

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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CONTRACTING PARTIES
Fourteenth Session

DRAFT REPORT ON THE CONSULTATION WITH NEW ZEALAND

1. In accordance with its terms of reference, the Committee has conducted the consultation with New Zealand under paragraph 4(b) of Article XII and paragraph 1(g) of Article XIV. The Committee had before it: (a) the "basic document" prepared by the secretariat; (b) a press statement by the New Zealand Minister of Customs on recent changes; and (c) a document supplied by the International Monetary Fund. In conducting the consultations the Committee followed the "plan" recommended by the CONTRACTING PARTIES. The present report summarizes the main points discussed during the consultations.

Statement by the International Monetary Fund

2. 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 these consultations with New Zealand. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted a background paper on economic developments and changes in the restrictive system of New Zealand. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's document concerning the position of New Zealand. The statement was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on economic developments and changes in the restrictive system of New Zealand, dated April 23, 1959. In preparing this paper, the Fund has had available a considerable amount of factual data on the current situation of New Zealand and has received the co-operation of officials of New Zealand in ensuring the accuracy of the data used and in supplying the latest available information. I should like to take this opportunity to express the Fund's appreciation for this assistance.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, 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."

3. In opening the consultations, the representative of New Zealand made a statement on recent developments affecting New Zealand's balance-of-payments position. The full text of the statement is annexed to this report and the principal points are summarized below.

4. The representative of New Zealand drew attention to the continued decline during the first half of 1958 in the prices of New Zealand's principal exports except meat. The price of butter on the London market had dropped to the lowest price for some time. The fall was largely brought about by increased United Kingdom production and by heavily increased supplies coming forward from other countries, in many cases at subsidized prices. In the latter half of 1957 cheese prices also fell substantially and showed no sign of recovery until March 1958. In 1958 receipts for wool showed a decline of almost 25 per cent from the 1957 figure. Meat was the only export commodity which showed a substantial increase in receipts during 1958, becoming New Zealand's largest single earner of overseas exchange. Total export receipts in 1958 were lower than in 1957.

5. On the payments side, private imports were reduced by £28 million. Most of the reduction was concentrated in the second half of the year because of the time-lag before the restrictions imposed at the beginning of 1958 could take effect. In spite of this reduction there was an overall deficit on current account, somewhat lower than the deficit on current account in 1957 but still very substantial. Whereas in 1957 the deficit was financed mainly by drawings upon external reserves; in 1958, because the reserves had fallen to a very low level, it was financed by borrowings on official account, which exceeded the amount of the deficit. As a result there was during the year a slight improvement in the level of exchange reserves.

6. The worsening of New Zealand's terms of trade in 1957 and 1958 had been another cause of difficulty. In the twelve-month period from the second quarter of 1957 to the second quarter of 1958, the terms of trade worsened by 23 per cent.

7. The intensification of import licensing introduced at the beginning of 1958 was necessarily undertaken on the basis of estimates made of likely export earnings for the year. Unfortunately export prices continued to decline in the first half of 1958, the decline being particularly marked in the case of wool. In mid-1958 the prospects seemed to be that export receipts might be considerably lower than in 1957, and a fall in the already low level of reserves could be avoided while maintaining imports at the estimated level only by substantial overseas borrowing. Borrowing on the scale of 1958 clearly could not be repeated.

8. The schedule of imports for 1959 was issued early in October 1958, and a number of changes were introduced. The "A" category of items, covering mainly essential foodstuffs and raw materials, was withdrawn because of the need to conserve exchange reserves further. However, most of the goods previously classed as "A" were in the higher categories of the 1959 schedule. Another major change was the further reduction of discrimination against imports from the dollar area. This step was in line with the policy of the New Zealand Government to reduce discrimination as quickly as possible. For 1959 the area of dollar discrimination was much smaller than it had been in previous years.

9. In the light of the situation at the time the Import Licensing Schedule was drawn up in October 1958, it was obvious that importation on the scale of 1958 could not be permitted. However, as a result of a later assessment of likely commitments and later estimates of export earnings, the New Zealand Minister of Customs was able to announce on 13 April 1959 that additional provision was to be made for imports in 1959 on a wide range of items.

