

1934.

NEW ZEALAND.

# CUSTOMS TARIFF

(STATEMENT BY THE RIGHT HON. J. G. COATES, MINISTER OF CUSTOMS, WHEN INTRODUCING  
THE CUSTOMS RESOLUTIONS, 10TH JULY, 1934).

*Presented to both Houses of the General Assembly by Leave.*

THE complete overhaul of New Zealand's Customs Tariff is one of the main tasks to which the attention of Parliament is to be directed during the session. It is a task that will call for time, for close study in detail, and for patience. For reasons that are well understood, there is no alternative but to ask the House to give formal consent at once to the resolutions so that the new rates of duty may operate without prior notice; but, while this is so, the Government have no intention of forcing the pace or of avoiding the fullest discussion, and facilities will be provided accordingly.

The revision of the Customs Tariff is always a difficult matter on account of the complexity of the interests involved. It affects all classes of the community—for example, primary producers, manufacturers, employees, traders, and consumers generally. It necessitates the amassing of an enormous amount of detailed information concerning the many lines of goods that are imported into or manufactured in New Zealand. As honourable members are aware, on the last two occasions on which there was a general revision of the tariff a Commission was set up to report to the Government. Owing to the changes that take place in manufacturing and trading conditions both in and out of the Dominion, it is necessary that there should be a periodic review or what may in other words be called a "Tariff stock-taking." The last general revisions took place in 1921 and 1927, so that in the ordinary course another revision could not have long been postponed.

Under the Ottawa Agreement of 1932 New Zealand, in common with the other Dominions, was committed to hold an inquiry into the tariff, and, if necessary, to revise it in accordance with certain explicitly stated principles. Our undertaking was that protection against United Kingdom products should be afforded only to industries which are "reasonably assured of sound opportunities for success," and, further, that protection should be on a level to enable the United Kingdom producer to compete "on the basis of the relative cost of economical and efficient production." Those are the Ottawa words. But it will, I am sure, be universally conceded that, apart altogether from any Ottawa commitments, they are words that state precisely the principles which, in our own interests and from our own viewpoint, should govern the consideration of the tariff.

Suggestions have from time to time been made in certain quarters in this country to the effect that undue delay ensued in carrying out New Zealand's part of the Ottawa Agreement. These suggestions are absolutely without foundation in fact. The truth of the matter is that the detailed tariff revisions which we undertook

to make, and the removal of the surtax from United Kingdom goods, were carried through this Parliament on the first day on which the British Government agreed that we could make those details known. On my return from Ottawa the House was given immediate opportunity of putting the Agreement into effect. Parliament assembled four days after my return; and, indeed, at that stage we held up the revision of the tariff for a week or so, after we were ready, and at the cabled request of the British Government. It is true that some delay occurred before the Commission of inquiry was set up, but what was the reason for this? Again, it was at the explicit request of the British Government, who were anxious that their manufacturers should have every opportunity of presenting their case. Yet, in spite of these plain facts, the charge of delay, of "not playing the game" and so on, has been repeated by a few persons for the sake of controversy. Honourable members, and the country generally, will see how baseless the charge is.

The Commission was set up on the 9th May, 1933, and, as a matter of record, I mention its personnel:—

Dr. George Craig, Comptroller of Customs (Chairman).

Mr. J. B. Gow, a farmer and former member of the Legislative Council.

Professor B. E. Murphy, the senior professor of Economics in the University of New Zealand.

Mr. G. A. Pascoe, a manufacturer and engineer, also Chairman of the Development of Industries Committee.

These gentlemen, selected for their capacity, their fairness, and their impartiality, constituted a Commission that deservedly had the confidence of the Dominion. It was a good Commission. Before proceeding to refer to the report, I wish to express very sincere appreciation of the services of those who sat on the Commission and after exhaustive inquiry and study brought down the report which forms the basis of the resolutions. I am sure that the House and the country will join in that expression of appreciation. The four members of the Commission were selected by the Government for an undertaking which we knew to be one of first importance, and one that was exacting in its requirements. They discharged that undertaking with infinite care and capacity. Incidentally—and in so controversial a matter this is a noteworthy fact—they were able to bring down a unanimous report excepting on grain and motor-vehicles. The former includes wheat and flour and to those and to motor-vehicles I shall refer in due course. For the work that that Commission has faithfully accomplished we are grateful. Nobody who is aware of the care they took, of the precise and detailed data on which their recommendations are based, and of the competence of members of the Commission, can have other than the greatest respect for the report and the recommendations.

The recommendations of the Commission are accepted by the Government—that is to say, they are accepted not finally and in all details as submitted, but as the basis of the Government's decisions; and our view has been that only on the clearest and most substantial ground should there be any departure from the letter of the recommendations of the Commission.

Having said this much, and lest there be any misunderstanding, I should remind the House that the Commission was set up, in the words used in the formal instrument of its appointment,—

*"To inquire into the Customs Tariff of New Zealand, and to recommend for consideration by the Government any alterations therein. . ."*

These words make clear the nature of the responsibility that was entrusted to the Tariff Commission. They were to *inquire* and to *recommend*. Final responsibility for altering the tariff was not conferred upon the Commission. It was retained by the Government—it was retained, that is to say, by Parliament.

New Zealand has not adopted, and we do not propose to adopt, the procedure that has been followed in certain countries, whereby control of tariff rates is vested in a Tariff Board. Our view is that final responsibility should remain with the Legislature. And it is in accordance with that view that we bring to the House the report of the Tariff Commission and the recommendations of the Government based thereon.

### TARIFF AND WORLD CONDITIONS.

A significant paragraph in the early part of the report of the Tariff Commission reads :—

“The recommendations in the present report are based on the assumption that the present world depression, and the trading restrictions arising peculiarly out of it, will pass, and that world economic life and international trade, will be restored in substantially the same form, and governed by substantially the same principles, as prevailed before the depression.”

