

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

L/1350
10 November 1960

Limited Distribution

CONTRACTING PARTIES
Seventeenth Session

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

NEW ZEALAND

1. In accordance with its terms of reference the Committee has conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The Committee noted that New Zealand was no longer consulting under paragraph 1(g) of Article XIV. The Committee had before it: (a) a "basic document" for the consultation (MGT(60)51), together with a GATT Liberalization Communiqué (No.39) outlining the New Zealand Import Licensing Schedule for 1961, and two publications of the New Zealand Government, viz. Survey of Economic Conditions in New Zealand in 1960 and a description of the budget for 1960; and (b) a document supplied by the International Monetary Fund on economic developments and changes in the restrictive system of New Zealand. In conducting the consultation the Committee followed the "Plan" recommended by the CONTRACTING PARTIES. The discussion with the Committee was completed on 26 October 1960. The present report summarizes the main points discussed during the consultation.

Consultation with 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 this consultation with New Zealand. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's 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 New Zealand, dated September 23, 1960. In preparing this paper the Fund has received the assistance of the New Zealand authorities. I should like 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, and with respect to Part III, relating to system and methods of the restrictions, the increase in New Zealand's monetary reserves from the low level to which they had fallen by the end of 1957 came to a halt by mid-1960. Reserves are now lower than a year ago. The prices of New Zealand's main exports have been falling and there is consequent uncertainty as to the level of future export receipts. These circumstances support the case for a cautious approach to liberalization of the present time, but an improvement in New Zealand's balance of payments position would permit further relaxation."

Opening statement by New Zealand representative

3. In his opening statement, the full text of which is given in Annex 1, the representative of New Zealand stated that relatively favourable export prices during the latter half of 1959 for most of New Zealand's principal exports had resulted in total export earnings in the year ended March 1960 of about £NZ314 million, an increase of about £NZ40 million above the returns for each of the four preceding years. This favourable development had made it possible considerably to relax import restrictions during the 1960 licensing period. However, despite increases in the issue of import allocations in 1959, private imports during 1959 had slightly decreased as compared with the previous year. This decrease was largely the result of the lower level of effective import demand in New Zealand during 1959, as a result of the contractive fiscal and monetary measures adopted by the Government. The increased export receipts and the decline in imports had assisted in the recovery of the net overseas assets of the banking system from the low level of £NZ42 million in the early months of 1958 to £NZ88 million by the end of December 1959 and to £NZ118 million by the end of June 1960 at their seasonal peak.

4. The overseas exchange transactions for the period April/August 1960 had reflected the downward tendency in export earnings in comparison with the previous year. The trade surplus for the first five months of fiscal year 1960/61 totalled only £NZ29.6 million compared with £NZ47.3 million during the corresponding period of 1959/60. The overall surplus was down to £NZ9.9 million in comparison with £NZ24.3 million in 1959/60. Net overseas assets had fallen to £NZ96 million in mid-October 1960 as compared with £NZ101 million at the same time in 1959. While it was too early to say what the level of overseas exchange reserves was likely to be at the end of 1960, the seasonal low point, indications were that with private imports running at £NZ250 million per annum reserves might be down to £NZ73 to 78 million, or about £NZ10 to 15 million below the level at the end of December 1959.

5. The terms-of trade expressed in terms of 1957 equals 100, which had turned in New Zealand's favour for the greater part of 1959 reaching 107 by the end of September 1959, had fallen back to 98 by the end of March 1960. The most striking feature in New Zealand's trade situation during the first half of the current fiscal year had been a sharp fall in prices of dairy products, particularly butter. Also, a slight weakening of wool prices had been apparent in the early sales of the season. On the other hand, export prices for lamb had recovered from the mid-1959 decline and immediate market prospects for this commodity continued to be good.

6. The improvement in the trade balance in 1959 and in the overseas exchange reserves during that year had been accompanied by a series of liberalization measures incorporated into the 1960 import licensing schedule and the supplementary schedule issued in March 1960. Exemption from licensing requirements had been extended to apply to raw sugar, crude oil, motor spirits and certain bulk oils as well as to a number of other products. More items had been moved to the "A" category which provided for licences to be granted automatically for the full amount applied for. A new licensing category "R" providing for licences to be issued on an import replacement basis had been established and the "Token"

import scheme which had operated until the end of 1957 had been re-introduced on a wider scale. Moreover, provision had been made for a wider interchangeability of import licences between different but related commodities, through the introduction of "group licences". More liberal provision had also been made for the allocation of licences to new importers. Also, discrimination had virtually been removed.

