

1920.

NEW ZEALAND.

DEPARTMENT OF IMPERIAL GOVERNMENT SUPPLIES.

EXTRACTS FROM REPORTS PRESENTED TO THE IMPERIAL PARLIAMENT DEALING WITH RAW MATERIALS ADMINISTERED DURING THE WAR PERIOD AND UP TO THE 31st MARCH, 1919.

Laid on the Table of the House of Representatives by Leave.

SIR,—

Wellington, 31st August, 1920.

I desire to bring under your notice certain information extracted from a report furnished by the Right Hon. Lord Inverforth (Minister of Munitions) covering memoranda by Sir Arthur H. Goldfinch, K.B.E., Director-General of Raw Materials, and Mr. J. A. Cooper, C.B.E., Director of Finance (Raw Materials), which has been presented to the Imperial Parliament by command of His Majesty.

I have, &c.,

ROBERT TRIGGS,

Controller, Department of Imperial Government Supplies.

The Right Hon. the Minister in Charge,

Department of Imperial Government Supplies, Wellington.

RAW MATERIALS.

EXTRACTS FROM NOTE BY THE RIGHT HON. LORD INVERFORTH, MINISTER OF MUNITIONS.

The presentation to Parliament of the trading accounts and balance-sheet (from the inception of the schemes up to 31st March, 1919) of the raw materials administered during the war by me as Surveyor-General of Supply at the War Office, and subsequently transferred to the Ministry of Munitions, offers a suitable opportunity for a general review of the circumstances which called for the adoption of each scheme, the method of execution, and the measure of success that attended such execution.

The execution of these schemes has rested on a devoted band of business men, each of them expert in his own trade, who freely placed their great knowledge and experience at the service of the State, and most of whom declined to receive any remuneration whatever for their very valuable—indeed indispensable—services.

Mention must be made of the services of the Central Wool Committee, Melbourne to whom, and to the Department of Imperial Government Supplies, Wellington, is due the successful execution of the difficult task of appraising, collecting, and shipping the wool from the Commonwealth of Australia and the Dominion of New Zealand.

EXTRACTS FROM GENERAL MEMORANDUM BY SIR ARTHUR H. GOLDFINCH, K.B.E., DIRECTOR-GENERAL OF RAW MATERIALS.

. In the earlier part of the war there appeared to be very little risk of any scarcity of raw materials. The British Fleet commanded the seas, and the closure of the German ports diverted to England supplies of commodities which would in the ordinary course have gone to Germany. Our imports of wool in 1915 were, for instance, by far the greatest on record.

The growing intensity of the war, the enormous increase of the British Armies, and the German submarine campaign against merchantmen changed the situation radically. The Government requirements, on our own behalf and for our Allies, increased by leaps and bounds. To obtain any proportionate increase of supplies was a matter of immense difficulty, and it became gradually evident that the task could not be left to undirected private enterprise. It was not possible to allow private importers to enjoy the almost unlimited opportunities of profit which would have been open to them. Still less was it possible to permit the amount and character of the available supplies to depend on their judgment, when any failure to make adequate provision would have had the most fatal consequences. From the beginning of 1916 onwards the true character of the problem began to show itself. When the submarine campaign developed on a large scale it became evident that the effective regulation of supplies was a matter of life or death to the nation. If the sinking of merchant ships had continued on the same scale as in April, 1917, the supplies required for military purposes could not have been provided except by reducing civilian consumption in a degree which would have strained national endurance to the utmost. The disasters of April, 1917, were not repeated in the same degree in any subsequent month, but it was necessary to be prepared for the worst, and even the measure of success which the submarine campaign during the last two years of the war actually attained would have crippled our national effort had it not been for the unprecedented powers granted by Parliament, which enabled the Government to take extreme and far-reaching measures to secure supplies and to regulate and restrain consumption.

The Ministry of Shipping, by its own authority or through the medium of the Allied Maritime Transport Council, gradually extended its control of the movement of ships until in 1918 it was almost impossible for any steamer to undertake a voyage in any part of the seas without the licence or direction of the Allied authorities. The cargo to be carried was also dictated in almost every particular by the Transport authorities in agreement with the Supply Departments. The available tonnage fell so far below the increasing requirements of commodities from overseas that the duty of deciding between the conflicting claims of the various Supply Departments and of the several Allied countries became one of the most responsible and difficult tasks of the Government. This difficulty became overwhelming in 1918 in consequence of the enormous demand for tonnage for the transport of American troops and military supplies. International Programme Committees were set up in London, consisting of representatives of the American, French, and Italian Supply Departments meeting under British chairmanship. These committees reported to the Allied Maritime Transport Council on the apportionment of the available tonnage, as between countries and as between groups of commodities, and the difficulty of their task may be measured by the fact that many months before they were established the requirements of the Food Ministry added to those of the Ministry of Munitions (excluding textiles and leather altogether) were in excess of the total amount of tonnage available after the necessary troopships had been provided.

