Introduction

1. The consultation under Article XIV with New Zealand had been initiated by the New Zealand Government in March 1956 under the provisions of paragraph 1(g) of that Article. It is concerned with New Zealand's continued resort to the provisions of paragraph 1(c) of Article XIV for the application of discrimination in its import restrictions. In conducting the consultation the Working Party broadly followed the plan recommended by the CONTRACTING PARTIES for such consultations, and the following paragraphs summarize the main points of the discussion.

Consultation with the International Monetary Fund

2. Pursuant to paragraph 2 of Article XV, the CONTRACTING PARTIES had invited the Fund to consult with them in connexion with this consultation. As New Zealand was not a member of the Fund, there had been no consultation between the Fund and that Government. To assist the CONTRACTING PARTIES in their present task, the Fund had specially prepared a background paper on economic developments and changes in the restrictive system in New Zealand. The representative of the Fund stated that the Fund had available for this purpose a considerable amount of factual data on the current situation of New Zealand and that the authorities of New Zealand had cooperated in making information available and ensuring its accuracy.

Basis and background for the application of discrimination

3. In opening the discussion, the New Zealand representative stated that the New Zealand's balance-of-payments position was not a comfortable one at present, although there had been some improvement during the past six months. During 1955, New Zealand's net external reserves had fallen by £23 million to £65 million, which was only equivalent to about three months' payments for imports. However, largely as a result of the vigorous monetary and fiscal policy, the decline in the reserves had been arrested and the Government hoped that at the end of this year they would not be lower and perhaps slightly higher than at the end of 1955.

4. So far as the discriminatory import restrictions were concerned it should be stressed that they were not of New Zealand's own choosing and that they had been and would be relaxed as rapidly as circumstances permitted. This policy had led to a substantial increase in imports from the dollar area and, since exports to that area had not changed materially, the trade balance with the dollar area had deteriorated: in 1955 the trade deficit reached £15 million compared with a deficit of under £8 million in 1954, and a surplus of £4 million in 1953. The discriminatory element in import restrictions had been substantially reduced over the last few years by the following three means:
(a) the application of a more liberal licensing policy since 1954 in respect of imports of essential equipment and industrial raw materials from the dollar area;

(b) increases in the number of products on the World Exemption List which can be imported from any source without licence; and

(c) a reduction in the list of "scheduled countries", to which discriminatory restrictions are applied; these were now confined mainly to countries in the dollar area and Japan.

5. In discussing the trade and payments position with respect to the various currency areas, the New Zealand representative referred to the background paper supplied by the Fund and New Zealand's reply to the questionnaire issued by the CONTRACTING PARTIES in conjunction with the Seventh Annual Report on Discrimination, both of which contained figures on New Zealand's external trade by countries of origin and destination. As relevant for this consultation the New Zealand representative called attention to the recent changes in the sources of imports. Between 1953 and 1955 imports from the sterling area had fallen from 80 per cent of total imports to 75 per cent; imports from the EPU area rose from 7.51 per cent to 8.25 per cent, while imports from Canada increased from 1.4 per cent to 3.34 per cent and imports from the United States from 7.41 per cent to 8.58 per cent in the same period. The very large increase, both absolutely and relatively, in imports from Canada and the United States was particularly noteworthy in the context of the present consultation, especially in view of the fact that there had been no corresponding increase in exports from New Zealand to either of these countries.

6. The New Zealand representative also referred to the statistics supplied in the Fund paper on New Zealand's net overseas assets which showed considerable fluctuations in the last few years. While the drain on the international reserves had been practically arrested in 1955/56, a substantial drop in the first half of that financial year had caused some concern to the New Zealand authorities; the Prime Minister stated in February 1956 that the country's overseas balances were "uncomfortably but not critically low". After a recovery in the first half of 1956, they had fallen, from £99.7 million at the end of June 1956 to £97.3 million at the end of July. In supplement to this data, the New Zealand representative informed the Working Party that the assets had continued to fall in the last two months, to £93.3 million by the end of August and approximately by a further £6 million in September. However these falls were largely seasonal as the bulk of New Zealand's export earnings was received in the first half of the year.

7. In conclusion, the New Zealand representative stated that the reason for his Government's continued resort to the provisions of paragraph 1(c) of Article XIV should be apparent from the figures relating to the country's trade and payments with the dollar area. It should be emphasized at the same time that New Zealand was a member of the sterling area and thus maintained an interest in safeguarding the monetary reserves behind sterling.
8. The representative of Canada observed that whereas in 1954 and 1955 both Canada's exports to New Zealand and New Zealand's exports to Canada had been on the increase, this trend appeared to have changed in the first half of 1956; while Canadian imports from New Zealand continued to rise, there had been a fall in the trade in the other direction. The New Zealand representative explained that trade figures for the first half of 1956 were not yet available. The decline apparent in the Canadian figures for the past six months might be due to seasonal factors. New Zealand balance-of-payment figures indicated that imports from Canada for the year ended June 1956 had been stabilized at the high level of the previous year.

