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THE IMPACT OF WAR: A DIPLOMATIC  
HISTORY OF NEW ZEALAND'S ECONOMIC  
RELATIONS WITH BRITAIN, 1939-1954

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To my father and my mother



ABSTRACT

This study is a diplomatic history of Anglo-New Zealand economic relations through World War II and the postwar decade. During this time Britain's priorities were such as to sharply alter her economic interests in New Zealand, compared both with the pre-war and post-1954 eras. It is this transformation which gives the period its distinctive coloration. Throughout these years Britain wanted New Zealand to conserve and direct her resources, initially to assist in the war effort, subsequently to aid the tasks of reconstruction. New Zealand gave active support to Britain. Nonetheless, she could not completely disregard her own interests. In the short-term, there was always pressure to buy on the cheapest and sell on the dearest market. In the long-term, New Zealand faced more fundamental decisions. Should she seek economic security through close association with Britain? Should she diversify her economic relations? Should she try to insulate her domestic from the international economy? These longstanding concerns can be traced through the period. They, too, moulded the course of events.

Chapter one looks at the record of economic diplomacy before 1939. Chapters two to five look at the World War II period. Chapter two examines the period from the perspectives of the restraint Britain sought to impose on New Zealand in the consumption of resources. Chapters three to five trace the history of New Zealand's export industries - her major contribution to the struggle - through the war. Chapters six to ten span the post-war decade. Chapter six

follows the theme of chapter two through to 1949. Chapter seven looks at Britain's concern about the commercial implications of New Zealand's import policies - a concern which had taken a back seat through the war. Chapters eight and ten take the history of the food export industries through to 1954. Chapter nine picks up the themes of chapters six and seven and takes them through to 1954, and also looks at the wool trade after 1946. Lastly, chapter eleven looks at how the relationship between the two countries evolved after 1954. The end of the long period of stringency meant a return in some, but certainly not in all, respects to pre-war conditions.

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Lastly there is a debt for which there is no ready means of repayment. Instead there is a challenge to work and live in ways

that will honour those who have been so lavish with their concern and love. This thesis is a small part of the attempt to meet that challenge and is dedicated accordingly.

ABBREVIATIONS

<i>AJHR</i>	<i>Appendices to the Journals of the House of Representatives</i>
BT	Board of Trade (U.K.)
CC	Comptroller of Customs (N.Z.)
CE	Chancellor of the Exchequer (U.K.)
CRO	Commonwealth Relations Office (U.K.)
CSs	Commissioner of Supply (N.Z.)
DEA	Department of External Affairs (N.Z.)
DGAg	Director-General of Agriculture (N.Z.)
DMk	Director of Marketing Department, Export Division (N.Z.)
DO	Dominions Office (U.K.)
<i>Dom</i>	<i>Dominion</i>
D.P.M.C.	Dairy Products Marketing Commission (N.Z.)
<i>EP</i>	<i>Evening Post</i>
ESC	Economic Stabilisation Commission
<i>HC Debs</i>	<i>House of Commons Debates</i> (U.K.)
JO	Joint Organisation (United Kingdom-Dominions Wool Disposals Ltd)
L	London
MAg	Minister of Agriculture (N.Z.)
MC	Minister of Customs (N.Z.)
MEA	Minister of External Affairs (N.Z.)
MF	Ministry of Food (U.K.)
MFn	Minister of Finance (N.Z.)
MIC	Minister of Industries and Commerce (N.Z.)
MMk	Minister of Marketing (N.Z.)
MnF	Minister of Food (U.K.)
MB/MPB	Meat Producers Board (N.Z.)
MSs	Minister of Supply (N.Z.)
NZEW	New Zealand Embassy, Washington
NZDB	New Zealand Dairy Board
NZDG	New Zealand delegation to international trade talks, Geneva 1947
NZDH	New Zealand delegation to international trade talks, Havana 1947-1948
NZDT	New Zealand delegation to the fifth GATT session, Torquay
NZG	New Zealand Government
<i>NZH</i>	<i>New Zealand Herald</i>
NZHCC	New Zealand High Commission, Canberra
NZHCL	New Zealand High Commission, London
PBT	President of the Board of Trade (U.K.)
PMNZ	Prime Minister of New Zealand
PMUK	Prime Minister of the United Kingdom
SEA	Secretary of External Affairs (N.Z.)
SECRO	Secretary of State for Commonwealth Relations (U.K.)
SIC	Secretary of the Department of Industries and Commerce (N.Z.)
SSD	Secretary of State for Dominion Affairs (U.K.)
ST	Secretary to the Treasury (N.Z.)
UKHCW	United Kingdom High Commission, Wellington
W	Wellington

PREFACE

This thesis examines the diplomacy of New Zealand's economic relations with Britain over the period 1939-1954. When I first started work on this topic, and before I had settled on a particular period, I had no firm idea of how to handle economic relations between two countries, although I knew that I wanted to look at the politics of such a relationship, that is, at the different aspirations which the two sides held respecting the conduct of their mutual relations. It was clear that through the period, and both before and after, there were marked continuities in these interests. Nonetheless there were also changes. I came to the conclusion that the distinctive character of the period 1939-1954 derived from the fact that alongside the developments and continuities of what I call commercial diplomacy, there was to be found another series of interests, which I identified as resource or supply diplomacy. These interests arose from the exigencies of Britain's war effort and its postwar difficulties (hence my thesis title).

As this labelling is my own, I want to devote some space to explaining what I mean by the terms and why I consider this categorisation to be useful in enlarging our understanding of the economic diplomacy of the period.

Much Anglo-New Zealand diplomatic activity was directed at ensuring that both countries could sell their exports under the most favourable possible circumstances (or, where applicable, was able to secure a return on capital on favourable terms). Under this head come negotiations over tariffs, be they preferential or protective, and concern about such matters



as quantitative restrictions, subsidies and exchange controls. I identified all these matters as income concerns; that is, the common diplomatic objective was to help protect the ability of groups (or sometimes individuals) to make a living. I put them into a category labelled commercial diplomacy.

Within this category a number of patterns could be examined:

- (1) The relative significance of the trade of each country to the other;
- (2) The extent to which either actively favoured the other in the conduct of its commercial relations;
- (3) The extent to which either favoured its own nationals.

What trends show up in these patterns? Over the period from 1932 the trade of each country with the other became proportionately more significant to both. This was reflected in and reinforced by the elaboration of preferential arrangements. Both also became much more active in protecting domestic economic interests. From about the mid-1950s some of these trends went into reverse. Trade relations diversified. There was pressure to dismantle the preferential structure. On the other hand, protection of domestic interests continued. And year by year, there was a need to manage the trade in both directions, regardless of its relative significance, or of the structures within which it operated. This managerial responsibility loomed large in the conduct of economic diplomacy. This was especially true for New Zealand's exports, which followed a seasonal regime.

Equipped with an ordering of events of this kind, I had gone some way to understanding the interests that operated in economic diplomacy in the

mid-twentieth century, and how they changed. But the puzzle was not complete. I realised that with the outbreak of war, Britain acquired a set of interests which were sharply different from those which had previously predominated in her thinking. New Zealand, from being seen as a market for exports and an outlet for capital, was now seen as a collection of resources, economic as well as military, to be commandeered or volunteered for the war effort. While commercial diplomacy did not vanish, it became much less significant. New Zealand's own commercial diplomacy had to operate in a novel context.

If the common thread of commercial diplomacy was production - or the income derived from it - the common thread for these other activities was consumption - or the income needed for it. The same coin, but a different face. Thus trade, usually most important to the exporting country (because of the income earned) acquired importance for the importing country (because of the goods which were obtained). Supply - of men, material, food - became an all-embracing objective. Thus there is resource diplomacy to set alongside commercial diplomacy.

Although the war ended in 1945, the tasks of reconstruction, aggravated by foreign exchange shortages, ensured that Britain retained a resource orientation to her economic diplomacy through to the mid-1950s. The war and its aftermath is the subject of this study. The detailed narrative elucidates the interaction of interests, commercial and resource, New Zealand and British through the period. It is not a neat pattern. Britain forewent commercial interests, but not entirely. New Zealand accepted the resource orientation, but not entirely. But the classification of interests I have outlined here helps make some sense of events.

Delineation of the two kinds of diplomacy also facilitates an explanation of the links - or lack of them - between economic and political relations. In a peaceful world commerce can proceed largely independently of the concerns of power politics. For no country is the world more peaceful than the one which exercises a maritime ascendancy - as had Britain since the beginning of the nineteenth century. The causal connection between this ascendancy and the diversification of commercial relations became obscure with the passing of the decades. Even when efforts were made to concentrate on imperial markets in the 1930s this reflected economic imperatives and had little to do with the decline in British power. New Zealand may have been inclined to impute a political significance to the Ottawa agreement but this was not reciprocated. And indeed, even for New Zealand, trading conditions are a sufficient explanation of the increased concentration on the British market in the 1930s. During the war and postwar years, some politicisation of trade policy might have been expected, but it did not manifest itself very strongly in respect of New Zealand: the long-term objective remained the restoration of an open economy, and this distancing of politics and commerce was endorsed by the United States.

Resource diplomacy by its very nature implied shortages and dangers, a possible challenge to national security or independence, the end of an imperial peace. Hence it had a much closer - or at least more obvious - connection with power politics than did commercial diplomacy. In the war years New Zealand's role as a supplier of resources was almost indistinguishable from her status as an ally. In the postwar period, Britain's struggle was economic rather than political, but was nevertheless closely linked to power politics, for if Britain did not make an economic recovery she would never be able to regain the kind of position in world

affairs to which she aspired. And New Zealand was as determined to realise this objective as was Britain herself.

With the end of the period of stringency in the mid-1950s economic and political relations drifted apart again. Commercial rather than resource needs returned to prominence in economic diplomacy; moreover security ties between the two countries were weakening.

To return to the points made at the beginning of this discussion: in the thesis I have formulated a periodisation of Anglo-New Zealand economic diplomacy. I have identified and classified the interests which were at stake. I argue that the resource interests and diplomacy which were active from 1939 to 1954 give that period its distinctive character. Within this framework I have analysed the period in detail to discover how the different interests interacted.

It is no accident that the principal achievement of the thesis is taxonomic. I could not tackle the primary material in the light of an existing historiography, because none such existed. J.V.T. Baker's volume, *The War Economy*, is devoted to the impact of the war on the New Zealand economy, and does not concern itself directly with economic diplomacy, although it touches on a number of particular issues, e.g. the contract negotiations in 1944, and some aspects of New Zealand's supply problems (it is one of the few sources of information on these). F.L.W. Wood, in *Political and External Affairs*, looks at the more purely political dimensions of external relations, e.g. the security of New Zealand against Japan, Commonwealth collaboration at the United Nations, and so on. Although it occasionally touches on commercial and economic relations, it

does not provide a systematic treatment. Wood's study ends in 1945; Baker's goes beyond that, especially in dealing with issues like rehabilitation, but in a fairly sketchy fashion. In this study therefore I am not in any sense revising or repeating Baker or Wood - my objective is quite distinct from theirs.

The British and Australian War Histories were very helpful but could hardly be expected to provide a complete coverage of Anglo-New Zealand relations, nor do they. Neither political biographies nor institutional studies share my perspective, although often some of them were extremely useful. This is true for instance of Keith Sinclair's *Walter Nash*, which is particularly good on 1939 and on Nash at Geneva and Havana. Sinclair throws out some tantalising comments on Nash pertinent to this study, but we never get any extended discussion of his thoughts and activities over the whole of his political career - only observations made about particular negotiations.

Nash is the only participant on the New Zealand side who is dealt with at all successfully by a biographer: James Thorn's *Peter Fraser* is mostly anecdotal; there are no biographies of, for instance, Ashwin, Duncan, Holland or Holyoake. Ward's *A Command of Cooperatives* is useful although erratically organised. Hayward's *Golden Jubilee* has that weakness and some others. There is no published history of any government department: the war history narratives range from good to non-existent and of course do not tackle the postwar period.

There is no standard economic history of mid-twentieth century New Zealand. Closest perhaps are the economic chapters in the recently published *Oxford History of New Zealand*, and the writers, including

Gary Hawke on the period since 1938, are fully extended by the need to cover all economic developments in their respective periods in around thirty pages. Condliffe's better volume, *New Zealand in the Making* was published in 1930. Sutch's *Poverty and Progress in New Zealand* and *The Quest for Security* provide a stimulating mesh of political and economic discussion. But they present a very black and white view of British-New Zealand relations which does not advance the reader very far. His *Recent Economic Changes in New Zealand* (1937) is much more useful.

The study of New Zealand's external relations has been much more thorough, but following Wood, has tended to concentrate on security relations rather than economic issues. Wood's own article on what he called the "Anzac Dilemma" is perhaps the most stimulating single piece of writing about what I have been dealing with but it was written in 1952. During the relatively prosperous 1950s and 1960s the resource dimension of foreign policy could be taken for granted, so successful was the *Pax Americana*. In this respect the 1940s perhaps seem more familiar now than they did to our immediate predecessors.

In sum, there are a number of relevant studies, but nothing approaching an historiography. This was a major influence on my decision to take a narrative approach. In coming to grips with a large body of material time provides one of the most powerful ordering tools. It is never used alone of course, even by a narrative historian. The basic task of telling the story involves many decisions about interpretation, many of which I have alluded to above.

My main task in this thesis has been to provide a structure and delineate patterns. The drawing up of a balance sheet on the bulk

purchase "system" which operated from 1939 to 1954 has been a secondary task. But some tentative conclusions can be made.

From Britain's point of view the system was clearly much more satisfactory than the likely alternative of open market trading. Prices rose less steeply and supply could be planned more systematically. It is not clear that the 1944 and 1948 agreements resulted in increases in output over and above what would have taken place anyway but Britain still gained on prices. Indeed even in the brief periods when trading conditions were depressed Britain was able to apply downward pressure on prices. More generally, the contracts were initiated by her, and terminated by her when she had no further need of them.

Does all this mean that New Zealand was exploited by the bulk purchase system? Not necessarily. Savage made it clear in 1939 that between countries as well as within a country, there should be "equality of sacrifice". And while New Zealand may have made sacrifices in accepting the bulk purchase system, it also had its positive side. There was real anxiety at the beginning and during the early war years about the disruption that might be caused to shipping and thereby to New Zealand exports, and this made the agreements seem worthwhile. Britain's handling of the surpluses question in 1941 may have been rough, but she would have been under no obligation to deal with the problem at all without the contracts. As the end of the war approached, anxieties shifted to the prospect of a postwar slump and, in Nash's case, to the maintenance of stabilisation. Through the years when higher prices were obtainable in the open market these factors increased the acceptability of the system (as did the wish to keep butter competitive with margarine). More generally the experience of the 1930s had convinced New Zealand that however

limited the British market might be it had turned out to be New Zealand's saviour in the past and might yet have to fulfil that role in the future.

We will never know what would have happened if there had been a severe slump after the termination of the contracts. But even if through the period of the contracts producers did not make as much money as they might have, they got by. The stabilisation accounts bulged with funds, revaluation in 1948 was absorbed with barely a murmur. A sharp contrast to the 1930s. And after the contracts ended, there was little evidence to show that the New Zealand pastoral industries had "suffered" by their long concentration on the British market. The problem faced by dairy exports after 1954 did not last - there were some bad seasons but also some good ones, whilst new markets for frozen meat were established without too much difficulty. It would be well over ten years before pastoral exports had to face really serious marketing problems.

What went for the farmers went for the economy as a whole. One could argue that the bulk purchase system distorted the New Zealand economy and prevented adaptation. But how is the need for adaptation to be measured? During the period 1939-1954 New Zealand built up its reserves of overseas exchange (admittedly partly through under-importing), and witnessed a steady increase in the standard of living. Given those successes, what would have been the aim of restructuring? Presumably to adapt to future conditions. But until 1966-67 economic conditions did not alter all that much with the exception of two sharp dips in 1957-58 and 1960-61. The first of these did generate a lot of discussion about the need for re-structuring but the crisis passed and so did the debate, to revive again during and after the 1966-67 crisis.



Overall, the system benefitted Britain. New Zealand's expectations gave it some merit in her eyes too, whilst her experience ensured that the appeal did not dim too sharply with the passing of time.

Moreover, beyond the commercial considerations, short and long-term, lay the political ones. Given that New Zealand believed in and supported the alliance with Britain, the logic of her position in the bulk purchase system was reinforced - it made sense in relation to the political priorities of her external relations. Was she unwise to have those priorities? An unhistorical question perhaps. The alliance with Britain was not just expedient - it was grounded very deeply in a sense of common destiny. There were times when it was appropriate to criticise, to explore alternatives. But not in time of war and recovery. Britain's weaknesses and failures only reinforced the impulse to unqualified support. The alliance was one of the heart as well as the head.

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## CHAPTER ONE

### Economic Diplomacy Before 1939

1. Introduction
2. New Zealand's export trade before the war
3. British interests in New Zealand and the exchange crisis 1938-1939
4. People and institutions on the eve of war
5. The impact of war

## 1. Introduction

New Zealand's economic diplomacy before World War II had a marked continuity. At the beginning, as by the middle of the century, New Zealand sought to protect the profitability of her export trade, and to enlist British support in this enterprise where necessary. She was a substantial consumer of British capital and imports and hoped for some consideration in exchange. Britain, a traditional adherent of a cheap food policy, and *laissez-faire* practices in commerce and finance, was unwilling to make extensive commitments to New Zealand. New Zealand had after all been self-governing in most aspects of her domestic life since 1856. She had secured tariff autonomy soon after. Britain did not feel under any compunction to support New Zealand's economy despite New Zealand's membership of the Empire.

Difficult trading conditions in the 1930s intensified New Zealand's economic dependence on Britain and her need for some sort of assistance, but did not markedly increase Britain's sympathy for New Zealand's problems. Nor did New Zealand have much bargaining power. Her 1 500 000 people may have consumed *per capita* very substantial volumes of British imports and finance, but in absolute terms they were not so significant.

What were the alternatives to this kind of dependence? Diversification, though attempted, was hardly an option in the 1930s when markets were contracting. Moreover, New Zealand's limited diplomatic resources, and the concentration of shipping and financial connections on London, inhibited change. The Labour Government which took office at the end of 1935 explored other possibilities. Its

first priority was employment and decent living standards for all New Zealanders. No longer would the country be subject to fluctuations in prosperity because of its financial and trade nexus with the Old World. This meant limiting overseas indebtedness, promoting industrial development to provide new sources of employment, and very likely, controlling overseas exchange. This last requirement would result from the need to ensure that exchange was allocated to appropriate uses - it would be particularly necessary if expansionary policies placed pressure on overseas reserves.

Walter Nash, the Minister of Finance and Marketing in the new Government, saw Labour's policies in terms of a recasting of the economic relationship with Britain rather than a declaration of independence. This was realistic - and accorded with deepseated feelings of loyalty to the Empire. Moreover, New Zealand was so dependent on Britain that economic experimentation would go for naught unless Britain concurred. Unfortunately she did not. British exporters worried about New Zealand protectionism. British investors were concerned about the financial stability of the Dominion. And financially New Zealand was weak. In difficult discussions in the middle of 1939 she accepted that she must take note of British concerns. Experimentation was the child of depression: it needed prosperity if it was to grow to maturity.

## 2. New Zealand's Export Industries Before the War

### (a) Introduction

That part of New Zealand's economic diplomacy concerned with its

export industries derived its primary dynamic from the need to protect the profitability of the farmers who were at the beginning of the production chain (interests further along the chain, notably the owners of the freezing works, and the shippers, were often British dominated). It is difficult to separate out the interests of producers and Government at any time before 1935. Both Liberal and Reform parties respected the need to maintain producer profitability and were prepared to do what they could, as will be shown.

