

GENERAL AGREEMENT ON  
TARIFFS AND TRADE

RESTRICTED

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS  
RESTRICTIONS ON THE CONSULTATION UNDER  
ARTICLE XII:4(b) WITH NEW ZEALAND

1. In accordance with its terms of reference the Committee conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The consultation included consideration of the modifications in New Zealand's import restrictions notified to the CONTRACTING PARTIES in L/2/81, as directed by the Council at its meeting on 26 June 1967 (C/M/41). The Committee had before it the following additional documents: (a) a basic document for the consultation (BOP/66); (b) the Executive Board Decision taken on 5 May 1967 at the conclusion of the International Monetary Fund's consultation with New Zealand (Annex I hereto); (c) a background paper provided by the International Monetary Fund, dated 20 April 1967; and (d) the New Zealand licensing schedule for the year 1967-68.
2. In conducting the consultation the Committee followed the plan for consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was held on 18 July 1967. 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 May 5, 1967 taken at the conclusion of its most recent Article XIV consultation with New Zealand, and particularly to paragraph 5 which reads as follows:

'Exchange controls on current payments have been tightened. About a third of imports are free from control and the Fund welcomes the Government's decision to maintain this degree of liberalization in 1967-68. The Fund recognizes that the present balance of payments and reserve position does not permit an immediate relaxation of external restrictions but stresses the need for the Government to adapt its financial policies so as to provide a sound basis for further liberalization.'

"The Fund notes that the Government has not found it possible to avoid a further reduction in allocations for import licences in 1967-68. The Government has introduced, in early May and in the budget for 1967-68 presented to Parliament on June 22, 1967, a number of domestic financial measures, including increases in a variety of indirect taxes and a reduction in the rate of growth of government expenditure, which are designed to correct the external imbalance. The general level of restrictions of New Zealand which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

#### Opening statement of the representative of New Zealand

4. In his opening statement, the full text of which appears in Annex II, the representative of New Zealand said that there had been little improvement in the balance-of-payments position of New Zealand, since the previous consultation when a marked deterioration had been reported. Towards the end of 1966 the wool market had virtually collapsed and export prospects depended largely on future developments in the market for this product. Since the beginning of 1967 New Zealand had taken a series of measures curbing domestic demand which had already had marked effects. Demand for imports was declining, but the reduction of the current account deficit would of course also depend on the development of New Zealand's exports.

5. With regard to overseas exchange transactions the representative of New Zealand mentioned that export receipts had risen by 2.8 per cent in 1966/67, mainly due to additional receipts from dairy products. The receipt figure did not, however, fully reflect the fall in wool prices. The fall in import payments, \$NZ 20 million in 1966/67, could be mainly attributed to the measures introduced during 1966 to reduce domestic spending. The trade surplus rose to \$NZ 73 million in 1966/67, but the deficit on invisible transactions rose to \$NZ 180 million, mainly due to higher freight charges and greater travelling expenses overseas. The current account deficit decreased from \$NZ 118 million in 1965/66 to \$NZ 107 million in 1966/67. The overseas exchange reserves at the end of May 1967 stood at \$NZ 104 million. With import payments running at a level of \$NZ 56 million per month, New Zealand was thus facing the considerable problem of raising additional finance overseas to meet the normal adverse seasonal swing in its overseas transactions during the latter half of 1967.

6. Future prospects for New Zealand's export receipts were dominated by the wool situation. For 1966/67 a rise of 6 per cent in wool receipts had been forecast, but the sudden downturn in prices had led to export receipts now being estimated at \$NZ 172 million for the June year 1966/67 instead of \$NZ 254 million according to the previous estimate. No reliable estimate could yet be made about average price or volume to be sold in 1967/68. Raw wool prices had fluctuated sharply for many years, but it was possible that the latest drop was more than a cyclical fluctuation.

