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/94 and Add.1), the New Zealand Import Licensing Schedule and various other materials provided by the representative of New Zealand, a background paper provided by the International Monetary Fund, dated 3 June 1969 and a decision of the Executive Board of the International Monetary Fund taken on 2 July 1969 (see Annex I).

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 8 July 1969. 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 July 2, 1969 taken at the conclusion of its most recent Article XIV consultation with New Zealand and particularly to paragraphs 3 and 4 which read as follows:

'3. Although New Zealand still faces difficulties of access to markets for some of its main export products, and prices of a number of those are still weak, export receipts in the year ended May 1969 totaled $NZ 979 million, over 7 per cent higher in U.S. dollar terms than in the 12 months before the New Zealand dollar was devalued in 1967. The recovery in internal activity led initially to a sharp rise in imports in 1968 but there has been a leveling off since the third quarter of that year. For the year ended May 1969, total import payments were $NZ 763 million and the current account showed a surplus of $NZ 24 million (US$49 million). New Zealand has made substantial repurchases from the Fund and repayments of other balance of payments assistance used in the years 1965-67. At the end of May 1969 net
overseas assets of the banking system and Treasury-held foreign securities together amounted to $NZ 304 million, equivalent to US$ 340 million, which is US$24 million more than in May 1968.

'Some further progress has been made with the relaxation of restrictions on current payments and with the removal of quantitative restrictions on imports and over half of private imports are now free from licensing. The remaining import restrictions and restrictions on current payments are maintained for balance of payments reasons. The Fund believes that continued progress in the liberalization of restrictions, supported by adequate demand management policies, would be beneficial to New Zealand's efforts to promote balanced economic growth.'"

Opening statement by the representative of New Zealand

4. The representative of New Zealand, whose full statement appears in Annex II, traced recent developments in New Zealand's economy and external accounts and indicated that the position was now stronger than it had been for some years. The improvement in the current account in 1968/69 was due to the increase in receipts being more than sufficient to offset rises in payments for imports and invisible items. Although there had been a good recovery in the external accounts over the past year, the current situation should be viewed in the light of the country's overseas debt commitments and export prospects. There were aspects of the economy which still gave rise to serious concern. In particular, New Zealand remained vulnerable to sudden fluctuations in export prices - there was no reason to suppose that stability of commodity prices would be achieved in the foreseeable future - a very large amount of overseas debt would mature over the next few years, and there was a clear need to restructure the economy along more competitive and efficient lines. All these factors made it necessary to maintain existing firm and flexible economic policies.

5. The improved overseas exchange position was circumscribed by a number of factors. The terms of trade had continued to deteriorate and were more unfavourable now than they had been for some considerable time, with little apparent prospect of improvement in the near future. Much of the recent rise in export receipts had been due to increased volume, and the ability to maintain the present level of receipts depended as much on continued access to overseas markets as on the maintenance of favourable prices. Prices for meat had been at satisfactory levels over the past year, and any further movements in prices were likely to be downward. There had been some recovery in the prices in crossbred wool but they were still far from satisfactory and well below the prices ruling before the collapse in 1966.

6. Vigorous efforts were being made to expand the range of exports from New Zealand, and new markets were developing in Australia, South East Asia and Japan. It was inevitable, however, that for some years to come, agricultural products
would continue to be the main source of New Zealand's export income. Restrictions on access to world markets continued to be a major restraint on New Zealand's trade and to impair the achievement of long-term balance-of-payments stability. Many industrial countries continued to impose quantitative and other barriers to access for agricultural imports. In the case of dairy products existing policies had resulted in a chronic oversupply. In the absence of remedial action at international level, New Zealand would continue to be unable to take advantage of its comparative efficiency.

7. Reviewing the 1969/70 import licensing schedule, the representative of New Zealand said that his Government had continued to carry out the relaxation of import licensing on a sound and progressive basis. Further exemptions had been made in the schedule for 1969/70 which would result in the proportion of all private imports free from control attaining about 55 per cent. He drew attention to the National Development Conference's recommendation on a policy for protection for the manufacturing sector, which called for a gradual replacement of import licensing by tariffs, as the main measure of protection, under a clearly defined programme and within a reasonable time. The Government had accepted this recommendation as the basis of its policy.

