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GENERAL AGREEMENT ON
TARIFFS AND TRADE

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 conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/50); (b) the Executive Board Decision taken at the conclusion of the International Monetary Fund's consultation with New Zealand in May 1965 (Annex I hereto); (c) background material provided by the International Monetary Fund, including a paper on recent economic developments in New Zealand, dated 8 October 1965; and (d) the New Zealand licensing schedule for the year 1965-66 (L/2442).

2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 26 October 1965. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the 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 was as follows:

> "The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision and background material from its last consultation with New Zealand under Article XIV of the Fund Agreement. The Fund has also provided a supplementary paper dated October 8, 1965 to supply background information on recent developments.
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> "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 Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 19, 1965, taken at the conclusion of its last consultation with New Zealand, and particularly to paragraph 5 which reads as follows:

'The Fund welcomes the steps taken to liberalize restrictions, including the recent relaxation of restrictions on imports for 1965/66. The remaining restrictions, however, still cover a large part of trade and payments. The New Zealand authorities have stated that restrictions are maintained on balance of payments grounds. The Fund recognizes that the balance of payments and reserve positions prevent the immediate removal of restrictions but believe that continued reliance on them has adverse effects on the allocation of resources and on industrial efficiency. The Fund believes that New Zealand should follow policies designed to strengthen the balance of payments position and thus provide the basis for a progressive reduction in restrictions.'

Since that time there has been a continuing deterioration in the reserve position. On September 15, 1965 net overseas assets of the banking system, at £NZ64 million, were £NZ25 million below mid-September 1964. The general level of restrictions of New Zealand does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund invites attention to the decision taken at the conclusion of its last Article XIV consultation with New Zealand. The Fund has no additional measures to suggest at this time."

Opening statement by the representative of New Zealand

4. In his opening statement, the full text of which is contained in Annex II to this report, the representative of New Zealand pointed out that since the Committee consulted with New Zealand in November 1964 there had been an adverse change in the country's balance of payments. Export earnings had shown a sharp drop while the imports had continued at a high level. The lower level of export earnings and the consequent strain on the net overseas assets of the banking system had continued throughout 1965. Those developments reflected the highly vulnerable nature of New Zealand's export trade.

5. After an export income of NZ£387 million in the previous year, export earnings in the year to June 1965 dropped NZ£15 million or 4 per cent, to NZ£372 million. Over the same period, payments for imports increased by 3 per cent after a record increase of 18 per cent in the previous year. The strong character of that rising trend was even more evident in the payment figures for the third quarter of 1965 which had been running at an annual rate of around NZ£50 million higher than a year earlier. Also of concern to his Government was the steadily growing net deficit on current invisible transactions which had increased by NZ£6.1 million in the year 1964/65. For the year ended June 1965, New Zealand had incurred a deficit of NZ£27.1 million on all current transactions, following a surplus in the previous year of NZ£2 million. Over the past eight years New Zealand had borrowed externally or drawn upon reserves to the extent of NZ£140 million - or at an average rate of NZ£18 million a year.

6. At 1 September 1965 the net overseas assets had amounted to NZ£66.6 million, 23.4 million lower than the same time one year earlier. In view of the fluctuations in prices for New Zealand's export produce and the seasonal pattern of its trade, it was necessary for New Zealand to maintain a relatively high level of overseas reserves. The present level was considered unsatisfactory. The Government was nevertheless determined to avoid resorting to the introduction of new import restrictions and had announced that it intended to make a formal request for New Zealand's first drawing from the International Monetary Fund to support the balance of payments.

7. It would appear that the prices for New Zealand's main export products were unlikely to change substantially during the coming year and that New Zealand's total export earnings would show a small rise above the 1964/65 level. Wool production was expected to increase by approximately 4 per cent and a small rise was forecast for the average price for 1965/66. With the prospect of meat prices continuing at the present level and increased production, meat export receipts should show a slight rise for the 1965/66 season. Production of butter and cheese should increase in the coming season but prices were unlikely to reach the previous season's average. No significant variation was therefore to be expected in export receipts for dairy produce in 1965/66. Although every effort was being made to diversify New Zealand's export markets by seeking out opportunities to sell in other parts of the world, the main determinant of New Zealand's ability to expand its export receipts will be the level of economic activity, and access permitted to the markets, in the industrial countries.

