THE CUSTOMS TARIFF IN NEW ZEALAND

INTRODUCTION

Most countries incorporate some form of protection for their domestic industries in their international trade arrangements. Two of the most common forms of protection are customs tariffs and quantitative controls, such as quotas or import licensing. This article briefly discusses tariffs within the New Zealand context. Other forms of protection will be the subject of subsequent articles.

A customs tariff is a tax or duty levied by a Government on imported goods as they cross the national border. The main purpose of a tariff is usually to divert demand away from imported goods and towards domestically produced commodities. A second purpose is to make use of the tariff as part of the revenue raising system of taxes. By raising the domestic price of an imported good, the tariff makes the item in question less attractive to consumers, who then tend to change their expenditure patterns away from the good to domestically produced alternatives or to other commodities. Thus the tariff has the dual effect of reducing expenditure on imported goods, and protecting the domestic producer from the full rigours of international competition. In the process the tariff also provides revenue for the Government to the extent that imported commodities subject to the tariff continue to be imported. Depending on the level at which the tariff is set the protective or revenue earning attributes can be emphasised. By varying the rate of the tariff as the balance of payments situation alters it is also possible to use the tariff as an instrument for influencing the balance of payments situation.

Tariff duties are usually expressed as a percentage of the value of the imported commodity i.e. on an 'ad valorem' basis. In New Zealand's case the valuation method used is the current domestic value (C.D.V.) of the commodity in the country of export at the time it is exported. However, duties may also be expressed as a specific amount levied on the basis of a unit of volume or other measure and are then usually called specific or fixed duties.

The tariff is a flexible instrument in the sense that it can be applied in a variety of ways in order to meet a range of objectives, either generally or in relation to particular goods. It can be applied on a temporary basis, on a sliding scale, to operate a price support mechanism, to preclude almost totally imports of particular goods, to impact more on low-cost sources or to favour imports from particular countries, to achieve a pre-determined level of imports, or what ever other outcome is considered desirable.

In New Zealand the tariff, together with import licensing, has been an important policy instrument in assisting the development of the industrial sector. An important difference between the two methods is that the tariff can be used to set what is seen as a desirable or justified level of protection to which domestic industry adjusts. Import licensing in contrast predetermines the volume of imported competition to which domestic industry will be subjected. To be effective in meeting desired objectives, tariffs need to be the subject of frequent reviews. The review of New Zealand's customs tariff in the 1970's has resulted in significant changes being made to the level of protection afforded certain categories of production.

There has been much debate on the question of whether the advantages of tariffs are outweighed by their disadvantages. The arguments are extensive on both sides. The major ones applicable to New Zealand are outlined below. The general debate relates both to the pros and cons of protection, and to the form that any protective structure should take.

ADVANTAGES OF THE TARIFF

It is often argued that tariffs can be used to correct shortcomings in market mechanisms. One of the most widely used arguments of this type is the so-called infant industry argument, which advocates the use of tariff barriers to protect newly established domestic industries from overseas competition for a period of time. The proposition is usually presented along the lines that provided the domestic industry is shielded from the competition of similar industries overseas, which benefit for example from domestically produced input advantages, long establishment or economies of scale, then it can develop. As it grows it will overcome short-term establishment problems and go on to produce goods efficiently. When the industry is well established and is benefiting from economies of scale, the tariff barrier can be reduced over time, as the industry should then be more internationally competitive. (It should be noted that import licensing can be used to the same effect.)

Such ideas contributed to an expansion of protection in the late 1950's to help deal with the effects of the 1957 foreign exchange crisis caused by falling export receipts, to protect industries established in the war period and to promote the establishment of new import replacement industries. In particular the scope of import licensing was very considerably broadened in 1958.

A more general argument in favour of tariffs is that the establishment of new industries behind tariff barriers expands a country's economic base and provides employment opportunities for the population. The expansion of employment may also involve training in new skills. So called spillover industries may also develop, for example an increase in domestic production in the area of components for the protected industry. Thus, it is argued, the tariff's stimulus to general economic growth combines with other elements to provide additional social benefits.

