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/39; (b) background material dated 23 October 1964 provided by the International Monetary Fund; (c) an announcement concerning New Zealand's import restrictions, L/2230/Add.1, and (d) material provided by the New Zealand Government relating to the New Zealand Government's policy on import control for the licensing period 1964-65.

2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 6 November 1964. 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 the 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 a background paper on New Zealand dated October 23, 1964.

"The Fund is soon to conduct a consultation with New Zealand under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."
Balance-of-payments position and prospects

4. In his opening statement, the text of which is annexed to this report, the representative of New Zealand, before outlining New Zealand's recent experience and prospects in the balance-of-payments field, explained some of the main structural features of New Zealand's external trade. He said that over 90 per cent of New Zealand's export receipts were earned by the sale of primary produce, mainly meat, wool, dairy products, and their related by-products. The value of New Zealand's exports and consequently its imports averaged around 25 per cent of its national income. The major category of imports consisted of capital equipment and raw materials used in industry.

5. New Zealand's export receipts reached a record level of £387 million for the year ending June 1964, which represented an increase of 15.2 per cent compared with the previous year. Among the major export products, the increase in exports of wool, by 21.9 per cent contributed significantly to the increase in exports. However, for the same period, expenditure on imports increased sharply, totalling £322 million, and payments for invisible items amounted to £99 million; thus out of total current receipts of £423 million there remained only £2.0 million as surplus on current account. This small surplus indicated a slightly adverse change compared with the previous year (1962-63) when the current account surplus amounted to £5.6 million.

6. The sharp increase in imports in the year 1963-64 was attributable to several factors: (a) the increase in expenditure by £10 million to £48 million on items exempted from import licensing; (b) increase in import expenditure as a result of the special additional issue of licences particularly for motor vehicles; (c) increase due to a steep rise in national expenditure for the fiscal year 1963-64, and (d) increase in imports due to fuller utilization of licences compared with the previous years. As a result of all these factors, the expenditure on total imports (Government and private) rose from £273 million in 1962-63, to £322 million in 1963-64, representing an increase of 18 per cent.
7. The traditional net deficit on current invisible transactions continued to increase. The representative of New Zealand stated that in the six years since 1958 the deficit on current invisibles had more than doubled and now absorbed about 17 per cent of New Zealand's export income. He attributed this trend to growing expenditure on freight and transport, insurance and investment income due to overseas residents, and to growth in other miscellaneous payments.

8. In explaining the external reserves position, the representative of New Zealand said that over the past six years the Government of New Zealand had raised loans overseas amounting to $100 million. But as a result of the rise in imports which had accompanied the rise in export income, the overseas reserves of New Zealand had shown little improvement in the past two years. In the June year 1963-64 the overseas reserves of the banking system increased as compared with the preceding year by £5.4 million, and this figure was augmented by an increase of £2.2 million in the holding of Treasury-held overseas securities, giving a total improvement of £7.6 million. New Zealand required a relatively high level of overseas reserves to conduct its normal trading activities, because of the great distance from its principal markets, the seasonal pattern of its trade and the exposure of its exports to unpredictable and substantial price fluctuations. Regarding the long-term balance-of-payments position, the representative of New Zealand stated that as 25 per cent of national income depended on overseas sales and on world market conditions, it was not possible to make any precise forecasts about the long-term effects on the balance-of-payments position of the measures now being taken.

9. The members of the Committee thanked the representative of New Zealand for his clear and detailed statement and welcomed the recent measures announced in October (L/2230/Add.1) to relax some of the import controls. The Committee recognized the difficulties of New Zealand in regard to its balance-of-payments position, especially New Zealand's dependence on exports of a few primary products. In reply to questions on New Zealand's long-term measures to overcome its balance-of-payments problems, the representative of New Zealand explained that among long-term measures contemplated by his Government, one of the most important was the
further development of agriculture. An Agricultural Development Conference had established targets for production up to a decade ahead, and these targets had been accepted by the Government for its long-term planning. In addition, the Government was taking measures to encourage investment in farming, research and production methods, but it was noted that despite substantial expansion in the agricultural production, not more than 15 per cent of the labour force would be absorbed by this sector; hence the development of other sectors, particularly that of manufacturing industry was essential. Among such measures he mentioned the special investment allowance providing for tax deductions for depreciation of more than full cost, and also an initial allowance of depreciation of 15 per cent on the cost of certain farm buildings. Other aspects of agricultural development, such as marketing, supply of fertilizer, labour and technical problems, were still under study by the agricultural conference. The final report of the conference was expected early next year. He emphasized that the Government was making a conscious effort to help agricultural development in every way, and the fact that the Government had adopted the target set by the conference which required substantial increase in production would itself be a stimulant to that sector of the economy.