8. His Government had aimed during 1965 to reduce internal demand in order to counteract inflationary pressures and ensure a steady rate of economic growth. It recognized the importance of continuing the trend towards freer importing and had consequently sought to safeguard the balance of payments by reducing the level of internal demand and promoting the expansion of export industries. The June 1965 budget had, *inter alia*, introduced restrictive controls over the building and construction industry and laid the foundation for a tight monetary policy. It had continued incentives and introduced new ones for agriculture, fishing, tourism, forestry and mining which were industries whose development would strengthen the country's future balance-of-payments position. In August 1965 the Government had announced further measures to curb internal demand, including deferment of less essential Government expenditure and of certain large scale commercial building projects, an obligation for trading banks to reduce the level of bank advances and the tightening up of hire purchase regulations. A tax scheme to encourage farmers to even out the fluctuations in their incomes had also been put into effect as a part of the programme.

9. The major change in the 1965/66 licensing schedule had been the further liberalization of the import licensing system. Ninety additional items had been exempt permanently from import licensing as from 1 July 1965. They represented imports currently valued at NZ£45 million and brought the total value of exempt items up to about one third of the total import trade. It had also been decided to raise the maximum possible entitlement of licences under category "A" for any individual importer from 100 per cent to 133 1/3 per cent of the 1964/65 licence level.

10. In conclusion the representative of New Zealand said that these further steps in the liberalization of the import licensing system were reflected in the recent substantial rise in New Zealand's imports. The primary products on which his country depended for its export income were subject to wide and sudden price fluctuations. A rapid decline in exchange reserves was, therefore, always possible. The long-term export prospects were furthermore prejudiced by import restrictions on temperate agricultural products in many of the world's major markets. The Government fully recognized that continued economic development was dependent on the availability of imported raw materials and equipment and the country would continue to import goods and services up to the full limit permitted by export earnings. It was to be hoped that increased export earnings would allow a continuation of the trend towards freer importing.

Balance-of-payments position and prospects

11. A member of the Committee said that it was quite clear from the information supplied that New Zealand suffered from an overheating in its economy and a continued deterioration in its trade balance. It seemed, however, that there was some hope for a recovery. The figures for the trade between his country and New Zealand showed, for the last few years, a large export surplus on New Zealand's side; his country's exports to New Zealand amounted to about one tenth of its imports from there. There was obviously no likelihood of a balance being reached, but a certain reduction of the deficit should be possible. His country was primarily interested in the export of consumption goods to New Zealand, and he expressed the hope that the import conditions would improve in the coming year.

12. Some members thought that in this consultation the Committee would wish to pay regard to the willingness and intention expressed by New Zealand of making a formal request for New Zealand's first drawing from the International Monetary Fund to support the balance of payments. Similarly, note might be taken of the indication given by the New Zealand authorities earlier in the year that the easement of import control at that time was intended to be permanent. It was a matter of satisfaction that New Zealand, in present circumstances, intended to avoid resorting to the introduction of new import restrictions and that, conditions permitting, it intended to press on with measures of liberalization.

Alternative measures to restore equilibrium

13. A member of the Committee pointed out that the domestic demand level had remained high. The Monetary and Economic Council, an independent body appointed by Government, had recommended that the Government reduce expenditure and raise interest rates and taxes. It had also recommended that the Government completely abolish import controls over a period of time. Note was also taken, arising from the statement for this consultation by the International Monetary Fund concerning alternative measures to restore equilibrium, of the belief of the Fund as expressed in the decision taken at the end of the last Article XIV consultation with New Zealand that "domestic financial policies, including fiscal policies, should take account of the need to avoid undue pressure on resources and to secure stability of costs and prices."

14. In reply to a question put by a member of the Committee on the prospects of maintaining stability through monetary and fiscal measures, the representative of New Zealand said that it was the aim of the Government to ensure a steady rate of growth, but in view of the violent fluctuations in export income it was a difficult task. The problem was tackled at its source: there were stabilization schemes for dairy products, meat and wool, which in varying degrees insulated farm incomes from changes in export prices. A new measure introduced in 1965 was the tax scheme to encourage farmers to equalize their income over a period of years, which he had mentioned in his opening statement.