7. The 1961 licensing schedule, while operating within the same global total of approximately £NZ240 million, had further eased the import restrictions by increasing the number of commodities falling under the "R" category from 162 items to 206. The number of items falling under the "A" category had been increased from thirty to sixty-three. Furthermore, import allocations for other licensing categories had been increased and the number of items admitted under the token import scheme had been enlarged to a total of 157. The overall effect of the relaxations in the 1961 schedule was that almost 55 per cent of New Zealand's total import trade was either exempt from import licensing or available to normal and regular importers or prospective new importers under the unrestricted "A" or the liberally applied "R" import categories.

8. The representative of New Zealand stated that his Government had always been aware that the task of overcoming balance-of-payments difficulties could not be left to import control alone. Stringent fiscal and monetary measures had therefore been adopted in 1958 to counteract the balance-of-payments crisis. He explained that the fiscal and monetary policy of the New Zealand Government was designed to strike a balance between measures encouraging economic growth and the diversification of the range of export commodities as well as export markets and the need to maintain stable domestic prices and to assure an adequate level of foreign exchange reserves. Although the strengthened export position in 1959 had made it possible to relax the deflationary measures introduced in 1958, the Government's policy was on the whole still characterized by monetary and fiscal restraint.

9. He pointed out that while expanded exports of agricultural products had contributed to the improved balance-of-payments position the present balance-of-payments difficulties to some extent reflected the influence of quantitative restrictions on agricultural imports and equivalent measures in force in Europe and North America which restricted market opportunities for agricultural exporters. One encouraging feature had been that New Zealand had not been denied the opportunity to expand its exports of meat to the United States and this had been a significant feature in the improved overall New Zealand balance-of-payments position in the last year or two. Agricultural protectionism not only disrupted established patterns of world trade, but at times, to the detriment of agricultural exporters also contributed to large-scale price fluctuations in the markets that were not restricted. A country like New Zealand which depended heavily on a few major agricultural exports was particularly vulnerable to such fluctuations and also to fluctuations in the level of industrial activity in

industrialized countries insofar as these resulted not infrequently in a considerable drop in export realizations. Increased efforts to reduce the impact of recessionary movements in industrialized countries on the trade of other countries seemed clearly to be indicated.

10. The representative of New Zealand pointed out that while taking into account the restrictions confronting his country's exports in many important markets, and the necessity for New Zealand to provide against disruptive effects on the balance of payments of large-scale fluctuations in export receipts, it was the New Zealand Government's policy not to maintain any more intensive restrictions than were considered absolutely necessary. The import licensing position was kept under continuous review and import restrictions were relaxed even during the course of a licensing period whenever the balance-of-payments position permitted. Early in 1961 the import licensing schedule for 1961 was again to be subject to review with a view to the further liberalization of imports if the balance-of-payments position indicated this to be possible and prudent.

Balance-of-payments position and prospects

11. Members of the Committee thanked the representative of New Zealand for his very informative and thorough statement. They welcomed the improvement in New Zealand's reserve position which had occurred since the time of the last consultation with the committee in May 1959 and particularly the liberalization measures which had been put into effect and the assurance given that New Zealand would move forward with import liberalization as soon as the external financial position permitted.

12. Members of the Committee, noting the heavy dependence of New Zealand on a few commodities for the major part of its foreign exchange earnings, enquired about possibilities of New Zealand diversifying production and exports in order to reduce the dependence on such a small range of export commodities. The representative of New Zealand stated that his Government had reviewed economic and natural resources in order to ascertain what possibilities existed for widening the base of production and the range of commodities available for export. With the exception of coal and some iron sand deposits, New Zealand had practically no basic mineral resources. This lack of resources made it difficult to shift from the at present predominantly agricultural structure of the economy. Nevertheless, the Government was encouraging the expansion of production and export of those goods based on the natural resources available and which could be efficiently produced in New Zealand. For example, New Zealand had some considerable timber resources which could be exploited on an economic basis and exports of wood pulp, newsprint and sawn timber had indeed shown a steady expansion during recent years. Investigations were also proceeding on the utilisation of the iron sand deposits and an intensive study was being made of the possibility of using the hydro-electric power potential for the production of aluminium from imported bauxite. The Government was also encouraging the diversification and expansion of industrial production in New Zealand. However, despite the growing importance of wood and wood products and a number of other non-traditional export items, the share of these products in total export receipts was still very small when compared to export income derived from wool, meat and dairy products. He also felt that the at present predominant position of wool, meat and dairy products in total exports was likely to prevail in the foreseeable future. A shift in the pattern of agricultural production itself, for example, from dairy farming to sheep farming was limited because of the limited substitutability of land between different types of pasture farming. Similarly, a shift from the production of butter or cheese to that of other dairy products such as casein and milk powder was dependent upon the availability of export markets as well as relative profitability.

