

28 November 1955

C O N F I D E N T I A L

NOTES ON THE CONSULTATIONS WITH NEW ZEALAND UNDER ARTICLE XIV:1(g)

New Zealand Statement

1. In conducting this consultation the Working Party had before it a background paper on the New Zealand economic situation and restrictive system which had been prepared by the International Monetary Fund especially for the CONTRACTING PARTIES as a part of its consultation with them under Article XV of the General Agreement. In addition, detailed factual data concerning the system of New Zealand's restrictions had been supplied by the New Zealand Government in its reply to the questionnaire relating to the preparation of the Sixth Annual Report under Article XIV:1(g).

2. In opening the discussion, the New Zealand representative observed that New Zealand's continued resort to discriminatory measures was not of its own choosing and that the policy was being liberalized as rapidly as circumstances permitted. New Zealand's overall balance of payments was in an adverse position, there being a substantial overall deficit as well as the deficit with the dollar area. In spite of this, the New Zealand Government had made notable efforts to move towards a liberal policy. A substantial reduction in the discriminatory element of the import restrictions had been made in the past year, through the following means:

- (a) continuation of the more liberal attitude which had been adopted since 1954 in licensing imports of essential plant and equipment and industrial raw materials from the dollar area;
- (b) extension of the World Exemption List so that more items were now exempt from licensing requirement when imported from any source; a major increase had been made to that list and it now included many important items;
- (c) reduction of the list of "scheduled countries." These countries now comprise mainly the dollar area and Japan.

3. The New Zealand Government considered that it was moving away from discrimination as fast as the sensitive and precarious balance-of-payments position allowed. New Zealand was also conscious of its responsibility in this matter as a member of the sterling area.

Trade and Payments Position

4. The New Zealand representative referred to the statistics on merchandise trade in the background papers prepared by the Fund, which provided an indication of the developments in New Zealand's trade with each of the main currency areas. The figures showed:

- (a) that the United Kingdom continued to take the largest proportion of New Zealand's exports; in 1954 about 67 per cent of New Zealand's exports went to that country;
- (b) that the second most important markets for New Zealand's exports were the OEEC countries, whose share in 1954 was about 16 per cent of the total; exports to OEEC countries had grown continuously in recent years;
- (c) chiefly owing to reduced exports of wool to the United States, the value of total exports to the United States and Canada had fallen substantially, New Zealand's export of wool to the United States in the past four years being:

	<u>£ million</u>
1951	19.9
1952	16.3
1953	9.8
1954	6.4

These figures reflected a decline in United States wool imports generally. Another factor was that the market for dairy products in the United States was now virtually closed to New Zealand except for a limited amount of cheese. Efforts had been made to promote the sale of other New Zealand exports to the United States, namely hides and skins, casein, crayfish and seeds, but the prospects of an increase in the total returns remained slight.

5. On the import side, the New Zealand representative noted that a substantial increase was shown in 1954 and that this had continued to 1955. While the general pattern of imports from different sources remained substantially unchanged there had been an increase in the proportion of imports from the United States and Canada, from 8.8 per cent in 1953 to 10.2 per cent in 1954. This increase in imports both absolutely and relatively from the United States and Canada should be taken note of against the declining New Zealand exports to those countries.

6. The overall balance of payments of New Zealand changed from a surplus of £25.2 million in 1953-54 to a deficit of £42 million in 1954-55, and transactions with the United States and Canada had resulted in a dollar deficit of £13.7 million in 1954-55, compared to a deficit of only £4.3 million in the previous year.

7. A member of the Working Party, referring to the statistics in the Fund paper which showed a sharp drop in imports from dollar sources between 1952 and 1953 and a continued low level of imports in 1954, wished to know the causes of the decline and the prospects for the current year. The New Zealand representative explained that the fall in imports in 1953 was largely due to the measures which were introduced in 1952 when the balance-of-payments position began to deteriorate, and which became fully effective in 1953. In 1954, when measures of liberalization were taken, dollar payments began to rise, and in fact import payments to the dollar area in the year ending June 1955 had risen to more than \$30 m compared with \$20 m in the previous year.

8. The Working Party discussed with the New Zealand representative the effects of borrowings from abroad on the country's balance of payments with various currency areas. The New Zealand representative stated that the borrowings from abroad had not been directly related to the balance-of-payments position. Their purpose had been to assist capital development projects, many of which required a substantial import of capital goods. The pressure on the balance of payments arising from development programmes was certainly partly relieved by the capital inflow.

Level and Movement of Reserves

9. The representative of New Zealand stated that as a result of the overall deficit position described above, the external reserves of New Zealand declined from £139 m to some £103 m in the twelve months ending June 1955. Seasonal factors were expected to cause a further decline in the second half of the year 1955. New Zealand's external reserves were held virtually all in sterling and the country maintained no reserves in dollars or other non-sterling currencies separately from the reserves of the sterling area as a whole.

General Observations on the Need for Discrimination

10. The New Zealand representative stated that the provision of the Agreement under which the discrimination was applied was paragraph 1(c) of Article XIV. The reason for continued resort to discrimination was apparent from New Zealand's trade and payments position vis-à-vis the dollar area and from New Zealand's membership of the sterling area whereby New Zealand shared the responsibility for action which would safeguard the collective balance of payments of the sterling area.

