ANNEX I

Opening Statement by the Representative of New Zealand

The Committee will remember that the last occasion on which New Zealand consulted with the CONTRACTING PARTIES on its balance-of-payments restrictions was in April 1958 following the intensification of restrictions which New Zealand was compelled to undertake as from January 1958.

The circumstances requiring that intensification were fully examined by the CONTRACTING PARTIES at our previous consultation and I do not propose, therefore, to traverse any of that ground except in so far as it may be helpful in presenting subsequent developments.

The paper prepared by the International Monetary Fund for the CONTRACTING PARTIES contains detailed information on developments in the New Zealand economy during 1958 and the early months of 1959 and, therefore, I shall refer only to the most salient facts of that period.

The decline in prices of New Zealand's principal exports - except perhaps meat - which was a notable feature of the last half of 1957 and a main reason why the intensification of restrictions became necessary, continued during the first half of 1958.

In May 1958 the price of butter on the London market reached 206/- per cwt., the lowest price for some time. (By way of comparison, the price of butter twelve months earlier had been 320/- per cwt.). The price gradually improved from this point and by December reached 290/- per cwt., at which level it has remained, but some fall is possible with the seasonal increase in supplies from Europe. The fall in butter prices was largely brought about by increased United Kingdom production and by heavily increased supplies coming forward from other countries, in many cases at subsidized prices. The total realizations for butter in 1958 at £42.6 million were some £2 million greater than in 1957. This increase can be attributed mainly to the sale of stocks accumulated from the previous season.

In the second half of 1957 cheese prices also fell substantially and remained at the low level of 131/- per cwt. for some months. In March 1958 the price began to recover, until by November it had reached 291/- per cwt. and has remained at this level since. Again, however, as new season's production becomes available shortly, it is expected that prices will recede. Total receipts for cheese at £17.7 million were £3 million higher in 1958 than in 1957.
The sharp decline in wool receipts in 1958 has been a major contributory factor to New Zealand's balance-of-payments difficulties. In 1957 total receipts amounted to £108.6 million but in 1958, as a result of the continued decline in prices, receipts were only £82 million - a decline of almost 25 per cent. The average price of wool in the 1956/57 season was 54.7 pence per lb.; for 1957/58 41.7 pence per lb.; and for the season to date only 34.9 pence per lb. Recently we have been glad to see some recovery in wool prices but it is still too early to cheer since returns will not be greatly affected as most of this season's wool has already been sold. Moreover, while these increases reflect to some extent the increase in world industrial activity, it is felt that the more dominant influence has been the replenishment of stocks before the end of the season.

Meat is the only export commodity which showed a substantial increase in returns during 1958. This commodity became in 1958 New Zealand's largest single earner of overseas exchange, receipts for 1958 totalling £84.6 million compared with £70.9 million in 1957. The main reason has been a sharp expansion of sales to the United States at good prices; and while so far in 1959 meat has continued to sell well, there are indications that prices for New Zealand beef on the United States market may be falling. Thus overall, total export receipts in 1958 at £273.8 million, were £10.6 million lower than in 1957.

On the payments side, private imports were reduced by £28 million to £240 million. This result was achieved by reason of the intensified import restrictions imposed at the beginning of 1958. Most of the reduction was concentrated in the second half of the year because of the time lag before the restrictions could take effect.

In spite of this reduction of imports compared with the previous year, there was an overall deficit of £33.5 million on current account, somewhat lower than the deficit of £39.4 million on current account in 1957. This was still quite substantial but, in fact, a little better than we at one stage feared might be the case. The means of financing these deficits differed substantially in the two years. In 1957 the deficit was financed mainly by drawings upon external reserves but in 1958, because the reserves had fallen to a very low level, it was financed through substantial borrowings on official account, which exceeded the amount of the deficit.

