

export the butter. The factory is allowed to retain the guaranteed price plus the excess of the additional costs incurred in preparing the butter for local consumption over the savings which are effected by not having to export the butter; and the difference between the total amount so allowed to be retained and the wholesale price as fixed by regulations (subject apparently to the fixed distributor's allowance to which the distributor is entitled) is referred to as "differentials." These differentials are paid into a Butter Equalization Account, which is an account of the Internal Marketing Division. The retail price of butter was also in later years controlled and is the subject of Price Orders made by the Price Tribunal.

Such was the procedure adopted from 1936 onwards, and until 1943 all went well. Large surpluses accrued to the Government on the sale of exported butter, and large sums also accrued to the Government by means of the differentials in respect of the butter sold in New Zealand for local consumption.

Then came the stabilization policy of the Government, the object of which may be stated to have been to maintain, as far as possible, charges such as rent and interest, wages, and costs generally at the levels that existed on the 15th December, 1942, to keep prices of commodities from rising, and thus keep down the cost of living. Both prior and subsequent to the coming into operation of the Economic Stabilization Emergency Regulations efforts were made to effect this object by means of subsidies, which, in the case of imported articles, were paid for the most part to the merchant-distributors of the goods, and, in the case of articles manufactured in New Zealand, to the manufacturer. A very large number of articles were the subject of such subsidies—for example, sugar, tea, and salt, as well as such materials as fertilizers and fencing-wire and other materials used in farming operations. These subsidies were paid by the Government out of what was known as the War Expenses Account.

Pursuant to the stabilization policy, negotiations took place between the Government and the representatives of the farming industry, and these negotiations resulted in the agreement, which we are now asked to interpret. Under that agreement it was agreed that a separate account was to be kept in respect of each product or group of products as might be determined by the Government after consultation with the industry, and stabilization accounts were to be kept in the Marketing Accounts with the Reserve Bank, but to be recorded separately from existing pool and other accounts. Into the Stabilization Account for any product was to be paid any increase in price received from sales overseas for that product after "the determined date," which was the 15th December, 1942. This was subject to a certain exception, which need not be discussed now, but will have to be mentioned later, as will certain other clauses in the agreement dealing with the question of payment into the account. The crucial clause in the agreement is clause six, which is as follows:—

Where a subsidy is required to keep costs of production of any product down to the level existing on the determined date, the amount of that subsidy, excluding the continuation at the level on the determined date of any subsidy paid or payable prior to that date, will be debited to the appropriate stabilization account subject to the provisions in 7.

In fact, the Government did arrange with the Government of the United Kingdom for very large increases in the selling-price of the butter sold overseas. The moneys received to the extent of the pre-agreement price were paid into the Dairy Industry Account, out of which account the Government paid the factories the guaranteed price as fixed by the current Order in Council for the time being. The moneys representing the increase in price obtained for the butter sold overseas were paid in accordance with the agreement of the 18th June into the Dairy Industry Stabilization Account.

The guaranteed price for the season 1936-37 for the grade of butter that was taken in the proceedings before the Commission as the basis for our consideration was fixed at 12-5625d. per pound. In the year 1937-38 it was fixed at 13-25d. which was subsequently increased by Order in Council by 0-41d. per pound, making 13-66d., and was made retrospective. In the year 1938-39 the guaranteed price was fixed at 14-89d., at which figure