9. The United States representative pointed out that the statistics showed that New Zealand's imports from the United States and Canada had declined from the prewar level of about 21 per cent of total imports to a level of about 12 per cent in 1955, and enquired whether the New Zealand Government believed this to represent a trend which would continue or whether there would be a return to the pattern of trade prevailing in prewar days. The New Zealand representative replied that import restrictions in New Zealand and been in force since before the war and that consequently it was difficult to know what would be the natural pattern of trade that would have prevailed had there been no quantitative restrictions on imports. Furthermore, a pattern based on prewar conditions would not be relevant because as a result of industrial development and other changes the structure of the New Zealand economy had changed considerably.

10. The Netherlands' representative, referring to the fact, as shown in the statistics in the Fund background paper, that in 1955 New Zealand's exports to Continental OEEC countries and their dependencies had been over twice as high as its imports from those countries, stated that his Government would appreciate any further action by the New Zealand Government to liberalize its imports from West European countries. In reply the representative of New Zealand pointed out that well over 80 per cent of New Zealand's imports from the EPU area were already entirely free from licensing requirements.

11. A member of the Working Party drew attention to the substantial improvement in the balance of payments of New Zealand in 1955-1956 compared with the situation in the preceding year. Especially the trade balance had changed from a deficit of £42 million to a surplus of £18 million, this taking place at a time when there was no improvement in the terms of trade nor any intensification of import restrictions. This reversal of the trend clearly showed the effectiveness of the vigorous internal fiscal and monetary measures recently adopted by the New Zealand Government. Some members of the Working Party expressed gratification that the New Zealand Government continued to rely on such measures for redressing the disequilibrium, and the hope that with further improvements in the balance-of-payments discriminatory restrictions would be further reduced in the near future.
12. For a detailed description of the system and methods of restriction, the New Zealand representative referred to his Government's answer to the questionnaire mentioned above and to the background paper supplied by the Fund. He stated that there had been no change in the policy of issuing licences for imports from "scheduled countries". About 160 items were included in the World Exemption List and these items, which could be imported from any source without a licence, represented a substantial percentage of total imports. Apart from the increase in the number of items on which all controls had been removed, the main progress towards the removal of discrimination had been in the continuation of the liberal policy in licensing imports of essential plant, equipment and industrial raw materials from the dollar area. These policies had been responsible for the substantial increase in imports from the dollar area, to which reference was made above.

13. The United States representative referred to the increase in the number of items included in the World Exemption List and wished to know whether the extension of this measure of non-discrimination had had the effect of improving the terms of trade, of strengthening the competitive position of export industries or having any beneficial effect on the level of internal prices. Such experience would be valuable for other contracting parties considering the relaxation of their import restrictions. The New Zealand representative said that no specific studies of this nature had been conducted and it was difficult, in any case, to assess the effects of the measures when many other, more determining, factors were involved. The import control policy was, of course, principally based on considerations of the most economic use of the country's external resources and, therefore, all relevant factors would be taken into account.

14. Commenting on the reference to the liberal licensing policy applied to those dollar imports which remained subject to control, the United States representative said that his Government fully appreciated this policy adopted by the New Zealand Government, which was in line with his Government's belief that advances towards a freer trade should be made whenever possible and to the fullest extent permitted by circumstances; they need not be postponed simply because formally dispensing with licensing requirement was considered impracticable.

15. In the course of the discussion, a member of the Working Party asked for clarification on the nature of the Dairy Products Marketing Commission and on the nature of the payments which the Commission made to cover the difference between the export and internal prices of butter. The New Zealand representative explained that during the war the Government had taken over the marketing of all butter exports and had paid a guaranteed price to producers based on their costs of production. At that time the export prices had been higher than the guaranteed prices paid to farmers so that a fund had been
built up which was now available to meet any difference between export realizations and guaranteed prices. As the fund had been built up from moneys which had been earned by New Zealand farmers Government subsidization was not involved.

16. In discussing the question to what extent price differences were taken into consideration in choosing the source of supply, the representative of New Zealand stated that essentiality of goods and their availability from other sources of supply were, in general, the principal factors in determining the issue of licences for imports from "scheduled countries", although other factors, including significant price differences, were also taken into account. In response to questions, the New Zealand representative further explained that more weight was given to price considerations in the case of goods which were essential to the economy. It was difficult to mention specific types of goods to which such considerations were regarded as more relevant than to other types, as other considerations, such as essentiality to the domestic economy, availability from alternative sources, delays in delivery and terms of sale, etc. had all to be taken into account. Final decision must be left to the discretion of the licensing authorities.

