Introduction

1. In January 1958, the Government of New Zealand notified the CONTRACTING PARTIES of certain modifications in its import restrictions which came into force on 1 January 1958, and whereby all goods were made subject to licence, all outstanding licences were cancelled and import allocations of various proportions were imposed. The notification was circulated to the contracting parties in document L/790, and copies of the revised Import Licensing Schedule of New Zealand for 1958 were also transmitted. Under paragraph 4(a) of Article XII (Revised) a contracting party raising the general level of its restrictions by a substantial intensification of the measures applied under that Article should consult with the CONTRACTING PARTIES. The Government of New Zealand advised that it was prepared to enter into consultation with the CONTRACTING PARTIES in accordance with those provisions.

2. At its meeting on 14 February 1958 the Intersessional Committee, in agreement with the New Zealand representative, decided that the consultation should be held on 21 April, and appointed this Working Party to conduct it. On 18 April, the New Zealand delegation informed the Intersessional Committee that New Zealand, having initiated a consultation under Article XIV:1(g) on the discriminatory application of restrictions, wished that this be carried out at the same time as the consultation under Article XII, and the Committee agreed to this proposal.

3. Accordingly the Working Party has conducted consultations with New Zealand both under paragraph 4(b) of Article XII (Revised) and under paragraph 1(g) of Article XIV. In conducting the consultations the Working Party followed the relevant "Plans" which had been recommended by the CONTRACTING PARTIES for such consultations. The present report summarizes the main points of the discussion during the consultations.

Consultation with the International Monetary Fund

4. Pursuant to the provisions of Article XV of the General Agreement, the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in this connexion. As a part of the consultation between the CONTRACTING PARTIES and the Fund the latter supplied documentation as referred to below. In accordance with established procedures the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning New Zealand's position. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on recent economic developments and changes in the restrictive system of New Zealand, dated April 3, 1958. In preparing this paper, the Fund has had available a considerable amount of factual data on the current situation of New Zealand and again has received the cooperation of officials of New Zealand in ensuring the accuracy of the data used and in supplying the latest available information. Again I should like to take this opportunity to express the Fund's appreciation for this assistance."
The Fund has also furnished additional copies of the background paper on New Zealand which it provided to the CONTRACTING PARTIES in connexion with the consultation held during the Twelfth Session.

With respect to Item 11 of the Plan for Consultations under Article XII:4 of the General Agreement, relating to the level of restrictions resulting from the intensification in relation to the need for restrictions, the general level of restrictions of New Zealand which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

Opening Statement by the New Zealand Representative

5. In opening the consultation the representative of New Zealand made a statement on the circumstances leading to the present balance-of-payments difficulties and the consequent intensification of the restrictions, and on the measures that had been taken. The full text of the statement is annexed to this report, and the principal points are summarized below.

6. The New Zealand representative recalled the fear expressed by his delegation at the previous consultation in November 1957, that while New Zealand had found it possible progressively to relax its import restrictions, the overall surplus of £9 million in 1956 might be converted into a significant deficit in 1957. In fact overseas transactions in 1957 actually resulted in a deficit of £32.2 million and overseas exchange reserves fell in the year from £76.7 million to £44.7 million, an amount equivalent to less than two months' overseas payments. The deterioration was due principally to an increase in the volume of imports and to a substantial rise in import prices during the second half of the year. Export receipts were maintained but only because of the high prices for wool in the early part of 1957. Prices for wool had since declined severely; receipts from exports of dairy products fell considerably partly owing to the widespread application of price support schemes, subsidies and dumping. Meat earned about the same amount as in 1956 although prices showed a downward trend by the end of the year. During the fourth quarter New Zealand's terms of trade worsened by 10 per cent from those of a year earlier.

7. During the first three months of 1958 imports continued to be higher than in the corresponding months in 1957. As export proceeds continued to fall, the deficit during January and February—normally "building-up" months for the reserves—amounted to £2.3 million compared with a surplus of £17.8 million in the same months in 1957. As many export prices had continued to decline the latest estimates were for a deficit in 1958 much larger than that of £32.2 million in 1957.

8. The representative of New Zealand stressed the vital importance of external trade to New Zealand's economy—exports representing no less than one-third of the national income—and its dependence for external income on the export of a limited range of agricultural products. As an efficient producer of certain primary products New Zealand should normally be able to earn enough to pay for the imports needed by its rapidly expanding economy and its very high rate of population increase. It had been unable to do so not because of foreign competition on free markets—or any decline in the demand for New Zealand's export products, but because of the prevalence of protectionism in the agricultural field.
9. The internal monetary and fiscal measures referred to at the November consultation had been continued and intensified, but their effects could not be expected to be rapid or far-reaching, especially as a wide range of such measures had already been in existence.