8. He concluded by saying that New Zealand's ability to implement its stated policy of relaxation of import controls would depend on securing an improvement in trading conditions for temperate agricultural products.

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

9. Members of the Committee expressed great appreciation at the comprehensive documentation and detailed statement by the representative for New Zealand. They were gratified to note the recovery of the New Zealand's balance-of-payments situation and welcomed the emphasis on control over monetary expansion; they hoped that this would make further liberalization possible.

10. Commenting on the recent recovery of the New Zealand's balance-of-payments position, members of the Committee expressed the hope that this upturn would continue and would help quicken the pace of liberalization of trade. They expressed sympathy and understanding for the position of New Zealand and for the many obstacles to the export of its agricultural products; it was to be hoped that GATT action would be helpful in this field in the coming months. With regard to the 1969/70 Import Licensing Schedule, they said that it showed a rather cautious degree of liberalization and appeared to reflect only to a partial extent the improvement of New Zealand's position.
11. Reference was made to the recommendation of the Targets Committee of the National Development Conference in 1968 that "while pastoral products will still form some 70 per cent of New Zealand's exports of goods and services in ten years' time, the greatest growth should come from non-traditional exports", and to an indication given by New Zealand in its last consultation in this Committee of its concern to explore the possibilities for new export-oriented industries. In this context it was asked what progress had been made in establishing new industries, what industrial sectors were being concentrated on in this regard, and what steps were being taken to channel investments to industries which held export potential rather than to import substitution industries. The representative of New Zealand explained that while the recommendations of the Conference represented a general consensus and the Government had already implemented some of these, it could not be said that all the recommendations were "official policy". His authorities were well aware of the importance of diversifying exports and while seeking to identify industries with growth or export potential, import substitution industries which could produce at competitive prices were not absent from their mind. One of the industries which might offer good prospects was the oil industry - oil has recently been found off the Taranaki Coast - but it was not known yet what results this could yield in economic terms.

12. One member of the Committee said that recently there had been signs of inflationary pressure in New Zealand; the Government had taken indirect fiscal, credit and budgetary measures to discourage this tendency. He asked whether these measures had achieved their end. The representative of New Zealand replied that his Government was very aware of the danger of excessive liquidity and wished to preserve the advantages it had derived from devaluation. A number of restraint measures had been taken in 1967; in December 1968 further measures had been taken calling for severe restraint in Government expenditure, restraints on bank advances and hire-purchase. The combination of the 1967 and the 1968 measures seemed to be sufficient to control the situation. In this context attention was drawn to paragraph 2 of the International Monetary Fund Executive Board decision. Another member of the Committee remarked that while certain restraining measures had curbed the growth of internal credit, nevertheless by March 1969 credits and liquid assets in the hands of the public were rising at a faster rate than in March 1968. The representative of New Zealand said that an examination of the 1969 budget would give a good indication of the intention of his authorities to treat this question very seriously. There were for example new savings incentive schemes intended among other things to siphon off excess liquidity. The objective of a 4½ per cent growth in real Gross National Product called for more domestic savings and a higher proportion of investment.

13. To the question posed of whether New Zealand would continue to rely principally on monetary and fiscal policy rather than import controls for maintenance of equilibrium, the representative of New Zealand said that it was clearly on record that the announced policy of his authorities was not to go back on liberalization already achieved. His authorities could therefore be expected to rely to an increasing extent on monetary and fiscal measures.

14. It was asked whether any measures had been taken pursuant to the National Development Conference's recommendation that foreign capital inflow should be encouraged to increase the level of investment in the country. The representative of New Zealand replied that New Zealand continued to welcome foreign investment which generated or saved foreign exchange in proportion to its use of domestic resources. He added that the current budget contained provisions to simplify the procedure for companies wishing to establish themselves in New Zealand.
15. The representative of New Zealand agreed with one member of the Committee who pointed out the problem existing in the debt-repayment area. This was recognized as being a further major constraint on the New Zealand economy. While the greater part of New Zealand's recent short-term borrowing had been repaid, some $NZ 300 million was due for payment in the next five years. In view of the rising interest rates abroad and the prevailing conditions on the major money markets it could not be expected that the long-term element could be refinanced easily. In fact some $32 million had had to be redeemed in London in September 1968 because the conditions were not favourable to reconversion.

