

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## Committee on Balance-of-Payments Restrictions

### REPORT ON THE CONSULTATION UNDER ARTICLE XII:4(b) WITH NEW ZEALAND

1. In accordance with its terms of reference the Committee has conducted a consultation with New Zealand under paragraph 4(b) of Article XII. The Committee noted that the previous consultation with New Zealand under the same provisions had been held in July 1969. In conducting the consultation the Committee had before it a basic document supplied by the New Zealand authorities (BOP/112 and Corr.1), the New Zealand Import Licensing Schedule for 1970/71, together with explanatory statements (L/3395), a background paper provided by the International Monetary Fund, dated 2 February 1971 and a decision of the Executive Board of the International Monetary Fund taken on 17 February 1971.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex I). The consultation was held on 8 March 1971. This report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with New Zealand. Upon the invitation of the Committee the representative of the International Monetary Fund made a statement, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 17, 1971 taken at the conclusion of the most recent Article XIV consultation with New Zealand and particularly to paragraphs 4 and 5 which read as follows:

14. New Zealand continues to have difficulty in obtaining access to markets for some major products, and conditions in export markets have, in some cases, been weak; with the rise in import prices, there has been a sharp deterioration in the terms of trade. In the year to December 1970 export receipts rose by 4 per cent and import payments by 20 per cent, with the current account showing a deficit of \$NZ 26 million. Official reserves are at a comfortable level; at the end of December 1970 they totaled \$NZ 308 million, compared with \$NZ 258 million a year earlier.

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

Opening statement by the representative of New Zealand

4. In an opening statement, the text of which is reproduced in the Annex, the representative of New Zealand outlined developments since the last consultation in mid-1969 in New Zealand's balance of payments, domestic economy and economic and commercial policies. It was noted that while the foreign exchange reserves had been maintained at a satisfactory level, account had to be taken of substantial debt repayment obligations and uncertainties in the world capital market. The vulnerability of the country's balance of payments had been exemplified by the recent deterioration of the current account which had resulted in a deficit for the first time in two-and-a-half years and showed a continuing trend. Import payments had risen rapidly, far in excess of the rate of increase in export receipts, and the secular worsening of the terms of trade had continued.

5. In this context, the representative of New Zealand referred to various factors tending to dampen future prospects for some of the country's principal exports, namely beef, lamb and dairy products, not the least important among which were the protectionist policies of industrial countries. While export earnings were not expected to rise by more than a small margin this year and export prices were unlikely to improve, import prices had risen rapidly partly owing to the inflationary pressures experienced in industrial countries.

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

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

Balance-of-payments position and prospects

8. Members of the Committee expressed appreciation for the comprehensive information supplied by New Zealand in the documentation and in the opening statement. They expressed gratification at the improvement in New Zealand's balance of payments and foreign exchange reserve position. They welcomed the steps of trade liberalization taken by New Zealand since the last consultation as well as the declared intention of New Zealand eventually to free all imports from licensing, but felt that a somewhat faster rate of progress was desirable since the existence of the restrictions constituted a hindrance to trade.

9. The Committee noted that although the overall balance of payments of New Zealand had improved significantly in the last three years, the current account had shown a deficit and was tending to deteriorate further, mainly owing to a rapid rise in imports and a more sluggish growth of exports. In addition to the declining export prices and uncertain prospects for certain commodities, there existed serious problems of access to certain overseas markets. Above all, the United Kingdom's entry into the European Economic Community could have far-reaching effects on New Zealand's balance of payments. New Zealand depended heavily for its export earnings and livelihood on a narrow range of agricultural products for which the United Kingdom constituted the most important market. According to a report of the New Zealand Monetary and Economic Council, British membership in the EEC would entail for New Zealand an immediate loss of \$NZ 150 million of annual export earnings from dairy products alone if the entry terms provided no safeguard for New Zealand's interest, or an eventual reduction of \$NZ 85 million in pastoral product export earnings if there were a transitional period during which the farm sector could be restructured through substantial investment. Additional losses would be incurred if the conditions of access in an enlarged EEC for such other New Zealand products as lamb should be less favourable than those now prevailing in the United Kingdom. However, the United Kingdom Government had firmly undertaken to seek special safeguards for these products.

