1. In accordance with its terms of reference, the Committee conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The consultation included consideration of the modifications in New Zealand's import restrictions notified to the CONTRACTING PARTIES in L/2649, as directed by the Council at its meeting of 10 June. The Committee had before it the following additional documents: (a) a basic document for the consultation (BOP/58); (b) the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with New Zealand (Annex I hereto); (c) a background paper provided by the International Monetary Fund, dated 4 May 1966; and (d) the New Zealand licensing schedule for the year 1966-67.

2. In conducting the consultation, the Committee followed the plan for consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 19 July 1966. 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:
"With respect to Parts I, II and III of the Plan for Consultations, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board Decision of June 1, 1966, taken at the conclusion of its recent Article XIV consultation with New Zealand. Developments in recent months have not significantly changed the outlook. 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."

4. In his opening statement, the full text of which appears in Annex II, the representative of New Zealand recalled the adverse change in the balance of payments of New Zealand which had been reported at the last consultation and traced various factors which had meantime led to a further worsening in the external payments position, notwithstanding continued increases in production and a high rate of investment in export industries. A continued increase in imports, amounting to 14 per cent in the year ended March 1966 as compared with the preceding year, and a levelling off of exports had reduced the surplus on trade by NZ£40 million to a net surplus of only NZ£16 million. Increased expenditures on freight, travel, insurance and remittances on investments had accounted for a NZ£7 million increase in the overall deficit on invisible transactions, which came to a total of NZ£75 million in the year ended March 1966. There was thus a deficit on current account totalling NZ£59 million, which had been financed by external borrowing, by drawing on overseas reserves and by drawing on the International Monetary Fund. As of the beginning of June of this year, when overseas exchange reserves are at their seasonal high point, these reserves including funds drawn from the IMF stood at NZ£62 million, or NZ£19 million less than a year earlier, and NZ£38 million less than at the same period in 1964. It was the increasing current account deficit, the low level of reserves and the difficulty of obtaining overseas financing that made reduction in import licences for 1966-67 essential.

5. On the best estimates available, the representative of New Zealand explained, his country expects export receipts to increase in the year ending June 1967 by about 4 per cent; wool production may be some 6 per cent larger than in the past
year and prices are expected to remain about the same, but receipts from meat
exports are unlikely to grow by more than about 1 per cent in spite of an
expected increase in quantity of exports. Lower butter prices in the United
Kingdom make it likely that receipts from that source will fall, though some
increase is expected from cheese exports. Export diversification efforts are
hampered by protectionist agricultural policies, and progress in respect of
agricultural products in the Kennedy Round has been disappointing.

6. In the face of the dangerously low level of New Zealand's reserves, various
measures have been adopted to restrain internal demand, including restraint on
lending by banks and other financial institutions, a programme to defer new
building constructions, a savings campaign, restraint on hire purchasing and a
programme of new internal borrowing by the Government combined with limitation
of Government expenditure. The recent budget also announced suspension of a
10 per cent investment allowance, limitation of new capital offerings in
New Zealand by overseas companies operating in the country and tightened exchange
control.

7. At the same time, it was felt necessary, and in harmony with the internal
measures taken, to place a measure of restraint on the level of imports. New
Zealand's stated policy is to move steadily towards relaxation of import licensing
and to provide more flexibility within the system. Considerable progress has
been made towards these objectives in the freeing of over one third of New
Zealand's private imports from licensing and in the industry group and aggregation
schemes. As far as possible these advances have been retained in the current
year's programme. Recent past increases in investment and production should be
reflected in a growing volume of exports in future years, but the level of
expenditure has exerted excessive pressure on available resources and required
the introduction of additional measures to reduce liquidity, domestic expenditure
and the demand for imports. The value of a continued flow of imports is however
fully recognized and New Zealand will continue to import goods and services up
to the limit permitted by overseas exchange resources.
Balance-of-payments position and prospects