13. In reply to questions concerning the export prospects for New Zealand's major export commodities, the representative of New Zealand stated that as a result of the fall in butter prices in the United Kingdom market anticipated receipts from butter exports for 1960 were estimated at £NZ47 million or £NZ13 million lower than in 1959. Although butter consumption had begun to increase in the United Kingdom, stocks in the United Kingdom and elsewhere were still high, thus making it unlikely that butter prices would recover during the remainder of the season. Foreign exchange income from cheese

exports for 1960 was expected to be down to £NZ18 million from £NZ22 million in 1959. Indications from the early sales in the 1960/61 season were that receipts from wool exports would be lower than in the previous year by approximately £NZ7 million. Export receipts for meat (beef and lamb) were expected to be higher by £NZ4 million than in 1959 as a result of higher lamb prices, although the exchange lag in the receipt of export realizations, as a result of high rates of interest in the United Kingdom, could affect this year's results by as much as £5 million. Receipts from the category "miscellaneous exports" were expected to be £NZ4.5 million greater in 1960 than in 1959.

14. On the basis of these estimates a deficit of about £NZ10 to £NZ15 million was envisaged for 1960. This deficit would result in a level of foreign exchange reserves by the end of the year of approximately £NZ73 to £NZ78 million. Estimates of export prospects going beyond the present year were not easy to make because such factors as weather conditions could have a decisive influence on the volume of production in New Zealand and in overseas countries and consequently on the level of export prices. However, taking account of the existence of substantial stocks of dairy products and of the observed weakening of wool prices during the first sales of the season, prospects for increased returns from some of New Zealand's main export commodities in the coming months were unpromising.

15. In discussing the influence of capital movements on the balance of payments, members of the Committee noted that net capital inflows into New Zealand in 1958 had amounted to £NZ43.1 million, but that in 1959 the Government had made foreign investments totalling £NZ12.0 million and that there had been a net outflow of £NZ4.4 million. They enquired whether this sharp reversal in net capital imports reflected a negative attitude of the Government towards foreign borrowing. The representative of New Zealand explained that due to the critical balance-of-payments situation in 1958 the Government had found it necessary to meet part of the balance-of-payments deficit through borrowing abroad. On the other hand, part of the overseas investment in 1959 had been undertaken in preparation for the repayment of a \$30 million loan falling due in 1961. The Government's attitude towards foreign borrowing depended, of course, on the available foreign exchange reserves and on future export prospects, as well as on the purposes for which the capital was required. While the Government was not averse to foreign borrowing it seemed preferable, however, to endeavour to meet domestic capital requirements as far as practicable through internal borrowing. Nevertheless, in view of the substantial need for capital, it was envisaged that overseas borrowing would be resorted to from time to time.

16. Members of the Committee, noting the large increase in private capital imports in 1959, enquired about the expected level of private capital imports in 1960 and 1961. The representative of New Zealand explained that although further capital imports were anticipated it was very difficult to predict the overall size of private capital imports insofar as a large share of these capital imports consisted of re-investment by foreign firms in plant and equipment in New Zealand, and of external transfers by firms domiciled in New Zealand. By their very nature, changes in these items were hard to forecast with any great degree of precision. In reply to another question concerning the possibility of New Zealand increasing its invisible exchange earnings, the representative of New Zealand stated that the present balance-

of payments deficits for transportation, insurance, investment income, foreign travel and other services were a reflection of its peripheral location in relation to market, sources of supply and the tourist traffic. The likelihood of a major shift in these items from a deficit to a surplus was therefore rather small.

17. In discussing the factors which influenced the level of exchange reserve requirements, members of the Committee enquired as to the extent of seasonal variations in reserves. The representative of New Zealand stated that a difference of the order of magnitude of £NZ40 - 45 million, as was expected for 1960, (from the seasonal peak of £NZ118 million in June to an anticipated low point of £NZ73 - 78 million by the end of December) was not unusual. In the further discussion of the criteria used in determining the adequacy of exchange reserves the representative of New Zealand stated that in its Report made in 1955, the Royal Commission on the Monetary and Credit System in New Zealand, had pointed out that if it were desired to preserve reasonable freedom of trade and to avoid undue reliance on foreign borrowing, reserves equivalent to the value of at least six months' overseas payments appeared to be necessary. While the Government itself had not adopted a definite rule on what constituted an adequate level of reserves it seemed clear that the present level of reserves was low in relation to total overseas payments and clearly insufficient to permit the complete liberalization of imports. Any judgment on the adequacy of the level of reserves had to take into account the recurring possibility of fluctuations, amplified by the narrow range of export commodities, in the level of prices for New Zealand's export products. Another factor to be taken into consideration was the relatively larger need for reserves resulting from the great distance of New Zealand's most important trade partners and the consequences of this position on the trade and payments pattern. There was on the average a lag from four to six months between the placing of orders and the arrival of imports in New Zealand. It was noted that the fact that New Zealand was not a member of the IMF meant that it was not in a position to make use of the resources of the Fund to alleviate temporary balance-of-payments difficulties.

