DRAFT REPORT OF THE WORKING PARTY ON THE NEW ZEALAND IMPORT DEPOSIT SCHEME

1. The Working Party on the New Zealand Import Deposit, established by the Council of Representatives at their meeting of 17 February 1976, was asked:

"To examine the Import Deposit Scheme introduced by the Government of New Zealand and its implications, to report to the Council and to continue to be available for consultation as necessary."

2. The Working Party noted that a temporary Import Deposit Scheme had been introduced by New Zealand in February 1976 for a duration of one year which subjected imports to a prior non-interest bearing deposit of 33.3 per cent of the current domestic value of the goods for a period of six months. The product coverage of the deposit scheme, affecting some 7.4 per cent of New Zealand total imports (June 1974/75 value), was detailed in documents L/4303 and L/4359.

3. The Working Party met on 15 June 1976, and, in accordance with the provisions of Article XV of the General Agreement carried out a consultation with the International Monetary Fund, which supplied a comprehensive background paper as well as the text of a Decision by the Executive Board of the International Monetary Fund, taken on 26 April 1976.

4. The Working Party heard a statement by the representative of New Zealand, (the full text of which is reproduced in Annex I), giving a detailed account of the economic and balance-of-payments circumstances which had led the New Zealand authorities to introduce an import deposit scheme. In particular, he stressed the temporary nature of the scheme, which had an expiry date on 2 February 1977, its non-discriminatory application, and
its limited trade effect in terms of total imports affected. It was his authorities' belief that the balance-of-payments problems facing New Zealand were of sufficient magnitude to have warranted much stricter measures.

5. The Working Party heard a statement by the representative of the International Monetary Fund (the full text of which is reproduced in Annex II) which concluded as follows:

"The Fund notes that, in order to reduce New Zealand's external imbalance, the authorities have recently adopted a number of measures aimed at slowing the growth in domestic expenditure, curbing inflation, and thereby reducing the current account deficit. The implementation of these measures should allow the elimination of the import deposit scheme by its termination date of February 2, 1977."

Balance-of-payments situation

6. Members of the Working Party thanked the representative of New Zealand for his statement and for the submissions; they also thanked the representative of the International Monetary Fund for his statement on New Zealand's balance-of-payments and import deposit scheme. They stressed the importance attached to the careful examination either in a GATT Working Party or in the Balance-of-Payments Committee of any trade restrictions taken. It was appreciated that New Zealand had a delicate balance-of-payments situation at hand and that some corrective measures had been called for; however, it was regretted that the New Zealand authorities had found it necessary to resort to trade restrictions. It was recognized that the New Zealand economy was particularly sensitive to developments in external markets and to the price levels of a limited number of commodities such as wool, meat and dairy products. In this context it was noted that there had been a sharp fall in agricultural prices at the end of the commodity boom in 1973, which must have affected New Zealand export values; however, since then world prices for wool and meat had steadily risen and remained fairly high.
However, it was also noted that New Zealand exports of principal primary products were subject to trade restrictions in its main market. It was also noted that while New Zealand imports had shown a very strong growth in 1974, this growth had subsided in 1975 especially in the last quarter. In this context, it was asked what special situation had led the New Zealand authorities to adopt restrictive measures in February 1976. The representative of New Zealand pointed out that while the price for wool and meat had risen, it should not be overlooked that freight rates had risen very sharply in recent years. New Zealand being on average some 12,000 miles away from its markets, the extra cost of freight had severely affected profitability and that the rise in prices had been absorbed by the extra cost of freight. He also recalled that dairy products accounted for some 25 per cent of New Zealand's export income and that the prices of most dairy products had remained low; there had been difficulties encountered in marketing dairy products in particular skimmed milk powder.

