GENERAL AGREEMENT ON TARIFFS AND TRADE

9 November 1961

DRAFT REPORT ON THE CONSULTATION UNDER
ARTICLE XII:4(a) AND 4(b) WITH NEW ZEALAND

1. In accordance with its terms of reference, the Committee conducted the consultation with New Zealand under paragraphs 4(a) and 4(b) of Article XII. The Committee had before it the following documents:

(a) a basic document (HGT(61)29), with an annex containing the supplementary import licences schedule for the 1961 licensing period.

(b) two documents supplied by the International Monetary Fund on recent economic developments and changes in the restrictive system.

2. In conducting the consultation, the Committee agreed to follow the plan of discussion for consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 7 November 1961. This report summarizes the main points discussed.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with New Zealand. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of New Zealand. The statement made was as follows:

"The Fund has not yet had a consultation with New Zealand, which became a member of the Fund on 31 August 1961. The Fund has, however, prepared a background paper dated 12 October 1961, bringing up to date its papers of 23 September 1960 and 8 May 1961, for use in connexion with this consultation. As indicated in the paper of 12 October 1961, the deterioration in New Zealand's balance of payments

1 For the initiation of the consultation under Article XII:4(a), see SR.18/6, C/L/6, L/1447, L/1515 and Add.1.
continued throughout the first half of 1961, when current transactions resulted in a deficit of NZ.£ 12 million as against a surplus of NZ.£ 31 million in the first six months of 1960. Against the normal seasonal trend, and despite an inflow of capital, the country's net overseas assets showed a further decline of NZ.£ 4 million, which compares with an increase of NZ.£ 31 million in the corresponding period of 1960. The fall in net overseas assets continued in July and August. The latest available figure, NZ.£ 52 million at the end of August, is less than one half of the corresponding figure for 1960, and the lowest for the end of August in any post-war year.

"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 Representative of New Zealand

4. In his opening statement, the full text of which is appended, the representative of New Zealand described for the Committee the factors which had contributed most significantly to the present serious balance-of-payments problems which had compelled his Government early in 1961 to intensify substantially import restrictions, rather than to proceed as planned with a further relaxation of import restrictions. As a small, predominantly agrarian country, located far from major markets and sources of supply, New Zealand was almost entirely dependent for its export earnings on a limited range of agricultural products, for which markets were often severely restricted. The principal causes for the sharp decline in foreign exchange reserves during the past year had been a substantial fall in export receipts from butter and a decline in export receipts from cheese and wool, accompanied by a record increase in private imports. In addition, outlays for "other current payments" had also shown an increase. The diverging development of foreign exchange receipts and outlays had resulted in a deficit on current account of NZ.£ 49.7 million for fiscal year 1960-61, compared with a surplus of NZ.£ 31.4 million in 1959-60.
5. There appeared little prospect for an early reversal of the adverse trends affecting New Zealand's foreign trade. Price of butter on the London market, as a result of dumping practices by certain countries, had remained since early this year substantially below the average prices of 1959 and 1960. Despite continuing efforts by New Zealand and the United Kingdom, there had not yet been any appreciable improvement in the situation. It had recently been announced that unless supplies of dumped or subsidized butter were reduced, the United Kingdom would take action under its anti-dumping legislation; but it was too soon to estimate what effect this development might have on the butter price. In any event, the long-term outlook for butter prices was not reassuring. Little change in the export price for cheese was envisaged. The small increase in receipts from meat exports in April-September 1961 had been due largely to an acceleration in payments for meat shipments to the United Kingdom. Prices for mutton and lamb continued to be depressed and below those prevailing in 1960. While export receipts from wool in April-August 1961 had reached about the same level as in 1960, average selling prices for wool in the 1960-61 season were almost 10 per cent lower than the year before. There was little likelihood of a significant increase in wool prices in the 1961-62 season. Import prices, on the other hand, had on the whole tended to rise. The terms of trade (1959 = 100) had deteriorated to 96 in 1960 and to 91 in the first quarter of 1961.

6. Reserves fell from the seasonal peak of NZ£ 118.7 million at the end of June 1960 to NZ£ 66 million by the end of December 1960. Rather than showing the usual seasonal recovery during the first half of the year, they had further declined this year to about NZ£ 54 million in March/April. After recovering to NZ£ 62 million at the end of June 1961, they had fallen again, to NZ£ 49 million, by the middle of October, despite the fact that during this period the reserves had been augmented by a NZ£ 20 million loan raised in London.

