

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

1. In accordance with its terms of reference, the Committee conducted the consultation with New Zealand under paragraphs 4(a) and 4(b) of Article XII¹. The Committee had before it the following documents: (a) a basic document (MGT(61)29), with an annex containing the supplementary import licences schedule for the 1961 licensing period, and (b) two documents supplied by the International Monetary Fund on recent economic developments and changes in the restrictive system.
2. In conducting the consultation, the Committee agreed to follow the plan of discussion for consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 7 November 1961. This report summarizes the main points discussed.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with 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 documentation concerning the position of New Zealand. The statement made was as follows:

"The Fund has not yet had a consultation with New Zealand, which became a member of the Fund on 31 August 1961. The Fund has, however, prepared a background paper dated 12 October 1961, bringing up to date its papers of 23 September 1960 and 8 May 1961, for use in connexion with this consultation. As indicated in the paper of 12 October 1961, the deterioration in New Zealand's balance of payments continued throughout the first half of 1961, when current transactions resulted in a deficit of NZ.£12 million as against a surplus of NZ.£31 million

¹For the initiation of the consultation under Article XII:4(a), see SR.18/6, C/M/6, L/1447, L/1515 and Add.1.

in the first six months of 1960. Against the normal seasonal trend, and despite an inflow of capital, the country's net overseas assets showed a further decline of NZ.L 4 million, which compares with an increase of NZ.L 31 million in the corresponding period of 1960. The fall in net overseas assets continued in July and August. The latest available figure, NZ.L 52 million at the end of August, is less than one half of the corresponding figure for 1960, and the lowest for the end of August in any post-war year.

"The general level of restrictions of New Zealand which are under reference does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Opening statement by the representative of New Zealand

4. In his opening statement, the full text of which is appended in the Annex, the representative of New Zealand described for the Committee the factors which had contributed most significantly to the present serious balance-of-payments problems which had compelled his Government early in 1961 to intensify substantially import restrictions, rather than to proceed as planned with a further relaxation of import controls. As a small, predominantly agrarian country, located far from major markets and sources of supply, New Zealand was almost entirely dependent for its export earnings on a limited range of agricultural products, for which markets were often severely restricted. The principal causes for the sharp decline in foreign exchange reserves during the past year had been a substantial fall in export receipts from butter and a decline in export receipts from cheese and wool, accompanied by a record increase in private imports. In addition, outlays for "other current payments" had also shown an increase. The diverging development of foreign exchange receipts and outlays had resulted in a deficit on current account of NZ.L 49.7 million for fiscal year 1960-61, compared with a surplus of NZ.L 31.4 million in 1959-60.

5. There appeared little prospect for an early reversal of the adverse trends affecting New Zealand's foreign trade. The price of butter on the London market, as a result of dumping practices by certain countries, had remained since early this year substantially below the average prices of 1959 and 1960. Despite continuing efforts by New Zealand and the United Kingdom, there had not yet been any appreciable improvement in the situation. It had recently been announced that unless supplies of dumped or subsidized butter were reduced, the United Kingdom would take action under its anti-dumping legislation; but it was too soon to estimate what effect this development might have on the butter price. In any event, the long-term outlook for butter prices was not reassuring. Little change in the export price for cheese was envisaged. The small increase in receipts from meat exports in April-September 1961 had been due largely to an acceleration in payments for meat shipments to the United Kingdom. Prices for mutton and lamb continued to be depressed and below those prevailing in 1960. While export receipts from wool in April-August 1961 had reached about the same level as in 1960, average selling prices for wool in the 1960-61 season were

almost 10 per cent lower than the year before. There was little likelihood of a significant increase in wool prices in the 1961-62 season. Import prices, on the other hand, had on the whole tended to rise. The terms of trade (1959 = 100) had deteriorated to 96 in 1960 and to 91 in the first quarter of 1961.

6. Reserves fell from the seasonal peak of NZ.£ 118.7 million at the end of June 1960 to NZ.£ 66 million by the end of December 1960. Rather than showing the usual seasonal recovery during the first half of the year, they had further declined this year to about NZ.£ 54 million in March/April. After recovering to NZ.£ 62 million at the end of June 1961, they had fallen again, to NZ.£ 49 million, by the middle of October, despite the fact that during 1961 the reserves had been augmented by a NZ.£ 20 million loan raised in London.

