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 March 1971. In conducting the consultations, the Committee had before it a basic document supplied by the New Zealand authorities (BOP/126) the text of a Press Statement by the New Zealand Minister of Customs on 1972/1973 Import Licensing Schedule (Spec(72)28), a background paper provided by the International Monetary Fund, dated 12 May 1972, and the text of a decision of the Executive Board of the International Monetary Fund taken on 31 May 1972.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex I). The consultation was held on 19 June 1972. 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 IMF to consult with them in connexion with the consultation with New Zealand. Upon the invitation of the Committee the representative of the IMF made a statement, as follows:
The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 31, 1972, 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 abroad for some major farm products. However, prices for most primary products have risen in 1971, and despite rising import prices the long-term deterioration in the terms of trade was arrested. In the year ended January 1972, export receipts rose by 10 per cent and import payments by 8 per cent with the current account showing a surplus of $NZ 48 million. Official reserves are now at a comfortable level; in the twelve months to January 1972, they rose by $NZ 173 million to a total of $NZ 511 million, equivalent to some six months of merchandise imports.

5. The Fund welcomes the action taken by New Zealand in June 1971 to liberalize restrictions on payments and transfers for current international transactions. A substantial range of imports remains subject to quantitative restrictions for which in its relations with GATT the New Zealand Government claims balance-of-payments reasons. In June 1971, the Government decided that tariffs would replace import licensing as the main measure of protection. Accordingly, a major review is being undertaken, designed to accomplish such replacement within five years. The Fund hopes that the review of the protective system will be accelerated and believes that the
present balance-of-payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions."

**Opening statement by the New Zealand representative**

4. Reproduced in the Annex to this report is the complete text of the New Zealand representative's opening statement, in which he described recent changes in the various sectors of New Zealand's balance of payments, developments in domestic economic activity, price and wage control and other measures aimed at stabilizing the economy, future payments prospects with reference to New Zealand's major exports, efforts at diversification and debt servicing obligations, recent measures of trade liberalization, and the decision to replace import licensing by tariffs as the main instrument of protection.

5. It was noted in the statement that since the last consultation in March 1971, there had been a considerable improvement in New Zealand's external financial position, reflecting favourable movements in both exports and imports as well as on capital account. Receipts from all major export commodities had increased, the deficit on invisibles had diminished and the increase in import payments had slowed down, which reflected a general slackening of the economy. The various measures aimed at stabilizing prices and wages had been strengthened because of the continuing inflation. Owing mainly to a very sharp increase in net private capital inflow, the capital account surplus had also contributed substantially to the reserves.
6. As regards future prospects, the New Zealand representative referred to the weakening trend in world markets for various dairy products, the uncertainties for the country's dairy and meat exports arising from British entry into the EEC, and the unpredictability of future wool prices, which all counselled caution. On the other hand, exports of forest products and other manufactured goods were expanding and promised to be a stabilizing factor in the balance of payments in the long run. Overall, total export earnings were expected to continue to rise in 1972/73, though at a much lower rate than in 1971/72.

7. By contrast, import payments were expected to increase sharply, although the rise in wages and prices had begun to taper off. While measures to contain inflation were being maintained, action had also been taken to stimulate investment and to boost economic activity, including a relaxation of monetary restraints. This, together with the possible adoption of an "expansionary" budget, fore­shadowed a return of consumer confidence and might well herald a sharp rise in economic activity, both of which might bring renewed pressures on the balance of payments. The easing of the monetary restraints might also reverse the leads and lags in import payments, so as to accentuate the call on foreign exchange reserves.

8. In the 1971 budget, the Government had announced a decision to institute a major review for the purpose of achieving, by 1976, the replacement of import licensing by tariffs as the main measure of protection. A first list of proposed exemptions, consisting of about 700 items, had been announced in October 1971, to be followed by a second list in the near future, and public hearings were being
held by the Tariff and Development Board. This apparently slow and cumbersome procedure was considered to be necessary in order both to ensure the formulation of a well-considered and reasonable tariff scheme, and to avoid undermining the confidence of domestic industry. In the view of the New Zealand authorities, tariffs as a means of commercial policy having been neglected for so many years, the comprehensive overhaul of the tariff structure that was needed could hardly be accomplished overnight. The review of import licensing within the five-year period had been given high priority and various steps had been taken to facilitate the task.

