

1950
NEW ZEALAND

IMPORT LICENSING IN NEW ZEALAND: A REVIEW

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Presented to Both Houses of the General Assembly by Leave

1st November, 1950.

A. INTRODUCTORY

1. This paper outlines the basic features of the import licensing system operating in New Zealand and sets out some of the associated problems with which the Government had to deal on assuming office. Some of the material used herein is from reports to the Government by the Import Advisory Committee based on information obtained by the Committee in the course of its deliberations, but this paper is not a report from the Committee.

B. THE SYSTEM—GENERAL DESCRIPTION

2. Import licensing was introduced after the 1938 general elections to conserve overseas funds. Restriction of imports of some classes of goods encouraged and made possible production of similar goods within New Zealand. It then became Government policy to assist local manufacture by restriction of imports, the argument being that this course not only created employment and brought other benefits, but also conserved overseas funds for the purchase of essential imports. The system, therefore, has had two objectives, sometimes interdependent.

3. It is the policy of the present Government to abolish import control when possible, and it has already gone some distance in that direction. To the extent that import control is retained, the purposes will be to conserve overseas funds and assist local manufacturers, at least until the question of the adequacy or otherwise of present Tariff duties as a means of protecting local industries can be properly examined. In any such examination of Tariff duties it will be a further objective of the Government to maintain the policy of Imperial Preference.

4. The operation of import licensing depends upon the authority conferred by legislation upon the Minister and the Department of Customs. Each year—and usually towards the end of the year—there has been prepared and released to the public a Schedule containing a list of items covering all classes of goods and disclosing the decision of the Minister as to the basis upon which applications for import licences will be received and dealt with for the ensuing “licensing period.” This period (being the period of validity of a licence) has varied slightly, but has recently run from 1st January in one year until the 28th February of the following year—fourteen months. From the 1951 period, however, the periods are to be the calendar years to facilitate correlation between licences issued and available overseas funds. According to the circumstances, items in the Schedule may be (a) virtually excluded from importation—“D” items; (b) allowed to be imported only after close examination of each individual application—“C” or “control” items; or (c) allowed to be imported on a “basic allocation” dependent upon the previous “import history” of the applicant.

Group (b) involves the exercise of discretion in individual cases. Group (c) can be dealt with promptly as a matter of course with benefits in speed of administration and facility and foreknowledge for the trader. For the 1949 licensing period approximately 123,000 applications and appeals were made, of which about 44,000 were applications for basic allocations. Of the remaining 79,000 applications and appeals, 43,000 were granted and 36,000 declined—three-quarters of these cases being considered in departmental Head Offices in Wellington. About 12,000 cases were referred to the Department of Industries and Commerce for consideration.

5. The compilation of the Schedule and its various classes, groups of items, and types of “allocation” (if any), as above described, is a work undertaken by the Department of Customs in conjunction with other Departments, and particularly the Department of Industries and Commerce. The factors taken into account by the Departments include such matters as past imports, probable demand and overseas supply, local availability—actual or potential—and Government policy in relation to protection of industry or special and specific limitation of consumption of certain types of goods. For the 1951 Schedule the Government requested the Import Advisory Committee to consider the views of the Departments and trade organizations and recommend a Schedule. This was done, and the Committee’s recommendations were adopted.

6. In an endeavour to assess what may result from the policy embodied in any Licensing Schedule, the Departments compile what is known as a budget of estimated expenditure under licences to be issued under each item or sub-item. In actual practice, it has been found that licences—particularly for the more important items of expenditure—frequently exceed the budget estimate. This is mainly due to (a) the continued rise in prices, (b) increased availability from overseas, (c) the insistent pressure of local demand, and (d) unforeseen development of shortages in local production.

7. The release of the Schedule each year necessarily has embodied a virtual promise by Government to issue licences, and by implication the necessary overseas exchange, and so to permit over a long period ahead the importation of specified goods to a specified value. It also has implied—on the grounds of equity—that persons or firms who have been late in applying would, so far as practicable, have equal claims with those who in similar circumstances applied early.

8. It can therefore be said that this system of control has not been closely related to current overseas income. Owing to the availability of licences over a period of fourteen months, the system has not been able to ensure that the level of imports has been kept in close harmony with overseas income. The system has markedly restricted buying abroad only to the extent that classes of imports have been deliberately selected for limitation—usually those classes where substantial savings in overseas funds have been possible with minimum disruption to the economy.

9. With the change of Government and the subsequent appointment of the Import Advisory Committee, a serious attempt has been made to relax the controls as far as possible consistent with the estimates of available overseas funds. But an endeavour is also being made to make the licensing system an effective instrument for actually limiting the issue of licences to the funds expected to be available. One of the problems faced by the Government was that of changing the previous practice of issuing licences considerably beyond currently anticipated income in the hope that export receipts would continue to rise. Only the extraordinary increases in receipts from the export of wool during the last season avoided a breakdown in the licensing system. An attempt is now being made, in spite of considerable difficulty, to restrict licences in total to a figure within the anticipated income. This matter is referred to in more detail in paragraphs 25-27 below.