The significance of Britain to the New Zealand economy did not stem simply from the fact of common membership of the Empire. In 1865, a quarter-century after annexation, seventy per cent of New Zealand's exports went to Australia. The development of markets in Britain occurred because of a number of factors - the availability of shipping services, refrigeration, unrestricted access, and rising living standards in Britain. These circumstances were exploited by all the principal pastoral industries. T.G. Harkness, president of the National Dairy Association from 1899-1903, spelt the point out:

The pessimists say 'the Australian market has gone and the South African market is closed against us ...' I have always contended that the market of the world which we have to look to is the English market and the sooner we recognise that ... the sooner we shall receive an adequate return for the labour and energy that we have put into this great industry. (1)

The destination of New Zealand's farm produce in 1913 showed that the advice was accepted. Most of New Zealand's farm produce was exported. The predominant exports were wool, frozen meat, butter and cheese (in that order). In 1913 they accounted for over 70 per cent

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1. A.H. Ward, *A Command of Cooperatives*, p. 23.

of total exports. Virtually all frozen meat and cheese, over two-thirds of the wool, and over half of the butter, was exported to Britain.<sup>(2)</sup> In total (excluding re-exports) over two-thirds of New Zealand's export trade was with Britain. The main change over the next decade was that the proportion of butter, and the proportion of total trade, going to Britain increased.

New Zealand's advocacy of imperial preference represented a strategy for securing her position in this important market. In the 1903 tariff revision she introduced a preferential element in her own tariff code, in this way favouring British ahead of other import sources. For her part, Britain's unwillingness to make special provision for New Zealand's economic interests was consistent with the *laissez-faire* assumptions which underlay her own external commercial policy. The fact that New Zealand was a colony did not make a difference. In the 1840s and 1850s, when the concept of an imperial association between self-governing colonies and the metropolitan country was being refined, Britain was moving away on many fronts from policies which involved public regulation of economic life. The economic fortunes of the colonies were to her the concern of their own Governments and peoples. This was an outlook which the passage of time and the absence of any severe economic crises helped to entrench. Thus, by the early twentieth century, Britain was quite unaccustomed to feeling any sense of responsibility for commercial interests in the Dominions (as the self-governing colonies were now known). While interventionist policies began to make an appearance

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2. *New Zealand Official Yearbook* 1918, p. 331.

in the domestic arena, they remained absent from imperial relations with the Dominions, despite Joseph Chamberlain's efforts.

(b) 1914-1924

The outbreak of World War I produced a surge of imperial patriotism in New Zealand which was reinforced, and also transmuted in subtle ways, by events at Gallipoli and on the Western Front. For Britain, New Zealand acquired importance not just as a recruiting ground, but as a farm. The British Government requisitioned much of New Zealand's exportable production for wartime purposes. The "imperial commandeer", as it was known, was accepted in principle, in accordance with the dictates of wartime solidarity, but some aspects of the operations aroused strong feelings.<sup>(3)</sup>

There was dissatisfaction with cheese and butter prices, especially in the early stages of the commandeer: this was to be remembered when the World War II bulk purchases contracts were negotiated. While shipping was not the problem it might have been, post-war events etched themselves sharply on New Zealand memories. The British Government stopped purchasing cheese in 1920, but it continued to buy butter. Exports from Siberia had ceased, and other suppliers were lured by high prices in the United States. New Zealand's prices were increased from 181s. per cwt in 1918, to 280s. for 1920/21: production soared. The result could have been predicted. When the butter commandeer ended in March 1921, the market was in over

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3. Ward, *Command of Cooperatives*, pp. 35-37.



supply, and prices fell severely.<sup>(4)</sup>

Meat encountered similar circumstances. When the wartime contract ended in June 1920 there was an entire year's production in store. Producers were not just affected by depressed prices either - in 1922, owing to increased freight and other intermediate charges, they received only 46 per cent of the British price, compared with 80 per cent in 1914. Stocks of wool were also substantial, and threatened to keep the market depressed for years.<sup>(5)</sup>

Government and producers reacted in a variety of ways to the slump. Both believed it necessary to cut domestic costs to match the fall in overseas prices - hence the Government's retrenchment policies, and wage cuts. More constructively, producers accepted, with the Government's encouragement, some centralised control. A Meat Producers' Board was established by statute in February 1922, and a Dairy Board followed suit in 1923. The wool surplus was effectively handled by the British Australian Wool Realisation Association (B.A.W.R.A.) which controlled and marketed the output of Australasian wool so judiciously that there was no redundant supply - nor any domestic pressure from woolgrowers for placing such interventionist policies on a permanent basis. B.A.W.R.A. was liquidated once trading conditions had returned to normal.

The postwar slump emphasised to both producers and Government what they already knew - that New Zealand's export trade had to survive in

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4. *Ibid.*, p. 46.

5. D. Hayward (ed.), *Golden Jubilee*, p. 13.

an unprotected environment. During World War I, there was some shift in British thinking.<sup>(6)</sup> The "economics of siege", as Hancock calls it, gave credence to plans for imperial economic unity which would maintain British strength in peace as in war. One outcome of this mood was a resolution adopted by the Imperial War Conference in April 1917 which stated in part that:

All possible encouragement should be given to the development of Imperial resources and especially to making the Empire independent of other countries in respect of food supplies, raw materials, and essential industries. (7)

But with the return of peacetime conditions, Britain's interest ebbed. Discussions at the 1923 Imperial Economic Conference had already revealed differences in perception between the Dominion and Britain before the 1924 Labour Government knocked the idea on the head. Massey told Ramsay MacDonald that he believed that Great Britain was acting "contrary to the best interests of the Empire as a whole". The activities of the Empire Marketing Board established by the Imperial Economic Committee, were for New Zealand only a shadow of what might have been.<sup>(8)</sup> The wartime change in trade relations proved to be ephemeral. Britain's interest ebbed with the return of peacetime conditions. New Zealand had been prepared to make her produce available for Britain, despite some problems. But the slump reminded New Zealand that its exporters had to survive in a commercial environment. Neither producers nor Government would be able to forget that over the next fifteen years.

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6. W.K. Hancock, *Survey of British Commonwealth Affairs*, Vol. II, *Problems of Economic Policy 1918-1939*, Part I (hereinafter *Survey II*, 1) p. 94.
  7. *Ibid.*, p. 126.
  8. Hayward, *Golden Jubilee*, p. 29.

(c) 1924-1935

During the next decade, trade in all products was for many years in a crisis, with sharp season by season price fluctuations in the 1920s followed by a consistent downward trend from 1930, which bottomed out in 1933.

The producer boards did useful work, but they could not surmount many difficulties which were essentially external in origin. During the 1926-1927 season the Dairy Board ventured into marketing. The move failed. Dissension within the industry did not help, but a major hindrance was that the Board, while not a monopoly supplier, was trying to fix prices on a falling market, with buyers ready to collude against it.

Depressed trading conditions encouraged producers to look at other markets. The Dairy Board induced the Government to make a trade treaty with Japan, and also looked at North America. Between 1926 and 1928, the Meat Board sent trial shipments of beef, mutton, and lamb to Canada and the United States, and by 1928/29 exports of New Zealand meat had been raised to 30 000 tons. But the following season the United States Government doubled the export duty on imported meat. It was not until 1937/38 when New Zealand and Canada negotiated a new trade agreement that any further initiative was taken. The Dairy Board continued to explore markets in the 1930s, and managed to make sales in ostensibly unpromising places like Jamaica, and the Panama Canal zone. But the deepening depression only increased access problems. The Report of the Dairy Board for 1930/31 noted that:

Great Britain has always been New Zealand's principal market for dairy produce, but now it is practically its only market. Tariffs are closing doors to other markets, and these barriers are also responsible for the ever increasing export from other countries finding its way to the British market. (9)

Inevitably prices on the British market fell. Butter sold at 140s. in August 1930, 104s. in November, and just 65s. through much of 1933. The total value of New Zealand's pastoral export receipts in 1930/31 was £40 million, compared with £70 million in 1928/29.

Trading conditions for Britain's own industries were so depressed by 1931 that the possibility of securing improved access to Dominion markets by offering them protected access in her own presented itself to Britain as a strategy. In February 1932 Britain imposed import duties, but exempted the Dominions for nine months. In July 1932 the Dominions, India and Britain, met at Ottawa to hammer out a framework that would provide economic advantages for all of them.

New Zealand sought to secure for herself a more favoured position in the British market than that of any of her competitors. To achieve this she was prepared to offer Britain very liberal trading conditions in her own market. This was Coates's stance when he came to Ottawa in July 1932. He was prepared to concede 'almost any preference' to Britain, but wanted her to institute quota restrictions on the dairy produce, meat, pig products, fruit and similar commodities sent to her markets by foreigners.<sup>(10)</sup> Because Britain was prepared

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9. Quoted in Ward, *Command of Cooperatives*, p. 70.

10. Hancock, *Survey* II, 1, p. 218.

to make concessions to the Dominions in exchange for enhanced opportunities in their markets, it proved possible to reach an agreement. Coates reduced preferential duties on certain specified goods, exempted United Kingdom goods from customs surtaxes and maintained existing preference margins at not less than 20 per cent: not very major concessions, but New Zealand's tariffs were low anyway compared with Canada and Australia. In return, Britain imposed a 15s. per cwt duty on foreign butter, whilst giving Empire butter unrestricted entry for three years, that is, until 1935.<sup>(11)</sup>

There were major difficulties over meat. In the course of the conference, Britain decided not to impose a meat duty. Its preference was for regulation preferably administered by suppliers. Australian pressure ensured that this entailed a fairly heavy restriction of foreign imports - to 65 per cent of 1931/32 level in 1933 and would under no circumstances be subject to quotas before 1 July 1934 or duties before 1 July 1936.<sup>(12)</sup>

Coates had managed to preserve a large part of the unrestricted structure of New Zealand's trade. Nevertheless, Britain's priorities were such that this wouldn't necessarily last. There were two dimensions to this problem. Firstly, the British authorities were aware that they had not solved the problem of home producers and began to consider ways of protecting their position. Secondly, Britain was constrained in what she could negotiate with foreign suppliers who were debtors and importers as well as sellers. New

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11. I.M. Drummond, *Imperial Economic Policy 1917-1939*, p. 269.

12. *Ibid.*, pp. 263-264.

Zealand could offer nothing to override these priorities, as she found on the successive occasions when some sort of bilateral arrangement was proposed. In 1933, under pressure from dairy producers concerned about the prospect of quantitative restriction, New Zealand proposed a Customs Union, which would allow free and unrestricted entry for their produce, in exchange for similar privileges for British manufacturers.<sup>(13)</sup> The Dominions Office would not countenance any such scheme which favoured one Dominion over others. Ministry of Agriculture officials were adamant that they did not want unrestricted entry. Despite this knockback, Coates raised the question again with Baldwin in 1935, but Baldwin evaded the issue, saying it could only be dealt with at an Imperial Conference.<sup>(14)</sup>

Despite the Ottawa rhetoric, New Zealand could not expect Britain to bale it out on any substantial scale. As with the post-war depression, the early 1930s saw further moves towards collective control in New Zealand. In 1934 an Executive Commission of Agriculture was established to coordinate the activities of all five producer boards, (fruit, honey, poultry, were the other three). Then this move was overtaken by the change of Government at the end of 1935.

(d) Labour Before the War

During the depression, the Labour Party had articulated clear-cut views about how the interests of the farming industries should be

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13. Hancock, *Survey* II, 1, p. 244; Drummond, *Imperial Economic Policy*, pp. 323-324.

14. W.B. Sutch, *Recent Economic Changes in New Zealand*, pp. 153-166; Drummond, *Imperial Economic Policy*, p. 355.

protected. It believed that many of their problems stemmed from the inevitable fluctuations of the international capitalist economy. Planned production and distribution would help overcome this, particularly if it were linked to permanent arrangements with purchasing countries. Walter Nash, who became Minister of Finance and Marketing in the new Government, had studied the history of the 1915-1921 contracts. A businessman by occupation, and one of limited resources by circumstances, such a system appealed to his commercial as well as his political sense. To producers, Nash promised a guaranteed price for their output which would effectively protect them against overseas fluctuations.

The Primary Products Marketing Act 1936 provided for Government purchase of all primary produce. It was accepted by the dairy industry and was therefore implemented in respect of butter and cheese, but not for meat and wool. This was a substantial commitment for the Government to take on. In theory the Government might argue that farm realisations would be maintained independently of external price movements. In practice, the finances of the scheme would be much more manageable if some sort of market security could be achieved. In 1936 Nash went to London, taking with him a plan for reciprocal trade:

13 (2) The basis of any such agreement [for the promotion of reciprocal trade] shall be that, in consideration of the purchase by the Government of any such country of any primary products of New Zealand or in consideration of the establishment or maintenance of any such country of favourable marketing conditions for any primary products of New Zealand, the Government of New Zealand will undertake to arrange through the Reserve Bank of New Zealand that the whole or a substantial part of the financial credits thereby established in such

country will be utilised for the purchase of approved goods or classes of goods being the produce or manufacture of that country. (15)

As a theoretical proposal this may have seemed fine, but politically it confronted the same obstacle as the proposals for a Customs Union - to Britain its bilateral character was unacceptable. In any case, it was not certain that Britain would gain in terms of increased exports. Moreover the plan involved Government control of imports and exchange, a principle that the conservative British Government found unattractive. (16)

In practice therefore, Nash had to continue discussions on particular commodities just as had Coates. He dealt with meat as well as butter and cheese. It had become apparent that the measures agreed on for meat were not having the desired effect on supplies and prices. For Britain this was of direct concern because of the situation of her own producers. She negotiated a further agreement with Argentina in May 1933, in which the latter submitted to restrictions over and above those imposed on her at Ottawa. But politically it was impossible for Argentina to absorb all the restriction; nor, probably, was it realistic, given that Australia, far from voluntarily regulating her meat exports, was in fact, continuing to flood the market. British officials worked on a scheme for protecting their own producers through levy-subsidies, a system by which the home producer would be subsidised by revenue collected by the imposition of a levy on overseas suppliers. (17)

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15. Sutch, *Recent Economic Changes in New Zealand*, p. 145, quoting the Primary Products Marketing Act 1936.
  16. K. Sinclair, *Walter Nash*, pp. 136-139; Drummond, *Imperial Economic Policy*, p. 360.
  17. Hancock, *Survey II*, 1, pp. 239-240.



New Zealand reacted violently to this scheme. The meat problem was essentially a beef one. Only 2.5 per cent of New Zealand's meat production was beef, but over 25 per cent of New Zealand's total exports were meat compared with 6 per cent of Australia's and just 2 per cent of Canada's. Why should New Zealand carry the major burden of a policy designed to limit supply of a product which she did not produce?<sup>(18)</sup>

Discussions in 1935 were heated, but did result in separate treatment for sheepmeats and beef. The former would not be subject to any duty but would continue to be quantitatively regulated, a system which worked quite well. As it happened the proposed duty on beef eventually came to grief on Argentina's refusal to accept a duty of a magnitude which would allow Britain to confer on the Dominions a realistic preferential advantage. In the upshot Argentina's duty remained at a lower figure and the Dominions escaped altogether.<sup>(19)</sup>

What in the meantime had happened to the home producer? From 1934 the Treasury had been subsidising British producers at the rate of £4 million per annum and this continued.<sup>(20)</sup> Thus protectionism was not used to sustain the livelihood of British farmers, but coupled with other measures made for substantial increases in British farm output.

Although Britain's abandonment of duties in 1935/36 did not mean the end of quantitative regulation, New Zealand did not object. A

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18. *Ibid.*, p. 241.

19. Drummond, *Imperial Economic Policy*, pp. 348-349, 452.

20. *Ibid.*, p. 354.

connection was perceived between quotas and rising prices and the improvement in prices was sufficient to allay most of the anxieties about the restrictions on increasing production. In 1937 shipments were held at 1936 levels and Nash regarded this as a triumph. Late in 1937, largely because of rising domestic production, British lamb and mutton prices began to fall, and accordingly quotas were reduced in 1938. Britain wanted to establish a council to regulate mutton and lamb shipments but New Zealand opposed this, arguing that Australia was to blame for the price difficulties. Whilst her shipments were still below the 1931/32 standard, Australia's were about a third above. A council was set up, but predictably failed to agree because of disputes between Australia and New Zealand. The United Kingdom ended up imposing quota restrictions again, 3 per cent below the 1938 levels for 1939.<sup>(21)</sup>

A similar pattern of negotiation to that which took place over meat occurred with butter. New Zealand had responded to the preservation of her right of free entry to the British market by trying to produce her way out of depression. In 1933-1934 she exported over 160 000 tons of butter for sale in the United Kingdom - 60 per cent up on five years earlier, but earning about 40 per cent less. Although Britain was prepared to make some differentiation between foreign and imperial suppliers, she could not allow this volume to continue as it threatened her own dairy industry. Britain wanted New Zealand to accept some quantitative restriction and was able to convince Coates, but he in turn was unable to convince New Zealand producers. By 1934 New Zealand attitudes were beginning to change. Recognition dawned that quantitative restriction

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21. Drummond, *Imperial Economic Policy*, pp. 387-388; Sinclair, *Walter Nash*, pp. 143, 151.

had certain advantages. However, at this stage British officials formulated the scheme for a duty which, nonetheless, could not be imposed in terms of the Ottawa Agreement until January 1937. In his discussions in 1936/1937 Nash managed to kill this scheme, but not singlehanded. Prices had risen and it would have been far more difficult to convince the House of Commons of the need for a duty than it would have been in 1934. And the meat negotiation had set a precedent. In late 1937 it was agreed to continue subsidising British producers directly from the Exchequer. Britain wanted her retreat from the duty proposal to earn a *quid pro quo*. Thus she suggested that the New Zealand Government might now be able to proceed with schedules of tariff requests. But there was no real likelihood that the duty plan would be revived if this request was acceded to: it was too firmly grounded in the existing realities of British policies and politics.<sup>(22)</sup>

### 3. Britain's Interests in New Zealand and the 1938/39 Exchange Crisis

The protection of her export trade to Britain absorbed much of New Zealand's diplomatic energies between the wars. But in the last years before the Second World War, Britain herself became concerned about her economic interests in New Zealand, a concern which provoked a surge of diplomatic activity in 1939.

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22. Hancock, *Survey* II, 1, pp. 243-44; Drummond, *Imperial Economic Policy*, pp. 322-325, 359, 363-66.

From 1873 the New Zealand Government had possessed the right to impose customs for revenues or protective purposes as it saw fit.<sup>(23)</sup> In practice the degree of protection accorded local manufacturers was very low and British exporters had little reason to complain about their access to a market which in 1935 was one of the highest *per capita* consumers of British goods in the world, and was also, despite its small absolute size (1 500 000), Britain's sixth largest market. Even so, the revision of the tariff in 1903 had introduced a preferential element which favoured Britain, and this had been extended on later occasions.

Nonetheless, in the interests of securing its access to the British market, New Zealand was prepared to go further. At Ottawa, Britain sought acceptance of the principle that New Zealand should undertake to admit British goods as if they were produced locally: tariff boards should operate to ensure that the goods would enter on appropriate terms.<sup>(24)</sup> New Zealand had not wanted to establish a Trade Board, but a Tariff Tribunal was provided for and the Government promised to reduce duties "as speedily as possible to such a level as will place the United Kingdom producer in the position of a domestic competitor." Moreover, New Zealand had agreed to protect only industries "which are reasonably assured of sound opportunities for success".<sup>(25)</sup> New Zealand made some changes in 1934, but commercial interests in Britain, mediated through the Board of Trade, remained alert to changes in circumstances.

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23. W.D. McIntyre, *The Commonwealth of Nations, Origins and Impact 1869-1971*, p. 54.

24. Drummond, *Imperial Economic Policy*, p. 232.

25. *Ibid.*, p. 246.

New Zealand was an outlet for British capital as well as British exports. From the very first years of settlement capital had flowed into the country - through remittances to immigrants, direct investment in businesses, and by way of loans, both to private individuals and firms, and to the Government. The Colonial Stock Act 1900, which conferred trustee status on colonial bonds encouraged the flow of investment to New Zealand as to other Dominions.<sup>(26)</sup> During World War I there was talk of directing the flow of British capital to the Empire and away from foreign countries. After the war Britain's interest in such intervention waned. Dominion leaders claimed their countries needed more capital, but one of their problems may have been that they had too much. From the point of view of the investor, or the bondholder, there were no problems. Interest was received, dividends were paid, the *rentier* could sleep soundly in his bed.