In reply to a request for a forecast of export receipts for the following fiscal year, ending in March, the representative of New Zealand explained that the balance-of-payments forecasts were made on a half-yearly basis to June and December. No significant change was expected for the year ending June 1965 as compared with the year ending June 1964. In view of the unpredictability of export receipts from dairy products, wool and meat, it was difficult to make specific projections.

In respect of industrial development, the representative of New Zealand stated that the Government recognized the desirability of diversification of the economy through the creation of new efficient industries, and in fact was taking a number of measures to encourage the development of such industries. As examples of new industries, he pointed to the oil-refinery, steel mill and aluminium rolling mill, which had all commenced production early this year, and
the substantial expansion in the newsprint industry since 1960; these had contributed considerably to the growth of the economy. New industries were being established to produce nylon yarn and fibre cement and pharmaceuticals and components for motor vehicles; plans were still under consideration for the establishment of an aluminium smelting industry. The Government had allocated £30 million for the development of new hydro-electric projects in the South Island; the availability of low-cost electric power would contribute substantially to industrial development. He emphasized that despite the Government's emphasis on agricultural development they were well aware of the need to broaden the basis of the economy.

Alternative measures to restore equilibrium

12. The Committee welcomed the measures announced on 23 October 1964 to restrain inflationary pressure in New Zealand. Recognizing the apparently satisfactory fiscal situation of New Zealand as indicated in the opening statement of the representative of New Zealand and the document of the International Monetary Fund, the Committee enquired as to the extent of the impact of Government borrowing on the budgetary situation and as to its possible inflationary effects. In explaining the position of his Government, the representative of New Zealand pointed to a situation peculiar to New Zealand's fiscal system, whereby commercial banks were prohibited from subscribing to Government loans and Treasury bills. The Government was therefore obliged to seek any banking accommodation from the Reserve Bank; thus if the Government was able to meet its revenue needs by taxation and through public borrowing without resorting to the Reserve Bank, this would indicate a satisfactory position. Noting the difference between the concept of a budgetary deficit used by the International Monetary Fund, and that used by his Government, he stated that according to the former, New Zealand always had a budget deficit. The Government borrowed to finance its works programmes, and the amount borrowed variably exceeded the expenditure on redemption of debt. It was generally accepted in New Zealand that as long as the Government could obtain finance from public borrowing without resorting to the Central Bank, there was no danger of an inflationary impact from the Government sector. The net increase in
receipts from borrowing was due to the growth in population and the growth of savings. He assured the Committee that the figures for domestic borrowing in the Public Accounts did not include any borrowing from the Central Bank, but the surplus of 12.5 million recorded the extent of the improvement in the Government's position with the Central Bank.

13. In replying to a question on the recent general wage increase, its pressure on prices and its eventual effect on the balance-of-payments position, the representative of New Zealand explained that the wage increase of 6 per cent in 1964 applied only to minimum wage rates. This wage increase has exerted some pressure on prices, and the Government was taking corrective measures; in this connexion he cited the recent measures adopted by the Government in October 1964 which reflected their concern over the problem, but he said that the increase in the price level of the order of 2 per cent in 1963/64 was not unprecedented and did not call for immediate drastic measures.