C. IMPORT ADVISORY COMMITTEE

10. In view of the urgent need to reform the import licensing system, the Government decided that it was imperative to give effect to its declared "Board of Trade" policy even before appropriate legislation could be submitted to Parliament. Accordingly, on 17th May, 1950, the Government appointed on a full-time basis an Import Advisory Committee to advise the Government on all policy matters relating to the administration of import licensing. The Committee is virtually an independent authority of four members under the Chairmanship of a former Supreme Court Judge. Of the other members, one was formerly managing director of a very large retail organization; one was the Permanent Head of the Department of Industries and Commerce; and one was the secretary of the New Zealand Manufacturers' Federation. The Government has referred many problems to the Committee and has been acting upon its recommendations. The Committee is the forerunner of the proposed Board of Trade.

D. COMPLAINTS AGAINST THE SYSTEM

11. Evidence was received by the Committee of a large number of complaints concerning the licensing system. The most fundamental of the complaints was one against the system itself. It was said that it was not sufficiently flexible and should be replaced by financial control exercised by the banks. (This point is dealt with in some detail in paragraph 12.) Substantial modifications of the system were also suggested—*e.g.*, the extensive grouping of items or the use of open licences. However, any such broad modification would leave to importers the selection of the classes of goods on which our overseas funds should be spent without any real check as to selective essentiality or any consideration of availability from local manufacture or other local supply. A position could rapidly develop under which essential supplies were short while available overseas funds had been exhausted on the purchase of goods of lesser value to the national economy.

12. The suggestions made to the Committee by some national trade associations that import control should be replaced by financial control exercised by the trading banks in effect meant changing from commodity control to purely exchange control. The proposals varied in detail, but in essence they implied that control would be transferred from the Government to the trading banks, acting in co-operation with the Reserve Bank. Exchange would be allocated to various commodities or groups of commodities in line with imports for, say, this year or last year, and responsibility would be on the trading banks to keep allocations of overseas remittances to their clients down to a level which might be set by the Reserve Bank. The Committee consulted banking officials, and it appeared doubtful whether the banks would wish to have the responsibility

of rationing exchange in present circumstances. The proposal appeared simply to mean replacing one form of control by another which would be less effective. Having regard to the competitive nature of banking business, it was thought that bank managers would be placed in an invidious position. The Committee advised the Government against adopting the proposals, for the following reasons :

- (a) Exchange control would not ensure a balanced importation of goods required for the economy of the country, nor would it adequately protect economic local industries. For these purposes, the authorities at present controlling import licensing have the most appropriate knowledge and experience.
- (b) A change-over from one system to another would involve some dislocation of business without any sufficient advantage.
- (c) It was doubtful whether the trading banks as a whole wished to have the responsibility of rationing exchange.
- (d) The progressive de-control of items was the best method at present of giving the maximum freedom to the importer within the limits of the availability of overseas funds and of local supplies.

13. Many of the other complaints were interrelated, but the main complaints may be summarized and commented upon as follows :—

(a) Complaint :

Many items should have been freed from control in past years.

Answer :

This seemed justified, and the Licensing Schedule remedied the position from 1951 as to 326 items. Since this was done, 5 more items have been de-controlled. These 331 items have been de-controlled in the light of the following main considerations : (a) the probable effect of de-licensing upon overseas expenditure for such goods ; (b) their relative essentiality in the national economy ; (c) their relationship to local manufacture or supply.

(b) Complaint :

Licences should be interchangeable to a greater degree than has been the case.

Answer :

This complaint covers two matters : (1) interchangeability between countries, and (2) interchangeability among the items of the import Licensing Schedule. The first matter is now provided for in the Licensing Schedule under the non-discrimination provisions, with limitations only on currency grounds. The second matter has been met by de-controlling a large number of items. It is considered that where control remains there is good reason for this in respect of each item and interchangeability of the second class would weaken the control still considered necessary.

(c) Complaint :

The licensing system has not controlled imports effectively for the conservation of overseas funds.

Answer :

This is true up to a point. The Import Advisory Committee has taken steps to ensure that the limits upon the allocations in the present budget are not exceeded by the Departments. The Committee has also taken steps to introduce adequate statistical services which will enable the Committee to keep a close watch on the issue of licences month by month. The full effects of this action will not be apparent for some months, and meantime the difficulty of insufficient and out-of-date statistical information hampers the Committee's work.

(d) Complaint :

Uneconomic industries are being protected.

Answer :

This complaint can only be dealt with by a detailed investigation of each industry concerned in which all the proper parties are heard. The Government proposes that this will be one of the major functions of the Board of Trade.

(e) Complaint :

Established traders have not had a sufficient proportion of the licences granted.

Answer :

Licences were originally based on the 1938 imports. This basis necessarily involved anomalies and some unfairness. The issue of licences to new traders created further anomalies. Attempts to remedy these created still further anomalies. These difficulties are adherent in any system of import control. The Committee, in consultation with the appropriate Departments, has instituted principles for the determination of applications and made recommendations which should tend to remedy some of these anomalies. The question of anomalies is dealt with in detail later in this review.

(f) Complaint :

(i) Insufficient licences have been issued for the establishment of new businesses.

Answer :

This is true, but the comments under (e) to some extent apply. It is difficult to decide in what circumstances new applicants should be granted licences.