10. In the situation brought about by the balance-of-payments difficulties, credit controls had been maintained, and the Reserve Bank had continued to exercise control on bank advances through its policy of varying the statutory reserve ratio. In addition fiscal measures were announced in the budget of June 1958; income taxes were increased and indirect taxation substantially raised.

11. The representative of New Zealand explained that in the allocation of available exchange, the main aim was to give priority to imports of essential goods. After essentials had been provided for, the remainder of the funds were to be allocated in the most reasonable way. It was the intention of the New Zealand Government to relax restrictions as soon as circumstances permitted. The basic prerequisites, however, must be a recovery in prices of major exports, wool in particular, and an improvement in New Zealand's terms of trade.

12. For almost the whole of her exchange earnings New Zealand depended upon exports of a few agricultural commodities. Overseas earnings were essential for the purchase of the bulk of the raw materials required by New Zealand's industries. Moreover, the rapid expansion of population required a high rate of investment, which approximated 23 per cent of gross national product in 1957/58. In these circumstances, fluctuations in the prices for exports were of major concern. A falling off in external earnings brought with it strains on the development programme, and on the external reserves.

13. With fluctuating prices of exports it was not possible to make internal adjustments rapidly to meet the changed situation. Such is the effect of fluctuations that the extent of internal adjustment necessary is frequently of an intolerable magnitude, and resort to import restrictions becomes difficult to avoid.

14. There was little that New Zealand on its own could do to mitigate such fluctuations. Much greater efforts are required of industrial countries in order to moderate the fluctuations in industrial activity, which were a major source of the fluctuations in the prices of raw materials. In the case of foodstuffs, however, the principal difficulties stemmed from the protective agricultural policies of those countries which were regarded as prospective markets for New Zealand's exports. This was not only a matter of quantitative restrictions, but also of the effects of these policies in producing surpluses which then enter world trade at subsidized prices.

15. The non-extension of OEEC liberalization to New Zealand by certain major European countries had also affected New Zealand's ability to obtain access to markets in which her agricultural products had a natural advantage. The representative of New Zealand stressed that the agricultural policies in the industrial countries make much more difficult the problem of overcoming on a permanent basis the balance-of-payments problems New Zealand faced today. New Zealand's unsubsidized exports are being shut out almost completely from some of the world's largest markets.

16. Members of the Committee thanked the New Zealand representative for the very thorough and informative statement. Some members noted the high degree of instability in New Zealand's terms of trade as a result of fluctuations in export prices and the fact that New Zealand's exports were almost exclusively made up of a narrow range of farm products whose prices were subject to frequent and often wide fluctuations. These movements were of prime importance to New Zealand because of the high proportion of the country's national income which was derived from exports. It was also noted that New Zealand's terms of trade had deteriorated considerably during the first half of 1958. Wool prices were 25 per cent below the 1956/57 level and butter and cheese prices had experienced a sharp decline. The market for New Zealand's unsubsidized dairy products was seriously restricted by protectionist agricultural policies in many countries and by competition from heavily subsidized products. Certain members shared the view that because of the widespread application of restrictive policies by a number of industrial countries, many primary producing countries were finding themselves in a position similar to that of New Zealand.

Balance-of-payments position and prospects

17. A member of the Committee referred to the price fluctuations of New Zealand's major exports as sufficient reason for a policy directed towards establishing higher reserves. It was suggested by a member that it might be useful to arrive at an agreed view on the level of reserves required by a country in the position of New Zealand. Other members of the Committee pointed out, however, that many factors would have to be taken into consideration and their relative importance varied from country to country. The representative for New Zealand agreed that a higher level of reserves might be more important to New Zealand than to many countries, for reasons such as the great distance of New Zealand from its major sources of supply. This distance resulted in a considerable time-lag between the moment of ordering goods and actual importation; measures implemented to reduce imports had little effect for several months; more reserves were needed as a cushion to withstand drawings during the interval.

18. In response to questions on the importance of external trade to New Zealand, the representative for New Zealand pointed out that when expressed as a percentage of the gross national product, exports amounted to approximately 27 per cent, and approximately 40 per cent of goods available for domestic consumption were imported. A member referred to the available data on price fluctuations of New Zealand's principal exports, which he thought was inadequate to show what was the size of the total loss of export income owing to the fall of those prices. He wished to know the probable effect on export income if prices of major agricultural products had been maintained as in the first half of 1957. The representative for New Zealand referred to the difficulty of giving accurate information on such a situation because of the many varying factors. Although prices of most major exports had dropped since the first half of 1957, the price of beef had risen to a fairly high level. Quantities of certain exports had also moved up to offset to some extent lower prices.