7. With regard to other export products the representative of New Zealand noted that meat production for export had risen by around 10 per cent in 1966/67 and the corresponding increase in 1967/68 was estimated at 9 per cent. The butter price in the United Kingdom, New Zealand's main market, was expected to remain stable, but in spite of increased quantities available for export in 1967/68, it was not expected that export receipts would rise, as there was increasing pressure in other markets from subsidized supplies from European sources. Production of cheese for export was expected to rise, but prices might weaken. The efforts to diversify exports had met with some success in regard to mutton and certain milk products. Unfortunately the Kennedy Round had resulted in little or no improvement in access for New Zealand's main exports. A number of countries had, on the contrary, introduced measures further reducing access to their markets.

8. New Zealand had taken a series of measures to reduce demand for overseas exchange, increase export earnings and reduce internal liquidity and demand. Further fiscal measures had been implemented in May 1967, which would result in increased revenue of \$NZ 50 million. Government expenditure which had increased by an average rate of 9 per cent over the previous three years was to increase by 1.4 per cent only in accordance with the June 1967 budget.

9. The 1967/68 licensing schedule had been prepared before the wool price decline, but it was the intention of the Government of New Zealand to rectify the balance-of-payments situation by reducing the level of internal demand rather than by increasing restrictions on imports. The progressive relaxation of import licensing remained the policy of the Government.

10. In conclusion the representative of New Zealand stressed that his country continued to face serious balance-of-payments difficulties. Fiscal and other measures had been taken to keep domestic spending in line with the level of available resources. Further import liberalization would depend on the development of export earnings. A main question was the establishment of equitable trading conditions for temperate agricultural products. Failure to achieve such conditions could furthermore call into question the whole effectiveness of GATT as an instrument for promoting fair and liberal trading conditions.

Balance-of-payments position and prospects

11. Members of the Committee expressed their regret that the import régime of New Zealand had not been further liberalized. They accepted, however, the judgment of the International Monetary Fund that the restrictions did not go beyond what could be justified in the present balance-of-payments situation of New Zealand. Some members of the Committee pointed out that for countries such as New Zealand mainly relying on the production of raw materials, instability of export prices presented the greatest problem.

12. A member of the Committee said that he recognized that New Zealand was in a difficult position. He realized that in order to deal with the short-term problems it might be necessary to cut down imports. He pointed out, however, that whilst New Zealand had had quantitative import restrictions for many years, it was still running into balance-of-payments difficulties. The Committee should in his opinion not concentrate only on the short-term aspects but also look at the long-term problems. He admitted that the wool price was an important factor when judging the immediate balance-of-payments prospects of New Zealand, but there were several other factors on the import and export sides that had to be taken into account. New Zealand was a prosperous country with a narrow range of basically very good export products. He questioned whether the present situation would not have been better if more active measures had been taken to control the boom in the early 'sixties.

13. Another member of the Committee also stressed the importance of studying the long-term aspects of New Zealand's problems. He believed that a main factor was the prolonged domestic expansion that had resulted from the favourable export conditions in the past years. He welcomed the courageous measures that had been taken now to curb domestic expansion, but he suggested that more emphasis should be put on the interest rate policy in the future.

14. The representative of New Zealand stressed that the main export products of his country - wool, meat and butter - were subject to extraordinarily great price movements on the world markets over which his Government could not exert any control. Its policy was to reduce fluctuations in farm incomes by various price stabilization arrangements and by stimulating savings in good years through the creation of tax free reserves, but it was not possible to isolate completely the economy of New Zealand from world market price swings. In reply to the suggestion regarding a more active interest rate policy, he suggested that if the International Monetary Fund were to up-date their report on the New Zealand economy they would conclude that no further deflationary measures were called for at present. The importance of the interest rate policy should furthermore not be overestimated, the monetary market in New Zealand not being highly developed.