10. The new measures of restriction took the form of a revocation of all exemptions from import control whether "global" or otherwise and the cancellation of all existing licences for 1958. Goods already shipped from the exporting country before the intensification would be admitted and goods on firm order on 31 December could be imported if necessary as a charge against new licences - provided the quantities involved were not excessive in relation to the importer's normal pattern of trade. As regards discrimination, the general policy was to ensure that the percentage reduction in total dollar expenditure was no greater than in other currencies.

11. In conclusion, the representative of New Zealand noted that unless a solution could be found to the increasing disparity between the positions of agricultural and industrial countries, increased balance-of-payments difficulties would be faced and new restrictions might be imposed, not only by other agricultural countries, but also by the industrial countries who could not for long remain immune from the spread of the malaise.

12. Members of the Working Party expressed appreciation of the very thorough and informative statement made by the New Zealand representative which had brought out the causes and extent of the recent deterioration in New Zealand's balance of payments, and the serious nature of the reserve situation.

Circumstances leading to the Intensification

13. The Working Party expressed sympathy with New Zealand in its present plight and appreciation for its prompt action in bringing the new measures before the CONTRACTING PARTIES. Some members stated that they specially appreciated the measures taken in March 1958 which reduced the intensification of discrimination against dollar goods caused by the new import regulations. It was hoped that the situation would soon improve so that the New Zealand Government would again be in a position soon to resume its course of gradually relaxing import restrictions and reducing discrimination. In discussing the difficulties reference was made to the high degree of dependence of the New Zealand economy on the export of a few agricultural commodities, which in the view of several members of the Working Party was closely related to the sensitivity of the country's balance-of-payments position to external changes. These members shared the view that if access to foreign markets for such commodities should continue to be impaired by the widespread application of restrictive policies, many primary producing countries might soon find themselves in a situation similar to that of New Zealand and have no alternative but to resort to more stringent import controls.

14. A member of the Working Party, while agreeing to the undesirable effects of restrictive policies, pointed out, however, that at least in one commodity, namely wool, which was one of New Zealand's important export products, exports could not be considered to have been hampered in world markets, as practically no country applied subsidies or import restrictions to trade in this commodity. New Zealand's present balance-of-payments difficulties in his view mainly reflected an excessively high level of imports and might partly be attributed to the fact that economic expansion in New Zealand was out of phase, or at too fast a rate to be compatible with developments in the world economy.
The New Zealand representative commented that in his view the three main factors which affected New Zealand’s balance of payments were: first, the difficulties arising from widespread agricultural protectionism; second, the problems peculiar to agricultural producers and, finally, the general level of world economic activity.

15. Insofar as the difficulties related to world market conditions for primary commodities, some members of the Working Party recalled that the whole question of trends in international trade had been entrusted to a Panel of Experts, whose findings, when reported to the CONTRACTING PARTIES at the Thirteenth Session, would provide a basis for discussion of this question which should not be prejudged.

16. The Working Party observed that as indicated in the background paper supplied by the International Monetary Fund the increase in the trade deficit and the consequent drain on overseas reserves in 1957 mainly reflected a rapid rise in the volume and prices of imports after July 1957. Some members of the Working Party noted that although resources had already been strained in the first half of 1957, the New Zealand economy continued to operate at a very high level of activity in the second half of the year when impetuses were added to expansion by even higher levels of public and private expenditure. The resulting substantial rise in aggregate demand must have contributed to the high demand for imports. The representative of New Zealand thought, however, that the increase in imports in 1957 was not necessarily due to the upsurge of activity in the middle of that year, having regard to the normal time-lag of about six to nine months between the moment of ordering goods and actual importation. Nor, for the same reason, could the budget appropriations in 1957 have much affected imports during that same year. The expansion of credit in the private sector, which was mentioned in the Fund paper, should be regarded as a consequence of increased interest rates abroad which had led New Zealand traders to seek additional credit in the domestic money market. That the pressure of internal demand had not been excessive might be deduced from the relative stability in internal prices during the year, wholesale prices between the first and last quarters of 1957 having risen by no more than 1.8 per cent.

17. In response to an enquiry the New Zealand representative explained the manner in which the prospective deficit in 1958 was estimated: estimates for imports were based on the scope of the new licensing schedule and regulations due account being taken of the value of confirmed orders which were entitled to excess licences; expectations concerning price developments for the main export commodities formed the basis for estimating prospective earnings. It might be noted in this connexion that price trends for wool, butter, cheese and recently also meat, had been downward.