It was under the growing pressure of the conditions described in the preceding paragraphs that operations in raw materials to which this report refers were initiated and developed. Each separate group of commodities was treated on its own merits as necessity seemed to require.

Our methods of purchase and distribution necessarily differed in the case of each separate commodity or group of commodities. . . . In the case of wool we took over the principal clips within the Empire at fixed percentages over pre-war prices.

To a very large extent the raw materials thus obtained were used in the manufacture of military equipment, and whenever a satisfactory system could be devised, the exact cost of the material supplied was allowed for in fixing the manufacturer's price, thus eliminating all question of profit to the Department or to any intermediary. The direct saving thus secured in the cost of military supplies was an infinitely more valuable result of the Department's efforts than the profits shown in the Trading Account, but in the nature of the case no estimate of these savings can be other than a conjectural one.

The accounts now presented do not extend beyond 31st March, 1919, at which time war contracts were still being executed, though on a rapidly declining scale, and the process of removing controls was far from being complete.

This Directorate, in the course of its operations, has been continually in contact with large and important sections of the commercial and industrial community, and these relations have in the main been extremely amicable. Government control is not popular with traders and manufacturers, and the new and far-reaching powers exercised by this Directorate met not infrequently with considerable opposition, but in every branch of trade the leading men were soon persuaded of the grave need of emergency measures, and threw themselves with great public spirit into the task of organizing their various trades to meet the new and trying conditions. . . . In several important cases it was necessary to depart so widely from ordinary methods that a great loss of business resulted to groups of traders whose services could not be made use of. In the case of Australian and New Zealand wool, for instance, the purchase by the State of entire clips and the direct allocation of the wool to manufacturers put out of action a number of merchants whose activities in the past had been essential to the efficient conduct of the wool trade. This Directorate had no power to grant compensation for such indirect consequences of the disturbance created by war, and it is to be feared that there were many instances of grievous losses of this character, often very patiently and patriotically borne.

DETAILED MEMORANDA.

By MR. J. A. COOPER, C.B.E., F.S.A.A., DIRECTOR OF FINANCE.

Wool.

. Military needs became very urgent at an early period of the war, and when it reached its maximum intensity over three-quarters of the available stocks of wool and the existing machinery power had to be used in order to cope with the enormous demands of the British and Allied Forces.

Early in 1916 it was decided to requisition the whole of the British wool-clips, a very bold measure requiring the improvisation of very novel and complicated administrative machinery, as it was necessary to provide for the purchase of about 140,000 individual clips direct from the farmers. After careful consultation with all the interests concerned, it was decided to purchase the 1916 clip on the basis of 35 per cent. above the average price ruling for each type of wool from June to July, 1914.

British wool being of the crossbred variety was eminently suitable for military purposes. About 70 per cent. to 80 per cent. of the total was therefore issued to manufacturers for Government contracts. Having the ultimate destination of the wool in view, the Department required authorized merchants to "case" or grade all fleeces taken up by them according to a standard laid down. This work required frequent inspection by the District Executive Officer.

The wool being thus collected, its distribution was arranged on a method which from 1917 onwards was extended to colonial wools, the two classes of wool being dealt with conjointly to great advantage. A Topmaking Department was set up in Bradford and arranged for the manufacture of tops and noils out of the combing-wool for Government account at fixed rates of commission based on ascertained costs. Schedules of prices were drawn up for wool and tops, and spinners and manufacturers were supplied with the materials they required month by month at these fixed prices.

In 1917 the total home clip was again requisitioned, the price being fixed at 50 per cent. above the June-July, 1914, level. In 1918 the third and last purchase of the total home clip was carried out, the price on this last occasion being 60 per cent. above the 1914 level.

In December, 1916, after extensive consultation with the Australian and New Zealand Governments, the purchase was agreed upon from those two Dominions of all their wool then remaining in first hands and all the wool to be shorn up to 30th June, 1917. The purchase price was fixed at 55 per cent. above the level of 1913-14 prices, this being subsequently arranged in the case of Australia to mean exactly 1s. 3½d. per pound greasy weight over the whole clip. The Government of Australia drew up baremes or detailed schedules of prices according to quality for the purchase of the wool from the individual farmers, subsequent adjustment being made to bring the total price for the year to 1s. 3½d. placed on shore in Australia with an extra allowance of ½d. per pound for administrative, holding, and other charges up to f.o.b. It was further agreed that while this price should be final as regards wool used for British Government purposes and for certain Allied military purposes, a return of one-half of the profit on sales of surplus wool effected by the British Government should be made to the Dominion Governments.