18. Some members of the Committee, whilst recognizing the somewhat different and special characteristics of New Zealand's trade and payments pattern, pointed out that other countries also suffering from large-scale fluctuations in export receipts and having a similar amount of foreign exchange reserves in relation to the value of their import trade had, nevertheless, found it possible to go considerably beyond the level of import liberalization, calculated by reference to the number of items effectively decontrolled, attained by New Zealand. The representative of New Zealand explained that a strict comparison between the level of reserves and the degree of import liberalization would have to take into account all relevant factors including the proximity of markets and of sources of supply, factors in which New Zealand found itself at a particular disadvantage. He felt that the most important indication of the degree of restrictiveness of the import control system was probably not the percentage of items still subject to control, but the level of total imports which these controls permitted. In his view a comparison between New Zealand's total overseas payments and foreign exchange availabilities showed that the import licensing system was not more restrictive than could be justified on financial grounds.

19. A member of the Committee, commenting on that part of the opening statement by the New Zealand representative dealing with the particular difficulties being faced by New Zealand owing to the sharp fluctuations in the prices of her major export commodities, drew attention to the connexion between this and the remarks by the New Zealand representative regarding the subsidization of uneconomic agricultural production. In this connexion, it was relevant to refer to the Resolution of 17 November 1956 (BISD, 5th Supplement, pp. 26-27) regarding "Particular Difficulties connected with Trade in Primary Commodities". In paragraph 2 of that Resolution it was stated that "the CONTRACTING PARTIES shall, in the course of consultations undertaken under Article XII take account of problems relating to international commodity trade among other difficulties which may be contributing to the disequilibrium of the balance of payments and compelling certain contracting parties to maintain import restrictions". While not desirous of initiating in this Committee a general debate on matters already being considered elsewhere by the Contracting Parties, it was necessary to draw attention to the difficulties being faced by agricultural exporters in moving to, and equally in maintaining, the degree of liberalization which they would otherwise wish to achieve.

20. The representative of New Zealand pointed out that although many countries had reached a fairly high degree of import liberalization in the industrial sector, agricultural imports often continued to be severely restricted. Countries like New Zealand which were almost exclusively dependent on agricultural exports found their export opportunities limited as a result of the widespread application of agricultural import restrictions and through other measures having a similar inhibiting effect on trade. The difficult balance of payments position of New Zealand and the resulting inability of New Zealand to meet full import requirements could thus partly be traced to agricultural protectionism abroad. These agricultural import restrictions and equivalent measures did not only restrict the expansion of exports of agricultural commodities to the protected markets, but in many instances they also led to surplus production which when exported to unrestricted markets affected prices to the detriment of agricultural exporting countries. Members of the Committee agreed that agricultural protectionism was an important factor in the balance of payments difficulties experienced by New Zealand. They joined the representative of New Zealand in expressing the hope that the consideration of this matter in another Committee of the CONTRACTING PARTIES would contribute to a solution of this problem in accordance with the objectives of the General Agreement. They expressed the hope that notwithstanding the pending consideration by the CONTRACTING PARTIES of methods for reducing the adverse impact of agricultural restrictions on trade, individual contracting parties would give sympathetic attention to the modification or elimination of restrictions on agricultural imports.

Alternative measures to restore equilibrium

21. The New Zealand representative was requested to comment on New Zealand's experience regarding the effectiveness of fiscal and monetary measures in bringing about a restriction in import demand. He explained that fiscal and monetary measures were on the whole less satisfactory than direct import controls in bringing about a fairly immediate contraction in imports. While import restrictions normally did not result in a significant reduction in actual import arrivals until six months after their imposition, contractive fiscal and monetary measures might require up to twelve months before they showed their effect on import orders and on actual incoming shipments. In view of the rather more rapid effect of fluctuations in export prices on the level of available foreign exchange reserves and thus import possibilities, fiscal and monetary measures alone could not be considered sufficiently fast acting to deal with sudden and large-scale decreases in foreign exchange reserves unless the reserves were much more adequate than they were in New Zealand's case.