15. In reply to a question about the efforts being made to diversify industrial and agricultural production, the representative of New Zealand said that the steel works on the North Island were expected to start production in 1967. In so far as the aluminium production was concerned, the hydro-electric power station essential for the project was being built. The nylon industry had commenced production. The necessity of broadening the base for the domestic industry was continuously kept in mind. He also drew attention to the various incentives for the expansion of industries which were earners of foreign exchange.

16. The New Zealand representative said, in reply to a question about the attitude of his Government to the abolition of import controls, that steps in that direction were being taken. The number of liberalized items had recently been doubled, which should be a sign of the goodwill and determination of his Government. The progress must, however, be gradual. A reverse action, resulting from premature measures, would prejudice the successful implementation of this policy.

System and methods of restrictions

17. A member of the Committee asked for import figures broken down according to the separate licensing categories. The representative of New Zealand explained that the import statistics were not arranged in such a way that they could be broken down in licensing categories. He gave, however, the following figures for the total imports split up in four main groups:

IMPORTS BY AUTHORITY TO IMPORT

NZ£ ('000) c.i.f.

	Government Imports*	No-Remittance Scheme	Exempt from Licence	Licensing Schedlues	Total Imports
Year ended					
June 1963	24,955	7,216	39,670	215,694	287,535
June 1964	27,068	7,645	54,024	252,859	341,595
Eleven months ended					
May 1965	27,638	10,391	53,165	230,389	321,583

*"Government Imports" are those made directly by Government Departments.

18. A member of the Committee pointed out that the basis for the granting of licences varied very much from category to category, as could be seen from section 2 of BOP/50. He suggested that a harmonization would be to the advantage of both exporters and New Zealand importers. The representative of New Zealand explained that the general objective behind the creation of several licensing categories was to provide for different types of goods with different characteristics. Against that background it would be difficult to conceive a harmonization of the basis for the granting of licences.

19. In reply to a question about the provisions regarding import restrictions in the newly concluded Australia/New Zealand Free Trade Area Agreement, the representative of New Zealand pointed out that the text of the Agreement was just being circulated to contracting parties. He suggested that the question could be discussed in connexion with the examination of the Agreement by the CONTRACTING PARTIES.

20. A member of the Committee drew attention to the difficulties of new importers under a licensing system. The member also urged New Zealand to simplify its import control system and relax restrictions as there was improvement in the balance-of-payments situation. The representative of New Zealand pointed out that a "new importers" scheme had been created as was explained in BOP/50. If the first experiences of the scheme were satisfactory, consideration would be given to its extension to a wider area than that of the present trial period, thereby increasing the value of licences issued to "new importers".

21. A member of the Committee said that a considerable part of the exports of his country to New Zealand fell in the token licence category. There was widespread interest in the possibilities to increase imports in that category. The New Zealand representative replied that the token licences were aimed at ensuring a wide choice of goods, although in limited quantities. It was thus also a way to maintain continuity in trade relations. A choice had to be made and certain goods subject to more restrictive licensing. Certain countries might of course be more severely affected by the system than others. The restrictions would, however, be alleviated as soon as the balance-of-payments situation permitted.

22. Interest was expressed as to whether licences for commodities in category "D" were issued at least up to the token import level. Concerning the relationship between category "D" and token licences, the representative of New Zealand explained that those two categories were not mutually exclusive. Token licences were granted for some "D" items.

Effects of restrictions

23. In connexion with the New Zealand system of import restrictions, some members of the Committee wondered whether a contracting party could invoke the need to safeguard its balance of payments in order to prohibit imports of a product which was also manufactured by a national undertaking. In the opinion of those members, such a measure was not in conformity with the provisions of Article XII:1, which