This argument has gained increased support in New Zealand in recent years as unemployment in the work force has become a significant problem. With much of the manufacturing sector enjoying some tariff protection the argument that employment in this sector can only be maintained by retaining at least the present levels of protection has had some appeal. The benefits seen in encouraging the development of a domestic work force skilled in modern manufacturing techniques have also led some people to favour the use of the tariff as a means to achieve this. The proponents of this argument have tended to discount the possibility of successful development of internationally competitive manufacturing capacity of sufficient size to provide the required level of employment in New Zealand, in the absence of protection, because of other perceived disadvantages of New Zealand's situation, namely the smallness of the domestic market, remoteness from major international markets and absence of many raw materials.

A third popular argument for tariffs is that they can be used to reduce or control balance of payments deficits. By raising the domestic price of imports, tariff increases tend to change the pattern of expenditure away from imported goods thereby saving overseas funds. However, there are difficulties in raising tariffs for balance of payments purposes in New Zealand, because a large proportion of imports are raw materials or semi finished goods used in further processing. These imports cannot be successfully replaced or their quantities reduced without causing disruption to production processes and unemployment in the economy. To a large extent this rigidity is a product of the type of protection which has been afforded domestic industry in past years; it having tended to encourage the development of processing and assembling industries which depend heavily on imported components and semi-processed materials. These items are often imported over very low tariff barriers in New Zealand, the tariff being used more for revenue earning than for protective purposes.

The tariff, while performing the above tasks, raised revenue for the Government in the year to March 1979 amounting to $286.1 million which represented 5.7 percent of total taxation and 5.3 percent of total Government receipts.

DISADVANTAGES OF THE TARIFF

The arguments against tariffs tend to be focused on practical shortcomings perceived in the arguments outlined above. The infant industry argument is frequently attacked on the basis that once a tariff has been imposed it is often difficult to remove, and that it therefore tends to become an entrenched part of the system. Infant industries may never develop to the stage where they can face international competition. The ability of planners to pre-select accurately those industries that will eventually be able to withstand international competition is far from perfect. In New Zealand even when an infant industry has developed well, it may still continue to receive protection from international competition by the tariff, since removal of the tariff becomes difficult because of pressures from protected interests. This in turn gives rise to the claim that producers in such industries are placed in a position of unfair advantage, vis-a-vis unprotected domestic producers. The traditional export industries in New Zealand, the agricultural and pastoral industries, have been among the most vocal critics of the present tariff structure and its protective shield for manufacturing because it raises the cost of their inputs while prices for their output are determined in the world market. These questions however relate to the broad development policies being pursued by the country and the instruments being used to achieve them, among which the tariff is only one.

The effectiveness of the tariff as a policy instrument for correcting balance of payments problems may be limited in practice by its relative inflexibility once in place. Because of the many facets to its role (e.g. protection, revenue earning and balance of payments) the tariff is often difficult to alter and remove in response to changing balance of payments situations. Invariably a balance of payments problem would be better handled by a flexible exchange rate combined with suitable monetary and fiscal policies. Where a tariff exists as a permanent feature, there is often a tendency for the exchange rate to become over-valued.

In the longer term tariffs, particularly if they become entrenched, result in a protected domestic sector leading to reduced competition, mis-allocation of resources, and higher domestic prices. As with other forms of protection, unless reviewed continuously, there is a risk that industrial development will concentrate in areas which are inefficient by international standards. These areas will in effect be the recipients of a subsidy from the rest of the community; a subsidy which is only justified in economic terms if it is in time recouped by economic gains which more than offset the implied initial subsidy. If tariffs persist, such recoupment is unlikely to occur.

Protection, by ensuring higher returns for less risk from the domestic market, may also channel capital and labour away from the internationally competitive sectors and result in unbalanced economic growth. Paradoxically, this can be mistakenly taken to indicate a need for even more protection to insulate further the balance of payments from external market pressures. As a result, in time the international competitiveness and growth potential of the entire economy may suffer.

LEVELS OF PROTECTION IN NEW ZEALAND

There are two ways of measuring the level of protection given by a tariff. The first is to consider nominal tariff rates, which merely measure the rise in the landed price of a good which results from the application of a tariff. It is usually expressed as a percentage of the value of the imported commodity. The second is to consider the effective rate of protection in terms of the impact on final goods prices of tariffs on imports of raw materials or intermediate inputs.