22. Nevertheless, the Government was aware that appropriate fiscal and monetary policies were important in contributing to a recovery in exchange reserves and in preventing a rate of economic and monetary expansion unwarranted by the resources available. Although the Government was determined to encourage economic growth and although it had accepted the responsibility to maintain full employment, the contractive fiscal and monetary measures imposed in dealing with the balance-of-payments crisis in 1958 had only slightly been relaxed following the improvement in the overseas payments situation in 1959. In reply to a question concerning changes in the price level in his country, the representative of New Zealand explained that as a result of the measures to dampen monetary expansion which had been taken by his Government domestic prices had remained practically stable over the past two years.

System and methods of the restrictions

23. Members of the Committee welcomed the progress which had been made by New Zealand in moving further towards import liberalization. It was felt, however, that despite this progress the licensing system continued to be complex and cumbersome. The number of items which were virtually prohibited was still substantial while the number of items which could be considered as truly liberalized had remained very small. Moreover, the practice of basing licensing allocations for certain commodities on actual imports or on licences issued in a specified base year in which licences had been granted on a discriminatory basis often led to a de facto perpetuation of import discrimination. Also, some vestiges of discrimination between dollar and non-dollar imports appeared to remain in the import licensing procedure for automobiles.

24. The representative of New Zealand explained that although the provision in the Licensing Schedule for seven different licensing categories might appear cumbersome, this differentiation did permit the import treatment for each category of imports to take closer account of special trade characteristics, associated with particular commodities, as well as of varying degrees of essentiality. It was the intention of the New Zealand authorities to achieve through this flexibility in import treatment as great a degree of import

liberalization as possible in the present circumstances. The replacement licensing of "R" category, for example, had been introduced to ensure a better utilization by importers of over-all licence allocations in this category by bringing the issue of additional licences into closer relationship with actual import performance. Licensing formalities for goods in the automatic licensing or "A" category were being maintained in order to permit the Government to form a reliable estimate of actual imports or plans for imports of commodities in this category. In contrast to the type of commodities exempt from licensing controls, mainly raw materials, category "A" included a wide range of goods for which import predictions could not readily be made without some form of statistical information and it was for this reason that the licensing formality had been retained so as to enable the Government to utilize exchange resources in a rational manner when making allocations for the various restricted import categories. He pointed out that there was no ceiling imposed on the importation of commodities in category "A". Although a considerable number of commodities was still subject to restrictions, the tendency had been to move restricted commodities to more liberal licensing categories as soon as the balance-of-payments position permitted.

25. In explaining the reasons for the continuation of separate licensing of automobile imports from dollar and non-dollar countries, the representative of New Zealand pointed out that because of the special position of automobiles within the category of imports of consumer durables it had been found advisable to maintain this somewhat different licensing procedure. Special treatment in import licensing had also recommended itself because of the differences in timing between the drawing up of the Licensing Schedules and the determination of import requirements by the automobile assembly plants. The maintenance of separate licensing for dollar and non-dollar imports did, however, involve no discrimination as licences for imports from all sources were granted on the same basis. Members of the Committee pointed out that although they recognized that the special importance of automobile imports in total foreign exchange expenditures might require the continued application of import controls, there appeared to be no justification for the maintenance of separate licensing categories. As long as this differentiation existed there were possibilities for import discrimination and the mere possibility of such discrimination could only have a dampening effect on trade, regardless of whether discrimination did in fact exist or not. They urged that the licensing policy for automobiles be reviewed with a view to the early removal in the licensing procedure of the remaining element of discrimination.

26. Commenting on the possibility of a carry-over of discrimination through basing present licensing allocations on imports in past years when discrimination had been in force, the representative of New Zealand explained that this problem had been recognized by New Zealand and that allowance had been made for this factor when determining the licence allocations. In reply to questions about the provisions which had been made by the licensing authorities for the granting of licences to new importers, the representative of New Zealand explained that any importer although he had not previously imported the product applied for would nevertheless be considered for a licence. In the replacement category new licensing allocations were based on those granted to firms of comparable size and standing in the trade which had a record of past imports. Although no such provisions were made for the granting of licences in other import

categories which also provided for the issue of licences on the basis of previous imports such requests were considered on an individual basis. Moreover, when the re-introduction of import restrictions for a wide range of products had been necessary in 1958, a large number of new importers without a record of imports in the base years provided for had been permitted to share in licensing allocations.