only provided for import restrictions in order to safeguard a country's external financial position and hence did not authorize total prohibition of imports. Moreover, under Article XII, paragraph 3(c)(ii), contracting parties applying restrictions under the Article referred to undertook not to apply restrictions so as to prevent unreasonably the importation of any description of goods in minimum commercial quantities the exclusion of which would impair regular channels of trade. They did not contest a country's right to protect its infant industries during a certain period. Such a period should cover only the time required for those industries to become competitive and an industry which was already competitive should not benefit. In no case could they agree to such protective measures constituting complete import prohibition. In their opinion, the prohibition was not in conformity with the provisions of the General Agreement. They quoted the case of the importation of sheet glass, classified under import licensing item code 66.21. In 1960-62 all licence requests were granted, but since then the licensing had gradually become more restrictive until the item was put in category "D" on 1 July 1965. That meant that import licences could be granted for that product but only in exceptional circumstances. Since that measure had been taken, their exporters had no longer been able to obtain from the New Zealand authorities the licences required for the importation of that product into New Zealand. Attention was also drawn to the fact that sheet glass had been bound under GATT. The New Zealand measure mentioned above nullified the value of that binding. The measure had been taken in order to protect a producer which had proved himself to be fully competitive. For the reasons mentioned above these members asked the representative of New Zealand to request his authorities to open a token quota for that product.

24. The representative of New Zealand said that a country which applied quantitative restrictions for balance-of-payments reasons had inevitably to make a choice between various possible allocations of the available foreign exchange. It was natural that the foreign exchange available should in the first place be used for imports of products which were not manufactured locally. Article XII:3(b) certainly gave a contracting party the right to decide on the incidence of the restrictions. It was generally recognized that the restrictions did have incidental protective effects. It was, however, the long-term policy of the New Zealand Government to rely on tariffs, as the protective measure. As regards the specific case of sheet glass, with expanding domestic production the need for imports had diminished and this was reflected in the change in the licensing provisions for this Article. He would, however, bring the request for token licences for sheet glass to the attention of his Government.

25. It was pointed out by one member of the Committee that the reasoning in the case of sheet glass could equally be applied to all other items on the "D" list. He asked that the importance of granting token licences for all such products should be brought to the attention of the New Zealand Government. The representative of New Zealand undertook to do so.

General

26. The Committee thanked the representative of New Zealand for his clear and comprehensive opening statement and for his contribution in the ensuing discussion. The Committee hoped that fiscal and monetary measures taken by New Zealand would result in a dampening of inflationary pressures and ensure a steady rate of economic growth. Further it was the hope of the Committee that continued diversification of industrial and agricultural production would result in increased exports and form the basis for further import liberalization.

27. The Committee expressed understanding of the difficult decisions which arose for New Zealand in view of the fluctuations of export income and expressed their appreciation of the measures that New Zealand had taken in the past year towards liberalizing her import system. In the field of monetary and fiscal policy, the Committee welcomed the measures currently being taken to restore equilibrium and the increased emphasis on these measures to lay the foundation for a healthy balance of payments.

28. The representative of New Zealand thanked the Committee for their understanding and co-operation in the course of the consultation and gave an assurance that points raised by members of the Committee would be brought to the attention of his Government.

ANNEX I

International Monetary Fund Executive Board Decision Taken on 19 May 1965 at the Conclusion of the Fund's Consultation with New Zealand

1. The Government of New Zealand has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Domestic expenditure, which increased by 9 per cent in money terms in the year ended March 1964, has continued to rise substantially; a rise in fixed capital formation has been a prominent feature of the expansion. Demand has been stimulated by the increase in farm incomes following a rise in the prices of many of New Zealand's main export commodities in 1963 and the early part of 1964. Pressure on the labor market intensified in the past year and the number of vacancies greatly exceeded the declining number of registered unemployed. Wage rates rose by about 6 per cent in 1964 and consumer prices increased by 4 1/2 per cent between the last quarters of 1963 and 1964.

3. In their efforts to keep inflationary pressures in check, the New Zealand authorities have imposed firm restraint on bank credit; advances and discounts of the trading banks were about 3 per cent higher in December 1964 than a year earlier. Government expenditure rose by about 9 per cent in the year ended March 1965, and revenue increased by 12 per cent, much more than had been expected; the deficit before borrowing declined to £NZ 44 million in 1964/65 from £NZ 54 million in 1963/64. In order to curb excess liquidity, the Government borrowed more in 1964/65 than was needed to finance this deficit. The Fund believes that domestic financial policies, including fiscal policy, should take account of the need to avoid undue pressure on resources and to secure stability of costs and prices.