I quote this not to call it in question or to provoke a debate on it, though it is a paragraph which could provide ample material for useful discussion, but I mention it to illustrate the fact that there are factors of pressing importance which must be taken into account when we are considering these matters, and factors which by the nature of things could not have been within the contemplation of the Tariff Commission when it was sitting.

It is impossible to consider the tariff without having regard to world conditions and the alterations which have taken place during recent years in the commercial and economic policies of the United Kingdom and the other principal trading nations of the world. The most striking characteristic is the development of a policy of nationalism based on the idea of more self-sufficiency. With this object in view, one nation after another has adopted devices by which trade is regulated to a much greater extent than obtained before the period of world depression.

The world is in a state of flux. Changes of perhaps far-reaching nature are taking place before our eyes. Every day the probability of restoring the old pre-war world grows more remote. It is an inescapable fact that we are moving on towards a new order. As to precisely what that order will be, none of us can honestly pretend to be dogmatic. We can only do our best to keep ourselves informed of the trends and to keep in step with developments.

For the purposes of the Tariff Commission's report, it was, of course, impossible that they should foretell the future course of events. They could not, any more than any of us can, safely assume that this or that change will be permanent. Instead, they did the useful and honest thing, as I have shown in the quotation from their report, of making perfectly clear and explicit to themselves and to others the assumption on which the report is based, and it is the simple assumption that international trade will return to substantially its former condition.

It is well that this assumption should be made clear. And it is important to say that its corollary is that, to the extent that it does not prove to be warranted, we may, and indeed must in some instances, review some specific recommendations. Again, in saying this, I make it clear that, except to the extent that can be clearly shown to be warranted, we will adhere to the recommendations of the Commission.

New Zealand, although a country with a relatively small population, has a very large external trade, upon which it is vitally dependent to discharge its external obligations and to carry on its national life. The tariff, therefore, must be considered not only from the point of view of encouraging production for local consumption, but also of developing markets abroad for our exportable surplus. Another and very important matter which must be borne in mind when our tariff is under review is the revenue required to carry on the Government of the country.

### TARIFF POLICY.

The main aspects of our fiscal policy can therefore be dealt with under four heads—

- I. The development of local industry.
- II. The maintenance and extension of markets for our products.
- III. The encouragement of intra-Empire trade.
- IV. The obtaining of revenue.

In at least two important respects the present revision of the tariff is undertaken under conditions different from those which existed when previous alterations have taken place, viz. : (a) The Ottawa Agreement of 1932 ; (b) the

world-wide depression in trade and industry through which practically all nations are now passing; and (c) the necessity of obtaining new markets for our exports and maintaining existing markets. These factors are necessarily taken into consideration when reviewing the whole problem.

The policy of the Government with reference to the tariff may be stated as under:—

I. Development of local industry:—

- (1) To accord protection only to those industries regarded as suitable to New Zealand;
- (2) To grant protection only to the extent necessary to enable local industries to function efficiently;
- (3) To give effect to the Ottawa Agreement so far as it relates to the New Zealand tariff;
- (4) To give employment to our people;
- (5) To keep down costs of living and costs of production;
- (6) To admit raw materials for primary and secondary industries at as low a rate as possible.

II. To use the tariff for the purpose of maintaining and extending markets abroad for our products.

III. To encourage intra-Empire trade.

IV. To obtain revenue.

I now proceed to refer to these factors in greater detail:—

**I. DEVELOPMENT OF LOCAL INDUSTRY.**

Notwithstanding objections which may be raised, it must, I think, be recognized that New Zealand has now reached a stage of industrial development where regard must be had both to the primary industries and to those secondary industries which are conducted on an economic basis. So that a general view may be obtained of the extent of production in New Zealand and the relation between that of primary and of secondary industries, the following figures are quoted:—

<i>Value of Production for Year ended 31st March, 1933.</i>				
Agricultural, pastoral, dairying, poultry, and bees				£
(primary industries)	..	..	..	52,500,000
Mining, fisheries, and forestry	..	..	..	5,600,000
Factory production (secondary industries)	..	..	..	17,700,000
Building and miscellaneous	..	..	..	10,000,000
Total..	..	..	..	<u>£85,800,000</u>

In these figures the production of butter-factories, cheese-factories, meat-freezing works, &c., is included with the primary industries, and also the value of the agricultural and pastoral products used by the secondary industries. The total value of the production of secondary industries, including the cost of materials used by them and shown above under the production of primary industries, was about £27,000,000 for the year 1932-33.

The figures of secondary-industry production include those of certain sheltered industries such as newspaper-production, gas and electricity production, which are not subject to competition from abroad. There are, of course, other industries outside this category, and the questions arise as to the means by which and the extent to which assistance, if any, should be accorded to them. Various methods have in the past been adopted in different countries to assist their industries—for instance, tariffs, subsidies, embargoes, and, more recently, quotas or quantitative regulation of imports. Hitherto in New Zealand the method of assisting industries by means of subsidies or embargoes has been adopted to only a very limited extent, and there are strong objections to both these courses. The granting of subsidies

is open to the objection that, if there are many such industries and if they are on a large scale, the amount of taxation required to provide the subsidy would be a heavy burden on the revenue. Further, if this system were generally adopted, many difficulties might arise as to the amount of subsidy under varying conditions and the allocation of the subsidy, whether, for instance, it should be paid only to efficient units or to all units irrespective of efficiency. There is another point that deserves consideration, and that is the reaction of other countries to such a policy. In the Government's view the adoption of such a policy generally would not be in the best interests of New Zealand, and should be limited to exceptional cases. With respect to embargoes, these are open to the objections that they tend to create internal monopolies by the elimination of competition from abroad, and that they may provoke retaliation by other countries affected. The only other principal substitute for tariffs is the policy of quotas or quantitative regulation. It is possible that New Zealand may yet be driven, as a result of action taken by other countries, to adopt the last-named policy in dealing with its import trade, but in the meantime the most satisfactory method suitable to New Zealand by which assistance may be given to industries is by means of the tariff.

