

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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1972 CONSULTATION UNDER ARTICLE XII:4(b) WITH NEW ZEALAND

Report by the Committee on Balance-of-Payments Restrictions

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 March 1971. In conducting the consultations, the Committee had before it a basic document supplied by the New Zealand authorities (BOP/126), the text of a Press Statement by the New Zealand Minister of Customs on 1972/1973 Import Licensing Schedule (Spec(72)28), a background paper provided by the International Monetary Fund, dated 12 May 1972, and the text of a decision of the Executive Board of the International Monetary Fund, taken on 31 May 1972.

2. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (L/3388, Annex I). The consultation was held on 19 and 20 June 1972. 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 IMF to consult with them in connexion with the consultation with New Zealand. Upon the invitation of the Committee the representative of the IMF made a statement, as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 31, 1972, 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:

'New Zealand continues to have difficulty in obtaining access to markets abroad for some major farm products. However, prices for most primary products have risen in 1971, and despite rising import prices the long-term deterioration in the terms of trade was arrested. In the year ended January 1972, export receipts rose by 10 per cent and import payments by 8 per cent with the current account showing a surplus of \$NZ 48 million. Official reserves are now at a comfortable level; in the twelve months to January 1972, they rose by \$NZ 173 million to a total of \$NZ 511 million, equivalent to some six months of merchandise imports.

The Fund welcomes the action taken by New Zealand in June 1971 to liberalize restrictions on payments and transfers for current international transactions. A substantial range of imports remains subject to quantitative restrictions for which in its relations with GATT the New Zealand Government claims balance-of-payments reasons. In June 1971, the Government decided that tariffs would replace import licensing as the main measure of protection. Accordingly, a major review is being undertaken, designed to accomplish such replacement within five years. The Fund hopes that the review of the protective system will be accelerated and believes that the present balance-of-payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions.

Opening statement by the New Zealand representative

4. Reproduced in the Annex to this report is the complete text of the New Zealand representative's opening statement, in which he described recent changes in the various sectors of New Zealand's balance of payments, developments in domestic economic activity, price and wage control and other measures aimed at stabilizing the economy, future payments prospects with reference to New Zealand's major exports, efforts at diversification and debt servicing obligations, recent measures of trade liberalization, and the decision to replace import licensing by tariffs as the main instrument of protection.
5. It was noted in the statement that since the last consultation in March 1971, there had been a considerable improvement in New Zealand's external financial position, reflecting favourable movements in both exports and imports as well as on capital account. Receipts from all major export commodities had increased, the deficit on invisibles had diminished and the increase in import payments had slowed down, reflecting a general slackening of the economy. The various measures aimed at stabilizing prices and wages had been strengthened because of the continuing inflation. Owing mainly to a very sharp increase in net private capital inflow, the capital account surplus had also contributed substantially to the reserves.
6. As regards future prospects, the New Zealand representative referred to the weakening trend in world markets for various dairy products, the uncertainties for the country's dairy and meat exports arising from British entry into the EEC, and the unpredictability of future wool prices, which all counselled caution. On the other hand, exports of forest products and other manufactured goods were expanding and promised to be a stabilizing factor in the balance of payments in the long run. Overall, total export earnings were expected to continue to rise in 1972/73, though at a much lower rate than in 1971/72.

7. By contrast, import payments were expected to increase sharply. While measures to contain inflation were being maintained, action had also been taken to stimulate investment and to boost economic activity, including a relaxation of monetary restraints. This, together with the possible adoption of an "expansionary" budget, fore-shadowed a return of consumer confidence and might well herald a sharp rise in economic activity, both of which might bring renewed pressures on the balance of payments. The easing of the monetary restraints might also reverse the leads and lags in import payments, and accentuate the call on foreign exchange reserves.

8. In the 1971 budget, the Government had announced a decision to institute a major review for the purpose of achieving, by 1976, the replacement of import licensing by tariffs as the main measure of protection. A first list of proposed exemptions, consisting of about 700 items, had been announced in October 1971, to be followed by a second list in the near future, and public hearings were being held by the Tariff and Development Board. This allegedly slow and cumbersome procedure was considered to be necessary in order both to ensure the formulation of a well-considered and reasonable tariff scheme, and to avoid undermining the confidence of domestic industry. In the view of the New Zealand authorities, tariffs as a means of commercial policy having been neglected for so many years, the comprehensive overhaul of the tariff structure that was needed could hardly be accomplished overnight. The review of import licensing within the five-year period had been given high priority and various steps had been taken to facilitate the task.