27. In further discussing the New Zealand import licensing system members of the Committee welcomed the reduction in the number of items in the "D" category to 213 in the supplementary schedule published in March 1960 and to 124 in the Schedule for 1961. They recognized that in determining import allocations priority was given to items which were considered most essential. Nevertheless, the continued inclusion of such a large number of products in the virtually prohibitive "D" and "S" categories not only created a very unfavourable impression in judging the restrictiveness of the New Zealand import control system, but also raised serious doubts about the possibility of exporters and importers maintaining their channels of trade through minimum commercial imports as they should be enabled to do under the provisions of Article XII:3(c)(ii). They expressed the view that it should be possible for New Zealand to move further ahead in easing these categories of restrictions and at a minimum to place the products in question under the token licensing system. Members of the Committee also noted the large number of agricultural items which were subject to import restrictions. In the 1960 licensing schedule almost one half of all agricultural items were subject to import quotas or licensing requirements and the import of almost one third of all agricultural items was virtually prohibited. Members of the Committee urged that consideration be given to relaxing restrictions in the agricultural sector. The representative of New Zealand explained that the criterion of essentiality was largely responsible for the incidence of restrictions in this sector. He pointed out, however, that some progress in relaxing restrictions on agricultural products had been made in the 1961 Licensing Schedule and additional measures of liberalization would be taken as circumstances permitted. The representative of New Zealand also explained that the inclusion of a product in the "D" or "S" categories did not mean that no licences were granted; it was true, however, that licences for "D" items were granted only under exceptional circumstances and that in the case of "S" items applications for licences were considered only in the event of seasonal shortages in domestic production. The more restrictive regime for these two categories of imports had been decided upon strictly on considerations of the relative importance of various import commodities. New Zealand was, however, aware of the desirability of making provision for at least minimum commercial quantities of those items subject to restriction for balance-of-payments reasons. The number of items in the restrictive "D" category had thus accordingly been reduced by shifting more items to the token import category. The New Zealand representative drew attention in this connexion to the statement in paragraph 6 of the basic document that one of the principal purposes of the token licensing scheme was to enable importers to maintain trading connexions with overseas suppliers to provide variety and to keep overseas standards before New Zealand manufacturers and consumers. He emphasized that his Government had expressed its determination

to move further ahead with the liberalization of these items as soon as the balance-of-payments position permitted. Members of the Committee noted that the number of items for which token allocation was provided had been increased to 157 in the 1961 import Licensing Schedule. The hope was expressed that in these cases also an early opportunity would be taken of increasing the token quotas provided and of moving ahead with the relaxation of these restrictions generally.

General

28. Members of the Committee expressed appreciation for the helpful and frank manner with which the representative of New Zealand took part in the consultation, and also for the very detailed information on economic conditions in New Zealand which had been supplied by the New Zealand Government. They noted with satisfaction the improvement in New Zealand's reserve position which had occurred since the last consultation. In evaluating the prospects for a further improvement in the reserve position, members of the Committee expressed the view that, despite the recent decline in the prices for a number of New Zealand's main export commodities and some uncertainty regarding trade prospects for these products, New Zealand's trade position appeared to be sound especially as exports continued at a high level. The Committee welcomed the assurance given by the representative of New Zealand that his Government was determined to move ahead with import liberalization as soon as the balance-of-payments position permitted. They also welcomed the progress which had been made in the reduction of restrictions during the past year and expressed the hope that it would soon be possible to liberalize imports still further. Members of the Committee did not believe that there was justification for the remaining element of discrimination and urged that it be eliminated as soon as possible. Some Members shared the view of New Zealand that a significant contribution to a further improvement in New Zealand's trading position could be made through the removal of restrictions on agricultural products by contracting parties which maintained such restrictions. Members noted the special circumstances affecting New Zealand's need for exchange reserves, but considered that there was scope for increasing import opportunities for those products which at present were still included in the virtually prohibited "D" and "S" categories. Members of the Committee emphasized the desirability of simplifying the import control system.

29. The representative of New Zealand thanked the Committee for the spirit of understanding with which it had conducted the consultation. He assured the Committee that he would bring the comments and suggestions made during the consultation to the attention of his Government.

ANNEX I

Opening Statement by the Representative
of New Zealand

The paper prepared by the International Monetary Fund for the CONTRACTING PARTIES contains as usual detailed information on developments in New Zealand during 1959 and the first half of 1960. I should like, however, in this opening statement to refer to the more salient points.

The improvement in prices of New Zealand's principal exports (except meat) was generally maintained over the fiscal year 1959-60 leading to an overall surplus of £12 million. Export income reached a total of £314 million, about £40 million above the returns for each of the four preceding years.

