

profits on the wool sold when the market was good. You have also apparently forgotten that out of the £8,000,000 of profit of which you speak a substantial portion represented profits of wool of the No. 3 clip, of which no share could go to New Zealand, since it would be entirely swamped by losses on the No. 3 clip. You are, moreover, aware that the Treasury do not admit that you are entitled to take the No. 1 and No. 2 clips separately from the No. 3 and No. 4 clips. The Treasury interpret the arrangements made in 1917 and 1918 not as separate contracts but as extensions of the first contract, and the telegram of the 3rd July, 1920, from the Treasury point of view did not involve a new stipulation, but merely laid down what in their view was the only correct interpretation of the existing arrangements. Moreover, the Treasury maintain that both New Zealand and Great Britain consistently acted on the interpretation that the four clips were to be treated as one in the accounts. No discrimination was made between the clips in the accounts rendered to you, and no discrimination so far as we are aware has been made in New Zealand in the distribution of dividends. I think your position would be made more clear if you definitely made a statement on this latter point. Are we to understand that the claim you are making is on behalf of sheep-farmers who delivered wool sold before the 31st March, 1918, or are you making a claim on behalf of the whole body of New Zealand sheep-farmers some of whom only entered into possession of their farms after the 31st March, 1918, and did not deliver a single bale of wool out of the first two clips purchased by the Imperial Government?

I can assure you that we are all most anxious to clear up any misunderstanding and make an arrangement which you can conscientiously tell your sheep-farmers is a right and proper one. You must, however, in all fairness abandon the contention that the surplus net proceeds of certain quantities of wool over the cost of that wool are a final profit. No surpluses of this character on part of a venture are anything more than interim and provisional profits until the rest of the venture is liquidated and a final balance is struck. Your argument would almost seem to imply that the New Zealand sheep-farmers were entitled to have every single bale of wool considered separately, so that of every bale that earned a profit they should receive one-half of the profit, while of every bale that was sold at a loss Great Britain should bear the whole loss. Such an arrangement would have been so grossly unfair to Great Britain and so unbusinesslike that no Minister could ever have put his hand to it, and there is in fact nothing whatever in the communications exchanged between the two Governments which suggests it. We could not do otherwise than advise you from time to time of the profits which we reckoned that we had made on the particular bales sold, but obviously the Treasury was bound from first to last to make proper reservations against losses which would have to be set against the profits if the market went wrong. So far from our being open to the charge of having been severe or ungenerous to New Zealand, we might much more rightly be charged with having been unduly liberal with British money in making the distribution referred to in the telegram of the 3rd July, 1920. This at least should be clearly understood: that if your growers had said in 1920 what you now say, and had objected to the condition laid down in the telegram of the 3rd July, the distribution would not have been made then, and in all probability it never would have been made, so that your growers would have been poorer to the extent of £1,600,000.

Yours, &c.,
HOWARD FRANK.

The Right Hon. W. F. Massey, Offices of the New Zealand Prime Minister, Hotel Cecil, Strand.

Letter from the Right Hon. the PRIME MINISTER OF NEW ZEALAND to Sir HOWARD FRANK.

DEAR SIR HOWARD,—

London, Hotel Cecil, 27th June, 1921.

I have to thank you for your letter of the 20th instant with reference to the question of New Zealand wool profits, but I am sorry to notice that it does not carry us further towards a solution of the New Zealand difficulty.

There is one sentence in your letter which induces me to continue the correspondence just a little longer. It is where you say, "I can assure you that we are all most anxious to clear up any misunderstanding and make an arrangement which you can conscientiously tell your sheep-farmers is the right and proper one." We have not reached that stage yet, and I am afraid that the story I will have to tell our sheep-farmers will be neither satisfactory to them nor to many others who have taken an interest in what has been going on.

You make reference also in your letter to my "statements in the Press." The only occasion on which I have troubled the Press in regard to wool matters was when I corrected a grossly incorrect paragraph which appeared in the *Daily Telegraph* on the 7th June, and which bore every evidence of having been inspired.

As to the estimates of the final result to which you refer, I have never seen them, but I should certainly like to have a look at what your Department thinks will be the position when the whole of the wool has been disposed of.

With regard to the arrangements which were made between the New Zealand and the Imperial Governments, may I take you back to the 6th November, 1916, when negotiations were nearly completed for the purchase of the New Zealand wool by the Imperial Government? I quote from a letter of that date written to me by Sir Reginald Brade, Secretary to the War Office, following a conference which took place in the afternoon of the same day in Lord Derby's room. I refer to—"It may, however, be desirable to dispose of a portion of the wool for other than military purposes, and in this case it will be sold at the prices available for the particular purposes for which it is to be used having regard to war conditions. It is suggested that any profit which results from such transactions should be shared equally between the Imperial Government and