19. Several members expressed interest in the recent development of a large new market for New Zealand beef in the United States. The representative for New Zealand explained that the present high demand for beef in the United States was mainly the result of a cyclical downward trend in United States beef production. Prices were high and hardly affected by New Zealand's exports which supplied but a very small fraction of the United States demand. He agreed that the prices of New Zealand's meat products had shown a greater degree of stability than the prices of other major exports. He considered that one of the factors responsible was that there was a wider market for beef and the demand for this product appeared to be expanding.

20. In response to a question on the repayment of the recent loans negotiated by New Zealand, particularly the short-term loans, the representative for New Zealand stated that his Government was very conscious of the burden that these repayments would be on New Zealand's balance of payments in the next few years. He emphasized, however, that the deficit on current account and the very low level of reserves in 1958 had given the Government no alternative but to resort to heavy borrowing.

21. The representative of New Zealand, in reply to a question on the prospects for the balance of payments in the months ahead, reported that it was expected that receipts for butter and cheese would be somewhat greater in 1959 than in 1958. The London price for both products was firmer; butter production had increased last season over the previous year and exports were expected to be higher. However, cheese production would be lower than in the previous season and therefore some fall in exports was likely. Seasonal conditions had resulted in some fall in the output of meat and at the same time there were indications that prices for New Zealand beef in the United States may be falling. Wool prices had shown a recent upward trend but drought conditions had affected production and the volume of exports might be reduced. Total export receipts were expected to be at approximately the same level as in 1958. The representative for New Zealand agreed that repayment of short-term loans would be an added difficulty but it was hoped that, taking into account the present level of restrictions, only a small amount of external borrowing would be necessary to achieve a balance of transactions on external account.

22. A member asked at what level the price of wool would have to be in order to achieve a balance without the use of quantitative restrictions. The representative for New Zealand replied that in considering the degree of liberalization that could be achieved, it was necessary to take into account the whole balance-of-payments situation and the level of reserves. It was therefore difficult to isolate wool, since prices and quantities of other products had also fluctuated and had had varying effects on the balance of payments. He considered, however, that New Zealand's position would be much easier if the price of wool were at the 1956 level.

23. In response to requests for information on secondary industries, the representative for New Zealand stated that his country had virtually no heavy industry. Besides the recently developed pulp and paper industry, the bulk of secondary industry was of the usual variety of light industry and assembly plants. There were also a number of industries for the processing of primary

products. With the exception of the pulp and paper industry there was little production for export although a small amount of New Zealand-developed dairying machinery was marketed outside New Zealand. As regards the processing of primary products the representative for New Zealand explained that whereas most exports of wool, for example, were in the greasy raw form, there was some development of trade in scoured wool.

Alternative measures to restore equilibrium

24. The New Zealand representative had referred to the inflationary effect in New Zealand of the sharp decline in the volume of imports resulting from intensified quantitative restrictions. A member of the Committee enquired as to the policy of the New Zealand Government regarding the internal effects of import restrictions. The representative for New Zealand stated that the dangers of inflation were recognized by his Government in the budget of June 1958 when taxes were increased substantially in an effort to curtail demand. The result was a substantial cash surplus compared with a deficit in the previous year. Also during this period New Zealand had followed a very restrictive monetary policy. The severe internal measures already taken left little margin for further action by the Government along these lines.

25. Recognizing the distance of New Zealand from foreign suppliers, one member asked whether an adverse balance-of-payments situation could be reversed more quickly by internal measures than by quantitative restrictions, thereby avoiding certain of the disadvantages which the use of quantitative restrictions seemed to create. The New Zealand representative considered that internal measures could not have been taken in time to prevent the need for quantitative restrictions. He recognized the importance of internal monetary and fiscal measures, but stressed the relative slowness of internal measures in affecting New Zealand's balance-of-payments position as compared with the imposition of further import restrictions. He agreed that after a time internal measures reduced the necessity for quantitative restrictions, but the danger of unemployment set a limit to the use of restrictive internal measures. A member pointed out that the maintenance of stringent import restrictions created shortages of supply that could engender inflationary pressures and that, as the New Zealand Government seemed to recognize, these would have to be dealt with by internal measures. Thus, the early application of internal measures would avert problems that had to be dealt with in any case by internal action.