7. For the year ending 31 March 1961, reserves had fallen by a total of NZ£ 44 million. Obviously this development had called for early and energetic action to check a further decline in exchange reserves.
8. The representative of New Zealand briefly described some of the most important features of the original 1961 Licensing Schedule which had embodied a further liberalization as compared with the 1960 Licensing Schedule, and had provided, inter alia, for the exemption, or virtual exemption, from restrictions of something like 55 per cent of New Zealand's total import trade. The major measures for restricting imports taken in April 1961 were the suspension of provisions in the Licensing Schedule for 203 items included in the "R" (replacement) licensing category for which licensing allocations were either suspended or were henceforth to be considered under the "C" category, and the suspension of provisions under the 1961 Licensing Schedule for new importers. Since licences for these categories of imports had already been issued very liberally, this measure could have only limited effect on such imports in 1961. In June, the period for which licences issued under the 1961 Import Licensing Schedule would be available, was extended by six months to 30 June 1962. Provision was made, however, for supplementary allocations for certain essential imports in a supplementary Schedule. Severe as these measures might appear at first sight, it was felt by the Government that, taking account of the stock position and present circumstances, allocations would be sufficient to provide for the needs of the country until July 1962.

9. The representative of New Zealand informed the Committee of the approximate total value of licences issued for 1961, and the estimated additional licences provided for in the Supplementary Schedule. Taking into account the probable utilization of licences in 1961, licences to the value of some NZ£ 140/150 million should be available for the first half of 1962. Compared to the total payments for private imports of NZ£ 94 million in the first half of 1959 and NZ£ 146 million in the first half of 1961, import opportunities for the first half of 1962 under the revised Licensing Schedule for 1961 were not unduly restricted. It was the policy of the New Zealand Government to keep import controls under continual review and to proceed to further import liberalization as soon as conditions permitted. However, in view of the present very low level of foreign exchange reserves, a substantial improvement in the terms of trade would be necessary before a relaxation of import restrictions would
be possible. In fact, present indications were that further overseas borrowing would be required for financing imports in 1962.

10. The New Zealand Government recognized that import controls, in order to be fully effective, had to be supplemented by measures designed to curb inflationary expansion in the economy. Consequently firm measures had been taken to restrain bank credit. The minimum deposit reserve ratio was raised in November 1960 and was varied throughout 1961 as required to keep firm pressure on the banks' cash position. In addition, in March, the Reserve Bank's discount rate was raised to 7 per cent and other interest rates had moved upwards. Hire purchase terms were tightened. Two internal loans were successfully floated and one converted. Every possible encouragement was given to increased personal savings. At the same time, a tight rein was being kept on Government expenditure; two major works programmes had been suspended.

11. In conclusion, the representative of New Zealand emphasized the handicap to New Zealand's export trade which resulted from the highly protectionist agricultural policies followed by many industrial countries. These policies lessened New Zealand's capacity to import from the industrial countries and to build up and maintain exchange reserves at a satisfactory level. Fluctuations in economic activity in the industrial countries and fluctuations in agricultural prices both hampered stability in countries like New Zealand. Until such time as New Zealand, and other agricultural producing countries could be assured of export prices which were reasonable in relation to the cost of imports and had better and more equitable access for their products to the markets of industrial countries, they would probably continue to be faced with balance-of-payments difficulties.

12. The Committee thanked the representative of New Zealand for the very full and clear description he had given of the problems besetting his country at present. The Committee welcomed the fact that the intensification of restrictions was viewed as a temporary measure which would be repealed as soon as the development of the balance-of-payments position permitted.
13. In his opening statement, the representative of New Zealand had provided information on movements in the country's net overseas assets up to the middle of October 1961. Members of the Committee wished to know the probable level of New Zealand's overseas reserves when the seasonal low point was reached at the end of the year. They also asked what action was envisaged to meet the problems of a low level of reserves at that time. In reply, the New Zealand representative stressed the factors of uncertainty which rendered a forecast difficult. It was difficult to know to what extent the 1961 licences would be utilized by importers before the end of the year, and to what extent imports and payments might be deferred until next year. The latest available estimates suggested that import payments in 1961 could amount to NZ$270 million. If this estimate proved correct and if export receipts followed the expected pattern it was estimated that reserves could fall to as low as NZ$27 to 30 million by the end of this year. In order to supplement these exceedingly low reserves, a loan of NZ$7 million had been raised in New York in October. New Zealand could also call upon a standby credit of £10 million with a commercial bank in the United Kingdom.