#### (1) INDUSTRIES WHICH SHOULD RECEIVE TARIFF PROTECTION.

I now propose to deal with the question whether assistance by way of tariff protection should be given to any industries, and, if so, the industries to which such assistance should be accorded. Owing to the higher costs of production of many articles in New Zealand than in the United Kingdom, and most other countries which send goods to this Dominion, it is clear that if some tariff protection is not given many industries will be unable, under existing conditions, to operate on a satisfactory basis even when allowance is made for the advantage received by such industries through freight, &c., from abroad. When it is remembered that in the protected industries of the country the number of persons engaged and the value of production are so large it will be seen that it is advisable that certain industries should receive protection.

Generally speaking, it may be stated that only those industries which are reasonably suited to our conditions should be protected. In determining such industries the following points should receive consideration :—

- (a) The market available.
- (b) The number of persons employed or likely to be employed and the amount of capital invested.
- (c) Whether local raw materials are utilized and to what extent.
- (d) The proportion of the factory cost which is due to the wages of employees.
- (e) The advantage enjoyed by local industries through freight and other charges on finished imported competing articles.
- (f) Whether the industry manufactures a full range of articles in a class required to meet the public demand.
- (g) The frequency of changes in the nature of the article produced.
- (h) Whether the industry has operated successfully under protection.
- (i) Whether there is reasonable competition from outside New Zealand.
- (j) The extent to which vested interests have arisen under existing tariffs.

With respect to these matters, I would offer the following observations :—

##### (a) *Market available.*

It does not seem likely that in the near future any considerable market will be found outside New Zealand for the products of our secondary industries. Hence, generally speaking, the market will be limited to the local demand. It is obvious that where there is only a small demand for an article it would not, except in very exceptional cases, be economic to assist the manufacture of such an article by a protective duty.

It is impossible to state in advance what would be the limit of demand warranting protection in every case or even in any group of cases. This must be decided in each case on its merits.

*(b) Number of Employees and Capital Invested.*

The number of employees likely to be engaged in any industry is, of course, a very important factor in determining whether protection should be granted to that industry. This is especially the case at the present time, owing to the existing large number of unemployed. It must, however, be borne in mind that the mere fact that an industry might employ a large number of persons is not, in itself, a warrant for the granting of protection at an abnormally high rate. For example, protection has for some years been granted to the motor-body-building industry at a relatively high rate and yet during the last six years only 10½ per cent. of the bodies for motor-cars used in the Dominion have been manufactured locally. This is due, *inter alia*, to the frequent changes in model and design of motor-car bodies rendering efficient production in New Zealand impossible. It is understood that the position with respect to this industry has been accentuated by the recent changes in design of motor-car bodies.

Another point that is of importance in this connection is the cost to the community of the tariff encouragement. If, for example, in an industry utilizing imported materials the total of the wages paid to the employees in that industry during any period is less than the amount of duty that would have been paid if all the goods (including those made in New Zealand) had been imported, it is clear that, unless there are some other special reasons, protection should not be accorded to such an industry. This appears to be the position with respect to the linseed-crushing industry. The question as to the amount of capital required to provide machinery and plant is also of great importance, especially where the market for the product is limited.

*(c) Use of Local Raw Materials.*

The production of raw materials in New Zealand is the result of the employment of labour and capital. The extent to which such raw materials are utilized by an industry is therefore a point for consideration in determining whether protection should be accorded to it. Illustrations of such industries are those manufacturing cement, boots, clothing, &c. The woollen industry is, to an extent, also one to which this applies, but it is worth mentioning that the purchase of wool by the local woollen-mills during the last few years accounts for only about 2½ per cent. of the total New Zealand clip.

*(d) Relation between Labour Cost and Factory Cost.*

If the proportion of the total labour cost to the factory cost of an article is relatively low, this is a factor which must be borne in mind when considering whether protection should be granted. Among industries in which labour cost is relatively small are those manufacturing white-lead and iron and steel pipes. There are, of course, other reasons for the action which is proposed with respect to particular products—*e.g.*, white-lead and linseed-oil are the chief bases from which the tradesman makes his paint. Again, iron and steel pipes are required for large developmental work, and it is considered that protection thereon should, if required, follow the establishment of a basic iron and steel industry.

*(e) Advantage by Freight and other Charges.*

The advantage received by an industry by freight and other charges on competing imported goods is also a matter for consideration. Where goods are of a bulky or heavy nature this advantage is often sufficient protection for the local industry—for example, tariff protection has never been accorded to ordinary building bricks, yet they are never imported. It is considered that a similar advantage exists with respect to fire-bricks, fireclay, and soda crystals.

*(f) Whether the Industry manufactures a Full Range of Articles required to meet the Public Demand.*

It is important that where an industry receives protection it should manufacture a full range of the articles to which such protection is accorded and for which there is a considerable demand. The best illustration that can be given of this is the woollen textile manufacturing industry. This industry has received protection for many years with respect to all articles containing wool, except certain unions, linings, &c. With the exception of silk mixtures, the industry has, I understand,

generally speaking, adopted the policy of manufacturing only all-wool products. Notwithstanding this, the Government is advised that during the years 1928 to 1932 fabrics made from wool mixed with other materials and known as “woollens” or “worsted” were exported from the United Kingdom to New Zealand to the following extent:—

		£			£
1928	..	193,000	1931	..	144,000
1929	..	213,000	1932	..	158,000
1930	..	195,000			

This means that, although the industry received protection for these products, they have not met the public demand by manufacturing them. In my opinion, an industry, to justify the retention of protection for goods, must be prepared to make any classes of those goods for which there is a considerable local market and which can be manufactured on an economic basis. It will be remembered that in 1927, with a view to enabling these fabrics to be manufactured, the duty was taken off raw cotton and cotton yarn of British origin. The Government are of opinion that if protection is to be maintained on textiles of this nature manufacturers must be prepared to make them. If, after the expiry of a period of, say, two years, the manufacture has not been undertaken on a satisfactory basis, the Government consider that the question of withdrawing the protection with respect to those goods should then be gone into. It is, of course, recognized that it may be more satisfactory if the manufacture of these products were undertaken by firms other than those engaged in the manufacture of pure woollens.