9. The New Zealand representative described the various steps taken in the 1972/73 licensing schedule to reduce the incidence of the restrictions, including a rise in basic licences, higher allocations for token imports, and an expansion of the provision for new importers, and cited certain studies and projections to stress the need for caution and to demonstrate the limits to which liberalization could be undertaken without endangering the external reserve situation or risking retrogression.

10. In conclusion, the representative of New Zealand maintained that the current favourable balance-of-payments position of New Zealand was attributable to a conjunction of special factors, which assured no permanent departure from the traditional current account deficit position. Import payments were likely to increase sharply as inflation abated. The New Zealand economy, which was dependant on primary exports, still faced great uncertainties. In the view of the New Zealand authorities, the decision to switch from import licensing to tariffs for the protection of domestic production within five years had been taken with due regard to the need for a sound tariff structure and to the uncertainties which the New Zealand economy continued to face.
Balance-of-payments position and prospects

11. Members of the Committee thanked the representative of New Zealand for his informative and comprehensive statement. They expressed gratification at the substantial improvement in New Zealand's balance-of-payments position which, in their view, was attributable not only to the fortuitous amelioration of world market conditions for the country's exports, but also to the internal stabilization measures that had helped to moderate the rise in import demand. They recalled the somewhat pessimistic outlook presented by the New Zealand delegate at the last consultation in March 1971, which had been belied by the remarkable turn-round in the payments situation. The 10 per cent rise in exports and the increase in import by merely 8 per cent in 1971 were both unexpected, and these, together with a large inflow of capital had brought the reserves to a level equivalent to six months imports by the end of January 1972. While noting that some special factors had been at play, that uncertainties still existed concerning future export earnings, and that the recent measures to stimulate recovery of economic activity might have some adverse effects on imports, members of the Committee expressed the view that overall improvement in the balance of payments appeared to have been of a sustained nature. In their view, the phenomenal rise in reserves and the strong balance-of-payments position provided an excellent opportunity for New Zealand to consolidate the substantial progress that had already been made in liberating imports by taking a sweeping action in dispensing with the use of import restrictions on balance-of-payments grounds; the steady increase in the proportion of total imports exempt from licensing over the past eight years (from 17.6 per cent
in 1964/65 to 60 per cent in 1971/72) had demonstrated both the feasibility and the soundness of the policies pursued.

12. The representative of New Zealand pointed out that the various favourable developments in the balance of payments in the past year had mainly been the result of special, temporary factors, which might not be recurrent or continue. While appreciating the keen expectations that those apparent improvements and the high level of reserves had nourished, the New Zealand authorities were of the view that uncertainties in world markets and the country's preponderant reliance on a limited number of agricultural exports, made it difficult for the Government to undertake definite commitments as regards the liberalization of imports. The steps that had been taken and the progress that had been made, as might be seen from the large proportion of imports exempted from licensing, demonstrated New Zealand's earnestness in achieving the declared objective of replacing licensing by tariffs for the protection of industry. The present prudent attitude was justified by the sincere belief that the current account surplus of the past year would not be sustained and that precipitate action might necessitate retrogression at a later stage which would be as harmful to exporting countries as they would be unpalatable for the New Zealand authorities. Specifically, the New Zealand representative believed that the present trend of increasing imports would lead to the reappearance of a current account deficit by March 1973.

13. In this connexion, attention was also drawn to contributions made by the inflow of capital to the accumulation in reserves. In reply to questions the New Zealand representative stated that the exceptionally high level of capital
imports in 1971 was also attributable to particular circumstances. The large
inflow of private capital in 1971-72 to some extent reflected investments relating
to one particular aluminium project, and the high level of government borrowing,
while adding to the reserves, entailed additions to debt obligations, some of which
fell due in the near future.

14. Members of the Committee expressed the view that the improvements in the New
Zealand balance of payments evidently were more soundly based and that the New
Zealand authorities would be over-cautious if they did not take advantage of the
present opportunity to consolidate the progress that had been achieved by taking
a sweeping step in liquidating the restrictions applied for balance-of-payments
reasons. They referred to the findings of the IMF as quoted in paragraph 3
above, and questioned the compatibility between the existing importing restrictions
of New Zealand and the criteria and conditions set forth in paragraph 2 of
Article XII for the use of such restraints for balance-of-payments purposes.
They urged the New Zealand authorities to proceed as quickly as possible in the
reduction of the existing restrictions consistently with the requirements of those
GATT provisions.

