

of one market to maintain an effective demand for the products covered by the contracts. The bulk-purchasing system could tend to obscure changes in the pattern of world supply and demand and might confer only a temporary security, which could be lost when the contracts terminate. This could apply particularly with regard to butter, for which substitute products exist, if the United Kingdom demand were not strong enough to absorb a sufficient quantity from New Zealand at prices offering adequate returns. The promotion of expanded sales in other areas would spread the market risk.

On the other hand, the products covered by New Zealand's bulk-purchasing contracts are of a kind most subject to overseas price changes, and the contracts, in conjunction with the primary industries Stabilization Accounts, by providing a cushion against overseas price-fluctuations, both inflationary and deflationary, ensure the stability of the earnings of those producers on whose industry the economy of New Zealand so largely depends, and enable them to plan increased production in relative security for the period of the contracts. While it has been argued that New Zealand should seek greater diversity of markets, it must be remembered that the United Kingdom has always been the most important market for New Zealand goods, and the contracts do not involve any unnatural change in the direction of export trade. To endeavour to sell the goods in other markets purely because such markets offer greater returns for the time being, without any guarantee of long-term stability, might endanger the market in the United Kingdom. Quite apart from these considerations, New Zealand, by participating in these contracts, has assured the United Kingdom of supplies of essential foodstuffs over a critical period.

Investigations indicate that some of the products covered by the bulk-purchase contracts could, in the absence of contractual obligations, be sold in the dollar and other hard-currency areas. While New Zealand's earnings of hard currencies could no doubt be increased in this way, the United Kingdom would probably have to make up at least part of its consequent deficiency by additional imports from hard-currency areas.

*Europe.*—The proportion of exports to Continental countries increased from 4·7 per cent. of the value of total exports in 1938 to 13·7 per cent. in 1948. The value of exports to France, Germany and the Netherlands in particular has risen substantially. The principal exports to European countries in the twelve months ending June, 1949, were wool, hides and skins, butter and cheese, dried and condensed milk, sausage-casings, grass and clover seeds, and apples.

The substantial increase in the value of New Zealand's exports to European countries is probably attributable to a large extent to the need of most European countries to seek their import requirements in soft-currency markets. The concentration of demand for sterling area raw materials has been an important reason for the sustained high prices of some New Zealand products, particularly wool.

A further factor has been the existence of cross-rate operations in some of New Zealand's export products. While most of New Zealand's exports to Europe have been for processing or consumption in the country of destination, there has been evidence that a certain proportion of wool, hides and skins, and other goods from New Zealand has been re-exported in unprocessed form directly to the United States. This trade has proved profitable to intermediaries engaged in black-market exchange operations, and has been responsible for a loss of potential dollar earnings to the sterling area. Efforts have been made to prevent the indirect trade by a system of certification of exports to certain European countries, in cases where it appeared possible that the goods might be transhipped to the dollar area. Latest reports indicate that the indirect trade in New Zealand wool which in 1948-49 was substantial is now of negligible proportions. It appears probable, however, that despite efforts to prevent cross-rate trading, these operations are still being carried on in some New Zealand products.

*United States of America and Canada.*—From 1946 onwards the value of New Zealand's exports to the United States and Canada has not increased proportionately to the growth in the value of total export trade. In the case of the United States, the value of exports decreased progressively in 1947 and 1948, and the 1948 value level of