The general point to be made, however—and its reasonableness will be evident—is that when protection is granted there is an obligation on local enterprise to take advantage of the opportunity thus given; it must, within a reasonable time, “deliver the goods,” and this is the *sine qua non* of the continuance of protection.

(g) *Frequency of Changes in the Nature of the Article produced.*

It is clear that in a country like New Zealand, where industries are more or less limited in scope, articles with respect to which there are frequent changes in design or construction as a result of scientific or industrial development in other countries are not usually suited for economic production here, and hence do not warrant protection. The motor-car body building industry falls within this category.

(h) *Whether the Industry has operated successfully under Protection.*

Where an industry, notwithstanding that it has received protection in the past, has been unable to operate on a profitable basis, this is *prima facie* a reason why protection should not be continued.

(i) *Whether there is reasonable Competition in the Commodity from outside New Zealand.*

The Government recognize that it is only by competition either internal or external that the public can be assured that prices will be kept at a proper level. It is, of course, generally desirable that where there is an efficient local industry it should receive protection from unreasonable competition from combines or trusts operating outside New Zealand. It is likely that if the local manufacturer were driven out of business the price of the article to the consumer might be considerably raised.

(j) *Vested Interests.*

It is a matter of history that many industries carried on in New Zealand to-day have come into existence under the shelter of tariffs devised for revenue purposes. This is not of itself any argument for or against the continuance of protection, but the vested interests created must, subject to the Ottawa Agreement, be considered in determining whether or not protection should be granted.

(2) THE EXTENT TO WHICH PROTECTION SHOULD BE GRANTED.

The view of the Government is that protection should be granted to local industries only to the extent necessary to enable them to function economically and efficiently. Broadly speaking, the rate of protection should be determined

by considering the manufactured cost and selling-prices of New-Zealand-made goods in relation to the landed cost of imported competing articles under normal conditions. So far as articles manufactured in the United Kingdom are concerned, the question is affected by article 8 of the Ottawa Agreement. With this I propose to deal hereafter.

Among the factors to be taken into consideration in fixing the amount of protection on any class of articles are the extent to which imported raw materials are used and the advantage accruing to the industry by freight and other charges on imported finished goods as compared with the freight, &c., on raw materials used in New Zealand and the distribution charges in the Dominion on the locally made goods.

### (3) EFFECT OF OTTAWA AGREEMENT.

The articles of the Ottawa Agreement which affect the aspects of New Zealand tariff policy with which I am now dealing are numbered 7 and 8. Article 7 is as follows :—

“His Majesty’s Government in New Zealand undertake that protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success.”

It will be seen that the policy embodied in this article is outlined above for determining the industries to which protection should be granted, and it is unnecessary to enlarge further upon it.

Article 8 of the Agreement is as follows :—

“His Majesty’s Government in New Zealand undertake to institute an inquiry into the existing protective duties, and, where necessary, to reduce them as speedily as possible to such a level as will place the United Kingdom producer in the position of a domestic competitor—that is, that the protection afforded to the New Zealand producer shall be on a level which will give the United Kingdom producer full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production.”

The Government recognize that, owing to the numerous factors affecting the question, it is not possible to compare production costs in two countries on a purely arithmetical basis. The production costs of different manufacturers, even in the same country, are not always compiled on lines admitting of satisfactory comparison. It is also a fact that the articles concerned are not always directly comparable, and differ in certain details. Prices of raw materials also fluctuate. These and other factors must be borne in mind when any comparison of costs is being made. As is pointed out by the Tariff Commission in its report, the various articles of the Agreement should receive a generous interpretation. In other words, they should be considered from a practical point of view, with a view to giving the United Kingdom manufacturer a reasonable opportunity of competing on this market and at the same time to enable efficient and economic industries in the Dominion to operate satisfactorily.

It must be understood, however, that, as the chief factors for consideration under article 8 are the production costs, the only industries to which the provisions of this article can be applied are those which supplied to the Commission the necessary information. Any other modifications proposed are based on other considerations.

I should perhaps direct attention to article 9 of the Agreement, which is as follows :—

“His Majesty’s Government in New Zealand undertake that United Kingdom producers shall have an opportunity of putting forward their views in connection with the inquiry referred to in article 8 hereof.”

It is evident from the report of the Commission that the provisions of this article have been carried out.

### (4) EMPLOYMENT.

It is particularly important that at the present time every opportunity through industrial activities should be explored for the employment of our people consistent with the carrying-on of industries which are likely to assist in the recovery of the Dominion. It is, of course, not in general of advantage to this or any other country that an industry should be fostered by tariff protection where the direct and indirect cost of that protection is greater than the benefits likely to be derived by the community.



### (5) COSTS OF LIVING AND COSTS OF PRODUCTION.

Owing to the depressed conditions through which we are passing it is even more essential now than formerly that a determined effort should be made to reduce costs of production and costs of living. It is only necessary to refer to the dairy industry and other primary industries to recognize the necessity for this course. The tariff, as proposed, makes very considerable reductions in this respect. There is a matter in this connection to which the Tariff Commission has drawn attention—viz., the burden of the tariff on the building industry. It is important both for town and country that building costs should be reduced as far as possible. The measure now before the House provides for important changes along these lines.

### (6) TARIFF ON RAW MATERIALS.

It is the view of the Government that raw materials for the primary and secondary industries of the country should be admitted either free of duty or at as low a rate as possible. If, therefore, goods are manufactured in New Zealand which are the raw materials for other important industries, it is essential that they should be available at the lowest possible cost, and that tariff protection, where required, should be kept at a minimum.