As a result, there was during the year a slight improvement in the level of exchange reserves. In the last half of 1957 the reserves fell sharply from a high point of £113 million in June to £45.5 million at the end of December, the lowest level since 1946/47. At the end of December 1958 they had recovered to £55 million. But I should emphasize again that this small improvement was achieved only after substantial overseas borrowing amounting to £44.7 million combined with restriction of imports through a comprehensive licensing system.

The worsening of New Zealand's terms of trade in 1957 and 1958 has been another cause of difficulty. In the twelve month period from the second quarter of 1957 to the second quarter of 1958, the terms of trade worsened by 23 per cent. In the last quarter of the year, with import prices being maintained and with the rising tendency in export prices, there has been a consequent small favourable movement in the terms of trade.
I should now like to comment on the volume of imports and the effects of the restrictions imposed. In 1957 private imports amounted to £268 million, and in imposing the restrictions it was the broad expectation that the effects of the measures would be to reduce imports to the level of 1956, that is, about £230 million, a reduction of about 14 per cent. In the event, however, imports were £10 million higher at £240 million, mainly because of the efforts made to meet as quickly as possible payments for goods imported on what are known as "excess licences". The intensification of import licensing introduced at the beginning of 1958 was necessarily undertaken on the basis of estimates made at that time of likely export earnings for the year. Unfortunately, as I have already mentioned, export prices continued to decline in the first half of 1958, the decline being particularly marked in the case of wool (which only recently has shown signs of reviving). In mid-1958 the prospects seemed to be that export receipts might be £0 million lower than in 1957, and a fall in the already low level of reserves could be avoided while maintaining imports at the estimated level only by substantial overseas borrowing. I have already referred to this and will not comment further, except to say that borrowing on the scale of 1958 clearly cannot be repeated.

The schedule of imports for 1959 was issued early in October 1958 and, in the light of circumstances existing at the time, and the prospects for exports in 1959, a number of changes were introduced. In the first place, the "A" category of items was withdrawn. Under the system introduced on 1 January 1958, licences for items in this category (covering mainly essential foodstuffs and raw materials) were issued for the full amount applied for. Its introduction in 1958 was designed to reduce the impact of the restrictions and to give flexibility over as wide a range of goods as possible. But experience had shown that the value of licences in this category substantially exceeded in a number of cases the value of imports of those goods in 1957. We would have liked to retain it but because of the need to conserve our exchange reserves further and because of the serious problems to which it gave rise in 1958, we were not able to do so. However, most of the goods previously classed as "A" are in the higher categories in the 1959 schedule.

Another major change was in the further reduction of discrimination against imports from the dollar area. Except for some seventy-two items, licences can be used for the importation of goods from any country. This step was in line with the policy of the New Zealand Government to reduce discrimination as quickly as practicable. Before the introduction of comprehensive import licensing in 1958, considerable progress had been made in this direction by use of the technique of global exemption from licensing. Subsequently, increasingly greater use was made of global licences. For 1959 the area of dollar discrimination is much smaller than it has been in previous years.

In deciding upon the level of imports that can be permitted, it is necessary to make decisions well in advance so that importers will have adequate opportunity to place their orders. In the light of the situation at the time the Import Licensing Schedule was drawn up last year, it was obvious that importation on the scale of 1958 could not be permitted.
When the schedule was announced, therefore, importers concerned with basic licences were asked to submit their applications by 31 January 1959. This procedure was designed to assist in making a better assessment of the likely commitments on overseas funds for 1959 imports. As a result of that assessment and in the light of later estimates of export earnings, the New Zealand Minister of Customs announced on 13 April that additional provision was to be made for imports in 1959 of a wide range of items. These additional allocations, as announced by the Minister, would bring the provision for private imports in 1959 to £210 million.

In the situation brought about by the balance-of-payments difficulties, the New Zealand Government has been very much aware of the need to take internal measures to assist in restoring an equilibrium and in preventing an excess of demand internally. Some of these measures were referred to by the New Zealand representative at our last consultations with the CONTRACTING PARTIES. Credit controls have been maintained and the Reserve Bank has continued to exercise control on Bank advances through its policy of varying the statutory reserve ratio.

