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/50); (b) the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with New Zealand in May 1965 (Annex I hereto); (c) background material provided by the International Monetary Fund, including a paper on recent economic developments in New Zealand, dated 8 October 1965; and (d) the New Zealand licensing schedule for the year 1965-66 (L/2442).

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 26 October 1965. 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 the Executive Board decision and background material from its last consultation with New Zealand under Article XIV of the Fund Agreement. The Fund has also prepared a supplementary paper dated October 8, 1965 to supply background information on recent developments."
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 invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 19, 1965, taken at the conclusion of its last consultation with New Zealand, and particularly to paragraph 5 which reads as follows:

'The Fund welcomes the steps taken to liberalize restrictions, including the recent relaxation of restrictions on imports for 1965/66. The remaining restrictions, however, still cover a large part of trade and payments. The New Zealand authorities have stated that restrictions are maintained on balance of payments grounds. The Fund recognizes that the balance of payments and reserve positions prevent the immediate removal of restrictions but believes that continued reliance on them has adverse effects on the allocation of resources and on industrial efficiency. The Fund believes that New Zealand should follow policies designed to strengthen the balance of payments position and thus provide the basis for a progressive reduction in restrictions.'

Since that time there has been a continuing deterioration in the reserve position. On September 15, 1965 net overseas assets of the banking system, at NZ£64 million, were NZ£25 million below mid-September 1964. The general level of restrictions of New Zealand does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

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

Opening statement by the representative of New Zealand

4. In his opening statement, the full text of which is contained in Annex II to this report, the representative of New Zealand pointed out that since the Committee consulted with New Zealand in November 1964 there had been an adverse change in the
country's balance of payments. Export earnings had shown a sharp drop while the imports had continued at a high level. The lower level of export earnings and the consequent strain on the net overseas assets of the banking system had continued throughout the year. Those developments reflected the highly vulnerable nature of New Zealand's export trade.

5. After an export income of NZ£387 million in the previous year, export earnings in the year to June 1965 dropped NZ£15 million or 4 per cent, to NZ£372 million. Over the same period, payments for imports increased by 3 per cent after a record increase of 18 per cent in the previous year. The strong character of that rising trend was even more evident in the payment figures for the third quarter of 1965 which had been running at an annual rate of around NZ£50 million higher than a year earlier. Also of concern to his Government was the steadily growing net deficit on current invisible transactions which had increased by NZ£6.1 million in the year 1964/65. For the year ended June 1965, New Zealand had incurred a deficit of NZ£27.1 million on all current transactions, following a surplus in the previous year of NZ£2 million. Over the past eight years New Zealand had borrowed externally or drawn upon reserves to the extent of NZ£140 million - or at an average rate of NZ£18 million a year.

6. At 1 September 1965 the net overseas assets had amounted to NZ£66.6 million, 23.4 million lower than the same time one year earlier. In view of the fluctuations in prices for New Zealand's export produce and the seasonal pattern of its trade, it was necessary for New Zealand to maintain a relatively high level of overseas reserves. The present level was considered unsatisfactory. The Government was nevertheless determined to avoid resorting to the introduction of new import restrictions and had announced that it intended to make a formal request for New Zealand's first drawing from the International Monetary Fund to support the balance of payments.
7. It would appear that the prices for New Zealand's main export products were unlikely to change substantially during the coming year and that New Zealand's total export earnings would show a small rise above the 1964/65 level. Wool production was expected to increase by approximately 4 per cent and a small rise was forecast for the average price for 1965/66. With the prospect of meat prices continuing at the present level and increased production, meat export receipts should show a slight rise for the 1965/66 season. Production of butter and cheese should increase in the coming season but prices were unlikely to reach the previous season's average. No significant variation was therefore to be expected in export receipts for dairy produce in 1965/66. Although every effort was being made to diversify New Zealand's export markets by seeking out opportunities to sell in other parts of the world, the main determinant of New Zealand's ability to expand its export receipts will be the level of economic activity, and access permitted to the markets, in the industrial countries.

8. His Government had aimed during 1965 to reduce internal demand in order to counteract inflationary pressures and ensure a steady rate of economic growth. It recognized the importance of continuing the trend towards freer importing and had consequently sought to safeguard the balance of payments by reducing the level of internal demand and promoting the expansion of export industries. The June 1965 budget had, inter alia, introduced restrictive controls over the building and construction industry and laid the foundation for a tight monetary policy. It had continued incentives and introduced new ones for agriculture, fishing, tourism, forestry and mining which were industries whose development would strengthen the country's future balance-of-payments position. In August 1965 the Government had announced further measures to curb internal demand, including deferment of less essential Government expenditure and of certain large scale commercial building projects, an obligation for trading banks to reduce the level of bank advances and the tightening up of hire purchase regulations. A tax scheme to encourage farmers to even out the fluctuations in their incomes had also been put into effect as a part of the programme.
9. The major change in the 1965/66 licensing schedule had been the further liberalization of the import licensing system. Ninety additional items had been exempt permanently from import licensing as from 1 July 1965. They represented imports currently valued at NZ£45 million and brought the total value of exempt items up to about one third of the total import trade. It had also been decided to raise the maximum possible entitlement of licences under category "A" for any individual importer from 100 per cent to 133 1/3 per cent of the 1964/65 licence level.