9. The New Zealand representative described the various steps taken in the 1972/73 licensing schedule to reduce the incidence of the restrictions, including a rise in basic licences, higher allocations for token imports, and an expansion of the provision for new importers, and cited certain studies and projections to stress the need for caution and to demonstrate the limits to which liberalization could be undertaken without endangering the external reserve situation or risking retrogression.

10. In conclusion, the representative of New Zealand maintained that the current favourable balance-of-payments position of New Zealand was attributable to a conjunction of special factors, which assured no permanent departure from the traditional current account deficit position. Import payments were likely to increase sharply as inflation abated. The New Zealand economy, which was dependant on primary exports, still faced great uncertainties. In the view of the New Zealand authorities, the decision to switch from import licensing to tariffs for the protection of domestic production within five years had been taken with due regard to the need for a sound tariff structure and to the uncertainties which the New Zealand economy continued to face.

Balance-of-payments position and prospects

11. Members of the Committee thanked the representative of New Zealand for his informative and comprehensive statement. They expressed gratification at the substantial improvement in New Zealand's balance-of-payments position which, in their view, was attributable not only to the fortuitous amelioration of world market conditions for the country's exports, but also to the internal stabilization measures that had helped to moderate the rise in import demand. They recalled the somewhat pessimistic outlook presented by the New Zealand delegate at the last consultation in March 1971, which had been belied by the remarkable turn-round in the payments situation. The 10 per cent rise in exports and the increase in import by merely 8 per cent in 1971 were both unexpected, and these, together with a large inflow of capital, had brought the reserves to a level equivalent to six months imports by the end of January 1972. While noting that some special factors had been at play, that uncertainties still existed concerning future export earnings, and that the recent measures to stimulate recovery of economic activity might have some adverse effects on imports, most members of the Committee expressed the view that overall improvement in the balance of payments appeared to have been of a sustained nature. In their view, the sizeable rise in reserves and the strong balance-of-payments position provided an excellent opportunity for New Zealand to consolidate the substantial progress that had already been made in liberalizing imports by taking more sweeping action in dispensing with the use of import restrictions; the steady increase in the proportion of total imports exempt from licensing over the past eight years (from 17.6 per cent in 1964/65 to 60 per cent in 1971/72 had demonstrated both the feasibility and the soundness of the policies pursued.

12. The representative of New Zealand pointed out that the various favourable developments in the balance of payments in the past year had mainly been the result of special, temporary factors, which might not be recurrent or continue. While appreciating the keen expectations that those apparent improvements and the high level of reserves had nourished, the New Zealand authorities were of the view that uncertainties in world markets and the country's preponderant reliance on a limited number of agricultural exports made it difficult for the Government to undertake definite commitments as regards the liberalization of imports. The steps that had been taken and the progress that had been made, as might be seen from the large proportion of imports exempted from licensing, demonstrated New Zealand's earnestness in achieving the declared objective of replacing licensing by tariffs for the protection of industry. The present prudent attitude was justified by the sincere belief that the current account surplus of the past year would not be sustained and that precipitate action might necessitate retrogression at a later stage which would be as harmful to exporting countries as they would be unpalatable to the New Zealand authorities. Specifically, the New Zealand representative believed that the present trend of increasing imports would lead to the reappearance of a current account deficit by early 1973.

13. In this connexion, attention was also drawn to contributions made by the inflow of capital to the accumulation in reserves. In reply to questions the New Zealand representative stated that the exceptionally high level of capital imports in 1971 was also attributable to particular circumstances. The large inflow of private capital in 1971-72 to some extent reflected investments relating to one particular aluminium project, and the high level of government borrowing, while adding to the reserves, entailed additions to debt obligations, some of which fell due in the near future.

14. Most members of the Committee expressed the view that the improvements in the New Zealand balance of payments were more soundly based than suggested by the New Zealand delegation and that the New Zealand authorities would be over-cautious if they did not take advantage of the present opportunity to consolidate the progress that had been achieved by taking more sweeping action in liquidating the restrictions. They referred to the findings of the IMF as quoted in paragraph 3 above, and questioned the compatibility between the existing import restrictions of New Zealand and the criteria and conditions set forth in paragraph 2 of Article XII for the use of such restraints for balance-of-payments purposes. In conformity with the requirements of these provisions they urged the New Zealand authorities to proceed as quickly as possible with the removal of the existing restrictions. The New Zealand representative replied that it was his Government's policy to proceed in accordance with the provisions of the General Agreement.