4. Export receipts rose from £NZ 356 million in 1963 to £NZ 393 million in 1964 as a result of an increase of over 8 per cent in export prices, combined with some increase in the volume of sales abroad. However, as a consequence of the rapid expansion in domestic activity, import payments also rose sharply; since the middle of 1963 payments for private imports have been running at an annual rate

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close to £NZ 300 million. The current account was in approximate balance in 1964. At the end of March 1965 the net foreign exchange reserves of the banking system totaled £NZ 80 million against £NZ 83 million a year earlier.

5. The Fund welcomes the steps taken to liberalize restrictions, including the recent relaxation of restrictions on imports for 1965/66. The remaining restrictions, however, still cover a large part of trade and payments. The New Zealand authorities have stated that restrictions are maintained on balance of payments grounds. The Fund recognizes that the balance of payments and reserve positions prevent the immediate removal of restrictions but believes that continued reliance on them has adverse effects on the allocation of resources and on industrial efficiency. The Fund believes that New Zealand should follow policies designed to strengthen the balance of payments position and thus provide the basis for a progressive reduction in restrictions.

6. In concluding the 1964 consultation, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.

ANNEX II

Opening Statement by Representative of New Zealand

Introduction

The report on New Zealand's balance-of-payments position, submitted to this Committee in November 1964, presented a favourable picture of the New Zealand economy. Increased export earnings in 1963 and 1964 were matched by a steep rise in expenditure on imports which was reflected in a rise of 6 per cent in the volume of output. The current account was in approximate balance for the year ended June 1964. Since that time there has been an adverse change in the country's balance of payments. Export earnings have shown a sharp drop while the rate of importing has continued at a high level. Faced with this situation the Government has found it necessary to take measures to restrain the demand for imports during the 1965/66 year.

Members of the Committee will have received copies of the supplement to the report prepared by the staff of the International Monetary Fund on the 1964 Article XIV consultations with New Zealand. The report, which was distributed on 17 May 1965, gives a concise analysis of the economic developments in New Zealand during the first quarter of 1965. The lower level of export earnings and the consequent strain on the net overseas assets of the banking system, as revealed in this survey, have continued throughout the year. These developments reflect the highly vulnerable nature of New Zealand's export trade. Well over 90 per cent of our export receipts are earned by the sale of primary produce, predominantly wool, meat and dairy products and prices for these commodities are notoriously volatile. For example, New Zealand's earnings from wool, which in the 1963/64 year represented some 35 per cent of total export income, dropped by nearly one quarter in the 1964/65 year.

Foreign exchange position

After an export income of £387 million in the previous year, export earnings in the year to June 1965 dropped £15 million or 4 per cent, to £372 million. Receipts for wool dropped by £30 million, and for butter and cheese by £1.5 million; these losses were partly made up by moderate increases of £7 million for meat and £9 million for other exports.

Over the same period, payments for imports increased by 3 per cent after a record increase of 18 per cent in the previous year:

Payments for Imports

	June Years		
	1963	1964	1965
Government	25.5	29.2	32.8
Private	247.3	293.2	297.9
	272.8	322.4	330.7

Provisional figures for payments show that private imports during the first nine months of 1965 totalled £231 million, compared with £218 million for the same period in 1964. Payments for Government imports reached a total of £29 million during the first nine months of 1965, £5 million more than in the previous year. The strong character of this rising trend is even more evident in the payment figures for the third quarter of this year which were running at an annual rate of around £50 million higher than a year earlier. As in other years, the greatest increase in demand has been for machinery and transport items.

It should be noted here than expenditure on items exempt from import restrictions totalled £59 million, compared with £48 million in the year ended June 1964; this represents 17 per cent of total private imports. As I shall explain in a moment, steps have since been taken to liberalize further the import licensing system.

Also of concern to the Government is the steadily growing net deficit on current invisible transactions which increased by £6.1 million in the June year 1964/65:

Deficit on Current Account Invisibles £NZ(m)

June Years	Net Deficit on Invisibles	Annual Increase
1958	30.6	8.2
1959	38.4	7.8
1960	42.0	3.6
1961	48.0	6.0
1962	54.0	6.0
1963	57.4	3.4
1964	62.4	5.0
1965	68.5	6.1

This deficit reflects increases in expenditure on freight and transport, insurance and travel, as well as the remittance of investment income and interest on external debt. Receipts from these items have failed to show the same upward trend and the deficit is expected to rise again this year.

