1. In accordance with its terms of reference the Committee has conducted a consultation with New Zealand under paragraph 4(b) of Article XII. The Committee noted that the previous consultation with New Zealand under the same provisions had been held in July 1969. In conducting the consultation the Committee had before it a basic document supplied by the New Zealand authorities (BOP/112 and Corr.1), the New Zealand Import Licensing Schedule for 1970/71, a background paper provided by the International Monetary Fund, dated 2 February 1971 and a decision of the Executive Board of the International Monetary Fund taken on 17 February 1971 (see Annex I).

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex I). The consultation was held on 8 March 1971. 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. Upon the invitation of the Committee the representative of the International Monetary Fund made a statement, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 17, 1971 taken at the conclusion of the most recent Article XIV consultation with New Zealand and particularly to paragraphs 4 and 5 which read as follows:
4. New Zealand continues to have difficulty in obtaining access to markets for some major products and conditions in export markets have, in some cases, been weak; with the rise in import prices, there has been a sharp deterioration in the terms of trade. In the year to December 1970 export receipts rose by 4 per cent and import payments by 20 per cent, with the current account showing a deficit of $NZ 26 million. Official reserves are at a comfortable level; at the end of December 1970 they totaled $NZ 308 million, compared with $NZ 258 million a year earlier.

5. The Fund urges New Zealand to consider the early abolition of the restrictions which are still maintained on certain payments and transfers for current international transactions. A substantial range of imports remains subject to quantitative restrictions, which are maintained for balance of payments reasons. The Fund welcomes the further progress made by New Zealand towards its eventual goal of exempting all imports from licensing but believes that faster progress in liberalization is feasible and desirable."

Opening statement by the representative of New Zealand

4. In an opening statement, the text of which is reproduced in Annex I, the representative of New Zealand outlined developments since the last consultation in mid-1969 in New Zealand's balance of payments, domestic economy and economic and commercial policies. It was noted that while the foreign exchange reserves had been maintained at a satisfactory level, account had to be taken of substantial debt repayment obligations and uncertainties in the world capital market. The vulnerability of the country's balance of payments had been exemplified by the recent deterioration of the current account which had resulted in a deficit for the first time in two-and-a-half years and showed a continuing trend. Import payments had risen rapidly, far in excess of the rate of increase in export receipts, and the secular worsening of the terms of trade had continued.
5. In this context, the representative of New Zealand referred to various factors tending to dampen future prospects for some of the country's principal exports, namely beef, lamb and dairy products, not the least important among which were the protectionist policies of industrial countries. While export earnings were not expected to rise by more than a small margin this year and export prices were unlikely to improve, import prices had risen rapidly partly owing to the inflationary pressures experienced in industrial countries.

6. New Zealand had also experienced serious inflationary pressures which had considerably raised production costs in the pastoral sector of the economy. The various disinflationary fiscal and monetary measures which the Government had introduced to redress the situation had so far not proved sufficient to arrest the wage-price spiral, and direct controls of wages and prices had to be resorted to. In spite of these serious problems, the dismantling of import control had continued. Since the last consultation a wide range of goods had been exempted from licensing; about 65 per cent of all private imports in 1970/71 were licence-free, compared with 55 per cent in the previous period. Further exemptions would come into effect in July 1971.

7. In conclusion, the representative of New Zealand stated that the dismantling of import controls, undertaken as part of a long-term effort to restructure the economy on more efficient lines, would be pursued in an orderly and systematic manner. The pace was heavily dependent on New Zealand's ability to earn a level of export income consistent with the likely demand of imports in the absence of controls.

Balance of payments, position and prospects

8. Members of the Committee expressed appreciation for the comprehensive information supplied by New Zealand in the documentation and in the opening statement. They expressed gratification at the improvement in New Zealand's balance of payments and foreign exchange reserve position. They welcomed the steps of trade liberalization taken by New Zealand since the last consultation as well as the declared intention of New Zealand eventually to exempt all imports from licensing.
9. Some members of the Committee noted that although the overall balance of payments of New Zealand had improved significantly in the last three years, the current account had shown a deficit and was tending to deteriorate further, mainly owing to a rapid rise in imports and a more sluggish growth of exports. In addition to the declining export prices and uncertain prospects for certain commodities, there existed serious problems of access to certain overseas markets. Above all, the United Kingdom's entry into the European Economic Community was likely to have far reaching effects on New Zealand's balance of payments. New Zealand depended heavily for its export earnings and livelihood on a narrow range of agricultural products for which the United Kingdom constituted the most important market. According to a report of the New Zealand Monetary and Economic Council, British membership in the EEC would entail for New Zealand an immediate loss of $NZ 150 million of annual export earnings from dairy products alone if the entry terms provided no safeguard for New Zealand's interest, or an eventual reduction of $NZ 85 million in pastoral product export earnings if there were a transitional period during which the farm sector could be restructured through substantial investment. Additional losses would be incurred if the conditions of access in an enlarged EEC for such other New Zealand products as lamb should be less favourable than those now prevailing in the United Kingdom. Even though the United Kingdom Government had firmly undertaken to seek special safeguards for these products, the apprehensions on the part of New Zealand would seem to be legitimate and to justify a cautious approach in regard to the relaxation of import restrictions.