8. The Committee noted the difficult balance-of-payments situation in which New Zealand found itself as reflected in the increased current account deficit and the low level of reserves. Some members commented that it created problems for which no immediate solution seemed likely and which seemed, moreover, to be of a recurring character. The Committee noted that New Zealand has adopted certain measures designed to reduce disposable income, but some felt that insufficient reliance had been placed on tax measures and changes in interest rates and that stronger financial and fiscal measures which would cut into available spending power ought to be given serious consideration. In this connexion attention was called to the conclusion of the International Monetary Fund that appropriate financial measures were urgently needed to strengthen the balance of payments in order that the restrictive system might be liberalized. Quantitative restrictions maintained over a longer term risked protective effects inimical to New Zealand's own development at the same time that they created problems for foreign suppliers, including some which already sell to New Zealand far less than they buy from her. One member suggested that if in fact New Zealand's problem stems from fluctuations in export receipts so that the returns in good years stimulate imports that tend to carry over into times when export returns have turned lower, it would be of interest to hear what consideration is being given to plans to smooth out the level of disposable income. Other members questioned whether exchange difficulties were in fact the source of New Zealand's problems and suggested that internal rather than external factors might be the main cause of difficulty. For example, it was noted that no information had been presented concerning new tax measures or expected yields of existing taxes. Though the representative of New Zealand had indicated in his statement a feeling that protectionist agricultural policies abroad were a large factor hampering his country's development of profitable exports, some members felt that this factor
was perhaps being assigned too great an importance; one member recalled an important instance in which import quotas served to safeguard a New Zealand export market. It was also noted that lower prices sometimes enable larger quantities of exports to be sold.

9. Leaving the question of foreign restrictions for later discussion, the representative of New Zealand explained that, as concerned new internal measures, the recent Budget which had been introduced since the 1 June 1966 International Monetary Fund decision contained several new measures briefly noted in his opening statement. Several tax incentives designed to stimulate investment in agriculture and industry had been made available over the years, some permitting accelerated depreciation and others allowing certain investment expenditures to be offset against revenue. One tax incentive namely the 10 per cent investment allowance on the purchase of new plant and equipment, was suspended; since such goods are generally obtained from foreign sources, it was hoped that this suspension might not only raise tax levels somewhat but also result in lower imports of capital equipment. Restrictions on bank overdraft facilities are a matter of continuous pressure, and the Budget made clear that control over bank lending must remain tight. The Budget also contained provision for a higher rate of interest to be paid on Government stock. This modification might attract more funds away from expenditure and also react to increase other interest rates. A restriction on new capital issues offered in New Zealand by overseas companies operating within the country was another measure expected to provide some easing of the strain on resources and some relief for the external accounts as well, since a part of the proceeds of such issues was sometimes repatriated to the country of the parent company. Restrictions on overseas investment in the United States and the United Kingdom had recently increased the number of such offerings in New Zealand and it was hoped that the new measure might induce foreign-owned companies operating in the country to retain profits earned in New Zealand for reinvestment. Finally
the Budget had tightened up exchange control in various ways, with the general objective of ensuring that the proceeds from the sale of overseas currencies and securities would be made available to the New Zealand banking system, instead of being used, as heretofore, to finance travel which would otherwise not be possible or no-remittance imports. Hence, in a way this measure might also help ease the deficit on invisibles about which a question had been asked. Other efforts by New Zealand in that direction included the promotion of tourism, which might expand more rapidly now that New Zealand has her own airline. Lower foreign exchange expenditures by New Zealanders for travel might also be one result of use of the new line. However, a recent 7 3/4 per cent increase in some freight rates could well offset any new savings and additional earnings on invisible items New Zealand might hope to make in the near future.

10. To a question the New Zealand representative replied that New Zealand expects the free-trade area arrangement with Australia to help strengthen its balance-of-payments position in the long run. One member pointed out that when quantitative restrictions are lifted, pent-up demand would result in some temporary increase in imports. The New Zealand representative acknowledged that this had in fact occurred and that it was probably due to merchants adjusting stocks to a higher level than prevailed under import control. He emphasized however that New Zealand of recent years had only rarely re-imposed licensing requirements on goods once liberalized and as manufacturers had little reason to fear such a development he did not believe there was much anticipatory excess stocking in products which have been free of control for a time. The high cost of holding stocks and the danger of obsolescence in goods held over long periods of time acts as a deterrent.

11. As concerned the doubt which had been expressed concerning the question whether other countries agricultural policies were or were not a substantial hindrance to New Zealand, the representative of New Zealand asked leave to return later to this subject. He noted however that the fact of other countries'
protectionism was well documented and that in the butter instance, which had been cited, the quotas had been applied in the interest of New Zealand and other traditional suppliers to the United Kingdom market. The quota system in question was necessary only because high support prices in certain European countries had given rise to surpluses which were dumped in the United Kingdom at prices ruinous for New Zealand and other regular major butter suppliers to the United Kingdom market. One could not regard this measure as protective in the usual sense since the United Kingdom produces only a small fraction of its total butter requirement.