Scheme to replace import licensing by tariffs

15. The Committee expressed satisfaction over New Zealand's intention to replace import licensing by tariffs, pointing out in this connexion that under the GATT system tariffs were the normal means of industrial protection and that the use of quantitative restrictions for that purpose was not permitted except in defined circumstances and subject to specified procedures. Consequently, some members expressed concern over the reference in New Zealand's pronouncements to using tariffs as the "main" rather than the sole measures of protection in future, and over the lengthy period of five years to accomplish the transfer. Furthermore, the first list of 677 products was said to include items of small import value. This would seem to reflect a reluctance to face the hard-core problems of more significant dimensions and might result in slower and more difficult progress at later stages of the programme. In fact, it had already been suggested in some quarters that in certain instances import licensing might be retained indefinitely. Some members commented on the "rather slow and cumbersome" procedures that had been adopted for the review of existing restrictions and referred to the New Zealand authorities own view that five years was the shortest possible time for the completion of the review of existing restrictions, which seemed to suggest that a considerable number of restrictions might find themselves still in existence after 1976, whether or not they were justifiable on balance-of-payments grounds or otherwise permitted under the terms of GATT.

16. The representative of New Zealand expressed understanding for the sense of disappointment of these members of the Committee, but assured them that his Government's firm intention was to implement the scheme at the quickest pace consistent with the desire to establish tariff protection at an appropriate level. The first list of products would be followed by another shortly, and the review machinery had been streamlined and strengthened with a view to accelerating the process. The first list of proposed exemptions, issued shortly after announcement of the five-year review, was not necessarily representative of the overall approach, but many of the products included were in fact sensitive items involving domestic interests. It was not envisaged that the restrictions to be tackled at a later stage would necessarily be of a more obdurate nature.

17. Members of the Committee sought clarification as to the way in which the review of restrictions was being conducted, and the procedures and arrangements for the operation of the Tariff and Development Board. In answer to questions the New Zealand representative explained that there was normally no prior consultation with industry concerning the choice of items for inclusion in any list of proposed exemptions, there being established criteria to serve as guidance in this regard. Such lists were published from time to time and representations by industry or other affected parties were referred to the Board for enquiry. The absence of any representation would result in exemption without further formality. Public hearings would be instituted in all cases in which a submission was received. In order to speed up the process, the Board could divide itself into committees with plenary powers. There was every reason to expect an accelerated pace of the proceedings once the present backlog was cleared up.

18. In answer to questions concerning the Emergency Protection Authority (EPA), the New Zealand representative explained that this organ was designed to examine proposals for emergency action. It was empowered to examine proposals concerning new emergency measures of the kind envisaged under Article XIX of GATT, and cases in which a damaging upsurge of imports was threatening in consequence of an exemption proposed for the near future. The Authority was required to present its recommendations within a month after receipt of a complaint. All its recommendations, which concerned stop-gap measures of an urgent nature, were subject to review by the Tariff and Development Board and would automatically lapse in twelve months unless acted upon and confirmed by the latter. In most cases the protection recommended by the authorities had consisted of an increase in the tariff rate rather than resort to, or retention of, import licensing.

19. One member asked in what way the review process would fit in with the phasing-out of New Zealand's preferential duties once the United Kingdom joined the EEC. The New Zealand representative said that it could be expected to be one of the factors to be taken into account in the five-year review.

20. The Committee expressed the hope that the import duties that eventually replaced the existing import restrictions would be at a reasonable and moderate level. While endorsing this view one member added that the resulting duties should not afford a greater degree of protection to domestic industry than it now derived from the present restrictions.

21. The New Zealand representative stated it was his Government's intention to afford protection at such a level as to encourage industries which would be competitive, since one of its major objectives was to increase exports of manufactured goods.