Determining the level of protection afforded by nominal tariff levels in New Zealand poses some difficulties. International comparisons are made difficult by the fact that, like many countries, different tariff rates apply to the same product categories; coming from various groups of countries such as developing nations, and those with which we have bilateral trade agreements, such as Canada and Australia. Tariff concessions also have a substantial impact on the nominal level of protection afforded in the New Zealand case. However it does appear that the average level of nominal tariffs in New Zealand is high compared to that of most developed countries for those goods subject to duty in 1975/76 the weighted average nominal rate of duty was 18 percent.

The second measure of the level of tariff protection is the effective rate of protection. If nominal tariffs only are considered, the higher the percentage tariff on a good, the more protection the tariff gives to the domestic firms producing it. However where a firm uses inputs which themselves are protected, the total effect of protection is less obvious. While such firms enjoy a measure of protection as far as their output is concerned, they also pay higher prices to purchase protected inputs. This reduces the effective protection enjoyed by these firms. It may even result in firms gaining less from protection of their own output than they are paying out in higher costs for protected inputs. The overall effect is called the effective rate of protection.

If a country levies low tariffs on raw materials and high tariffs on final products, the effective rate of protection will be higher. This is often the case in New Zealand.

Several attempts have been made to quantify the level of effective protection in New Zealand[1]. However, there are many technical difficulties with analysis in this area. A general conclusion which can be drawn from these studies is that the general level of effective protection in New Zealand is quite high.

HISTORY OF THE TARIFF IN NEW ZEALAND

New Zealand has a long history of tariff protection. The initial customs ordinance, introduced in 1841, was the first in a long series of enactments dealing with customs laws and the tariff of custom duties. The tariff of 1851 saw the first widespread use of ad valorem duties while the general tariff of 1864 saw a broadening of the use of specific duties at low rates primarily to utilise the revenue earning aspect of the tariff.

In 1878 sweeping changes were made with the major impact being the reduction of rates applying to foodstuffs and the elimination of duty on tools. In 1895 the tariff took on its modern form, marked by a preponderance of ad valorem duties and a definitely protective intention. This was followed by a further full-scale revision in 1907 when a number of foodstuffs were removed from the list and a feature was the different rates applied to tea imports depending on whether it was imported in bulk or in consumer packs. By this time most existing industries were being given some tariff protection; the differential rates applied to tea marking the appearance of the policy to apply higher rates to finished goods than to raw materials and semi-finished goods destined for further processing.

The 1920's saw a number of smaller revisions to the customs tariff, most of which had the effect of increasing the rates and giving greater preference to British goods. A further full revision was made in 1934 and this remained largely unchanged until a further review was undertaken in 1957. But the 1930s and 1940s saw New Zealand facing a serious trade imbalance. As a result, in 1938 the first quantitative controls in the form of import licensing were introduced and subsequently further protection was extended to industries to protect employment and to aid adjustment to continued balance of payments problems. There was a new thrust in the late 1950s to extend protection to import replacement industries and to establish new industries.

New Zealand has had a number of bilateral trade agreements. Until Britain entered the E.E.C. in 1973, goods from Britain were subject to a lower tariff than goods from other sources. Although New Zealand was not obliged to do so, tariff preferences were extended to all Commonwealth countries and the system collectively was known as the Commonwealth Preference System. The tariff preference for British goods was phased out in four steps between July 1974 and June 1977 (except for certain automotive products).

In July 1978 the preferences for other Commonwealth countries were amalgamated with an extended Generalised System of Preferences (GSP). This was introduced in response to the UNCTAD's (United Nations Committee on Trade and Development) recommendation that developed countries aid developing countries by extending at least limited tariff preference to them. In the year to June 1979, the total value of imports from GSP beneficiaries was $648 million (1 percent of total imports). Of this trade only $63 million was subject to a duty, with $48 million thereof being admitted at a preferential rate under the GSP. Other bilateral trade agreements were negotiated with Canada in 1932, Malaysia in 1961 and Australia in 1966. (The latter agreement, the New Zealand-Australia Free Trade Agreement — NAFTA — is discussed separately later in this article.) New Zealand also has a preferential trade agreement with Australia in addition to NAFTA.