11. In answer to questions, the representative of New Zealand further explained that surpluses earned by New Zealand in its transactions with some non-sterling countries helped to offset its deficit with the sterling area, but such surpluses, including those with the OEEC countries, could not be used to finance imports from the dollar area because the currencies received were not freely convertible into dollars. Payments for New Zealand exports to OEEC countries were made through EPU on sterling account.

System and Method of Discriminatory Restrictions

12. The representative of New Zealand referred to the written data supplied by his Government and the Fund, which provided a detailed description of the system and method of restriction in New Zealand. Under that system most imports were admitted free from licensing requirements from all countries except those listed as "Scheduled Countries", which at present comprised mainly the dollar area and Japan. Except for those items which were on the World Exemption List, all imports from Scheduled Countries required licences. Discrimination therefore occurred in respect of these Scheduled Countries. The list of Scheduled Countries was reduced in July 1955 by the removal of eleven countries (none of which, however, was a contracting party to the General Agreement).
13. The representative of Japan mentioned to the Working Party that despite the fact that payments between Japan and New Zealand were made in sterling, Japan was still included as a Scheduled Country. The Japanese representative expressed the wish of having an opportunity of discussing with New Zealand the possibility of modifying that situation. As the General Agreement was not being applied between the two countries, the Japanese representative was aware that such discussion might have to take place outside the meetings of the CONTRACTING PARTIES. The New Zealand representative replied that discussions had taken place from time to time between his Government and the Japanese Government, and that these could be pursued as appropriate. He added that since the World Exemption List applied to imports from Japan, discrimination in respect of that country had been reduced.
14. As regards changes in the past year, the New Zealand representative stated that the main relaxation of discrimination had taken place in the form of increasing the range of goods subject to global exemption. During the 1955 licensing period the number of items thus released from all import regulations had increased from 95 to 153, including many items which were important in New Zealand's import trade. The policy, adopted in April 1954, to accord more liberal treatment to applications for licences for essential plant and equipment and industrial material from the dollar area has been continued in 1955 and in some cases licences were being issued virtually without restriction. The adoption of these policies had been responsible for the substantial increase in imports from the dollar area in 1955.
15. In discussing the relationship between these measures and New Zealand's general commercial policy, the New Zealand representative stated that the reduction in discrimination in the application of its import restrictions was in line with the Government's long-term policy of moving away from discrimination as soon as circumstances permitted. The liberalization of dollar imports in the past year had also taken place at an appropriate time in relation to current economic conditions of New Zealand.
16. In discussing the factors which were taken into account in determining the discriminatory element in licensing policy, the New Zealand representative

observed that price was not the major consideration in determining discrimination policy. More important considerations included the essentiality of the goods in question and the availability of supplies from other sources. However, the price factor was not ignored, especially since the price of imported goods was an important element in New Zealand's internal cost structure.

17. On the question of discrimination between non-dollar imports, the New Zealand representative noted that no distinction was drawn in the application of import restrictions between the United Kingdom and other members of the EPU, and when licences were granted or exemptions made for imports from non-scheduled countries they applied to imports from all the countries within that category. Some items remained under licence when imported from non-scheduled countries, but this treatment was applied to imports from all such countries without distinction. No bilateral agreements were entered into by New Zealand. In this connexion, the New Zealand representative remarked that the operation of bilateral agreements between other countries often hindered New Zealand's exports to those countries, and that this was a matter of concern for the New Zealand Government.

Effects of the Discriminatory Restrictions

18. The New Zealand representative stated that the effects of discrimination had been reduced during the past year by the measures described above. New Zealand did not operate a token import scheme but the system had enough administrative flexibility to avoid any serious damage to the commercial or economic interests of other contracting parties when cases were brought to notice. In some cases where goods from the dollar area were prevented from entering New Zealand, it was often open to the exporters concerned to maintain their interests in the New Zealand market by investing in subsidiary companies to produce similar goods locally. During the past year, the New Zealand Government had taken a number of steps to encourage such investment including more liberal provision for the repatriation of capital and the remittance of profits to the dollar area. As for the protective effects of the restrictions, the New Zealand representative observed that as imports from non-scheduled countries were generally freely admitted, the discriminatory margin in the restrictions could have but little protective effect on local production. Although it might be contended that the possible exclusion of goods from a cheaper source could have some protective effect on domestic production, any such effect would be overshadowed by the general policy pursued by the government in consistently moving away from discriminatory restrictions as fast as circumstances permitted.

Prospects for the Elimination of the Restrictions

19. Questions were asked by members of the Working Party concerning the substitution of tariff protection for quantitative restrictions. The New Zealand representative replied that while there were many aspects of the tariff review, these were questions of a complex nature and involved internal and other policies which seemed to be beyond the scope of the present

consultation. The competent body dealing with these problems, namely, the New Zealand Board of Trade, which had an advisory capacity both on tariff questions and on import licensing matters, was fully aware of the problems concerning discrimination and its effects. Consequently, questions of discrimination and its various effects were certainly taken into account by the New Zealand Government in the formulation of the general commercial policy of the country.

20. In concluding the discussion, the New Zealand representative reaffirmed that his Government had taken major steps in the reduction of discrimination during the past year. Further progress would, however, depend not only on New Zealand's own position but on much wider considerations such as developments in the collective approach to convertibility.