Complaint :

(ii) Licences have been issued to persons who did not have a sufficient claim.

Answer :

The Customs Department and the Department of Industries and Commerce claim that their decisions have been soundly based within policy, though it does appear, upon such evidence as the Import Advisory Committee has so far seen, that some licences have been granted which have been the cause of considerable dissatisfaction and have been unjustified and inequitable.

(g) Complaint :

The 1938 basis is still reflected to too great a degree in the issue of current licences—both as to licensees and to the value of the licences.

Answer :

Remarks under (e) and (f) apply here. Figures given in the seven Appendices to this report indicate the treatment given to 1938 importers compared with new entrants into particular fields of imports and give some indication of the anomalies which have arisen under the system.

(h) Complaint :

The granting of Rehabilitation licences has been, in some cases, unfair to the established trader.

Answer :

This complaint could only be satisfactorily determined by examination of individual cases. In so far as this complaint affects applications for licences coming under review in the future, the Import Advisory Committee is taking such action as is appropriate in each case. The Government adopted recommendations from the Import Advisory Committee designed to tighten up the system of issuing licences on rehabilitation grounds.

(i) Complaint :

There has been "trafficking" in licences—which has involved additional costs to consumer.

Answer :

"Trafficking" may be described as the sale or other disposition of a licence as valuable property, without the rendering of any adequate service by the holder of the licence in return for the remuneration which he requires. "Trafficking," as described, is not unlawful, and many genuine traders have found it necessary to acquire licences by this method, although costs to the consumer have thereby been increased. The only complete remedy would be the de-controlling of all the items affected, if that were practicable. The Import Advisory Committee has taken action which will reduce the amount of "trafficking" in licences. A special reference to "trafficking" is made in paragraphs 21-23 below.

(j) Complaint :

Political influence has resulted in "out of line" licences.

Answer :

An "out of line" decision is regarded as one which is not consistent with other decisions upon similar applications. The Import Advisory Committee reported to the Government that it had received complaints that such decisions had been made and that some of them were apparently due to political influence. The Committee did not consider that a useful purpose would be served by engaging in a detailed inquiry into particular cases except in so far as the consideration of any future application might make this desirable.

(k) Complaint :

The administration of the system has caused undue delay.

Answer :

This is true, and one of the duties of the Import Advisory Committee is to endeavour to minimize the causes of this complaint. When the drastic changes which have been made to the system by the Government are working smoothly, the grounds for this complaint should be greatly reduced. Nevertheless, some delays, often involved by investigations both in New Zealand and overseas, are inevitable in the effective administration of any system of licensing. Meantime, some of the changes already introduced into the system are resulting in delays in respect of certain types of applications, but this situation is temporary and should not recur in future licensing periods. The elimination of licensing in relation to the 331 de-controlled items has already materially improved the position, and represents a great benefit to the business community.

(l) Complaint :

The administration of the system by the Departments concerned has not been satisfactorily co-ordinated.

Answer :

The Import Advisory Committee considered that co-ordination between the Departments could be improved, and steps have been taken to achieve this end.

(m) Complaint :

Reasons have not been given for adverse decisions.

Answer :

This is a difficult matter and the Government has instructed that reasons should be given where practicable, but the extent to which they can be given depends on the circumstances of each case.

(n) Complaint :

Statistics required for the administration are inadequate and seriously in arrear.

Answer :

This allegation was well founded, and steps have been taken to remedy the position.

(o) Complaint :

The method of dealing with appeals has not been satisfactory.

Answer :

The principal grounds of complaint were undue delays, no uniformity of decisions in comparable cases, and determination of an appeal by the officer or officers who had dealt with the original application. The Import Advisory Committee has endeavoured to remedy these defects. The immediate reference of particular applications to the appropriate Department for its recommendation and the regulation of procedure have reduced delay. Rules of guidance laid down by the Committee have made for uniformity of decisions, and a procedure whereby appeals must be dealt with at a higher level than the original application has ensured that an appeal should be effectively reviewed.

In addition, many appeals have in the past been dealt with by the Minister of Customs himself. The Government takes the view that, as far as possible, appeals should be considered and determined by a body which is substantially independent. The Government has accordingly arranged, as was announced when the Import Advisory Committee was appointed, that important appeals shall be determined by the Committee, and that the Minister of Customs will deal in detail only with appeals when a question of high policy is involved, and then only after the Committee has considered the appeal and the Department's report and has made its recommendation to the Minister. So far approximately 350 appeals have been referred to the Committee and in each case its recommendations have been adopted by the Government. When the Board of Trade is appointed, the policy now adopted will be continued.

(p) Complaint :

The Tariff description is unsuitable for some items in the Licensing Schedule.

Answer :

This allegation has been frequently made, but does not appear to be sound. The Licensing Schedule contains almost 1,000 items, compared with 449 in the Tariff, and it seems that, as far as practicable, the Schedule describes the items covered reasonably well.

(q) Complaint :

Decisions have been made without sufficient consultation with appropriate trade organizations.