## II. MAINTENANCE AND EXTENSION OF MARKETS ABROAD.

As I have already indicated, the use of the tariff for the purpose of maintaining and extending markets for our products is one of great importance at the present time. Great changes have taken place in international trade during the last few years. Before the depression tariffs were the chief means by which countries regulated their imports. Now, however, control is exercised by means of quotas, embargoes, licensing systems, exchange controls, and other devices, as well as by tariffs. This is due to the development of intense nationalism, which is a feature of the policies of some of the principal nations of the world. Some countries, especially debtor countries, finding it almost impossible to get their goods over the high tariff walls in other countries, felt forced, by way of reprisal and in an effort to reduce their consequent unfavourable trade balances, to impose higher duties on imports, or, where these were ineffective, to resort to the more drastic methods already mentioned. The tendency towards self-sufficiency is particularly evident with respect to agriculture in certain European countries.

According to information available on the subject, it seems that the most recent tendency is towards the negotiation of agreements which aim at balancing the trade between countries. Illustrations of this will be found in the India-Japan textile agreement. France has recently granted special quotas to countries granting corresponding facilities to French exports; action along similar lines appears to have been taken in Belgium, Italy, Germany, and other countries. Some system of exchange-control exists in Germany, Czechoslovakia, and other countries. The most important so far as New Zealand is concerned is the alteration which has taken place in the trade policy of the United Kingdom.

It seems that to maintain and develop her overseas markets this Dominion must give serious consideration to its position. Whether or not the new policy is theoretically sound is of minor importance. As many of the great trading nations of the world have embarked on this system, there appears to be no alternative but that New Zealand, to preserve and extend her external trade, should mould her policy accordingly.

In my view New Zealand should make a strong effort to enter into negotiations with other countries, especially the highly industrialized countries which offer possibilities for the disposal of our primary products. To do this we should be prepared, subject to the Ottawa Agreement, to reduce foreign tariffs, or to adopt quotas or other regulative devices in return for concessions for our products. It is admitted, of course, that the carrying-out of such a policy cannot be achieved in a short time. Negotiations of this nature are necessarily difficult and involved, but in view of the outlook for some of our primary products (particularly dairy products) it is essential that the matter should be dealt with immediately. It is therefore proposed to pursue the policy indicated above. As honourable members are aware

an Arrangement was made last year with the Government of Belgium under which concessions on certain of our primary products were made by that country in return for reductions in the New Zealand Tariff on certain of their goods.

In this connection it must be remembered that under article 10 of the Ottawa Agreement New Zealand has undertaken to preserve the existing margin of preference on United Kingdom products where the margin does not exceed 20 per cent. *ad valorem* (or its equivalent) and where the margin exceeds that figure not to reduce it below 20 per cent. without the consent of His Majesty's Government in the United Kingdom.

Where reductions have been proposed in the British Preferential Tariff the Government do not, generally speaking, intend, except for some special reason, to reduce the General or foreign Tariff below the rates at present levied, so that they may be in a position to pursue negotiations with foreign countries along the lines indicated above.

Another matter that will require consideration is the most-favoured-nation trade arrangements with foreign countries to which New Zealand is a party. These arrangements have recently been subjected to a certain amount of criticism, and it may, in the light of the altered trading policies of other countries, be necessary to review the position insofar as these trade arrangements are concerned.

In this connection reference should be made to the importation of Japanese goods into New Zealand, and the steps that are being taken in the United Kingdom and elsewhere to deal with this matter. The view of the New Zealand Government is that the problem is one which is most suitable for negotiation between the two Governments. An important matter for consideration here is article 12 of the Ottawa Agreement under which any preferences granted to the products of the United Kingdom are automatically granted to the non-self-governing colonies, protectorates, and certain mandated territories.

### III. THE ENCOURAGEMENT OF INTRA-EMPIRE TRADE.

This brings me to one of the most important matters with which I propose to deal—the encouragement of trade within the Empire. It is the settled policy of the Government to pursue every practicable avenue to increase trade between New Zealand and the other units of the Empire, especially the United Kingdom. During the last thirty years this Dominion has accorded substantial tariff preference to the goods of Empire countries. For a long period this preference was on a voluntary basis so far as New Zealand was concerned, and was extended to all units of the Empire. Now, however, the practice is for preference to be arranged by means of definite trade agreements between the respective units of the Empire. In 1922 New Zealand made a Trade Treaty with Australia which was replaced last year by a new Agreement. In 1932 an Agreement was made with Canada which provides for tariff concessions by both countries. In the same year, as members are aware, an Agreement was entered into at Ottawa under which, for the first time, a definite tariff arrangement was made with the United Kingdom, some of the provisions of which extend to the non-self-governing colonies and protectorates. There is also a reciprocal Agreement between this Dominion and the Union of South Africa.

Other Dominions have adopted to a greater or lesser extent a similar policy.

In the light of the existing circumstances it would appear that this Dominion's policy should continue to be moulded along these lines.

There are, of course, limits to the extent to which Empire trade can be fostered by means of tariff preferences. The interests of our own people, especially those of the primary and secondary industries, must be considered. At the present time New Zealand extends such preferences on a very wide range of goods. Generally speaking, and except for certain important revenue items, it may be said that where preference is not granted the goods concerned are of a class not commercially produced within the United Kingdom or are essential raw materials required by the industries of New Zealand which it is desirable should be available at the lowest possible cost. It is obvious that in many cases, if duties were imposed on such materials or if the duty thereon were increased, it might be necessary to grant the local industries increased protection to enable them to compete with imported finished articles.

There is another side—and a very important one—to these Agreements—viz., the extension of markets for our products in Empire countries. The advantages we received under the Ottawa Agreement are too well known to require recapitulation, and I do not at present propose to go into details. The Agreements with Canada and Australia have on the whole proved satisfactory, and they have provided means for the disposal of our products in those countries. There is one point in connection with the Australian Agreement to which attention should be directed: Many witnesses who appeared before the Tariff Commission pointed out that, with respect to certain goods exported from New Zealand to Australia and not specifically mentioned in the Agreement, higher rates of duty were charged than those on similar goods imported from Australia into New Zealand. Provision is, however, made in article 9 of the Agreement under which either country can request the other to admit any lines of goods at the rate applicable in the country of export. If the request is not complied with within three months, the country making the request can impose on the goods of the other country a rate of duty not greater than that charged in such country under its British Preferential Tariff.