The Australian and New Zealand Governments made efficient arrangements for collecting and storing the wool and shipping it to the order of the British Government. This Directorate was responsible for arranging, shipping, and distributing the wool to the best advantage. The distribution of colonial wool in England was carried on, as has been stated, in conjunction with home wool, a very large part being dealt with by the Bradford Topmaking Section.

In the middle of 1917 an extension of the contract with Australia and New Zealand for another year was arranged without any change of terms, and at the end of the year the purchase of about 111,000 bales of South African wool was negotiated with the Union Government on the same terms as the Australian and New Zealand contracts. In 1918 further contracts were negotiated with the Governments of Australia and New Zealand for the purchase of their entire wool-clips for the whole remaining period of the war and for one entire wool year thereafter, it being subsequently agreed that these contracts should be interpreted to include all wool appraised up to 30th June, 1920. The conditions of price and profit-sharing arrangements were continued without change, except for a concession to meet the special conditions of New Zealand wool.

There can be no question that these successive contracts with Australia and New Zealand were wise and statesmanlike measures at the time they were made, and have worked out to the advantage of all the contracting parties. It was an immense advantage to the sheep-farmers of both Dominions to have secured to them the purchase of all the wool as soon as it was shorn at a schedule of prices fixed on a remunerative basis. They were thus relieved from all the anxieties connected with the war situation and with the critical condition of ocean traffic. Great accumulations of wool took place owing to the difficulty of providing sufficient steam tonnage during the submarine campaign, and the course of prices when the war should end was unknown. Great Britain on her part received compensating advantages. The control of a sufficient quantity of wool suitable for military purposes was essential for the efficiency and security of the Supply Departments, and it is admittedly the case that from 1917 onward wool could not have been obtained from foreign sources so cheaply as it was secured by the requisition of the British clips and the purchase by contract of Australian and New Zealand clips.

Very shortly after the first shipments of wool under the Dominion contracts were made, early in 1917, the German submarine campaign was developed in full vigour, and a period of extreme anxiety was passed through as to the possibility of obtaining adequate supplies from across the seas. The worst apprehensions were not realized, but from the beginning of 1917 for a period of two years a condition of chronic scarcity of wool existed, which at certain periods caused very justifiable alarm in England, while in France and Italy the scarcity was often so acute as to amount almost to famine.

During the three years of Government control from 1916 to 31st March, 1919, the selling-prices of wool within the British Dominions were kept on an almost uniform level, and for the greater part of that period were considerably lower than in any other part of the world. In fixing these prices no attempt was made to secure more than a moderate margin of profit over and above the requisition or contract cost of the wool with a proper allowance for charges and contingencies. The purchases of Australian and New Zealand wool, having regard to the greatly increased transport charges, resulted throughout in a higher proportionate cost than that of the home wool, and as home and colonial wool are to a great extent interchangeable in use it was necessary to fix the prices on the basis of a fair margin over the cost of colonial wool, thus leaving a considerable margin over the cost of the home-grown wool. In the case of colonial wool provision had to be made for maritime losses, which at the height of the submarine campaign were almost incalculable in extent; and when regard is had to this and other important elements of risk due to the abnormal conditions of the time it must be recognized that selling-prices were fixed on a reasonably low level throughout the period of control.

When hostilities came to an end in November, 1918, orders for military equipment were suspended as rapidly as possible, and every preparation was made for a speedy return to peace conditions. Pressure was brought to bear on the Ministry of Shipping to secure the carriage at the earliest possible moment of such quantities of Australian and New Zealand wool as should bring up stocks in Europe to a comfortable level. The Department had to look forward for a period of two years or more to being the sole purveyor of Australian and New Zealand wool, and a special responsibility was felt for the requirements of France, Belgium, and Italy, and more particularly of the two former countries, whose wool industries had been temporarily destroyed by German invasion. It was necessarily a matter of great difficulty to forecast the rate of restoration of the French and Belgium manufacturing industries, and the responsibility was cast upon this Department of building up a stock of wool in England sufficient for the requirements of our Allies as well as those of our own industries. To maintain a stream of supplies fully sufficient for this purpose, without getting into hopeless difficulties regarding storage and transit facilities, has been one of the most difficult tasks of this Directorate during the past eighteen months, and it cannot be claimed that absolute success has been attained. The Department has been charged, not altogether without reason, with having some share in the congestion which has taken place in the Ports of London and Liverpool; but to avoid this altogether would have been impossible without running into the more serious fault of short supply, and it may be claimed that in the face of very great difficulties the regulation of the supplies, through England, of the wool-factories of Europe has been carried out with a considerable measure of success.