In 1976 an extensive review of the tariff system was begun by the Tariff Review Committee. This review resulted in a new customs tariff which came into effect in July 1978. A two column tariff was adopted with preferred rates accruing to developing countries in terms of New Zealand's Generalised System of Preference, and to Australia, Canada, Malaysia and the United Kingdom (the latter as an interim measure until all problems over automotive products had been solved). Most other countries pay the normal (most favoured nation) column rate. Generally the new tariff reduces the overall tariff levels when weighted by the pattern of imports, although some rates increased to extend protection to particular domestic industries.

Table 1 outlines the effects of the change on the distribution of tariff rates.

TABLE 1
Proportion of 1975–76 Imports[1]
(In percent; valued c.d.v.)

Tariff rates (in percent):	*Old Tariff Rates[2]*	*New Tariff Rates[3]*	*Change*
Free	50.6	50.6	—
1 - 10	18.5	20.3	1.8
11 - 20	10.8	6.5	−4.3
21 - 30	3.7	8.3	4.7
31 - 40	7.0	8.1	1.1
41 and over	6.5	3.8	−2.7
Parts[4]	1.1	0.9	−0.2
Specifics[5]	1.7	1.4	−0.3
TOTAL:	100.0	100.0	—

1. New Zealand Government sources.
2. In effect up to 30th June 1978.
3. Effective 1st July 1978.
4. Relates to that proportion of imports, namely parts of various types where the duties levied are at the rates applicable to the goods for which the part has been designed and may therefore vary according to the use being made of the part.
5. Relates to goods subject to specific duties.

Half of all the goods imported were entirely free of duty under both the old tariff schedule and the new one introduced in 1978. What the new tariff does is make a small but definite reduction in the proportion of goods incurring the highest rates of duty (41 percent and greater). A reduction in the proportion of goods incurring duties of 11 - 20 percent also shows up but the effect here has been brought about by both reductions and increases of the rates applying to goods previously coming within this range. It should be noted that while the table indicates that half of all imports are subject to duty the actual incidence of duties is somewhat lower as a result of duty concessions given when the imported

1. See, for example, the following studies:
(1) P. G. Elkan, *Industrial Protection in New Zealand 1952 to 1967*, Technical Memorandum No. 15, New Zealand Institute of Economic Research, Wellington, 1972.
(2) Valmai Elley — *Effective Protection In Selected New Zealand Manufacturing Industries in 1972/73* Occasional Paper No. 29, Victoria University of Wellington Project on Economic Planning, Wellington, 1976.

items are not available from domestic sources on reasonable terms.

Table 2 also indicates the changes in the level of tariffs in the period 1975 to 1978.

TABLE 2
Actual Average Duty Rates
(Based on March year)

	$ million		
Years ended March	*Import Duty*	*Total Imports (CDV)*	*Av. Rate %*
1975	142.6	2,504.9	5.69
1976	124.3	2,572.7	4.83
1977	147.1	3,082.4	4.77
1978	150.1	3,150.3	4.76
1979	165.6	3,288.9	5.04

The tasks of administering the tariff and collecting duties lie with the Customs Department, though it also consults with the Department of Trade and Industry on policy matters such as the effect on various industries. An Industries Development Commission was also set up in 1975 to replace the Tariff and Development Board and this Commission examines and reports to Government on matters relating both to industrial development and protection at the frontier (including tariffs) in response to specific matters referred to it. Most of its work is done on an industry-by-industry basis. A recent study of the New Zealand textile industry[2] is an example. The study presents a plan for the rationalisation and development of the textile industry. It identifies activities within the industry which are to be awarded special treatment, others which do not warrant such treatment and still others to be actively discouraged. The plan outlines the steps to be followed during the rationalisation process and the whole plan is developed in the context of the goal of seeking to identify sectors or products with 'potential to contribute to New Zealand's economic growth' and to develop policies for assisting in the realisation of that potential.

