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 a basic document for the consultation (BOP/82) and the New Zealand Import Licensing Schedule, a Decision of the Executive Board of the International Monetary Fund taken on 12 June 1968 and a background paper provided by the International Monetary Fund, dated 6 May 1968.

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 held on 9 July 1968. 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 June 12, 1968 which read as follows:

\[\text{See Annex I.}\]
"2. Reflecting depressed conditions in the wool market, total export receipts in the year ended February 1968 were 6 per cent lower in domestic currency terms than in the previous 12 months. The growth in domestic expenditure at current prices slowed down substantially and pressures on the labour market eased with the number of registered unemployed recording a sharp rise. Weekly wage rates for adult males rose by 2 per cent in 1967 and consumer prices increased between the last quarters of 1966 and 1967 by nearly 7 per cent, of which about half was due to various fiscal measures. With the slower growth of domestic expenditure, import payments in domestic currency terms fell sharply and the net payment on current invisibles leveled out. The current account deficit was reduced to $NZ 45 million (approximately US$65 million) in the 12 months to February 1968, compared with a deficit of $NZ 100 million (US$140 million) in the corresponding period a year earlier. The New Zealand Government has continued its long-term foreign borrowing program and there has been some net inflow of private capital from abroad. In recent months, the balance of payments has moved into over-all surplus. At the end of February 1968, net overseas assets of the banking system plus Treasury-held foreign securities amounted to $NZ 273 million (the equivalent of US$306 million) compared with $NZ 149 million (US$207 million) a year earlier. A considerable part of this rise was associated with a net increase in short and medium term foreign obligations, including use of the Fund's resources.

3. In their efforts to improve the balance of payments position, the New Zealand authorities devalued the New Zealand dollar by 19.45 per cent in November 1967 and pursued restrictive financial policies. Government expenditure is estimated to have risen only slightly in the year ended March 1968, and the deficit before borrowing was reduced. Reserve Bank credit to the Government was lower in March 1968 than a year earlier but there was an increase in Reserve Bank credit to marketing authorities. Trading bank advances and discounts declined by 4 per cent, in the year ended March 1968. The Fund welcomes the New Zealand authorities' intention in the period ahead to continue tight fiscal and monetary policies which, coupled with devaluation, will assist in shifting resources.
4. A further liberalization of restrictions on imports will become effective from July 1, 1968 and the Fund hopes that New Zealand will further liberalize exchange controls. The Fund believes that the maintenance of the present degree of financial restraint will permit the speedy removal of the remaining restrictions maintained for balance of payments reasons. Such an approach would be beneficial to New Zealand's longer-run efforts to secure an adequate rate of domestic growth in the context of a viable balance of payments."

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 described the serious balance-of-payments crisis through which his country had been passing and traced the steps by which New Zealand appeared to be moving towards equilibrium. In retrospect, the principal elements in the onset of the crisis appeared to have been sharp increases in payments for imports and invisibles, very much aggravated by the collapse in wool prices in December 1966 and, to a lesser extent, by lower receipts for dairy products. He recalled the series of measures taken early in 1967 to overcome this crisis, including restraints on internal demand, measures to increase exports and to reduce overseas expenditure. Late in 1967 the New Zealand dollar had been devalued by about 20 per cent, and this had had various helpful effects. By the year ending in March 1968 the current account deficit had declined from $107 million a year earlier to $17 million despite slightly lower export receipts. The main factor was a reduction of $90 million in import payments.

5. Turning to export prospects, the representative described his Government's concern regarding the deterioration in wool prices, which was particularly disturbing because of the widening price differential between coarse and fine grades, a possible indication of a long-term structural change in demand for wool. Heavy stocks overhanging the market were another problem. The outlook with respect
to dairy products was, moreover, bleak and comprised a major depressing influence largely outside New Zealand's control, since overproduction and heavy subsidization by less efficient producer countries were at the root of the difficulty. Meat export prospects looked better but larger exports would depend mainly on success in the development of markets outside the United Kingdom. It was hoped that forest products exports and manufactures would continue to grow as earners of overseas exchange.