For the year ended June 1965, New Zealand incurred a deficit of £27.1 million on all current account transactions. This followed a surplus in the previous year of £2 million:

Balance on Current Account — £ million

June years	Surplus	Deficit
1958		77.1
1959	12.8	
1960	29.5	
1961		67.0
1962		18.6
1963	5.6	
1964	2.0	
1965		27.1
	49.9	189.8

These figures are derived from the foreign exchange transactions of the New Zealand banking system. The true current account deficit is, however, slightly larger than the banking figures indicate owing to such considerations as imports which are not currently paid for an the accumulation in New Zealand of the proceeds of foreign investment.

These figures demonstrate that over the past eight years New Zealand had borrowed externally or drawn upon reserves to the extent of £140 million - or at an average rate of £18 million a year. During this period the New Zealand Government has raised loans overseas totalling £127 million - £75 million from the United Kingdom and £52 million from the United States and the World Bank. We also have development loans under consideration by the World Bank, totalling provisionally some £55 million, for railways, electric power, agriculture and a steel industry.

The overseas reserves of the New Zealand banking system have shown little consistent increase over recent years. The following figures reveal the seasonal nature of the rise and fall of reserves which is due to the high rate of exporting from December to May and the accelerated importing towards the close of the year:

Overseas Reserves of the Banking System — £NZ million

	June	December
1957	113.1	45.5
1958	52.9	55.1
1959	100.7	87.6
1960	118.7	66.0
1961	52.0	49.1
1962	73.4	61.1
1963	95.7	60.4
1964	101.1	63.9
1965	80.4	

As I have indicated already, private imports have continued to rise in response to the higher level of internal activity which has not yet become adjusted to the lower level of overseas earnings. At 1 September, the net overseas assets amounted to £66.6 million, £23.4 million lower than the same time last year. Because of the normal seasonal pattern in the rise and fall of reserves, this figure can be expected to fall further towards the end of the year. In view of the fluctuations in prices for New Zealand export produce and the seasonal pattern of our trade, it is necessary for New Zealand to maintain a relatively high level of overseas reserves. Even with the addition of the Treasury holdings of overseas securities, standing at £30 million, the present level of reserves is considered unsatisfactory. The Government is nevertheless determined to avoid resorting to the introduction of new import restrictions and has consequently announced that it intends making a formal request for New Zealand's first drawing from the International Monetary Fund to support the balance of payments.

Export prospects

It is too early to attempt a forecast of the reserves at June 1966 since the figure could be affected by external borrowing. Experience has shown us, too, that it is difficult to make reliable forecasts of future price trends for our principal export products. In general, however, it would appear that prices are unlikely to change substantially during the coming year and that New Zealand's total export earnings will show a small rise above the 1964/65 level.

Wool production in the coming year is expected to increase by approximately 4 per cent and nearly 3 million more sheep are being wintered this season. Prices for wool since July 1965 indicate a slight recovery from last season and a small rise is forecast for the average price for the 1965/66 June year.

Total meat production in the 1964/65 meat season declined by 3.5 per cent, compared with the previous season. Beef production fell 11.3 per cent in this period. This was the result of droughts and feed shortages in the previous season. Since then, however, livestock numbers have increased by an estimated 3.5 per cent and production in the 1965/66 season should be considerably higher. Despite the lower production level, meat exports receipts last season rose 7 per cent, largely as a result of the continued shortage of beef in Europe which led to higher beef prices and associated rises in the price of lamb and mutton. With the prospect of prices continuing at the present level and increased production, meat export receipts should show a slight rise for the 1965/66 season.

After rising to 350s. per cwt. in October 1964, the wholesale price of New Zealand butter on the London market declined during the first half of the year falling to 322s. per cwt. by June 1965. This fall in price reflects in part the rising production and the static or declining consumption of butter in Europe this season. Export earnings from butter during the last season declined very slightly owing to a reduction in the quantity available for export. Production of butter, and cheese, should increase this season, but prices are unlikely to reach last season's average; we therefore cannot expect any significant variation in export receipts for dairy produce this year.

Overall, there are indications that export earnings in 1965/66 will be slightly higher than in 1964/65.