System and methods of restrictions

22. Members of the Committee welcomed the recent measures of liberalization as described in the basic document and in the New Zealand representative's opening statement, but thought that they generally fell short of what was required in the light of New Zealand's present balance-of-payments position. For one thing, they felt that the percentage increase in the basic import licence in 1972/73 had been inadequate; the figure for 1972/73 was only 110 per cent of the 1971/72 level, and the effects of this increase must have largely been absorbed by the rise in import prices. In reply, the representative of New Zealand emphasized that for a number of items the new allocations had been much higher than 110 per cent of the previous level, in one case even 150 per cent. While inflation indeed discounted the value in real terms of a given level of licence, the increases were considered to be the maximum permitted under present balance-of-payments conditions.

23. Asked whether an item would be exempted if in the preceding year quota allocated for it had not been used up, the representative of New Zealand replied that such a situation had hardly ever been met and there was no automatic liberalization in the way described. Owing to the flexibility of interchangeable licences, an importer had no difficulty in using up any licences to which he might be entitled.

24. In reply to a question, the New Zealand representative stated that the choice of products in relation to the various licensing procedures was determined on the basis of "essentiality" as provided for in paragraph 3(b) of article XII of the General Agreement.

25. Referring to the system of token licences, one member of the Committee noted that the increase on a value basis of the token licences in 1972/73 had been significantly more moderate than in the preceding period, and that the present level amounted to no more than \$7 million. The representative of New Zealand recalled that in recent years these token licences, which were applicable only in the diminishing area of unexempt items, had been increased substantially. Without committing his Government, he thought some further increases could be expected.

26. Returning to the explanation given by New Zealand on the purpose and operations of the EPA in paragraph 18 above, some members of the Committee expressed the view that the import licensing system, more particularly the operations of the EPA which appeared in some cases to work within the framework of the import licensing system, was being administered in a manner to give additional protection to New Zealand industry.

27. The New Zealand representative replied that the current import licensing system was being operated for balance-of-payments reasons.

Effects of the restrictions

28. In response to the representation that additional facilities be made for new importers at the beginning of each licensing period, the representative of New Zealand stated that considerable improvement had been made in this regard in the 1972/73 licensing schedule and that he would supply details on the current provisions for newcomers for the information of contracting parties. (Copies of this leaflet will be made available to interested contracting parties by the secretariat.)

29. In response to an enquiry, the Committee was informed that among the items for which licence allocations had been reduced in 1972/73, were: woven woollen piece-goods (to 50 per cent), woven synthetic piece-goods (to 85 per cent), plastic inflatable toy balls and other plastic inflatable toys, crockery and copper tubing. With regard to the first two items mentioned above a member of the Committee expressed his Government's apprehension over the negative effect on his country's exports of these reductions which did not appear to be justifiable on balance-of-payments grounds. The representative of New Zealand pointed out that under the terms of paragraph 3(b) of Article XII, his Government, as long as it was justified in maintaining a given general level of import restrictions, was entitled to choose the products to be restricted on the basis of "essentiality", which was partly determined by domestic availability in relation to domestic demand.

30. With reference to a statement made by the New Zealand Minister of Customs on 6 April 1972 concerning the 1972/73 Licensing Schedule, a member of the Committee asked whether in the meantime there had been any further relaxation of the licensing restrictions for automobiles. The representative of New Zealand said that this was not the case but that it was possible that the new Budget to be presented shortly might contain provisions in this direction.

31. In the context of the view expressed in paragraph 26, a member of the Committee pointed out that in the case of copper tubing, an item whose exemption had been envisaged, an EPA recommendation had resulted in an actual reduction of the existing level of imports envisaged, much to the detriment of interests of exporters such as his own country.

32. One member of the Committee recalled the discussion at the previous consultation on 8 March 1971 on the question of licensing discrimination in favour of Australia applied in the context of the New Zealand-Australia Free-Trade Arrangement (see BOP/R/52, paragraph 25) and reiterated his Government's view that these exemptions were in violation of Article XIII of the General Agreement. The representative of New Zealand maintained his Government's position that this question belonged to another GATT forum.

Conclusions

33. The Committee expressed appreciation for the comprehensive and useful information supplied by the New Zealand delegation, and for the co-operative manner in which it had taken part in the consultation. Members of the Committee welcomed the steps of liberalization which the Government of New Zealand had taken since the last consultation, but expressed concern, as noted in the preceding sections of this report, over certain aspects of the manner in which the import licensing system was being operated.

