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/2781, as directed by the Council at its meeting on 26 June 1967 (C/M/41). The Committee had before it the following additional documents: (a) a basic document for the consultation (BOP/66); (b) the Executive Board Decision taken on 5 May 1967 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 20 April 1967; and (d) the New Zealand licensing schedule for the year 1967-68.

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 held on 18 July 1967. 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 Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 5, 1967 taken at the conclusion of its most recent Article XIV consultation with New Zealand, and particularly to paragraph 5 which reads as follows:

'Exchange controls on current payments have been tightened. About a third of imports are free from control and the Fund welcomes the Government's decision to maintain this degree of liberalization in 1967-68. The Fund recognizes that the present balance of payments and reserve position does not permit an immediate relaxation of external restrictions but stresses the need for the Government to adapt its financial policies so as to provide a sound basis for further liberalization.'

"The Fund notes that the Government has not found it possible to avoid a further reduction in allocations for import licenses in 1967-68. The Government has introduced, in early May and in the budget for 1967-68 presented to Parliament on June 22, 1967, a number of domestic financial measures, including increases in a variety of indirect taxes and a reduction in the rate of growth of government expenditure, which are designed to correct the external imbalance. 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 of the representative of New Zealand

4. In his opening statement, the full text of which appears in Annex II, the representative of New Zealand said that there had been little improvement in the deterioration of the balance-of-payments position of New Zealand, since the previous consultation when a marked deterioration had been reported. Towards the end of 1966 period the wool market had virtually collapsed and export prospects depended largely on future developments in the market for this product. Since
the beginning of 1967 New Zealand had taken a series of measures curbing
domestic demand which had already had marked effects. Demand for imports was
decreasing, but the reduction of the current account deficit would of course also
depend on the development of New Zealand's exports.

5. With regard to overseas exchange transactions the representative of
New Zealand mentioned that export receipts had risen by 2.8 per cent in 1966/67,
mainly due to additional receipts from dairy products. The receipt figure did
not, however, fully reflect the fall in wool prices. The fall in import payments,
$NZ 20 million in 1966/67, could be mainly attributed to the measures introduced
during 1966 to reduce domestic spending. The trade surplus rose to $NZ 73 million
in 1966/67, but the deficit on invisible transactions also rose to
$NZ 180 million, mainly due to higher freight charges and greater travelling
expenses overseas. The current account deficit decreased from $NZ 118 million
in 1965/66 to $NZ 107 million in 1966/67. The overseas exchange reserves at
the end of May 1967 stood at $NZ 104 million with import payments running at a
level of $NZ 56 million per month. New Zealand was thus facing the considerable
problem of raising additional finance overseas to meet the normal adverse
seasonal saving in its overseas transaction during the latter half of 1967.

6. Future prospects for New Zealand's export receipts were dominated by the
wool situation. For 1966/67 a rise of 6 per cent in wool receipts had been
forecast, but the sudden downturn in prices had led to export receipts now
being estimated at $NZ 172 million for the June year 1966/67 instead of
$NZ 254 million according to the previous estimate. No reliable estimate could
yet be made about average price or volume to be sold in 1967/68. Raw wool
prices had fluctuated sharply for many years, but it was possible that the
latest drop was more than a cyclical fluctuation.
7. With regard to other export products the representative of New Zealand noted that meat production for export had risen by around 10 per cent in 1966/67 and the corresponding increase in 1967/68 was estimated at 9 per cent. The butter price in the United Kingdom, New Zealand's main market, was expected to remain stable, but in spite of increased quantities available for export in 1967/68, it was not expected that export receipts would rise, as there was an increasing pressure of subsidized supplies from European sources. Production of cheese for export was expected to rise, but it was feared that prices might weaken. The efforts to diversify exports had met with some success in regard to mutton and certain milk products. Unfortunately the Kennedy Round had resulted in little or no improvement in access for New Zealand's main exports. A number of countries had, on the contrary, introduced measures further reducing access to their markets.

8. New Zealand had taken a series of measures to reduce demand for overseas exchange, increase export earnings and reduce internal liquidity and demand. Further fiscal measures had been implemented in May 1967, which would result in increased revenue of $NZ 50 million. Government expenditure which had increased by an average rate of 9 per cent over the previous three years was to increase by 1.4 per cent only in accordance with the June 1967 budget.

9. The 1967/68 licensing schedule had been prepared before the wool price decline, but it was the intention of the Government of New Zealand to rectify the balance-of-payments situation by reducing the level of internal demand rather than by increasing restrictions on imports. The progressive relaxation of import licensing remained the policy of the Government.

10. In conclusion the representative of New Zealand stressed that his country continued to face serious balance-of-payments difficulties. Fiscal and other measures had been taken to keep domestic spending in line with the level of available resources. Further import liberalization would depend on the
development of export earnings. A main question was the establishment of equitable trading conditions for temperate agricultural products. Failure to achieve such conditions could furthermore call into question the whole effectiveness of GATT as an instrument for promoting fair and liberal trading conditions.

