OPENING STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND

1. Introduction

During the last three years New Zealand has experienced the most serious balance-of-payments crisis since the 1930's. Recent statistics indicate that we may be moving towards equilibrium. This improvement reflects the severe internal deflationary measures applied over recent years and to a lesser extent the devaluation of the New Zealand dollar by about 20 per cent in late 1967.

Certainly there has been a marked improvement in the level of the overseas exchange reserves. The net overseas assets of the New Zealand banking system at the end of June 1968 were almost $210 million, an increase of just under $100 million over the year. Some progress has also been made in repaying short-term indebtedness to the International Monetary Fund and the Bank for International Settlements.

2. Overseas exchange transactions

The overseas exchange transactions for the March years since 1962/63 are shown in Tables 1 and 2 of the basic document. New Zealand's overseas exchange transactions deteriorated sharply during 1965/66 and 1966/67 after being in reasonable balance during the previous three years. Although there was movement in both receipts and expenditure the most notable feature was the upsurge in payments for imports and invisibles. This situation was aggravated in December 1966 by the sudden and severe collapse in wool prices. Faced with this new threat to external stability the Government took a series of wide ranging measures early in 1967 to restrain internal demand. These are referred to in full in the basic document for these consultations.
By November 1967 the overseas exchange transactions began to show the first signs of recovery in that there was a reduction in the deficit on current account. In the March 1968 year the current account deficit declined from $107 million a year earlier to $17 million. (By the twelve months ended May 1968 there was a surplus of $27 million.) Export receipts were down by $8 million in the March 1968 year mainly on account of lower receipts for wool and dairy products which were only partly offset by an increase in receipts for meat and other exports. This fall in export receipts was more than compensated for by a decline of $90 million in import payments and by a reduction of $7 million in the deficit on invisible transactions. A sharp rise in the inflow of personal funds and travel receipts together with substantial falls in travel payments and personal and investment income remittances overseas accounted for the improvement in invisible transactions.

There was a net capital inflow on private account of $23 million compared with a small outflow in the previous two years. Part of this improvement was attributable to the sale by the New Zealand Wool Commission of $10 million of overseas securities. It is also thought that devaluation has encouraged New Zealand residents to repatriate capital held overseas.

Net Government borrowing was reduced to $62 million compared with $113 million in 1966/67. This change was due largely to a sharp increase in the level of debt repayments.

3. Export prospects

The prospects for New Zealand's exports over the next few years are clouded by the uncertainty surrounding wool prices and by the deteriorating world situation for dairy products.

The average price for New Zealand wool during the 1967/68 season was just under 23 cents per pound compared with 29 cents per pound in the previous season and 35 cents per pound in 1965/66. A disturbing feature of the 1967/68 season was the relative decline of coarse wools in respect to fine wools, despite devaluation. This widening of the price differential between the two grades could indicate that structural factors, as well as cyclical, have affected the demand for New Zealand wool. No significant rise in the price of New Zealand wool can be forecast for the 1968/69 season, although there are signs that New Zealand wool is becoming more competitive with synthetics in the United States market. Overhanging the market is the very large stockpile, nearly 684,000 bales, held by the New Zealand Wool Commission. The Commission has stated its intention of disposing of up to 100,000 bales in the coming season.
The future of New Zealand's exports of dairy products is bleak. The agricultural policies of some European and North American countries have led to production well in excess of demand with the result that stocks of butter, cheese and milk powder have been mounting rapidly. Many countries are now dumping their surpluses in our overseas markets at prices often equivalent to only a quarter of their domestic prices. New Zealand now finds itself forced into the position of having to make severe price reductions in order to maintain our position in overseas markets. On 13 May the New Zealand Dairy Board reduced the price of Cheddar cheese on the United Kingdom market by £Stg. 30 per ton. Until a better balance is achieved between the world supply and demand for dairy products New Zealand will have great difficulty in disposing of its production at economic prices despite being the most efficient producer.

Both the short and medium-term outlook for meat, particularly beef, appears more encouraging. The demand for beef in the United States and the United Kingdom is buoyant and on present indications it seems that prices will continue firm for some time. Lamb and mutton receipts over the past year have been very satisfactory with prices above those of recent years. Several special factors have probably contributed to this, namely, the dock strike, the outbreak of foot and mouth disease and the ban on meat imports from some countries. The bulk of lamb exports, over 90 per cent, was to the United Kingdom. There is a limit to the quantity of lamb which this market can continue to absorb at satisfactory prices. New outlets for lamb are essential if an economic price is to be received for our growing production. Some success has already been achieved in exporting small quantities of lamb to Switzerland, Greece and Japan and to a number of other markets.

Exports of forest products and manufactured goods have expanded rapidly in recent years and the future importance of these products as earners of overseas exchange should continue to grow. As these products are exported mainly to countries which did not devalue in 1967, the devaluation of the New Zealand dollar should prove a stimulus to both the quantity and range of products exported.

4. The 1968/69 import licensing schedule

The lower level of demand for imports following the slowing down in domestic activity has enabled the Government to carry its policy of progressive relaxation of import licensing a stage further. In December 1967, following devaluation, a substantial number of items were exempted from import licensing. A further extensive range was added to the list of exempt goods when the 1968/69 import licensing schedule was announced. The effect of these new exemptions is that about 50 per cent by value of all private imports are now free of import licensing. In selecting the items for exemption priority has been given to raw materials and other goods essential to industry. Full details of the changes in the 1968/69 schedule are contained in the basic document to these consultations.
It is the Government's stated intention to maintain all the items at present exempt from licensing. It is also the Government's policy to gradually dismantle import licensing and to replace it, where necessary, by a system of protective tariffs.

5. Conclusion

It will be noted that on the basis of some of the external economic indicators such as the level of exchange reserves New Zealand is moving away from the seemingly chronic deficit position which it has experienced in recent years. There are however aspects of New Zealand's economic position which give cause for concern. On the internal side there is stagnation and growing unemployment. Externally we continue to be denied the benefits of our relative efficiency in pastoral agriculture. Given our experience of recent years it is not surprising therefore that we are embarking on a major reappraisal of the path of development we should aim for in the future. In the meantime, unless there is a change in heart on the part of our partners in the GATT towards restrictions on trade in agricultural products, New Zealand's ability to implement its stated policy of progressively dismantling its import licensing system is heavily circumscribed.