Answer :

The Departments do consult trade organizations, though it is not clear that their consultation was always adequate or with all the appropriate organizations. However, to clarify the position the Import Advisory Committee made a recommendation, which the Government adopted, to ensure that this consultation takes place in future. Wherever practicable, the Departments are consulting national trade associations when considering local market supplies and the need for increased imports of particular classes of goods. Similarly, manufacturers are being given adequate opportunities (normally through their national associations) of presenting their views when consideration is being given to importing a higher volume of goods of a class made locally. Furthermore, another recommendation provided that the Committee would hear manufacturers when considering proposals to import goods of a class made locally. It is assumed that the Board of Trade will adopt a similar practice.

(r) Complaint :

Consideration of some applications has been deferred for an unreasonable lapse of time without notice to the applicant.

Answer :

This allegation has some foundation, and the Import Advisory Committee has arranged with the Departments that if decisions cannot be made promptly the applicant should be advised of the fact and the probable length of deferment, when the applicant may, if he thinks fit, reapply.

E. ADDITIONAL REMEDIES TO IMPROVE THE SYSTEM

14. In addition to remedies mentioned under the headings of the various complaints listed in the preceding section, the Government adopted a number of recommendations made by the Import Advisory Committee in a report to the Government last July designed to improve the system. Some of these related to—

- (a) *Principles for Basing Decisions.*—The Committee has had frequent consultations with the Departments of Customs and Industries and Commerce and has enunciated a number of principles which are designed to ensure equitable and uniform bases for decisions on applications and appeals considered by officers in those Departments.
- (b) *Major Applications.*—Applications involving major industrial development proposals, large amounts of overseas funds, or otherwise likely to involve high policy consideration are being submitted by the Department concerned to the Committee for discussion prior to determination.
- (c) *Rehabilitation.*—Applications for import licences on rehabilitation grounds are now being dealt with only after a recommendation has been made by the Director of Rehabilitation, and if there is any difference of viewpoint between the Departments concerned on any particular case the application is being referred to the Import Advisory Committee.
- (d) *Allocations for “ D ” Items and “ Above Basic ” Allocations.*—When it is proposed to issue licences (other than “ token ” licences) in respect of items notified as “ D ” in the Schedule, or when an additional general allocation is proposed for items on which a basic allocation was notified in the Schedule, adequate notice and equal opportunity—preferably by fixing a date before which decisions on applications will not be made—is now being given to all importers. This is to avoid a previous practice whereby certain importers gained unfair advantages over others when limited total licences were to be issued at short notice and later applicants with equal claims received no allocations.
- (e) *Demarcation of Functions Between Customs Department and Department of Industries and Commerce.*—Directives have been issued which make it clear which Department considers each item in the Licensing Schedule, and in all cases where the Departments disagree on the decision which should be made on a particular application the papers are referred to the Import Advisory Committee. The Departments also refer to the Committee applications and appeals of particular difficulty or significance.

F. CHANGES MADE IN 1951 LICENSING SCHEDULE

15. The Government announced substantial changes to the previous policy when the 1951 Licensing Schedule was published. The principal new features were—

- (a) *Decontrol* from licensing of 326 items from all “ non-scheduled ” countries—*i.e.*, from countries in the sterling area and most of the other soft-currency countries. In both number of items and over-all value this change affected about one-third of the licensed imports. This step alone relieved the trading community and Government Departments of a tremendous amount of work and enabled orders to be placed as desired without delays or permits of any kind.

- (b) *Non-discrimination* of licences issued other than for imports from the scheduled countries. This enabled traders to buy from the best source (within soft-currency areas) and facilitated restoration of pre-licensing trade connections in many parts of the world which was impossible under the former system. This change is not likely to diminish Great Britain's export trade, as it is a partial restoration of the multilateral international trading system on which Great Britain has based her foreign trade policy and which nations aim ultimately to restore. Unfortunately, the policy being followed by the Government, in harmony with that being followed by other Commonwealth countries, has not permitted any relaxation in the policy which limits imports from hard-currency (or "scheduled") countries only to those most essential to the national economy. The Government will relax this policy as soon as circumstances make this possible.
- (c) *Clear demarcation of the items* dealt with by the respective Departments. This change obviated the previous time-consuming necessity to inquire at more than one Department (with consequent confusion as to respective responsibilities) when inquiring about or making representations concerning applications.
- (d) *Release of the Schedule* by 1st August, compared with mid-October in the two previous years. This enabled traders to be aware of their basic allocations for a much more reasonable period ahead of the licensing year and greatly facilitated the placing of orders abroad—especially for seasonal goods. Up till mid-October, 1950 (the corresponding time to previous releases of Schedules), licences to the value of about £38·5 million had been issued, and when the value of the then 326 de-controlled items is added (£45 million), it will be seen that traders could place orders for approximately £83·5 million, whereas no licences for the following period would have been available by that date in the last two years.
- (e) *The licensing period* was altered to coincide with the calendar year. This was considered reasonable, having regard to the early issue of the Schedule and the opportunity afforded traders to spread their deliveries and avoid end-of-period rushes. The reason for the change was the necessity to budget very carefully the expenditure of overseas funds for licensed imports in the next year or two, and the calendar year basis gives a marked advantage in doing this.
- (f) *The base year* for most basic allocations for 1951 was "1950," so that in respect of nearly all basic licences for 1951 traders will receive the same value of licences as for 1950. In other words, licence values have been allowed on the level of the most recent trading. The year 1949 was chosen as the base year in a number of cases where the Import Advisory Committee proposed to review new licences granted in the 1950 period.