7. Members of the Working Party noted that New Zealand's balance-of-payments problem was in part due to excess liquidity in the domestic market and it was asked whether New Zealand authorities anticipated the need to take further restrictive monetary measures to reduce this excess liquidity or whether it was expected that the import deposit scheme would be sufficient to solve this problem. The representative of New Zealand replied that his authorities were pursuing a very severe fiscal and monetary policy. Interest rates had been set quite high but as the balance-of-payments situation would improve it was expected that the economy would become more liquid and therefore further monetary measures might become necessary to contain the liquidity within appropriate levels. This matter would be considered in the context of the budget which would be discussed in July. Members of the Working Party also noted that the import deposit scheme had
been accompanied by a number of other measures in the fiscal, monetary and incomes' policies fields and it was asked what effects were expected from these measures on the level of internal consumption. The representative of New Zealand explained that his authorities were pursuing a policy of reducing real wages by not allowing full cost-of-living compensation. As a result there had been a drop in real wages of some 7 per cent over the past two years, a further 5-8 per cent reduction was expected in 1976, the New Zealand Government was adhering to this policy very firmly. Simultaneously, as mentioned above, it was applying a very severe fiscal policy; it was expected that the combination of these measures, given favourable terms of trade and a recovery in world prices would help restore the balance-of-payments equilibrium.

8. Referring to alternative measures to restore equilibrium members of the Working Party asked whether the New Zealand authorities had considered the possibility of adjustment of the exchange rates. The representative of New Zealand recalled that his Government had devalued the New Zealand dollar three times during 1974 and 1975 totalling some 25 per cent. Adjustment of the exchange rate, both upwards and downwards, was used by his authorities as a flexible instrument. It was essential for the agricultural sector of the economy that the exchange rate be kept at an appropriate level, compatible with the terms of trade. In fact the exchange rate adjustment worked as a tool for redistribution of income. He added that if there was further improvement in the terms of trade it was hoped that there would be no further need for adjustment of the exchange rate; however, he did point out that at present the terms of trade were some 40-50 per cent below their 1973 level.
9. Turning to the question of foreign financing of the balance-of-payments deficit, questions were asked as to the level of the foreign debt and the various loans contracted abroad. The representative of New Zealand said that foreign borrowing had been effected both on international markets and from the International Monetary Fund. Total government borrowing in the past two years had amounted to some $1 billion and the level of New Zealand's foreign debt had reached 18 per cent of GNP. It was specified that New Zealand had availed itself of the use of Fund resources on several occasions in recent years, including a gold tranche drawing in 1974, a drawing on the compensatory financing facility in 1975 and several drawings on the oil facility in 1974 and 1975.

10. Members of the Working Party asked what were the prospects for improvements in New Zealand's balance-of-payments situation in 1976. The representative of New Zealand said that any improvement would depend on the movement of the terms of trade. At present, on an assumption of steady improvement of the terms of trade, it was forecast that for the June year 1975-76 New Zealand would show a current account deficit of $700 million and for the June year 1976-77, a deficit of about half that. This assumed a 10 per cent improvement in the terms of trade. He recalled that New Zealand's oil deficit alone stood at some $200 million and that even should the deficit be reduced to the estimated level it remained too high. He added that OECD forecasts generally showed a faster recovery of the world economic situation; should this be confirmed then the New Zealand authorities could expect to reach a better deficit position than the actual forecast showed.

11. Members of the Working Party asked questions concerning New Zealand's efforts towards export diversification. The representative of New Zealand said that substantial progress had been made in this field. While New Zealand's traditional
exports were temperate agricultural products some of which, in particular dairy products, had experienced considerable difficulty in traditional export markets, great efforts had been made to develop new markets for the whole range of dairy products, which were now exported to some hundred different countries. The same thing had been done for meat exports; as New Zealand's traditional and substantial meat market had tended to be restricted it was necessary for New Zealand to find new outlets. The more spectacular results had been obtained in the development of exports for manufactured products which now accounted for some $450 million per annum; was a three-fold increase over the 1972-73 level. Exports of manufactures had now a share of 14 per cent of New Zealand's total exports compared to some 3 per cent nine years ago. However, he did point out that $450 million was a small figure in relation to total exports.