15. A member of the Committee said that as the export interests of his country coincided with those of New Zealand on many commodities he had a great deal of sympathy for New Zealand. Their temperate agricultural products were competing with highly protected domestic production in the main importing countries. This formed a structural problem related to the balance-of-payments difficulties faced by New Zealand. The Kennedy Round had provided one opportunity to tackle this structural problem in the setting up of the commodity groups. Unfortunately for meat and dairy products the results had been negligible. On cereals, of course, the New Zealand interests were those of an importing country.

16. It was underlined by a member of the Committee that New Zealand had been quite successful in diversifying its exports, and that certain of its export products would enjoy considerable tariff reductions as a result of the Kennedy Round. He pointed out that the figures available showed surpluses in so far as current transactions and capital movements were concerned but a deficit for invisibles, mainly due to increased freight charges. It was likely that the increases in ocean freights resulting from the situation in the Near East would further aggravate that deficit. The representative of New Zealand pointed out in this connexion that the capital surplus represented money that had been borrowed on severe conditions to compensate for current deficits, and did not represent a normal inflow of private capital. New Zealand would be facing heavy repayment responsibilities in the coming years. It was hoped, however, that there would be sufficient improvement in conditions in world capital markets to enable some short-term debts to be converted into long-term ones to be repaid when the balance-of-payments situation had improved.

17. In reply to questions about the relationship between the internal restrictive measures and the import restrictions, the representative of New Zealand explained that the emphasis recently had been on fiscal measures. It was not the intention of his Government to extend the import restrictions. It was expected, however, that the domestic restrictive measures would lead to a certain reduction of imports in the unrestricted area and that internal demand for goods covered by the 1967/68 licensing schedule would be met by imports under the schedule so that a pent up demand would not be created.

Alternative measures to restore equilibrium

18. A member of the Committee said that the Government of New Zealand seemed to attach more importance to restricting imports than to taking restrictive measures in the income policy field. He pointed out that Government expenditure had gone up 11 per cent in 1966/67 while the gross national product had only increased by 8 per cent. He suggested that the budget policy should be more flexible and that more attention should be given to the interest rate policy. The representative

of New Zealand repeated that in view of the structure of the money market in New Zealand interest rate measures were not likely to be very effective. There had, however, been a rise in certain interest rates and controls over the banking sector had been supplemented by measures to limit the lending capacity of other financial institutions.

19. A member of the Committee recalled that the gross national product of New Zealand had been rising very rapidly in the past years and that the employment ratio was unusually high in New Zealand. He questioned whether it would not be advisable to apply stronger deflationary measures than hitherto in order to align purchasing power to earning power. On the other hand he noted that inflation had not been too extreme in New Zealand in recent years and it might well be that there were structural problems which deflation alone could not cure. The representative of New Zealand replied that his Government had already taken drastic fiscal measures. The unemployment figures of New Zealand were somewhat misleading; about 1 per cent should be added to the official figure. The latest figure available - which did not represent the period of seasonally low employment - showed an unemployment percentage of 1.5 and a rising trend. He added that the full effect of the domestic restrictive measures was not yet apparent in all economic indicators, e.g. because of the distance of New Zealand from its main suppliers of imported goods, orders were placed long before the actual moment of importation, and the level of current arrivals did not reflect fully the downward trend in internal demand.

20. In reply to further questions concerning the fiscal policy of his Government the representative of New Zealand pointed out that the direct taxes of New Zealand in proportion to the gross national product was amongst the highest in the world. There was therefore no room for further increases of the income tax. The indirect taxes - on inter alia petrol, alcohol and motor cars - had on the other hand been increased recently. These were estimated to provide an additional \$NZ 36 million in 1967/68, compared with an increase of \$NZ 14 million in 1966/67. New Zealand had furthermore recently abolished certain consumers' subsidies, e.g. on flour and butter.

#### System and method of the restrictions

21. Several members of the Committee recognized that import restrictions in New Zealand's present balance-of-payments situation were a short-term necessity. They expressed the hope, however, that the very complicated import licence system presently applied could be simplified and made more flexible. They expected that the restrictions would be relaxed as soon as the balance-of-payments situation improved.