In order to maintain these ratios, the trading banks were obliged to borrow from the Reserve Bank - whose discount rate is 7 per cent - during most of 1958.

Fiscal measures were announced in the budget in June of 1958. Income taxes were increased and indirect taxation substantially raised: the sales tax on motor vehicles doubled, death and gift duties raised as well as excise duties on petrol, beer, cigarettes and tobacco. The overall surplus in the public accounts for 1958/59 was £15.5 million compared with a deficit of £22.3 in the preceding year.

Mr. Chairman, the system of import restrictions which New Zealand is now maintaining is designed to safeguard New Zealand's reserves of overseas exchange and to allow them to be rebuilt to a safer level. In the allocation of available exchange the aims are:

1. To give priority to imports of essential goods such as foodstuffs, raw materials and machinery, and

2. After essentials have been provided for, to allocate the remainder of funds available in the most reasonable way.

It is the intention of the New Zealand Government to relax these restrictions as soon as circumstances permit, and the recent announcement of a relaxation, to which I have already referred, is a demonstration of this intention. But the basic prerequisites of further action must be a recovery in prices of our major exports, wool in particular, and an improvement in our terms of trade.

The nature of the New Zealand economy is well known to members of this Committee. In almost the whole of our exchange earnings we depend upon exports of a few agricultural commodities. Mineral resources are almost
non-existent and we depend on our overseas earnings for the purchase of the bulk of the raw materials required by our industries. Moreover, the rapid expansion of population requires a high rate of investment. During 1957/58, the rate of investment was approximately 23 per cent of gross national product. In these circumstances, fluctuations in the prices for our exports are of major concern to us, and as is the case with other countries relying upon the export of agricultural products and raw materials, a falling off in external earnings brings with it strains on our development programme and on the external reserves. Experience of the past two years has shown that we need much higher reserves if we are to be able to weather such variations in overseas income without having recourse to import controls.

We also know from experience that with fluctuating prices of our exports it is not possible to make internal adjustments rapidly to meet the changed situation, especially when the reaction - an expansion of imports - to previous high levels of income is still working through the economy. Moreover, such is the extent of the fluctuations that in any case the extent of internal adjustment necessary is frequently of an intolerable magnitude and resort to import restrictions becomes difficult to avoid.

There is little that New Zealand of its own can do to mitigate such fluctuations. This is a problem which in practicable circumstances must be tackled on an international plane.

We believe that much greater efforts, for example, are required by industrial countries in order to moderate the fluctuations in industrial activity which are a major source of the fluctuations in prices of raw materials. As far as New Zealand is concerned, this comment applies particularly in the case of wool, which has been very profoundly affected by the recession of the past two years. We in New Zealand do operate a floor price scheme for New Zealand wool and this has been of considerable value over this period.

But as we have had cause to point out from time to time, the maintenance of industrial activity at a high level is not the major factor in problems we face with our exports of foodstuffs.

The principal difficulties here stem from the agricultural policies of those countries which we would regard as prospective markets for our exports. This is not only a matter of quantitative restrictions against imports of agricultural produce of the kind we export, but also of the effects of those policies in producing surpluses which then enter world trade at subsidized prices.

The non-extension of the programme of OEEC liberalization to New Zealand by a number of the major European countries has given rise to discrimination which has also affected our ability to obtain access to markets in which our agricultural products could compete.
New Zealand have a natural advantage in the production of certain kinds of agricultural commodities in the same way as other countries in Europe and North America possess natural advantages in industrial products, but the agricultural policies in the industrial countries nullify our natural advantages and make much more difficult our problem of overcoming on a permanent basis the balance-of-payments problems we are facing today. Our unsubsidized exports are being shut out almost completely from some of the world's largest markets. These questions are, of course, being studied by another committee of the GATT but it is relevant to mention this factor today as one of the matters which need to be taken into account in examining our balance-of-payments restrictions.