34. The Committee noted the substantial improvement in New Zealand's balance of payments and the considerable rise in its external reserves, which had reached a comfortable level. It welcomed the New Zealand Government's intention to replace quantitative restrictions by tariffs, but considered the time schedule that it had adopted for this and the initial step that it had taken to be unduly cautious. The Committee noted the New Zealand view that the present strong balance-of-payments position was mainly attributable to special factors and that the current account would soon revert to its usual deficit position. While noting the uncertainties still facing the New Zealand economy because of its extreme dependence on agricultural exports, the Committee was in agreement with the IMF's belief that "the present balance-of-payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions". In view of this finding and the provisions of Article XII:2 of the General Agreement, the Committee urged that the Government of New Zealand substantially accelerate the review and removal of the remaining restrictions, which were imposed under Article XII of the General Agreement.

ANNEX

Opening Statement by the Representative of New Zealand

In the year ended March 1971 - at about the time of our last consultation - the current account balance on overseas exchange transactions was a deficit of \$38.9 million. Official overseas reserves stood at \$372.6 million.

Since the last consultation there has been a considerable improvement in New Zealand's external position. This improvement has been on both sides of the current account; and there has been a marked increase in the net capital account position.

Receipts from all major export commodities have risen over the past year. The marked improvement in the world dairy situation and the recovery in New Zealand production (after two years of drought) was reflected in increased receipts from butter (up by 29.5 per cent), cheese (28.5 per cent) and other dairy products - mainly milk powders and casein. In total, dairy products provided \$314 million or 20 per cent of total current receipts.

Receipts from meat were also substantially increased, rising to \$440 million or 28 per cent of total current receipts. Receipts from wool at \$225 million (or 14 per cent of total current receipts) also increased although this represented a recovery only to the level prevailing two years ago.

Invisible transactions play a significant part in New Zealand's external account, as might be expected of a country so dependent on overseas trade. For some time now, the deficit on invisible transactions has been getting smaller, thus reversing the previous trend. For the year ended March 1972 the deficit was \$184 million, compared with \$195 million in the previous year.

The most significant trend on external account over the past 12 months has, however, been the marked slowing down in the rate of increase in import payments. In the month of March 1972, for the first time since early in 1968, total import payments were below the figure for the same month a year earlier. For the year as a whole, import payments were only four per cent higher than in the year ended March 1971. (In that year imports were 19 per cent higher than for the same period in 1969/70).

This outcome is indicative of the general slackness in the domestic economy.

Like many other economies, New Zealand has for the first time been experiencing concurrently the problems of very severe inflation and a falling away of activity.

Members of the Committee may recall that at the last consultation I informed you that the Government had, following the introduction of a Price Freeze between November 1970 and February 1971, introduced an extended form of price surveillance

in the Price Justification Scheme together with statutory control over virtually all remuneration derived from employment. These measures were embodied, in March 1971, in the Stabilization of Remuneration Act which established a guideline of 7 per cent for wage and salary increases (the rate of increase in ordinary time hourly rates of pay between April 1970 and April 1971 was 20.7 per cent). It was envisaged that these restraints would be in force for not much more than 12 months. But while these measures unprecedented since the Second World War and the years immediately following it - had some effect in slowing down the rate of inflation, the Consumers Price Index increased by 9.1 per cent, an only marginally smaller increase than the 10 per cent recorded in 1970.

The Government therefore decided that a continuation and strengthening of direct controls was necessary and I shall later describe the measures now in force. But at this stage the point I want to emphasize is that the high rate of increase in costs and prices has been associated with a decline in the rate of growth in consumption and investment. This is an area in which cause and effect are matters of debate among the economists, but there is no doubt that inflation has been a major factor inhibiting economic growth. Some figures will underline the sluggish characteristics of the New Zealand economy since the last consultation.

First, in the six months to September 1971 - the last period for which statistics are available - there was no increase in the Index of Production compared with increases of 3.4 per cent in the year ended March 1971 and 4.9 per cent in the year ended March 1970.

Second, the New Zealand Institute of Economic Research estimates that the increase in real GNP in the March year just ended was 2.5 per cent compared with 4 per cent in 1971 and 4.7 per cent in 1970. The National Development Conference target rate of growth, which has been accepted by the Government, is 4.5 per cent.

In short, an important factor in the improved external account over the past 12 months or so has been the sluggish nature of the New Zealand economy; and this is not a development which the New Zealand authorities would wish to see continue or one which, I believe, would be welcomed by other Contracting Parties.

Put another way - if the rate of economic growth had been nearer that of the previous years, and if there had been a similar relationship to import payments, these could have been expected to be of the order of \$100 million higher.