10. The representative of New Zealand stated that while in the light of the firm assurances given by the British Government, New Zealand had full confidence that her exports of dairy products and lamb would be afforded suitable protection in the event of Britain's entry into the EEC, the uncertainties involved should not be underestimated. Furthermore, safeguards had so far been envisaged for these pastoral products only, and there was little likelihood of similar protection being extended to other products for which the loss of the British market would also have considerable consequences for the New Zealand economy. In addition,
the United Kingdom Government had given notice that it intended to introduce in
the near future a system of variable levies on agricultural products. Although
assurances had been given by the United Kingdom Government that this measure
would not be harmful to New Zealand's trade in lamb, an element of uncertainty
nevertheless would overhang this vital branch of the New Zealand economy. As
regards other markets for New Zealand's exports, protectionist tendencies in the
United States, as had been manifest in recent legislative proposals, caused
serious concern in regard to the conditions of access for beef and lamb. These
factors of uncertainty, accompanied by the worsened terms of trade as well as the
heavy debt repayment obligations, would have to be taken into account in
evaluating New Zealand's balance-of-payments prospects and capabilities for
import liberalization. Even under these circumstances, 65 per cent of
New Zealand's total imports had been freed from licensing control and, in the view
of the New Zealand authorities, it would have been imprudent to proceed faster than
it had in fact done with the removal of the remaining restrictions. Moreover,
New Zealand's attitude was influenced by its policy not to reduce the extent of
liberalization already achieved.

11. Members of the Committee referred to the estimates given by the New Zealand
representative of export earnings in 1970/71 and 1971/72, which appeared to be
unpromising, and asked whether in the view of the New Zealand authorities the worsened
current account balance was likely to persist or whether the favourable trend
seen after the 1967 devaluation might be restored. In reply, the New Zealand
representative pointed out that while prices of meat had been buoyant in the last
two years, the rising trend was unlikely to be sustained. While the markets for
butter, cheese and other milk products had indeed firmed, exports had been
hampered by shortfalls in supply caused by two successive years of drought. Wool
prices had fallen persistently and there seemed no hope of recovery. On the other
hand, the prices of New Zealand's imports, which consisted mainly of manufactured
goods, would undoubtedly continue to rise. These were the main factors
responsible for the stringent current account situation forecast for the present
and the coming fiscal years. Historically, New Zealand's current account had
normally been in deficit, the surpluses of 1969 and 1970 being rather exceptions.
12. In answer to a question about the cause of the decline in New Zealand's meat exports in the second half of 1970, and the prospects for the immediate future, the representative of New Zealand thought that the fall might partly be attributed to the exceptionally high prices of the preceding period and partly to the fall in production on account of the drought. As regards the future the long-term prospects for beef should be excellent in view of the substantial deficit in the EEC countries and the rapidly expanding demand in the United States. The variable levy, when introduced in the United Kingdom, could, however, adversely affect New Zealand's export earnings from lamb.

13. In reply to questions concerning New Zealand's efforts to diversify her economy by broadening the country's industrial base and their effect on export earnings, the representative of New Zealand stated that with the devaluation of 1967 a useful impetus had been given to export production in the industrial sector but this by now had to some extent been eroded by the increases in costs. Exports in the "manufactures" category had indeed doubled in the last two years, but still represented no more than 4 per cent of total exports. Future prospects would seem to depend on conditions prevailing on foreign markets. Manufacturing production as a whole had expanded rapidly in recent years, at an annual rate of 6 per cent between 1959 and 1969, compared with about 3 per cent in the farming sector. The manufacturing sector now employed about 30 per cent of the labour force.

14. In answer to a question, the New Zealand representative stated that no firm estimates had been made of the overall balance of payments for the current fiscal year but that this could comprise a current account deficit of some $NZ 60 million.