System and methods of the restrictions and effects of the restrictions

16. Members of the Committee noted with approval the policy recommendation of the New Zealand National Development Conference cited by the representative of New Zealand in his opening statement and accepted by his Government as the basis of its policy. The Conference had recommended that New Zealand's system of protection should be flexible, that import licensing should be replaced by tariffs as the main measure of protection and that this transition should be carried out in accordance with a clearly defined programme and within a reasonable time. They congratulated New Zealand on having adopted this view and suggested that the present was a good time to press forward to new liberalization. They inquired whether it might be possible for New Zealand to establish a planned reduction of the restrictions now in force on some 45 per cent of its imports, ideally fixing the percentages of liberalization to be achieved each year over a short period of time, until complete elimination of import controls was achieved.

17. The representative of New Zealand replied that he could not add anything substantive to the recommendation cited. He referred to the fact that the International Monetary Fund had only recently found that New Zealand's restrictions were maintained on balance-of-payments grounds and said his Government not only concurred in that view but would share the view expressed in the Fund's additional finding that further progress in liberalization of restrictions, supported by adequate demand management policies, would be beneficial to New Zealand's own efforts to promote balanced economic growth. New Zealand would formulate a clearly defined programme, but it would be impossible to give indications of the rate or speed of further actions. To have moved in three years from a position in which 32 per cent of imports were free of control to one in which some 55 per cent were free was a considerable achievement, particularly as during this period New Zealand experienced its worst economic difficulties since the war. These percentages referred, moreover, not to percentages of trade freely or liberally licensed, as was sometimes meant by "liberalization", but to percentages of trade free of any control. If "basic" licensed goods were included, on which licensing was automatic within the limits fixed, the percentages would be much higher. The National Development Conference recommendation had, moreover, been formulated only about six weeks ago so that it was hardly reasonable to expect that there could already be a clearly defined timetable. Finally, the rate at which progress could be made would obviously depend in large measure on the trend of export receipts which, as had recently been seen, were subject to sudden and substantial fluctuation not likely to be eliminated in the near future.
18. Some members of the Committee drew attention to their continuing concern regarding the discrimination involved in preferential treatment accorded, in respect to quantitative restrictions, to goods of Australia under the free trade area arrangement between New Zealand and Australia. In their view, GATT makes no exception to permit such discrimination in restrictions maintained on balance-of-payments grounds. Such discrimination could in no way help to overcome balance-of-payments difficulties. In the specific case of lumber, veneers, plywood and hardwood flooring, it was certain that the interests of another party to GATT were being adversely affected by discrimination. The representative of New Zealand referred to his Government's view that this question belonged more appropriately to another GATT forum.

19. Specific trade problems on which the representative of New Zealand offered to report to his Government and to provide suitable replies to the interested countries included the following:

- **Aluminium** - It was understood that New Zealand intended to establish an open market for this product, of which New Zealand is not yet a producer, and could this product be removed from restriction?

- **Galvanized iron** - Concern was expressed over the apparent protective element behind a recent 50 per cent decrease in licences issued for galvanized iron following the establishment of increased facilities for manufacture of this product, and a question was raised as to what were future prospects considering that manufacturing facilities were still growing?

- **Apples** - It was fortunate that New Zealand's reversed seasons from those of the northern hemisphere permitted two-way trade in apples between countries in opposite hemispheres without competition in local peak production seasons. One member asked whether licensing would soon be possible at least on a seasonal basis.

- **Wooden rollers for blinds** - Would it not be possible to liberalize imports of this product without limitation to the specific sizes to which licensing was currently restricted (Item Code 17.145)?

- **Motor vehicles** - A recent report indicated that New Zealand had licensed the importation of 300 automobiles from a country not a party to GATT. On what basis was this licensing carried out and was it available to contracting parties?

   (The representative of New Zealand expressed confidence that no such action had been taken but promised to investigate and report.)