7. For the year ending 31 March 1961, reserves had fallen by a total of NZ.£ 44 million. Obviously this development had called for early and energetic action to check a further decline in exchange reserves.

8. The representative of New Zealand briefly described some of the most important features of the original 1961 Licensing Schedule which had embodied a further liberalization as compared with the 1960 Licensing Schedule, and had provided, inter alia, for the exemption, or virtual exemption, from restrictions of something like 55 per cent of New Zealand's total import trade. The major measures for restricting imports taken in April 1961 were: firstly, for 203 items hitherto included in the "R" (replacement) licensing category for which licensing allocations were either suspended or were henceforth to be considered under the "C" category, and secondly the suspension of provision under the 1961 Licensing Schedule for new importers. Since licences for these categories of imports had already been issued very liberally, this measure could have only limited effects on such imports in 1961. In June, the period for which licences issued under the 1961 Import Licensing Schedule would be available, was extended by six months to 30 June 1962. Provision was made, however, for supplementary allocations for certain essential imports in a supplementary Schedule. Severe as these measures might appear at first sight, it was felt by the Government that, taking account of the stock position and present circumstances, allocations would be sufficient to provide for the needs of the country until July 1962.

9. The representative of New Zealand informed the Committee of the approximate total value of licences issued for 1961, and the estimated additional licences provided for in the Supplementary Schedule. Taking into account the probable utilization of licences in 1961, licences to the value of some NZ.£ 140/150 million should be available for the first half of 1962. Compared to the total payments for private imports of NZ.£ 94 million in the first half of 1959 and NZ.£ 146 million in the first half of 1961, import opportunities for the first half of 1962 under the revised Licensing Schedule for 1961 were not unduly restricted. It was the policy of the New Zealand Government to keep import controls under continual review and to proceed to further import liberalization as soon as conditions permitted. However, in view of the present very low level of foreign

exchange reserves, a substantial improvement in the terms of trade would be necessary before a relaxation of import restrictions would be possible. In fact, present indications were that further overseas borrowing would be required for financing imports in 1962.

10. The New Zealand Government recognized that import controls, in order to be fully effective, had to be supplemented by measures designed to curb inflationary expansion in the economy. Consequently firm measures had been taken to restrain bank credit. The minimum deposit reserve ratio was raised in November 1960 and had been varied throughout 1961 as required to keep firm pressure on the banks' cash position. In addition, in March, the Reserve Bank's discount rate was raised to 7 per cent and other interest rates had moved upwards. Hire purchase terms were tightened. Two internal loans were successfully floated and one converted. Every possible encouragement was given to increased personal savings. At the same time, a tight rein was being kept on Government expenditure; two major works programmes had been suspended.

11. In conclusion, the representative of New Zealand emphasized the handicap to New Zealand's export trade which resulted from the highly protectionist agricultural policies followed by many industrial countries. These policies lessened New Zealand's capacity to import from the industrial countries and to build up and maintain exchange reserves at a satisfactory level. Fluctuations in economic activity in the industrial countries and fluctuations in agricultural prices both hampered stability in countries like New Zealand. Until such time as New Zealand, and other agricultural producing countries could be assured of export prices which were reasonable in relation to the cost of imports and had better and more equitable access for their products to the markets of industrial countries, they would probably continue to be faced with balance-of-payments difficulties.

12. The Committee thanked the representative of New Zealand for the very full and clear description he had given of the problems besetting his country at present. The Committee welcomed the fact that import restrictions were viewed as a temporary measure which would be removed as soon as the development of the balance-of-payments position permitted.

Balance-of-payments position and prospects

13. In his opening statement, the representative of New Zealand had provided information on movements in the country's net overseas assets up to the middle of October 1961. Members of the Committee wished to know the probable level of New Zealand's overseas reserves when the seasonal low point was reached at the end of the year. They also asked what action was envisaged to meet the problems of a low level of reserves at that time. In reply, the New Zealand representative stressed the factors of uncertainty which made it difficult to forecast the level of reserves. In particular it was not easy to determine how far the 1961 licences would be utilized by importers before the end of the year, and to what extent imports and payments might be deferred until next year. The latest available estimates suggested

that import payments in 1961 could amount to NZ.£ 270 million. If this estimate proved correct and if export receipts followed the expected pattern it was estimated that reserves could fall to as low as NZ.£ 27 to 30 million by the end of this year. In order to supplement these exceedingly low reserves, a loan of NZ.£ 7 million had been floated in New York in October. New Zealand could also call upon a standby credit of NZ.£ 10 million with a commercial bank in the United Kingdom.

