

*Advances.**(a) To the State or State Undertakings :*

- (1) *Marketing Department :* Marketing Department advances as a whole declined by £3,708,821 10s. 6d., although the transactions now embrace a wider range of commodities than was the case prior to the war. This development is another consequence of the new basis on which the Dominion's exports of dairy-produce, meat and wool are purchased by the Government of the United Kingdom.

Before the war, dairy-produce was the only export commodity financed by advances from the Reserve Bank, and the sterling proceeds were not received by the Bank until many weeks after the corresponding disbursements had been made to the producers in New Zealand. The advances then represented partly produce in transit or awaiting sale in London, and partly the accumulated deficit in the Dairy Industry Account consequent upon disbursements in New Zealand on the basis of guaranteed prices not being fully covered by subsequent realizations overseas.

The new arrangement for dealing with the wider range of exports, besides being based on prices which do not entail the accumulation of further deficits, provides for payment to the producers by methods which involve only small temporary advances in respect of dairy produce and meat, whilst the Wool Account was actually maintained in a credit position.

The following agreements are now in force for the sale of certain commodities to the United Kingdom Government :

- (i) *Dairy Produce :* The United Kingdom Government are to purchase 115,000 tons of the exportable surplus of New Zealand butter and 84,000 tons of the exportable surplus of New Zealand cheese for the 1939-40 season. Additional quantities will be taken if required by the United Kingdom and if shipping space is available. The agreed prices for the 1939-40 season average 112s. 3d. sterling per hundredweight f.o.b. New Zealand for butter, and 64s. 2d. sterling per hundredweight f.o.b. New Zealand for cheese, the equivalent New Zealand prices being 139s. 7½d. and 79s. 9d., respectively.

Exporters are paid in New Zealand on shipment at current prices guaranteed by the New Zealand Government, and 90 per cent. of the purchase price is paid forthwith to the Bank's agent in London, the balance being received within twenty-eight days after arrival of the produce at its destination, or, if the shipment is lost in transit, within that period after what had been the estimated due date of arrival.

- (ii) *Meat :* The United Kingdom Government are to purchase 300,000 tons of the exportable surplus of New Zealand frozen meat during the 1939-40 season at agreed prices, exporters receiving payment in full on shipment less ½ per cent. deducted to cover expenses. Arrangements as to further quantities, and as to payment in London, are the same as for dairy produce.

- (iii) *Wool :* The United Kingdom Government are to purchase the exportable surplus of wool for the duration of the war and for one complete season's clip thereafter.

The agreed f.o.b. price is 10-55d. sterling per pound for greasy wool, the net average yield to producers being 12-25d. New Zealand currency per pound delivered at brokers' stores, while slipe wool realizes 13-75d. sterling per pound with an average gross return of 16-9766d. New Zealand currency per pound to growers. The prices paid in London are on the basis of a flat rate irrespective of variations in quality, but prices paid to growers in New Zealand are graded according to quality. The prices mentioned above relate only to the current season's clip.

Payment in full is received in London by the Reserve Bank within a few days after the wool has been appraised in New Zealand, whereas payment in New Zealand is made to the extent of 95 per cent. for greasy wool and 90 per cent. for slipe wool on the "prompt date," which is fourteen days after appraisal. The balance is held in suspense till the end of the season to cover possible variations between estimated and actual quantities of each class of wool appraised. In consequence of this arrangement, considerable credit balances are held in the Wool Account at the Bank pending payment on prompt date and the ultimate distribution of the small margin held in suspense.

Should any of the wool purchased by the British Government be re-sold outside the United Kingdom and France, one-half of any profits realized will accrue to New Zealand.

- (2) *For Other Purposes :* The advances under this heading increased by £6,735,000 during the year. Of the total amount outstanding at the end of the year, £10,400,000 represented advances for housing purposes.

The rates ruling on the 31st March, 1940, for this accommodation were as follows : 1 per cent. for the first £5,000,000, 2 per cent. for the next £5,000,000, and 3 per cent. for the balance. And as only 1 per cent. was being charged on advances to the Marketing Department up to a total of £5,000,000, it was possible for the Government to borrow up to £25,000,000 from the Bank at an average cost of 2 per cent. per annum.