14. In reply to a question, the New Zealand representative confirmed that the figures he had given on the overseas assets included the proceeds of a loan of NZ$20 million raised in London in May. In answer to questions, the New Zealand representative stated that long-term loans did not constitute bank liabilities, but governmental obligations, and that they were therefore not included in the figures showing bank liabilities in the statistics in the IMF document on "Overseas Assets and Liabilities of Banks".

15. A member of the Committee noted that world prices for wool were at present below the levels prevailing in recent years, and that prospects were unpromising. While prices in the opening sales of the 1961/62 season were slightly higher than the average for 1960/61, they were still below those obtained at the end of the 1959/60 season. He invited comment on estimated volumes of wool exports and earnings expected from this item.
The New Zealand representative recalled that wool production had amounted to 588 million pounds in 1960/61 and was expected to be 592 million pounds in 1961/62, the increase being less than 1 per cent. For the period April to July 1961, receipts of wool amounted to NZ$I 39.3 million, compared with NZ$I 41 million for the corresponding period of the previous year. Attention was called to the information in the IMF paper that despite a strengthening of the wool price towards the end of the 1960-1961 season, receipts from wool shipments in January-June 1961 were down by over 6 per cent from their corresponding level in 1960. For the whole season, the average price realized was 40.34d. per pound, which was 9 per cent lower than in the previous year.

16. Members of the Committee recalled that at the consultation with New Zealand held last year, attention had been drawn to the need for New Zealand to diversify its economy and to promote the production and export of a wider variety of goods. The New Zealand Economic Survey for 1961 stated that strenuous attempts were being made to expand New Zealand export markets, particularly in Africa, Asia and Latin America. Invited to comment on the results so far achieved, the representative of New Zealand stated that some progress had been made in establishing export outlets in these areas. There was now a significant market for mutton in Japan, and small quantities of dairy products were being sold to a number of Asian countries. Considerable success had also been achieved in expanding exports of beef to the United States. In accordance with the plans to expand trade with African countries, a new trade representation post had been established recently in West Africa. It was still too early to visualize these new markets as providing substantial outlets for any significant proportion of new exports. A major proportion of New Zealand's exports, was still directed to the traditional market in the United Kingdom, which accounted for no less than 98 and 93 per cent of New Zealand's lamb and butter exports respectively.

17. As regards the establishment and development of new export industries, the representative of New Zealand stated that during the past year progress had continued in this field. One major project planned was aluminium smelting
works in Southland, based on hydro-electric power which was available at low costs in New Zealand. It was hoped that this industry's gross earnings of overseas exchange would be substantial, although these would be offset by a considerable outlay for purchases of materials (bauxite from Australia) and for return on capital invested. In addition, a new aluminium rolling mill had recently been completed. A company had been formed to investigate the possible establishment of an iron and steel industry based on deposits of iron sands. A more recent development was the discovery of natural gas which appeared to have considerable commercial possibilities and which might help in reducing the dependence on imported fuel.

18. In reply to a question concerning the forestry sector, the representative of New Zealand recalled that notable increases in production had been achieved by the pulp and paper industry. This industry was based upon extensive plantings of exotic trees which had come to maturity over the last decade. A useful export trade in logs and sawn timber from these forests had also been built up in recent years. In 1959-60, pulp exports amounted to NZ£3 million, newsprint to the same amount, and timber and logs to NZ£2 million.
**Alternative measures to restore equilibrium**