15. In clarification of a point relating to the level of New Zealand's foreign exchange reserves the Committee was informed that the official reserves comprised foreign exchange holdings of the banking system as well as short-term securities held by the Treasury and other sectors of the Government. The total had risen from some $NZ 300 million to over $NZ 345 million between mid-1968 and mid-1970, in spite of sizable debt redemption (but taking account of an SDR allocation).
The reserves standing at the end of June 1970 were equivalent to the value of four months imports.

16. Members of the Committee, while sharing New Zealand's concern in regard to future uncertainties, pointed out that the official reserves had now reached a comfortable level which should make it possible for New Zealand to consider the early abolition of the remaining import restrictions, which were still applied on a substantial range of products. In the light of the findings of the IMF, as quoted in paragraph 3 above, the Committee urged New Zealand to make faster progress towards the goal of exempting all imports from licensing.

**Alternative measures to restore equilibrium**

17. Some members observed that the information before the Committee indicated clearly that the principal problem faced by the New Zealand Government was domestic inflation and excessive demand which placed a heavy burden on the balance-of-payments by raising production costs and augmenting demand for imports. They therefore commended the New Zealand authorities for the successive fiscal and monetary measures that had been taken to curb internal demand and control the level of wages and prices. They expressed the view that the liberalization of imports would also have the effect of lessening the pressures on prices.

18. Invited to comment on the likely effect of the series of stabilization measures taken since the "mini-budget" of 1970, the representative of New Zealand referred to the measures taken in December 1970 further to control credit expansion and the severe controls on price and wages introduced in February 1971 to implement an incomes policy. These measures now appear to have begun to take effect.
System and methods of restrictions

19. Members of the Committee recalled the criticisms presented at previous consultations with New Zealand over the extremely complex character of its import control system, which involved the classification of imports into numerous categories and the use of various different methods of allocation and licensing which had to be set out in a voluminous licensing schedule. In particular, the system of granting allocations to importers on the basis of their previous imports and of issuing licences for certain imports only to importers of at least three years' standing would seem to be harmful in that it tended to hamper the entry of newcomers and favour established traders and their traditional or habitual sources of supply, to the detriment of competing suppliers in other countries. They expressed the hope that increasing scope would hereafter be provided for newcomers, such as by way of giving them "basic entitlements" on a comparable footing with established traders, instead of continuing to submit them to the vagaries of administrative discretion. The complexity of the system and of the built-in rigidities, in their view, could not but have the effect of placing an additional burden on foreign exporters as well as on importers and consumers in the country.

20. The representative of New Zealand explained that the apparently complex import control system was the result of continuing efforts to adapt the controls to changing exigencies with a view of providing the maximum flexibility within the limits set by the balance-of-payments considerations. The various categories and methods of allocation used were designed to meet the particular needs of particular sectors of imports. Indeed the controls would have been much more rigid and restrictive of trade if all imports were made subject to a single, inflexible procedure. It should be noted that all licences issued were valid for imports from all sources of supply and that the traders were free to seek out the most advantageous sources of supply for their imports and place their orders on commercial considerations. In the view of the New Zealand's authorities, even if the system somewhat favoured established importers, it in no way discriminated against any supplying countries.
21. On the question of providing incentives for new importers the New Zealand representative recalled the press statement issued last May which indicated two approaches: first additional funds were being allocated to a number of selected item codes to provide for new importers; in other cases new importers could obtain licences for additional supplies where they had already drawn their normal supplies from basic licence holders (cf. L/3395, page 6).

22. A member of the Committee asked what was the size of the credits allocated to enable new importers to make direct importation. The New Zealand representative explained the allocation of funds for new importers was done through discretionary decision and would thus relate to "limited" amounts in each case.

23. Members of the Committee recalled the request which they had made during a previous consultation for the supply of a list of New Zealand importers who held import entitlements for the various item codes which could serve as reference to exporters in other countries in seeking contact with established importers in New Zealand. The New Zealand delegation had indicated at that time that "assistance could be given to overseas exporters by facilitating contact between sellers and New Zealand buyers so long as there was no question of disclosing the amounts of the licences held by individual licence holders". The New Zealand delegation confirmed his Government's willingness to provide such assistance although it would be unable to divulge any confidential information which might prejudice the legitimate commercial interests of particular enterprises. In view of the importance attached to the request, the New Zealand representative undertook to convey it to the attention of his Government for consideration.