18. Requested to supply breakdown figures for New Zealand’s deficits with countries in the dollar area, the New Zealand representative provided the following data on deficits in 1957:

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>With Canada</td>
<td>£NZ 3.5 million</td>
</tr>
<tr>
<td>With United States and other</td>
<td>£NZ 2.7 million</td>
</tr>
<tr>
<td>American Account countries</td>
<td></td>
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</tbody>
</table>
19. Representatives from countries in the dollar area pointed out that the
deterioration in the New Zealand balance of payments - the conversion from a
surplus of $25 million in 1956 to a $90 million deficit in 1957 - principally
represented a deterioration vis-à-vis the sterling area, and that the
deterioration on the dollar account amounted to less than $20 million.

Alternative measures to restore equilibrium

20. In response to questions regarding the steps which New Zealand had taken
to adjust its internal situation so that the new restrictions would be of
short duration, the representative of New Zealand referred to the measures of
restraint which, as noted in his opening statement, had been taken when the
balance of payments began to deteriorate, and which were designed to counter
excessive pressures on resources. The policy followed in 1957 had been one of
firm pressure on the trading banks to reduce advances to a lower level, so
that aggregate expenditure might be brought into line with the goods and
services available. In February 1958 the Minister of Finance instructed
trading banks to reduce their advances from the existing level of £172 million
to £156 million by the end of June and to give preference, in pursuing this
objective, to loans for essential production purposes and for the financing
of exports. Reserve ratio requirements of the trading banks were changed in
such a way as to keep their cash position under constant pressure. Other
measures to reduce liquidity were at present under consideration, and the
opportunity for further appropriate internal measures would be available in
the coming budget for 1958-59. The New Zealand representative emphasized,
however, that such measures could not by themselves be relied upon to restore
equilibrium. (The New Zealand delegation subsequently informed the Chairman
of the Working Party that a further measure contemplated at the time of the
consultation had since been proceeded with. This was the raising of a £20
million loan in London.)

Nature and extent of the Intensification

21. The Working Party took note of the new system of restrictions as de­
scribed in L/790 and in the Fund paper, and as explained by the New Zealand
representative. Further information was supplied in response to various
enquiries. It was noted by the New Zealand representative that imports of
those items in the new 1958 Licensing Schedule which were marked "C" and with
a percentage would be licensed up to the percentages indicated. However,
licences over and above these limits could also be issued after individual
consideration. Although prima facie the new licensing system might appear to
be highly restrictive it was in effect those so in view of the provisions
made for goods "en route" and on confirmed order. The Government expected
that the overall effects of the new measures were such that imports in 1958
would be brought down to a level near that of 1956. Proportionately,
restrictions on imports from dollar sources had not been intensified to any
greater degree than those of other imports. The criteria used in the licensing
of dollar goods remained the same as those applying before the imposition of
the new restrictions. In the issue of licences for dollar imports account
continued to be taken of the essentiality of the goods in question, their
availability from other sources, significant price differences, delivery dates
and suitability for New Zealand conditions. There had been no substantial
change in the discriminatory elements in the restrictions since the time of the
last consultation in November 1957.
Effects of the restrictions on trade

22. The representatives of certain contracting parties called attention to the fact that the intensification of the import restrictions, owing to the selection of products on which heavy quota reductions were now imposed, particularly affected their exports. The Norwegian representative said that two-thirds of Norwegian exports to New Zealand consisted of paper and paperboard which, under the new regulation, were classified in category "C" for which licenses would only be issued sparingly or in category "D" for which licenses would be granted only in the most exceptional circumstances. Norway's exports to New Zealand could thereby be greatly reduced. Increased purchases of paper had not been a factor in New Zealand's new trade deficits; in fact the heavy imports in the past year had been concentrated on investment goods, fuels and metal products. In the circumstances it was hard to understand why Norway's exports should be more severely affected than those of other contracting parties. Contracting parties experiencing balance-of-payments difficulties had admittedly a certain freedom to establish import priorities, but at the same time Article XII:3(c) imposed the obligation not to impair regular channels of trade by preventing unreasonably imports in minimum commercial quantities. The Italian representative, for his part, pointed out that about half of the Italian exports to New Zealand were made up of finished products and consumer goods, classified mainly in category "C". Italian exports consequently would suffer a drastic reduction, proportionately much greater than that of other countries. The Italian delegation would therefore request that import licences for certain products, in particular textiles, be issued to the fullest extent possible, so as to avoid what in its view constituted a practical discrimination against Italian exports.