It is the intention of the Government to take advantage of every opportunity of extending the policy outlined above by making trade agreements with other self-governing dominions. Certain preliminary negotiations have already taken place but it is not possible at present to give details of these.

#### IV. COLLECTION OF REVENUE.

An important object of the New Zealand Customs Tariff is the collection of revenue. The amount received during the last financial year was approximately £6,485,000. This formed about 38 per cent. of the total taxation revenue of the Dominion. Generally speaking, it has been found necessary to retain revenue duties at their present level. In some cases, however, it is considered that the existing rates of duty are having an adverse effect. It is proposed in such cases to make reductions which it is hoped will have the effect of increasing the revenue.

After a consideration of the increases and decreases made in the rates of duty, and the probable increase in trade due to the stabilization of the tariff and the improved conditions generally, it is estimated that the effect of the modifications on the items affected will be an increase in the revenue of about £90,000.

There are certain general matters which I propose to discuss briefly.

#### CURRENCY FLUCTUATIONS.

The relation of fluctuations in the currency of various countries to tariff protection is one of the matters that have been receiving the consideration of the Government. It is generally recognized by economists that when the currency of a country is depreciating an advantage accrues to manufacturers in that country, but that, sooner or later, after the exchange has been stabilized, internal conditions adjust themselves to the influence of external conditions. Some factors which enter into production costs undoubtedly adjust themselves more slowly than others, and it is impossible to say when complete adjustment has taken place. It is evident, also, that the prices of imported raw materials, plant, &c., and of many local raw materials immediately tend to respond to the effects of exchange modifications. From information supplied to me I am satisfied that in the majority of cases raw materials form at least 50 per cent. of the total factory cost of goods manufactured in New Zealand, and insofar as the manufacturer's costs are increased by the influence of the exchange on such materials his advantage to that extent is immediately lost.

When these conditions, following depreciation of the currency, have been in operation in a country for some time it is impossible to say with any degree of accuracy the extent of the adjustment which has taken place. Hence it is considered impracticable to deal satisfactorily with the question by means of a tariff, particularly in a comparatively low tariff country like New Zealand.

### CONVERSION RATE FOR DUTY PURPOSES.

There has been a considerable amount of controversy as to the basis that should be adopted for the conversion for duty purposes of values not expressed in New Zealand currency. As a matter of principle, I agree with the view of the Tariff Commission that values for duty should be assessed in the currency of the country levying duties. For our purposes, however, the question is a practical one. As will be seen from the report of the Commission, the evidence and data received and the calculations and determinations made by them were based on the existing system. It is therefore proposed at present to retain this system. If the values were to be calculated in New Zealand currency it would, generally speaking, be necessary to reduce the rates of duty by about 20 per cent.

### EXERCISE OF AUTHORITY GRANTED TO MINISTER UNDER CUSTOMS ACTS.

Exception has from time to time been taken to the powers of interpretation and decision granted to the Minister by Parliament under various Customs Acts. If these powers did not exist, the only other tribunals to which recourse could be had would be the Courts. This was the position prior to 1907, and, as a result of the position thus created, the administration of the tariff was rendered more complicated. It was found also that general exemptions in the tariff were interpreted to cover goods that were not intended to come under those headings when the legislation was passed. At the present time many of the tariff items are set out in general terms. If the powers granted to the Minister were not retained, it would be necessary in many cases to embark upon a far greater enumeration of articles in the Schedules than there is at present. Every item in such an enumeration might form the subject of Court proceedings, and, when one considers the rapid and complex changes which take place both industrially and commercially, it can be realized that to revert to the former position would be a retrograde step. In my opinion the existing system has, on the whole, worked very satisfactorily, and it has reduced to a minimum the delay and uncertainty in the clearance and classification of goods.

The Tariff Commission in its report sets out at length and in unmistakable terms its conclusion that the present system should be retained.

### TIME TO DISPOSE OF STOCKS OF IMPORTED GOODS.

It is usual when reductions are made in Customs duties to afford importers time to dispose of stocks of goods upon which duty at higher rates has been paid. If this were not done it would mean that merchants holding such stocks would be placed at a disadvantage through having to compete with goods admitted at the lower rates of duty. In cases where the reduction in duty does not exceed about 5 per cent. *ad valorem* it is not considered that the matter is of sufficient importance to warrant this special action, but in other cases it is proposed that, except in special circumstances, the lower duties or exemptions should not take effect until 1st November, 1934.

### SURTAX AND PRIMAGE.

Except in special circumstances, it is not considered satisfactory that Customs duty should be levied by way of general imposts such as surtaxes and primage. As honourable members will recollect, it was agreed at Ottawa that the primage duty at present imposed would be abolished as soon as revenue conditions permitted. The Government has given full consideration to this matter, but it is regretted that it is not at present possible to dispense with the revenue thereby received.

As regards the surtaxes, these, as honourable members are aware, have been abolished so far as the United Kingdom and non-self-governing colonies are concerned in accordance with the Ottawa Agreement. The result is that the great bulk of our dutiable imports are not now liable to this surcharge. It is proposed, in the meantime, to retain the existing surtaxes for the purpose of negotiating agreements with other countries as was done last year in connection with the Agreement with Belgium.

There are many other matters connected with the proposals now before the House that will require consideration, but concerning which I do not think it is necessary to make any statement at the present time. These I propose to deal with at a later date.

#### RATES OF DUTY.

In pursuance of the principles set out above, the Government has decided to make a number of alterations in the tariff to the chief of which, so far as they affect the British Preferential Tariff, I now propose to refer.

Protective duties abolished :—

- Certain stock foods.
- Electric cooking and heating appliances.
- Nails n.e.i.
- Iron and steel pipes and fittings therefor.
- Linseed oil.
- White lead in oil.
- Motor car bodies.
- Radio sets in cabinets.

With respect to radio sets I might mention that it has been decided that such sets of foreign manufacture are to be charged at 35 per cent. if imported built up, whether in cabinets or not. Only the parts not built up are to be admitted at the old General Tariff rate of 25 per cent.