Alternative measures to restore equilibrium

12. Members of the Committee expressed interest in hearing more about New Zealand's efforts to promote production diversification and on how this had been managed without conflict with the effort to stimulate investment in agriculture. They also reverted to the question raised earlier as to what anti-cyclical policies were in use and how they operated. On the second question, the representative of New Zealand described the floor price systems in effect for meat, wool and dairy products and the recent tax measure intended to serve the same purpose. The approach had been mainly at the farm income level since it is believed that it is fluctuations in export receipts entering into farm income which account for the somewhat cyclical swings which have characterized the economy since about 1950. For butter-fat a guaranteed price for the season is fixed and is usually kept unchanged throughout the season, taking into account both export prospects and the need to stabilize the industry. The scheme is required to be self-balancing in its operations over the years, though it may run into deficit in a given year on the understanding repayment will be made later. For meat and wool, less comprehensive systems are in effect. There in
both cases, there are floor prices but in neither case is a ceiling fixed. The one other measure in force which looks to skimming off high farm income is one recently introduced into the income tax structure, under which 25 per cent of income may be frozen free of tax to be drawn on in subsequent years when it is treated for tax purposes as normal income. The system is voluntary and up to now has not really been tried as no high income years have since occurred. These measures are however supplemented by a conscious governmental policy of postponing less essential public works in times when the economy is buoyant. These policies have helped but have not prevented some fluctuations from being transmitted through farm incomes into the economy as a whole. At present, the New Zealand Government feels that as export incomes are stabilizing, the downturn is already in the making. In an open economy such as New Zealand's reinforcing an existing trend might easily depress the economy too far. Given this risk and since it is the course of exports which will in the long run determine conditions in the New Zealand economy, the Government feels that great caution must be exercised in using fiscal policy.

13. As for the progress of diversification, about which inquiry was also made, the representative of New Zealand mentioned paper and pulp, fishing, tourism, steel and aluminum as major projects of current interest. Market diversification has also been one of New Zealand's concerns; recent development of sales of beef to markets other than the United Kingdom and sales of mutton to Japan are notable successes; along with smaller successes in South East Asia generally. In this effort, agricultural protectionism in Europe and North America was said to be the core of the problem.
14. The representative of New Zealand was asked whether he could give a target date by which New Zealand hoped to reach equilibrium - a date by which all the measures described might be said to have succeeded. The representative of New Zealand replied that if this implied a time when the current account deficit might be kept to a figure which could be covered by normal capital imports, all would depend upon export prices. That being the case, New Zealand has preferred to attempt to keep imports in line with the general trend of export receipts.

System and methods of the restrictions

15. Members of the Committee asked a number of detailed questions about the working of New Zealand's licensing system directed in part to the system in general and in part to recent modifications. It was brought out that the 1966-67 sector reductions in allocations (to 85 per cent for raw materials, 80 per cent for automobiles, etc.) were established on three criteria: the need to effect an overall reduction in expenditure for imports, the essentiality of different products and the level of stocks at the time. As for discrimination, the representative of New Zealand assured the Committee that there is no discrimination based on currency and no discrimination in favour of sterling. He referred to recent debates in another forum concerning the effects of the free-trade area with Australia on the question whether discrimination has been introduced into New Zealand's system by allowing certain Australian wood products entry into New Zealand free of restrictions. On the question of new importers, the representative of New Zealand confirmed that the new importer provision introduced in connexion with the 'A' licensing system last year had been dropped this year when the 'A' licensing system had been suspended. New importers who received
entitlements last year will, however, have their entitlements continued in the current year. As for the possibility of giving special consideration to products of less-developed countries which themselves have balance-of-payments difficulties, the representative of New Zealand pointed out that tropical products are generally on the free list, and this has been partly a matter of policy with New Zealand, as a means of helping less-developed countries. Members of the Committee expressed their interest in seeing continued simplification of New Zealand's licensing system and also hoped that more attention could be given to helping new importers to share in trade.

Effects of the restrictions

16. Several specific trade problems were raised concerning the working of the New Zealand restrictions. Referring to the principle that no product should be completely excluded, two members expressed their concern at the near-exclusion of window glass, notwithstanding the fact that New Zealand's domestic glass industry is now large and competitive. These representatives felt that though this was perhaps not the time for liberalization, glass should at least be licenced normally so that suppliers might hope for liberalization as soon as the balance-of-payments position improves. To this the representative of New Zealand replied that a restricting country is free to give priority to more essential imports and that a system of restriction will naturally bear more heavily on goods which can be produced within the country as that will facilitate overall saving of foreign exchange. He noted, however, that the window glass question is under discussion with the countries in question and hoped that a solution would be found.
17. Another member of the Committee asked whether New Zealand might not give special consideration to simple manufactures of less-developed countries, such as floor coverings and textiles. In reply, the representative of New Zealand recalled that at considerable expense his Government had abandoned the establishment of a large-scale modern cotton mill and had done so in the interests of the less-developed countries.