G. LICENSING ANOMALIES

16. The Import Advisory Committee has reported that it received extensive evidence on licensing anomalies when considering the reform of the licensing system a few months ago. Though many of the statements were in general terms, it was clear that the business community had been seriously concerned over decisions known to it which were considered unfair and inequitable. Since then the Committee has been examining in some detail the licensing of a few major items and has confirmed in regard to those items that there have been many anomalies in the past. This was understandable, as the Committee found there were no clear-cut principles enunciated for the Departments to follow in making decisions.

17. In the cases of motor-cars, crockery, and carpets, which the Committee examined in detail, the Committee called for returns from the Customs Department on all licences issued in 1949 and 1950, together with the amounts imported by 1938 importers. The Committee has also received similar statistics for watches, spirits, and pianos preparatory to inquiries it is making in regard to these commodities. In many cases the Committee called for full files. In the case of crockery, the Committee found there were two and a half times as many licensees in 1950 as there were importers in 1938, and for carpets there were three times as many. In the case of crockery, the newcomers, in total enjoyed nearly three-quarters of the total value of the licences held by 1938 traders, and for carpets about two-thirds. This confirmed the allegation of former importers that they have been grossly penalized compared with newcomers.

18. It has often been suggested facetiously, but not without an element of truth, that it appeared as though it were a handicap to have been in business in 1938 so far as import licensing of certain items is concerned. Typical examples are quoted in Appendices B to G. As mentioned above in paragraph 13 (e) and (f), it is not possible to avoid anomalies altogether, but it is considered that many could have been avoided in the past, and steps have been taken to minimize them in the future. It should be mentioned that many anomalies arose from licences granted in the immediate post-war years "on evidence of availability." These licences were repeated as basic allocations in subsequent years and are still reflected in many allocations.

19. *Out of Line Decisions.*—This matter is closely allied to that of anomalies, though, in general, the phrase "out of line decision" is used to denote a decision which is not consistent with those on other similar applications, as distinct from anomalies generally arising through the years from import licensing. Each contributes to the other, however. As mentioned earlier in this paper, the Departments claim that their decisions have been soundly based within policy, although it did seem to the Committee on the limited evidence then heard that some licences had been granted which had caused much dissatisfaction and may have been unjustified. There was general concurrence among trading interests who tendered evidence to the Committee that little positive good would have been achieved if the Committee had investigated out of line decisions of the past. A difficulty in this regard is that many decisions under import licensing become matters of opinion and judgment, and though it might be held that particular decisions were not consistent with then current policy, it would be difficult to be sure that in a particular case an out of line decision had been deliberately made.

20. It is clear, however, that some firms have received licences disproportionately higher than their competitors and considerably higher than that to which they would have been entitled under ordinary circumstances on the basis of past trading. Some firms received licences for goods in which they had not previously been trading, in respect of which there seemed no sufficient justification for new entrants. Unfortunately, the Committee is faced with the position that these firms have developed business in the newly-licensed items and it is seldom possible to "put the clock back," particularly when some licences have been repeated over a period of years. However, in regard to motor-cars, the Committee recommended that the recent level of licences for a few firms should be actually reduced because the initial licences were considered grossly excessive.

H. TRAFFICKING IN LICENCES

21. It should be made clear that what is known as third-party transfer of licences is common business practice and is necessary to permit business on an indent basis. It is not necessarily the licensee who arranges the importations. This class of business differs from "trafficking," which has already been defined as the sale or other disposition of licences as valuable property without the rendering of any adequate service by the

holder of the licence in return for the charge he makes. Under present trading conditions and the willingness of people to pay excessive prices to secure the goods, "kerb-side" traders and others have been able to sell licences at considerable premiums and render practically no service in connection therewith. Some of these licences are "repeats" of licences granted on evidence of availability to persons not normally importing the classes of goods, while others have been those granted to ex-servicemen not supported by the Rehabilitation authorities. This latter class of licensee has often brought discredit, quite unjustifiably, in business circles to genuine rehabilitation cases where ex-servicemen have established legitimate businesses.

22. There is no complete remedy short of freeing items from control, but the policy of the Committee is to refuse to recommend any further licences for persons not conducting normal businesses and providing proper services. In the case of crockery, licences were "sold" at a premium of up to 40 per cent. of their value and licences have been issued to people who had no business premises and operated from their homes. For example, a man with a £2,000 crockery licence could receive £800 cash without doing any more than taking the licence to a firm willing to buy—and established traders had to buy licences to maintain their turnovers. In the case of carpets, anything up to 17½ per cent. has been charged by "kerbside" traders.

23. Items commonly subject to trafficking have included electrical goods, hardware goods, and glassware. The trafficking has arisen from the granting of licences to people who should never have been licensed on a more or less permanent basis, if at all. The de-controlling of crockery will remove trafficking in licences for that commodity. Unfortunately, insufficiency of overseas funds will not permit the de-control of those items in which trafficking is most evident. As a consequence, trafficking will probably continue, but the Committee will do everything possible to prevent its extension.

