home market. One member of the Committee considered that, since the internal price of apples was low, it would appear to be unnecessary to grant the Board a monopoly over imports in addition to the monopoly on domestic marketing and exports.
37. In reply to further questions, the representative of New Zealand stated that apple production in New Zealand was at present about 3-3½ million bushels of which 1-1½ million were exported, and both acreage and yield were increasing. The Government guaranteed the price to producers fixed by the Board; as with other industries, the position was developing in such a way that if the reserves of the Board threatened to be depleted arrangements similar to those made for the dairy industry would probably be made to avoid subsidization of the industry. In the 1958/59 season, export prices for apples had been below local wholesale prices, and the Board had incurred a deficit of £½ million on its export operations in that period which had been met from the industry's reserve funds. The New Zealand representative in commenting on the various references to monopoly arrangements, pointed out that the General Agreement did not forbid State trading or the establishment of a monopoly. He stressed, however, that the important point was that such monopolies and State trading organizations should conduct their business strictly in accordance with the provisions of Article XVII. In the New Zealand view, the organizations concerned fully conformed to these provisions.

Fish

38. In reply to questions, the New Zealand representative stated that the New Zealand fishing industry was small and no governmental assistance in any form was granted to the industry. During the period before 1 January 1958, imports of fish and fish products had been liberalized but they were at present subject to restriction on balance-of-payments grounds.

Vegetable Oils

39. In reply to questions, the representative of New Zealand stated that imports of vegetable oils were restricted on balance-of-payments grounds. He believed that it was not the intention of the New Zealand Government to impose any restrictions in the future on the use of vegetable oils for the manufacture of margarine.

Cereals

40. One member of the Committee pointed out that his country had not been able to market wheat in New Zealand for the last 8-10 years. He noted that at present prices wheat was admitted into New Zealand duty-free from all sources and that applications for import were considered individually. He drew the Committee's attention to the New Zealand Government's announcement in October 1959 that certain liberalization measures were being introduced and that there would be a removal to a large extent of discrimination against the dollar area. He asked whether, in view of this announcement, tenders would be offered on an open, competitive bid basis and in line with the provisions of Article XVII. In reply, the representative of New Zealand stated that imports of wheat had not been associated with the question of dollar discrimination. In the past the Wheat Committee had obtained quotations from North America, but invariably the price had been unsatisfactory. If a low, competitive bid were tendered this would be considered sympathetically by the Wheat Committee which was anxious to secure wheat on the most favourable terms.
41. Members of the Committee noted that, in order to save foreign exchange, production of wheat in New Zealand had been encouraged by the incentive of a higher price to producers. In reply to questions about the present level of production and the intentions of the New Zealand Government in relation to production when there were no longer balance-of-payments difficulties, the representative of New Zealand stated that the present acreage devoted to wheat production was about 180,000 acres; in 1954-8 approximately 39 per cent of the domestic market had been supplied by local production, 50 per cent in 1959 and a provisional estimate for the present harvest was 67-75 per cent. It was not possible to commit the New Zealand Government as to its future plans, but at present the policy was not to expand acreage much beyond this level. It was, however, expected that there would be an increase in production since new varieties of wheat now planted had a very high yield. The Government's policy in relation to wheat production when balance-of-payments difficulties disappeared would depend on the circumstances ruling at the time; such factors as New Zealand's commitments under the International Wheat Agreement, overseas prices, the prices of other farm products in New Zealand and the general economic situation of the country would have to be taken into account.

42. In reply to questions about the level of the present controlled price for wheat in relation to costs of production and the level of the price compared with the price of imported wheat, the representative of New Zealand stated that until a few years ago the controlled price of wheat had been based on an assessed cost of production but that this system was no longer in operation and it was not possible to give the present costs of production. At the present time, there was a fairly fine margin between the controlled price and the price of imported wheat; each shipment varied by a few pence, but it now appeared that on the present season's transactions as a whole the local price would be about 13/6d. per bushel compared with an imported price of 13/-d. per bushel.

43. One member of the Committee pointed out that the costs of consumer subsidies had increased in recent years, reaching a level of 4-5 million in 1958/1959. He enquired whether there was likely to be any further increase in these subsidies and whether the consumer subsidy was paid on both imported and domestic wheat. The representative of New Zealand stated that it was difficult to forecast whether there would be any increase in the consumer subsidy but now that the price of imported wheat was somewhat lower than domestic wheat it was unlikely that there would be any increase, and certainly not a marked one, in the consumer subsidy. The subsidy on wheat, which was paid on both imported and domestic wheat, was only in respect of wheat for milling; no subsidy was paid on wheat for feed for which a large proportion of New Zealand's wheat requirements was used.

44. One member of the Committee referred to the earlier discussions on the consumer subsidies and pointed out that now that the price of imported wheat was lower than the price of domestic wheat, there appeared to be an element of subsidy to the producers.
Other Commodities

45. In conclusion, the Committee considered a request that had been made for the inclusion of tobacco as an additional commodity in the consultations with New Zealand.

46. One member of the Committee pointed out that the existence of a mixing regulation relating to tobacco and the fixing by the Price Tribunal of the price paid by manufacturers for tobacco represented strong Government support for the tobacco industry, even though this was not financial support. This member of the Committee noted that New Zealand production of tobacco as a percentage of local consumption had been 42-43 per cent in 1956 and 1957, while the mixing regulation provided for the use of 30 per cent of New Zealand tobacco and, by agreement of the industry, 32.5 per cent was the current mixture percentage. This member of the Committee enquired whether the current mixture percentage had been varied or whether stocks of domestically produced tobacco were building up. In reply, the representative of New Zealand stated that the agreed mixture percentage had remained unchanged but that one of the largest manufacturers in New Zealand preferred to use only domestically produced tobacco for his products.

47. In concluding the discussion, the representative of New Zealand stated that the New Zealand Government was most anxious to ensure that its agricultural policies were strictly in conformity with the General Agreement and that no charge of subsidization or of any other non-tariff measure not in conformity with the spirit of the Agreement could be levelled at New Zealand exports. The Government of New Zealand was extremely concerned to see a successful outcome to the work of the Committee and would not wish its own policies to prejudice this outcome.