concerned, and to recognize the good will which was shown by the New Zealand sheep-farmers during the war period. I am glad to be able to assure you that the impression is wholly mistaken, and that not only up to July, 1920, but ever since, our anxiety has been to preserve the harmony which has existed throughout and to ensure as profitable results as possible in the circumstances. It has been a bitter disappointment for those in charge of the business that the collapse of the wool-market in the second half of last year has changed very satisfactory profits into disastrous losses. If you will allow me to say so, I do not think you are justified in stating that after July, 1920, this Department had no intention of doing anything beyond winding up the business irrespective of the interests of the men who produced the wool. You will remember, on the contrary, that the Ministry of Munitions pressed you to appoint representatives of the wool-growers to advise us as to the best method of dealing with the terribly difficult conditions of the market. Your wool-growers therefore appointed Messrs. Hunt and Wilson, and between August and October of last year these gentlemen were in constant consultation with Sir Arthur Goldfinch, and recognized in the report which they presented that exceptional efforts had been made by the Wool Department of the Ministry of Munitions to save the New Zealand sheep-farmers from the loss with which they were threatened not only in the matter of the carry-over wool, but also in respect of the new clip which was coming along. You will also remember that the Wool Department here was bitterly criticized in Bradford for holding back wool for higher prices than the market would give, a course which was adopted in response to strong representations from your Government and your wool-growers. It seems to me to be a great pity that the discussion of this matter should be made more difficult by your suggesting that the troubles which have arisen are due to indifference or lack of good will on the part of the Department, when all the discussions during the second half of last year show the exact contrary.

You have put a mistaken interpretation on the telegram of the 3rd July, 1920, and the state of affairs which existed prior thereto. The position adopted by the Treasury up to that point, which beyond doubt was technically the correct one, was that there were no profits to be divided until the contracts were totally liquidated and a balance of cash in hand resulted. The great profits made on Australian wool in 1919–20, however, brought about a curious situation. The proceeds of the Australian wool actually sold became more than sufficient to cover the total cost of the Australian wool plus charges, and there was therefore a clear cash surplus in addition to an enormous quantity of wool which stood free of charge in the books. It was therefore not possible to refuse the Australian wool-growers the interim dividend which their Government had been demanding for a long time back. This Department, out of its anxiety to save your Government any embarrassment or your wool-growers any disappointment, pressed the Treasury to allow an interim dividend to be paid to the New Zealand wool-growers, and this in spite of the fact that the New Zealand position was totally different from the Australian position. The profits made on New Zealand wool during the boom period were quite insufficient to wipe out the cost of the large quantity of unsold wool which had to stand the risk of the slump in prices which was bound to follow the boom. The Treasury finally agreed to the payment in the case of New Zealand, as in the case of Australia, of their share of the profits shown in the balance-sheets up to the 31st March, 1919, subject to a condition which was communicated to the Australian and New Zealand Governments in identical words, the telegram in your case being dated 3rd July, 1920. In the case of Australia the condition was not of much practical importance in view of the state of the accounts. In the case of New Zealand it was important, though we all hoped that the market might hold up long enough to allow of the wool in hand on the 31st March, 1919, and the wool received thereafter, being sold at prices which would at least cover cost, so that the profits made before the 31st March, 1919, might remain intact. Unfortunately, the slump came sooner and was much more severe than even the most cautious observers had expected. Whether or not it would have been better to meet the markets more freely during the second half of 1920 will always remain a matter of dispute, but it is sufficient to say that your Government and your wool-growers were pressing the Ministry of Munitions very strongly to show a firm front to buyers and to attempt by every possible means to arrest the fall in the market.

You have now the accounts in your hands, and they speak for themselves. You have, moreover, been shown estimates of the final result, which can, of course, be little more than a guess, seeing that it will take at least two years to sell the wool, and all sorts of market changes may occur in that time. It would not, however, be reasonable to expect that any improvement in the market could be sufficient to wipe out the very heavy loss on the present stocks of wool which the British Government will have to bear. It may therefore be confidently assumed that the wool in hand on the 31st March, 1919, and the wool received thereafter, will on a final liquidation show a loss substantially greater than the profits realized on the wool sold before the 31st March, 1919, and we must resign ourselves to the practical certainty that the purchases of New Zealand wool by the Imperial Government taken as a whole will show a very heavy loss to the Treasury, to which the sum of £1,600,000 paid to you is a net addition.

On an impartial examination of all the facts, it appears that the disappointment of your wool-growers is due simply and solely to their unfortunate failure to foresee that there was a heavy risk of the market falling suddenly, with the result that profits in an earlier period might be swamped by losses at a later period. Apart from this, you have a technical argument on your side to the effect that each wool-clip must stand by itself, and that if two of the wool-clips showed a profit your wool-growers are entitled to their full share of those profits, leaving the British Government to bear 100 per cent. of the losses of the two last periods. It seems quite clear from your statements in the Press that you have enormously overestimated your claim upon the British Government even if your theory were admitted. You have forgotten apparently that a substantial quantity of the No. 1 clip and a large proportion of the No. 2 clip were sold at a heavy loss or still remain unsold, so that even if the No. 1 and No. 2 clips were liquidated separately there would be substantial losses to set against the