Circumstances changed in the 1930s. Britain closed the London capital market in 1931 and suddenly New Zealand found herself short of sterling to meet obligations. The Government commandeered the country's export revenue in order to ensure that it had enough money to pay its debts. In fact the crisis passed. As was normal in such circumstances, the banks pursued deflationary credit policies to counter the fall in sterling funds and by mid-1932 the latter were again at a healthy level. But the domestic cost, when added to the difficulties already created by the collapse in export prices, was high.

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26. Hancock, *Survey* II, 1, p. 183.

In 1935 the Labour Government took office. It was opposed to overseas borrowing. It believed that its consequences would always be as they had been in 1931-32: a sacrifice of domestic interests to those of overseas creditors. Labour's determination to consider New Zealand before overseas interests had other consequences too. The Government determined to promote secondary industry to provide jobs which the primary producing sector was failing to provide, and which could not be provided permanently by an activity as "unproductive" as public works. The Industrial Efficiency Act of 1936 was passed to promote the coordination and rationalisation of industry in New Zealand. There was no automatic connection between such a policy and any particular import policy. The Government was well aware that it would meet opposition if it pursued its policy through protectionist devices. Savage argued that a manufacturing policy would mean that New Zealand would:

make for itself a considerable portion of the articles which at present we purchase from the United Kingdom. Naturally we would concentrate only on those industries best suited to our economy. We have no desire to set up uneconomic industries behind the shelter of a higher tariff wall. Rather we would attempt to organise industry in a rationalised plan. (27)

Nash agreed. His plan for reciprocal trade was not inherently protectionist although it could involve direction of imports as the Government would control all New Zealand's foreign exchange. In February 1938 the average level of tariffs was raised. The Government aimed to maintain low tariffs for some sectors but

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27. Sutch, *Recent Economic Changes in New Zealand*, p. 136, quoting Savage.

reserve others for planned home development.<sup>(28)</sup> This was in conformity with the way Savage and Nash envisaged development proceeding, but it was not a change which aroused much enthusiasm in Britain. Particular exporting industries, e.g. footwear, were hurt by the changes in the tariff.

Meanwhile, other Labour policies were alarming investors and lenders. The Government had embarked on a public works scheme to provide an immediate remedy for unemployment, and it planned to build large numbers of houses. In 1938 it determined on a revision of social security and on the provision of state medical care. All of these projects cost - or would cost - money, but none of them were "productive."

In the absence of any controls, the expansion spilled over into imports. Coupled with a flight of capital and weakening export prices in 1937/38, this led to a sharp deterioration in the country's sterling funds. Immediately after the 1938 election controls were imposed on exchange and imports. But with a £17 million loan falling due at the beginning of 1940 Britain had a powerful weapon with which to ensure that her interests were protected: in December 1938 New Zealand's sterling funds stood at less than £7 million (down from £23.1 million at the end of 1937).<sup>(29)</sup>

To take imports first. Import licensing compounded the anger of British exporters at the protectionist measures New Zealand had

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28. Hancock, *Survey* II, 1, p. 278.

29. Horace Belshaw, 'Import & Exchange Control in New Zealand', *Economic Record* 1939, p. 174.

already introduced. Complaints came from the Federation of British Industries about the complete prohibition of certain British imports such as woollen goods and hardware. Such practices undermined the value of Government claims that preference would be given to British exports in the import licensing system. Britain was prepared to accept that some form of import control was necessary as a stopgap measure, but it should not be used for protective purposes. On 12 July 1939, Nash signed an Agreement with Oliver Stanley, President of the Board of Trade. In it Nash

assured United Kingdom Ministers that it was not the intention of the New Zealand Government to employ the import licensing policy in order to give protection to New Zealand industry against imports of United Kingdom goods on a scale which presented full opportunity of reasonable competition. (30)

He also agreed that New Zealand's import licensing policy

would not be used to foster uneconomic industries, and that, in order to assist (the New Zealand Government) in determining what goods could be economically produced in New Zealand, they would invite the views of the United Kingdom industries concerned and would take such views into account in reaching a decision. (31)

The Agreement thus restated the traditional orientation of New Zealand import policy at the expense of recent developments.

The other dimension of Nash's talks was financial. In respect of the loan falling due early in 1940

British financial institutions and private investors who held the stock were not willing to re-lend on the old terms. They virtually demanded their money back. (32)

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30. Quoted in Sinclair, *Walter Nash*, p. 184.

31. *Ibid.*

32. F.L.W. Wood, *New Zealand in the World*, pp. 125-126.



The British Treasury and the Bank of England were not in a very sympathetic mood. Labour was felt to be the architect of its own undoing, and should not expect to have its cake and eat it; deflation was the answer. Fortunately for Nash, there were mitigating circumstances. New Zealand's reserves were so low that default on interest payments was a real possibility - there was a limit to how quickly imports could be cut back even with direct controls. A default or devaluation would have a bad effect on some allies. But it was impracticable for Britain to take over New Zealand as it had Newfoundland. Some short term assistance was therefore necessary. Moreover the British press had observed that Britain was giving loans and credits to East European states. With war imminent, should a Dominion be less favoured?

On 21 June, Chamberlain directed that New Zealand be helped and Cabinet agreed. Nash got £5 million for defence orders and £4 million for commercial credits from the Exports Credits Guarantee Department. The latter figure was less than the £10 million he had asked for, but more than the £2 million initially offered. Nash had said he would accept a short-term loan to cover forthcoming maturities if import and defence needs were met, but he baulked at the terms. The British Government was not itself prepared to help - the terms had to be strict if the loan was to be successfully floated. Montague Norman, Governor of the Bank of England, had proposed a five-year, £16 million loan, with monthly repayments which would be made a charge on New Zealand's exports receipts. Nash wanted instead to give an unqualified undertaking to repay from

Government funds; this was acceptable provided it was formalised by order-in-council. Annual payments were agreed on but the term remained five years. At this point Norman shifted the weight of his influence and was instrumental in getting the loan floated.<sup>(33)</sup> The money safe in his pocket, Nash set out for home, arriving on 5 September, two days after the outbreak of war.

The 1938/39 crisis was significant for both New Zealand and Britain. Britain showed that she was prepared to act to ensure that the configuration of New Zealand's political economy continued to favour her commercial and financial interests. The Labour Government in New Zealand was not prepared to abandon its new policies outright. But it recognised that they needed to be grounded in an economic strength which the New Zealand of 1939 lacked. Nash, in particular, was reinforced in his distrust of the consequences of overseas borrowing. In the future, he would pay off debt as soon as he possibly could. Moreover, he constantly sought ways of increasing New Zealand's overseas earnings and reserves so that he would not be caught again as he was in 1938/39. Import controls remained essential for this purpose - nor could it be assumed that their utility as an employment-promoting device would be completely ignored.

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33. Sinclair, *Walter Nash*, pp. 180, 181-182, 185-186.

#### 4. People and Institutions on the Eve of War

Economic relations are mediated through institutions and people, as well as ideas and issues. In New Zealand, no single office was charged with handling external economic issues. Farming matters were historically the concern of the Department of Agriculture, the department with which producer boards dealt. In 1934 the Executive Commission for Agriculture was established to coordinate the activities of the producer boards, but it did not survive the change of Government. Producer boards had their own representative in London; the Department itself operated through the High Commissioner's office. In fact if agricultural issues reached this level of significance they became a matter for Cabinet as a whole rather than just the Minister of Agriculture or his Department. Prime Ministers always felt competent to make representations on trade issues when they were in London, as did Massey in 1923, and Forbes in 1934. In 1936 the Marketing Department took over the Dairy Board's tasks in London, and it was under his new Minister of Marketing hat that Nash negotiated with Britain on trade issues in 1936/37. Otherwise the change was not substantial. George Duncan, who became Director of the Marketing Department in 1936, was the most important official dealing with export matters for the next ten years. He was originally a Hawera accountant, who had come to prominence as a member of the 1934 Dairy Industry Commission. His appointment by a Labour Government was a tribute to his personable character and unfailing sense of discretion, as well as to his technical and administrative skills.

An ideal senior civil servant, he also was able to maintain good relations with the dairy producers and subsequently the other primary producers.

Import policy was traditionally administered by the Customs Department which accordingly took on the task of managing the import licensing system in 1938. The task of determining important priorities in a period of exchange shortage fell to the Department of Industries and Commerce, which had traditionally been responsible for Government purchasing in Britain. Nash was Minister of Customs and remained so throughout the duration of the first Labour Government. Dan Sullivan, a former journalist, and Minister of Industries and Commerce until his death in 1947, did not exercise a major influence on policy.

Nash was also Minister of Finance from 1935-1949, and his distinctive views often had a direct effect on New Zealand's position on successive issues. Bernard Ashwin, Secretary to the Treasury from 1939-1955 matched Duncan in significance. While Treasury was primarily geared to acting as the Government's accountant, Ashwin was personally very familiar with the intricacies of money and banking matters and macroeconomic policy. Politically and bureaucratically skilful as well as intelligent and well-informed, Ashwin was an adept foil for Nash, and injected a note of political and economic realism into discussions and negotiations in which he was involved. The Reserve Bank, although nationalised by the Labour Government in 1936, played a much less significant role in financial policy. Its Governor to 1940, Leslie Lefeaux was out

of sympathy with Labour policy, and with the use the Government was making of the Reserve Bank, both in securing loans, and in the administration of exchange control policy. In his own office Nash made use of W.B. Sutch, an economist, who had also worked for Coates. R.M. Campbell, also an adviser to Coates, was based at the High Commission in London from 1939.

The conduct of economic diplomacy was institutionally separate from political relations. There was no Department of External Affairs to coordinate external relations. The Prime Minister's Department serviced the Prime Minister's own dealings with the Imperial Government. On the occasions when a Prime Minister made statements on trade issues or such like, he would also have consulted with Cabinet colleagues. The Department itself had neither the obligation to be involved in such matters, nor sufficient staff to have allowed such involvement.

Links with Britain penetrated every aspect of New Zealand life. It would have been impossible and meaningless to have apportioned to one set of officials or one minister, the task of managing the relationship as a whole. The integration took place in men's minds, not in memoranda. This informality was facilitated by the fact that Britain did not treat New Zealand as a foreign country. The High Commission in London dealt with the Board of Trade on commercial matters and the Treasury and the Bank of England on financial and monetary matters. Such links were not unknown to foreign countries, but the Foreign Office exercised a much more significant role in their

relations with Britain than did the Dominions Office with the Dominions.

Keith Sinclair has described the frame of mind of British Ministers and civil servants towards Dominion politicians as "that of weary, impatient schoolmasters, their tone tart and superior"<sup>(34)</sup> - frequent memoranda leave no doubt of this, as will often be demonstrated in the following pages. Party political differences could aggravate such attitudes - this was particularly noticeable in 1936-1939 when a predominantly Conservative British Government faced "socialists" in New Zealand. But set against these differences there was personal and cultural familiarity. R.M. Kershaw in the Bank of England was an Australian, and familiar with conditions in both Australia and New Zealand. Nash and Fraser for their part, were both British born. So although New Zealanders could be labelled (and relegated) as colonials, they were not unknown quantities. Nor did they find the corridors of Whitehall and Westminster to be entirely alien environments.

This informal structure ensured an intimacy of contact between New Zealanders and Britons, but it was not underpinned by anything more concrete. Ideas of imperial federation had not survived confrontation with political realities. The Imperial War Cabinet, established during World War I with Dominion ministerial representation, did not long outlast the return to peace. The evolution of the Imperial Conference system provided a means by which the Dominions

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34. Sinclair, *Walter Nash*, p. 137.

could discuss with Britain issues of common concern. Through the interwar years, one concern was to seek from Britain recognition of the equal status of the Dominions with her. In 1931 the Statute of Westminster gave legislative recognition to the equality of status agreed to at the 1926 conference.

The New Zealand Government of the time saw no need for such accelerated progress. It had as much independence as it wanted - change might only diminish the beneficial closeness of the association with Britain. The Labour Government which took office in 1935, after five years of severe depression, was convinced that change was necessary, that New Zealand needed to take on a greater responsibility for managing its economic life than had previously been the case. It followed that it placed a greater premium than its predecessor on asserting New Zealand's independent status in the Commonwealth community. Whatever may have been the predisposition of New Zealand's farmers, a powerful current was taking New Zealand along an independent path. In 1939 Britain appointed a High Commissioner in Wellington, thus ending the diplomatic role of the Governor General, and bringing relations between the two countries closer to the norm of relations between two independent states.

##### 5. The Impact of War

The economic imperatives of war made for a sharp transformation in the character of Britain's interests in New Zealand, one which lasted for fifteen years. The war machine was insatiable: valuable

resources, resources likely to become scarce, had to be husbanded and safeguarded. In respect of New Zealand these objectives were given an extra twist. Britain expected to be short of foreign exchange and imposed exchange control at the start of the war. The resources of countries like New Zealand, which would accept payment for goods and services in sterling, were therefore especially valuable. Britain made bulk contracts with New Zealand to help secure her requirements of food and raw materials. The former continued through to 1954. Additionally, New Zealand's consumption of imports, of services, of capital, even of her own output, was discouraged if it meant a diversion of resources from the war effort.

The transformation can be conceived of in a more abstract fashion. Economic activity now had significance for Britain, not because of the incomes it generated, the livelihoods it allowed people to make, but because of the resources it made available.

The impact of this transformation on economic diplomacy between the two countries is the subject of this study. How did New Zealand react? New Zealand became a belligerent too, and therefore there was a presumption that she would cooperate with Britain to the best of her abilities. But there were more particular reasons too. There was a sense in which Britain's new direction was a fulfilment of Labour's pre-war economic plans. Firstly, New Zealand exports would enjoy more secure trading conditions. With opportunities to exploit other markets likely to be limited by wartime dislocation, this was very appealing. Secondly, New Zealand would be able to promote its employment and industry and at the same time restrict imports with a fair measure of concurrence from Britain.



To set out the extent of concurrence in British and New Zealand objectives is not to suggest that there was complete agreement. New Zealand would not always constrain her consumption or her imports in quite the ways Britain would have liked. Her own exchange crisis made her particularly anxious about her sterling reserves. Reluctant to borrow, she explored other ways of building up her reserves. Given the shortages of some of her exports and pressure from producers, a certain amount of tension between the two countries over export and import prices was inevitable.

These problems were the stuff of wartime economic diplomacy. 1940/41 was the most difficult year. Thereafter lendlease eased the pressure on Commonwealth resources. Paradoxically though, New Zealand's food supplies became even more valuable (additional shipping was available and output had declined in other countries). The end of the war meant the end of lendlease and the return of the foreign exchange constraint. Britain had to continue direct control of food. She also promoted exports to hard currency markets, which in turn meant continued shortages in New Zealand as well as Britain. These conditions lasted in one form or another until the mid-1950s.

War made a big difference to the atmosphere of New Zealand-British economic diplomacy. The stress was on collaboration: traditions of loyalty, kinship and patriotism had a constructive role to play. New Zealand came to play a full part in the world of nations at a time when it was cooperating more intensively with Britain than at any time since the First World War.

## CHAPTER TWO

### Britain and New Zealand's War Effort 1939-1945

1. Introduction
2. British pressure on New Zealand's war effort 1939-1941
3. Financing the overseas war effort 1939-1941
4. Britain and New Zealand's war effort 1941-1945

## 1. Introduction

The outbreak of war opened a new phase in economic diplomacy between New Zealand and Britain. During the 1930s New Zealand diplomacy had mostly concerned trade issues: New Zealand exports to Britain and, to a lesser extent, British exports to New Zealand. The war changed Britain's perspective. New Zealand acquired significance as an ally and as a contributor to the war effort. Diplomacy became a matter of encouraging the mobilisation of resources rather than of protecting trade.

How would New Zealand react to this revolution in Britain's attitude towards her economy? After war had been declared Savage addressed the nation in forthright terms

Both with gratitude for the past and with confidence in the future, we range ourselves without fear beside Britain. Where she goes we go; where she stands we stand. (1)

This chapter looks at the extent to which Savage's declaration of solidarity held good in the economic sphere. The existing thrust of Labour's economic policy ensured a general accord with Britain's requirements. Through the war years the Government was determined not to finance the war by overseas borrowing - a determination reinforced by the events of 1938/39. Indeed for Nash, avoiding indebtedness became a ruling passion. This conformed with Britain's wish that her capital resources not be depleted. Before

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1. NZH, 4 Sep 1939.

the war, the near-exhaustion of New Zealand's overseas reserves, coupled with an unwillingness to restore them through a deflationary policy, had made exchange and import controls necessary. With the war, Britain's endorsement of such a system became unqualified. Over and above these peacetime policies, Labour's wartime economic priorities also made sense to Britain. In particular, the Government was determined to avoid inflation, which had hurt working people in World War I. If this was to be achieved, the Government would have to restrict civilian claims on New Zealand's resources: if successful this would facilitate the diversion of resources to the war effort.

Through the 1930s, producers and Government had been seeking to protect the New Zealand market in Britain. Now it seemed that Britain would in effect provide that protection herself, through committing herself to bulk purchases of food products and wool. New Zealand protectionism had caused some dissatisfaction in Britain before the war. But New Zealand continued to extend to Britain under the import licensing system the preferential access she enjoyed under the tariff code. In any case, access for its exports was a low British priority through the war.

In sum, Britain's wartime economic policies went with the grain of New Zealand's economic interests. But it would be erroneous to suggest that there were no differences. Although New Zealand was in theory committed to restricting its consumption of resources as vigorously as did Britain, the practice was rather different, at least in the first two years of the war. New Zealand's Labour government wished to maintain the employment policies and social

security programme it had introduced before the war. This meant continued spending on benefits, on housing and on public works concurrently with attempts to divert resources to the war effort, with the latter sometimes sacrificed to the former. Britain's civil servants and ministers, already predisposed to see New Zealand's welfare policies as socialist extravagances, now had additional - if to New Zealand, more acceptable - reasons for setting their face against such indulgences. Guns must come before butter. But New Zealand was an ally, and domestic policies could not be directly challenged, however many mutterings they produced in Whitehall. Moreover it was recognised that a reorientation of New Zealand's primarily pastoral economy would not produce the economic dividends that could be expected from economic mobilisation in Britain or even Australia. Britain's economic diplomacy focussed rather on New Zealand's consumption of overseas resources of capital and goods. Britain was particularly anxious that New Zealand restrict imports with a foreign exchange content - foreign exchange being one of Britain's scarcest resources. And she also wanted New Zealand to bear as much as possible of the overseas cost of her own war effort, as the war proceeded.

For relations between New Zealand and Britain 1941/42 was a watershed year. On the one hand New Zealand's mobilisation achieved a completeness that satisfied the most rigorous British observers. On the other hand, pressure on Empire resources was eased with the initiation of lend-lease, and America's entry into the war. In the latter stages of the conflict, New Zealand's war effort came under scrutiny by Britain in only one major respect - food consumption. Food shortages were world wide and could not be completely alleviated,

even when the productive wealth of North America was taken into account.

For New Zealand's producers wartime economic diplomacy had a different focus. There were many times in the history of wartime trading relations when the determination to protect profitability provoked protracted negotiations with Britain. Additionally, in the latter stages of the war in particular, the foreign exchange earning capacity of the export industries attracted the attention of the Government which saw adjustments in export receipts as a more practicable and effective way of increasing its overseas resources than by borrowing: and one moreover that was unlikely to arouse Britain's wrath. These matters will be dealt with in Chapters three, four and five.

## 2. British Pressure on New Zealand's War Effort 1939-1941

With the outbreak of war, the Government equipped itself with special powers to direct the economy, and these were extended at later dates. Provision was made for controls over prices, wages and costs, and over manpower. Authority was acquired to increase taxation and raise loans internally for war purposes. A supply organisation was established. It operated initially through the Industries Committee of the Department of Industries and Commerce, and subsequently through a fully-fledged Ministry of Supply. The Minister of Industries and Commerce also assumed the portfolio of Minister of Supply.

The Government accepted the exchange control imposed by Britain on all sterling purchases and earnings which were transacted in gold or foreign exchange. Quite apart from the claims of wartime solidarity, New Zealand normally secured her foreign (i.e. non-sterling) exchange needs in London. Moreover, as she normally earned less foreign exchange than she spent, the controls were of obvious benefit to her. Nevertheless she was expected, like other countries in the "sterling area" as it was labelled, to limit expenditure outside the area, and import goods from within it where at all possible.