14. In reply to a question, the New Zealand representative confirmed that the figures he had given on the overseas assets included the proceeds of a loan of NZ.£ 20 million raised in London in May. In answer to questions, the New Zealand representative stated that long-term loans did not constitute bank liabilities, but governmental obligations, and that they were therefore not included in the figures showing bank liabilities in the statistics in the IMF document on "Overseas Assets and Liabilities of Banks".

15. A member of the Committee noted that world prices for wool were at present below the levels prevailing at the end of the 1960-61 selling season and that there was little prospect for any great increase. He invited comment on estimated volumes of wool exports and earnings expected from this item. The New Zealand representative recalled that wool production had amounted to 588 million pounds in 1960/61 and was expected to be 592 million pounds in 1961/62, the increase being less than 1 per cent. For the period April to July 1961, receipts of wool amounted to NZ.£ 39.3 million, compared with NZ.£ 41 million for the corresponding period of the previous year. Attention was called to the information in the IMF paper that despite a strengthening of the wool price towards the end of the 1960-61 season, receipts from wool shipments in January-June 1961 were down by over 6 per cent from the corresponding level in 1960. For the whole season, the average price realized was 40.34d. per pound, which was 9 per cent lower than in the previous year.

16. Members of the Committee recalled that at the consultation with New Zealand held last year, attention had been drawn to the need for New Zealand to diversify its economy and to promote the production and export of a wider variety of goods. The New Zealand Economic Survey for 1961 stated that strenuous attempts were being made to expand New Zealand export markets, particularly in Africa, Asia and Latin America. Invited to comment on the results so far achieved, the representative of New Zealand stated that some progress had been made in establishing export outlets in these areas. There was now a significant market for mutton in Japan, and small quantities of dairy products were being sold to a number of Asian countries. Considerable success had also been achieved in expanding exports of beef to the United States. In accordance with the plans to expand trade with African countries, a new trade representation post had been established recently in West Africa. It was still too early to visualize these new markets as providing substantial outlets for any significant proportion of new exports. A major proportion of New Zealand's exports was still directed to the traditional market in the United Kingdom, which accounted for no less than 98 and 93 per cent of New Zealand's lamb and butter exports respectively.

17. As regards the establishment and development of new export industries, the representative of New Zealand stated that during the past year progress had continued in this field. One major project planned was aluminium smelting works in Southland, based on hydro-electric power which was available at low costs in New Zealand. It was hoped that this industry's gross earnings of overseas exchange would be substantial, although these would be partly offset by a considerable outlay for purchases of raw materials (bauxite from Australia) and for return on non-resident capital invested. In addition, a new aluminium rolling mill had recently been completed. A company had been formed to investigate the possible establishment of an iron and steel industry based on deposits of iron sands. A more recent development was the discovery of natural gas which appeared to have considerable commercial possibilities and which might help in reducing the dependence on imported fuel.

18. In reply to a question concerning the forestry sector, the representative of New Zealand recalled that notable increases in production had been achieved by the pulp and paper industry. This industry was based upon extensive plantings of non-indigenous trees which had come to maturity over the last decade. A useful export trade in logs and sawn timber from these forests had also been built up in recent years. In 1959-60, pulp exports amounted to NZ.£ 3 million, newsprint to the same amount, and timber and logs to NZ.£ 2 million.

Alternative measures to restore equilibrium

19. A member of the Committee noted that the measures taken by the New Zealand Government to maintain internal stability in the present circumstances had been largely confined to the monetary field. The Government had indicated last July that it would watch the situation closely and, should the measures already taken prove inadequate, it would not hesitate to take whatever remedial measures might be necessary. He enquired whether there had been any recent moves in the fiscal field. The New Zealand representative replied that for various reasons such measures as had been taken had continued to be mainly in the monetary field. The level of taxation in the country was already very high. It was necessary to take into consideration the possible disincentive effect of high taxation. The Government, which had assumed office in November 1961, had envisaged a reduction in the general level of taxation if economic circumstances permitted. In view of the deterioration in the economic situation, taxes could not be reduced and the budget of July 1961 had been a standstill budget containing only minor changes designed to correct anomalies and to provide incentives to production and savings. Positive measures taken by the Government to restore the balance included greater emphasis on public borrowing supplemented by higher interest rates, restraint on Government expenditure whenever practicable, and increased revenue derived from government-provided services. Postal and railway charges had been increased as were rents for government-owned houses. A member of the Committee asked what the effect of these measures, together with the decision to delay certain public works projects, was likely to be on the public accounts for

1961-62. While the representative of New Zealand could not, of course, give precise figures, he drew attention to a recent statement by the New Zealand Prime Minister that, taking into account reductions in government expenditure and making allowance for further borrowing, there could be a surplus in this year's public accounts.