20. In commenting on some of the above questions, the representative of New Zealand stated that while he had taken note of the difficulties and would inquire into them, it should be remembered that the objective of the system was to restrain imports and that it was within the right of a country invoking Article XII to choose those products on which the greater incidence of restriction should fall. In general, New Zealand established priorities on essentiality and the existence of home production would in general call for application of this criterion.
21. One member of the Committee commented on the fact that his country's purchases from New Zealand far exceeded New Zealand's purchases from his country. He also asked a question concerning New Zealand's system of valuation of imports. In reply, the representative of New Zealand stated that although his country was not a signatory of the Brussels Convention, its valuation system was fully consistent with Article VII of GATT which had indeed been drafted in part to meet requirements of countries using systems like that of New Zealand. On the trade question, the representative of New Zealand agreed that New Zealand's balance of trade with France was favourable, but in the particular case New Zealand was supplying one of France's raw material requirements - wool. He added that New Zealand had recently gone over to a system of charging duty on liqueurs on the alcoholic content rather than volume, which would amount to approximately a 25 per cent reduction in the duty on these products.

22. A question was also asked concerning New Zealand's method of levying sales tax on imports. The representative of New Zealand confirmed that there was a sales tax on a large number of items, generally at 20 per cent, usually levied at the wholesale point on imports as well as on domestic products. Where imports passed through licensed wholesalers, as was true for perhaps 98 per cent of imports, the sales tax was paid by them on imports exactly as on domestic goods, but in the case of imports by other persons a formula was used for the collection of the tax at the border which, though complex, was believed to result in an equivalent level of taxation.

23. Members of the Committee also referred to the difficulties of new importers in obtaining licences, a matter which had caused complaints in one country concerning the supply of automobile parts. Another member explained that his country's concern went to new products as well as new traders and that his country still felt that it would be most helpful if there could be some means, such as publication of the names of licence-holding importers interested in different trade sectors, by which exporters could make contact with appropriate importers and so offer their goods to the appropriate potential customers. The representative of New Zealand recognized that the licensing system did introduce certain rigidities into trade and stated that this was one reason why New Zealand wished to abandon reliance on this method of import control. However, import figures showed that non-traditional suppliers had been able to improve their position despite the alleged bias created by the established-importer system. Many of these suppliers had made great progress in New Zealand, and as more trade was freed from licensing the difficulty would lessen still more. Nevertheless, assistance could however be given sometimes to overseas exporters by facilitating contact between sellers and New Zealand buyers so long as there was no question of making known the entitlements of licences held by individual licence holders.

24. To the comment that New Zealand's treatment of manufacturers' samples might not conform to GATT requirements, the representative of New Zealand expressed surprise as he believed that New Zealand's requirements were normally fairly liberal, not to mention the fact that the token licensing system provided some trading possibility in a wide variety of consumer goods. With respect to the Thomas steel question recently discussed in another GATT forum, the representative of New Zealand stated that there were no governmentally-imposed restrictions to its importation although it might well be that many engineers privately recommend against its use in particular cases because of its physical properties; it could follow that importers preferred to stock all-purpose steels.
General

25. Some members of the Committee noted that the Fund's statement did not contain a direct reference linking the present level of restrictions to the consulting country's reserve position, but it was also noted that the Fund's Board decision itself stated that import restrictions were maintained by New Zealand for balance-of-payments reasons. Some members of the Committee felt, nevertheless, that the wording of the Fund's decision left considerable latitude to the CONTRACTING PARTIES in considering the application of the provisions of Article XII. They and other members of the Committee shared the Fund's view that continued progress in the liberalization of restrictions would be beneficial to New Zealand's efforts to promote balanced economic growth. These members also suggested that this situation made it all the more desirable for New Zealand to establish a timetable for the removal of its remaining restrictions which would, ideally, fix a percentage by which trade would be liberalized in each year over a short period at the end of which quantitative restrictions would be completely removed. At the same time, the Committee expressed great satisfaction at the extent of progress realized by New Zealand over the past two years and recognized that it was impossible to complete recovery in that short time. They emphasized that their remarks were directed to the future and expressed the hope that recovery would continue and would make possible a quicker pace of liberalization in the near future.
ANNEX I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE ARTICLE XIV CONSULTATION
WITH NEW ZEALAND ON 2 JULY 1969

1. This decision is taken by the Executive Directors in concluding the 1968 consultation with New Zealand pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Since about the middle of last year, economic activity has been rising after a period in which domestic spending was reduced in a successful effort to eliminate a large external deficit. Trading bank advances and discounts rose rapidly in the second half of 1968 and in December the Government raised some sales taxes and reinforced restraints on bank credit. In March 1969 trading bank advances and discounts were 12 per cent higher than in March 1968. Net bank credit to the Government remained below the previous year's level during the year ended March 1969; the budget deficit was roughly the same as in the previous year but larger amounts of debt were sold to financial institutions other than the Reserve Bank and trading banks. The Fund shares the view of the New Zealand authorities that the present expansionary forces should be prevented by appropriate domestic financial policies from recreating conditions of excess demand.