In the following cases the protection has been reduced :—

Reductions from 25 per cent. to 20 per cent.—

- Preserved and dried milk.
- Soap.
- Hats, caps, and millinery.
- Boots and shoes.
- Leather manufactures.
- Glass bottles.
- Stationery and paper, manufactured.
- Oil engines.
- Galvanized iron manufactures, metal office furniture, &c.

Reductions from 25 per cent. to 15 per cent.—

- Tinware.
- Furniture and upholstery.

Reductions from 20 per cent. to 15 per cent.—

- Paints and varnishes.
- Biscuits.

Reductions from 20 per cent. to 10 per cent.—

- Baking powder.
- Plaster pulp sheets.
- Metal and stove polishes.
- Leather dressings and polishes.

Miscellaneous reductions—

- Wooden doors : From 30 per cent. or 4s. per door to 25 per cent.
- Confectionery and chocolate :  $27\frac{1}{2}$  per cent. to 20 per cent.
- Apparel : From  $27\frac{1}{2}$  per cent. to 25 per cent. or 20 per cent., according to kind.
- Whole maize : From 2s. per cential to 1s. 6d. per cential.
- Jams, jellies, and preserves : From 2d. per lb. to 1d. per lb.
- Vinegar : From 6d. per gal. to 3d. per gal.
- Cement : From 1s. per cwt. to 8d. per cwt.
- Matches, wax and wooden : 1s. per gross of boxes to 9d. per gross of boxes, with corresponding reductions for larger containers.

The following reductions have been made in revenue duties :—

Reductions from 25 per cent. to 20 per cent.—

Carpets.

Fancy goods, sporting requisites, jewellery and platedware.

Tobacco pipes, pouches, cigarette holders and cases.

Other reductions—

Toilet preparations : From 35 per cent. to 25 per cent.

Pianos and other musical instruments : 20 per cent. to 10 per cent.

Engines for tractors : 10 per cent. to free.

Cigarettes : 33s. 9d. per thousand to 25s. 6d. per thousand.

In the following cases the protective duties have been increased :—

Ground or crushed maize : From free to 2s. per cental.

Porcelain enamelled cast iron baths : From 20 per cent. to 25 per cent.

Gas meters : From free to 10 per cent.

Increases as follows have also been made in revenue duties :—

Cigarette papers : From 25 per cent. ad valorem to 1¼d. for each 60 cigarette papers.

Motor vehicle chassis and trucks : From 10 per cent. to 15 per cent.

Altogether, the New Zealand Customs Tariff includes 449 items : of these, some 344 are not touched by the recommendations of the Commission nor by the proposals of the Government. In some form or other, the remaining 105 items are brought under consideration.

#### WHEAT AND FLOUR.

Since 1927 New Zealand has had a sliding-scale of duties on imported wheat and flour. On this subject there has been, and there continues to be, a reasonable and healthy difference of opinion. I need not recall all of the controversy that has been sustained, nor the periodic outbursts of criticism that have occurred from time to time ; nor is it necessary to recall that even within the most highly organized and the most articulate of bodies unanimity of opinion has been singularly lacking. For present purposes and so far as the report of the Tariff Commission is concerned, I merely mention that this is one item of importance on which the Commission itself failed to submit a unanimous recommendation. It may be of interest to indicate briefly the nature of the recommendations of a majority of the Commission, and after that I shall indicate also the Government's proposals.

A majority (three of the four members) of the Commission recommend the abolition of the sliding scale of wheat and flour duties and the substitution of flat rates of 1s. 3d. per bushel on wheat and £5 15s. per ton on flour. These compare with the present level of duties of approximately 2s. 9d. per bushel on wheat and £7 per ton on flour based on Australian prices of 2s. 11d. per bushel and £6 7s. 6d. per ton respectively.

The other member of the Commission—and both the majority and the minority reports will, of course, be published—recommends that the duties be abolished as soon as is practicable by progressive reduction over a period of years.

The Government, having full regard to the report, to the reasoning and to all attendant circumstances, propose that the present sliding scale should be retained, and in substantially its present form.

We believe that, on the whole, the existing system has worked well—not indeed that it has won universal praise, but as far as can reasonably be expected in this human world, it has worked and is working well. That is a view in which, without doubt, the great majority of the community concur.

The contrary view has been expressed, as I have made clear, by the Commission. From their report I quote one sentence :—

“ . . . We are unable to see any reason why the wheat farmer should not, like most other primary producers, be subject to the vicissitudes of the world price-level.”

That expresses a sentiment with which we do not agree. Our view is that the removal of the protection that has been given to wheatgrowers would menace an

industry which New Zealand cannot afford to have menaced. It is unfortunately true that the vast majority of our farmers have, in recent years of depression, been exposed to a severe economic blizzard. Does it follow from this that wheat-growers whom we are in a position to some extent to safeguard, should be similarly exposed? We think not.

The recommendation of the Government then is that the present system of wheat and flour duties should be retained.

#### MOTOR-VEHICLES.

As an item in the tariff schedule motor-vehicles have a number of special features: The Customs taxation derived from them is of importance from the viewpoint of revenue; they are a class of manufacture in which we give an especial degree of British preference. In passing, it may be mentioned that of the number of our motor-vehicles imported the percentage from United Kingdom in 1929 was 15 per cent.; in 1930, 21 per cent.; in 1931, 65 per cent.; in 1932, 83 per cent.; in 1933, 75 per cent. Although they are not made in New Zealand, we are concerned in the question of body-building and also in the more substantial question of assembling cars. All of these considerations have been borne in mind in reviewing the tariff, and, in addition, the aim has been to simplify the tariff for administration, and, as in other items, to reduce it to the advantage of users and consumers.