24. In the course of discussion, references were made to a recommendation by the National Development Conference that import licensing should be replaced by customs tariffs as the main means of protection and that this transition should be carried out in accordance with a clearly defined programme and within a reasonable time and to the recommendation of the Monetary and Economic Council in its twentieth report of December 1970 for the immediate expansion of the token licensing system and increases of licences for products in the protected categories. Invited to comment
on the Government's policy regarding the implementation of these recommendations, the representative of New Zealand stated that the recommendation of the National Development Conference mentioned above had been accepted as the basis of Government policy (cf. e.g. L/3395, page 2). As regards token imports, the IMF recommendation of last December would be considered by the Government during the preparation of the Import Licensing Schedule for 1971/72.

25. Some members of the Committee reverted to the question of licensing discrimination applied in the context of the New Zealand-Australian Free Trade Arrangement which had been raised in previous consultations. They questioned the balance-of-payments justification of this discrimination and referred to the provisions of Article XII:4(c) in justification of this Committee's competence in regard to a matter of this nature. The representative of New Zealand recalled his Government's view that this question belonged more appropriately to another GATT forum, and referred to past discussions on the interpretation of Article XXIV of the General Agreement, particularly in the Report of the Working Party on NAFTA (BISD, 14th Supplement, page 117, paragraphs 8-10). One of the members raising this question referred to the language of Article XXIV:8 and stressed their conviction that the New Zealand measures infringed the provisions of Article XIII and was a suitable subject for clarification in a consultation under Article XII:4. The representative of New Zealand and certain other members were of the view that it would be unprofitable to pursue the matter in this Committee, having regard to the divergence of views among contracting parties on this issue of common relevance to many other regional grouping agreements examined by the CONTRACTING PARTIES.

26. The representative of New Zealand, in response to another question, maintained that the licensing control applied to the import of industrial samples was not intended to restrict the import of genuine industrial samples, the licences required being issued freely and that there could consequently be no question of infringement of the provisions of Article XII:3(c).

Effects of the restrictions

27. In response to a request the New Zealand representative undertook to obtain and supply for the information of the contracting parties at a later stage data showing the commodity composition of the products subject to licensing control, which represented one third of New Zealand's total imports.
28. In response to questions the representative of New Zealand stated that as trade liberalization progressed an increasing number of products that were available from domestic production would be affected and there were therefore likely to be an increasing number of cases in which the removal of licensing control would be accompanied by the introduction of tariff protection, although no precise figures could yet be given in this regard. The New Zealand authorities were not in a position to give any precise indication as to when the "D" items would be exempted from licensing; in the nature of things these products would probably not be given priority as long as imports need be restricted on balance-of-payments considerations.

29. In answer to a question concerning the Emergency Protection Authority the Committee was informed that in forty cases temporary protection had been granted in the form of licensing or import duties and in fifty-seven other cases the request for such protection had been refused. Members of the Committee commented on the undesirable effects of such protection which might not be commensurate with the economic costs involved, especially where there had been undue delay in the deliberations of the Board charged with assessing the need for protection. The representative of New Zealand considered that while the delays involved might be undesirable they might in some cases be necessary in order to provide adequate opportunity for overseas suppliers to make representations.

30. One member of the Committee called attention to the fact that his country's imports from New Zealand continued to exceed by many times the trade in the reverse direction (for example in 1969 imports $NZ 50 million, exports $NZ 7 million). Although bilateral balancing was not desired in the context of GATT and admittedly the New Zealand imports controlled involved no discrimination, it would be helpful if New Zealand could explore ways and means of increasing her imports of the kind of products normally exported by his country. The New Zealand representative observed that the considerable imports of that country from New Zealand largely represented wool shipments, that is, an industrial raw material needed by that country to meet her own industrial requirement and in her economic interest. He also noted that a Minister of the country concerned had recently visited New Zealand and held talks with the authorities there on ways in which trade between the two countries could be expanded.
Conclusions

31. The Committee expressed gratification at the progress that had been made by New Zealand during the past year in liberalizing imports. It noted, however, that roughly a third of imports remained subject to quantitative restrictions, while official reserves had reached a satisfactory level and that the IMF believed that faster progress in liberalization was feasible and desirable. The Committee proposed that New Zealand should be urged to expedite the process of eliminating the restrictions maintained for balance-of-payments reasons, even though it recognized that further progress must be viewed in the context of the great uncertainties facing the country's economy.

32. Pending the elimination of restrictions, the Committee expressed the hope that steps could be taken to simplify import control procedures. While acknowledging that the system was intended to meet the legitimate needs of international trade, the Committee noted that it operated to some extent to the advantage of traditional suppliers.