I. REHABILITATION LICENCES

24. The Import Advisory Committee received complaints about rehabilitation licences, but in fairness to the Rehabilitation Department it should be said that many of the licences complained about appear not to have been recommended by the Rehabilitation Board. Allowing suitable persons to establish themselves in trade was a valuable and proper method of rehabilitation, but some persons who were returned servicemen received licences on rehabilitation grounds although not sponsored by the Rehabilitation authorities. Such cases were quoted to the Committee, and in several instances the Committee examined the relevant files of the Customs Department. It was difficult to resist the claims of ex-servicemen for some assistance, even though they applied independently of the Rehabilitation Department. However, in an endeavour to meet these claims of these ex-servicemen, licences were granted in some cases in a manner not calculated to "rehabilitate" the men concerned. There was a tendency to concentrate on the goods in very short supply because of the licensing restrictions, and while this no doubt has been profitable for them, the probabilities are that when supplies become normal many of them will be in difficulties. Following the de-control of items, trade tends immediately to revert to established channels. The Committee has had consultations with the Director of Rehabilitation and a member of the Rehabilitation Board, and it is now appreciated that in future the granting of new licences on rehabilitation grounds must be very closely examined with a view to ensuring that licences are granted only where there is a reasonable prospect of the applicant developing a sound business in the lines he desires to import.

J. OVERSEAS FUNDS POSITION

25. It is estimated that this year close to £140 million will be paid in overseas currency for non-Government imports. This is about £30 million more than in 1949. It would not have been possible to finance this large increase in imports if wool prices had not increased. We expect to earn substantially more from wool exports this year than last year if the prices at the new season's sales are as good as current wool prices would indicate. Because of this, it is possible that in 1950 overseas earnings may exceed expenditure by a few million pounds, despite the increase in the value of imports. 1950 import licences available up to February, 1951, have already been issued to the value of £165 million, and more have still to be issued for certain commodities. Without the fortuitous increase in wool prices, the issue of 1950 import licences would have had to be limited well below the existing level. Thus we are already relying on higher wool prices to finance import commitments for this year. Next year there is every indication that imports will cost much more than this year. Allowance has been made for some increase over this year in imports of de-controlled goods. Furthermore, the prices of many of the goods which we import are rising steadily and already it has been necessary, because of price increases, to issue additional licences for commodities which are essential to the national economy.

26. On the basis of the best estimate which can be made at this stage of the amount which we will earn from our major exports other than wool (and this is subject to a wide margin of error because of the weather, shipping, and other factors), it seems that we will have to realize much more for our wool in 1951 than in 1950 to be able to live within our income, even if we import a *quantity* of goods no greater than this year. On present indications it does seem that we will earn more from wool in 1951 than in 1950, but how much more is still uncertain. Until the main sales of New Zealand's wool commence and wool prices settle down it will not be possible to make any reasonably accurate estimate of the position for 1951. In issuing licences during this year for next year we cannot do other than work on the best estimates available from time to time. The sterling balances carried forward at the commencement of the year are small relative to a £400 million turnover in trade and therefore provide little margin for errors. These balances would easily be largely absorbed if, for instance, the phenomenal rise in wool prices was as quickly reversed. It would be extremely imprudent to plan to reduce our reserves at a time of peak prices. It is in the interests of the whole community that we hold sufficient liquid reserves overseas to mitigate the shock of any future fall in export earnings.

27. For this reason, the Government has asked the Import Advisory Committee to ensure that the allocations for the various items in the 1951 import licensing "budget," which were drawn up with due allowance for increased earnings from wool, are not exceeded except in special circumstances. However, the matter will be kept under constant review and the Government will continue to give as much freedom in importing as is prudent and practicable. It is the Government's hope that earnings from wool and other exports in the coming season will be high enough to permit some further relaxations in import licensing. This policy will create problems, but the clear facts are such that the Government would be failing in its duty if it did not endeavour to restrict imports to the overseas funds estimated to be available. The Government took over a policy which had little regard to real control or the facts of the situation. In less than a year it has freed all the unnecessary controls over imports, and this has been of inestimable advantage to traders, manufacturers, and the community generally. It must be emphasized that the overseas funds position demands that the remaining control shall be really effective.

K. CONCLUSION

28. The Government has considered that Parliament should be made aware of the above information, though it is not by any means exhaustive. However, it confirms the many allegations that have consistently been made that the policy followed by the previous Government and the system which it condoned were most unsatisfactory. The Government considers that its "Board of Trade" policy is thoroughly justified and that its appointment of the Import Advisory Committee was a sound move in the right direction. Much has been achieved by the Committee in the five months since it was appointed. A great deal remains to be done. The Government is of the opinion that very important tasks await the Board of Trade shortly to be appointed by statute and that the implementation of this important policy measure in the Government's economic programme will be a valuable contribution to the economic and general welfare of the Dominion.