I have been talking about the current account position. The capital account too has been strong. Government borrowing over the past two years has been high but the main factor has been a very sharp increase in net private capital inflow which in the March 1972 year reached \$71 million compared with \$7 million two years ago. To some extent this represents substantial inflows on account of the Bluff aluminium smelter; these will not be repeated. A similar "once and for all effect" is believed to have followed the major liberalization of exchange restrictions on current payments in the 1970 and 1971 budgets. There has also been increased private borrowing overseas associated with restrictive monetary policies in New Zealand during 1970 and 1971.

I turn now to an assessment of our balance-of-payments prospects for the coming year. First, there are still considerable uncertainties over the prospects for our major exports.

The world dairy situation has been unusually favourable over the past year but there are now a number of less optimistic factors. In Europe there are clear indications that milk surpluses have re-emerged; and the United States has a surplus problem. Earlier this month the New Zealand butter price in London had to be reduced by £50 per ton. There are also signs of easing in various world markets for other milk products.

Members may know that as part of the arrangements for enlargement of the EEC, the United Kingdom is permitted to import from New Zealand certain quantities of butter and cheese. These guaranteed quantities reduce, in respect of butter, from 166,000 tons in 1973 to 138,000 tons in 1977; and in respect of cheese from 68,000 tons next year to zero after 31 December 1977. In respect of butter, the situation will be reviewed in 1975 with a view to determining appropriate measures to ensure the maintenance after 31 December of exceptional arrangements for imports from New Zealand.

While these arrangements do provide a vital assurance of continued access into the traditional British market, they do not, of course, remove the uncertainties which our dairy industry will face in the years ahead. What will be obvious to you is that the displacement of significant quantities of butterfat from the British market will require a substantial increase in market opportunities elsewhere. New Zealand is working hard to find these but the task will not be easy.

I have already referred to the improvement in wool prices in recent months but it must be recalled that this merely restores the price level to that ruling in 1966. There is a large element of unpredictability in the world fibre markets and forecasts of future price movements for wool must be hedged with qualification.

The longer term forecasts of demand for meat are encouraging. Nevertheless, the trade is affected by the barriers to access which many Governments maintain. During the past year the United Kingdom which had long been a free market for imports of meat from New Zealand imposed levies on sheep meat (and other meats). The EEC has a Common Customs Tariff on Sheepmeats of 20 per cent and certain Member States have additional severe restrictions on access for mutton and lamb; and the United States maintains "voluntary" restrictions on beef and mutton.

To round out the picture I must draw attention to the marked increase in manufactured exports which has been taking place. Exports of these goods, including forest products, are expanding and the prospects are for a continuation of this trend. The longer term objective is for manufactured goods to provide an increasing proportion of export earnings as one means of bringing a greater element of stability to the balance-of-payments position and to lessen the impact on New Zealand's economic development of the restrictions facing its agricultural exports. Their present share in export receipts is, of course, small.

Overall, we believe that the next year should see a continued rise in export earnings but at a very much slower rate than in 1971/72.

By contrast we are expecting a sharp upturn in import payments. It is too early yet to assess the success of the Government's stabilization measures announced earlier this year. But there is reason to believe that the rate of increase in both wages and prices has already slackened off. Ordinary hourly wage rates are thought to have increased by 10-11 per cent in the year to April after an increase of 20.7 per cent in the previous year. The rate of price increase, while still too high, has been declining on a year ended basis.

The measures themselves may be of some interest. In February 1972 a price freeze and wage pause were announced to permit a reformulation of the direct controls already in force. More extensive action to control prices and incomes was then announced on 27 March 1972. The measures included an extension of direct price control to a wider range of goods with a looser, but still restrictive, form of price control applying to virtually all other goods and services. Controls on remuneration were made more stringent - there is now virtually a zero guideline, with wage increases being permitted only in exceptional circumstances or where the increase can be absorbed by increased productivity without any price rise; and there is provision for a Cost of Living Order linked to the Consumer Price Index after September 1972. There are also new regulations limiting rates of dividend and interest that could be paid on certain deposits.

In addition to the measures to contain inflation the Government has acted in recent months to stimulate investment and economic activity. These measures are detailed in the basic document. The main emphasis up to the present has been to relax restraints on monetary institutions in order to provide adequate funds for investment and through monetary and taxation measures to ease the pressures on company liquidity. The Minister of Finance has already said that the Budget, to be presented later this month, could be "expansionary".