10. The representative of New Zealand stated that while in the light of the firm assurances given by the British Government, New Zealand had full confidence that her exports of dairy products and lamb would be afforded suitable protection in the event of Britain's entry into the EEC, the uncertainties involved should not be underestimated. Furthermore, safeguards had so far been envisaged for these pastoral products only, and there was little likelihood of similar protection being extended to other products for which the loss of the British market would also have considerable consequences for the New Zealand economy. In addition, the United Kingdom Government had given notice that it intended to introduce in the near future a system of variable levies on agricultural products. Although assurances had been given by the United Kingdom Government that this measure would not be harmful to New Zealand's trade in lamb, an element of uncertainty nevertheless would overhang this vital branch of the New Zealand economy. As regards other markets for New Zealand's exports, protectionist tendencies in the United States, as had been manifest in recent legislative proposals, caused

serious concern in regard to the conditions of access for beef and lamb. These factors of uncertainty, accompanied by the worsened terms of trade as well as the heavy debt repayment obligations, would have to be taken into account in evaluating New Zealand's balance-of-payments prospects and capabilities for import liberalization. Even under these circumstances, 65 per cent of New Zealand's total imports had been freed from licensing control and, in the view of the New Zealand authorities, it would have been imprudent to proceed faster than it had in fact done with the removal of the remaining restrictions. Moreover, New Zealand's attitude was influenced by its policy not to reduce the extent of liberalization already achieved.

11. Members of the Committee referred to the estimates given by the New Zealand representative of export earnings in 1970/71 and 1971/72, which appeared to be unpromising, and asked whether in the view of the New Zealand authorities the worsened current account balance was likely to persist or whether the favourable trend seen after the 1967 devaluation might be restored. In reply, the New Zealand representative pointed out that while prices of meat had been buoyant in the last two years, the rising trend was unlikely to be sustained. While the markets for butter, cheese and other milk products had indeed firmed, exports had been hampered by shortfalls in supply caused by two successive years of drought. Wool prices had fallen persistently and there seemed no hope of recovery. On the other hand, the prices of New Zealand's imports, which consisted mainly of manufactured goods, would undoubtedly continue to rise. These were the main factors responsible for the stringent current account situation forecast for the present and the coming fiscal years. Historically, New Zealand's current account had normally been in deficit, the surpluses of 1969 and 1970 being rather exceptions.

12. In answer to a question about the cause of the decline in New Zealand's meat export receipts in the second half of 1970, and the prospects for the immediate future, the representative of New Zealand thought that the fall might partly be attributed to a decline in the exceptionally high prices of the preceding period and partly to the fall in production on account of the drought. As regards the future the long-term prospects for beef should be excellent in view of the substantial deficit in the EEC countries and the rapidly expanding demand in the United States. The variable levy to be introduced in the United Kingdom would, however, adversely affect New Zealand's export earnings from lamb.

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

14. In answer to a question, the New Zealand representative stated that an estimate of the overall balance of payments for the current fiscal year indicated a current account deficit of some \$NZ 60 million.

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

16. Some members of the Committee expressed the view that the apprehensions on the part of New Zealand were legitimate and justified a cautious approach in regard to the relaxation of import restrictions. The Committee, nevertheless, felt that the official reserves had now reached a comfortable level which should make it possible for New Zealand to consider the early liberalization of the remaining import restrictions, which were still applied on a substantial range of products. In the light of the findings of the IMF, as quoted in paragraph 3 above, the Committee urged New Zealand to make faster progress towards the goal of freeing all imports from licensing.

#### Alternative measures to restore equilibrium

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

18. Invited to comment on the likely effect of the series of stabilization measures introduced in the "mini-budget" of 1970 and subsequently, the representative of New Zealand referred to the measures taken in December 1970 further to control credit expansion and the severe controls on prices and wages introduced in February 1971 to implement an incomes policy. Whether the accumulated effect of all these measures would be sufficient remained to be seen.