Despite these changes, economic mobilisation proceeded rather slowly. In 1939/40 this was hardly surprising. Britain herself was experiencing the "phony war". With Poland conquered, stalemate followed. Britain and France waited to see what Hitler would do next. In New Zealand, the petrol ration, imposed in the first week of war, was liberalised for the Christmas/New Year holiday. Quite apart from the fact that this meant consumption would increase, Whitehall felt it also discouraged Australia from rationing. Fraser explained that the initial rationing had been too drastic - it had thrown people out of work.<sup>(2)</sup> This was not an argument likely to mollify the British. Housing construction, a good indication of the relative importance accorded to the claims of "butter" or "guns", continued at record levels. Permits issued for new state houses reached nearly 4400 in 1939/40, compared with 4100 in 1938/39. Private housing construction contracted only very slightly compared to the preceding year.<sup>(3)</sup>

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2. T160 F12715/5, UKHCW-SSD, 10 Aug 1940.

3. Baker, *War Economy*, pp. 242-243.

In the aftermath of Dunkirk, the New Zealand Government stepped up its mobilisation in a number of ways. Direction of manpower to the armed forces increased sharply during the winter, and in October 1940 conscription was introduced. (The first echelon of the second NZEF was manned by volunteers.) Sales tax, which was levied on a wide range of goods, was doubled from 5 per cent to 10 per cent, and in July, a national security tax was imposed - a flat 5 per cent on virtually all income.<sup>(4)</sup> Nevertheless there were other areas where progress was not so marked. Despite the Government's own predisposition, it proved politically difficult to implement the sorts of wages and price controls which were the most direct method of tackling continuing inflation. At the Economic Stabilisation Conference in September 1940, participants from economic interest groups and Government reached agreement that inflation was bad. But any comprehensive steps to impose an anti-inflation policy were likely to offend either wage-earners or employers. Only in September 1941 was a committee set up to work out a comprehensive stabilisation programme.<sup>(5)</sup>

Although inflation made New Zealand's mobilisation for war more difficult, it did not too directly impinge on British concerns. On other matters action seemed much more imperative with the deterioration in Britain's strategic and economic situation and a new and more dynamic Government in office. Consumption of dollars was a particularly sensitive issue. In September 1940, the British High Commission reported that although newsprint had to be drawn from outside the sterling area, most newspapers in main centres remained larger than major British papers. The New Zealand Government had

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4. Baker, *Ibid.*, pp. 75, 261, 262.

5. Baker, *Ibid.*, pp. 282-283.



received full particulars of the measures taken in Britain to limit consumption by reducing newspaper size, but still had not followed suit.<sup>(6)</sup> Consumption of tinplate was another sore point. During 1940, New Zealand had imported 360 000 cwt compared with 250 000 cwt average over the preceding four years.

Batterbee went on to comment:

All this may not matter much in the case of New Zealand where savings to be effected by economies are not large in relation to expenditure of the whole sterling area... But the fact remains that nothing like the same attempt has been made here to economise or to do without as has been made in the United Kingdom, and the people here are by no means "economy conscious".<sup>(7)</sup>

At the Economic Stabilisation Conference in September 1940 Nash stressed that New Zealand should try and do without goods which were not available from the United Kingdom.<sup>(8)</sup> But sometimes the need became too pressing and this was accepted by Britain. In November 1940, New Zealand found itself in need of supplies of fencing wire which could only be obtained from North America. Having approached the United Kingdom, she was in due course informed that she could spend the requisite dollars as it had been ascertained that there were no supplies in Britain or Australia.<sup>(9)</sup>

In May 1941 Britain learnt that 5000 tons of steel were being imported to complete the Picton-Christchurch railway.

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6. BT11/1458, 17 Sep 1940.

7. BT11/1458, UKHCW-DO, 19 Feb 1941.

8. DPM D4/5, 4 Sep 1940.

9. T160 F12715/5, 4 Nov 1940, 26 Nov 1940; Baker, *War Economy*, p. 132.

Nash has shown a disinclination to refuse licences for imports from dollar countries to goods wanted for development of projects, secondary industries or public services which cannot be supplied from the sterling area. (10)

In June the New Zealand government was approached with the object of securing an assurance that it would not call in Britain, or spend dollars on plant or machinery unless they were "essential". Could New Zealand's expenditure be monitored more tightly? Batterbee pointed out that once New Zealand had decided that it had to acquire certain imports from the dollar zone, no limit was in fact set to the amount of dollars New Zealand could draw.

I hesitate to suggest that the exchange authorisation granted by the Reserve Bank of New Zealand should be subjected to any form of control by the Bank of England... but would it be feasible to set up a rough limit to the amount of dollars to be available to New Zealand in any one financial period so that New Zealand would have to decide how much to allocate [between different needs]? (11)

British Treasury official, R.F. Kahn argued that such a ration would help emphasise in New Zealand the connection between restrictions and the war effort. But J.R. Willis of the Board of Trade thought it was problematic. In the end, the United Kingdom would still have to entertain requests for the provision of additional dollars and in some respects she would be foregoing influence by allocating a ration outright. (12)

Batterbee made two other proposals with a bearing on the dollar shortage. Firstly, that the United Kingdom should adopt a longer

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10. T160 F12715/6, UKHCW-DO, 26 May 1941.

11. BT11/1458, UKHCW-DO, 19 Feb 1941.

12. BT11/1458, Minutes 21 Mar 1941, 15 Apr 1941.

view in making *ad hoc* requests for economy in various commodities. In other words as Willis saw it, New Zealand would be asked to conserve goods now in anticipation of future difficulties. The problem here was that it was not inconceivable that 'all commodities are likely to become short before very long.' The second suggestion was that New Zealand coordinate her purchases outside the sterling area with those of other Commonwealth countries: the problem there was that purchases from the United States were still made largely through commercial, not official channels. (13)

Pressure was increasing on dollar supplies because supplies from sterling area countries, particularly Britain were diminishing. Both Nash and Fraser when in Britain had got into the habit of reinforcing the representation made by G.W. Clinkard, the supply representative in London, for relief of particular shortages, (14) but there was an unavoidable contraction and this meant that New Zealand import volumes fell. Quite apart therefore from any restraint she herself exercised, imports from the United Kingdom fell in every year from 1938 to 1942, and only in the latter stages of 1941 did significant supplies become available from other sources.

Despite this contraction, British observers, in the early months of 1941, were still expressing concern at the levels of domestic expenditure on civilian purposes. This was hardly surprising. In 1940/41 permits were issued for nearly as many new state houses as in the previous record year, and permits for private housing dropped only slightly. (15)

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13. *Ibid.*

14. e.g. cotton piece goods: BT11/1712, *passim*; fencing wire, machine tools: EA153/17/3, 3 Nov 1939.

15. See e.g. MAF83/1149, 31 Mar 1941; Baker, *War Economy*, p. 243.

It was still a politically delicate matter for the Government to increase the economic burdens of the war. Its supporters keenly remembered World War I and were reluctant to see social plans sacrificed unless it was clear that the whole community would pay the price.

To Batterbee, the fact that Fraser left economic questions to Nash compounded the problem.

He is under the impression that New Zealand is making the utmost possible contribution... and I doubt whether he realises how far in the economic sphere New Zealand has failed to make the necessary sacrifices ... he would like if he could to avoid sacrificing any part of the labour programme, or lowering in any way the standard of living but if necessity for particular sacrifices can be brought home to him by concrete instances and if he is shown the extent of the sacrifice which .... the United Kingdom is bearing I have no doubt what his answer will be. (16)

Batterbee was always inclined to judge the Labour Government too harshly. Whitehall officials recognised that there were difficulties in increasing the war effort. For instance, New Zealand had so little industry that it was unclear just how her resources could be diverted to war production.

We cannot legitimately claim that the release of New Zealand's own resources of labour and capacity are likely to promote the prosecution of the war to the same degree as does the release of our own resources. If for instance, New Zealand has a domestic pottery industry, we could not claim that the Empire would derive the same benefit from a reduction of its output as is derived from a reduction in the activities of Stoke-on-Trent. (17)

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16. T160 F12715/6, UKHCW-DO, 26 May 1941.  
17. BT11/1458, Kahn memo, 15 Apr 1941.

Various possibilities were explored nonetheless, including even the idea of transferring labour to Australia where it could work in war-related activities. The idea of New Zealand supplying armed forces with various items, e.g. equipment, boots, clothing, biscuits and processed food, was also floated, by New Zealand as well as the United Kingdom.<sup>(18)</sup> New Zealand established a Supply Council in 1941: its tasks included the coordination and planning and production in New Zealand of munition, foodstuffs, equipment for the services, and this was welcomed by Britain. And despite her recognition of limitations on New Zealand's ability to re-direct resources, Britain still sought further domestic restraint.

While it is noted that in the [1941] budget, Mr Nash recognised that borrowing for public works must be reduced to the minimum required for essential works ... it is felt that there must still be room to reduce expenditure which is not any direct contribution to the war effort. In particular it is premature to be thinking in terms of development work as a preparation for rehabilitation. (19)

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Britain's concern through these first war years had been to restrict the flow of imports to New Zealand with the result that her traditional interest in protecting the access of British goods to New Zealand went into recess. But there were qualifications to this shift in policy. Britain was anxious to keep in employment labour which could not at that time be absorbed in other work, and it wanted to retain its connection with the New Zealand market with a view to postwar trade. Accordingly, British officials remained wary of the

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18. BT11/1458, UKHCW-BT 25 Jun 1941, T160 F12715/7, Note for conversation, PBT-PMNZ, 29 Jun 1941.

19. T160 F12715/7, 21 Jul 1941.

continued tendency in New Zealand to regard import restriction as a convenient opportunity for expanding or setting up local industries to produce goods hitherto imported. (20)

In communicating its wish that New Zealand reduce imports Britain asked firstly, that any reduction would represent a genuine saving and not be made up by equivalent imports from elsewhere, either of finished goods or raw materials and plants for secondary industries; secondly, that it not cause undue dislocation of British exporting industries or permanent loss of the New Zealand market. (21)

Concern mounted in 1940 because the New Zealand Government was planning the import licensing schedule for 1941. Nash approached the British High Commissioner to seek information on goods which Britain might or might not prefer to be admitted, of which the most significant was motor vehicles. (22) Willis at the Board of Trade recognised that if the general policy of import restriction was accepted Britain could hardly press motor car exports on New Zealand. But the Australian and New Zealand markets were the most important ones for British manufacturers and with the Australian market at least temporarily closed, the New Zealand one was particularly significant. (23) The Society of Motor Manufacturers and Traders (SMMT) lobbied the British Government on this basis and its Wellington representative did the same here. (24) The British Government took the view that, although not wanting to encourage New Zealand to import motor vehicles it was hoped that if New Zealand did decide to

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20. *Ibid.*

21. *Ibid.*

22. T160 F12715/5, 9 Aug 1940.

23. BT11/1458, 4 Sep 1940.

24. *Ibid.*, 17 Sep 1940.

import they would come from Britain, thus saving dollars and helping British industry. The licensing schedule as released prohibited all motor vehicle imports, and accordingly the Dominions Office asked their High Commissioner to seek some token exceptions. It was not prepared to do more than this because it preferred to direct exports to markets where foreign exchange could be earned. (25)

Pressure from the SMMT was part of a more general phenomenon. In August 1940 Batterbee had reported that:

although increased holdings of sterling shown by both reserve bank and trading banks are no doubt largely due to earlier payments for export coupled with delayed fulfilment of orders for imports, the figures are being used by traders both in New Zealand and in the U.K. to bring pressure to bear on the New Zealand Government to relax import restrictions. (26)

With the release of the 1941 import licensing schedule, such pressure increased from groups affected by the restrictions, who quoted from speeches made earlier in the year by British Ministers about the need for maintaining Britain's export trade. Nash accordingly asked the British Government to publish the memorandum (of 18 Sep 1940) in which the latter had stressed the need for economy, particularly in imports. (27) Britain agreed, and early in December the substance of the memorandum was released. As the *Evening Post* was quick to observe, the despatch did not justify Fraser's contention that Nash was "100 per cent right" on import

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25. BT11/1458, DO-UKHCW, 26 Oct 1940.

26. T160 F12715/5, UKHCW-DO, 9 Aug 1940.

27. BT11/1458, UKHCW-DO, 25 Oct 1940.

licensing.<sup>(28)</sup> But it did make it quite clear that the main thrust of British interest lay in seeing New Zealand reduce non-essential imports to a minimum.

The low priority accorded access matters became even more evident after the introduction of lend-lease in March 1941. Allied planning directed that New Zealand secure imports from Australia and the United States rather than Britain. In 1943, the latter supplied only 34 per cent of New Zealand's imports.

### 3. Financing the Overseas War Effort 1939-1941

Labour had come into office determined not to borrow overseas. It believed that the indebtedness which was the result of such borrowing was a major contributor to the misery of the depression. The need to seek financial assistance in 1939 and the circumstances under which that assistance had been obtained, only increased Nash's determination not to borrow. With the war came another reminder of the dangers of borrowing: by financing World War I very substantially through accumulating external indebtedness, the Government had been hampered in its ability to blunt the effects of the postwar depression.

For all this, New Zealand faced difficult circumstances at the beginning of the war. While to British eyes, New Zealand's sterling

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28. *Evening Post*, 9 Dec 1940.



position had been dramatically improved - as a result of the wartime wool purchase agreement in particular - New Zealand saw things differently. To her obligations to meet import payment and debt-servicing charges was now added the £11 million sterling per annum that it was estimated would be incurred in deploying force overseas - a substantial sum considering that New Zealand's reserves stood at under £10 million. Thus she had little option but to approach Britain for the second time within a space of months if she was to play a military role in the conflict.

New Zealand did not expect Britain to cover her costs outright, but she did hope for a loan which would provide her with the necessary sterling and an arrangement whereby Britain would supply the £28.6m required for the Air Training Scheme. Discussions in Whitehall followed New Zealand's presentation of her case. Britain hoped that New Zealand would be able to make some contribution to her own war expenses, particularly as the Dominion's export revenue increased, and hopefully as her import payments were reduced, and this led Britain to scrutinise New Zealand's expenditure patterns, as will be discussed below. However a decision in principle was taken that in the first instance the United Kingdom would meet all New Zealand's external costs. The sterling would be lent to New Zealand at the same rate of interest at which the British Government itself was borrowing on the London market.<sup>(29)</sup> Repayment would take place as and when New Zealand found it possible, although it was recognised that New Zealand was entitled to retain a level of sterling reserves - £14m was suggested as an appropriate figure - to cover other

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29. T160 F12715/4, 1 Dec 1939, 2 Dec 1939, 23 Dec 1939.

contingencies. In addition, the United Kingdom would meet the cost of the Air Training Scheme - it would pay Canada in dollars and New Zealand would repay in sterling.<sup>(30)</sup> This approach seemed more straightforward than making a division between costs New Zealand would meet and costs Britain would meet. It had the advantage of precedent, having been the system eventually worked out in World War I. Consistent with the practice at that time, it was agreed that the money would be advanced under a 'memorandum of security'. Sums would be placed to the credit of the Bank of New Zealand in London for the account of the New Zealand High Commission. In Egypt, where New Zealand troops were to train, the War Office would advance funds directly to the New Zealand Expeditionary Forces and recover them from the New Zealand High Commission.<sup>(31)</sup> That repayment might be slower than Britain expected was already evident by February: it had been suggested that the balance of the £5 million export credit extended to New Zealand in mid-1939 be directed towards war costs. But New Zealand said £4 million of it had already gone and the balance was earmarked for "essential supplies" namely army requirements and metal stocks.<sup>(32)</sup>

The negotiations on war finance were complicated by New Zealand's simultaneous attempt to seek assistance for the market debts which she had incurred in the course of her pre-war borrowing. During 1940 some £3.5 million would be required on account of capital repayments - £1.5 million in respect of the £17 million on loan, and £2 million representing two half-yearly payments on the conversion loan. These loans

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30. T160 F12715/4, memo, Mar 1940.

31. T160 F12715/4, 23 Dec 1939, 1 Jan 1940.

32. T160 F12715/4, 3 Dec 1939, 29 Feb 1940.

constituted part of the financial settlement made in mid-1939.<sup>(33)</sup>  
In addition, there were interest payments amounting to about £6.5m.<sup>(34)</sup>  
It would have suited New Zealand if she could have borrowed from the United Kingdom on the same basis as for war finance to cover these debts rather than deplete her own sterling resources even further in meeting them. In discussions with Fraser the Chancellor of the Exchequer explained that this was not possible - New Zealand would have to re-borrow on the open market - or repay. Fraser said that he appreciated the Chancellor's point of view and only asked that if difficulties arose, the Treasury would be willing to discuss the position. This was not an academic question, given the difficulties New Zealand had met on the London market in the middle of the year. In February 1940, New Zealand learnt that she would have to repay.<sup>(35)</sup>

Two months later the question re-surfaced, in connection with five local body securities maturing at various dates between July and December. In these cases, the prospect of refinancing seemed unlikely: the Bank of England believed the market simply would not accept new New Zealand local body securities on tolerable terms. In any case the Capital Issues Committee was by this time most unlikely to authorise such conversion at a time when all capital issues were stringently controlled.<sup>(36)</sup>

Would it be more appropriate to lend New Zealand the money to repay the securities, or expect even less in the way of repayment of

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33. See above p. 27.

34. T160 F12715/4, memo, n.d., 2 Dec 1939.

35. *Ibid.*; T160 F16320/02, CE-NZHCL, 7 Feb 1940.

36. T160 F12715/4, 15 Apr 1940.

war advances than might previously have been the case? F.S. McFadzean of the Treasury thought that if the United Kingdom agreed to refinance the loans it seemed appropriate that New Zealand's sterling balances which would have been available for that purpose be put towards the cost of the second N.Z.E.F. (37) Kershaw, in the Bank of England, thought that New Zealand would make a far greater effort to conserve its sterling resources if it had to find the money to repay the market debt. Britain was already committed to meeting war expenses anyway, in the first instance. However much pressure Britain applied to extract money for war finance it was unlikely to be quite as successful in extracting sterling as would be the pressure to meet a market debt. (38) Moreover such a policy would be consistent with the admonitory advice the United Kingdom had given New Zealand before the war

It seems to me that there is much to be said for encouraging the New Zealanders in every possible way to meet their maturing commitments out of their own resources. This was the task they undertook, for which they have been preparing following upon last year's conversion. It is one which they can discharge and which will improve their credit....Therefore, I should leave them to carry out their existing obligation and relieve them by way of loan for the time being of this liability for external war expenditure. (39)

McFadzean defended refinancing of the debts for more pessimistic reasons: he did not expect any compensatory contribution in war

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37. *Ibid.*, 12 Apr 1940.

38. *Ibid.*, memo, n.d., Mar 1940.

39. *Ibid.*, 15 Apr 1940.

expenses: on the contrary it seemed that there was more chance of getting a debt repaid if it was extended in connection with meeting commercial maturities than as yet another part of the war finances.<sup>(40)</sup> Kershaw's more sanguine expectations prevailed. In making formal communication to New Zealand about the arrangement, the overall level of sterling was the crucial issue, although allusion was made to the difficulties encountered in finding sterling to meet local loans. The United Kingdom Treasury and the Bank of England did not want to think that the British Government was making an open-ended commitment to particular costs:

... in view of the present level of New Zealand's sterling resources in relation to her commitments in 1940, and, in particular, the necessity of repaying the maturing local loans, we are prepared to advance to the New Zealand Government the sterling and dollars necessary to meet the overseas expenditure....In conveying this information to you it is scarcely necessary for me to emphasise, that we do not wish this arrangement to be regarded as precedent for subsequent years, and that, when the question of financing the New Zealand war effort in 1941 is considered, we hope that your Government will be in a position to provide at least a proportion of the necessary sterling. (41)

This was hardly a surprising aspiration. By making advances to New Zealand for war purposes Britain was increasing New Zealand's ability to claim on her own current resources. She was prepared to do this to the extent that it was "beyond the immediate resources of New Zealand" to find the money. But her own overriding aim was to

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40. *Ibid.*, 16 Apr 1940.