26. One member observed that the intensification of quantitative restrictions increased the danger of developments in the domestic economy which in the long run might place pressures on the balance of payments. The representative for New Zealand stated that his Government was aware of the repercussions of continuing quantitative restrictions. He agreed that the more severe the restrictions were the easier it was for uneconomic industries to persuade the Government that they should establish themselves, only eventually to prove a burden on the balance of payments and on the economy.

27. One member sought information on the effectiveness of various measures introduced by the budget of 1958 and suggested that increased social service payment might have an offsetting effect. The New Zealand representative stated that some reduction in bank advances had been achieved but there had been no effective reduction in 1958, compared with 1957 in the level of capital rates; he agreed that taken by themselves increased social service payments could cause an increase in internal demand. He emphasized, however, that the budget as a whole, including the tax measures, must be taken into consideration when examining the effects of any particular measure.

28. A member asked for information on the various subsidy arrangements of New Zealand. The representative for New Zealand explained that consumer subsidies existed for wheat, butter and milk. Small producer subsidies existed for citrus fruit, eggs and the carriage of lime. There were no export subsidies.

Systems and methods of restrictions

29. Members commended New Zealand for having made progress over the past few years in narrowing the scope of discrimination. Now, however, in view of the introduction of external convertibility and the removal of the distinction between the different trading currencies, they wanted to know the New Zealand Government's plans for abolishing the remaining discrimination. In this connexion, reference was made to the statements presented to the first plenary meeting of the session by their delegations. The representative for New Zealand said that his Government was aware that discrimination in import restrictions involved added cost to New Zealand in that it sometimes prevented importers from buying on the cheapest market possible. He confirmed that it was the policy of his Government to remove discrimination as rapidly as circumstances permitted. He referred to the previous steps taken by New Zealand to reduce discrimination and pointed out that provision had been made in the 1959 Import Licensing Schedule for the issue of licences for most goods on a global basis. Imports under these licences could be made from any source. With the exception of "D" items on which no allocation had been made and on which licences were granted only in exceptional circumstances, all but about 10 per cent of items were available for import from any source. The first opportunity for the further removal of discrimination would be in the preparation of the licensing schedule for 1960 and provided that circumstances have not in the meantime changed to New Zealand's disadvantage it was the intention of the Government to take the next step at that time.

30. One member asked why licences, issued for the purpose of importing from scheduled countries goods not covered by global quotas, specify the country of supply and were not transferable from one scheduled country to another. The New Zealand representative stated that licences were granted for such products on consideration of various factors and on receipt of specific information. Similar circumstances would not necessarily apply to other scheduled countries. However, in a number of cases an alternative choice was given.

31. Some members noted the movement in New Zealand policy towards less discrimination. In view of the recognition of the New Zealand Government of the desirability of removing discrimination, they asked why the remaining items subject to discrimination could not be put on a non-discriminatory basis now and whether, at any rate, such items would be created on a non-discriminatory basis in the 1960 licensing schedule. The New Zealand representative pointed out that since it would be some months before the 1960 licensing schedule would be drawn up, it was yet too early to say precisely what action could be taken. It was only possible at present to say that it was the intention of the Government to take the next step at that time. The same members could see no difficulty that should prevent the removal of discrimination. They expected to see the complete elimination of discrimination, not necessarily overnight but certainly in the fairly near future.

32. A member asked the representative for New Zealand whether he could inform the Committee of New Zealand's experience with the use of global quotas. The representative for New Zealand replied that as far as non-dollar countries were concerned, a system of global quotas had been operated for many years. This was a relatively simple system and within the limits imposed by currency considerations, allowed importers to buy in the cheapest market. The system had been progressively extended to include the dollar countries and, as previously pointed out, the residual area of dollar discrimination was smaller than at any previous time. There were, however, certain difficulties of equity as between individual importers in making further moves in the direction of globalizing quotas at the present time. The representative for New Zealand pointed out also that if an importer could persuade the authorities that there were advantages to be gained in importing from the dollar area, such considerations would be an important factor in granting licences.