NEW ZEALAND — AUSTRALIA TRADE

Central to the trading relationship between New Zealand and Australia since the mid-1960's has been the New Zealand-Australia Free Trade Agreement (NAFTA) which grew out of the close ties which have always existed between the two countries. At that time New Zealand was looking for better access to the Australian market for manufactured goods, particularly pulp and paper. On the Australian side, NAFTA may also have received some impetus from a feeling that New Zealand could provide a secure market for Australian motor vehicles exports.

The Agreement was signed in August 1965 and came into force in January 1966 modifying and superseding some of the provisions of the earlier trade agreement between New Zealand and Australia. Its major objective was "to further the development and the use of the resources in the area by promoting a sustained and mutually beneficial expansion of trade, and to ensure as far as possible that trade within the area takes place under conditions of fair competition". Originally instituted for ten years, it was extended for a further ten years in 1975.

The central element of the agreement is Schedule A, which lists products from both countries which can enter either country free of duty. Items are usually placed on this schedule in a manner which ensures that the duty on the good is progressively reduced according to an agreed timetable over a period of eight years, though in recent years the policy has been to proceed immediately to free trade on successfully nominated goods. Items are placed on Schedule A only after agreement has been reached by both governments and industry groups. However each country's government has been reluctant to place goods in Schedule A in the face of industry opposition. The existence of this veto has made the addition of new items increasingly difficult. To help overcome this, modifications were made to the Agreement in November 1973. There are now three extra schedules — Schedule B which is designed to facilitate the movement of items to Schedule A over time; Schedule C which covers items which Australia but not necessarily New Zealand admits duty free, and Schedule D, the reciprocal of Schedule C. The last two are, however, effectively inoperative. In addition, Article 3:7 allows a company or industry on one side of the Tasman to find a partner on the other side, not necessarily in the same industry, and to obtain a preference for each firm or industry in the other's market. A number of special industry bodies, such as the Joint Committee on Dairy Products, have also been established under NAFTA to help solve trade difficulties in particular areas.

NAFTA has helped promote trade between the two countries. It has also been instrumental in reducing the trade imbalance in Australia's favour which existed before NAFTA was established as table 3 shows.

TABLE 3
Trans-Tasman Trade Statistics

Year ended June	*N.Z. Imports from Australia[1] (NZ$m.) CDV Value*	*N.Z. Exports to Australia[2] (NZ$m.) FOB Value*	*Ratio of Imbalance in Australia's Favour*
1965	128.0	34.6	3.70 : 1
1966	135.1	36.5	3.70 : 1
1967	143.0	35.5	4.03 : 1
1968	132.9	58.0	2.29 : 1
1969	158.3	75.5	2.10 : 1
1970	197.9	87.8	2.25 : 1
1971	225.5	96.7	2.33 : 1
1972	267.3	113.3	2.36 : 1
1973	323.5	131.8	2.45 : 1
1974	452.7	171.9	2.63 : 1
1975	504.8	188.4	2.68 : 1
1976	518.8	292.3	1.77 : 1
1977	711.3	382.3	1.86 : 1
1978	655.3	412.6	1.59 : 1
1979[3]	797.1	501.2	1.59 : 1

1. Country of origin basis
2. Includes re-exports
3. Provisional
Source: Department of Statistics

Australia and New Zealand are now each other's largest markets for manufactured goods. NAFTA as a whole covers 75 percent of total Trans-Tasman trade,

2. New Zealand Industries Development Commission: *The New Zealand Textile Industry Development Plan 1976–1986.*

with 66 percent of NAFTA covered trade being under Schedule A. However, the period since the establishment of NAFTA has coincided with a period of rapid development of manufactured exports by New Zealand, encouraged inter alia by export incentives. The growth in trade between Australia and New Zealand is not much higher than the growth in trade in manufactured products between New Zealand and other developed countries. For this reason it appears the impact of NAFTA has been less significant for New Zealand than is indicated by the movement of the trade balance in New Zealand's favour shown by table 3.