41. T160 F12715/5, Treasury-NZHCL, 17 May 1940.

reduce all non-essential claims on her resources to a minimum so as to maximise the contribution of the economy to the war effort. Against the extension of credit to New Zealand was therefore set the wish that New Zealand do everything in her power to limit claims on British resources.

In May 1941 T.K. Bewley, of the United Kingdom Treasury, estimated that United Kingdom payments to New Zealand would probably be £20 million greater than payments in the reverse direction, in the second year of the war. Moreover it seemed likely that the disparity would continue, Britain being expected to spend £35 million on New Zealand goods in the third year of the war as opposed to New Zealand expenditure of £18 million.<sup>(42)</sup> Given the current level, and likely expansion of New Zealand's reserves

they could and should contribute some sterling towards their expenditure abroad.... Probably they could only give us £3 - 4m [sic] but it is important that they give us something. (43)

New Zealand was amenable to making some payment despite concern about the financial effects of the shipping shortage. But she wanted to retain the system whereby Britain met all the costs of the war in the first instance: This was preferable to Britain reducing the level of advances. Fraser in the United Kingdom Treasury, argued, as McFadzean had in 1940, that this left New Zealand with no compulsion or inducement to cut its own external expenditure,

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42. T160 F12715/6, Bewley-Kershaw, 21 May 1941.

43. T160 F12715/5, Kershaw-Fraser, 9 Jan 1941.

Whereas if we can get a firm promise of some immediate figure of repayment at the beginning of the year, they may be forced to make economies in order to be sure of being able to reach [it]. (44)

On the other hand, it could be admitted that "no doubt they are doing their best".<sup>(45)</sup> In the upshot New Zealand agreed to pay £4m on the 31 March 1941 (as against a suggested £6m). She proposed, however, that part of it go toward settling the balance of the £5m export credit dating from 1939. Although Kershaw thought this might come in useful if export income fell, New Zealand clearly felt that it was preferable to clear debts not covered by the Memorandum of Security as soon as possible. Britain explained that she intended to raise the matter of further payments later in the year.<sup>(46)</sup> In May, the question was discussed by British officials, in the knowledge that Fraser would be in Britain from the end of June. On the basis of the figures instanced above, £6m as a total now seemed rather low. On the other hand, S.D. Waley<sup>(47)</sup> didn't think that New Zealand should be committed to any definite repayment for any long time ahead. Britain should request a minimum repayment for 1941, which could be increased if it were found possible.<sup>(48)</sup>

On 11 July 1941 a letter from the Chancellor of the Exchequer to the New Zealand Prime Minister conveyed Britain's request. Just four days later it was followed by a payment of nearly £5 million clearing all debt outstanding at 31 March 1941 (since when just £1356550 had been advanced.) As Professor D.H. Robertson<sup>(49)</sup>

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44. T160 F12715/6, Fraser-Kershaw, 18 Feb 1941.

45. *Ibid.*

46. T160 F12715/6, *passim*, Feb-Mar 1941.

47. A senior official in the United Kingdom Treasury (later Sir David Waley).

48. T160 F12715/7, *passim*, Jul 1941.

49. An economist working in the Treasury through the war (later Sir Dennis Robertson).

commented, it came as a "very surprising and gratifying" move, to Britain. (50)

But was it all that surprising? As Nash told the House of Representatives in his 1940 budget statement, borrowing meant

piling up dead-weight overseas debt that will be a heavy burden on us for many years after the war, when our ability to pay may be less than it is now. We have therefore every incentive to strain every nerve to meet from New Zealand the costs of maintaining our forces overseas as such costs accrue....

Similarly, Ashwin in his submission to the Economic Stabilisation Conference in September 1940 had argued the desirability of New Zealand meeting

some part of the cost of maintaining our forces overseas ... not only to relieve the people of the United Kingdom at a time when they are carrying an enormous burden, but also in our own interests. Our export income is now up to a record level, but after the war it may be lower by £20 000 000 a year or more. Is it wise to pile up a huge war debt abroad to be met out of a smaller export income after the war? (51)

In other words there was a broad conformity of interests between Britain and New Zealand over mobilisation for the war effort because the restraint and management of resources which mobilisation entailed furthered the New Zealand Government's domestic economic policies, as well as allowing it to help Britain. Differences were of degree rather than kind, and even these were overcome during 1941/42.

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50. T160 F12715/7.

51. WAI110/CN111, Ashwin's statement to Economic Stabilisation Conference, Sep 1940.



4. Britain and New Zealand's War Effort 1941-1945

During 1941 the scale of New Zealand's war effort ceased to be a cause of dissatisfaction to Britain. At the end of 1940 the United States Government had taken decisions that altered the basis on which it would make goods and services available to the Allies.<sup>(52)</sup> This was the beginning of lend-lease, formalised in March 1941, by which the productive wealth of the United States was supplied to Commonwealth <sup>and other allied</sup> countries on a non-commercial basis. In this way the foreign exchange constraint on sterling area purchasing was eased - at a time when the supply situation was deteriorating world-wide. For Anglo-New Zealand relations, lend-lease meant an easing in the tension over supply issues. There was a general switch in New Zealand importing from the sterling area to North America.<sup>(53)</sup> The Ministry of Supply which became the country's principal importer, securing goods direct from all over the world, facilitated the re-direction.<sup>(54)</sup> While external constraints had eased, New Zealand's own economic mobilisation had been completed under the impact of the events of 1941 and early 1942. Early in the year the seriousness of the shipping shortage was brought home to producer interests when bans were imposed on the export of certain classes of meat. (see Ch. 4). Through April-May and June long casualty lists were coming from Greece and Crete: they had a sobering effect on the country leading to

heart to heart searching as to whether the Dominion is putting as much behind the war effort as possible. <sup>(55)</sup>

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52. Sayers, *Financial Policy*, pp. 373-374.

53. Baker, *War Economy*, p. 121. Lendlease did comparatively little to solve NZ's own supply problems until after mid-1942.

54. *Ibid.*

55. T160 F12715/7, UKHCW-SSD, 21 Jul 1941.

(Comment by Professor Schedvin).

Peter Fraser's visit to Britain in the middle of 1941 undoubtedly had an effect and then at the end of the year came the shock of Pearl Harbour and, not long after, the fall of Singapore.

By the end of 1941 all age groups of single men had been mobilised: between November 1941 and May 1942 the percentage of the male labour force in the armed forces went from around 16 to nearly 30 per cent.<sup>(56)</sup> In January, the Government took the power to conscript men for industrial purposes. Two internal loans were floated in 1942, and the surcharge on income tax was increased from 15 per cent to one third.<sup>(57)</sup> By 1942-43 expenditure through the war expenses account amounted to 50 per cent of national income,<sup>(58)</sup> compared with around 25 per cent in 1941-42. Conversely, to take the measure used before, total new housing permits dropped from 9000 in 1940/41 to just over 7000 in 1941/42 and under 2000 in 1942/43.<sup>(59)</sup> And at the end of 1942, after months of delay, a fully fledged stabilisation scheme was introduced, under which all wages costs and prices would be controlled for the duration of the war. Britain would benefit to the extent that pressure on scarce resources - including inputs for agriculture production - was eased.<sup>(59A)</sup>

In September 1942, a Treasury official reported that New Zealand's war effort was *pro rata* as substantial as Britain's - a fair recognition of what had been achieved by that time.<sup>(60)</sup>

The one area of New Zealand's mobilisation where there was some

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56. Baker, *War Economy*, pp. 27, 71.

57. *Ibid.*, p. 261.

58. *Ibid.*, p. 76.

59. *Ibid.*, p. 243.

60. T160 F12715/8, 25 Sep 1942.

(59A) Comment by Professor Scheldin: This pressure could only be eased to the extent that other more direct action was taken to restrain demand e.g. consumer rationing, taxation, loans.

dissatisfaction on Britain's part in the latter stages of the conflict was food rationing. It may seem surprising that this had not been sorted out far earlier in the war. The inhibiting factor was the shipping crisis, with great uncertainty as to whether New Zealand's produce could get to Britain at all. Rationing might only have meant ever greater quantities of butter and meat accumulating on the waterfront.

The easing of the shipping problem should have meant that plenty of butter and meat was available for Britain, but there was a weakening in supplies from other countries: the additional volume that could be secured from New Zealand if the latter imposed rationing would be valuable.

The discrepancy in per capita consumption certainly was marked. On carcase weight it was calculated that meat consumption per head in New Zealand in 1943 stood at 237 lb per annum compared with 136.4 lb in the United States and 107.2 lb in Britain.<sup>(61)</sup> However just as Britain found at times that domestic political priorities could conflict with wartime obligations to allies, so did New Zealand. The patterns of pressure meeting procrastination so familiar in 1939-41 were now repeated.

The first approaches were made over dairy products. In March 1943 both the Combined Food Board in Washington and the London Food Committee took decisions to get New Zealand and other countries to examine their consumption of fluid milk and milk products with a

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61. MAF 83/1181 brief n.d.

view to restricting consumption and increasing total availability of milk products.<sup>(62)</sup> New Zealand's initial response was cautious.

New Zealand Government would be prepared to consider butter rationing with view to increase in export of cheese corresponding to reduction in domestic butter consumption but is not desirous of placing any restriction on availability of fluid milk for children and domestic consumption. <sup>(63)</sup>

Despite this caution, the London Food Committee came back and asked whether butter rationing could be introduced in time to allow extra cheese production in the 1943-44 season. New Zealand took a month to reply to this and then it was merely to say that the matter was under "full investigation" - and a reply would be sent after Easter.<sup>(64)</sup> At this time New Zealand also learnt that Britain was interested in seeing New Zealand ration meat consumption. Woolton's letter committing Britain to purchasing the exportable surplus raised it as a possibility and New Zealand representatives having discussions in Canberra discovered that the Australians were contemplating it in the likelihood that the United Kingdom would demand increased supplies.<sup>(65)</sup>

Progress was at a snail's pace. In mid-June Bankes Amery, the head of the British Food Mission to Australia, reported that New Zealand was still at the "giving consideration" phase.<sup>(66)</sup> The Ministry of Food thought further pressure was inadvisable. Jordan at this stage was asking for further information on butter and cheese rationing; the Ministry of Food was convinced that Britain's disappointment, expressed at the official level, would percolate higher

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62. DPM Summary of cables, 1942-46, Mar 1943.

63. *Ibid.*, PM-NZHCL, 19 Mar 1943.

64. *Ibid.*, 23 Mar 1943, 23 Apr 1943.

65. *Ibid.*, 3 May 1943, 5 May 1943; MAF 83/1180, 29 Apr 1943.

66. MAF 83/1181, Bankes Amery-MF, 15 Jun 1943.

up.<sup>(67)</sup> Such patience required real discipline: by July it seemed that the butter ration would be threatened by the end of the year unless supplies were maintained. These tactics did not pay off. In mid-July, Britain learnt that because of New Zealand's forthcoming election, there could be no question of any immediate introduction of rationing.<sup>(68)</sup> And the election wasn't until 25 September.

Bankes Amery was apoplectic at such a vital measure being delayed on purely electoral grounds, and vented his spleen at not being allowed to talk to the New Zealanders, in a letter to H.S. Turner of the Meat Division, Ministry of Food:

I am afraid that I was disappointed and surprised at the reluctance of the Ministry (of Food) to authorise me to go to New Zealand with a special mandate to discuss these questions with the New Zealand Government. I believe from my previous experience in New Zealand that I could have got the New Zealand Government to do the decent thing because all these people respond very humanly to anyone who can talk to them with knowledge of United Kingdom conditions.... I notice the skilful way in which your letter to Jordan of 25 June worked in references to Australia's plan for rationing meat but I also see ... the almost equally skilful way in which the New Zealand Government's telegram of 15 July in reply completely evaded all reference to rationing and took refuge in a smoke screen professing willingness to make the greatest possible quantities available for shipment to the United Kingdom. Nevertheless the estimated production was estimated to be the same in 1944 as in 1943. No reference whatever to the possibility of increasing lamb weights! No reference to the curtailment of supplies to butchers as in Australia! Let us in fact continue for several electoral months to allow our voters to eat 5 lb of meat weekly and 13 oz of butter! (69)

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67. *Ibid.*, MF-Bankes Amery, 19 Jun 1943.

68. MAF 83/1149 UKHCW-DO, 14 Jul 1943.

69. MAF 83/1181, 20 Aug 1943.

Although Harry Davis, a New Zealander seconded to the Ministry of Food, attempted to downplay the significance of New Zealand's slowness<sup>(70)</sup> the procrastination was annoying. Nor did the election result help. Labour's position having weakened, the Government was more susceptible to caucus pressure than before. Batterbee thought that under these circumstances, willing though Nash and Fraser were, they would resent further pressure.<sup>(71)</sup> However on 8 October yet another recommendation was received from the Combined Food Board which urged that:

... in view of the prospective supplies of all dairy products falling seriously short of requirements and the increasing call on available supplies your urgent consideration of the recommendation in which Governments of Canada and United States have already concurred, will be appreciated. United Kingdom Ministry of Food hope that the recommendation which clearly involves rationing will have New Zealand Government's most favourable and earliest possible attention. <sup>(72)</sup>

In fact by this time the decision had been taken, and on 28 October a butter ration of 8 oz per citizen per week was introduced. Domestic consumption of cheese was also limited and consumption of cream prohibited, although ice cream was excluded 'for political reasons'.<sup>(73)</sup> Harry Davis wrote to George Duncan that he was "immensely relieved" that New Zealand had finally rationed and hoped she could do more to keep up with the rest of the United Nations.<sup>(74)</sup>

Britain had of course hoped that meat rationing would be introduced at the same time, and Batterbee expressed his Government's

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70. MAF 83/1159, 9 Aug 1943.

71. MAF 83/1149, UKHCW-DO, 28 Sep 1943, 4 Oct 1943.

72. DPM Summary of cables, 1942-46, 8 Oct 1943.

73. MAF 83/1159, UKHCW-DO, 16 Sep 1943.

74. DPM B2, 13 Nov 1943.

disappointment about this to Nash, then the acting Prime Minister. The Americans too continued to be sharply critical of the lack of austerity in New Zealand living conditions. Moreover, according to Bankes Amery the press and informed public opinion were in favour of meat rationing.<sup>(75)</sup>

Yet other realities continued to intrude. Batterbee understood that protests about butter rationing were "pouring in". He also reported that the Labour caucus took the line that New Zealand had done more than her share in the war: there was in any case widespread doubt whether sheepmeat rationing would serve any useful purpose, whilst because of the United States forces beef was already in short supply.<sup>(76)</sup> Bankes Amery, for his part, could not believe that

Ministers and their supporters in New Zealand are so different from corresponding people in Australia, who have responded so well to our representation....We should indeed hope...to have secret discussion with leading members of Caucus if they are to [be] the governing factor....<sup>(77)</sup>

Both Bankes Amery and Batterbee saw Nash as an ally. But Fraser had always taken a personal interest in the matter. It was he who had stopped the Food Mission coming to New Zealand before the election according to Bankes Amery and Nash did not feel he could reverse this decision without consulting him.<sup>(78)</sup>

So the matter dragged on. In mid-January 1944, while in Canberra, Fraser announced that New Zealand would have meat rationing at an early date<sup>(79)</sup> - and it was in fact introduced in February.

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75. MAF 83/1159, UKHCW-DO, 3 Nov 1943; Bankes Amery-MF, 9 Nov 1943.

76. *Ibid.*, 3 Nov 1943.

77. *Ibid.*, 9 Nov 1943.

78. MAF 83/1181, Bankes Amery-MF, 15 Oct 1943; UKHCW-DO, 17 Nov 1943.

79. *Ibid.*, UKHCW-DO, 18 Jan 1944.

After all the delay, the timing caused some embarrassment to Britain. Because of a glut, and shortage of storage facilities, Canada suspended its meat ration shortly thereafter.<sup>(80)</sup>

As far as Britain herself was concerned though, the assistance came at a time of extreme crisis: in February 1944 consideration was being given to eliminating butter from the food ration altogether.<sup>(81)</sup> The 1943/44 season was bad climatically in New Zealand and production was affected - meat production fell by five per cent (27000 tons) compared to 1942/43; butter production, which unlike meat, had not sustained pre-war output levels, also fell slightly. Rationing therefore helped. It was estimated in October 1945 that an additional 35000 tons of meat per annum was made available through rationing,<sup>(82)</sup> whilst New Zealand's per capita butter consumption fell from 45 lb in 1942/43 to 36 lb in 1944/45. These were substantial changes.

Britain's food needs also impinged on New Zealand's military contribution to the war effort. The New Zealand Government had reckoned that it did not have the manpower to deploy two divisions overseas and also to maintain food production.<sup>(83)</sup> By late 1943 it was clear Britain needed food more than soldiers. In early 1944 an interim decision was taken to scale down the 3 Division deployment in the Pacific with one aim being to release men for production tasks in New Zealand.<sup>(84)</sup> From June 1944 soldiers were drawn back from the

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80. MAF 83/1181, DO-MEA, 24 Mar 1944.

81. DPM B2, UKHCW-NZG, 18 Feb, 23 Feb 1944.

82. Baker, *War Economy*, p. 204.

83. Wood, *Political and External Affairs*, p. 277.

84. *Ibid.*, pp. 277-292.



Pacific to New Zealand and placed on leave without pay to work on farms - or in other industries to which they might be directed. Possibly this was an over-reaction - climatic conditions had been primarily responsible for the drop in output in 1943/44 which even then was 8 per cent above pre-war levels,<sup>(85)</sup> as a result of increased productivity through mechanisation. Output in 1944/45 was 14 per cent above the pre-war average - unlike Australia where output was falling.

Britain's policy of economic mobilisation for war embraced her allies as well as herself. It met with acceptance in New Zealand, not just because that country had a deep commitment to the struggle against the Axis Powers, but because such a mobilisation accorded with many of the Government's own economic priorities in wartime.

The New Zealand Government was committed to welfare and employment policies but these slowed down rather than halted New Zealand's mobilisation. Britain's representations focussed on the effects of New Zealand policies on consumption of overseas resources. From 1941/42 though, New Zealand's mobilisation was so complete that such representations were not necessary except in respect of rationing. Insofar as New Zealand sought to extend her claim on Britain's resources she did so through her export trade (as will be discussed in Chapter five).

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85. Baker, *War Economy*, p. 204.

## CHAPTER THREE

### The Bulk Purchase Negotiations 1939

1. Introduction
2. New Zealand accepts bulk purchase
3. The contract negotiations 1939: short-term considerations
4. The contract negotiations 1939: protection against shipping difficulties
5. The contract negotiations 1939: long-term security

## 1. Introduction

By any reckoning the most substantial part of New Zealand's contribution to the war effort had to be its ability to produce large quantities of food and raw materials which it did not require for its own consumption. It might seem that nothing could be simpler than to accept that such resources should be at the disposal of the Allied' war machine for the duration of the conflict. The fact that New Zealand had been seeking for years to secure its access to the British market would facilitate concurrence with British plans.

But New Zealand's output of food and raw materials provided a livelihood for tens of thousands of New Zealand farmers. However convinced they were of the importance of the war effort, these farmers also needed to be able to make a decent living. There were sharp memories of Britain's handling of the finances of the revealingly-named World War I commandeered. To some extent these sentiments were to be directed at the New Zealand Government in World War II. But although there were many producer - government differences, the latter could not turn its back on the time-hallowed task of protecting farmers' livelihoods. Moreover, its ideological diffidence about making life too comfortable for private capitalists had to be juggled with the realisation that if production was to be maintained, so must profitability. This outlook was explicit in the Government's relations with the dairy farmers whose incomes the Government had been guaranteeing since 1936. Unless it wanted to draw on other financial resources to sustain these incomes it was necessary for the Government to dispose of dairy produce profitably.

Reinforcing this disposition to protect producers' livelihood, was the Government's interest in the export industries as the country's single most important source of overseas exchange. This was an interest which derived not least from the experiences of the preceding few months - the near exhaustion of sterling reserves and the Government's reluctance to restore external balance through deflation or by borrowing. The retention of such self-interested criteria might seem to invalidate wartime rhetoric. But Britain's position was not dissimilar. The supply agreements she wished to make with New Zealand were not, and were never intended to be, open-ended - they were devised to meet what were expected to be transient problems, and would be dispensed with as those problems receded or were overcome.