33. In reply to questions, the representative for New Zealand assured the Committee that "M" items in the import licensing schedule would not be excluded from the dollar area. He explained that if an importer wished to import a particular commodity on the "M" list, his licence would normally be valid for use only in non-dollar countries. He was at liberty to apply for a licence to import that commodity from the dollar area and such applications were treated on an individual consideration basis. A number of factors, such as price and availability from other areas, would be taken into account, but within this procedure allocations are made on the same basis as that applying to non-dollar licences for the same goods. Thus, where an item is shown in the licensing schedule as "M - 75 per cent 1958 licences" the allocation for imports from a particular dollar country would be 75 per cent of the value of 1958 licences issued for imports from that country.

34. One member pointed out that the recent modifications in import restrictions announced by the New Zealand Ministry of Customs did not include any further reduction of discrimination although it did provide for additional imports of some products of interest to dollar countries. The New Zealand representative stated that the purpose of the revision was not to deal with discrimination, but to expand the provisions for licensing on the basis of the import licensing schedule introduced for 1959. Quite a number of items of interest to the dollar area were relaxed.

35. One member pointed out that the use of 1958 as the base year for the establishment of quotas with current year was particularly unfavourable to dollar area countries whose exports to New Zealand in 1958 had been severely reduced. The representative for New Zealand observed that the choice of any base year causes some difficulties for some importers and foreign exporters. The New Zealand Government was, however, ready to listen to any representations made by any contracting parties or importers.

36. A member asked the basis on which products were selected for list "D". He observed that many products on list "D" were of a luxury character, but many others did not appear to fall within this category. The representative for New Zealand stated that the basis of selection was principally to give priority to essential goods and then allocate the remaining likely exchange resources in the most reasonable way possible taking into consideration any local New Zealand production. One member expressed the hope that the Government of New Zealand would remove items from the "D" list which had no relation to the balance of payments. He hoped also that New Zealand would fully apply the principle of non-discrimination when the 1960 import schedule was drawn up.

37. A member noted that the recent Trade Agreement between New Zealand and the United Kingdom contained certain provisions which appeared to be inconsistent with New Zealand's stated policy on non-discrimination. The representative for New Zealand expressed doubt that the discussion of discrimination on this point was relevant. He explained that the negotiations referred to were conducted against a background of considerable difficulties in New Zealand's balance of payments and in the marketing of her products. The provisions to which the member had referred were designed to give some flexibility in the development of new markets for New Zealand's exports, particularly in areas where special arrangements were necessary, as other countries had already found.

Effects of the restrictions

38. Members of the Committee discussed with the New Zealand representative the question of the incidental protection and the expansion of uneconomic industry as a result of quantitative restrictions and enquired as to what steps had been taken by New Zealand to limit such developments. The New Zealand representative stated that, as noted in Part II of the basic document, his Government was well aware of this problem. Industry had been warned on many occasions that it could not depend on continued protection and any industries, when establishing or expanding production, must have regard to their competitive position when restrictions on imported goods became no longer necessary. The control exercised by the Capital Issues Committee over private investment in the issuance of shares and similar efforts to raise capital helped to control the development of industries as a result of the incidental protective effects of restrictions, since one of the considerations which the Committee took into account was the immediate and long-term effect on the balance of payments.

39. A member referred to the incidental protective effectives of quantitative restrictions on the pulp industry, which was understood to be the largest secondary industry in New Zealand. Some of these products seemed to be placed in the more restricted sectors in the licensing schedule. He suggested that it would be to the best interest of the New Zealand pulp and paper

industry if more competition from imports were permitted. The representative for New Zealand explained that the New Zealand pulp and paper industry which was established on natural resources was an example of New Zealand's attempt to diversify exports.

General

40. The Committee thanked the representative for New Zealand for the open manner in which he discussed the problems of New Zealand. Their discussion had greatly enhanced understanding of the difficulties which New Zealand was experiencing in keeping its balance of payments in equilibrium. Members of the Committee welcomed the reaffirmation of a policy directed towards the eventual complete elimination of discrimination and restrictions. They considered that the 1959 import programme represented an advance in terms of non-discrimination over the previous programme. There was, however, an important area of imports still administered on a discriminatory basis. With the new circumstances of convertibility, New Zealand was in a position to complete the task of establishing its trade on a non-discriminatory basis.

Annex I - Opening Statement of the New Zealand Representative.