22. The representative of New Zealand pointed out that the administration of a licensing system always was a difficult task. It was certainly the intention of his Government to make the system as flexible as possible. It was just with this aim in mind that the many import categories had been created. The safeguarding of the interests of new importers was also an aspect which the Government of New Zealand had continuously in mind.

23. In reply to questions the representative of New Zealand explained that normally no licences were granted for "D" items. For many such items token licences were however granted in order to keep a brand name alive in the mind of buyers.

24. A member of the Committee expressed concern over the arbitrariness in the granting of licences for "C" items. The representative of New Zealand said that the uncertainty regarding the export prices of New Zealand products automatically led to the need for flexibility in the granting of import licences. In reply to a question why aluminium rods and sheets had been transferred to the "C" items and thus got a less favourable treatment than under previous licensing schedules, the representative of New Zealand explained that those items were now produced locally; they were not therefore now amongst the products to the import of which first priority needed to be given.

25. It was pointed out that certain products, e.g. veneers and plywood, could be imported freely from Australia under the Free Trade agreement. In reply to a question whether the free import could be extended to all countries of origin in accordance with the no discrimination principle, since the effects of imports on the New Zealand balance of payment were similar whether these imports originated in Australia or in other countries, the representative of New Zealand said that this would hardly be possible in the present balance-of-payments situation.

26. An observer representing a country not a member of the Committee said that his government was particularly concerned about certain aspects of the licensing system. One such aspect was the very limited possibilities for new products to be introduced on the New Zealand market under the present system. Another aspect was the considerable reductions in the granting of licences under the 1967/68 schedule for certain important export products of his country. He specially referred to tariff items 59.08 Impregnated fabrics, 73.18 Iron and steel tubes, 73.38 Household articles of iron and steel, 84.10 Liquid pumps, and 84.11 Air pumps, where the reduction had been from 25 to 33 1/3 per cent. The representative of New Zealand said that he would convey the remarks to his Government. He added that the New Zealand authorities had done their best to allocate the available licences in the most equitable way.

Effects of the restrictions

27. A member of the Committee pointed out that the import restrictions had resulted in the exclusion from the New Zealand market of one of the products of his country: cognac. He admitted that cognac was not an essential product, but since the token licence procedure was in force, he asked whether it would not be possible to issue token licences for cognac in order to protect the brand name; the foreign exchange required would be very limited. The representative of New Zealand confirmed that the request would be brought to the attention of his Government.

General

28. A member of the Committee pointed out that the fluctuations in the wool price had direct repercussions on the development of the New Zealand import licence system. He asked whether the recent downturn in prices could be attributed mainly to competition from synthetic fibres, a general retraction in demand or a lowering of the quality of the New Zealand wool. The representative of New Zealand replied that in connexion with the presentation of the new budget the Minister of Finance had stated that it was reasonable to expect that the wool price would move up again towards the average of the last five to six years' prices. The quality of New Zealand wool had not deteriorated, but there had been a trend towards producing more coarser and shorter wools for which the demand had developed less favourably than for other wools. The recent reductions in the floor prices were relatively greater for the coarser than for the finer wools. Should there be an improvement of the wool price, it had to be kept in mind that New Zealand had considerable short-term debts that had to be repaid before the import restrictions could be further liberalized.

29. The Committee thanked the representative of New Zealand for the full and frank replies he had given to the views and questions put to him. The representative of New Zealand promised to convey the various points which had been raised to the competent authorities and thanked the Committee for their sympathetic consideration of New Zealand's position.