This chapter covers the negotiations in 1939 which set the pattern for the entire history of bulk purchase. The issues which were raised then persisted in one form or another, throughout the life of that régime. Chapter four covers the vicissitudes of the export industries through the difficult years of the war, 1940 - 1943. In chapter five the focus shifts. The short and medium term outlook for meat and dairy produce is good. Both producers and Government seek increased payments, the latter because it wanted to boost sterling reserves. Only with wool was the need to seek protection against a depressed market still an immediate concern.

## 2. New Zealand accepts bulk purchase, 1939

Britain envisaged making bulk purchase agreements for various commodities for a number of allied reasons. She wanted to minimise the

uncertainties and costs normally attendant on securing essential supplies in wartime. She planned to enter into bulk contracts for the purchase of a number of commodities. Prices would be stabilised, supply assured, and, where the contracts were with sterling area countries, foreign exchange conserved.<sup>(1)</sup>

The first approaches to Dominion Governments were made at the June 1937 Imperial Conference. It was explained that the United Kingdom wanted to ascertain, as a general principle, whether she would be able to rely on the cooperation of the Dominions in furnishing the necessary supplies. New Zealand assured Britain that she "was anxious to cooperate in any way possible"<sup>(2)</sup> - the familiar and predictable language of imperial solidarity. In the more detailed discussions with the Food (Defence Plans) Department<sup>(3)</sup> which followed, New Zealand learnt that the major commodities required from her would be mutton and lamb, beef and veal, frozen pork, butter and cheese. Fruit would not be included.<sup>(4)</sup>

The Imperial Conference accepted a report by one of its committees on supply questions. The Committee recognised that agreements could take the form either of undertakings to purchase the whole of the exportable surplus of a particular produce or more *ad hoc* arrangements: shipping difficulties might make it necessary for Britain to meet its needs from close at hand.<sup>(5)</sup>

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1. Charlotte Leubuscher, *Bulk Buying from the Colonies*, p. 2.
  2. WAI 10/59, K.R. Miller and R. Rowley, *History of the Marketing Department (Export Division)* [hereinafter *History*], p. 155
  3. Became the Ministry of Food in Sep 1939.
  4. Miller and Rowley, *History*, pp. 155-156.
  5. *Ibid.*, p. 157.

Planning continued over the next two years but this did not make for any significant changes to the outline proposals discussed at the Imperial Conference. Only in June 1939 did plans take on a greater degree of precision. New Zealand learnt that dairy produce and meat would take priority over other foodstuffs. In due course agreements were made for a number of minor products: flax, scheelite, tallow and hides.<sup>(6)</sup>

Wool was also included. Britain had opened discussions with Australia on purchasing her wool clip in the event of war, as had been done in World War I. Talks during the last few weeks at the Ministry of Supply included New Zealand as well as Australian representatives. It was logical to include New Zealand as it had been included in 1915-1918 - in fact New Zealand's crossbred wool was particularly useful for military clothing. The underlying reasons for Britain proposing the purchase were the same for wool as for meat and dairy produce. It seemed likely that Britain could easily absorb at least 80 per cent of Australasian output: demand from the rest of the world would easily absorb the remainder and, if Britain did not buy the lot, raise prices.<sup>(7)</sup>

How did these plans - to which New Zealand had agreed in principle by the outbreak of war - dovetail with the Dominion's own interests and activities? The Government was predisposed to concur. A properly administered bulk purchases system accorded with its philosophy that the burdens of the war should be fairly shared.<sup>(8)</sup> Moreover it exempli-

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6. Miller & Rowley, *History*, pp 166-167.

7. R.S. Sayers, *Financial Policy 1939-1945*, p. 291.

8. F.L.W. Wood, *The New Zealand People at War: Political and External Affairs*, p. 115.

fied the kind of planned direction of economic activity promoted by the 1936 plan for Reciprocal Trade. Additionally, there was the memory of the postwar slump of 1921. If bulk purchase was accepted there should be a better chance of maintaining price stability when the war ended. The conviction that there would be another postwar slump was very wide-spread. It would hurt the farmers and hurt the country's export receipts. If both risks could be avoided, so much the better. A more immediate consideration was that it was believed that bulk British purchase meant that Britain would assume responsibility of providing shipping. It would not be much use withholding produce from Britain if wartime difficulties made it impossible to ship the produce elsewhere.

Producers' initial reactions were very favourable. On 6 September 1939 the Dairy Board had passed a resolution stating that it offered

the Government full co-operation in any direction in which it can be of assistance in the present crisis. The Board will hold itself in readiness to undertake any activity which may be the desire of the Government.(9)

The meat and wool industries, although still completely in private hands, reacted very similarly. Ministers had a series of meetings with the Meat Board and other representatives of the meat industry in the weeks after war broke out. The producers and the industry as a whole accepted the Government's role as purchaser of meat for sale overseas: the Government made it clear it did not wish to intervene directly in the organisation of the industry in New Zealand.(10)

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9. Miller & Rowley, *History*, p. 206.

10. *Ibid.*, pp 330-333.

Securing the cooperation of the wool industry proved equally straightforward. In this case special agreements were made with woolbrokers', wool scourers' and woolbuyers' associations which made provision for the employment of their members on contract to the Government.<sup>(11)</sup>

With no producer board, interests in the wool industry were more diffuse than in the other two. At a meeting called by the Government in September, representatives were present from the Sheepowners' Federation, the Meat Producers' Board, the Farmers' Union, Stock and Station Agents, Woolbrokers, Woolbuyers, the Wool Council and the Bank of New Zealand. Accepting the British proposals without qualification, the Conference also settled on the domestic purchase price, and agreed on the establishment of a Wool Advisory Committee to advise the Minister and supervise purchase and sale operations. Agreements were made with the Associations of Woolbrokers, Wool Scourers and Wool Buyers for the employment of their members on contract to the Government.<sup>(12)</sup>

That producers accepted bulk purchase in principle did not mean that its introduction was merely an administrative matter. Like the Government, their acceptance implied certain assumptions about how the régime would operate. First and foremost was profitability. Dairy farmers, into the fourth season of the guaranteed price, were determined that the Government hold firm to its commitment to tie the guaranteed price to the cost of living, not overseas realisations. Nonetheless

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11. *Ibid.*, p. 412.

12. *Ibid.*, pp 411-413.



they, and even more<sup>so</sup> the other producing interests, would be keenly aware of what prices were agreed to in London.

Profitability was not just short-term, and war carried with it two dangers to which producers were alerted - shipping problems and postwar slump. The former in particular, being the more immediate, convinced producers of the worth of introducing a bulk trading system. (13)

We then have three producer concerns which the Government had to negotiate on - short-term profitability, protection against shipping disruptions, and protection against a postwar slump. To these three we can add the Government's own concern about foreign exchange to get a taxonomy of four themes which dominated the negotiations which were conducted from September through to December 1939. The last-mentioned was intertwined with the other three.

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The existence of the Primary Products Marketing Department made the transition to wartime trading circumstances very smooth. Renamed the Marketing Department, it took over the purchase of other products in the same fashion as it had been dealing with butter and cheese since 1936. George Duncan remained the Director of the Department and became its chief negotiator in dealings with the British - he was in London for this purpose both in 1939 and 1940.

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13. Interview with Sir Arthur Ward, 21 April 1981.

In London, interesting changes took place. The two officials of the Marketing Department, H.E. (Harry) Davis and J.W. Rodden, were seconded to the Ministry of Food's Milk Products Division. Similarly, R.S. Forsyth, London Manager of the Meat Producers Board since 1923, became Director of Imported Meat in the Ministry. H.S.E. Turner, who had been New Zealand Manager of the New Zealand Refrigerating Company before the war, headed the Meat and Livestock Division. F.S. Arthur, who was New Zealand representative to the newly-established International Wool Secretariat, became the Secretary of Wool Control, the division of the Ministry of Supply which administered the British woollen industry from Bradford.<sup>(14)</sup>

These men were true state servants, giving their loyalties to the institution for which they worked at any given time. But their familiarity with New Zealand conditions, their personal contacts and allegiances, helped blunt the natural antithesis between buyer and seller, consumer and producer, and give some reality to the aspiration for a collaborative war effort. At times indeed, the results could be rather curious. The Marketing Department's operations in London were administered by R.M. Campbell, formerly adviser to Coates and Nash. His deputy was British-born Norman McLumpha, formerly the Meat Board's salesman in the United Kingdom. So in some of the meat negotiations a Briton negotiated on New Zealand's behalf with a New Zealander - Forsyth - representing Britain.<sup>(15)</sup>

The importance of supply in British thinking meant that the activities of the Ministry of Food and the Ministry of Supply

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14. E.L. Greensmith, *The New Zealand Wool Commission*, p. 116.

15. Hayward, *Golden Jubilee*, pp 60-61.

overshadowed the peacetime pattern of New Zealand's dealings on producer issues. The Dominions Office and Ministry of Agriculture still played a role but they were more in the background.

### 3. The Contract Negotiations 1939: Short-term Considerations

Of the issues on which New Zealand sought certainty in its negotiations with Britain, agreement on the prices to be paid admitted of no delay, the new production season being already under way. Britain's plan was to pay to all its suppliers prices that were an average of recent market realisations. No enhanced prices were to be paid, nor would claims for prices above recent market averages be recognised, even when such averages could be demonstrated to be inadequate to meet production costs.<sup>(16)</sup> The market had not been buoyant for New Zealand exports in the 1938/1939 season, and New Zealand's negotiators argued that, particularly if output was to be maintained, prices had to cover costs. Britain agreed that purchase prices should be reviewed if war conditions produced cost increases: moreover in practice, prices set for the 1939/1940 season were realistic in terms of current costs.<sup>(17)</sup>

Throughout the whole contract period from 1939-1954 price discussions were a vehicle for pursuing short-term advantage. New Zealand sought to cover her costs when the market was depressed, and to follow the market when it was buoyant. With the elaboration

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16. Miller & Rowley, *History*, p. 171.

17. *Ibid.*

of stabilisation policy in the middle of the war though, the Government became less enthusiastic about high prices, and there was thereafter frequent dissension between Government and producers on the matter, as the former's commitment to a long-term strategy remained rather more wholehearted than the latter's.

For wool, Britain had initially proposed purchasing at the average price realising during the season ended 30 June 1939. This had not been a good year however - the average price was 9.17d. per lb. compared with average returns in 1936/1937, 1937/1938, of 15.71d. and 10.04d. respectively. The three year average was 11.64d. From this basis, with a 5.24 per cent increase, a figure for 1939/1940 was finally agreed on. When certain additional charges were taken into account this gave a sterling price of 10.55d. per lb. (12.25d. NZ): this was compatible with the minimum price of 12d. per lb. (NZ) that would be paid to producers. New Zealand pressed the view that the purchase price should be net to the farmer for wool delivered at brokers' warehouses - a departure from peacetime practice, under which certain charges incurred subsequent to delivery were debited to the farmer.<sup>(18)</sup> Although prices could be reconsidered in May of any year, this did not entail too much risk for New Zealand given the price that had been agreed. While only 5.24 per cent over the 1936/1939 average it was 33.6 per cent over the average for the depressed 1938/1939 season.<sup>(19)</sup> And although not spelt out, the way in which Britain had shifted from its initial offer suggested it accepted that the price it paid had to bear a relationship to costs. In setting the price, the Australian price was also taken into account, a significant relationship that continued

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18. *Ibid.*, p. 408.

19. *Ibid.*, p. 407.

through the war. New Zealand's percentage increase was slightly higher than Australia's, because the demand for New Zealand cross-bred wool was particularly great in Britain and France. As a result New Zealand could not expect to make much profit out of the resale of wool to other countries. (20)

For meat, Britain first proposed passing the Imported Meat Trade Association (I.M.T.A.) prices for 1938, worked back to an f.o.b. basis. New Zealand agreed in principle, but reserved the right to make qualification in cases where the I.M.T.A. classifications were disadvantageous to certain kinds of her meat products. In working prices back to an f.o.b. basis (I.M.T.A. prices were ex-store London) Britain allowed *inter alia* for a two per cent commission. The Government, after consulting with the Meat Board resisted this decision as a considerable portion of New Zealand meat was delivered directly from the ship to wholesale and retail buyers. The Ministry of Supply stood by it though, and New Zealand eventually concurred as otherwise negotiations would have been delayed. (21)

For dairy produce the negotiations were particularly significant. Whereas the New Zealand Government for the first time would be sole purchaser for the country's wool and frozen meat export production, with dairy production it had been doing this for three years and at the beginning of the 1939/1940 season there was a deficit on the Dairy Industry Account. The United Kingdom initially suggested basing

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20. *Appendices to the Journals of the House of Representatives* (hereinafter *AJHR*) 1940, H30B, p. 8.

21. Miller & Rowley, *History*, pp 322-324.

the price on 1938 or 1939 average market realisations, but subsequently put forward a tentative (and higher) figure of 121s. per cwt. for butter, and 70s. per cwt. for cheese. (These were prices ex-store London too; they would then be converted back to f.o.b.). The butter prices had been computed by averaging Australian and New Zealand market prices at 1 September 1939 (116s. and 124s. respectively) then allowing for a 2s. margin. (22) George Pottinger, Acting-Director of the Marketing Department's Export Division informed Nash, that

... should the prices paid by the British Government not exceed 121s. per cwt. for butter and 70s. per cwt. for cheese, and the present guaranteed prices be continued for the 1939-1940 season, there will be a loss to the Government of £67,000. It is therefore the continuance of payment and of the present guaranteed prices ... [we need to sell] butter at 124s. and cheese at 73s. (23)

Jordan thought it would be unwise to emphasise that the price New Zealand sought was necessary to enable her to maintain the guaranteed price at home. But she did want her production costs covered. (24) New Zealand accordingly emphasised that the requested prices were needed in view of the uncertain effect of war conditions on costs and manpower, and to ensure maximum production: she informed Britain that she sought 130s. for butter and 76s. 6d. for cheese. If certain safeguards involving protection against excessive storage charges, and payment in the event of shipping delays, and longer-term prospects, were agreed to, she was prepared to accept 125s. and 74s. (25)

Unfortunately, at this time New Zealand's prospects of securing an improved price were jeopardised by Australia accepting the

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22. DPM D3/3 *passim*.

23. Miller & Rowley, *History*, p. 202.

24. DPM D3/3 NZHCL to NZG, 6 Sep 1939; DPM D3/1 MMk to Chairman NZDB, 8 Sep 1939.

25. DPM D3/1 MMk to Chairman NZDB, 30 Oct 1939.

United Kingdom's initial offer. New Zealand considered that there were convincing reasons why, unlike Australia, she could not do this. Australia, she contended, could afford to sell at a lower price than New Zealand. Dairy produce represented less than 10 per cent of Australia's exports, but 39 per cent of New Zealand's. Moreover, the Australian domestic market consumed a fairly high proportion of total output at fairly high prices.<sup>(26)</sup>

By mid-October Britain was still not prepared to concede more than 121s. for butter. The New Zealand Government held out, not just on its own account, but because of pressure from producers in New Zealand, who thought the existing guaranteed price was too low.<sup>(27)</sup> At the beginning of November a new offer was made - butter to be sold at 123s. 2d. (112s. 6d. f.o.b.), which was equivalent to 139s. 7½d. NZ (compared with the average price paid for creamery butter under the guaranteed price, 1938-1939, of 139s. 6½d. To this New Zealand agreed, and with it, to a cheese price of 73s. 11d. (64s. 3d. f.o.b.). Thus she had secured a butter price very fractionally above Pottinger's minimum, which, he observed, would not provide for the cost of administering the Marketing Department, estimated at approximately £100 000 p.a., but was otherwise fair.<sup>(28)</sup>

As has been noted, dairy producers in New Zealand did not concern themselves very directly with overseas prices at this time: they were determined to hold Nash to his obligation to pay them a guaranteed price tied to domestic circumstances not overseas realisations. Nash was safe for another season, but if he was not able to secure a price

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26. Miller & Rowley, *History*, pp 203-204, DPM D3/1, Acting DMk to MMk, 25 Sep 1939.

27. DPM D3/1 *passim*.

28. Miller & Rowley, *History*, p. 205, DPM D3/1 Acting DMk to MMk 2 Nov 1939.

increase in 1940 he might be in difficulty.

Another dimension of pricing that concerned New Zealand was the relationship of returns to the final price. Britain agreed that if she sold wool to a third party the profits would be shared equally between the two governments.<sup>(29)</sup> Fraser raised a similar issue in respect of butter: he thought the margin between the f.o.b. price, which New Zealand received, and the retail price, was rather large. He received assurances - but no more - that margins were fair and that the purchase price for New Zealand butter would not be used to subsidise purchases from other suppliers.<sup>(30)</sup>

#### 4. The 1939 Negotiations: Protection Against Shipping Difficulties

If Britain paid New Zealand for what she bought, on remunerative terms, New Zealand would have little to complain about. But what if she did not buy? Britain had initially suggested that she wanted to purchase exportable surpluses of all products.<sup>(31)</sup> This would mark a big break with the constantly recurring prewar arguments over quantitative restrictions. But it quickly became apparent that her plans for raw materials and for food differed. In the case of wool, Britain was prepared to purchase the entire clip. For butter, cheese and meat, the

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29. *AJHR* 1940 H30B, p. 8.

30. Miller & Rowley, *History*, p. 186.

31. DPM D3/1 memorandum entitled "War and Primary Products".



Ministry of Food had apparently expected to make a similar commitment until Treasury queried its proposals.<sup>(32)</sup> Certainly New Zealand hoped for such an arrangement.<sup>(33)</sup> But when the New Zealand Government explained that by "all surplus output" she meant all production surplus to domestic needs, the United Kingdom Government countered with the definition "the quantity which having regard to available ships could in fact be exported".<sup>(34)</sup>

At the heart of this difference was the (anticipated) shipping problem. Britain did not want to commit itself outright to purchasing limitless quantities of perishable produce which might be stranded in the country of origin. For New Zealand producers, protection against shipping problems was one of the principal advantages of the contracts, and the Government agreed. Britain had suggested that purchase of all products should be on f.o.b. terms, i.e. transfer of ownership would take place on loading in New Zealand, (for wool, at appraisal point).<sup>(35)</sup> This seemed sensible as the merchant marine which handled the United Kingdom-New Zealand trade was entirely British and had come under the control of the Admiralty on the outbreak of war. It meant that the United Kingdom absorbed all freight and insurance charges and was responsible for shipping schedules. Given that this was so, New Zealand argued that it was up to Britain to organise shipping, the inference being that it was unreasonable for New Zealand to be penalised for a problem over which she had no control.<sup>(36)</sup>

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32. R.J. Hammond, *Food*, Volume III, p. 203.

33. *AJHR* 1940 H30B, p. 4.

34. Miller & Rowley, *History*, p. 176.

35. For wool, at appraisal point.

36. Miller & Rowley, *History*, pp 176-177.

Producers in New Zealand were concerned. The Farmers' Union asked the Government what would happen if, producers having increased production, the British Government restricted exports.<sup>(37)</sup> Dairy producers' opposition to quantitative restrictions went back to depression days: they did not wish to suffer in wartime what they had successfully avoided before the war. For the 1939/1940 season a compromise emerged whereby Britain gave a firm undertaking to purchase defined quantities which approximately covered the estimated seasonal surpluses for export. Over and above these definite commitments she would 'do her best to lift any balances of quantities available for export'. Whether such an arrangement would hold for further seasons if shipping conditions deteriorated remained to be seen.<sup>(38)</sup>

The prospect of shipping delays raised further problems too. New Zealand had to provide for continuous payment of debts and imports, and overseas exchange was therefore necessary in adequate amounts at regular intervals. If Britain paid out only at time of shipment, what would happen to New Zealand's finances if there were major hold-ups?<sup>(39)</sup> Britain was reluctant to make firm commitments in the event of delays, but agreed in principle to pay on account 50 per cent of the value of the produce which had to remain in cool store in New Zealand by reason of the Ministry's inability to adhere to its shipping programme.<sup>(40)</sup>

The other similarly problematic area was storage costs. Britain said it was not prepared to pay storage charges in New Zealand, but should there be hardship through a hold-up the question could be

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37. DPM D3 1 2 Nov 1939.