20. A member of the Committee noted that there had been a strong rise in consumer demand during the past year supported by a generally higher level of personal income, a reduction in savings and an expansion in credit. In April 1961, the regulations governing the terms of hire purchase had been tightened and their coverage extended. He asked what effect these measures had had on the retail trade and if any further measures had been introduced to stimulate savings and to reduce consumption. The representative of New Zealand cited some preliminary statistics from a sample survey which indicated that, in general, the total value of goods financed under hire purchase arrangements had shown little change in the quarter ending June 1961. However it was his understanding that the measures had begun to have some effect in the September quarter for which statistics were not yet available. Measures to stimulate savings included the introduction by the Government of development bonds on the New Zealand market for the first time in October 1961, it was too early to assess public reaction to this new measure. The Government had placed particular emphasis on public borrowing and had successfully floated two internal loans this year and converted another. These steps had been supported by higher interest rates. A savings committee had been established recently. Additions to small savings in 1960-61 had reached a record level compared with the previous year.

21. In reply to another question, the representative of New Zealand confirmed the fact that in recent years gross capital investment had declined as a percentage of gross national product. In the past a tendency had been for investment in building to increase, while shares devoted to investment in farm machinery and transport equipment had tended to decline. The proportion of investment devoted to manufacturing plant had generally increased. To sustain a higher rate of growth and strike an appropriate balance, the Government recognized that expansion was needed in investment in productive plant, buildings and equipment. Apart from external borrowing, this was being achieved by encouraging increased domestic savings. Action was also being taken to achieve a 15 per cent reduction in housing expenditure this year from an estimated NZ.£ 60 million to NZ.£ 51 million. The Government was reviewing the conditions under which loans were made available for new homes; but no final decision had been made in this connexion.

22. A member of the Committee noted that it appeared to be the view of the New Zealand Government that some slackening in the pace of development was necessary if established and new industries were to develop efficiently. He asked what long-term measures were envisaged to encourage higher productivity and to raise the level of exports. The representative of New Zealand replied that although industrial development was being

encouraged in certain fields, as mentioned in part I of this report, i.e. aluminium, iron and steel, oil refining and forestry, there had been no significant results as yet with respect to diversification of New Zealand's exports. It seemed that for many years to come New Zealand would remain mainly dependent for foreign exchange earnings on the export of wool and the export of meat and dairy products for which the markets were limited.

23. In reply to a further question by the same member of the Committee, with respect to long-term measures to improve productivity in the newly-established manufacturing industries, the representative of New Zealand stated that research in this field was a particular responsibility of the Government Department of Scientific and Industrial Research. In addition manufacturers in New Zealand kept abreast of relevant developments in the more advanced industrial countries. While there was always room for increased productivity it was quite wrong to suppose that the manufacturing industries which had developed in New Zealand over the past 30 years were inefficient. In this connexion one member of the Committee pointed out that one of the most effective ways to stimulate efficient industrial productivity was to permit effective competition from imports. The representative of New Zealand assured the Committee that in formulating government policy the authorities in his country were ever mindful of the need to encourage efficiency in domestic production.

System and methods of restrictions

24. Members of the Committee noted the unfavourable developments in the balance-of-payments position of New Zealand, which had made it necessary for the authorities to reverse the trend towards liberalization that had been in evidence until the preceding year. They expressed the hope that the situation would improve in the near future to enable New Zealand to proceed with liberalization. In reply to questions, the representative of New Zealand recalled some of the points made in his opening statement with respect to developments in the system and methods of restrictions. On 21 June 1961 it had been announced that the period of the 1961 Licensing Schedule would be extended for six months, so as to apply from 1 January 1961 to 30 June 1962. A supplementary schedule had been issued to cover necessary imports of raw materials, components for industry, essential basic foodstuffs and similar items. Taking into account the present satisfactory stock position, it was expected that the supplementary schedule would be sufficient to meet domestic needs. It should be noted that while the steps taken to restrict imports might appear severe, the administration of the scheme was not inflexible. The degree of import licensing was kept under constant review and changes in the structure of the system would be made as conditions warranted. If the situation improved sufficiently to make the liberalization of imports prudent, the Government would take such action; however, in New Zealand's case a substantial improvement in the terms of trade would be necessary before it would be at all wise to allow an early reduction in the present level of restrictions. Members of the Committee pointed out that, while

the terms of trade were undoubtedly a significant factor, other factors might also be important in determining a country's balance of payments.