**Scheme to replace import licensing by tariffs**

15. Most members of the Committee expressed satisfaction over New Zealand's desire
to replace import licensing by tariffs, pointing out in this connexion that under
the GATT system tariffs were the normal means of industrial protection and that
the use of quantitative restrictions for that purpose was not permitted except
in defined circumstances and subject to specified procedures. Consequently, some
members expressed concern over the reference to New Zealand's pronouncements to
using tariff as the "main" rather than the sole measure of protection in future, and over the lengthy period of five years to accomplish the transfer. Furthermore, the first list of 677 products was said to include items of small import value. This would seem to reflect a reluctance to face the hard-core problems of more significant dimensions and might result in slower and more difficult progress at later stages of the programme. In fact, it had already been recognized in some quarters that in certain instances import licensing might be retained indefinitely. Some members commented on the "rather slow and cumbersome" procedures that had been adopted for the review of existing restrictions and referred to the New Zealand authorities own view that five years was the shortest possible time for the completion of the review of existing restrictions, which seemed to suggest that a considerable number of restrictions might find themselves still in existence many years hence, whether or not they were justifiable on balance-of-payments grounds or otherwise permitted under the terms of GATT.

16. The representative of New Zealand expressed understanding for the sense of disappointment of these members of the Committee, but assured them that his Government's firm intention was to implement the scheme to the quickest pace consistent with the desire to establish tariff protection on a balanced basis and at an optimum level. The first list of products would be followed by another shortly, and the review machinery had been streamlined and strengthened with a view to accelerating the process. The first list of proposed exemptions, issued shortly after announcement of the five-year review was not necessarily representative of the overall approach, but many of the products included were in fact sensitive items involving domestic interests. It was not envisaged that the restrictions to be tackled at a later stage would necessarily be of a more obdurate nature.
17. Members of the Committee sought clarification as to the way in which the review of restrictions was being conducted, and the procedures and arrangements for the operation of the Tariff and Development Board. In answer to questions the New Zealand representative explained that there was normally no prior consultation with industry concerning the choice of items for inclusion in any list of proposed exemptions, there being established criteria to serve as guidance in this regard. Such lists were published from time to time and representations by industry or other affected parties were referred to the Board for enquiry. The absence of any representation would result in exemptions without further formality. Public hearings would be instituted in all cases in which a submission was received. In order to speed up the process, the Board could divide itself into Committees with plenary powers. There was every reason to expect an accelerated pace of the proceedings once the present backlog was cleared up.

18. In answer to questions concerning the Emergency Protection Authority, the New Zealand representative explained that this organ was designed to examine proposals for emergency action. It was empowered to examine proposals concerning new emergency measures of the kind envisaged under Article XIX of GATT, and other cases in which a damaging upsurge of imports was threatening in consequence of an exemption proposed for the near future. The Authority was required to present its recommendations within a month after receipt of a complaint. All its recommendations, which concerned stop-gap measures of an urgent nature, were subject to review by the Tariff and Development Board and would automatically lapse in twelve months unless acted upon and confirmed by the latter. In most
cases the protection recommended by the authorities had consisted of an increase in the tariff rate rather than resort to, or retention of, import licensing.

19. One member asked in what way the review process would fit in with the phasing-out of New Zealand's preferential duties once the United Kingdom joined the EEC. The New Zealand representative said that he understood the matter had not been considered in the UK/EEC negotiations. It could be expected to be one of the factors to be taken into account in the five-year review.

20. A member of the Committee expressed the view that the import duties that eventually replaced the present import restrictions should not afford a greater degree of protection to domestic industry than it now derived from those restrictions.