3. Although New Zealand still faces difficulties of access to markets for some of its main export products, and prices of a number of those are still weak, export receipts in the year ended May 1969 totaled $NZ 979 million, over 7 per cent higher in U.S. dollar terms than in the 12 months before the New Zealand dollar was devalued in 1967. The recovery in internal activity led initially to a sharp rise in imports in 1968 but there has been a leveling off since the third quarter of that year. For the year ended May 1969, total import payments were $NZ 763 million and the current account showed a surplus of $NZ 44 million (US$49 million). New Zealand has made substantial repurchases from the Fund and repayments of other balance of payments assistance used in the years 1965-67. At the end of May 1969 net overseas assets of the banking system and Treasury-held foreign securities together amounted to $NZ 304 million, equivalent to US$ 340 million, which is US$ 24 million more than in May 1968.

4. Some further progress has been made with the relaxation of restrictions on current payments and with the removal of quantitative restrictions on imports and over half of private imports are now free from licensing. The remaining import restrictions and restrictions on current payments are maintained for balance of payments reasons. The Fund believes that continued progress in the liberalization of restrictions, supported by adequate demand management policies, would be beneficial to New Zealand's efforts to promote balanced economic growth.
ANNEX II

OPENING STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND

Over the past year the New Zealand economy has made a good recovery from the very severe down-turn in export prices that occurred in 1967. Current overseas transactions have now been in surplus for over a year, reflecting the combined impact of the strong fiscal and monetary measures taken in early 1967 to restrain domestic expenditure and the devaluation of the New Zealand dollar by nearly 20 per cent in late 1967. The recovery on external accounts has been made, however, at the expense of a low rate of increase in real gross national product, which for the March year 1968/69 is estimated at about 2 per cent compared with a decline in 1967/68 and a rise of about 4 per cent in 1966/67.

As a consequence, the overseas exchange reserves are now at a much more satisfactory level. On the last balance day in June 1969, the net overseas assets of the New Zealand banking system were $NZ 229 million. This was an increase of $NZ 20 million on June 1968 and an increase of $NZ 117 million on June 1967. In addition, the recovery in the external accounts has facilitated the repayment of most of the short-term loans raised during the 1967 crisis. The short-term assistance received from the Bank for International Settlements has been repaid and considerable progress has been made in reducing the indebtedness to the International Monetary Fund.

Overseas exchange transactions

Overseas exchange transactions for the March years 1963/64 to 1968/69 are summarized in Addendum 1 to the basic document.

The sharp deterioration which occurred in New Zealand's external accounts during 1965/66 and 1966/67 and which was aggravated by the collapse of wool prices from December 1966 led the Government to take, in 1967, a series of corrective fiscal and monetary measures, including devaluation. From November 1967 the overseas exchange transactions began to show signs of a recovery. In the twelve months ended April 1968 a small current account surplus was achieved, the first since December 1964. The recovery continued through the remainder of 1968 and reached a peak in the October year 1968 with a current account surplus of $NZ 76 million. Following recovery in domestic activity from mid-1968 the surplus has been gradually reduced; in the March year 1969 the current account surplus had been reduced to $NZ 45 million.
The policy of maintaining a healthy current account balance was expressed in the letter of intent to the International Monetary Fund in May 1963 which stated New Zealand's intention of achieving a balance in the current account on overseas exchange transactions in calendar 1969.

The improvement in the current account in 1968/69 was due to the increase in receipts being more than sufficient to offset rises in payments for imports and invisible items. During the year ended March 1969 export receipts rose by $NZ 166 million (21 per cent) whilst import payments rose by $NZ 112.9 million, an increase of only 17.9 per cent. The balance on invisible transactions also improved, the deficit for the year being reduced by $NZ 9 million.