APPENDIX A—STATISTICS RELATED TO IMPORTS OF CERTAIN GOODS
IN 1938 AND IMPORT LICENCES ISSUED FOR 1949 AND 1950 PERIODS

Item.	*	1938.		1949.		1950.	
		Number of Importers.	Value of Imports.	Number of Licensees.	Value of Licences.	Number of Licensees.	Value of Licences.
Crockery ..	A	249	£ 224,470	240	£ 375,670	240	£ 440,624
	B	..	..	307	264,103	327	322,202
	C	..	..	547	639,773	567	762,826
Carpets ..	A	154	362,494	152	610,830	153	987,565
	B	..	..	261	419,055	328	652,253
	C	..	..	413	1,029,885	481	1,639,818
Watches ..	A	73	94,085	68	132,465	70	148,868
	B	..	..	178	90,855	211	107,441
	C	..	..	246	223,320	281	256,309
Pianos ..	A	18	23,154	18	61,236	17	78,997
	B	..	..	46	44,345	44	47,132
	C	..	..	64	105,581	61	126,129
Spirits ..	A	167	452,211	165	475,281	166	618,879
	B	..	..	195	106,848	258	143,548
	C	..	..	360	582,129	424	762,427

*A = 1938 importers.
B = Licensees not importing in 1938.
C = Totals.

NOTE.—To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

APPENDIX B—CARPETS: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

The following typical examples are set out in groups—each group consisting of comparable types of business.

Each firm marked "A" appears to have been very unfavourably treated compared with those marked "B."

				1938 Imports. £	1949 Licences. £
A ..	..	..	..	2,200	5,900
B ..	..	..	..	900	5,800
A ..	..	..	..	5,400	5,400
B ..	..	..	..	..	10,400
A ..	..	..	..	11,600	7,200
B ..	..	..	..	400	7,900
B ..	..	..	..	1,300	10,000
A ..	..	..	..	3,400	1,900
B ..	..	..	..	..	3,200
B ..	..	..	..	400	8,400
A ..	..	..	..	12,600	11,800
B ..	..	..	..	..	10,000
A ..	..	..	..	23,000	14,200
B ..	..	..	..	200	7,300

NOTE.—(1) All amounts have been adjusted to nearest £100.

(2) To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

APPENDIX C—CROCKERY: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

Group I are 1938 importers doing at that time moderate or substantial business.

Group II are 1938 importers doing at that time smaller business.

Group III are new licensees.

The favourable treatment accorded to Groups II and III as compared with Group I is very apparent.

						1938 Imports. £	1949 Licences. £
Group I ..	..	..	..	A ..	..	3,600	5,500
				B ..	..	2,100	1,400
				C ..	..	1,900	1,200
				D ..	..	1,800	2,200
				E ..	..	4,900	6,200
				F ..	..	1,300	1,900
				G ..	..	5,200	5,000
				H ..	..	2,500	1,400
Group II	..	..	..	I ..	..	600	6,300
				J ..	..	200	16,200
				K ..	..	800	4,000
				L ..	..	500	4,500
				M ..	..	300	4,100
Group III	..	..	..	N ..	..	Nil	12,000
				O ..	..	Nil	10,000
				P ..	..	Nil	3,000
				Q ..	..	Nil	8,300
				R ..	..	Nil	4,500
				S ..	..	Nil	4,400
				T ..	..	Nil	5,000
				U ..	..	Nil	7,500
				V ..	..	Nil	6,000

NOTE.—(1) All amounts have been adjusted to nearest £100.

(2) To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

APPENDIX D—MOTOR-VEHICLES: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

1. While inconsistent decisions and lack of uniform policy were apparent in licences granted to many of the smaller importers of motor-vehicles, it was impossible to identify any general principle or principles which had been followed over the years in the case of licences issued to the "Big Five." This lack of uniformity was especially apparent in the establishment of "basic" licences on the expectation from which such businesses, with their large and efficient assembly plants, would normally expect to plan their production. Obviously, a number of quite relevant factors had influenced decisions from time to time in the case of these firms, but there appeared to be no effort to correlate these factors and apply them to each of the "Big Five" group. Likewise, from year to year some factors had been disregarded or almost so, whereas new factors had been introduced resulting in major changes overnight with the release of each year's Schedule with little apparent regard to the effect on the business.

2. In theory it would appear that in the case of justifiable rehabilitation motor-vehicle licences the original intention was to allocate £5,000 of licence per annum (cars and/or trucks) to a "one-man" business, £10,000 to a "two-man" business, &c. Some initial licence-holders of this type have been held to this figure; others not. The following list shows how inconsistent had become these "rehabilitation" cases by 1949:—

	1949 Licences (Cars and Trucks combined).	
	£	
A. One-man business	4,000
B. One-man business	5,000
C. One-man business	10,000
D. One-man business	12,500
E. Two-man business	10,000*
F. Two-man business	10,000
G. Three-man business	20,000
H. Four-man business	22,000

* This firm was originally granted £5,000 only at the same time as the two-man business (example "F"—which had some outside capital as well) was granted £10,000.

3. Despite the apparent thought that £5,000 should be the figure to be granted to a one-man rehabilitation motor-vehicle business—and evidence of this persists in many rehabilitation cases throughout 1947 and 1948—one returned serviceman with no previous experience in the motor business was granted licences for £10,000 in 1947, which amount was increased to £13,000 in 1949, while other returned servicemen with equally deserving claims were held to their original figure.