6. Both the slowing down in domestic activity and devaluation had helped to make possible a significant extension of exemption of goods from import licensing requirements so that about 50 per cent of all private imports were now free of licensing. The Government's stated intention was to maintain all the items at present exempt from licensing and to gradually dismantle licensing, replacing it where necessary by a system of protective tariffs. New Zealand's ability to move in that direction would depend not only on developments within the economy but also on action by other contracting parties to promote fairer trading conditions for temperate agricultural products.

Balance-of-payments position and prospects and alternative measures to restore equilibrium

7. Members of the Committee congratulated the representative of New Zealand on the concise but informative presentation he had made of New Zealand's position. They were encouraged by the quite exceptional improvement in New Zealand's balance-of-payments position but recognized the serious nature of the problems still remaining to be resolved. They noted with approval that the fiscal and monetary measures taken by New Zealand since early 1967 appeared to be helping the balance-of-payments situation. Most interesting, they felt, was the question as to which of the measures had been most responsible for the favourable turn in New Zealand's balance of payments as that judgment would, they felt, bear importantly on the question of future prospects.
8. The representative of New Zealand replied that in his view the factor of greatest importance had without doubt been the drop in import payments, largely reflecting the deflationary internal measures as a whole. There had also been a reduction in invisible payments as profits remittances with the lower level of activity in New Zealand. After devaluation there were also some indications of substantial repatriation of New Zealand capital. This should however be regarded as a one-time gain. Similarly the reversal in leads and lags after devaluation had improved the balance of payments, but again this would be in the nature of a one-time gain. A comparison with pre-devaluation payments figures might therefore overstate the extent of improvement to be expected. This might be true, he felt, because before devaluation importers had no doubt tried to speed up payments, anticipating the devaluation, whilst exporters tried to do the opposite, whereas in the following period the opposite leads and lags would be operative. Already there were signs of rising imports and of restocking, even though the higher prices of imports in New Zealand dollar terms would no doubt operate as a brake for some time to come. He said that there was also another positive factor in the situation which might be expected to continue to operate, namely the larger earnings currently being received for manufactured goods exports; there the percentage increase in exports was large — some 50 per cent in ten months up to April 1968 compared with the preceding year — even though the absolute figures were still small compared with wool, meat and dairy exports.

9. In response to further questions as to what the New Zealand authorities were doing to alleviate their dependence on a few primary products and to diversify the economy, he mentioned that New Zealand was indeed doing what it could to find and exploit commercial deposits of minerals, though unfortunately it appeared unlikely that there would be any such dramatic success as had been seen in several other countries, due in no small part to the geological structure which meant that there seemed to be few mineral deposits sufficiently accessible to lend themselves to commercial exploitation. Exploration and exploitation were nevertheless proceeding on a modest scale, tax incentives were being offered, and there was a search for offshore oil and gas. As for the question whether part of New Zealand's difficulty
might stem from excessive concentration on breeding a type of sheep bearing coarser wools, he felt that this was a very complex question but one which was receiving full attention in New Zealand. One problem was the close link between wool and meat production. In any case no quick change to finer grades of wool would be feasible. To the question whether the fiscal year ending March might obscure the extent to which devaluation might have helped New Zealand he agreed that the latest monthly returns did look more encouraging than did whole year returns, but he believed that these returns were not typical of the longer-term outlook and were still affected by the reversal in the leads and lags.

10. Members of the Committee turned to the question whether, given the rapid movement from deficit into surplus, it might not be appropriate and desirable for New Zealand to have a fresh look at the question whether more rapid movement to liberalization would not be the logical next step.