Annex I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION  
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION  
WITH NEW ZEALAND ON MAY 5, 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with New Zealand, pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. Domestic expenditure continued to grow at an excessive rate in the year ended March 1967, though the increase was somewhat smaller than in the previous year. Private investment has leveled off but private consumption has grown faster than GNP; government expenditure was 9 per cent higher than in 1965/66 and the public account shows a substantial deficit.
3. The deficit on the current account of the balance of payments was £NZ 43 million in 1966; since the end of last year it has been running at a much higher rate because of a weakening in the demand for wool as a result of which the Wool Commission has been taking off the market a substantial part of the current clip. The Government has raised several long-term loans abroad but has also found it necessary to borrow a considerable amount of shorter-term money to finance the external deficit. Total reserves amounted to £NZ 76 million at the end of 1966, compared with £NZ 97 million at the end of 1964.
4. The Government stated in February 1967 that immediate action was necessary to protect the balance of payments and announced a series of fiscal measures, which have now been supplemented by a further series of fiscal and monetary measures announced on May 4, 1967. In addition, the policy of credit restraint will continue to be applied with firmness. The Fund believes that the rectification of the balance of payments should now be accorded the highest priority. It welcomes the Government's decision to limit the growth of government expenditure in 1967/68 and the further fiscal and monetary action announced in early May to bring domestic expenditure into better balance with available resources. The Fund believes that in the implementation of monetary policy greater consideration should be given to the use of a more active and flexible interest rate policy.
5. Exchange controls on current payments have been tightened. About a third of imports are free from control and the Fund welcomes the Government's decision to maintain this degree of liberalization in 1967/68. The Fund recognizes that the present balance of payments and reserve position does not permit an immediate relaxation of external restrictions but stresses the need for the Government to adapt its financial policies so as to provide a sound basis for further liberalization.

Annex II

OPENING STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND

1. During the consultations with the Committee in July of last year New Zealand reported that its balance-of-payments situation had deteriorated. Unfortunately there was little improvement during 1966/67 and in fact towards the end of this period the market for New Zealand wool virtually collapsed. The outlook for 1967/68 is clouded by the very uncertain wool situation.

In contrast to the previous year when rapidly rising domestic expenditure resulted in a very sharp increase in imports, payments for imports fell slightly during 1966/67. This reflected a much slower rate of expansion of domestic activity. Export receipts rose slightly but the improvement in the trade balance was almost cancelled out by a very large increase in the deficit on invisible transactions. With reserves already at a relatively low level New Zealand was once again faced with the difficulty of raising additional funds from the world capital markets.

Since the beginning of 1967 the New Zealand Government has taken a series of measures aimed at further curbing domestic demand and these are already having a marked effect on the level of domestic activity. Domestic spending is slackening off, unemployment is rising, and there is some evidence of a build-up of stocks. Demand for imports is declining but due to the time-lags involved this has not yet been fully reflected in the balance of payments. The extent to which the deficit on current account is reduced to more manageable proportions will, however, largely depend on what happens to exports, particularly wool.

2. Overseas exchange transactions

Following marked increases in the March years 1963/64 and 1964/65 and a <sup>1</sup>levelling off in 1965/66, export receipts rose by 2.8 per cent or \$22 million in 1966/67. This was mainly due to additional receipts from the sale of dairy products. Meat and wool receipts both declined. The wool receipts figure does not reflect the full impact of the very substantial fall in wool prices that has occurred over the past season. This is only now beginning to show in the foreign exchange returns.

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<sup>1</sup>Whenever the term dollar is used in this statement, it refers to the New Zealand dollar.

Import payments after rising very rapidly in 1965/66 fell by \$20 million in 1966/67. This fall can be mainly attributed to the measures introduced throughout last year to reduce domestic spending and thereby the demand for imports. The trade surplus rose accordingly to \$73 million compared with \$32 million in 1965/66.

Offsetting this improvement was a \$31 million increase to \$150 million in the deficit on invisible transactions - a 20.6 per cent increase compared with an average increase of 9.9 per cent over the previous four years. This increase in the deficit on invisibles was mainly due to higher freight charges, a greater number of New Zealand residents travelling overseas, increased export promotion expenses and higher charges for a wider range of technical services in the private and public sectors.

The current account deficit in 1966/67 at \$107 million was therefore slightly lower than the \$118 million in 1965/66. The financing of the 1966/67 current account deficit is explained in the basic document which members of the Committee have received.