25. The Committee noted that separate licences continued to be issued for imports of motor vehicles from dollar and non-dollar areas. Although it was stated that these licences were issued on the same basis some members of the Committee questioned the need for the retention of any differentiation in import licensing which seemed to result in continued discrimination. The representative of New Zealand explained that import licences for motor vehicles were issued on the basis of past import performance in a base period. One of the reasons for the retention of separate licences was to economize on exchange since, owing to price-per-unit differences, it was normally possible to obtain considerably more units from the non-dollar countries for a given amount of foreign exchange, than from the dollar countries.

26. Some members of the Committee urged that this differentiation in import treatment be eliminated. The representative of New Zealand gave an assurance that this matter would be given further careful consideration by his Government.

27. Members of the Committee pointed out that the number of items listed in the "D" category, (for which no allocation had been made but licences might be granted "under exceptional circumstances"), appeared to be very high. They expressed the hope that consideration should be given to permitting token imports as soon as an improvement in the balance-of-payments position occurred. The representative of New Zealand explained that while the number of items listed in category "D" in the supplementary schedule might appear to be high, many of the items thus listed had received allocations in the original 1961 licensing schedule which now applied to the eighteen-month period. He assured the Committee that it was the intention of his Government to allow token imports and to proceed with liberalization as soon as an improvement in the balance of payments permitted such action.

28. A member of the Committee noted that there seemed to be considerable flexibility in the issue of import licences for list "C" items and he asked if the amount of licences issued for imports in this category would be automatically increased with an improvement in the balance-of-payments position. The representative of New Zealand replied that list "C" included goods for which import applications were considered individually on the basis of essentiality, availability, price and other considerations. A significant improvement in export earnings and in the overseas assets would certainly be reflected in a more liberal issue of licences, as had been the case in similar situations in the past. In order to enable importers to make better use of licences, it had been decided to authorize the transfer of licences from one commodity to another under specified conditions.

29. A member of the Committee asked what effect the proposed new customs tariff was likely to have on the system of import licensing. The representative of New Zealand replied that the new customs tariff was designed to offer reasonable protection to industry, and not to afford a means of controlling the level

of imports. In the event of continuing balance-of-payments difficulties quantitative restrictions applied within the limits permitted by Article XII would still be necessary to ensure the best use of available overseas funds.

Effects of the restrictions

30. The Committee welcomed the awareness of the New Zealand Government that the intensification of restrictions would incidentally have the effect of stimulating industrial expansion in the country and the assurance given in this respect that every effort would be made to avoid these measures being reflected in the establishment or expansion of non-competitive industries which would require licensing protection after balance-of-payments difficulties had been overcome.

General

31. The Committee expressed appreciation of the clear and concise manner in which the New Zealand representative had responded to the many questions put to him. It noted the recent serious decline in New Zealand's foreign exchange reserves, as a result of an unfavourable development of the country's terms of trade and a significant increase in the volume of imports earlier during the year. The Committee welcomed the assurance given by the representative of New Zealand that the substantial intensification of import restrictions was considered to be a temporary measure to check the drain on foreign exchange reserves and did not constitute a departure from New Zealand's basic policy of proceeding towards import liberalization as rapidly as possible. The Committee had noted the measures taken by New Zealand to control the expansion of internal demand and expressed the hope that these measures would be continued as necessary, with due consideration being given to fiscal as well as monetary measures, in order that early progress might be made towards the relaxation of import restrictions.

32. The Committee noted that there had been a strengthening of New Zealand's secondary line of reserves as a result of joining the International Monetary Fund. The Committee urged that there should be rapid progress in the liberalization of imports once the present critical balance-of-payments position had been overcome.