As the above analysis shows the main factor that has limited New Zealand's rate of importing in the past has been the rate at which our export receipts have increased. Our capacity to further increase our imports will remain dependent on our ability to export at reasonable prices our increasing primary production. The main markets for the temperate farm products for New Zealand exports are in the major industrialized countries. Although every effort is being made to diversify our export markets by seeking out opportunities to sell in other parts of the world the main determinant of New Zealand's ability to expand its export receipts will be the level of economic activity, and access permitted to the markets, in the industrial countries.

Internal policies

The Government has aimed during 1965 to reduce internal demand in order to counteract inflationary pressures and ensure a steady rate of economic growth. A sharp increase in the level of national expenditure is straining our limited resources. Labour has become much too scarce and the present and prospective level of importing is placing too great a strain on the balance of payments. The Government nevertheless recognize the importance of continuing the trend towards freer importing and has consequently sought to safeguard the balance of payments by reducing the level of internal demand and promoting the expansion of export industries.

The 1965 Budget introduced restrictive controls over the building and construction industry, maintained current rates of taxation despite rising revenues and laid the foundation for a tight monetary policy. At the same time it continued incentives and introduced new ones for agriculture, fishing, tourism, forestry and mining. These industries can be expected to make a major contribution to New Zealand's long-term growth and development and, as earners of foreign exchange, to strengthen the country's future balance-of-payments position.

Because of the continuing high demand for imports and the increase in consumer spending, the Government announced in August further measures to curb internal demand. These included the deferment both of less essential Government expenditure and of certain large-scale commercial building projects; trading banks have been obliged to reduce the level of bank advances and the hire purchase stabilization regulations have been amended by tightening up on certain repayment terms; savings banks, insurance companies finance houses and stock and station agents, have agreed to increase their investments in Government securities and these funds are being withdrawn from circulation to the maximum extent possible.

In addition to these measures other related actions have been taken. A farm income equalization scheme has been put into effect enabling farmers to iron out fluctuations in their income by depositing up to 25 per cent of their assessable income in years of high income and withdrawing these funds in subsequent years. The Government has also placed continued emphasis on the encouragement of savings. Small private savings increased by almost 50 per cent during the last financial year and by 60 per cent in the first four months of this financial year. This development is a most encouraging feature of the present situation.

Import licensing system

Members of the Committee will have received copies of the basic documents which contain a detailed explanation of the current import licensing schedule and the recent changes made to it.

The major change in this year's schedule has been the further liberalization of the import licensing system. Ninety additional items were exempt permanently from import licensing as from 1 July 1965. This represents imports currently valued at £45 million and when added to existing exemptions brings the total value of exempt items up to about one third of our total import trade. The fact that the Government decided to liberalize imports to this extent, despite uncertainty regarding the future trend of export prices, underlines the importance we attach to relying less on quantitative restrictions as a safeguard for our balance of payments.

It has also been decided to raise the maximum possible entitlement of licences under category 'A' for any individual importer from 100 per cent to 133 1/3 per cent of the 1964/65 licence levels. Provisions for new importers make it possible for established businesses to obtain an import licence based on the c.i.f. value of 25 per cent of his annual average purchases of such imports. Measures have also been taken to allow importers greater freedom of choice and give them more flexibility to meet the actual requirements of their customers.

Conclusion

These further steps in the liberalization of the import licensing system are reflected in the recent substantial rise in New Zealand's imports to which I have already referred. While the Government's aim is to proceed steadily with the removal of import controls, we must remember that primary products, on which we depend for our export income, are subject to wide and sudden price fluctuations. A rapid decline in exchange reserves is, therefore, always possible and prompt action to check this is difficult because of the time lag between placing import orders and receiving goods. There is also the lag between reduction in export income and the translation of this into reduced import demand. It is true, too, that New Zealand's long-term export prospects are prejudiced by import restrictions on temporate agricultural products in many of the world's major markets.

The Government, nevertheless, fully recognizes that the continued economic development of New Zealand is dependent on the availability of imported raw materials and equipment and the country will continue to import goods and services up to the full limit permitted by our export earnings. The Committee will, we feel, appreciate that our present balance-of-payments situation prevents us at this stage from further relaxing our import restrictions. We hope that increased export earnings during the coming year will allow a continuation of the trend towards freer importing.