#### System and methods of restrictions

19. Members of the Committee recalled the criticisms presented at previous consultations with New Zealand over the complex and rigid character of its import control system, which involved the classification of imports into numerous categories and the use of various different methods of allocation and licensing which had to be set out in a voluminous licensing schedule. In particular, the

system of granting allocations to importers on the basis of their previous imports and of issuing licences for certain imports only to importers of at least three years' standing would seem to be harmful in that it tended to hamper the entry of newcomers and favour established traders and their traditional or habitual sources of supply, to the detriment of competing suppliers in other countries. They expressed the hope that increasing scope would hereafter be provided for newcomers, such as by way of giving them "basic entitlements" on a comparable footing with established traders, instead of continuing to submit them to administrative discretion. The complexity of the system and of the built-in rigidities, in their view, could not but have the effect of placing an additional burden on foreign exporters as well as on importers and consumers in the country.

20. The representative of New Zealand explained that the apparently complex import control system was the result of continuing efforts to adapt the controls to changing exigencies with a view of providing the maximum flexibility within the limits set by the balance-of-payments considerations. The various categories and methods of allocation used were designed to meet the particular needs of particular sectors of imports. Indeed the controls would have been much more rigid and restrictive of trade if all imports were made subject to a single procedure. It should be noted that all licences issued were valid for imports from all sources of supply and that the traders were free to seek out the most advantageous sources of supply for their imports and place their orders on commercial considerations. In the view of the New Zealand authorities, even if the system favoured established importers, it in no way discriminated against any supplying countries. The licence allocation was not designed to maintain the established position of certain importers but was solely based on practical considerations.

21. On the question of providing incentives for new importers the New Zealand representative recalled the press statement issued last May which indicated two approaches: first additional funds were being allocated to a number of selected item codes to provide for new importers; in other cases new importers could obtain licences for additional supplies where they had already drawn their normal supplies from basic licence holders (cf. L/3395, page 6).

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

23. Members of the Committee recalled the request which they had made during a previous consultation for a list of New Zealand importers who held import entitlements for the various item codes which could serve as reference to exporters in other countries in seeking contact with established importers in New Zealand. The New Zealand delegation had indicated at that time that "assistance could be given to overseas exporters by facilitating contact between sellers and New Zealand buyers so long as there was no question of disclosing the amounts of the licences held by individual licence holders". The New Zealand delegation confirmed his Government's willingness to provide such assistance

although it would be unable to divulge any confidential information which might prejudice the legitimate commercial interests of particular enterprises. In view of the importance attached to the list of licence holders requested, the New Zealand representative undertook to convey it to the attention of his authorities for consideration.

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

25. Some members of the Committee reverted to the question of licensing discrimination in favour of Australia applied in the context of the New Zealand-Australian Free Trade Arrangement which had been raised in previous consultations. They questioned the legality of this discrimination in view of the requirements of Article XIII:1 and referred to the provisions of Article XII:4(c) in justification of this Committee's competence in regard to a matter of this nature. The representative of New Zealand recalled his Government's view that this question belonged more appropriately to another GATT forum; and referred to past discussions on the interpretation of Article XXIV of the General Agreement, particularly in the Report of the Working Party on MAFTA (BISD, Fourteenth Supplement, page 117, paragraphs 8-10). One of the members raising this question referred to the language of Article XXIV:5(b) exempting Article XII restrictions from the elimination in the formation of a free-trade area and stressed his conviction that the New Zealand measures infringed the provisions of Article XIII. In view of the impossibility of resolving the issue at this meeting it was agreed to terminate the discussion.

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

Effects of the restrictions

27. In response to a request the New Zealand representative undertook to obtain and supply for the information of the contracting parties at a later stage data showing the commodity composition of the products subject to licensing control, which represented one third of New Zealand's total imports.

28. In response to questions the representative of New Zealand stated that as trade liberalization progressed an increasing number of products that were available from domestic production would be affected and there were therefore likely to be an increasing number of cases in which the removal of licensing control would be accompanied by the introduction of tariff protection, although no precise figures could yet be given in this regard. The New Zealand authorities were not in a position to give any precise indication as to when the "D" items would be exempted from licensing; in the nature of things these products would probably not be given priority as long as imports need be restricted on balance-of-payments considerations.

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

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

Conclusions

31. The Committee hoped that steps could be taken by New Zealand to simplify import control procedures. While it did not dispute that the system was designed and intended to operate in a non-discriminatory way, the Committee considered that it operated to the advantage of established importers and therefore to some extent

in favour of traditional suppliers. The Committee noted that New Zealand had already made some provision in its import licensing schedule for new importers and had adopted further measures to expand opportunities for new importers in the current licensing year. The Committee recognized the desire of the New Zealand authorities to evaluate these new measures before considering further action in this sector but it suggested that the Government bear in mind the need to ensure that new importers have an adequate opportunity to participate in international trade.