Balance-of-payments position and prospects

11. Members of the Committee expressed their regret that the import régime of New Zealand had not been further liberalized. They accepted, however, the judgment of the International Monetary Fund that the restrictions did not go beyond what could be justified in the present balance-of-payments situation of New Zealand. Some members of the Committee pointed out that for countries such as New Zealand mainly relying on the production of raw materials, instability of export prices presented the greatest problem.

12. A member of the Committee said that he recognized that New Zealand was in a difficult position. He realized that in order to deal with the short-term problems it might be necessary to cut down imports. He pointed out, however, that New Zealand had had quantitative import restrictions for the past fifteen years, but that it still was running into balance-of-payments difficulties. The Committee should in his opinion not concentrate only on the short-term aspects but also look at the long-term problems. He admitted that the wool price was an important factor when judging the immediate balance-of-payments prospects of New Zealand, but there were several other factors on the import and export sides that had to be taken into account. New Zealand was a prosperous country with a narrow range of basically very good export products. He questioned whether the present situation would not have been better if more active measures had been taken to control the boom in the early 'sixties.
13. Another member of the Committee also stressed the importance of studying the long-term aspects of New Zealand's problems. He believed that a main factor was the prolonged domestic expansion that had resulted from the favourable export conditions in the past years. He welcomed the courageous measures that had been taken now to curb domestic expansion, but he suggested that more emphasis should be put on the interest rate policy in the future.

14. The representative of New Zealand stressed that the few main export products of his country—wool, meat and butter—were subject to extraordinarily great price movements on the world markets over which his Government could not exert any control. Its policy was to reduce fluctuations in farm incomes by stimulating various price stabilization arrangements and by savings in good years through the creation of tax free reserves, but it was not possible to isolate completely the economy of New Zealand from world market price wings. In reply to the suggestion regarding a more active interest rate policy, he suggested that if the International Monetary Fund were to up-date their report on the New Zealand economy they would conclude that no further deflationary measures were called for at present. The importance of the interest rate policy should furthermore not be overestimated, the monetary market in New Zealand not being highly developed.

15. A member of the Committee said that as the export interests of his country coincided with those of New Zealand on many commodities he had a great deal of sympathy for New Zealand. Their temperate agricultural products were competing with highly protected domestic production in the main importing countries. This formed a structural problem related to the balance-of-payments difficulties faced by New Zealand. The Kennedy Round had provided one opportunity to tackle this structural problem in the setting up of the commodity groups. Unfortunately for meat and dairy products the results had been negligible. On cereals, of course, the New Zealand interests were those of an importing country.
16. It was underlined by a member of the Committee that New Zealand had been quite successful in diversifying its exports, and that certain of its export products would enjoy considerable tariff reductions as a result of the Kennedy Round. He pointed out that the figures available showed surpluses in so far as current transactions and capital movements were concerned but a deficit for invisibles, mainly due to increased freight charges. It was likely that the increases in ocean freights resulting from the situation in the Near East would further aggravate that deficit. The representative of New Zealand pointed out in this connexion that the capital surplus represented money that had been borrowed on severe conditions to compensate for current deficits, and did not represent a nominal inflow of private capital. New Zealand would be facing heavy repayment responsibilities in the coming years. It was hoped, however, that there would be sufficient improvement in conditions in world capital markets to enable some short-term debts be converted into long-term ones to be repaid when the balance-of-payments situation had improved.

17. In reply to questions about the relationship between the internal restrictive measures and the import restrictions, the representative of New Zealand explained that the emphasis recently had been on fiscal measures. It was not the intention of his Government to extend the import restrictions. It was expected, however, that the domestic restrictive measures would lead to a certain reduction of the imports in the unrestricted area and that the internal demand would be covered by imports under the 1967/68 licensing schedule so that a pent up demand would not be created.

Alternative measures to restore equilibrium

18. A member of the Committee said that the Government of New Zealand seemed to attach more importance to restricting imports than to take restrictive measures in the income policy field. He pointed out that Government expenditure had gone up 11 per cent in 1966/67 while the gross national product had only increased by 3 per cent. He suggested that the budget policy should be more flexible and
that more attention should be given to the interest rate policy. The representative of New Zealand repeated that in view of the structure of the money market in New Zealand interest rate measures were not likely to be very effective. There had, however, been a rise in certain interest rates and controls over the banking sector that had been supplemented by measures to limit the lending capacity of other financial institutions.