It is difficult to say with certainty whether the rate of economic activity has begun to pick up. There are however some encouraging signs. After showing a declining trend since early 1970, retail trade in the March quarter is starting to show signs of recovery. Indicators of building activity are also pointing upwards.

As the expansionary measures already announced (and those foreshadowed) have their impact and as consumer confidence returns with the abatement in the pace of inflation, economic activity is expected to rise sharply. Such a rise in economic activity will undoubtedly spill over into demand for imports of plant, machinery, raw materials and consumer goods. Combined with the continuing rise in import prices this surge in importing could be expected to lead to a sharp rise in import payments.

One technical factor of some importance is the expected reduction in the gap between actual imports and import payments. The restrictive monetary policy in operation in New Zealand in 1970 and 1971 encouraged importers to take advantage

of available overseas credit. This has reinforced the gap between importing and the payment for imports. As liquidity in New Zealand improves the position could well reverse; we expect to see a shortening of the lag between importing and payment. This would also increase the rate at which import payments are growing.

Over the next five years, official obligations of over \$360 million are maturing, of which about \$70 million falls due in the year ending June 1973. New Zealand has taken advantage of the more favourable conditions on world capital markets to provide for these obligations. In the short term this has added to the official reserves. Of its very nature the world capital market is uncertain and for a capital importing country such as New Zealand both its borrowing needs and repayment obligations are important factors for consideration in the formulation of balance-of-payments policy.

Since the last consultation the New Zealand Government has taken a major step forward towards implementing its policy of replacing import licensing by tariffs. In the 1971 Budget it was announced that the Government had decided to institute a major review designed to achieve, within five years, the replacement of import licensing by tariffs as the main measure of protection. The first list of proposed exemptions consisted of some 700 tariff items and was announced last October. Many of the products listed under these items are produced domestically and include such industries as packaging, rubberware and plastics. A further list is expected shortly. This provides considerable evidence of the Government's firm intention to remove quantitative controls over imports.

The present procedures involve advertising the proposed exemptions and giving the affected industries time to object and to make a case for protection to the Tariff and Development Board. The Board then holds a public hearing and reports to the Government on the type and level of protection that in its view is desirable. The International Monetary Fund has suggested that the present review procedures are "slow and cumbersome and could well delay the final dismantling of import licensing far beyond the end of the five-year period". The Government believes these procedures to be necessary both to ensure that a well considered and reasonable tariff structure emerges and to avoid undermining the confidence of the manufacturing sector.

It must also be remembered that import licensing has been in operation for nearly thirty-five years and that during this period the tariff has been largely neglected as a protective device. This means that large sections of our tariff are outdated and require a comprehensive overhaul. A hastily contrived tariff structure could be just as distorting both to the development of international trade and to the efficient allocation of domestic resources as the unnecessary continuance of quantitative restrictions. The time horizon incorporated in the current review is the minimum needed to devise a suitable tariff structure and to allow the completion of the established domestic procedures.

The review of import licensing within the five-year review period has been given high priority in the achievement of the Government's economic objectives. The Tariff and Development Board has recently been enlarged and additional

resources have been made available both to the Board and to the administering departments to enable this to be done.

The 1972/73 Import Licensing Schedule carried the policy of liberalization a further step forward. The general licence level has been set at 110 per cent - the highest for some years - but in addition some fifty-seven items have received allocations in excess of this figure. These include allocations of 120 per cent, 125 per cent, 133 1/3 per cent, and 150 per cent.

Last year's record allocation of 175 per cent of token licences has been further raised and this year will be increased by 25 per cent in the case of those licences based on value and 10 per cent for those based on actual units.

The policy of providing for those without previous licensing history has been continued and expanded to the extent of admitting new importers to nearly ninety new item codes. In addition the items made available for new importers during the last two periods are re-opened for any new importer who now qualified.

In this statement I have endeavoured to place our present relatively strong position on external account in the longer term context. I have noted a number of special considerations: the particularly rapid rate of increase in exports over the past year which we do not expect to sustain; the situation of severe inflation and sluggish growth which has substantially reduced the rate of increase in import payments below what we believe to be the longer term trend; the special factors influencing capital inflow; and the need to make provision for substantial official capital repayments over the next few years. For all these reasons we expect a deterioration in our current account position and a fall in reserves over the next year.