The Tariff Commission's recommendations, not all of which the Government propose to adopt in full, cover the following points:—

- (1) Abolition of the differential duty between the complete vehicle and the chassis. This was intended to encourage the building of motor-bodies in New Zealand. It has not succeeded.
- (2) Imposition of a flat rate duty of 15 per cent. on all motor-vehicles entered under the British Preferential Tariff. This would have the effect of reducing the advantage in duty obtained on vehicles imported in parts—"completely knocked down"—for assembling in New Zealand.
- (3) Increase of the duty on motor-cycles, under the British Preferential Tariff, from the present 10 per cent. to 15 per cent.

From these recommendations the Government's decision departs in two respects: Firstly, with regard to the assembly of cars in New Zealand, the Commission were of opinion that the industry was one suited to the conditions in the Dominion. They found from figures produced to them that, owing to freight and other savings, the industry could be economically carried on without special protection. Information obtained, however, since the Commission reported, with respect to the more recent types of cars which have come upon the market shows that some concession in the rate of duty is necessary if the industry of assembling cars in New Zealand is to be carried on satisfactorily. The Government have therefore decided to depart from the recommendations of the Commission in this respect. Having regard to the desirability of encouraging the assembly of cars in New Zealand, we propose that completely knocked down cars should be admitted at lower rates than those on cars completely set up.

Honourable members and others who are familiar with conditions in the motor trade are aware of the value of the employment provided in assembling here in New Zealand the cars of some of the principal British and American manufacturers. We do not propose to disturb this condition, but, on the contrary, the aim is to encourage other manufacturers to assemble their cars in New Zealand and utilize New Zealand labour and material.

The other variation from the Commission's recommendation that we have made is in maintaining motor-cycles at their former low rate. In so doing we sacrifice the advantage of simplicity that would be given by charging motor-cycles at the same rate as motor-vehicles; but this advantage to the Government is foregone rather than increase the cost of motor-cycles which are a form of transport popular amongst the less affluent in the community.

## TIMBER.

The Tariff Commission's report includes the following paragraphs in relation to the timber industry :—

“ This industry is an important one to New Zealand, and employs a very large number of persons. Owing to reduced activity in the building trade through the existing economic conditions, the consumption of timber in recent years has been greatly diminished. We have investigated the production costs of a great number of mills and find great disparity in these costs not only in different districts, but in those of mills situated in the same district. The evidence shows that the production costs in some countries exporting timber to New Zealand are on a much lower scale than those in this country.”

After stating some of the causes which appeared to them to account for these higher costs, they proceed :—

“ These and other facts give the Commission cause to doubt whether the industry can be regarded as an economic one from the point of view of the needs of the Dominion for lower timber costs. In view, however, of the amount of capital invested in the industry, the number of persons engaged therein, and of the importance of the industry to transport organizations, the Commission could not, under the existing conditions, recommend a drastic reduction of the existing duties.”

Their main recommendation was that the existing duties on rough sawn timber should be reduced by 3s. 6d. per 100 superficial feet and those on dressed timber by 6s. 6d. per 100 superficial feet.

After full consideration of the subject, and bearing in mind the number of persons engaged in the industry and the amount of capital invested therein, the Government recommend to Parliament that the tariff on timber be retained as it is in the present tariff without alteration.

## TOBACCO.

Tobacco is essentially a revenue item; the amount of duty collected thereon during 1933 was over £1,600,000. The question as to the protection to be granted to the grower and manufacturer must be considered in relation to the revenue aspect. The Commission, in their report, draw attention to the relatively large loss of revenue due to the protection nominally granted to the grower on leaf tobacco, and it is evident that the rate is too high. The Government propose to reduce this protection by 1s. per pound and, so that the revenue may be safeguarded, to add an equivalent amount to the excise duties. The position with respect to cigarettes is that it was found some years ago that revenue was being lost through the admission of tobacco suitable for the manufacture of cigarettes at the same rate as ordinary pipe tobacco. To meet this difficulty it was decided in 1921 to impose on fine cut tobacco a rate of duty approximating that on cigarettes. Experience has since shown that this is ineffective, and it has been decided to abolish this distinction in tobacco duties and to substitute a special duty on cigarette papers at the rates of 1½d. and 1½d. for every sixty papers under the British Preferential and General Tariffs respectively. At the same time it is intended to reduce the import duties on cigarettes by 1d. per packet of ten and to provide for a corresponding reduction in the excise duties. The protection, as such, granted to the manufacturer is considered to be satisfactory, and it is not proposed to make any reduction therein. The making of cigarette papers in New Zealand is not regarded as an industry suited to the Dominion, and it is intended to impose an excise duty thereon at the same rate as that under the British Preferential Tariff.

## RESOLUTIONS.

With respect to the Resolutions themselves, the first Resolution abolishes all the existing duties on imported goods, and substitutes the new rates set out in the Second Schedule.

The next Resolution provides the necessary machinery to ensure that only goods entitled to be entered under the British Preferential Tariff are so admitted.

The third Resolution keeps in force decisions which have from time to time been made with respect to articles included under items 416 (educational apparatus, appliances and materials) and 448 (articles and materials suited for the fabrication or repair of goods).



The next Resolution safeguards the Trade Agreements with Canada, Australia, and Belgium.

The fifth Resolution saves the arrangement with the Union of South Africa, and the next Resolution is the usual one providing that the new duties do not come into force in the Cook Islands until determined by the Governor-General in Council.

The succeeding Resolution provides that where a reference is made in other Acts (for example, the Sales Tax Act) to tariff items such references shall be deemed to refer to items in the Second Schedule to the Resolutions.

The next Resolution imposes excise duty on cigarette tubes, papers, and paper manufactured in a manufacturing warehouse.

The last Resolution provides for the new Excise duties on tobacco, cigars, and cigarettes made in licensed tobacco-factories in New Zealand.

The First and Third Schedules contain lists of the enactments and other authorities prescribing Customs and excise duties which are abolished by the Resolutions.

The Second Schedule contains the new duties and exemptions. It will be noticed that for the convenience of honourable members this Schedule has, in addition to the new tariff, a statement after each item as to the old rates and also the rates under various Trade Agreements and Arrangements where these differ from the proposed new rates.

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