It is of concern to note that the overseas exchange reserves at the end of May this year, usually a seasonal high point, stood at \$104 million compared with \$127 million at the same time last year and \$166 million two years earlier. With import payments running at a level of \$56 million per month there is obviously no scope for using the reserves to finance the normal adverse seasonal swing in our external transactions in the second half of 1967. Again we face the considerable problem of raising additional finance overseas. A drawing of \$21 million from the International Monetary Fund under its compensatory financing scheme to help cover the shortfall in export receipts following the slump in wool prices has been arranged but this will not be sufficient of itself and funds will have to be raised from other sources.

### 3. Export prospects

Future prospects for export receipts are dominated by the wool situation. No very significant changes are foreseen with respect to other commodities and receipts by and large are expected to reflect increased export sales.

When reporting to this Committee last year we forecast a rise of 6 per cent in wool receipts, based on an expectation that wool prices would remain stable. The downturn in wool prices in late 1966 was sudden and unforeseen. Compared with an average price of 34.7 cents per pound in 1965/66 it now appears that the average price for the season ending 30 June 1967 will be about 29.4 cents per pound. On the basis of last season's average price, export receipts for wool would have been \$254 million for the 1967 June year compared with the present estimate of \$172 million. The substantial difference is due to the fact that about one third of the wool offered was bought by the New Zealand Wool Commission as the price quoted by buyers was less than the Commission floor price.

Production for export during 1967/68 is expected to be 750 million pounds compared with 725 million pounds last season. In addition there is also the 230 million pounds now held by the New Zealand Wool Commission. No reliable estimate can be made yet about average price or the volume likely to be sold.

Sharp fluctuations in price have been a common feature of the raw wool market for many years. There is a possibility that the current weakness of the market is more than a cyclical fluctuation following on from the general restraint in economic activity in industrialized countries. It has been suggested that synthetic fibres have made a significant breakthrough and captured an increased share of the raw wool market. However, there is no evidence at present to suggest that a massive shift from wool to synthetics is taking place.

Meat production for export in the first eight months of the current season (October to May) rose by 10.2 per cent, a consequence of the rapid growth of livestock numbers in the last two years and, to a lesser extent, an increase in sheep killings as a result of the decline in wool prices.

In the 1967/68 season the export production of meat is expected to increase by a further 9.0 per cent, and a corresponding increase in meat export receipts is anticipated. Prices for lamb in the United Kingdom have, however, been falling over recent months and it is possible that larger quantities of lamb reaching the United Kingdom market could have a further downward influence on prices.

The price of butter in the United Kingdom, New Zealand's largest market for butter, is expected to remain at about \$600 per ton. Sales to other markets are likely to suffer from the increasing pressure of heavily subsidized supplies from European sources. Quantities available for export from New Zealand are expected to increase but it is not thought that butter export receipts will rise during the June 1968 year.

The United Kingdom is also the biggest market for New Zealand cheese. Production of cheese for export is expected to increase by 4.6 per cent but export prices could weaken as a consequence of the recent intensification of import restrictions by the United States which could result in a diversion of supplies to the United Kingdom market.

Intensive efforts have been made to diversify our export markets. These have been rewarded with some success particularly in regard to mutton and certain milk products, e.g. casein and skim milk powder. Access for our major products, lamb, butter and cheese, continues to be hindered by protection and agricultural policies.

New Zealand - like other trading nations - placed considerable hopes on the Kennedy Round but unfortunately the net result has been little or no improvement in access for our major exports. From New Zealand's point of view the negotiations fell far short of our objectives and in the important dairy sector were a complete failure.

To make matters worse a number of countries have introduced measures to reduce further what limited access we already had. The most important of these are the new United States dairy import restrictions.