Looking further ahead, I would point to the projection of the National Development Conference of a deficit on current account in balance-of-payments terms (as distinct from overseas exchange transactions) averaging 2 per cent of GNP over the ten years to 1981/82.

If we are to achieve the level of growth believed to be sustainable by the National Development Conference our export performance will be crucial.

The Committee will be familiar with the fact that New Zealand still relies heavily on agricultural products for its export earnings, and that the prices received for these products have shown considerable fluctuations over the years. This is likely to continue despite our success in diversification in both products and markets. The most recent National Development Council projections show that in 1981/82, agricultural products will still be providing 55 per cent of New Zealand's total export earnings. This continued dependence on agricultural products means that our balance of payments is more vulnerable than those of industrial countries and makes it prudent to retain an adequate level of reserves as a necessary buffer.

I would also draw your attention briefly to those occasions in the recent past when New Zealand has suffered sudden and severe losses in reserves. For example, in the nine months between June 1960 and March 1961 foreign exchange reserves fell by over 40 per cent (\$144 million); and in 1967/68 overseas reserves fell by \$144 million, due mainly to the collapse in the demand for wool.

The vulnerable position of countries dependent upon agricultural exports is illustrated by the movement in New Zealand's terms of trade. Because of developments on the export side and the slowing down of international inflation, our terms of trade have shown some improvement in recent months, but they still compare unfavourably with those of most other countries. A calculation of the terms of trade from the indices of import and export prices shown in the International Monetary Fund's publication "International Finance Statistics" shows that New Zealand has nearly the lowest terms of trade of any country recorded. On a base of 1963 = 100, New Zealand's terms of trade in the second quarter of 1971 were down to eighty-two.

It is against this background that our major steps towards the removal of quantitative restrictions should be assessed. The New Zealand Government believes that the review now being undertaken will allow an orderly replacement of import licensing by tariffs as the main measure of protection. This policy is consistent with our assessment of the balance-of-payments position and future prospects; and with the longer term imperative of diversifying our economy.

On previous occasions at these consultations, New Zealand representatives have placed considerable emphasis on the difficulties which we have experienced because of the protectionist policies towards agricultural imports followed by the major trading countries. This is still a factor in the New Zealand situation, and one to which we must have regard in considering our longer term policies. As I have said earlier, the trends for our major export commodities have recently been more favourable - and I have noted the progress we are making in diversifying both our production and our markets. Nevertheless, for such products as butter and cheese and meat the concentration of the world export production on a small range of markets means that the future prospects must always be clouded by the possibility of political action taken in respect of agricultural policies.

It is of course true that one cannot draw a hard and fast distinction between trade in agricultural products and trade in manufactured goods. Indeed, it has been the essence of our approach in the GATT since its inception that the principles of the Agreement must be applied to all trade. There is, however, no doubt that countries dependent upon the export of primary products for their development - whatever stage that might have reached - have faced very severe barriers to their trade even though these may have changed in nature over the past twenty-five years. Indeed, in some cases, they have become even more restrictive.

While I stress the continuation of agricultural protectionism as a factor in the formulation of New Zealand's policies, I must also register the satisfaction with which we have been watching the efforts of major countries to ensure that there are to be, in the forthcoming trade negotiations, substantial negotiations of trade in agricultural products. I would, however, be less than honest if I did not also say that we have expressed such satisfaction before previous rounds in the GATT but our hopes have not been realized.

In summary, I should like to highlight the following points:

The current external position of New Zealand is attributable to a conjunction of special factors and does not represent, at least in the view of my authorities, other than a temporary departure from the normal pattern of a deficit on current account supported by a net borrowing on capital account.

As the measures taken by the Government take effect, an abatement of inflation and an expansion of the economy are expected to result in a sharp increase in import payments in the period ahead.

In the long term, the New Zealand economy still faces great uncertainties and, because of its dependence on the export of primary products, is vulnerable to fluctuations in commodity prices.

The continued liberalization of restrictions on imports is apparent in the 1972-73 schedule and a further major step forward has been taken by the Government in announcing its intention within a five-year period beginning last June to replace import licensing by the tariff as the main measure of protection.

Finally, it is the view of the New Zealand authorities that the action now under way is being undertaken at a pace consistent with establishing the protection needs of industry under a tariff system and in the context of the uncertainties which continue to face the New Zealand economy.