19. A member of the Committee recalled that the gross national product of New Zealand had been rising very rapidly in the past years and that the employment ratio was unusually high in New Zealand. He questioned whether it would not be advisable to apply stronger deflationary measures than hitherto in order to align purchasing power to earning power. On the other hand he noted that inflation had not been too extreme in New Zealand in recent years and it might well be that there were structural problems which deflation alone could not cure. The representative of New Zealand replied that his Government had already taken drastic fiscal measures. The unemployment figures of New Zealand were somewhat misleading; about 1 per cent should be added to the official figures. The latest figure available - which did not represent the period of season low employment - showed an unemployment percentage of 1.5 and a rising trend. He added that much effect of the domestic restrictive measures was not yet apparent in all economic indicators, e.g. because of the distance of New Zealand from its main suppliers of imported goods, orders are placed long before the actual moment of importation, and the level of current arrivals did not reflect fully the downward trend in internal demand.

20. In reply to further questions concerning the fiscal policy of his Government the representative of New Zealand pointed out that the direct taxes of New Zealand in proportion to the gross national product was amongst the highest in the world. There was therefore no room for further increases of the income tax. The indirect taxes - on inter alia petrol, alcohol and motor cars - had on the
other hand been increased recently. Their total amount was estimated to provide an additional $NZ 36 million 1967/68, an increase of $NZ 14 million in 1966/67. New Zealand had furthermore recently abolished certain consumers' subsidies, e.g. on flour and butter.

System and method of the restrictions

21. Several members of the Committee recognized that import restrictions in New Zealand's present balance-of-payments situation were a short-term necessity. They expressed the hope, however, that the very complicated import licence system presently applied could be simplified and made more flexible. They expected that the restrictions would be relaxed as soon as the balance-of-payments situation improved.

22. The representative of New Zealand pointed out that the administration of a licensing system always was a difficult task. It was certainly the intention of his Government to make the system as flexible as possible. It was just with this aim in mind that the many import categories had been created. The safeguarding of the interests of new importers was also an aspect which the Government of New Zealand had continuously in mind.

23. In reply to questions the representative of New Zealand explained that normally no licences were granted for "D" items. For many such items token licences were however granted in order to keep a brand name alive in the mind of buyers.

24. A member of the Committee expressed concern over the arbitrariness in the granting of licences for "C" items. The representative of New Zealand said that the uncertainty regarding the export prices of New Zealand products automatically led to the need for flexibility in the granting of import licences. In reply to a question why aluminium rods and shoots had been transferred to the "C"
items and thus got a less favourable treatment than under previous licensing schedules, the representative of New Zealand explained that those items were not produced locally; the allocation for them could thus be reduced.

25. It was pointed out that certain products, e.g. veneers and plywood, could be imported freely from Australia under the Free Trade Agreement. In reply to a question whether the free import could be extended to all countries of origin in accordance with the no discrimination principle, since the effects of imports on the New Zealand balance of payment were similar whether those imports originated in Australia or in other countries, the representative of New Zealand said that this would hardly be possible in the present balance-of-payments situation.

26. An observer representing a country not a member of the Committee said that his government was particularly concerned about certain aspects of the licensing system. One such aspect was the very limited possibilities for new products to be introduced on the New Zealand market under the present system. Another aspect was the considerable reductions in the granting of licenses under the 1967/68 schedule for certain important export products of his country. He specially referred to tariff items 59.08 Impregnated fabrics, 73.18 Iron and steel tubes, 73.38 Household articles of iron and steel, 84.10 Liquid pumps, and 84.11 Air pumps, where the reduction had been from 25 to 33 1/3 per cent. The representative of New Zealand said that he would convey the remarks to his Government. He added that the New Zealand authorities had done their best to allocate the available licences in the most equitable way.

Effects of the restrictions

27. A member of the Committee pointed out that the import restrictions had resulted in the exclusion from the New Zealand market of one of the products of his country: cognac. He admitted that cognac was not an essential product, but since the token licence procedure was in force, he asked whether it would
not be possible to issue token licences for cognac in order to protect the brand name; the foreign exchange required would be very limited. The representative of New Zealand confirmed that the request would be brought to the attention of his Government.

General

28. A member of the Committee pointed out that the fluctuations in the wool price had direct repercussions on the development of the New Zealand import licence system. He asked whether the recent downturn in prices could be attributed mainly to competition from synthetic fibres, a general retraction in demand or a lowering of the quality of the New Zealand wool. The representative of New Zealand replied that in connexion with the presentation of the new budget the Minister of Finance of New Zealand had stated that it was reasonable to expect that the wool price would move up again towards the average of the last 5-6 years' prices. The quality of New Zealand wool had not deteriorated, but there had been a trend towards producing more coarser and shorter wools for which the demand had developed less favourably than for other wools. The recent reductions in the floor prices were relatively greater for the coarser than for the finer wools. Should there be an improvement of the wool price it had to be kept in mind that New Zealand had considerable short-term debts that had to be repayed before the import restrictions could be further liberalized.

29. The Committee thanked the representative of New Zealand for the full and frank replies he had given to the views and questions put to him. The representative of New Zealand promised to convey the various points which had been raised to the competent authorities and thanked the Committee for their sympathetic consideration of New Zealand's position.