#### 4. Internal policies

As explained in the basic document New Zealand has taken a series of measures to reduce demand for overseas exchange, increase export earnings, and reduce internal liquidity and demand. As noted in the Fund's decision following consultations under Article XIV of the Fund, fiscal measures additional to those recorded in the basic document were implemented in May 1967. These comprised increased indirect taxes and charges over a wide range of commodities. In a full year these will result in increased revenue of \$50 million or over 1 per cent of gross national product.

The Budget presented in June provided for an increase in Government expenditure of 1.4 per cent compared with an average rate of increase of 9 per cent over the previous three years. In addition a new scheme of development bonds yielding up to 6 1/4 per cent per annum was introduced as a further stimulus to savings.

Finally it should be recorded that the guaranteed price for butterfat for the coming season has been reduced by 5 per cent and the floor price for wool by an average of 10 per cent. There could be associated reductions in farm incomes with further deflationary effects.

5. The 1967/1968 import licensing schedule

A detailed explanation of the current import licensing schedule and the recent changes made to it are contained in the basic document. The outline of the schedule was settled before the wool price decline in late 1966. The Government made no changes subsequently preferring instead to rectify the balance-of-payments situation by reducing the level of internal demand.

Despite the continuing pressure on its balance of payments the policy of the New Zealand Government remains - the progressive relaxation of import licensing and the provision of greater flexibility and freedom within the system. Considerable progress towards this objective has already been made and now over one third by value of New Zealand's private imports are exempt from import licensing.

6. Conclusion

New Zealand continues to face serious balance-of-payments difficulties. The Government has taken appropriate fiscal and other measures to keep domestic spending in line with the likely level of available resources both internal and external. Progress towards further liberalization of the remaining import controls will depend on the extent to which there is an improvement in our export earnings. Leaving aside the question of wool, this in turn is largely dependent on the establishment of more equitable trading conditions for temperate agricultural products. Failure to achieve this must not only affect New Zealand's future trading policies but also call into question the whole effectiveness of the GATT as an instrument for promoting fair and liberal trading conditions.

OVERSEAS EXCHANGE RESTRICTIONS

(\$NZ millions)

<u>March years</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
1. Exports				
(a) Butter	110.0	111.6	107.8	117.6
(b) Cheese	43.2	44.6	45.2	55.0
(c) Meat	180.2	215.8	214.8	207.8
(d) Wool	269.4	241.4	230.8	216.6
(e) Other	127.6	155.4	175.8	199.0
Total exports:	730.4	768.6	774.2	795.8
2. Other current receipts	70.0	78.4	84.4	92.2
Total current receipts	800.2	846.8	858.4	888.0
3. Capital receipts				
(a) Government	40.8	22.8	157.0 <sup>1</sup>	182.2 <sup>2</sup>
(b) Private	20.6	30.2	22.6	24.0
Total capital receipts	61.4	53.0	179.6	206.2
Total receipts	861.6	900.0	1,038.0	1,094.2
<u>Payments</u>				
1. Imports				
(a) Government	54.6	65.2	72.6	74.2
(b) Private	573.0	591.8	669.8	648.0
Total current payments	627.6	657.0	742.4	722.4
2. Other current payments				
(a) Government	38.6	39.2	45.6	56.0
(b) Private	149.8	175.2	188.0	216.2
Total current payments	816.0	871.2	976.0	994.6
3. Capital payments				
(a) Governments	43.2	15.8	84.2	69.2
(b) Private	13.2	25.4	25.0	25.2
Total capital payments	56.4	41.0	109.2	94.4
<u>Total payments</u>	872.4	912.2	1,085.2	1,089.0
Balance on trade transactions:	+102.8	+111.6	+31.8	+73.4
Invisible balance	-118.4	-136.0	-149.2	-180.0
Current account balance	-15.6	-24.4	-117.6	-106.6
Capital account balance	+ 5.0	+12.2	+70.4	+111.8
Overall balance	-10.8	-12.2	-47.2	+ 5.2

<sup>1</sup>Includes International Monetary Fund drawing of \$50.4 millions.<sup>2</sup>Includes loans to the Reserve Bank of \$45.6 millions.