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

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Opening Statement by the Representative  
of New Zealand

Since the last consultation, which was held in July 1969, New Zealand's Foreign Exchange Reserves have been maintained at satisfactory levels. In January of this year they stood at NZ 338 million. Although this is a relatively high total, it must be measured not only against our import requirements but also against forthcoming overseas debt repayment. A total of \$200 million in overseas loans will fall due for repayment in the next three years and there may be difficulty in refunding much of it in the current uncertain state of the world's capital markets.

Since January 1970 the balance of the annual current account of overseas transactions has been on a downward trend and in October 1970 it moved into deficit for the first time for two and a half years. The current account deficit for the year ended January 1971 was \$22.9 million and further deterioration is expected throughout most of 1971. This development, although it is not yet serious, exemplifies New Zealand's perennial vulnerability to balance-of-payments problems.

The principal factor accounting for the current account deficit has been a rapid rise in import payments. For the year ended January 1971 import payments at \$82 million were 20 per cent greater than in the previous year. Export receipts for the same period were only 4 per cent higher than in the previous year.

The secular deterioration in our terms of trade has continued as the basic document relates, the terms of trade have reached their lowest level in peace time since the Great Depression of the 1930's. A glance at the export price indices published by the International Monetary Fund in the International Financial Statistics shows that on a 1963 base New Zealand currently has the lowest level of index of any country recorded.

Demand for beef has been buoyant over the last two years and prices have risen but are not expected to continue to rise, and we cannot be confident that prices in the British lamb market will be remunerative when the proposed import levies are introduced. Wool prices, which are already at historically low levels, are still falling.

The short-term outlook for dairy products has improved. Production fell in New Zealand due to a drought in the 1969/70 season. In the current season production is expected to be slightly higher than in 1968/69 and there are reasonable prospects for sales in export markets. The longer-term outlook is still very discouraging.

There has been little sign of change in the protectionist policies of the major industrial countries which prevent us from taking full advantage of our comparative efficiency as a producer of agricultural products.

On the basis of a relatively sanguine estimate of our prospects we expect that export receipts for the year ended June 1971 will be no more than 3 per cent higher than in the previous year and we cannot confidently forecast any increase for the year ended June 1972.

Whilst our export prices are not improving import prices have risen rapidly as the major industrial countries from which we import have experienced inflationary pressures. The import price index for December 1969 was 6 per cent above its level a year earlier. But by December 1970 the rate of increase had risen and the index was 9 per cent above its level at the same time in the previous year.

New Zealand itself has experienced serious inflationary pressures during the year as wages and prices have risen much more rapidly than output. The consequences of this development for the country were most disturbing. Its effects on pastoral industries which earn most of our export income is to raise their costs at a time when increased costs cannot be recovered in international markets. At the same time it is eroding the competitive position of our exports of forest products and manufactured goods. The plight of the pastoral industries is already being demonstrated in falling farm incomes and farm investment.

The Government, recognizing that the economy could not withstand a continuation of this situation, introduced a number of deflationary fiscal monetary measures which are outlined in the basic document. But these measures have not, of themselves, proved sufficient to control the wage/price spiral and the Government was at length compelled to employ direct controls over both prices and remuneration.

In November the Government introduced a price freeze which has now been followed by a scheme of mandatory price justification. At present Parliament is considering legislation to limit increases in wages and salaries to no more than 7 per cent in the twelve months beginning February 1971.

Despite problems in the domestic economy New Zealand has continued with the dismantling of import licensing in accordance with the recommendations of the National Development Conference. Since the last consultation a wide range of goods has been exempted and it is estimated that approximately 65 per cent of all private imports for the year 1970/71 will be exempt from licensing compared with 55 per cent in the previous period. A further list of proposed exemptions was advertised in November 1970 and items not subject to submissions for alternative forms of protection will be exempt from 1 July 1971.

The dismantling of import licensing will continue as part of New Zealand's long-term effort to restructure its economy on more efficient lines. But it will continue in an orderly and systematic manner. The pace of further liberalization is heavily dependent on New Zealand's ability to earn a level of export income consistent with the likely demand for imports in the absence of controls.