17. The United States representative, referring to the consultations with the United Kingdom in 1955, where it had been brought out that price differences were taken more into account when imports of raw materials needed for industries were concerned, enquired whether similar considerations were in the mind of the New Zealand Government in regard to its essential imports of capital equipment needed for industrialization. Upon this, the United Kingdom representative pointed out that whereas in the case of his country, special attention had to be paid to securing raw materials at the lowest prices, raw material being a determining factor in export prices, the situation was not totally analogous in the case of New Zealand; even in the case of the United Kingdom price differences were not an overriding factor and certainly not the most important one. The New Zealand representative stated that as a rule those goods for which price considerations were important had been included in the World Exemption List.

18. In answer to a question, the New Zealand representative stated that the figures, given in the current reply to the questionnaire, of 83 per cent of imports exempted from control and 17 per cent remaining under control in 1955 represented the actual percentages of imports in that year.

Multilateral or Regional Payments Arrangements

19. The New Zealand representative noted that the participation of the United Kingdom in the EPU arrangements had been beneficial to New Zealand as it had enabled the elimination of all discrimination in the issue of licences for imports from all EPU countries; no distinction was drawn between the United Kingdom and other EPU members and when exemptions were made in the import licensing schedule they applied to imports from all sources except those in the category of "scheduled countries" which, as explained earlier, now comprised only the dollar area and Japan.
20. In reply to a question, the New Zealand representative noted that some members of GEC had substantially extended GEC treatment to the exports of New Zealand while others had not.

The Use of Bilateral Trade Agreements

21. The New Zealand representative stated that New Zealand had no bilateral trade agreements which affected the import of goods subject to import control, nor was it the Government's policy to enter into such agreements. Attention had been drawn to a reference in the Fund's paper to an announcement that additional licences were to be issued in 1956 for imports into New Zealand of Australian motor cars to the value of $L million. It was explained that talks had been held between the Australian and the New Zealand Prime Ministers early in 1956. As a result of these talks, and in order to meet the very strong demand for the type of motor cars available from Australia, some additional provisions for imports of Australian cars had been made. There was, however, nothing in the nature of a formal agreement.

Affects of the Discriminatory Restrictions

22. The New Zealand representative stated that though the effects of the discriminatory restrictions had been substantially reduced over the past two years as a result of the reduction of such restrictions themselves, it must be admitted that some damage to the interests of other contracting parties could still occur as a result of the remaining discrimination. This, however, could not be regarded as unnecessary damage as long as the basic reasons for New Zealand's continued discrimination were accepted. Some members of the Working Party expressed their gratification at the rate at which the restrictions had been relaxed but regretted that the relaxations had not been extended non-discriminatorily to all countries.

23. Recalling the statements of the New Zealand representative at the previous consultation in 1955 concerning various positive steps taken to reduce the effects of the restrictions, a member of the Working Party enquired whether such measures had been strengthened in the interests of the exporters in other countries who had made the initial capital outlay in gaining a foothold in the New Zealand market. The New Zealand representative assured the Working Party that it had been the continued policy of his Government not to disrupt the trade of established importers. Once an importer had been granted licences for a commodity from a currency area it could normally be expected that future licences would not be withheld. The New Zealand representative also stated that the importers and foreign exporters should be fully aware of the import opportunities for dollar goods since information concerning the licensing policy was regularly published through official notices accessible to the public.
Prospects of Eliminating the Discriminatory Restrictions

24. As to the future, the New Zealand representative said that it was difficult to make a useful assessment of the prospects. This was because the progress towards non-discrimination depended not only on New Zealand's policy but also on wider considerations, such as the progress towards convertibility for the major currencies of the world.

25. A member of the Working Party referred to the statement in New Zealand's reply to the questionnaire to the effect that the Government had now decided that the Board of Trade should undertake a comprehensive review of all aspects of the tariff, and enquired as to the implications of that review for the maintenance of quantitative restrictions. The New Zealand representative explained that the Board of Trade had instituted an enquiry which was expected to be concluded by the middle of 1957. This tariff review would, however, not in any way be concerned with the discriminatory aspects of the import restrictions. Only about 17 per cent of imports from non-scheduled countries were still under licensing. Control over a large proportion of these imports was retained for balance-of-payments reasons. As far as the remainder was concerned it was the New Zealand Government's policy to replace quantitative restrictions by tariffs as soon as this was practicable.