33. The representative of New Zealand thanked the Committee for the spirit of understanding with which the consultation had been conducted and stated that he would bring the suggestions made during the consultation to the attention of his Government.

ANNEX

Opening Statement by the Representative
of New Zealand

When the Committee consulted with New Zealand on its balance-of-payments restrictions in October last year, the New Zealand representative was able to inform the Committee that improved economic conditions had made possible considerable relaxation in New Zealand's import licensing. Unfortunately, since the last consultation, New Zealand's balance-of-payments position has deteriorated very seriously, and the Government has reluctantly been compelled to take substantial measures to restrict importing.

The New Zealand Economy

As you have before you the usual IMF paper, there is no need for me to dwell at length on New Zealand's economy. In any case, the nature of the New Zealand economy will be well known to most of you from previous consultations in this Committee. I would, however, like to emphasize one or two salient features. New Zealand's economy is basically an agrarian one. This does not mean that we are a nation of farmers. But it does mean that agriculture is in a very real sense the basis of the New Zealand economy, that we rely almost entirely on exports of agricultural products to pay for the substantial and increasing volume of imports which our rising population and expanding economy need. The extent to which the New Zealand economy is dependent upon imports is evidenced by the fact that in the financial year 1960/61, expenditure on goods and services produced overseas was equivalent to approximately 30 per cent of our gross National Product. Although industrial development is encouraged with the aim of diversifying the economy and lessening New Zealand's dependence on imports, as yet there has been no significant effect on the nature of New Zealand's exports. Indeed it seems that for many years to come New Zealand will be dependant to a very great degree on exports of dairy products, meat and wool to limited markets to earn overseas exchange.

I would also emphasize that although the expansion of manufacturing industry in New Zealand has resulted to some extent in some change in the pattern of imports, our total demand for imports has continued to rise and to press heavily upon our ability to pay for them from current receipts of overseas exchange.

Balance of payments

I now propose to outline the developments in New Zealand's balance-of-payments position over the past year or so, which have led to the intensification of import restrictions.

The overseas exchange transactions for the year ended 31 March 1961 show a sharp deterioration over the previous year. Total export receipts at £296.6 million were £17.6 million less than for 1959/60. The principal cause of this decline was a fall in receipts for butter of £22 million, from £62.5 million in 1959/60 to £40.5 million in 1960/61. There were also marginal falls in cheese and wool receipts, and these were partly offset by a rise of £8 million in meat receipts.

On the payments side, however, we find even more significant changes. The most notable was an increase of £57.6 million in payments for private imports, which rose from £217 million in 1959/60 to the record level of £274 million in 1960/61. There was also a rise of £9.4 million in other current payments, a category which includes overseas travel fares, travel allowances, freight payments, international investment income, personal remittances and so on.

The balance on trade transactions for 1960/61 was a deficit of £2.9 million compared with a surplus of £72.9 million in 1959/60, and the balance on other current transactions was a deficit of £46.8 million compared with a deficit of £41.4 million the previous year. The overall balance on current account was therefore a deficit of £49.7 million compared with a surplus of £31.4 million in 1959/60.

The rather depressing picture conveyed by this sudden reversal of fortune is not relieved by subsequent developments during this year. In fact, the continuation of the adverse trends outlined above accentuates the dismal outlook for New Zealand's economy for the immediate future.

The price of butter on the London market has been stationary at 250 shillings per cwt. since 23 February this year. This is 20 per cent below the average price realized in 1960 and 27 per cent below the average for 1959. If the average price for the year ending December 1961 amounts to 250 shillings per cwt., receipts for the year would be of the order of £40 million. Members of the Committee will be familiar with the action that has been taken elsewhere in the GATT this year with regard to butter. It suffices to note here that no effective action to raise the London price has resulted from the three consultations on the problem of dumped butter in the London market. It was, however, announced in London last week that the British Government has made further approaches to the countries dumping butter on the London market, requesting them to limit their supplies over the next few months in accordance with a programme discussed at the last GATT consultation. If the countries concerned do not agree to limit their exports in this manner, the British Government will take the necessary steps for the imposition of anti-dumping duties. We are naturally hopeful that this action on the part of the British Government will be successful in effecting some improvement in the butter marketing situation - but it is not possible at this stage to predict whether it will in fact be successful and if so, what effect this will have on the butter price. In any event, as the British Government's announcement makes clear, the measures proposed are intended only to cover the period up to March 1962. Beyond that date, the outlook remains very uncertain, and in the absence of further measures we certainly have no reason to suppose that butter prices will show any significant increase over those ruling this year.