18. Another member, in generalizing the point made on window glass by other members, said that since it was widely agreed that balance-of-payments restrictions should not be used for protective purposes New Zealand should bear constantly in mind that even small quotas would bring considerable goodwill and do little harm to their balance-of-payments position. The representative of New Zealand agreed that continued restrictions did carry a danger of having protective effects. He noted the token licence system was meantime continuing and does allow countries to keep their product before the consumer.

19. An observer representing a country not a member of the Committee brought to the attention of the group his country's feeling that New Zealand's use of the previous year as a base period for determining amounts of particular goods which may be imported works hardship in the case of goods which are manufactured under contract as imports are often irregular from one year to another. His country supplied a number of items of this sort and accordingly his country wished to enter a plea that a longer period, say three to five years, would be a much fairer and more representative basis for licensing. His country was also an important supplier of a range of products that had not benefited from the 1965 extension of free-listing and for which the import quota had been decreased through the modification of restrictions newly notified. He wished the New Zealand Government to increase the quotas for the goods mentioned. The representative of New Zealand agreed that the base period question might pose
difficulties for a particular country, although he was under the impression that the general issue might here have been confused somewhat with a particular instance of a large once-and-for-all electrical contract. He felt that in general a lengthening of the base period risked aggravating the newcomer problem to which reference had already been made. So far as the particular products mentioned were concerned, he felt that the matter could best be pursued bilaterally, but warned that the object was to reduce imports generally.

20. Another observer returned to the question of new importers and said his country was at a loss to understand why the system of a country as wealthy as New Zealand should operate to discriminate so severely against new importers. He could not understand how the exclusion of some importers but not others helped to reduce overall imports and felt that the dropping of the new importer provision worked unnecessary hardship especially for countries trying to develop sales in New Zealand as a new export market, since established importers tend to have long-standing connexions with exporters in traditional supplying countries. The representative of New Zealand replied that his Government had dropped the new importer provision regretfully and were aware of the danger that trade might thus become fossilized in traditional channels which were not necessarily today's most economical sources of supply. However the trade statistics showed that trade patterns are very much in flux. While the United Kingdom has failed to maintain its share of total trade, Australia, the European Economic Community and Japan have, for example, all gained. New Zealand would have to continue for the time being to give consideration to established importers but would reintroduce the new importer scheme as soon as the balance-of-payments situation permitted. Meantime, of course, all licences are available for use on any country so that getting the business is really up to the foreign exporter to a considerable extent.
21. The representative of New Zealand asked the Committee to allow him to present a fuller statement on the question of the relationship between New Zealand's difficulties and the outlook for expansion of agricultural exports. In the New Zealand view the key to elimination of import controls has been the hope of expanding export earnings, mainly in the agricultural sector. To that end New Zealand had been endeavouring to bring its whole economy to a point where it could withstand international competition with only the normal methods of insulation from overseas competitors. However, this whole process of adjustment had in New Zealand's case been frustrated by the policies followed by the industrialized countries of Europe and North America who include among their number the major creditor nations of international trade.

22. While New Zealand had been encouraged through the system of confrontation and consultation within the framework of international organizations such as the International Monetary Fund and the GATT to follow a policy of preparing to meet international competition, other nations had blatantly continued to harbour and foster relatively inefficient agricultural industries and to consciously and deliberately implement a policy of virtual self-sufficiency in certain foodstuffs. As long as this situation persisted New Zealand did not see how it could rid itself of the need for direct control over imports nor could New Zealand accept to contract or even cease to expand probably the most efficient agricultural industry of its kind in the world and switch resources to other less truly productive channels. New Zealand also had difficulty in accepting the comment and advice of creditor nations about balance-of-payment difficulties when these very same countries maintained, if not complete prohibition on the importation of the products they produced, then derisory quotas or prohibitive levies or tariffs. Surely it was not only the debtor nations that had responsibilities. If the world trading community was to command any respect then the creditor nations must also accept some
responsibility for part of the burden of the adjustment process required to correct disequilibrium in the balance of payments.

23. Finally, if the system of multilateral surveillance of national policies in the interest of all countries was to have any real meaning for New Zealand, then the industrialized creditor nations must be prepared gradually to subject their agricultural industries to the discipline of international competition in the same manner as is expected of New Zealand with respect to its manufacturing industries. It followed that in order to show that these consultations were not just an empty exchange of words but part of a purposeful confrontation of national policies, the industrial countries must be prepared to make comprehensive offers on agriculture in the Kennedy Round. If the Kennedy Round were to fail as regards temperate agricultural products, then there would be a risk of this consultation becoming part of a meaningless exercise for New Zealand.

24. The Committee thanked the representative of New Zealand for the full and frank way in which he had responded to the views and questions put to him by members. The representative of New Zealand thanked the Committee for its sympathetic hearing and promised to convey the various points which had been raised to the competent authorities for their consideration.