1. In accordance with its terms of reference, the Committee conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/27), (b) background material, dated 5 August 1963, provided by the International Monetary Fund, (c) the International Monetary Fund Executive Board Decision, dated 20 September 1963 (Annex B hereto), and (d) material provided by the New Zealand Government relating to the New Zealand Government's policy on import control for the period 1 July 1963 to 30 June 1964.

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7th Supplement, pages 97-98). The consultation was conducted on 3 December 1963. This report summarizes the main points of the discussion.

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 was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board Decision relating to the last consultation with New Zealand under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation."
"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board Decision of 20 September 1963, taken at the conclusion of its recent consultation with New Zealand, and particularly to paragraph 5 which reads as follows:

'The Fund welcomes the elimination by New Zealand of the remaining currency area discrimination in import licensing and current invisible payments. The New Zealand authorities have stated that restrictions must be maintained if undue borrowing abroad or pressure on the reserves is to be avoided. While recognizing the need for restrictions on imports and current payments under existing circumstances, the Fund feels that continued maintenance of such restrictions is likely to have adverse effects on industrial efficiency and economic growth. The Fund urges New Zealand to pursue policies which will enable it to maintain balance of payments equilibrium while progressively dismantling such restrictions.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last Article XIV consultation with New Zealand. The Fund has no additional alternative measures to suggest at this time."

Balance-of-payments position and prospects

4. In his opening statement, the text of which is annexed to this report (Annex A), the representative of New Zealand said that in 1962/63, for the second year in succession, the balance-of-payments position of his country had improved. Export income had increased by £42 million or 14 per cent up to a record level of £336 million; all the three major exports of New Zealand
(meat, wool and dairy products) which together account for 90 per cent of
the export earnings had shown a considerable increase. Over the same period
imports increased by £14.5 million or 6 per cent to a total of £273 million.
It was, however, expected that the rise in imports for the calendar year 1963
would exceed the increase in export earnings.

5. The traditional net deficit on current invisible transactions, resulting
from growing expenditure on freight and transport, insurance, travel and
remittance of investment income and interest on external debt, had increased in
1962/63 by £3.4 million, which was considerably less than in the two preceding
years, when the increase of the deficit had amounted to £6 million each year.

6. Current account transactions for the year ending in June 1963 showed a
surplus of £5.6 million while in 1960/61 and 1961/62 there had been deficits
of £67 and 18.6 million respectively. The latest figures available, for the
twelve months ending October 1963, were, however, not so favourable. The
current account balance for this period showed a deficit of £11.5 million,
exports having increased by £39 million and imports by £48 million from the
level of the corresponding previous twelve months.

7. As the rise in imports had kept pace with the increase in export income,
the foreign exchange reserves of the banking system had remained at the same
level, £64.5 million at the end of November 1962 and £64.6 million on
13 November 1963. At the end of June 1963 they had stood at £95.7 million,
but the normal seasonal pattern involved a considerable downswing in the
second half of the year; the December figure was expected to be in the range
of £50 to 60 million, somewhat lower than in 1962.

8. Export prices for butter, meat and wool had been appreciably higher in 1963
than in 1962, while cheese prices had remained stable. It was not likely that
any further general improvement would take place in the coming year; prices
would stay at about present levels, or, in the case of wool, move somewhat
downwards. The best forecasts of prices and quantities available would govern
the provision for imports in the 1964/65 Licensing Schedule.
9. A member of the Committee noted that in the basic document for the consultation (BOP/27, section 7(b)) it was stated that "in the circumstances then prevailing an increase in the total value of licences in the 1963/64 Licensing Schedule had not been deemed advisable", and questioned the meaning of this statement in view of the substantially increased imports (by £48 million) in the year ending October 1963 over the previous year. The representative of New Zealand explained that the statement quoted above related to the situation at the time when the 1963/64 Licensing Schedule was issued. Since then there had been, as a result of the general economic development, a certain easing of the conditions of issue of licences. This had resulted in an increase in imports in many categories including those in category E.

10. The view was expressed by a member of the Committee that in order to try to restore equilibrium, the Government of New Zealand might look into the possibilities of diversifying the economy. In reply the representative of New Zealand said that it was the aim of his Government to diversify the economy of the country by creating new efficient industries. The smallness of the domestic market and the lack of raw materials were the main limiting factors. It was to be expected, however, that a steel mill would be set up in three or four years time, utilizing as raw material the supplies of iron sand available on New Zealand beaches. An oil refining industry would also soon enter into production.