23. The representative of New Zealand replied that his Government profoundly regretted the adverse effects of the restriction on the trade of some countries and had done its utmost to avoid unnecessary damage to the commercial and economic interests of other contracting parties. He pointed out, however, that category "D" was intended to include not only what the New Zealand authorities considered to be luxury goods, but also commodities which, under the present circumstances, could be dispensed with. Category "C" goods were those for which the demand, or the amount of foreign exchange that could be made available, could not be determined in advance. For these categories foreign exchange allocations would be made, which in the event might be quite considerable. It was clearly impossible for a country to reduce imports of all commodities by a uniform percentage, as that would lead to shortages of essential commodities and hardships in the domestic economy. Nor, by virtue of paragraph 3(b) of Article XII was a contracting party required to do so.

24. At the end of this discussion the New Zealand representative stated that he had taken note of the views expressed on the effects of the restrictions and that he would bring all these to the attention of his Government which would no doubt endeavour to make any necessary adjustments insofar as it was practicable to do so within the limits set by the present urgent need to protect the country's balance of payments and external reserves.
25. The representative of the United States noted that New Zealand's restrictions largely precluded the access of certain dollar goods to the New Zealand market and expressed the hope that the New Zealand authorities would administer the controls in such a way as to make provision for greater imports of these products. These included for example aluminium windows and awnings, beer, autobus bodies, electrical appliances, motor and related equipment and supplies, dried fruits, garden tractors, medical and dental equipment, roofing paint and flooring compounds. The Canadian representative stated that his Government might wish to make similar representations to the New Zealand Government concerning certain goods. The New Zealand representative undertook to convey these requests to his Government, adding that these, and indeed any similar requests that might be made by a contracting party, would undoubtedly receive his Government's careful and sympathetic consideration. His Government was fully prepared to discuss with any contracting party which might approach it on any matters of this nature.

26. The Working Party expressed appreciation of the efforts which the New Zealand Government had made to ensure full publicity of the new regulations. By avoiding uncertainty for the trading community concerning the extent and the nature of the intensified restrictions and in making special exemptions for goods "en route" or under firm order placed prior to the introduction of the new measures the New Zealand Government had clearly demonstrated its desire to reduce to a minimum the dislocative effects of the restrictive measures on trade.

The discriminatory aspects of the restriction

27. Members of the Working Party representing countries in the dollar area emphasized their view that in a situation of acute foreign exchange shortage such as New Zealand was experiencing at present it was particularly important to make the best possible use of the reserves by ensuring that purchases could be made at the most advantageous prices in the most competitive market. The representative of New Zealand replied that his Government was fully aware of this need. It was precisely for these considerations that before the recent adverse developments in the overseas exchange reserves, his Government had progressively extended the World Exemption List; in the original 1958 Import Licensing Schedule the number of items in that list had been increased from 159 to 170. Even under the present conditions the consideration of prices, delivery terms and other factors, might well lead to large allocations for imports of some items from the dollar area.

28. A member of the Working Party noted that although most of the 170 items previously on the World Exemption List had now been included in the automatic licensing category (category "A"), some twenty-five items, including tyres, cash registers, typewriters and computing machines, had been excluded from this procedure when imported from the dollar area and were dealt with under the individual consideration procedure. This, in his view, appeared to introduce a new element of discrimination. It was also noted that the number of quotas for dollar goods was relatively small when compared with non-dollar goods. Since the deterioration in the New Zealand balance of payments was mostly with the non-dollar area, the New Zealand representative was requested to explore the possibility of making more reasonable allocations for dollar goods. The representative of New Zealand emphasized that it was not the intention
of his Government to reduce dollar imports to a greater extent than imports from other sources. In some cases reclassifications had been made for administrative convenience, but broadly the previous non-discriminatory considerations would continue to apply.

General

29. Members of the Working Party expressed concern that these new restrictive import measures had been necessary. In general they fully appreciated the current difficulties with which New Zealand, as a rapidly developing country, was confronted. It was noted with gratification that the New Zealand Government had re-affirmed its intention to relax the restrictions as soon as practicable and to pursue internal policies designed to reduce and eventually eliminate the need to rely on quantitative restrictions. Hope was expressed that New Zealand would be successful in the near future in achieving the requisite equilibrium for constructive action.

30. The Working Party welcomed the assurance of the New Zealand representative that full publicity had been given to the purpose of the new measures of intensification and this should discourage the build-up of uneconomic industries behind the restrictions.

Annex: Statement by New Zealand representative