Receipts for all exports, except dairy products, rose during the year. The most important contribution came from meat receipts which, primarily because of the high prices obtained in the United Kingdom, were $NZ 51 million higher than in the March year 1968. It is doubtful whether the present high prices for meat can be sustained much longer and future movements are likely to be downward. There was also some recovery in wool prices during 1968/69 but prices are still well below those received before the collapse in 1966. Under the stimulus of devaluation there has been a very encouraging increase in exports of manufactured goods during 1968/69. Although there has been a good recovery in the external accounts over the past year, the current situation must be viewed in the light of the country's overseas debt commitments and export prospects.

A sudden cut in imports in 1967 would have led to serious dislocation of the domestic economy as well as harming our trading partners. The Government, therefore, decided to step-up the use of short-term overseas borrowing to finance the flow of raw materials and capital goods needed by industry. During the four years to 31 March 1969, official overseas borrowing amounted to over $NZ 649 million. Although a substantial amount of external debt has now been repaid there is still nearly $NZ 292 million to be repaid within the next five years.

Prices for our major exports have in the past often fluctuated violently and without warning. There is no reason to suppose that stability of commodity prices will be achieved in the foreseeable future. On previous occasions New Zealand has found it necessary to rely to a substantial extent on overseas borrowing to cushion the effects of falls in export prices. Consequently it would be prudent to hold high levels of reserves in the future because it is not certain that overseas finance will be as readily available as in the past.
Export Prospects

Vigorous efforts are being made to expand the range of exports from New Zealand. It is inevitable, however, that for some years to come, agricultural products will continue to be the main source of our export income. New Zealand farmers produce high quality goods at the lowest cost in the world, but are faced with grave problems in the attempt to carry forward the expansion of agricultural exports and indeed, even to maintain the past level of trade in certain major products. In recent years meat has overtaken wool as our most important export. Fortunately the world market outlook for beef and veal in particular is reasonably good, although the limitation of imports into the United States, together with the threatened restriction of lamb imports is a matter for deep concern and great disappointment. It is expected that there will be some increase in the export of our growing production of beef to the United Kingdom where we have at present unrestricted access. Exporters will also be paying more attention to the many smaller but collectively valuable markets where beef and veal finds ready consumer acceptance.

The United Kingdom, where there are no barriers against imports, remains our most important market for lamb. Nevertheless efforts are continuing to diversify the trade and so decrease our heavy dependence on a single market. There seem to be reasonable market prospects for mutton for processing in several countries of Asia and these are being explored. We have already consolidated a market for mutton in Japan.

Prospects for wool are clouded by the ever-increasing competition from synthetics. Prices for crossbred wool are at present competitive with synthetics and recent technological advances sponsored partly by the International Wool Secretariat and partly by our own research teams may encourage increased use of wool. Recent economic developments in the major industrial countries and the trend to higher interest rates which could discourage house building (and therefore affect the demand for wool carpets) could alter the situation. In addition the New Zealand Wool Commission still holds substantial stocks although by the end of June about 30 per cent of its original holdings had been sold.

The dairy industry has developed new markets for its produce and is continuing to do so but the lower prices at which some countries offer their subsidized products, together with artificial barriers such as import restrictions imposed by other countries, are severely restricting New Zealand's trade. It appears unlikely that any early solution will be found for the serious oversupply situation in world markets either by means of an international arrangement or otherwise. In the immediate future, therefore, New Zealand will have difficulty in disposing of increased quantities of its traditional dairy exports at economic prices. The dairy industry with Government encouragement is, therefore, aiming at attaining even greater flexibility in its production policies, placing increased emphasis on new types of manufactured milk products and where possible, diverting some of the productive capacity of dairy farms to other products, particularly beef.
It is confidently expected that exports of forest products and manufactured goods will continue to expand although the original stimulus was the devaluation of the New Zealand dollar in November 1967.

The growing influence of the New Zealand/Australia Trade Agreement has resulted in greatly increased exports to Australia and New Zealand manufacturers are becoming increasingly confident and energetic in seeking markets particularly in South East Asia.