System and methods of restrictions

14. The Committee welcomed the continuation of the token licence scheme, and expressed the hope that a greater variety of goods, including consumer items, would be brought under this scheme. The representative of New Zealand pointed out that commodities subject to the token licence scheme were those considered to hold less priority. In the 1963-64 licensing schedule, token licences were extended to many items which had not been included since 1961; examples were roasted coffee, coffee essence, biscuits, milk and cream, tomato soups, canned beans, marmite, etc. This scheme continued to operate on 100 per cent of 1961 allocations. This involved import expenditure of the order of £1 million annually. The representative of New Zealand said that it would be difficult for the Government to extend immediately the list of items under token licence, but he promised nevertheless to convey to his Government the points made by the Committee.
15. In discussing the import licensing system, a member of the Committee noted a substantial difference, amounting in part to about 15 per cent and more recently to 10 per cent, between actual payments and the value of licences issued last year, and enquired if there were any special reasons for such a discrepancy. The representative of New Zealand explained that actual payments for imports were influenced by some factors unforeseen at the time of licence issue; thus in the case of exempt items, the forecast made at the beginning of last year was subject to a wide margin of error. For replacement items, the difference was determined by actual utilization needs. Some differences arose due to the usage factor, and special decisions which were made after the issue of the licence schedule for additional licences, depending on the availability of funds. In giving an example, he mentioned the special decision of the Government last year to import more automobiles, amounting to an additional £12 million over and above the original provision.

16. The members of the Committee expressed the hope that every possible effort would be made to simplify the present import control system and also to bring in greater flexibility as regards sources of supply. In this connexion the Committee enquired whether the New Zealand Government had any further plans for reducing the number of items subject to import control. The suggestion was made with reference to Article XII:3(c) of the General Agreement, that token quotas might be increased to 20 per cent in the base period since the entry rate of 10 per cent often made it barely worthwhile for importers to do business. In reply the representative of New Zealand stated that it was the continual endeavour on the part of New Zealand to simplify their import control system, and a major step towards simplifications was reflected in the fact that the Government had made the issue of 80,000 basic licences automatic last year. The announcement of last month had liberalized another ten commodities, and the Government hoped to continue in this direction. It was pointed out that there was no restriction of any kind on sources of supply once a licence was issued.
17. The Committee welcomed the announcement that greater opportunities were to be given to qualify for import licences. A member of the Committee welcomed New Zealand's start in this direction, and hoped that the Government of New Zealand would soon see its way clear to increase allocations to new importers. The representative of New Zealand assured the Committee that he would convey the views of the Committee to his Government.

18. The representative of New Zealand said that the simplification and liberalization measures that had been taken since 1958 had led to a substantial rise in imports; it was the hope of his Government that this liberalization and simplification would continue.

19. Members of the Committee expressed their satisfaction over New Zealand's abstaining from bilateral payments arrangements.

Effects of restrictions

20. Members of the Committee expressed concern that import restrictions imposed for balance-of-payments reasons may afford incidental protection to New Zealand's industry. They doubted whether the long-term needs of the New Zealand economy were served by the establishment and growth of industries which would not be able to compete in the domestic market without the continuation of the existing restrictions. The New Zealand representative said that the licensing system was not intended to protect domestic industry. If there was domestic production of a certain item, the import of the same item would, however, in many cases be considered less essential. He stated that New Zealand would pursue policies to make its industries competitive.

21. A member of the Committee, commenting on the difficulties in exporting to New Zealand, pointed to the desirability of greater imports of consumer goods under the overall allocation and indicated that his country's efforts to close its own trade gap were frustrated by the restrictive policy followed by the Government of New Zealand. The representative of New Zealand acknowledged the problem, but stated that the restrictions were based on the criterion of essentiality and therefore capital goods and raw materials were given priority in imports. Nevertheless he hoped that a greater proportion of consumer items could be imported, although within the available resources they could not go beyond what they were importing at present.
General

22. Members of 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. They also thanked him for his full replies to the questions which had been put.

23. The Committee welcomed the simplification and liberalization measures which had been taken in the past year by the New Zealand Government, and hoped that there would be further developments in that direction. It was also hoped that in pursuing a restrictive policy, the Government of New Zealand would be aware of the inherent dangers of over-protection and would pursue policies which would allow for a greater range of imports. The Committee also welcomed the assurance of the New Zealand representative that his Government would use monetary and fiscal measures instead of quantitative restrictions to the maximum extent practicable to deal with its balance-of-payments problems.

24. The representative of New Zealand thanked the Committee for their understanding and co-operation in the course of the consultation, and gave an assurance that points raised by members of the Committee would be brought to the immediate attention of his Government.