12. Referring to the oil deficit of New Zealand, questions were asked by members of the Working Party concerning energy conservation measures. The representative of New Zealand said a number of measures had been taken among which a special tax on petrol and diesel of 20 cents per gallon; a speed limit of 50 miles per hour had been enforced. The Government was spending considerable funds on an educational programme designed to encourage public conservation of energy. Interest free loans had been given for housing insulation designed to save on heating fuel. Generally, these measures had been effective. Furthermore the Government was encouraging the exploitation of natural gas fields and was financing the project to the extent of 50 per cent. Currently, New Zealand was dependent for two thirds of its energy consumption on imports; this dependency was expected to be reduced to one third by 1985.
13. One member of the Working Party noted that New Zealand had in the context of (a) lack of GATT examination and (b) the need for New Zealand in turn to restrict its imports, often referred to restrictions in other countries affecting its exports. This member noted the importance of conducting GATT examinations in a “real world” spirit and said an elaboration by New Zealand of what these other restrictions were was necessary in order that the Working Party might conduct its work with full knowledge of the factors bearing on the New Zealand balance-of-payments situation.

Import deposit scheme

14. The members of the Working Party noted that the New Zealand import deposit scheme was a temporary measure and had an expiry date of 2 February 1977. They sought confirmation of the temporary nature of the scheme. The representative of New Zealand confirmed that his authorities had every intention to terminate the measure by 2 February 1977; the measure was kept under review and could be modified in the light of the balance-of-payments situation and the other factors that had led to the adoption of the deposit scheme. Asked whether the New Zealand authorities envisaged a gradual relaxation of the deposit either by lowering the rate of deposit or by reducing the product coverage, the representative of New Zealand said that this remained a possibility under the review procedure. In reply to specific questions the representative of New Zealand also confirmed that the only exceptions, in terms of the origin of the goods, were for goods imported from the Cook Islands, Niue, and Western Samoa; this was in recognition of New Zealand’s particular interest and obligations to these islands.
15. The members of the Working Party noted that New Zealand had promptly notified the introduction of the import deposit to the CONTRACTING PARTIES and once more stressed the importance attached to the meaningful examination of all such measures in the context of the General Agreement. It was also noted that New Zealand was not invoking any particular article of the General Agreement, although the measure was justified by New Zealand on balance-of-payments grounds.

16. A series of questions were asked concerning the product coverage of the scheme and the criteria adopted by the New Zealand authorities to select the items for the deposit requirement. It was asked whether the deposit scheme was part of the general import policy of New Zealand and related to the level of tariffs and the import licensing schedule which still covered some 30 per cent of New Zealand's imports. While it was recognized that it was not within the Working Party's terms of reference to examine New Zealand's import licensing system, the members of the Working Party drew attention to the relevance of the licensing system in particular in view of the fact that there was some overlap between licensing and deposit requirements. The representative of New Zealand recalled that in his opening statement he had described the particular economic conditions that had led the government to take the import deposit measure; briefly, several factors had coincided: a very rapid growth of imports, advance notice through the future import ordering procedure of unsustainable levels of speculative imports, i.e., stock piling of certain products beyond the usual consumption pattern for New Zealand in anticipation of either monetary devaluation or possible imposition of tighter import quotas. He explained that the criteria adopted for selecting the items subject to a deposit were obviously a combination of these different factors. He stressed the need that had arisen to put a stop to speculative imports which in certain cases, such as wines and spirits had led to imports of some three-years' supply. The deposit scheme was among other
designed to put a stop to the development of such a situation which was clearly going against the improvement of the balance-of-payments situation. He said that it had also served as a warning to restrain importers. In reply to the question concerning the relation between the deposit measure and the general import policy the representative of New Zealand said that the deposit was a measure apart, designed to meet a special situation. It had no effect on the level of the customs duty; in this context he recalled his authorities statement at the time of issuing the import licensing schedule for 1966-77 in which it was concluded that trade liberalization remained the policy of New Zealand authorities. The members of the Working Party noted that the import deposit added a charge over and above the customs tariff which, for certain products was already very high; it was also noted that many of the tariff positions of the products affected by the deposit were bound under GATT.

