

approximately £22,000,000 will, it is feared, substantially exceed undistributed profits on sales since 31st March, 1919."

This meant that the whole of the £8,000,000 was being held for the purpose of meeting any possible loss that might be made on the wool now in stock. The wool on which, as the telegram says, there has been £8,000,000 undistributed profits was all sold for civilian purposes, and therefore, according to the last arrangement made—viz., that the share of profits actually realized should be paid to New Zealand calculated at same rate per pound of wool delivered as was paid to the Commonwealth Government—a very large proportion, if not the whole, of the £8,000,000 may be claimed to belong to the New Zealand producers. They are not, however, asking for that. They are only asking for what is reasonable. They claim that what the representatives of the Imperial Government propose is not carrying out the spirit of the agreement, and I must say I agree with them.

So far as the "serious friction" referred to in the paragraph is concerned, I know nothing of it. Right through the war period the business relations between the two Governments have been of the pleasantest character, and I regret exceedingly that any attempt should now be made to make trouble out of what has taken place in this connection. I have confidence, however, that the difficulty will be settled satisfactorily.

Letter from LORD INVERFORTH to the Right Hon. the PRIME MINISTER OF NEW ZEALAND.

DEAR MR. MASSEY,—

Arnos Grove, Southgate, Middlesex, 13th June, 1921.

I have before me your letter of the 6th June, and very much sympathize with you in your difficulties about wool matters. As you know, I have been obliged to withdraw from official business owing to the breakdown of my health, and the responsibility for giving advice to the Government on these matters now lies with Sir Howard Frank. I am bound to say, however, that if I were still in office I should not be able to recommend the British Government to add to their already enormous losses in New Zealand wool by paying to the New Zealand growers a bonus which most certainly has not been earned. It is true that, when the provisional dividend on the 3rd July was arranged, we all expected that further dividends would be forthcoming, but the New Zealand growers by their own experience with the new clip know as well as any one that from July onwards the situation rapidly developed for the worse, and that ever since it has been a question not of making profits, but of trying vainly to get rid of wool somehow at a very heavy loss. When the slump came we held wool out of all four clips, making up in all the equivalent of more than a clip and a half purchased at 15½d., and so soon as the New Zealand growers got the new clip ready for market they proceeded to press it for sale at less than half that price. How, therefore, can they be surprised to know that the total purchases made by the Imperial Government are likely to show on balance an enormous loss, and how can they expect bonuses to be paid out of losses?

In your third paragraph you say the effect of this would be, in case of a division of profits at present, that practically the whole of the profits in hand would come to New Zealand. I can only reply that in my business experience the profits on part of a venture can never be taken separately from the losses to be expected on the unliquidated portion of the venture. There are no undistributed profits on New Zealand wool; on the contrary, there was a premature distribution on an interim balance-sheet. The next balance-sheet—in which the unsold stock was still estimated at an unduly high valuation—showed a heavy loss. When the balance-sheet up to the 31st March, 1921, is made up a still heavier loss will be shown, and in spite of the small improvement in wool during the last few weeks there is no hope whatever of the venture being finally closed except with a loss of many millions sterling. Therefore I am bound to tell you that there are no undistributed profits out of which the New Zealand wool-grower can receive a share; and I think he can only be regarded as fortunate in a distribution having been made in July last, before it was realized that the profits on the wool sold were to be totally swallowed up by losses on the wool then unsold.

I am giving a copy of this letter to Sir Howard Frank, who consented to take over my official responsibilities when it became necessary for me to resign.

Yours, &c.,

INVERFORTH.

Letter from the Right Hon. the PRIME MINISTER OF NEW ZEALAND to LORD INVERFORTH.

DEAR LORD INVERFORTH,—

Hotel Cecil, W.C., 15th June, 1921.

Many thanks for your letter of the 13th instant in regard to New Zealand wool. I shall not trouble you further about this matter except to make one or two observations on some of the points referred to in your letter.

The New Zealand growers say that the Department here was aware of the slump prior to the sending of the telegram of the 3rd July, 1920, and they refer to the transaction in terms which I am not going to use in this note. They say a definite promise regarding further profits was made in order to induce them to accept the proposal, which should never have been made. You say "When the slump came we held wool out of all four clips, making up in all the equivalent of more than a clip and a half purchased at 15½d., and so soon as the New Zealand growers got the new clip ready for market they proceeded to press it for sale at less than half that price." This statement of the position is not accurate. Instead of pushing for sale I arranged with the bankers in New Zealand to make an advance to all those who were willing to hold their wool; but, of course, like other classes of the community, some of the growers found it necessary to realize in order to pay current expenses, wages, interest on mortgages, &c., and one of our troubles in the Dominion to-day is that the sheep-farmers have had to dismiss a large proportion of their hands, who are now applying to the Government for employment on public works.