10. In conclusion the representative of New Zealand said that those further steps in the liberalization of the import licensing system were reflected in the recent substantial rise in New Zealand's imports. The primary products on which his country depended for its export income were subject to wide and sudden price fluctuations. A rapid decline in exchange reserves was, therefore, always possible. The long-term export prospects were furthermore prejudiced by import restrictions on temperate agricultural products in many of the world's major markets. The Government fully recognized that the continued economic development was dependent on the availability of imported raw materials and equipment and the country would continue to import goods and services up to the full limit permitted by export earnings. It was to be hoped that increased export earnings would allow a continuation of the trend towards freer importing.

Balance-of-payments position and prospects

11. A member of the Committee said that it was quite clear from the information supplied that New Zealand suffered from an overheating in its economy and a continued deterioration in its trade balance. It seemed, however, that there was some hope for a recovery. Thus the export receipts had increased since 1964. The figures for the trade between his country and New Zealand showed, for the last few years, a large export surplus on New Zealand's side; his country's exports to
New Zealand amounted to about one tenth of its imports from there. There was obviously no likelihood of a balance being reached, but a certain reduction of the deficit should be possible. His country was primarily interested in the export of consumption goods to New Zealand, and he expressed the hope that the import conditions would improve in the coming year.

12. Some members thought that in this consultation the Committee would wish to pay regard to the willingness and intention expressed by New Zealand of making a formal request for New Zealand's first drawing from the International Monetary Fund to support the balance of payments. Similarly, note might be taken of the indication given by the New Zealand authorities earlier in the year that the easement of import control at that time was intended to be permanent. It was a matter of satisfaction that New Zealand, in present circumstances, intended to avoid resorting to the introduction of new import restrictions and that, conditions permitting, it intended to press on with measures of liberalization.

**Alternative measures to restore equilibrium**

13. A member of the Committee pointed out that the domestic demand level had remained high. The Monetary and Economic Council had exhorted the Government to reduce expenditure and raise interest rates and taxes. It had also recommended for the Government complete abolition of import control over a period of time. Note was also taken, arising from the statement for this consultation by the International Monetary Fund concerning alternative measures to restore equilibrium that it had no additional measures to suggest at this time, of the belief of the Fund as expressed in the decision taken at the end of the last Article XIV consultation with New Zealand that "domestic financial policies, including fiscal policies, should take account of the need to avoid undue pressure on resources and to secure stability of costs and prices".
14. In reply to a question put by a member of the Committee on the prospects of maintaining stability through monetary and fiscal measures, the representative of New Zealand said that it was the aim of the Government to ensure a steady rate of growth, but in view of the violent fluctuations in export income it was a difficult task. The problem was tackled at its source: there were stabilization schemes for dairy products, meat and wool, which in varying degrees insulated farm incomes from changes in export prices. A new measure introduced in 1965 was the tax scheme to encourage farmers to equalize their income over a period of years, which he had mentioned in his opening statement.

15. In reply to a question about the efforts being made to diversify industrial and agricultural production, the representative of New Zealand said that the steel works on the North Island were expected to start production in 1967. In so far as the aluminium production was concerned, the hydro-electric power station essential for the project was being built. The nylon industry had commenced production. The necessity of broadening the base for the domestic industry was continuously kept in mind. He also drew attention to the various incentives for the expansion of industries which were earners of foreign exchange.

16. The New Zealand representative said, in reply to a question about the attitude of his Government to abolition of import controls, that steps in that direction were being taken. The number of liberalized items had recently been doubled, which should be a sign of the goodwill and determination of his Government. The progress must, however, be gradual and fairly slow. A reverse action, resulting from premature measures, would prejudice the successful implementation of this policy.

System and methods of restrictions

17. A member of the Committee asked for import figures broken down according to the separate licensing categories. The representative of New Zealand explained that the import statistics were not arranged in such a way that they could be
broken down in licensing categories. He gave, however, the following figures for the total imports split up in four main groups:

<table>
<thead>
<tr>
<th>IMPORTS BY AUTHORITY TO IMPORT</th>
<th>NZ£ ('000) c.i.f.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Government Imports*</td>
</tr>
<tr>
<td>Year ended</td>
<td></td>
</tr>
<tr>
<td>June 1964</td>
<td>27,068</td>
</tr>
<tr>
<td>Eleven months ended</td>
<td></td>
</tr>
<tr>
<td>May 1965</td>
<td>27,638</td>
</tr>
</tbody>
</table>

"Government Imports" are those made directly by Government Departments.

18. A member of the Committee pointed out that the basis for the granting of licences varied very much from category to category, as could be seen from section 2 of BOP/50. He suggested that a harmonization would be to the advantage of both exporters and New Zealand importers. The representative of New Zealand explained that the general objective behind the creation of several licensing categories was to provide for different types of goods with different characteristics. Against that background it would be difficult to conceive an harmonization of the basis for the granting of licences.