The view was expressed that fiscal and monetary restraints of the severity currently being imposed could not, politically or economically, be maintained indefinitely, nor could there be undue continuing reliance on short- to medium-term official borrowing from overseas. It was too soon to be able to judge the likely effects of the devaluation on New Zealand's longer-term balance-of-payments prospects. Export prospects for the year ahead were clouded with uncertainty, and it was likely that imports would increase from their present level as restocking developed. This could be accentuated if any reflation took place in the economy. It was also noted that although New Zealand's international reserves had increased significantly in recent months, they were still not at a level which could be regarded as satisfactory. The Committee however considered that New Zealand's chances of achieving the desired restructuring of its economy would be enhanced if New Zealand took the opportunity, as balance-of-payments circumstances permit, to further liberalize its system of import restrictions. This would facilitate a pattern of resource allocation that would ultimately enable New Zealand to diversify its economy in the most efficient manner. This should also assist New Zealand to expand its export base. Failure to open the domestic market could foster the
growth of uneconomic industries and lead to price and wage increases which would be ever more costly to New Zealand. Others added that there was already some evidence that efforts made up to now to develop manufactures had been unduly concentrated on import substitution rather than on development of viable exports. One representative expressed the view that there were possible dangers in too widespread a diversification of industry.

11. The representative of New Zealand first referred to further measures which he felt would help to ensure that the gains of the deflationary policy and devaluation would not be whittled away. Recently New Zealand's Arbitration Court had rejected in toto a union application for higher wages; this had not happened for a long time past and gave a good indication of the determination in New Zealand to hold the line. Following this decision by the Court a temporary price freeze had also been introduced and extended to nearly all goods by the Government.

12. More generally, he emphasized that the deliberate deflation policy absorbed by New Zealand over the last eighteen months was one of the most extensive ever applied in any western-type country; and, though it had helped immensely from an external standpoint, it had been far from easy at home. The unemployment rate might look low by international comparison, but had increased sharply within a short period in an economy accustomed to exceptionally little unemployment; moreover the fact that only "registered" unemployed were included in the statistics meant that most short-term or frictional and some hard-core unemployment was additional to that recorded. Having said this, he wanted to add however that the Government had said that it intended to maintain its present course which it had already amply shown its ability to do.

13. To the suggestion that New Zealand should consider much more rapid liberalization of imports he had two answers. First, his Government considered it preferable to proceed slowly on a permanent basis rather than to move faster and perhaps be obliged to retreat. Secondly, he felt that New Zealand had very good grounds for scepticism about opening its economy to still greater dependence on international markets and about accepting comparative international advantage as the decisive factor in resource allocation. There was no doubt whatever that
New Zealand had very great advantages in dairy production, but these advantages had been of no help even in holding on to existing markets in the face of the full force of subsidies being poured out of national treasuries to subsidize high-cost competition. It was in the circumstances only natural that New Zealand should hesitate to invest in new export industries rather than in industries tailored to the local market. This did not mean that competitive costs were being lost sight of; in fact, resources were being denied where there was no prospect of a new industry becoming competitive. Moreover, the whole policy of development strategy was to be the subject of a National Development Conference which was to meet soon. Also certain export-oriented investments were already being made, as in the successful pulp and paper industry and it was hoped that agreement on an aluminium smelter based on hydro-electric power would be reached shortly. Investment was also being made in tourism.

14. Members of the Committee again expressed their satisfaction at the very considerable achievement of New Zealand in carrying out a policy of fiscal and monetary restraints that had often been advocated by them. They also agreed that gradual progress toward liberalization on a permanent basis would be preferable to excessive haste, but they were not convinced that on that score New Zealand had done as much as would be desirable in its own interests. One member remarked that only 25 per cent of his country's exports to New Zealand were free of restriction. They noted in this connexion that the Fund decision had looked toward speedy removal of remaining restrictions maintained for balance-of-payments reasons and had stated that such an approach would be beneficial to New Zealand's longer-run efforts to secure adequate growth in the context of a viable balance of payments.

15. Members of the Committee then turned to problems associated with overcoming the present enforced stagnation of the domestic market within the limitations imposed by the need to maintain external balance. Concern was expressed that a good deal of the slow-down in domestic activity was the result of a reduced rate of domestic private investment and the question was asked whether consideration had been given to curbing consumption still further and permitting more productive capital formation. The New Zealand representative was asked about the import content of
private investment expenditures. He was also asked whether the several small relaxations in restrictions on consumer expenditure had really been wise at this stage, whether adequate care had been taken to avoid price increases resulting from devaluation spreading from the import sector into other sectors and whether the dissaving resulting from a higher rate of growth for consumer expenditure than of disposable income was not having a serious effect on investment. If there were cause for concern on such grounds was not a situation being created in which inflation would be highly likely? At best, how would New Zealand be able to reach an end of the need for deflation, yet what were the social and economic possibilities of continuation? It was felt that perhaps there was some truth in the view that New Zealand had been trying to accomplish too much too fast, and it was noted that the risk of inflation must be handled with exceptional care in the case of a country mainly dependent for export earnings on commodities the prices of which were determined by world market conditions outside the country's control and likely to fluctuate.