Systems and methods of restrictions

21. Members of the Committee welcomed the recent measures of liberalization as described in the basic document and in the New Zealand representative's opening statement, but thought that they generally fell short of what would be required in the light of New Zealand's present balance-of-payments position. For one thing, they felt that the percentage increase in the basic import licence in 1972/73 had been inadequate; the figure for 1972/73 was only 110 per cent as of the 1971/72 level, and the effects of this increase must have largely been absorbed by the rise in import prices. In reply, the representative of New Zealand emphasized that for a number of items the increases had been much higher than 110 per cent, in one case even 150 per cent. While inflation indeed discounted the value in real terms of a given level of licence, the increases were considered to be the maximum permitted under present balance-of-payments conditions.
22. Asked whether an item would be exempted if in the preceding year quota allocated for it had not been used up, the representative of New Zealand replied that such a situation had hardly ever been met and there was no automatic liberalization in the way described. Owing to the flexibility of interchangeable licences, an importer had no difficulty in using up any licences to which he might be entitled.

23. In reply to a question, the New Zealand representative stated that the choice of products in relation to the various licensing procedures was determined on the basis of "essentiality" as provided for in paragraph 3(b) of Article XII of the General Agreement.

24. Referring to the system of token licences, one member of the Committee noted that the increase on a value basis of the token licences in 1972/73 had been significantly more moderate than in the preceding period, and that the present level amounted to no more than $7 million. The representative of New Zealand recalled that in recent years these token licences, which were applicable only in the diminishing area of unexempt items, had been increased substantially. Without committing his Government, he thought some further increases could be expected.

Effects of the restrictions

25. In response to an enquiry, the Committee was informed that among the items for which licence allocations had been reduced in 1972/73, these included: woven woollen piece-goods (to 50 per cent), woven synthetic piece-goods (to 85 per cent), plastic inflatable toy balls and other plastic inflatable toys, crockery and copper
tubing. With regard to the first two items mentioned above a member of the Committee expressed his Government's apprehension over the negative effect on his country's exports of these reductions which did not appear to be justifiable on balance-of-payments grounds. The representative of New Zealand pointed out that under the terms of paragraph 3(b) of Article XII, his Government, as long as it was justified in maintaining a given general level of import restrictions, was entitled to choose the products to be restricted on the basis of "essentiality", which was partly determined by domestic availability in relation to domestic demand.

26. With reference to a statement made by the New Zealand Minister of Customs on 6 April 1972 concerning the 1972/73 Licensing Schedule, a member of the Committee asked whether in the meantime there had been any further relaxation of the licensing restrictions for built-up cars. The representative of New Zealand thought it possible that the new Budget to be presented shortly might contain provisions in this direction.

27. A member of the Committee pointed out that in the case of copper tubing, an item whose exemption had been envisaged, an EPA recommendation had resulted in an actual reduction of the existing level of imports envisaged, much to the detriment of interests of exporters such as his own country.

28. One member of the Committee recalled the discussion at the previous consultation of 8 March 1971 on the question of licensing discrimination in favour of Australia applied in the context of the New Zealand-Australia Free-Trade Arrangement (see BOP/R/52, paragraph 25) and reiterated his Government's view.
that these exemptions were in violation of Article XIII of the General Agreement. The representative of New Zealand maintained his Government's position that this question belonged to another GATT forum.

Conclusions

29. The Committee expressed appreciation for the comprehensive and useful information supplied by the New Zealand delegation, and for the co-operative manner in which it had taken part in the consultation. Members of the Committee welcomed the steps of liberalization which the Government of New Zealand had taken since the last consultation, but expressed concern, as noted in the preceding sections of this report, over certain aspects of the manner in which the import licensing system was being operated.

30. The Committee noted the substantial improvement in New Zealand's balance of payments and the considerable rise in its external reserves, which had reached a comfortable level. It welcomed the New Zealand Government's intention to replace quantitative restrictions by tariffs, but considered the time schedule that it had adopted for this and the initial step that it had taken to be unduly cautious. The Committee noted the New Zealand view that the present strong balance-of-payments position was mainly attributable to special factors and that the current account would soon revert to its usual deficit position. While noting the uncertainties still facing the New Zealand economy because of its extreme dependence on agricultural exports, the Committee was in agreement with the IMF's belief that "the present balance-of-payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions". In view of this finding and the provisions of Article XII:2 of the General Agreement, the Committee urged that the Government of New Zealand substantially accelerate the review and removal of the remaining restrictions, which were imposed under Article XII of the General Agreement.