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GENERAL AGREEMENT ON TARIFFS AND TRADE

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NEW ZEALAND-AUSTRALIA FREE TRADE AGREEMENT

Statement by New Zealand Representative at the Council Meeting on 9 November

On 19 October New Zealand, on behalf of the New Zealand and Australian Governments, notified the CONTRACTING PARTIES in accordance with paragraph 7(a) of Article XXIV that Australia and New Zealand had concluded a free trade agreement.

Before I outline the provisions of the Agreement it would, I think, be helpful to the Council if I explained the reasons why Australia and New Zealand decided to enter into a free trade relationship.

The first and most obvious reason is, of course, our geographical proximity. This, and the fact that our development over the last 100 years also has been remarkably similar in many ways, has meant that there already exists in the economic sphere the infra-structure on which a free trade arrangement can be based.

Most of the banks operating in New Zealand, for example, also operate in Australia. Other financial institutions - particularly insurance companies and stock and station agencies - are also common to both countries.

Many other New Zealand companies have branches in Australia and, of course, many Australian companies have branches or subsidiaries in New Zealand.

During the first days of New Zealand's trading history, Australia was our main trading partner and since that time our commercial relationships have remained close. Since 1922 in fact trade has been governed by an agreement between the two countries.

The aims and objectives of the free-trade area are simple. These are:

to further the development of the two countries and the use of their resources by promoting a sustained and mutually beneficial expansion of trade;

to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriersto world trade;

to ensure that trade within the area takes place under conditions of fair competition.

Although mutual interest is of course one of the important elements in the decision of Australia and New Zealand to promote a free-trade area, the effect of the arrangement on world trade is also of considerable importance.

Both Australia and New Zealand are well aware of the undeniable fact that the great increases in world trade in recent years have been in trade in industrial products between industrialized countries. Indeed, it is clear that the more industrially developed is a country or a region, the greater is its ability to take a meaningful part in world trade.

On the other hand, Australia and New Zealand - both countries with a high volume of trade per head of population - have found that it is becoming increasingly difficult to expand trade in agricultural products - particularly temperate agricultural products. I do not need to go into the reasons for this. I have no doubt that our representatives in Geneva have mentioned this in the past.

To the extent that Australia and New Zealand can increase the efficiency of their industries as a result of the free-trade area, the greater will be the participation in world trade. The promotion of a faster rate of economic development which we expect to result from the free-trade area will not only facilitate the growth of mutual trade but will also lead to an increasing demand for imports from all sources and thus contribute to the expansion of world trade.

Although there are many reasons why free trade between Australia and New Zealand is a logical development and there are of course great advantages for both countries and for world trade generally in such a development, a free trade agreement between Australia and New Zealand poses some serious problems.

These problems mainly arise from the particular stage of industrial development reached in both countries and from the difference in the level of industrialization.

Of course, neither Australia nor New Zealand is an industrialized country in the usual sense. Both depend heavily on agricultural products for their export income. Neither New Zealand nor Australia, individually, has the large domestic market necessary for the rapid development of an industrial economy. While Australia is not an industrially developed country when compared with the industrialized countries of Europe and North America, it has a wider range of industries and a more developed industrial complex than does New Zealand. In New Zealand we often say that Australia is twenty years ahead of us in the field of industrial development. The actual number of years might not be exact but the difference is of this order.

Without adequate safeguards in an agreement establishing a free trade arrangement, such an arrangement with Australia could inhibit either country's - but particularly New Zealand's - industrial development and defeat the objectives of the Agreement.

Initially not all the trade between the two countries is covered - the 60 per cent that is in the arrangement is the average percentage for the June years 1962/63 and 1963/64.

This percentage of the total trade is considerable, and the Agreement provides for extension to the commodity coverage which will increase the percentage.

Article 3(3) of the NAFTA provides for annual reviews (the first, two years after the entry into force of the agreement) with the objective of the inclusion of additional goods in Schedule A to the Agreement. The aim of these reviews shall be the progressive listing in Schedule A of "all goods which enter or which might enter into the trade of either member State, except those which would be seriously detrimental to an industry in the territory of either member State or would be contrary to the national interest of either member State ....".

The initial limitation of the commodity coverage and the provisions relating to its extension are vital to a country like New Zealand, which is undoubtedly less industrialized and which must rectify its present economic vulnerability and its "excessive dependence on a relatively small number of primary exports".

The CONTRACTING PARTIES will have read the Agreement and I will not now spell out in detail all its remaining provisions. However, I think that the following comments could be helpful to the Council.

There is provision under Article 9 for action to be taken where goods are being imported in such increased quantities and under such conditions as to cause or to threaten to cause serious injury to producers of like goods in the other country. In a case of this kind the Agreement can be suspended to the extent and for such time as is necessary to prevent the injury. This of course is only an emergency measure designed to allow a breathing space where an industry is suffering serious damage as the result of a sudden and large increase in competitive imports and follows the provisions (and the wording) of Article XIX of the General Agreement.

There is provision under Article 8 for the temporary suspension of the provisions of the Agreement relating to the elimination of import duties where this is necessary for the purpose of encouraging new industrial activity.

Such a provision is required to ensure balanced industrial development within the area. It will not be used lightly and only after consultation with the other party. It can apply only to a small percentage of the trade at any one time. In addition, items suspended temporarily under this Article are subject to a specific time-table for the phasing out of the duties imposed.

Article 7 covers deflection of trade caused by different levels of duties on components and materials used in the production of the goods concerned. This is a provision which has been found necessary in other free trade arrangements.

The circumstances surrounding each free trade arrangement are different.

Article XXIV of the General Agreement does not spell out in detail what is considered to be a free trade area in terms of the Article. To have drafted the Article with a set of detailed criteria would have been both undesirable and very difficult - and in their wisdom those who were responsible for preparing the text of the General Agreement no doubt foresaw that each regional trade grouping would have to be considered in the light of the particular circumstances and provisions of the arrangement.

I also note that the first GATT working party to consider a customs union ended its report of 18 May 1949 with the conclusion that "consideration by the CONTRACTING PARTIES of proposals for customs unions would have to be based on the circumstances and conditions of each proposal".

Since that time each customs union or free trade area has been considered individually within the general terms of Article XXIV.

It has been accepted in the GATT that New Zealand and Australia cannot be classified either as industrialized or less-developed countries. We trust that in the examination of the Free Trade Agreement contracting parties will, as in the past, take fully into account the special circumstances of the levels of economic development and trading position of both countries.

New Zealand and Australia consider that the Free Trade Agreement is an interim arrangement leading to the formation of a free trade area as envisaged in Article XXIV.

We expect that the Council will wish to adopt the procedures of the past. We would, therefore, suggest that a working party be established to examine, in the light of the relevant provisions of the General Agreement

on Tariffs and Trade, the provisions of the New Zealand-Australia Free Trade Agreement, and to report to the CONTRACTING PARTIES. Also, before the working party meets, New Zealand and Australia would be ready to answer questions submitted by contracting parties so that the working party can begin its work with a document which, in setting out the questions and answers, provides elucidation and explanation of the Agreement.

I can assure the CONTRACTING PARTIES that we will be most willing to provide any information or assistance we can to help the working party carry out its examination.