Cheese has been stable throughout the year at 230 shillings per cwt. and little change is expected.

Meat receipts from the beginning of April to the end of September have totalled £48 million compared with £47 million in the same period in 1960. This slight increase in receipts, however, should not be taken as indicating any significant improvement in the position for meat. It can be partly explained by some speeding up in payments for meat shipments to the United Kingdom. The average price of lamb on the United Kingdom market for August at 17/8d. per lb. was in fact the lowest level lamb has reached for many years; and although there has been some increase in recent weeks, prices are still considerably below those ruling at the same time last year.

Similarly, although receipts from wool between April and August this year were very nearly at the same level as for last year, the average selling price for wool in the 1960/61 season at 40.34 pence per lb. was 9.56 per cent lower than the average price for 1959/60 season. Prospects for any significant increase in the price of wool for the 1961/62 season are not bright.

Private import payments have continued at a very high level since March. From the beginning of April up to the end of September private import payments totalled £141 million compared with a total of £126 million in the same period in 1960.

Figures for the terms of trade have not yet been taken out beyond the first quarter of 1961; however, there is no indication of any improvement since then. The most recent figures for terms of trade are as follows:

	1957	100
	1958	86
	1959	100
	1960	96
(First quarter)	1961	91

The picture of deteriorating conditions conveyed by the above survey of trends in New Zealand's trading position is most clearly brought out by the movements in the net overseas assets. The typical pattern of change in New Zealand's net overseas assets is a build-up of reserves during the first half year to a peak around June/July, followed by a fall to a seasonal low point at December/January. In 1960 the reserves totalled £84.5 million at the end of January, and had climbed to £118.7 million at the seasonal peak at the end of June. By the end of December they had dropped to £66 million! A month later that had fallen to £56 million.

The usual increase that can be expected normally in the first half of the year did not take place in 1961. The end-of-month figures for the net overseas assets for 1961 so far are as follows:

(£NZ million)

January	56.0
February	53.3
March	53.6
April	53.6
May	57.2
June	62.0
July	53.1
August	52.0
September	53.5

The latest figure I have available is £49.4 million as of 18 October.

When interpreting these figures it should be borne in mind that they include receipts of £19.5 million from a £20 million loan borrowed in London, and also of the realization of some Government investments held in London.

For the year ending 31 March 1961 there was a net deficit on all overseas transactions of £47.5 million, which, taking into account balancing items, involved a rundown of £44 million in the net overseas assets to meet the deficit.

Obviously, strong measures were necessary to prevent a recurrence of this serious deficit in overseas transactions and to promote recovery of the reserves to a more satisfactory level. New Zealand requires a relatively high level of overseas funds to conduct her normal trading activities, because of her great distance from her chief markets, because of the seasonal pattern of her export trade, the homogeneity of her exports, and their liability to violent and unpredictable price fluctuations.

Changes in the import licensing system

The 1961 Import Licensing Schedule, as was pointed out in this Committee last October, was drawn up at a time when more favourable trends were apparent in the economy, and accordingly it embodied a further liberalization to that contained in the 1960 Schedule. These relaxations resulted in something like 55 per cent of New Zealand's total import trade being either exempt from licences or available to normal and new importers under the "R" or replacement category or the "A" or amount applied for category. These categories are explained in the background paper circulated by the secretariat.

When it became apparent early in the year that little hope could be held out for an improvement in overseas trading conditions, the Government took initial action in April to curb the rate of importing. This consisted of suspending the provisions for "R" licences and new importers. Of the 203 items covered in the "R" category, it was announced that for eighty-three items, covering in the main consumer goods of a less essential nature, no licences would be issued, and that the remainder would be treated as "C" items, i.e., each application would be treated on its merits. However, because licences had been issued liberally since the schedule was issued in September 1960, the suspension of the "R" scheme had no more than a marginal effect on the rate of imports, and the need for further restrictive action was apparent.

On 21 June it was announced that the period of the 1961 Licensing Schedule was to be extended for six months, so that it would apply from 1 January 1961 to 30 June 1962. A supplementary schedule was issued, to be available from 1 January 1962, to cover necessary imports of raw materials, components for industry, essential basic foodstuffs and similar items. Taking into account the present satisfactory stock position, it is expected that the supplementary schedule will be sufficient to provide for the needs of the country until July 1962.