11. A member of the Committee pointed out that it appeared from the background material supplied by the International Monetary Fund that receipt and payments on the "travel" account showed growing deficits (£9.9 million in 1962) and asked if something was being done to attract more foreign tourists to New Zealand. The New Zealand representative said that efforts in that direction were being made but that the remote situation of the country involving high travelling expenses made it most unlikely that earnings from tourism could be increased. One could only hope that the net deficit could be reduced.
Alternative measures to restore equilibrium

12. The representative of New Zealand stated that during the past year the fiscal and monetary policies had been consistent with the expansionary phase brought about mainly by the upward trend in export income, their main objectives being to avoid a repetition of previous periodic upsurges in domestic expenditure while keeping demand at a sufficient level to ensure full employment. The main emphasis in the 1963 budget had been on the provision of incentives for farm production and the encouragement of exports. Government finance was generally sound and the outcome of the fiscal operations for the year ending March 1964 should have no inflationary impact on the economy.

13. The New Zealand representative recalled that at the previous consultation, in 1962, the members of the Committee had suggested that the New Zealand Government had tended to rely unduly on monetary policy when trying to correct the difficulties that had arisen in 1960/61. In the period now under review the restraint on bank credit had, however, been eased and trading bank advances had contributed a moderate increase to the money supply. The average level of bank advances in October 1963 was at £207 million, or £11 million higher than a year earlier. The policy had been to allow the banking system to contribute to the financing of a moderate expansion in the level of economic activity but to retain the use of reserve ratio policy as a means of control, to prevent any expansionary rise in bank credit from becoming excessive.

System and methods of the restriction

14. The representative of New Zealand recalled that at the 1962 consultation (cf. L/1853) the Committee had noted with concern the discontinuation of the "token" import scheme and expressed concern over the element of discrimination which remained in the licensing system. The hope had been expressed that the discrimination would be removed, that the decision with regard to the "token"
import scheme would be reconsidered and that the licensing system would
generally be simplified. The New Zealand representative stated that the token
import licences had since been reintroduced, in October 1962, for 144 items on
the same basis as in 1961. In the 1963/64 Licensing Schedule token licences
were granted to the extent of 100 per cent of the licences issued in 1962/63
and, as from 28 November 1963 the token licence scheme had been extended to all
items covered to such licensing schemes in 1961. The residual element of
discrimination, in respect of motor vehicles, had been eliminated in the
1963/64 Licensing Schedule. There was thus no longer any element of currency
discrimination in the licensing system.

15. A new simplified procedure for issuing import licences was announced in
November 1963 and would take effect in the 1964/65 licensing period. Under the
new scheme all basic licences would be prepared and issued from information
held in the records of the Customs Department. It was to be expected that
the majority of licences would be issued shortly after the release of the
Licensing Schedule. The new scheme would apply to about 80,000 licences, or
72 per cent of all those issued, and would mean that the number of documents
required would be reduced by about half a million. Other relaxation measures
included the transfer of numerous items to the A category and the increase in
flexibility for manufacturers through the extension of the group licensing
procedure.

16. The New Zealand representative pointed out that the increase in export
earnings had led to a further easing of the import restrictions through,
inter alia, (a) a higher allocation for motor vehicles (12,000 or 13,000
additional cars), (b) the continuation of the "free funds" scheme introduced in
1962, and (c) the extension beyond the provisions of the 1963/64 Licensing
Schedule on the basis of issue of licences for many items.
17. The representative of New Zealand said that it was clear that the simplification and liberalization measures that had recently been taken had led to a substantial rise in the imports; it was the hope of his Government that this development would continue. One had to bear in mind, however, that the main exports of New Zealand, primary and agricultural products, were subject to considerable price fluctuations and to import restrictions in many major markets.

18. The New Zealand Government intended to continue to import goods and services up to the limit permitted by the export earnings, and the experience in the past indicated that an improvement on the export side was followed without delay by a corresponding increase in imports. His Government felt that in the present balance-of-payments situation, it had gone as far as it could in relaxing the import restrictions. It hoped that the trend towards freer importing, which had been so evident in the past year, could be continued in 1964/65.

19. The Committee expressed appreciation over the simplification and liberalization measures taken by the Government of New Zealand which thus demonstrated that it took seriously the views and comments presented at this Committee last year. The Committee hoped that it would be possible for the New Zealand Government to take further steps in the same direction.