16. The representative of New Zealand replied first concerning the matter of capital formation. Though definite figures for 1967/68 were not yet available, reliable estimates did confirm that there had been an absolute reduction in capital formation in that year. The depressed market had lessened industrial interest in plant expansion and, of course, such expansion would in most cases entail the need for imported equipment, but much of the decline had been in building construction, which account for a disproportionate share in the total. On the other hand, he doubted whether there had been any increase in real consumption. Expenditures for consumer goods increased in 1968 by 4 per cent but prices had increased by 7 per cent, which looked very much like a reduction in the level of real consumption, even if no account were taken of a population increase which would further reduce per capita consumption. These figures suggested that it would be hard to compress consumption still further and that any added resources for investment would have to come from higher export earnings.
17. The representative of New Zealand confirmed the suggestion that the import component of investment goods, particularly those for non-building industries, tended to be high and that there would be in any case a tendency, with or without a resumption of investment, for import prices to lift the value of imports and New Zealand’s internal price structure. On the other hand, the risk of a spiral effect setting in was, however, lessened not only by the firm view recently taken by the Arbitration Court, as previously mentioned, but also by the resistance which employers would show toward any cost increases which might lead to high prices in the current depressed market. Furthermore one of the most important sources of farm income, the guaranteed butterfat price paid to New Zealand farmers, had been cut in two successive years for a total of 10 per cent. This reduction would be accentuated by the fact that returns on certain milk by-products (casein and milk powder), which were not covered by the guaranteed price system, had been falling. In the event of a recovery in export prices it was possible that the farm income stabilization accounts would absorb part of the additional income so that farmers' incomes would not reflect the full benefit of the improvement in export prices. This would have a considerable effect in working against any current tendency toward inflation.

System and methods of the restrictions and effects of the restrictions

18. Turning to the evolution and working of the New Zealand licensing system, members of the Committee welcomed the greater liberalization which had been introduced in 1968/69 and hoped that it could be regarded as an auspicious beginning of a continuing process. They expressed the hope that New Zealand would eliminate completely in the near future all import restrictions maintained for balance-of-payments reasons, relying on fiscal and monetary policies rather than on quantitative import controls to dampen demand. They regretted however that provisions introduced into the system in 1965/66 enabling new importers to obtain licences had been dropped in the 1967/68 year and were not reinstated in the current year. As access to the market was in any event difficult, and as established importers tended to continue their connexions with traditional suppliers, this constituted an important obstacle to the establishment of new
sources of supply. Short of reinstituting the previous arrangements, a measure which might be of some assistance to new importers would perhaps be publication of lists of importers with licence entitlements to each item code.

19. The representative of New Zealand acknowledged that the provision for new importers had been dropped, though he felt that in the current year the new liberalizations would more than compensate by extending the area open to new traders. When funds were insufficient to satisfy all demands it was difficult to deny the claims of established businesses dependent for their livelihood on access to licences. As to the possibility of publishing a list of licence holders, by item codes, he could only undertake to report this suggestion to his authorities, although he believed there might be difficulty about disclosure of information which individual firms would regard as affecting their competitive position.

20. Another question concerning the working of the New Zealand system was addressed to the token licence system which it was felt did not allow sufficient imports for established suppliers to maintain a foothold in the market, even taking into account the recent modest increases in the basis of granting licences. Various members of the Committee also referred to particular products which their traders had had especial difficulty in marketing, including woollen piece-goods, aluminium, plywood, lumber and flooring. Some of these restrictions seemed all the more difficult to accept as they included cases in which the product was not produced in New Zealand and also cases in which like goods were admitted free of licensing requirement from certain sources. The representative of a developing country drew special attention to the fact that a manufactured product produced by his country, namely coffee extract, was included in the "D List" which appeared to be the most restrictive licensing category.