38. Miller & Rowley, *History*, p. 178.

39. *AJHR* 1940 H30B, p. 3.

40. Miller & Rowley, *History*, p. 180.

raised. Here again it was difficult to make a concrete argument when the problem was anticipated rather than real. (41)

In his talks in London in November 1939, Fraser, in alliance with S.M. Bruce, the Australian High Commissioner, put more pressure on the British, but to no avail. The Minister of Shipping pointed out that if shipping was short the time factor must dictate that Britain seek its supplies from closest to hand. Bruce pointed out that

it was not sufficient to look for the quicker and easiest means of supplying the needs of the United Kingdom from the point of view of the Ministries of Food, Supply and Shipping. There were wider considerations ... particularly affecting Australia and New Zealand as exporters of dairy produce. (42)

Fraser added that New Zealand had made plans for extending her cold storage accommodation but these had not been carried out before war broke out. New Zealand's financial situation would be prejudiced if exports could not be maintained. The Ministry of Shipping, although it accepted there was a need for coordination, and that the Dominions had important interests, was not prepared to commit itself to lift their produce under all circumstances. (43)

The possibility of shipping shortages gave rise to schemes for reducing the volume of cargo by processing and handling it in new ways. This was particularly the case with meat which was bulkier than either wool or butter. In October 1939 Britain suggested telescoping mutton and lamb. (44) New Zealand reluctantly agreed, Britain paying New Zealand

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41. *Ibid.*

42. EA153/17/2, 7 Nov 1939.

43. *Ibid.*, also Miller & Rowley, *History*, pp 183-184.

44. Telescoping means severing the carcass crosswise at the pin-bone joint and then packing the leg portion inside the trunk. This results in a considerable saving of storage and shipping space.

1s. 6d. per lb to cover the costs. Other space-saving strategies were explored as the war progressed, for instance, de-boning and canning (related to the shortage of refrigerated vessels). Chilled beef shipments were suspended indefinitely.<sup>(45)</sup>

#### 5. The 1939 Negotiations: Long-Term Security

Of all the war-related contingencies against which New Zealand sought protection, probably the most significant was a postwar slump. The fact that war prices would probably be high but uncertain was stressed in the report on the negotiations.<sup>(46)</sup>

In cabling its proposals in September 1939, New Zealand suggested that purchase arrangements for food products should cover the period of the war and at least one year thereafter. Except in respect of wool, this suggestion was not entirely accepted by the British Government, but it was generally assumed for the purpose of the negotiations that the arrangements would cover at least the period of the war.<sup>(47)</sup>

In this respect, Fraser queried the distinction made between food and raw materials. In his discussions with the Minister of Food, the latter pointed out that the perishable character of food products made for a major difference - also New Zealand foodstuffs did not constitute a large proportion of the world's supplies - long term arrangements

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45. Miller & Rowley, *History*, p. 326.

46. *AJHR* 1940 H30B, pp 2-3.

47. Miller & Rowley, *History*, pp 184-185.

between Britain and the Dominions could not necessarily be expected to prevent a price collapse as they might with wool. As with other issues, New Zealand did not hold up the agreements being negotiated on account of this difference. For her part, Britain agreed that it should be considered at a later date.<sup>(48)</sup>

With their country's overseas reserves at nearly an all-time low, New Zealand's negotiators could not overlook the importance of export receipts to the country's balance of payments. The wool contract provided a major boost. This was partly technical. Britain would pay for wool immediately it was appraised - a more beneficial arrangement to the vendor than the peacetime practice of payment against receipt of shipping documents.<sup>(49)</sup> But more generally, with wool exports providing around 40 per cent of New Zealand's overseas exchange, she had security for her balance of payments of a kind unknown in peacetime. Nevertheless, anxiety persisted. What would happen if import prices increased? New Zealand suggested that she be provided with assured quantities of essential commodities at agreed prices. Britain suggested that commodities such as iron and steel, fencing wire, woollen and other textiles, could be purchased at controlled prices, though she was not prepared to commit herself to meeting all such increases in New Zealand imports on the sort of basis implied in the September cable.<sup>(50)</sup> As New Zealand would learn when she pressed this "terms of trade" argument at a later date,<sup>(51)</sup> the multilateral character of British trade made it quite impracticable for the United Kingdom Government to contemplate holding the prices of goods traded with any one customer

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48. Miller & Rowley, *History*, p. 186.

49. Sayers, *Financial Policy*, p. 301.

50. *AJHR* 1940 H30B, p. 4; Miller & Rowley, *History*, p. 175.

51. See below, chapter five.

in equilibrium with the prices of the particular imports it received from that country.

Peter Fraser took up the issue in the ministerial talks he had in London in November 1939. There should be, he said, a "price equilibrium" based on existing levels which the two sides should endeavour to maintain. The most though to which Morrison would agree to was to enter into discussion at a later date, if necessary.<sup>(52)</sup>

Another dimension to long-term thinking was that New Zealand under certain circumstances wished to be able to divert production away from Britain.<sup>(53)</sup> Trading difficulties in the 1930s had encouraged New Zealand to seek alternative markets - in the case of dairy produce, this had been active Government strategy. In 1938 five per cent of butter exports went to markets other than Britain. Britain agreed informally that some such selling could continue, a policy compatible with her wish to take defined quantities of production herself. In 1939 and 1940 sales were made to North America and the West Indies.<sup>(54)</sup> In the case of meat, caution prevailed in the initial stages. Britain agreed in principle that New Zealand could reserve some meat for sale outside the United Kingdom, but when New Zealand sought permission to ship 15 000 tons to New York this was declined.<sup>(55)</sup> With wool, New Zealand wanted to maintain trade connections with other countries. Britain allowed supplies to go to other Commonwealth countries and allies, but not to non-belligerents like the United States and Japan. Would Britain's caution about diversion last if the shipping situation deteriorated? It remained to be seen.<sup>(56)</sup>

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52. *AJHR* 1940 H30B, p. 6.

53. *AJHR* 1940 H30B, p. 18.

54. *NZ Official Yearbook* 1943, p. 157.

55. Miller & Rowley, *History*, p. 325.

56. *Ibid.*, pp 421-422.

The negotiations in 1939 successfully realised their aim of organising a trading régime acceptable to both countries. Britain had assured herself of supplies at tolerable prices. On New Zealand's side the immediate outlook was good. While able to pride herself on having foregone "high but uncertain prices" the payment schedules agreed on were in fact a substantial advance on the 1938/1939 averages - especially for wool. The long-term outlook was hazier, but this was hardly surprising, and at least some general commitments had been extracted from Britain. Time and circumstance would allow New Zealand to judge just how substantial those commitments were.

## CHAPTER FOUR

### The Perils of War 1940-1943

1. The 1939-1940 season and dairy produce negotiations, 1940
2. The shipping crisis and the meat negotiations, 1940-1941
3. Deciding on responsibility for surpluses, 1941
4. Prices for the 1941-1942 season
5. Wool 1940-1941
6. The 1941-1942 and 1942-1943 seasons

Appendix: the Surpluses Agreement, 1941



1. The 1939-1940 Season and Dairy Produce Negotiations 1940

Whilst so much of New Zealand's attention during the 1939 negotiations had been centred on securing some protection against unwelcome wartime occurrences, the 1939-1940 season was really the last one of the peace.

Britain over-estimated the degree of disruption to shipping likely in the first months of war; butter was rationed, large quantities of margarine (which could be produced in Britain) were provided for, but in the meantime supplies came forward in New Zealand and Australia at a much higher level than in the preceding season and a glut developed, with stocks of butter - and meat - accumulating in New Zealand, and stocks of butter in the United Kingdom at record levels. Large shipments at the end of March, an increase in the butter ration and the invasion of Denmark in April, eased the problem. But consumption was still depressed when New Zealand sought an adjustment in the butter price for the 1940/41 season.

The complications encountered in setting the price in 1939 led the Government to propose talks with the Australians to coordinate the position of the two countries on price and other questions. Official talks took place in Canberra (30 May - 7 June 1940). A ministerial visit did not eventuate, but there were ministerial exchanges. Australia did not intend to seek a price increase for 1940/41 partly because of the war situation. In any case her output would be profitable at the existing rate of return. However, recognising that New Zealand's conditions were different, she did not want to stand in the latter's way, particularly if the increase

could be absorbed without further advance in the United Kingdom retail price (the price increase at the beginning of the war was believed to be a major cause of the fall in butter consumption). Moreover, if New Zealand did get an increase, Australia would expect a matching one to preserve parity.<sup>(1)</sup>

Although New Zealand recognised the force of the war crisis argument, she felt she did have a valid claim for higher prices to cover increased costs. Also, she contended that there was a danger that world production might fall short of requirements, in which case it was important for Britain, by price or other means, to encourage maximum output - an argument hardly likely to appeal to Britain at this time. In making its case to the Ministry of Food, New Zealand explained that it had no complaint about price levels in relation to pre-war costs, but costs of imported commodities had soared since the outbreak of war. Phosphate, which had cost 31s.6d. per ton, had now reached 60s. principally because the ships which usually plied the run had been requisitioned by the British Government. More generally, it was pointed out that the British wholesale price index had increased by 32 per cent since the beginning of the war.<sup>(2)</sup>

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1. Miller and Rowley, *History*, pp. 210, 215. The two sides also agreed on the need for food contracts to last through and after the war and for Britain to take the entire exportable surplus, to make payment on account after a specified period in store, and contribute to storage costs. The conference did not have immediate diplomatic consequences, as these issues did not generate much discussion in 1940. Both countries continued to negotiate bilaterally. But as trading conditions deteriorated, in early 1941 particularly, they drew closer together.
  2. *Ibid.*, pp. 212, 218-219, 221. DPM 14/2/3, *passim*.

No more than in 1939 was the Ministry of Food prepared to concede an increase on the last mentioned basis: nor was it in fact prepared to accept any unqualified increase at all. The increase would be passed on, and this would further depress the market.<sup>(3)</sup> New Zealand abandoned the claim for an increase to match the shift in the wholesale price index, and concentrated on seeking some 'modest' compensation for increases in imported goods and fertilisers. Trading a decrease in the price of whey butter against an increase in the main categories was suggested but in the event neither proposal was pressed. The Ministry's only other suggestion was to offer to consult with the Ministry of Shipping about the possibility of restoring British ships to the Nauru trade - which the Marketing Department in New Zealand did not think would help much. Nash had cabled George Duncan, Director of the Department's External Division, early on in the negotiations, to the effect that New Zealand was not prepared to exert pressure on the United Kingdom if the latter was clearly reluctant to concede the increased price. This remained New Zealand's stance and so in the upshot no alterations were made in the schedules for the new season.<sup>(4)</sup> Nonetheless it is an open question whether it was wartime solidarity or a recognition that the market was too weak to support an increase, which was the primary influence on this decision.

The fact that the Dairy Industry Council had decided not to press for any change in the guaranteed price "in order to assist in the common

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3. In June 1940 the ration was reduced to 4 oz per week from 8 oz per week, and in July a combined 6 oz ration of butter and margarine was introduced. Under such circumstances it seems unlikely that this argument would have held good.
  4. Miller and Rowley, *History*, pp. 215, 221-222, 225.

war effort" (as well as to compete against margarine) made it easier for the Government to forego any further pressure. There was agitation from the industry later in the year after a 5 per cent general wage order: the Government granted some subsidies but didn't budge on the guaranteed price. In March 1941 the Industry Council decided to leave the question in abeyance because of the war situation.<sup>(5)</sup>

While New Zealand producers had coped with the problem of a market in oversupply through 1939/40, indications were not wanting that the central problem would be getting piggy to market rather than selling him once he arrived.

In April 1940, after Denmark had been invaded, New Zealand felt emboldened to enquire of the Ministry of Food whether it would agree that

New Zealand's maximum production for export [to the United Kingdom] should be regarded as important and as a contribution to the war effort. <sup>(6)</sup>

But despite the recent events in Scandinavia, the new Minister of Food, Lord Woolton, would not concur. He would

rather postpone for a little while giving New Zealand any indication of a change in outlook so far as your exports are concerned, than make a premature announcement.... I should be sorry if on my authority any expectations were created among producers in New Zealand which it might later prove impossible to realise. <sup>(7)</sup>

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5. *Ibid.*, p. 229; Ward, *Command of Cooperatives*, pp. 105-108 gives an account of the surge of hostility to Nash at the October 1940 Dairy Conference.
  6. Quoted in Miller and Rowley, *History*, p. 217.
  7. *Ibid.*

This was an interim reply, however, and when negotiations for a new contract for dairy produce opened in June (those for meat followed two months later) New Zealand felt it was in a position to raise this and allied questions again. At this time, Britain agreed "in principle" to purchasing the exportable surplus, but in practice still wanted quantities named. The commitment given for the 1939/40 season, to take a quantity "as nearly as possible (subject to shipping and other considerations) to the maximum for which you are able to contract ..." was reiterated.<sup>(8)</sup> For cheese the quantity named was very favourable. Britain wanted as much cheese as she could get and New Zealand committed herself to supplying 107 000 tons, 15 000 more than the quantity shipped over the 1939-40 season. For butter, Britain agreed to take 120 000 tons, but gave an assurance that she would arrange the shipping schedule to accept 130 000 tons if that became practicable. The 1939/40 figure had been 115 000 tons but actual shipments (including whey) had totalled 128 000 tons.<sup>(9)</sup> The dairy industry in New Zealand accepted and cooperated in the planned shift from butter to cheese production: the Government provided financial assistance to individual suppliers and companies.<sup>(10)</sup> In the final stages of the butter and cheese negotiations, New Zealand tried to get Britain to agree that if difficulties arose because of a shipping problem, or something similar, the two Governments would discuss the position on the principle of the United Kingdom Government having agreed to purchase to the maximum and the New Zealand Government having made its plans accordingly. But Britain would still not come at this and confined itself to stressing that the risk of any

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8. *AJHR*. 1941, H30, p. 6.

9. Miller and Rowley, *History*, pp. 206-208.

10. DPM Box 23: draft Parliamentary paper entitled "Food and Other Supplies to the United Kingdom during the War" (hereinafter "Food and Other Supplies"), p. 17.

interruption in trade occasioned by the war must remain one to be shared as may be agreed between the parties. <sup>(11)</sup>

## 2. The Shipping Crisis and the Meat Negotiations 1940-1941

For frozen meat the situation was far worse than for butter - the possibility of severe quantitative restrictions, because of the shipping shortage, loomed large. There was certainly no prospect of gaining even the very general statement of support for New Zealand's meat industry which had been extended to the dairy industry in Lord Woolton's letter. The Ministry of Food argued that dairy produce had never been the subject of quantitative regulations as had been the case with meat, <sup>(12)</sup> but this in and of itself was hardly the reason for the difference in treatment. This was more accurately conveyed by the observation that

whilst we shall probably be anxious to lift all the butter you can produce, the position in regard to meat is quite different .... In the circumstances I think it would be contrary to the spirit of our mutual relations to accept a formula in which we undertake to purchase quantities 'as near as practicable .... to the maximum for which you are able to contract ....' <sup>(13)</sup>

In other words, Britain was regulating meat more vigorously than dairy produce not because it had done so in the past, but because of the existing situation of oversupply and uncertainty about future shipping prospects.

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11. Miller and Rowley, *History*, p. 224; *AJHR*, 1941/42, H30, p. 7.

12. MAF 88/116, Ryan-Campbell, 26 Oct 1940.

13. *Ibid.* The quoted phrase is taken from the Minister of Food's letter embodying arrangements for supply of dairy produce for the 1940/41 season (see *AJHR*, 1941/42, H30, p. 6.)

New Zealand learnt, in mid-July, that Britain was estimating that her quota for the 1940/41 season might be as little as 250 000 tons, inclusive of the 47 700 ton carry-over from the 1939/40 season. When negotiations got underway in August, this figure had not changed much - 275 000 tons was the maximum (exclusive of pigmeat) which Britain was prepared to commit herself to purchasing.<sup>(14)</sup>

The New Zealand Government had discussions with industry representatives and learnt that 330 000 tons of meat would probably be available for export from the 1940/41 season. There had been a campaign in New Zealand to help Britain by increasing food production - while the emphasis had been on cheese, bacon and eggs, the overall effect would be to make it almost certain that meat production levels would be maintained, despite manpower and other shortages. The Government had maintained its commitment to purchase all export meat "in confident anticipation that United Kingdom Government would purchase and lift it."<sup>(15)</sup> With the 47 700 tons carry-over to take into account New Zealand might have up to 100 000 tons of meat surplus to British and New Zealand needs. Unsurprisingly, New Zealand's representatives in London stood firm for a minimum unconditional purchase of 350 000 tons.<sup>(16)</sup>

Not only was New Zealand dissatisfied with the absolute figures offered by Britain: relativity with Australia was also a bone of contention. Australia's quota for 1940/41 was 225 000 tons and the

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14. DPM Box 23 "Food and Other Supplies", pp. 22-23.

15. *Ibid.*, p. 23.

16. *Ibid.*

relationship between the two tonnages was that of the volumes contracted for in 1939/40. New Zealand argued that that allocation had itself been unfair as Australia's proposed 240 000 tons had been accepted without amendment, whereas New Zealand's proposed 330 000 tons had been cut back. Moreover, during 1938/39, New Zealand's mutton and lamb shipments had been subjected to a restriction, 97 per cent of the preceding year's loadings. As a result New Zealand had a carry-over of 45 000 tons at the beginning of the 1939/40 season.<sup>(17)</sup> Two additional considerations added to New Zealand's sense of grievance. Firstly, Britain was prepared to take as much pigmeat as either country could supply. But for New Zealand, pigmeat production was not readily substitutable for beef or sheepmeat production, and she could only have exceeded the estimated 21 000 tons by decreasing domestic consumption<sup>(18)</sup> which would not have directly helped absorb surplus sheepmeat or beef. Secondly, actual seasonal loadings, which had been the basis of quotas prior to the war, were ignored in setting the 1940/41 figures.<sup>(19)</sup> This seemed particularly unfair to New Zealand, as actual loadings over 1939/40 (350 000 tons) had far exceeded those from Australia (260 000 tons). During the 1930s this principle had sometimes worked to New Zealand's disadvantage. Now, when it would have been advantageous, it was overlooked, at a time moreover when producers had been encouraged by the New Zealand Government to increase production.<sup>(20)</sup> To Britain, however, the actual experience of the 1939/40 season was not a consideration: that season was exceptional. She had been building up stocks as fast as possible:

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17. MAF 88/116, 8 Oct 1940.

18. *Ibid.*, 11 Nov 1940.

19. *Ibid.*; Campbell-Ryan, 28 Oct 1940.

20. DPM Box 23, "Food and Other Supplies", p. 23, quoting cable to NZHCC, Jul 1940.



In the event we took additional quantities of 20 000 tons from Australia and 50 000 tons from New Zealand, which was very favourable to New Zealand. We cannot, however, agree that these final liftings must be the basis of future allocations between the two Dominions. (21)

In this vein the discussion dragged on well into the new season, feeding on a tradition of quibbling which antedated the war. Meanwhile the external situation was deteriorating. By the end of November, the availability of refrigerated shipping had reached crisis point, and the decision foreshadowed in the November 1939 discussions was taken: to switch the maximum amount of cargo space away from the Australia-New Zealand route to the Plate.

It is vital to the maintenance of civilian morale and the efficiency of the fighting services that more meat should reach this country in 1941 than is possible under the existing arrangements. The Minister sees no possible way of achieving this save by the transfer of ships from the longer Australasian to the shorter South American route. The round voyage to the Southern Dominions is now taking 23 weeks: in the case of the Plate the period is 15 weeks. (22)

Lord Woolton placed the restrictions firmly in the context of necessary wartime sacrifices.

We want to keep the goodwill of the Dominions, whose business we are damaging a great deal .... I am anxious they should know that we are conscious of the suffering inflicted on them. Only stern necessity made us demand such sacrifices. (23)

Sacrifices they undoubtedly were and despite Woolton's assurance that the problem would be treated "as one common to the Dominions and the United Kingdom" (24) the New Zealand Government was very alarmed. In its 20 December cable, the Ministry of Food had suggested that total

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21. *Ibid.*, Ryan-Campbell, 26 Oct 1940.