19. A member of the Committee noted that the measures taken by the New Zealand Government to maintain internal stability in the present circumstances had been largely confined to the monetary field. The Government had indicated last July that it would watch the situation closely and, should the measures already taken prove inadequate, it would not hesitate to take whatever remedial measures might be necessary. He wished to know what action if any had been taken recently. The New Zealand representative replied that for various reasons such measures as had been taken had continued to be mainly in the monetary field. The level of taxation in the country was already very high. It was necessary to take into consideration the possible disincentive effect of high taxation. The government, which had assumed office in November 1961, had envisaged a reduction in the general level of taxation if economic circumstances permitted. In view of the deterioration in the economic situation, taxes could not be reduced and the budget of July 1961 had been a standstill budget containing only minor changes designed to correct anomalies and to provide incentives to production and savings. Positive measures taken by the Government to restore the balance included greater emphasis on public borrowing supplemented by higher interest rates, restraint on government expenditure whenever practicable, and increased revenue derived from government-provided services. Postal and railway charges had been increased as were rents for government owned houses. A Monetary and Economic Council had been established as an independent body to report and recommend on problems in this field. In reply to a related question by a member of the Committee, the representative of New Zealand stated that net profits of public utilities such as railways were payable into the consolidated fund. The same member of the Committee noted that certain capital projects on public account were being delayed and asked what probable effect this was likely to have on the budget for 1961-62. The representative of New Zealand replied that he did not have precise information as to the savings likely to result in the current year from the deferralment of these projects. He drew the Committee's attention to a recent statement by the New Zealand Prime Minister that taking into account reductions in Government expenditure and making allowance for further borrowing there could be a surplus in this year's Public Accounts.
20. A member of the Committee noted that there had been a strong rise in consumer demand during the past year supported by a generally higher level of personal income, a reduction in savings and an expansion in credit. In April 1961, the regulations governing the terms of hire purchase had been tightened and their coverage extended. He asked what effect these measures had had on the retail trade and if any further measures had been introduced to stimulate savings and to reduce consumption. The representative of New Zealand cited some preliminary statistics from a sample survey which indicated that, in general, the total value of goods financed under hire purchase arrangements had decreased in the quarter ending June 1961 compared with the previous quarter. Measures to stimulate savings included the introduction by the Government of development bonds on the New Zealand market for the first time in October 1961; it was too early to assess public reaction to this new measure. The Government had placed particular emphasis on public borrowing and had successfully floated two internal loans this year and converted another. These steps had been supported by higher interest rates. A savings committee had been established recently. Additions to small savings in 1960-61 had reached a record level compared with the previous year. Having regard to the variations which had occurred in past years some reduction in small savings from last year's high level might be expected in 1961-62, despite the fact that every effort was being made to encourage savings.

21. In reply to another question, the representative of New Zealand confirmed the fact that in recent years gross capital investment had declined as a percentage of gross national product. In the past a tendency had been for investment in building to increase, while shares devoted to investment in farm machinery and transport equipment had tended to decline. The proportion of investment devoted to manufacturing plant had generally increased. To sustain a higher rate of growth and strike an appropriate balance, the Government recognized that expansion was needed in investment in productive plant, buildings and equipment. Apart from external borrowing, this was being achieved by encouraging increased domestic savings. Action was also being taken to achieve a 16 per cent reduction in housing expenditure this year from an estimated NZ£ 60 million to NZ£ 51 million. The Government was reviewing the conditions under which loans were made available for new homes; but no final decision had been made in this connexion.
22. A member of the Committee noted that it appeared to be the view of the New Zealand Government that some slackening in the pace of development was necessary if established industries and projects already in hand were to achieve efficiency in operations. He asked what long-term measures were envisaged to encourage higher productivity and to raise the level of exports. The representative of New Zealand replied that although industrial development was being encouraged in certain fields, i.e. aluminium, iron and steel, oil refining and forestry, there had been no significant results as yet with respect to diversification of New Zealand's exports. It seemed that for many years to come New Zealand would remain mainly dependent upon the production and export of agricultural products to earn foreign exchange from limited markets for dairy products, meat and wool.

23. In reply to a further question by the same member of the Committee, with respect to long-term measures to improve productivity in the newly-established manufacturing industries, the representative of New Zealand stated that research in this field was a particular responsibility of the Government Department of Scientific and Industrial Research. In addition manufacturers in New Zealand kept abreast of relevant developments in the more advanced industrial countries. While there was always room for increased productivity it was quite wrong to suppose that the manufacturing industries which had developed in New Zealand over the past 30 years were inefficient. In this connexion one member of the Committee pointed out that one of the most effective ways to stimulate efficient industrial productivity was to permit effective competition from imports. The representative of New Zealand assured the Committee that in formulating government policy the authorities in his country were ever mindful of the need to encourage efficiency in domestic production.
System and methods of restrictions

24. Members of the Committee noted with sympathy the unfavourable developments in the balance-of-payments position of New Zealand, which had made it necessary for the authorities to reverse the trend towards liberalization that had been in evidence until the preceding year. They expressed the hope that the situation would improve in the near future to enable New Zealand to proceed with liberalization. In reply to questions, the representative of New Zealand recalled some of the points made in his opening statement with respect to developments in the system and methods of restrictions. On 21 June 1961 it had been announced that the period of the 1961 licensing schedule would be extended for six months, so as to apply from 1 January 1961 to 30 June 1962. A supplementary schedule had been issued to cover necessary imports of raw materials, components for industry, essential basic foodstuffs and similar items. Taking into account the present satisfactory stock position, it was expected that the supplementary schedule would be sufficient to meet domestic needs. It should be noted that while the steps taken to restrict imports might appear severe, the policies followed were not rigid. The degree of import licensing was kept under constant review and changes in the structure of the system would be made as conditions warranted. If the situation improved sufficiently to make the liberalization of imports prudent, the Government would take such action; however, a very substantial improvement in the terms of trade would be necessary before it would be at all wise to allow an early reduction in the present level of restrictions.