19. In reply to a question about the provisions regarding import restrictions in the newly concluded Australia/New Zealand Free Trade Area Agreement, the representative of New Zealand pointed out that the text of the Agreement was just being circulated to contracting parties. He suggested that the question could be discussed in connexion with the examination of the Agreement by the CONTRACTING PARTIES.
20. A member of the Committee drew attention to the difficulties of new importers under a licensing system. The member also urged New Zealand to simplify its import control system and relax restrictions as there was improvement in the balance-of-payments situation. The representative of New Zealand pointed out that a "new importers" scheme had been created as was explained in BOP/50. If the first experiences of the scheme were satisfactory, it would certainly be extended to a wider area than that of the present trial period, thereby increasing the value of licences issued to "new importers".

21. A member of the Committee said that a considerable part of the exports of his country to New Zealand fell in the token licence category. There was widespread interest in the possibilities to increase imports in that category. The New Zealand representative replied that the token licences were aimed at ensuring a wide choice of goods, although in limited quantities. It was thus also a way to maintain continuity in trade relations. A choice had to be made and certain goods subject to more restrictive licensing. Certain countries might of course be more severely affected by the system than others. The restrictions would, however, be alleviated as soon as the balance-of-payments situation permitted.

22. Interest was expressed as to whether licences for commodities in category "D" were issued at least up to the token import level. Concerning the relationship between category "D" and token licences, the representative of New Zealand explained that those two categories were not mutually exclusive. Token licences were granted for some "D" items.

23. In connexion with the New Zealand system of import restrictions, some members of the Committee wondered whether a contracting party could invoke the need to safeguard its balance of payments in order to prohibit imports of a product which was also manufactured by a national undertaking. In the opinion of those members, such a measure was not in conformity with the provisions of Article XII:1, which only provided for import restrictions in order to safeguard a country’s external financial position and hence did
not authorize total prohibition of imports. Moreover, under Article XII, paragraph 3(c)(ii), contracting parties applying restrictions under the Article referred to undertook not to apply restrictions to as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade. They did not contest a country's right to protect its infant industries during a certain period. Such a period should cover only the time required for those industries to become competitive and an industry which was already competitive should not benefit. In no case could they agree to such protective measures constituting complete import prohibition. In their opinion, the prohibition was not in conformity with the provisions of the General Agreement.

They quoted the case of the importation of sheet glass, classified under item 664.300.0 of the New Zealand customs tariff. In 1960-62 all licence requests were granted, but since then the licensing had gradually become more restrictive until the item was put in category "D" on 1 July 1965. That meant that import licences could be granted for that product but only in exceptional circumstances. Since that measure had been taken, their exporters had no longer been able to obtain from the New Zealand authorities the licences required for the importation of that product into New Zealand. Attention was also drawn to the fact that sheet glass had been bound under GATT. The New Zealand measure mentioned above nullified the value of that binding. The measure had been taken in order to protect a producer which had proved himself to be fully competitive. For the reasons mentioned above these members asked the representative of New Zealand to request his authorities to open a token quota for that product.
24. The representative of New Zealand said that a country which applied quantitative restrictions for balance-of-payments reasons had inevitably to make a choice between various possible allocations of the available foreign exchange. It was natural that the foreign exchange available should in the first place be used for imports of products which were not manufactured locally. Article XII:3(b) certainly gave a contracting party the right to decide on the incidence of the restrictions. It was generally recognized that the restrictions did have incidental protective effects. It was, however, the long-term policy of the New Zealand Government to rely on tariffs, as the protective measure. As regards the specific case of sheet glass, with expanding domestic production the need for imports had diminished and this was reflected in the change in the licensing provisions for this Article. He would, however, bring the request for token licences for sheet glass to the attention of his Government.

25. It was pointed out that the reasoning in the case of sheet glass could equally be applied to all other items on the "D" list. He asked that the importance of granting token licences for all such products should be brought to the attention of the New Zealand Government. The representative of New Zealand undertook to do so.

General

26. The Committee thanked the representative of New Zealand for his clear and comprehensive opening statement and for his contribution in the ensuing discussion. The Committee hoped that fiscal and monetary measures taken by New Zealand would result in a dampening of inflationary pressures and ensure a steady rate of economic growth. Further it was the hope of the Committee that continued diversification of industrial and agricultural production would result in increased exports and form the basis for further import liberalization.
27. The Committee expressed understanding of the difficult decisions which arose for New Zealand in view of the fluctuations of export income and expressed their appreciation of the measures that New Zealand had taken in the past year towards liberalizing her import system. In the field of monetary and fiscal policy, the Committee welcomed the measures currently being taken to restore equilibrium and the increased emphasis on these measures to lay the foundation for a healthy balance of payments.

28. 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 attention of his Government.
ANNEX I

International Monetary Fund Executive Board Decision
taken on 19 May 1965 at the Conclusion of the Fund’s
Consultation with New Zealand

Spec(65)104

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ANNEX II

Opening Statement by the Representative of New Zealand

Spec(65)101