Immediately after the Armistice the question arose as to the measures which should be taken to carry out the transition between the period of severe war control and an absolute resumption of liberty of trading. Two schools of thought pressed their views strongly upon the Department. The representatives of Labour stoutly maintained that the consuming public could only be protected against extortionate prices by the continuance into peace-time of Government control, with such adaptations as the change of circumstances required. Spinners, manufacturers, and wool-merchants, however, with absolute unanimity contended that full liberty of private dealings must be re-established as quickly as possible, and any inconvenience thereby resulting must be faced, if financial stability was to be restored by our export business being recreated under the free play of individual initiative. The general policy of the Government was clearly shown to be in favour of the latter view, and this Directorate decided to abolish on 31st March, 1919, all the Army Council orders relative to the sale or use of wool, and to take such steps in the matter of the sale of Government-owned wool as would most rapidly conduce to the return of normal peace-time trading-conditions. It was announced that the British wool-clip, 1919, would not be purchased by the Government, and that it could be dealt in freely without any restrictions whatever. It was arranged with the Government of India that from March, 1919, onwards there should be no further interference with the dealings in Indian wool. All import restrictions were abolished, but at the special request of the Wool Council certain restrictions on export were continued and did not come to an end till January, 1920, on which date nothing remained of Government control of wool except in connection with the Imperial purchase contracts of Australian, New Zealand, and South African wool.

It was agreed, with the advice of the Wool Council, that from 1st April, 1919, auctions of Australian and New Zealand wool should become the chief channel of distribution. It was agreed that the system of issue at fixed prices which had been in force for over two years should be continued up to November, 1919, in respect of a moderate quantity of wool to be distributed direct to manufacturers and spinners in Great Britain, and to the Governments of France, Italy, and Belgium for distribution in like manner. The issue prices for the period April to November, 1919, were fixed at 7½ per cent. lower than those ruling for the preceding twelve months, it being anticipated that a period of cheaper freights and cheaper prices for raw materials was likely to set in. This opinion was so widespread that the woollen and worsted manufacturers of Great Britain and the United States, during the first months of 1919, received telegrams from every part of the world cancelling on one pretext or another pending contracts for woollen goods. Anticipations of lower prices proved, however, to be absolutely unfounded in respect of merino wool and fine crossbreds. Medium and low crossbred wools since the auctions commenced in April, 1919, have been maintained at about the level of 1918 prices, or in some cases rather lower, but fine crossbreds and to a still greater extent the better grades of merino wool rose considerably in price when the auctions commenced, and when free export was permitted from September onwards competition raised the price of the finest class of wools to a level which no one had thought possible.

At the time this report is presented a downward movement in prices is beginning to take effect, but nothing short of the diversion of public demand from the finest wools to wools of more average quality can materially bring down the price of the finest wools, since these have lately been consumed at a more rapid rate than they are grown.

As a consequence of the great advance in market prices, which is referred to in the preceding paragraph, the profits on Australian wool are likely to be very much greater since 31st March, 1919, than those shown in the completed accounts up to that date, and allowing for the possibility of a considerable decline in the later stages of the liquidation there can still be no doubt that very large profits will be available for division with the Commonwealth. This does not apply to an equal extent to New Zealand wool, of which a considerable proportion consists of low and medium crossbreds, which are cheaper to-day than they were in 1918.

The large profits referred to have arisen almost entirely from the sale of merinos and fine crossbreds, a class of wool that was not required for British military purposes, but which was included in the British Government purchases in deference to the wishes of the Australian Government, who felt that unless the complete clips of all classes of wool were purchased the lack of shipping-facilities would lead to undesirable and inequitable differentiation in the treatment of the growers of the different classes of wool.

The contracts made provided that if surplus profits should arise on the wool one-half of such profits would be returned by the British Government to the growers in Australia and New Zealand, and it may be maintained with confidence that the prices fixed were entirely fair and reasonable at the time; that the arrangements for cash payment for the wool as it was shorn irrespective of shipping-facilities were an immense benefit to Australia and consolidated the financial position; that no one could have foreseen the extraordinary boom of merino wool which commenced in the middle of 1919; and finally that it is extremely doubtful whether sheep-farmers would have got the benefit of those prices if the Imperial purchase contracts had not been in existence. On the other hand, complaints indeed have been made by important sections of British opinion that the profit-sharing arrangements with the Dominions have unduly increased the price of wool necessities for the British public, and that it would have been proper for the British Government to give consumers the entire benefit of the cheap purchase price of the wool. It is sufficient to say that the clause providing for a division of profits was an essential part of the contracts, and it was as obligatory upon this country to sell the wool to the best advantage and give the sheep-farmers the full benefit of the partnership clause as it was obligatory upon Australia and New Zealand to continue to supply the wool at 15½d. after the market had risen far beyond that figure.

It is difficult to foretell at what date the liquidation of the colonial wool accounts will be possible. It is anticipated that if sales proceed uninterruptedly the Government's holdings of superior merinos and fine crossbreds will be completely sold out by about the end of the present year, but there will be a considerable surplus of low and medium crossbreds and carbonizing wools which may have to be sold gradually throughout 1921.

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