Butter exports earned £62 million in the year ended March 1960, £15 million more than the previous year. The butter price on the London Market rose from 290/-d. per cwt. in May 1959 to a peak figure of 410/-d. per cwt. in October 1959. However, due to consumer resistance, to the resultant high retail prices and increased supplies from United Kingdom and overseas producers, the price fell sharply to 290/-d. per cwt. in March 1960.

During 1959, cheese prices remained remarkably steady at the relatively high level of 291/-d. per cwt. As with butter, the United Kingdom market for cheese weakened during the first quarter of 1960 to 231/-d. per cwt. and has remained at that level since. Exports of cheese realized £21 million in the year ended March 1960, nearly £1.5 million more than the previous year.

The substantial improvement in wool prices in the 1959-60 season - the average was 44.65d. per lb. which was 24 per cent more than in the previous season - was the major factor enabling import restrictions to be eased. Wool exports in the year ended March 1960 realized £107 million, some £30 million more than the previous year. The improved range of prices enabled the New Zealand Wool Commission to dispose profitably of large stocks purchased in 1958-59 under its floor price scheme.

Export receipts for meat showed a drop of £10 million during the year ended March 1960, even though the tonnage exported was 58,000 tons more than in 1958-59. Lamb prices in the United Kingdom market declined substantially during 1959, mainly because of increased local and imported supplies and competition from other meats, but the price picked up towards the end of the year.

On the payments side, private imports were reduced to £217.1 million from £226.9 million in 1958-59. Imports were down in spite of the issue of substantial additional import licences, partly because the low level of demand in the beginning of the 1959-60 year discouraged importers from making the fullest possible use of their licences.

The increased export receipts assisted in the recovery of the net overseas assets of the banking system which had fallen to £42 million in the early months of 1958. Reserves had risen to £88 million by the end of December 1959.

Favourable terms of trade for the greater part of 1959-60 were a contributory cause of New Zealand's more satisfactory trading results. Expressed on a 1957 (= 100) basis, the terms of trade had risen to 100 by the end of June 1959, and climbed further to 107 by the end of September. At 31 December 1959 they stood at 106 before falling back to 98 by the end of March of this year.

In the current financial year, that is, since April the most striking feature of New Zealand's trading situation has been the sharp fall in prices of dairy produce. Butter, which was earning us 4/10/-d. per cwt. on the London market in January 1960, stood at 2/9/-d. per cwt. at the end of September. Although consumption has increased during the year, stocks are still high. Even if butter prices were to remain at present levels, our export receipts from butter would be seriously reduced by comparison with 1959-60. Cheese prices have remained at 2/31/-d. per cwt. since February. This is substantially below the prices ruling in 1959. Lamb prices have recovered from the mid-1959 decline and the immediate prospects are quite good. In the case of wool a slight weakening of prices has been apparent in the early sales of this season.

Overseas exchange transactions figures for the April-August 1960 period reflect the downward tendency in export earnings in comparison with last year. This year the surplus on trade for the first five months of 1960-61 totalled £29.6 million, compared with £47.3 million during the corresponding period of 1959-60. The overall surplus was down to £9.9 million in comparison with £24.3 million in 1959-60. The net overseas assets stood at £96 million at 12 October 1960 compared with about £101 million at the same time last year.

It is too early to say with precision what the level of overseas exchange reserves is likely to be at the end of 1960, the seasonal low point. With private imports running at £240 million per annum, indications are that they may be down to about £80 million. This would be about £7.5 million below the level at the end of December 1959.

I should now like to comment briefly on the steps taken in 1959 to relax New Zealand's import licensing provisions for 1960 in keeping with the improved economic position. This matter is fully referred to in the basic document MGT(60)51.

Private imports for the calendar year 1959 amounted to £206 million. The import licensing restrictions permitted a somewhat higher level of private imports than this but, as I said before, the low level of demand, which did not really revive until the year was well on its way, discouraged importers from making maximum use of the licences allotted to them. The 1960 Import Licensing Schedule and the supplementary schedule issued in March 1960 were designed to ease the import restrictions in the light of the strengthened export position. The effect was to make increased provision for the importation of a wide range of commodities. Provision was made for a number of items to be exempt from import licensing. The result was to exempt the schedule from import licensing to the extent of some 14 per cent of the value of the schedule. Items were raw sugar, crude oil, motor spirits, certain bulk oils (kerosene and lubricating oils), crude sulphur and manure. Provision was also made for licences for some items ("A" items) to be issued to the extent of the amounts applied for. Other features of the 1960 Import Licensing Schedules were the introduction of the "R" category in which provision was also made for new importers; token licences were extended and the new system of "group licences" was another step designed to permit greater freedom of choice and competition under a system of balance-of-payments import control. Discrimination was virtually removed.