25. The Committee noted that discriminatory import treatment continued to be applied with respect to imports of motor vehicles, for which licences were issued separately for imports from dollar and non-dollar areas; although it was stated that these licences were issued on the same basis. Members of the Committee questioned the need for the retention of any differentiation in import licensing. The representative of New Zealand explained that import licences for motor vehicles were issued on the basis of past import performance
in a base period. Separate licences were issued for imports from Scheduled and Non-Scheduled areas. (The Scheduled Area countries comprise those countries which are normally included in the dollar area.) One of the reasons for this retention of the differentiation was to economize on exchange since, owing to price-per-unit differences, it was normally possible to obtain considerably more units from the Non-Scheduled countries for a given amount of foreign exchange, than from the Scheduled countries.
26. Members of the Committee expressed the hope that this differentiation in import treatment would be eliminated as quickly as possible. The representative of New Zealand gave an assurance that this matter would be given further careful consideration by his Government; it was their earnest desire that discrimination should be eliminated as rapidly as conditions permitted.

27. Members of the Committee pointed out that the number of items listed in the "D" category, (for which no allocation had been made but licences might be granted "under exceptional circumstances"), appeared to be very high. They expressed the hope that consideration should be given to permitting token imports as soon as an improvement in the balance-of-payments position occurred. The representative of New Zealand explained that while the number of items listed in category "D" in the supplementary schedule might appear to be high, many of the items thus listed had received allocations in the original 1961 licensing schedule which now applied to the eighteen-month period. He assured the Committee that it was the intention of his Government to allow token imports and to proceed with liberalization as soon as an improvement in internal conditions permitted it to take such action.

28. A member of the Committee noted that there seemed to be considerable flexibility in the issuance of import licences for list "C" items and he asked if the amount of licences issued for imports in this category would be automatically increased with an improvement in the balance-of-payments position. The representative of New Zealand replied that list "C" included goods for which import applications were considered individually on the basis of essentiality, availability, price and other considerations. A significant improvement in export earnings and in the overseas assets would certainly be reflected in a more liberal issue of licences, as had been the case in similar situations in the past. In order to enable importers to make better use of licences, it had been decided to authorize the transfer of licences from one commodity to another under specified conditions.

29. With reference to the recent introduction of the new customs tariff, a member of the Committee asked what effect this was likely to have on the system of import licensing. The representative of New Zealand replied that the new customs tariff was designed to offer reasonable protection to efficient industry, and not to afford a means of controlling the level of
imports. In the event of continuing balance-of-payments difficulties quantitative restrictions applied within the limits permitted by Article XII would presumably still be necessary to ensure the best use of available overseas funds.

**Effects of the restrictions**

30. The Committee welcomed the awareness of the New Zealand Government that the intensification of restrictions would incidentally have the effect of stimulating industrial expansion in the country and the assurance given in this respect that every effort would be made to avoid these measures being reflected in the establishment or expansion of non-competitive industries which would require licensing protection after balance-of-payments difficulties had disappeared.

**General**

31. The Committee expressed appreciation of the clear and concise manner in which the New Zealand representative had responded to the many questions put to him. The Committee noted the recent serious decline in New Zealand's foreign exchange reserves, as a result of an unfavourable development of the country's terms of trade and a significant increase in the volume of imports earlier during the year. The Committee welcomed the assurance given by the representative of New Zealand that the substantial intensification of import restrictions was considered to be a temporary measure to check the drain on foreign exchange reserves and did not constitute a departure from New Zealand's basic policy aimed at proceeding towards import liberalization as rapidly as possible. The Committee welcomed the fiscal and monetary measures taken by New Zealand for counteracting demand expansion and expressed the hope that as these measures became fully effective they would permit early progress to be made towards the relaxation of import restrictions.

32. The Committee expressed the hope that the strengthening of New Zealand secondary line of reserves, as a result of joining the International Monetary Fund, would be reflected in rapid progress towards import liberalization once the present critical balance-of-payments position had been overcome. The Committee urged the New Zealand authorities to review their import system with a view to eliminating at an early date the remaining element of discrimination.
33. The representative of New Zealand thanked the Committee for the spirit of understanding with which the consultation had been conducted and stated that he would bring the suggestions made during the consultation to the attention of his Government.