17. Reverting to the question of the criteria for selecting the items subject to the deposit, members of the Working Party pointed out that there was no substantial evidence of an upsurge of imports of the products covered; for some of them the rate of growth of imports was lower than that of total imports in 1975. Some of the products were also subject to limited import licensing and they asked why those products were subject to two restrictive measures. It could be expected that, whatever the level of export orders for these products, the system of licensing would automatically limit the volume of effective importation. It was also noted that a considerable proportion of the goods subject to deposits were investment goods; these amounted to some 40 per cent of imports subject to the deposits and even 65 per cent if office machinery were included. In this context it was asked whether the inclusion of investment goods was not likely to have a detrimental effect. The representative of New Zealand explained that the need to put a stop to the level of speculative
imports had been an overriding factor in the case of many products; as regards investment goods he added that many of these could be stockpiled in expectation of price rises. As regards items already under import licence there was evidence here of importing in excess of current requirements, e.g. wine and spirits. Members of the Working Party nevertheless expressed doubts as to the validity of the criteria used to select the items for the import deposit scheme.

18. It was pointed out that the import deposit scheme was accompanied by a measure forbidding banks to give credit to finance the deposit requirements and by a price control measure forbidding to pass the cost of the deposit onto the retail price. It was asked whether the New Zealand authorities did not consider these supplementary measures too severe a restriction. The representative of New Zealand recalled that there was a problem of excess liquidity in his country and that, in so far as the deposit scheme was also a monetary measure, it would have defeated this purpose of the scheme to allow bank credit or the passing on of the cost to the retail price.

19. Questions were asked concerning the procedure for granting waivers for certain products affected by the deposit scheme. The representative of New Zealand explained that this was a necessary flexibility introduced in the measure as it was not the Government's intention to cause more problems to New Zealand's economy than were necessary. He cited a number of examples of waivers granted for instance for spare parts for certain machinery. Generally the criteria adopted by the Government to grant waivers were based on the national importance of the item concerned, on its essentiality for export industries or energy development.

20. Members of the Working Party asked whether the New Zealand authorities considered that the import deposit scheme would be sufficient as a measure to contain the balance-of-payments situation and whether it would be possible to
dispense with any further measures. It was remarked that while New Zealand had stated that the impact on trade was minimal this seemed incompatible with a satisfactory result of the measure which called for a reduction of certain imports. The representative of New Zealand replied there had been a satisfactory result of the measure in terms of putting a stop to speculative imports. Whether the deposit scheme would be retained in its present form would depend on developments in 1976. He repeated that the scheme would be kept under review and examined closely in July together with the budget.

21. Members of the Working Party noted that the deposit scheme affected some 7 per cent of New Zealand's imports. It was pointed out however that while this did not seem an excessive coverage certain trade partners of New Zealand were much more affected than others. It was recognized that the scheme was non-discriminatory as to source of imports but it was regretted that certain of New Zealand's suppliers were severely affected. The representative of New Zealand reiterated that this was not the intent of the scheme which was non-discriminatory in its application but an unavoidable result due to the composition of certain trading partners' pattern of exports to New Zealand. Members of the Committee asked that, should the New Zealand authorities consider a modification or relaxation of the scheme before its expiry, this factor be taken into account and modifications introduced in order to reduce the impact of the measure for those trading partners which were more affected.

Conclusions

1. The Working Party examined the Import Deposit Scheme introduced by New Zealand on 2 February 1976 for the duration of one year. It noted that the measure was temporary and non-discriminatory in its application as to source of imports.
However, the Working Party expressed some doubts as to the validity of the
criteria used for the selection of products subject to the deposit and noted with
some concern that certain imports were subject to both the deposit requirement
and import licensing.

2. Taking into account the finding of the International Monetary Fund that other
measures taken by New Zealand to reduce its external imbalance should allow the
elimination of the import deposit scheme by its termination date of 2 February 1977
the Working Party invited New Zealand to review the measure in the light of its
balance-of-payments developments and to give serious consideration to its relaxa­
tion or removal at an early date. The Working Party also urged New Zealand to
adjust the deposit scheme to take into account the interests of its trading
partners.

3. The Working Party agreed that the New Zealand Import Deposit Scheme applied
on a temporary basis was not more restrictive than an application of the provisions
of Article XII of the General Agreement. Noting that New Zealand was not invoking
the provisions of Article XII or any other provision of the General Agreement, the
Working Party agreed that this conclusion was without prejudice to the rights and
obligations of contracting parties under the General Agreement.

4. The Working Party will keep the matter under review.