The New Zealand Government appreciates that the combined effect of the steps taken to restrict imports may appear rather severe. Nevertheless, the following analysis of the manner in which payments are expected to be made to meet importing costs relieves this drastic appearance to some considerable extent. Actual licences issued, together with the value of exempt items for the year 1961, amount to £315 million. Of this it is expected that about £270 million will come to charge in 1961, though the actual amount will depend on the attitude adopted by importers to the extension of the licensing period. Licences issued in the supplementary schedule and exempt items are expected to amount to £80 million - though, again, this figure may have to be extended to cover extra licences issued for specific purposes. Thus, in the first half of 1962 there could be a total licensing entitlement of the order of £140 to £150 million, although for various reasons, 10 per cent or more of licences issued are not usually reflected in import payments, and a small proportion of payments will be carried forward to the second half of the year. For purposes of comparison, payments for private imports during the first six months in recent years have ranged from £94 million in 1959 to £146 million in 1961.

I should like to emphasize that the policies which the New Zealand Government follows with regard to import controls are not rigid and inflexible. Rather, the degree of import licensing is kept under continual review and changes in the strictness of the system are made as the conditions warrant.

Should conditions improve sufficiently to make a liberalization of imports prudent, the New Zealand Government would be glad to take such action. It should, however, be clear that the present condition of New Zealand's foreign exchange reserves is critical, and a very substantial improvement in the terms of trade would be necessary before it would be at all wise to allow an early relaxation of the present restrictions. Present indications are that further overseas borrowing will be required to finance imports in 1962.

Internal conditions and remedies

It is recognized that import control is not, of itself, the complete answer to New Zealand's economic problems, and the New Zealand Government's experience bears out the fact that if import restrictions are to be fully effective they must be supplemented by measures designed to curb inflationary expansion in internal demand.

Foremost amongst the measures taken to restore balance has been the imposition of firmer restraint upon bank credit. A large expansion of bank credit took place during 1960/61, much of it to finance increased imports. To combat this trend and lessen the inflationary pressure being generated from this source, the trading banks' reserve ratios were raised in November 1960, and throughout 1961 have been varied as required to keep firm pressure on the banks' cash position. In addition, in March, the Reserve Bank's discount rate was raised to 7 per cent; steps were taken to raise the average level of interest charged on overdrafts; and the rates governing selective control of bank advances were tightened in respect of advances for imports and personal consumption.

Other policies aimed at reducing the level of demand are also being pursued. The Government has placed particular emphasis on public borrowing, and has already this year successfully floated two internal loans and converted another. Development bonds which are a new departure for New Zealand, have been placed on the market during the present month (October). These steps have been supported by higher interest rates. Through the activities of a recently-set-up Savings Committee, and in other ways, the Government is doing all it can to encourage higher savings. Hire purchase terms have been made more restrictive. A tight rein is also being kept on Government expenditure, and this year work has been suspended on two major works programmes with the intention of avoiding a deficit in the public accounts.

Conclusion

In conclusion, I should like to emphasize some of the difficulties New Zealand faces in maintaining balance-of-payments equilibrium. We are a small country, situated a long way from our major export and import markets. There is consequently a considerable lag between placing orders and receiving goods. This factor makes prompt action to restrict the level of imports very difficult if it is to be carried out equitably. We are primarily an agricultural country and we suffer from all the difficulties inherent in that condition. The terms of our trade are largely dictated to us by conditions

in, and the policies of, industrial countries. New Zealand representatives have on previous occasions at these consultations and elsewhere in GATT, emphasized how New Zealand's exports are handicapped by the highly protectionist policies followed in the agriculture sector by many industrial countries. These policies lessen our capacity to buy from industrial countries the volume of which imports we need, and also make it very difficult for us to build up and maintain our exchange reserves to a more satisfactory level - a level which would permit us to adopt with reasonable safety, more liberal import policies. Fluctuations in business activity in the industrial countries also have their effect on the prices of our exports and we believe that more attention should be paid by industrial countries to ways of moderating these fluctuations. Until such time as New Zealand (and like countries) can be assured of export prices which are reasonable in relation to the cost of imports and can secure better and more equitable access for her products in the markets of industrial countries, New Zealand will probably continue to be faced with balance-of-payments difficulties. As our population grows, these may well become worse.