21. The representative of New Zealand reminded members that the paramount objective of the whole licensing system was precisely to limit imports. The fact that an item was not produced in New Zealand did not mean that the product was necessarily indispensable or that it would be given higher priority on the import list. As for the token licence system, the only reason for keeping
it was to alleviate the unnecessary damage which would otherwise be caused to other countries' interests, but the present arrangement might be as much as New Zealand could afford in that direction. He confirmed that classification as category "D" usually meant that imports would be licensed only in the most exceptional circumstances, such as might occur if domestic demand suddenly required much more than could be supplied through local facilities.

22. Members of the Committee referred to a body known as the Emergency Protection Authority, which appeared to have been given jurisdiction in the matter of according temporary tariff or quota relief to local industry on purely protective grounds pending action by the Tariff and Development Board on the question of permanent relief. In particular this authority had been given a function in receiving applications for relief with respect to a list of twenty-one items that were to be liberalized on 1 July 1968 provided no applications for protection were pending. They sought more information on how this system could be justified on balance-of-payments grounds and on how it had actually worked in the case of the list of products contained in Appendix XII of the Licensing Schedule, particularly with reference to identifying the industries which have petitioned the authority for increased tariff protection and what action has been taken on such petitions.

23. The representative of New Zealand replied that he could add little to the description of the functioning of the authority already given. In the case of the list of twenty-one items, he was sure some had been made exempt on 1 July. He commented that the removal of import control meant that domestic industry had to rely for protection on the tariff, which in a number of cases had not been reviewed for some time. The authority's power to grant temporary protection while the case was examined by the Tariff Board should in the long run facilitate a shift to tariff protection.

24. Some members of the Committee reverted to the question of discriminatory exemption of Australian goods from licensing pursuant to the free trade arrangement with that country and questioned whether it was consistent with GATT for members of such arrangements to accord one another exceptions from
quantitative restrictions which they justified on balance-of-payments grounds. The representative of New Zealand took note of the point but referred to the report of the working party which had reviewed the Free Trade Agreement (BISD, Fourteenth Supplement, page 117, paragraph 10) where that working party had taken note of the question but had not pursued the issue. He suggested that the same course would be appropriate here.

25. In addition, reference was made to reports that certain recent New Zealand purchases of capital equipment had been accompanied by reciprocal purchases of New Zealand products. Notwithstanding New Zealand's reported view that such transactions in no way departed from the GATT objective of fostering multilateral trade, some members expressed their concern that these arrangements might not be consistent with the GATT objective of multilateral trade since they had some of the characteristics of bilateral barter arrangements and that there was certainly a risk that discrimination might be involved. A question was asked as to whether New Zealand envisaged any future bilateral barter arrangements. The representative of New Zealand replied that in the New Zealand view no departure from GATT principles was involved and that these arrangements were regarded as completely consistent with GATT obligations. Though it was not common practice for governments to disclose information on tenders received, he could say that in both cases referred to the potential suppliers made offers which were the most acceptable. Afterwards New Zealand had suggested that the purchases be made from New Zealand and the potential trade partners had agreed. Given the difficulties New Zealand had encountered in marketing dairy products, which were involved in one case, his Government would have felt justified even if some element of barter had been involved, given the difficulties which other countries had created to the marketing of these New Zealand products.

Conclusion

26. Members of the Committee felt that New Zealand had made substantial progress in coping with a very difficult situation by methods with which they were in general agreement, and they especially welcomed such further liberalization as had occurred. Their main concerns were with respect to the
future, for it appeared to them that much of the current improvement stemmed from situations which would not yield continuing advantage unless New Zealand now intensified its efforts to direct its development toward expanded export trade. To achieve this, some diversification of trade would probably be required. In their view, the best insurance of such a development, and one which would insure the most advantageous allocation of resources, would be further liberalization of imports on a non-discriminatory basis. They thanked the representative of New Zealand for his very competent replies to their many questions.

27. The representative of New Zealand for his part thanked the Committee and promised to convey to his Government the views which had been expressed.