A leading feature of the 1961 schedule which was announced in September is another easing of the import licensing allocations for a wide range of imported goods. The overall effect of the relaxations is that under the new schedule something approaching 55 per cent of our total import trade is either exempt from import licence or available to normal and regular importers or prospective new importers under the "R" or "A" allocations. The easing has been mainly achieved by the extension of the "R" or replacement licence scheme from 162 items to 206 items, the increase of the "A" category, or "amount applied for" items, from 30 to 63 by increases in the basic allocations previously provided for a number of other commodities and an increase in the number of token items which now total 157.

With the exception of certain kinds of motor vehicles, all licences issued are available for all countries. In the case of motor vehicles licences are still, because of special circumstances, being separately issued for dollar and non-dollar sources. Nevertheless, they are both issued on the same basis.

The overall allocations that have been made in the Schedule for 1961 are based on the best available estimates of our trading prospects in the near future. The New Zealand Government is confident that the increases in the level of licences which have been made available to private importers in March and June of 1959 and in the 1960 and 1961 Schedules, combined with the additional flexibility of the Schedules, represent a real and substantial contribution to stable trading.

It is not the Government's policy to maintain any more intensive restrictions than are required. Members of the Committee will have noted that it has been the practice of the New Zealand Government to keep the import licensing position under continuous review and to make relaxations in the course of a licensing period if the balance-of-payments position permits. This was done in March 1960, as I indicated might be possible when New Zealand consulted in 1959. The balance-of-payments position will be reviewed again early in 1961. Additional funds may then be provided for imports if trends in export prices and external reserves indicate that such a course would be prudent.

My Government has always been aware that the task of overcoming balance-of-payments difficulties cannot be left to import control alone. It recognizes that fiscal and monetary policies have an important role to play in the achievement of equilibrium in New Zealand's balance of payments. The payments crisis in the beginning of 1958 led to the adoption of tight monetary and fiscal policies. By mid-1959, once these policies had worked themselves through the economy, signs of slackness were apparent. The improvement in economic conditions enabled the Government to adapt its policies accordingly. Income tax reductions, to take effect on 1 October 1959 and 1 April 1960, were announced and reductions were made towards the end of 1959 in indirect taxation. Monetary policy, which had been kept tight until mid-1959, and which is, in New Zealand, chiefly maintained through the reserve ratio system, was somewhat relaxed and in October the discount rate was reduced from 7 to 6 per cent.

The increasing liquidity of the economy, recently apparent, has led to the formulation of a policy of caution, particularly in the monetary field. The aim here is to achieve stability in the volume of bank advances while allowing for seasonal changes and the gradual expansion of the economy. Between the end of August 1959 and 1960 advances and discounts rose by £9.5 million to £174.1 million. The Budget, presented on 21 July 1960, also aimed at a measure of restraint. Small tax reductions were made with respect to motor vehicles, petrol and cigarettes. Income tax rates, however, were not varied. Some encouragement was given to the private investment field through the relaxation of capital issues control, the exemption from excess retention tax in certain circumstances, and the re-introduction of special depreciation allowances.

In conclusion, it may be relevant to emphasize the difficulties facing New Zealand in keeping its balance of payments in continued good shape. The achievement of a high level of reserves and the diversification of New Zealand's export markets are obviously handicapped by protectionist agricultural policies in Europe and North America. This is partly a matter of quantitative restrictions against our agricultural exports and partly also a matter of subsidizing uneconomic agricultural producers into producing surpluses which disrupt established patterns of world trade. The chance of avoiding pressure on the balance of payments in the future is closely tied up with the degree to which New Zealand is able to find reasonable marketing opportunities for its agricultural exports.

Another factor in the problem of overcoming on a lasting basis the kind of balance-of-payments difficulties New Zealand has experienced in the immediate past is the difficulties of reducing the amplitude of our fluctuating export prices. A major source of the variations in commodity prices is the fluctuations in industrial activity in the more advanced countries. New Zealand believes that much greater efforts are required, as was stated at New Zealand's last balance-of-payments consultations before this Committee in May 1959, by industrial countries to moderate such fluctuations in business activity. New Zealand can do little of its own accord to mitigate the impact of these downturns in industrial activity, although the diversification of our export industries and the enlargement of our markets can make a limited contribution in this direction.