While NAFTA has been a vehicle for expanding New Zealand-Australia trade in some product lines there have been other important factors which have tended to undermine that trade. Both countries have maintained other barriers such as import licensing and quotas to protect domestic industries. Transport costs across the Tasman have remained high despite the increased level and reduced imbalance of trade. Strong pressure has been exerted against the lowering of barriers by those, in both countries, who see in a lowering of tariff barriers and other protective devices a threat to employment in particular industries. This has been evident in the increased difficulty being experienced in adding items to Schedule A of NAFTA.

Planned expansion of domestic production by Australian pulp and paper manufacturers highlights a further problem for New Zealand exporters, namely the uncertainty of markets which had seemed assured for the long-term under NAFTA. Conversely Australian producers in some industries have experienced a real or apparent threat to their domestic market as a result of the rapid inroads made by New Zealand exports or the threat that this might happen. The clothing, textile and dairy industries have been particularly concerned.

An attempt to overcome some of the problems was made by the establishment of the Australia-New Zealand Businessmen's Council in 1978 to promote greater ties between the two business communities. However, an air of pessimism about the future of NAFTA continued to exist, coupled on the New Zealand side with a fear that Australia may prefer to turn to the rapidly expanding Asian market as an alternative.

What form future developments in the New Zealand-Australia trading relationships should take poses a complex question. Widespread dissatisfaction with the NAFTA arrangement has caused both governments to look in detail at the whole issue. There is a wide measure of agreement that significant benefits could flow from a more general lowering of the trade barriers which exist between the two countries and the possible approaches which could be adopted are being studied by government officials in both countries.

NEW ZEALAND AND GATT

The General Agreement on Trade and Tariffs (GATT) is an international agreement which aims via multilateral negotiations to reduce both quantitative and tariff barriers to trade, to promote freer trade and to provide a forum for discussion and settlement of international problems and disputes.

New Zealand was a founding member in 1947. Most of the world's trading nations have become contracting parties to GATT. Members of GATT extend to each other a most-favoured-nation status vis-a-vis trade. The non-discriminatory provisions of GATT help New Zealand to promote its objective of the right to trade on a multilateral basis. All multilateral negotiations of GATT are conducted on the basis of mutual advantage, mutual commitment and overall reciprocity. Negotiations proceed with the objective of lowering overall tariff rates and, via bilateral trade negotiations, lowering tariff and quota barriers on specific goods or groups of goods. As New Zealand receives benefit from the reductions made by all other participants, it incurs a responsibility to award reciprocal concessions to all other contracting parties. Tariff concessions take many forms, including actual reductions in the rate of duty levied and binding commitments not to increase duties. In the context of the GATT they must be applied multilaterally.

The original negotiations were completed in 1947 and have been followed by several other rounds of negotiations, the most well publicised of which was the Kennedy Round in 1967 and the latest, The Tokyo Round completed in 1979. However, New Zealand as a primarily agricultural exporting country has not benefited as much from GATT as was hoped in earlier years. Most of the benefits from GATT appear to have accrued to industralised nations, while quantitative restrictions on agricultural products by most of the large industrial countries have been maintained. Added to this, agricultural exporters have found themselves more subject to technical restrictions on trade such as occur when importing countries make trading more difficult by introducing special health or hygiene standards. While such restrictions are of course not illegal in terms of GATT, their existence tends to inhibit the development or continuation of trade in the products affected.

CONCLUSION

Although tariffs are used for a variety of purposes, both in New Zealand and elsewhere, they are often a major element in a country's system for protecting its domestic industries. The customs tariff has been very important in New Zealand in shaping our industrial structure. If the industrial structure is to remain internationally competitive it is important that a high degree of flexibility be adopted in tariff policies. It has been noted in this article that New Zealand's tariff has been the subject of review in the 1970's. There may be room to doubt whether the fundamental question, how much protection is desirable and for how long, has been adequately addressed.

There is a case on economic grounds for reductions in protection to be made as conditions permit. A lowering of protection would tend to increase domestic competition, and lead to increased specialisation with the prospect of reduced domestic costs, a more competitive economy, and ultimately a strong balance of payments. In New Zealand's case, reductions need to include changes in both the tariff and import licencing. The question is one of establishing an industrial structure which makes best use of our own natural resources and other economic advantages in a manner which permits us to enjoy the maximum benefit from international trade.