20. In reply to a question the representative of New Zealand explained that the transfer of items from the "Basic" category to the A category meant a liberalization, as further licences in the A category were granted to the full extent of the actual sales performances, the purpose of retaining licensing control over A category goods being mainly to prevent excessive stock building. In the "Basic" category it was normally more difficult to get the originally fixed quantities adjusted.

21. A member of the Committee asked about the possibilities to get token licences granted to a larger extent. The New Zealand representative explained that it appeared difficult to extend the area of token licensing, the number of products suitable for such a procedure being rather limited.
22. Members of the Committee asked that the possibilities of transferring items from the D category into other categories where some imports could take place should be investigated. The New Zealand representative pointed out that import licences were, in special circumstances, granted for items in the D category. He considered that for the time being it would not be possible to transfer D items to other categories without reducing the import of other, more essential, products. There were 110 D items in the 1963/64 Import Licensing Schedule. For most of these items T (token) allocations are being made under decisions taken since the original Schedule was issued. Because of administrative difficulties in adapting the description of these items to the new coding it had not been possible to reclassify these items as T items during the currency of the 1963/64 Schedule and their designation therefore remains nominally D.

23. A member of the Committee pointed out that New Zealand had, in connexion with the recent adoption of a new customs tariff, increased some tariff rates. He asked if it would not be possible to liberalize the licensing system for such items. The New Zealand representative confirmed that it was the basic policy of his Government to rely on tariffs rather than on quantitative restrictions for the protection of industries. It was to be expected that the movement in that direction would continue.

24. One member of the Committee, while appreciating the removal of the discrimination towards the dollar area in the New Zealand restrictions, regretted that another form of discrimination, in favour of the Soviet Union and relating to canned fish, seemed to result from a trade agreement concluded in 1963 between New Zealand and the Soviet Union. The New Zealand representative explained that the New Zealand Trade Agreement with the Soviet Union provided only for the exchange of most-favoured-nation
treatment between the two parties. Lists of products were annexed to the agreement for solely the purpose of indicating the export interests of the two parties; there was nothing in the agreement from which any reciprocal or unilateral discriminatory treatment could arise. Following the conclusion of the Agreement it was decided to give some opportunity to new suppliers from the Soviet Union to compete with existing suppliers on the New Zealand market and for this purpose an additional import licence allocation of up to £50,000, consisting mainly of canned fish, was made. The licences were for issue to the private trade in the usual manner and were available for imports from any source. The extent of imports from the Soviet Union would depend on commercial considerations, mainly price and quality. The licences were issued for the purpose of giving opportunity to new suppliers to enter the New Zealand market in which other exporters had become established suppliers. Consequently, there was no reason to expect a repetition of the action in subsequent years. It was not the intention that the new allocation should be regarded as a "basic".

Effects of the restrictions

25. Members of the Committee pointed out that the system of basing the allocation of licences on the imports under a previous base period tended to make it difficult for new traders and new products to enter the New Zealand market. The New Zealand representative admitted that certain such consequences were inherent in the licensing system and were very difficult to avoid, but he stressed that it was an established principle that licences should be granted, when circumstances warranted, to importers not qualifying for such licences on a basis of trade in a past representative period. He also said that it was the intention of the New Zealand Government to improve the facilities for foreign exporters to obtain information on the market opportunities in New Zealand for their products.

26. Members of the Committee expressed concern that the import restrictions imposed for balance-of-payments reasons could be used to protect New Zealand industry. Reference was particularly made to the bicycle industry. The New Zealand representative said that the licensing
system was not intended to protect the domestic industry. If there was a domestic production of a certain item, the imports of the same item would, however, evidently in many cases not be considered as essential. He stressed that in so far as the bicycle production was concerned, no protection had been sought for by the industry.

27. In reply to questions about the reasons for recent decreases in the imports of certain specific items (paper, canned fish, and kitchen utensils), the New Zealand representative pointed out that in many cases commercial considerations by the importers were the decisive factor, not the licensing policy. In so far as paper imports were concerned, there had, however, been a decrease in the licensing, since the domestic industry, which was also exporting, had increased its production and imports were consequently considered as less essential.

General

28. The Committee thanked the representative of New Zealand for his very clear and comprehensive opening statement which had greatly reduced the need for supplementary questions. It also thanked him for his full replies to the questions that had been put.

29. The Committee expressed its satisfaction with the simplification and liberalization measures that had been taken in the past year by the New Zealand Government and hoped that the development would continue in the same direction.

30. The representative of New Zealand thanked the Committee for their understanding and co-operation in the course of the consultation.

ANNEXES

A. Opening statement by the representative of New Zealand.

B. International Monetary Fund Executive Board Decision.