The 1969/70 import licensing schedule

The New Zealand Government has continued to carry out the relaxation of import licensing on a sound and progressive basis. The Committee will recall that in December 1967, following devaluation a substantial number of items were exempted from import licensing and that an extensive range was added to the exempt list in the 1968/69 import licensing schedule. Further exemptions have been made in the schedule for 1969/70 and this will mean that the proportion of all private imports free from control will be about 55 per cent. The basic document to these consultations provides details of the 1969/70 schedule.

The Government also announced on 26 June in the Budget that a supplementary import licence allocation of $NZ 5 million in 1969/70 for motor cars would be made.

One of the most significant achievements of the National Development Conference, which held its final plenary session in May of this year, was the agreement on the following recommendation on a policy for protection for the manufacturing sector:

"The manufacturing sector should be accorded a level of protection sufficient to promote steady industrial development, increasing manufactured export and full employment. This level of protection, however, should be such as to encourage competition, efficiency and reasonable prices to other sectors and to consumers and should also have regard to the need to give the consumer choice and variety. It is accordingly recommended that the system of protection should be flexible, that import licensing should be replaced by tariffs as the main measure of protection and that this transition should be carried out in accordance with a clearly defined programme and within a reasonable time. It is recognized, however, that there are cases where other protective measures including import licensing may be more appropriate than a tariff."

The Government has accepted this recommendation as the basis of its policy.
National Development Conference

Fluctuations in economic activity over recent years have emphasized the need for indicative planning in New Zealand and led to the organization of the National Development Conference. The targets and recommendations adopted by the Conference and the establishment of the National Development Council as a continuing body to advise the Government, will undoubtedly have an important influence on the economic development of New Zealand over the next decade.

The Conference adopted a target growth rate for the next decade of 4\% per cent in real gross national product. It stressed that the achievement of this target would require a significant increase in savings and investment, the diversification of the economy through the development of more competitive and efficient industries and the doubling of the value of exports over the next decade. It is hoped that the findings of the Conference will provide the path to a higher rate of growth which in turn will lessen the vulnerability of the economy to balance-of-payments difficulties. If the New Zealand economy is to achieve these aims, however, the gains made over the past year have to be consolidated and this requires the continued use of existing firm and flexible economic policies.

It is these policies which formed the basis for the proposals in the Budget made public on 26 June which were in the main designed to promote desirable economic activity and international competitiveness but which avoid excessive pressure on costs and prices.

The Budget includes substantial incentives to increase savings, for example, the introduction by the Post Office Savings Bank of two new types of bond - a National Development Bond and an Incentive Savings Bond. To make our financial system more effective capital issues controls over finance companies are to be replaced by a Government stock ratio requirement; the recommendation of the National Development Conference for the introduction of Treasury Bills will be implemented; and trading banks will have greater flexibility in making investments and competing for deposits. The Budget also contains many important direct and indirect incentives to our agricultural, forestry, fishing, manufacturing and tourist industries with the objective of increasing exports.

Conclusion

The New Zealand economy and external accounts are now in a stronger position than they have been for some years. There are, however, aspects of the economy which still give rise to serious concern. In particular New Zealand remains vulnerable to sudden fluctuations in export prices, there is a very large amount of overseas debt maturing over the next few years, and there is a clear need to restructure the economy along more competitive and efficient lines. All these factors make it necessary to maintain existing firm and flexible economic policies.

The improved overseas exchange position is circumscribed by a number of factors. The terms of trade have continued to deteriorate and are more unfavourable now than they have been for some considerable time, with little apparent prospect
of improvement in the near future. Much of the recent rise in export receipts has been due to increased volume, and the ability to maintain the present level of receipts depends as much, therefore, on continued access to overseas markets as on the maintenance of favourable prices. Prices for meat have been at satisfactory levels over the past year, and any further movements in prices are likely to be downward. There has been some recovery in the prices in crossbred wool but they are still far from satisfactory and well below the prices ruling before the collapse in 1966.

Restrictions on access to world markets continue to be a major restraint on New Zealand's trade and to impair the achievement of long-term balance-of-payments stability. Many industrial countries continue to impose quantitative and other barriers to access for agricultural imports. In the case of dairy products marketing policies have resulted in a chronic oversupply. In the absence of remedial access at international level New Zealand will continue to be unable to take advantage of its comparative efficiency.

New Zealand's ability to implement its stated policy of relaxation of import controls will depend on securing an improvement in trading conditions for temperate agricultural products.