4. In 1949, pre-war importations from the United States of America were not generally given recognition as a basis for motor-vehicle importation. One firm with pre-war imports from both the United States and the United Kingdom was granted a licence for approximately £30,000 for the 1949 period. On the basis of its pre-war importations from the United Kingdom, this was double the amount it was entitled to, whereas other firms with approximately similar combined pre-war importations from the United States and the United Kingdom were held to an amount equal only to their pre-war importations from the United Kingdom.

5. 1949 was a year in which importations were theoretically limited to the entry of vehicles in a C.K.D. condition, yet one firm was granted a licence for £10,000 in substitution of one it had held previously to import built-up cars while other firms who lost their licence because of this C.K.D. requirement were not allowed licences in substitution.

APPENDIX E—PIANOS: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

Group I are 1938 importers doing at that time a moderate or substantial business.

Group II are 1938 importers doing at that time a smaller business.

Group III are new licensees since 1938.

					1938	1949
					Imports.	Licences.
					£	£
Group I ..	..	..	A ..	..	2,100	2,300
			B ..	..	2,800	9,600
			C ..	..	900	900
			D ..	..	2,400	4,700
			E ..	..	700	3,100
Group II ..	..	..	F ..	..	100	100
			G ..	..	100	1,200
			H ..	..	200	1,000
			I ..	..	100	1,400
			J ..	..	300	300
Group III ..	..	..	K ..	..	Nil	600
			L ..	..	Nil	1,600
			M ..	..	Nil	2,400
			N ..	..	Nil	3,400
			O ..	..	Nil	11,200

NOTE.—(1) All amounts have been adjusted to nearest £100.

(2) To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

APPENDIX F—SPIRITS: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

					1938	1949
					Imports.	Licences.
					£	£
A ..	..	Large wholesaler ..	..	..	31,500	34,400
B ..	..	.. ..	..	..	28,600	22,300
C ..	..	.. ..	..	..	38,300	25,900
D ..	..	Wholesaler ..	..	..	6,600	6,400
E ..	..	.. ..	..	..	6,800	10,400
F ..	..	.. ..	..	..	11,000	8,900
G ..	..	.. ..	..	..	600	5,400
H ..	..	.. ..	..	..	4,400	8,800
I ..	..	.. ..	..	..	Nil	6,600
J ..	..	Brewery ..	..	..	100	900
K ..	..	.. ..	..	..	9,500	8,100
L ..	..	.. ..	..	..	600	2,000
M ..	..	.. ..	..	..	1,100	2,200
N ..	..	Club ..	..	..	795	1,047
O ..	..	.. ..	..	..	Nil	1,000
P ..	..	.. ..	..	..	608	594
Q ..	..	.. ..	..	..	214	311
R ..	..	.. *	..	..	Nil	500
S ..	..	.. *	..	..	Nil	16c
T ..	..	Hotel ..	..	..	500	483
U ..	..	.. ..	..	..	160	480
V ..	..	.. ..	..	..	Nil	480
W ..	..	.. ..	..	..	Nil	200
X ..	..	.. ..	..	..	Nil	320
Y ..	..	.. ..	..	..	Nil	350
Z ..	..	.. ..	..	..	100	50

* These two clubs are in the same city and have about the same number of members.

NOTE.—(1) All amounts for cases A to M have been adjusted to nearest £100.

(2) To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

APPENDIX G—WATCHES: EXAMPLES OF ANOMALOUS IMPORT LICENSING DECISIONS

Group I are 1938 importers doing at that time a moderate or substantial business.

Group II are 1938 importers doing at that time a smaller business.

Group III are new licensees since 1938.

				1938	1949
				Imports,	Licences.
				£	£
Group I	..	A	.. Wholesaler ..	.. 6,900	25,800
		B	.. ..	.. 10,500	10,500
		C	.. ..	.. 13,400	15,100
		D	.. ..	.. 4,900	4,900
Group II	..	E	.. Retailer ..	.. 1,800	2,000
		F	.. ..	.. 1,200	1,700
		G	.. ..	.. 1,200	1,200
		H	.. ..	.. 200	1,100
		I	.. ..	.. 200	200
		J	.. Wholesaler ..	.. 100	100
		K	.. ..	.. 100	500
		L	.. Indent agent ..	.. 200	3,100
		M	.. Retailer ..	.. 900	600
Group III	..	N	.. Wholesaler ..	.. Nil	20,000
		O	.. ..	.. Nil	4,000
		P	.. ..	.. Nil	3,300
		Q	.. Retailer ..	.. Nil	1,500
		R	.. ..	.. Nil	500
		S	.. ..	.. Nil	500

NOTE.—(1) Licences granted on rehabilitation grounds to watch retailers and repairers generally ranged from £150 to £250 per firm and are excluded from the above lists.

(2) All amounts have been adjusted to nearest £100.

(3) To permit of valid comparisons, 1938 values have been reduced to parity with sterling.

(4) Two further cases are two retailers in comparable sized towns.

				1938,	1949,
				£	£
T	56	29
U	29	200

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Approximate Cost of Paper.—Preparation, not given ; printing (1,600 copies), £48 10s.

By Authority: R. E. OWEN, Government Printer, Wellington.—1950.

Price 9d.]