22. Miller and Rowley, *History*, pp. 340-341, quoting memo MF to NZG, 20 Dec 1940.

23. *Evening Post*, 15 Jan 1941.

24. DPM Box 23, "Food and Other Supplies", p. 24.

purchases from Australia and New Zealand would be around 436 000 tons of which New Zealand's share would be 239 000 (218 000 and 21 000 tons of baconers). Taking into account the carry-over of 47 000 tons, New Zealand would be left with nearly 140 000 tons for which she would have to accept sole responsibility.

Statements and reports in the New Zealand press in mid-January 1941 on the prospect of restriction aroused concern.<sup>(25)</sup> S.G. Holland, Leader of the Opposition, deplored the need for "any restriction on a New Zealand produced commodity" and hoped that the restriction would be of a brief and temporary nature.<sup>(26)</sup> Fraser publicised plans already being realised for increasing storage capacity, but some sort of appeal to Britain was inevitable. It was made the more compelling by the pressure the Government was under from the meat industry. On 27 January 1941 the North and South Island Freezing Companies Association informed the Government of their member companies' belief that

they cannot continue buying and paying for the new season's meat without some definite understanding with the Government as to their position in regard to payment, storage charges, quality claims and weight claims. <sup>(27)</sup>

The Government summoned a conference early in February at which meat buyers stated that unless the Government was prepared to guarantee the ultimate purchase of all exportable meat they would have to cease operations entirely. The Minister of Marketing emphasised the Government's preparedness to do this - but negotiations on details,

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25. MAF 88/116, UKHCW-DO, 21 Jan 1941.

26. *Evening Post*, 15 Jan 1941.

27. DPM Box 23, "Food and Other Supplies", pp. 35-36.

especially the exact responsibility for storage and payment, precluded the speedy conclusion of an agreement. (28)

Meanwhile the news from Britain was getting worse and taking the Ministry of Food even further away from New Zealand's goal of securing a commitment to buy the entire seasonal output. In mid-February the expectation was that only 180 000 tons might be lifted from New Zealand: barely half the export kill from the season. (29) Nervously, New Zealand wanted to know what were

the actual possibilities of New Zealand and Australia securing agreement with United Kingdom Government for purchase of [sic] financing of certain prescribed quantity of meat beyond that actually shipped. (30)

The New Zealand High Commissioner in London explained that the Ministry of Food and the British Government were wavering

between agreeing to firm purchase of tonnage taking account of our normal exports and as cautious alternative restricting purchases to low tonnage they estimate can be lifted while promising to help in dealing with the problems that will result. (31)

The full gravity of the situation had dawned on producers and the public. In January both had taken comfort in the reflection that circumstances might be transient, an attitude encouraged by the Government's reassuring statements on meat storage. (32) By the end of February the Meat Producers' Board was restricting livestock available for export and in mid-March the Government summoned a National Conference of all meat interests under Nash's chairmanship.

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28. *Ibid.*, p. 36.

29. *Ibid.*, p. 29.

30. *Ibid.*, p. 31.

31. *Ibid.*, p. 31: NZHCL-NZG, 13 Mar 1941.

32. MAF 83/164, UKHCW-SSD, 27 Mar 1941.

Representation of the Meat Producers' Board, freezing companies, stock and station agents, shipping companies and meat operators were all present, and a Special Committee was established to report back to the Government. The recommendations were mostly concerned with various strategies for dealing with the expected surplus of stock and/or meat, both for the current and the forthcoming (1941/42) season. Diversion to other markets should be actively encouraged. 90 000 meat carcasses were shipped elsewhere, mostly to North America, but ironically, a shortage of refrigerated shipping limited further sales there too. Expansion of canning output was also advocated. Production plans were implemented, despite the fact that the price offered by the United Kingdom meant that the New Zealand Government had to subsidise the canneries. (33)

Prominent in the recommendations was the proposal that the Government should restate as soon as possible its intentions to purchase all exportable meat for the current production year

In the light of past assurances to producers about the purchase of primary produce during the war and the imminence of a General Election the Government will certainly do all they can to find a solution satisfactory to the farmers, even though at heavy cost to New Zealand finances. If the United Kingdom Exchequer can be persuaded to shoulder part of the burden, so much the better for New Zealand. (34)

This expectation of the British High Commissioner was correct. At the suggestion of the Australian Government, talks had been held in Wellington in February to coordinate responses to the crisis.

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33. DPM Box 23, "Food and Other Supplies", pp. 36-40, Miller and Rowley, *History*, pp. 341, 347.  
34. MAF 83/164, UKHCW-SSD, 27 Mar 1941.

Now, both Prime Ministers conveyed their concern directly to the Dominions Secretary. Fraser stressed the need for early clarification, but he was quite direct about the sort of clarification which would be welcome. Reiterating the point already made to the Ministry of Food about the heavy potential liabilities the New Zealand Government faced he agreed that

In view of Lord Woolton's memorandum ... acknowledging the problem as one common to the United Kingdom and Dominion Government [the New Zealand Government] consider arrangements should be concluded between the two Governments for actual purchase by United Kingdom Government of all 1940/41 export meat at f.o.b. or after agreed period in store and recognition storage charges. (35)

Whether or not this cable made an impact, in early April the wavering ended. The Ministry of Food agreed to firm purchase of the volumes proposed in December, i.e. a total of 436 000 tons from Australia and New Zealand. New Zealand did not challenge the overall figure but did raise the question of proportions once again. As before Britain had based them on the contracted volumes for 1939/40. Jordan, "stormed the strongholds" of the Ministry of Food to seek a revision (as in October) based on actual liftings which would have given her 266 000 tons. No more than before could Britain accept this, not least because she would get into serious difficulties with Australia if the agreed proportions were departed from. Britain did, however, agree to an increase to 248 000 tons. This was justified on the grounds that the total figure included baconers, which had previously been separately listed. At the end of February, Britain had reversed its pigmeat policy, as it no longer wanted all that could be produced. The new figure was proportionate to Australia's production excluding

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35. PMNZ to SSD, 13 Mar 1941 in DPM Box 23, "Food and Other Supplies", pp. 32-33.

pigmeat, a ratio in which New Zealand gained an edge. (36)

In the aftermath of the National Conference the Government reached agreement with the meat buyers. The crucial problems had been the questions of payment and storage charges. The companies wanted 50 per cent of the f.o.b. price after two months. Agreement was reached on 50 per cent after three months, the balance after six months. Storage charges incurred by the Government would not "exceed"  $\frac{1}{16}$ d. per pound and would only apply after six months. (37)

The Government in its turn sought commitments from Britain to match these obligations. In the letter setting out the dairy produce contract for the 1940/41 contract, Britain had agreed that in the event of delay in shipments, the Ministry of Food would pay 50 per cent of the value of any butter which had to remain in cool store one month longer than would have been required by the Schedule. This was an improvement on the 1939 agreement which had specified two months. New Zealand now sought two - or three - months from the Ministry of Food but the matter was handed over for discussion to the Surpluses Committee. (38)

In respect of storage costs, Britain's obligations in the dairy contract for 1940/41 had remained as vague as they had in 1939/40 despite New Zealand's wish for a change. With meat the problem was now more urgent: moreover, the New Zealand Government had agreed to assist the freezing companies in the extension of cool storage facilities to the tune of around £400 000. Fraser raised this matter in his

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36. MAF 83/164, *passim*.

37. DPM Box 23, "Food and Other Supplies", pp. 27, 40-41.

38. Miller and Rowley, *History*, pp. 180, 226.

cable of 13 March 1941 but it too was passed on to the Surpluses Committee. (39)

New Zealand's discussions with Britain in 1939 had set price levels as well as agreeing on quantities. But the two matters were inter-related, and from the start of the meat negotiations in August 1940 it was thought wise to concentrate on obtaining the largest possible tonnage and forget about prices. Although early in the negotiations Campbell did allude pointedly to New Zealand's forbearance in this respect, the matter was not raised again. In the absence of any agreement on a contract for the 1940/41 season, the Government decided to pay producers at the scheduled rates for 1939/40. Exclusive of some minor adjustments this was accepted by the industry. As expected, the agreement reached in April 1941 with Britain confirmed these rates. (40)

### 3. Deciding on Responsibility for Surpluses, 1941

The deterioration in trading conditions in the early months of 1941 made it all the more important to New Zealand to secure Britain's agreement to an extension of the contract periods for meat and dairy produce to bring them into line with wool. Although in the 1940 contracts it was stated that

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39. DPM Box 23, "Food and Other Supplies", pp. 28, 32.

40. MAF 88/116, 27 Aug 1940; Miller and Rowley, *History*, p. 339; DPM Box 23, "Food and Other Supplies", pp. 25, 34.

the general arrangements for purchase and sale of butter and cheese would continue for the duration of the war and for a period to be agreed thereafter (41)

nothing more precise than that was offered.

By the time this matter was dealt with in the meat negotiations, Britain was expecting the shipping situation to remain difficult for some time. Accordingly, a special sub-committee of the War Cabinet was established to consider the problems of export surpluses. With the assistance of officials of the various departments involved this committee would formulate policy for the remainder of the war period. The question of extending the contracts became its responsibility.

Shortly after the establishment of the sub-committee, at the beginning of March New Zealand learnt that butter, as well as frozen meat, had become a problem export. For over a year Britain had been encouraging New Zealand to promote cheese rather than butter production. Early in 1941 the butter ration was cut from 4oz to 2 oz per week and Britain proposed to Australia and New Zealand that butter exports be cut to a joint total of 118 000 tons, less than New Zealand's total exports in 1939/40. Further, Britain warned that if she found it possible to maintain the fat ration in other ways, imports might be halted altogether so as to free more shipping space for cheese and meat. (42) [Of the three products cheese was the most valued. Nutritionally it was a substitute for meat. Meat required refrigerated shipping and was also available from closer at hand. Neither caveat applied to cheese.]

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41. Miller and Rowley, *History*, p. 223.

42. Miller and Rowley, *History*, p. 234.



At the beginning of April, British officials submitted for New Zealand's consideration a draft statement, "Policy with regard to New Zealand's Surplus". Britain was not prepared to offer contracts for production over and above what she could ship, either for the forthcoming season, or for ones after that. She did propose that during the war period she would share equally with New Zealand the cost of acquiring and storing reserve stocks, after New Zealand had made every effort to adapt production, for example, through de-boning, canning, or diversion to alternative markets. The quantities to be held in reserve would be agreed between the two Governments. (43)

This offer fell far short of what New Zealand would have wished. There was no question of Britain taking full responsibility for the exportable surplus. It also seemed unlikely that the shared responsibility would cover all unshipped production.

Neither Government nor producers nor public opinion in New Zealand were prepared to accept the full implications of British planning. These were that, although Britain would provide some assistance, she would also expect New Zealand to help herself by restricting production insofar as the strategies suggested would not absorb all the surplus.

In the 1930s restriction had been seen as a way by which others would secure advantages at New Zealand's expense and in 1941 the

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43. MAF 83/257, n.d.

reaction was no different. Fraser believed that as a consequence of war conditions and the provisions of lend-lease, the United States would gain a preferred position in the British market, which it would be difficult for New Zealand to regain after the war. Public opinion was inclined to criticise the Government for not standing up for New Zealand interests in dealing with Britain: not a reasonable criticism. It was felt that New Zealand was being hit harder than other Dominions who could mitigate the import of restriction by expanding secondary industries. (44)

According to W. Garnett of the United Kingdom High Commission in Wellington, who had confidential discussions with Duncan and Cockayne, the Government was

unwilling to face up to the question of restriction because any fall in revenue from primary production will upset the whole of the New Zealand economy, and will involve reduction in the "standard of living" the maintenance of which is the basis of the Government's policy and would result in political difficulties.

Despite the ample warning that production would have to be slowed down, the Government have failed to take any serious steps in the direction of restriction and prefer to hide their heads in the sand hoping that something will turn up which will relieve them of the need for taking action.

The only measures of relief so far taken have been the exclusion of certain low grade qualities of meat from the quantity acceptable for export, and certain savings in tonnage owing to processing, but the actual values of production remains [sic] unaffected. Nothing has been done to restrict production of dairy produce. There may, however, be a fall in production owing to less favourable seasons and to the high cost of labour. (45)

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44. MAF 83/1149, UKHCW-SSD, 31 Mar 1941.

45. MAF 83/164, Garnett-Clutterbuck, 15 May 1941.

Inevitably, New Zealand sought to modify the terms of the proposed agreement and thereby avoid having to take more drastic steps. She proposed that Britain contract to purchase certain minimum quantities, which would be related to annual production, and to the carryover from the previous season. For meat, Jordan initially suggested 250 000 tons, close to the 1936/38 annual average. But for Britain the furthest limits of her full responsibility would be to pay for what she could ship. Beyond that she was only prepared to share costs and on this she would not budge. Quite apart from her sense of what was appropriate in terms of New Zealand's export industries themselves, this was a time when Britain was seeking a greater commitment from New Zealand to the war effort: financing surpluses was one way of contributing. (46)

Fraser, who had been in the Middle East theatre, was in England from 20 June at Churchill's invitation, for discussions about different aspects of war policy. These ministerial discussions would seem to have made for modification of the Surpluses Agreement which was published as a White Paper on 26 June 1941. (47) Simultaneously, Fraser received a letter from the Secretary of State for Dominion Affairs. In it the latter referred to the Prime Minister's desire that production in New Zealand should, so far as possible, be maintained at pre-war levels. He gave an assurance that the British Government fully appreciated the importance New Zealand attached to this point and added that "within the limits of physical possibility" account should be taken of those levels in determining amounts to be

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46. DPM Box 23, "Food and Other Supplies", p. 64; MAF 83/257, n.d., T160 F12715/7, 24 Jun 1941.

47. See appendix, p. 131A.

stored in paragraph (5) of the agreement. (48)

Through July and August 1941 discussions took place on the arrangements which would be made for meat and dairy produce for the forthcoming (1941/42) season. In accordance with the Surpluses Agreement, the main task in terms of setting quantities was to decide the volumes of production Britain would be responsible for shipping or storing: volumes known as production targets. At this point, the extent to which the White Paper covered over rather than resolved differences became apparent.

To look at butter first. The Ministry of Food was firm in its intention to purchase and lift only around 90 000 tons of butter. However, Ministry and New Zealand officials did reach tentative agreement that a production target of 120 000 tons would not result in the accumulation of unmanageable stocks. A formula on these lines was tabled for consideration at a departmental meeting with the New Zealanders.

For the period of the war and one year thereafter, New Zealand will aim to limit production for export to approximately 120 000 tons per annum, or such larger figures as may be agreed. The United Kingdom Government will either lift this quantity as a Ministry of Food purchase or will share responsibility under the agreed arrangement for dealing with surplus produce. (49)

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48. Paragraph (5) listed criteria for determining reserve quantities as "probable demand during and after the war", and "the importance of the industry to New Zealand".
49. DPM E4/3, Annex to notes of meeting 22/23 Jul 1941. The exact amount would depend partly on the proportion in which the United Kingdom would lift New Zealand relative to Australian butter, which the two countries had to agree to between themselves. New Zealand had more butter stored, but Australia had more problems disposing of its second grade butter and its cheese industry was less developed. New Zealand supported the Ministry's original allocation of 90:57, whereas Australia wanted 80:57. In September New Zealand accepted a 3:2 division, but in fact improved conditions made the arrangement redundant. (Miller and Rowley, *History*, pp. 237-238: DPM 14/2/3, *passim*.)

This formula did not meet with approval elsewhere in Whitehall. The Ministry of Economic Warfare was angry that the Ministry of Food had exceeded its brief.<sup>(50)</sup> Ministry of Food officials themselves realised that New Zealand had

been trying to pull a fast one! We stated over and over again that we were making no attempt whatever to interpret the White Paper, principally because none of us understood it, and we for our part attached little importance to the formula .... (51)

Sir Edward Benthall, of the Surpluses Department, Ministry of Economic Warfare, who chaired a subsequent interdepartmental meeting with New Zealand officials, took the lead in criticising the formula. A target figure for seasons beyond the forthcoming one could not be accepted, nor could such a high target figure. He suggested to New Zealand that it was in her own interests to restrict production - if shipping schedules were seriously upset, unmanageable problems would be created in the fourth year of the war. Jasper Knight reckoned that in the Ministry of Food's talks

the reference to production levels ... was ... really of little meaning since storage capacity would automatically limit production .... (52)

Now Benthall made this point explicitly to the New Zealanders. Britain could not accept liability for surpluses which accumulated at a rate in excess of storage capacity.<sup>(53)</sup>

The New Zealand officials argued that restriction of production was a shortsighted policy. Severe restrictions could only be accomplished by destruction of capital in the form of livestock. Once such a reduction had taken place, it would be very difficult to

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50. MAF 83/257, draft letter n.d.

51. *Ibid.*, Knight-Wall, 26 Jul 1941.

52. *Ibid.*

53. DPM E4/3, Notes of meetings 22/23 Jul 1941.

increase exports rapidly if shipping prospects subsequently improved. New Zealand preferred to face the need for curtailment when it arose rather than anticipate a contingency which might not materialise. More specifically, New Zealand took issue with Britain's wish to limit the production target by both volume and time. Britain had suggested reducing the butter target by the equivalent of the whole of the amount to which milk had been diverted to cheese production. But in order to produce cheese as rapidly as Britain wished, milk production had been increased. As for time, from the agricultural point of view the third year of the war had already begun, and the Government wished now to be able to give guidance for a longer period. (54)

With these specific points at issue, a series of informal discussions were held in an attempt to reach agreement. With Fraser still in London, discussions were also held at ministerial level. As a result of these talks, the British made concession on both points. They agreed that the production target should be 115 000 tons, although this would decrease if cheese production increased above 160 000 tons. And they agreed that the target would apply to the period of the war and one year thereafter. (55) Moreover although Britain continued to stress that its responsibility was limited to what could be shipped or stored, it was agreed that once the stores were full, there would be further discussion. (56)

Britain believed New Zealand could restrict butter production in part because milk production could be diverted to cheese.

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54. *Ibid.*

55. A decision which had to be approved by the Ministerial Committee on Export Surpluses.

56. DPM E4/3, notes of meeting, 6 Aug 1941.

Consistent with this view, Britain was prepared to make a long-term contract for cheese, not very dissimilar to that for wool. Britain had originally envisaged New Zealand producing 130 000 tons of cheese (compared with 92 000 shipped in 1939/40) but discussion in New Zealand had produced a figure of 160 000 tons. The quantity was accepted for the year 1941/42 without question but the crucial point for New Zealand was whether Britain was prepared to agree to a longer contract and this was accepted. (57)

The negotiations on an agreement for meat supply were similar in character to those on butter. As with butter, New Zealand sought a degree of commitment from Britain which Britain was not prepared to give. It was true that by June expectations about liftings for the next season had improved compared with March - enough in the opinion of one official 'to make Fraser's visit a howling success'. (58) But this was being over-optimistic. As with butter New Zealand proposed a firm contract for the war and one year thereafter. The proposed volume was 275 000 tons - the figure first proposed for the 1940/41 season. Although above actual 1940/41 liftings (250 000 tons), it was considerably below New Zealand's export production figures. It also meant that New Zealand did not expect to clear the carryover from earlier years. Although liftings of 170 000 tons were now thought possible, even the Ministry of Food accepted that a firm contract was not on, unless it was for the absolute minimum which Britain expected to lift. Rather than publicise such a low figure, New Zealand preferred not to have a contract amount set at all. (59)

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57. Miller and Rowley, *History*, p. 236; DPM E4/3, Meeting 6 Aug 1941.  
58. MAF 83/164, Wall-Knight, 24 Jun 1941.  
59. DPM E4/3, notes of meetings, 14 and 15 Jul 1941.

Instead, as with butter, discussion centred on establishing a target production figure. 275 000 tons was fairly readily agreed between New Zealand and Ministry of Food officials as appropriate: if optimistic expectations about both shipping and the quantity of meat which could be canned were realised, there should be no storage problem. Treasury wished, however, to consider a rather lower figure - 270 000 tons was suggested. Subsequently 275 000 tons was accepted but finality was not reached because it was unclear whether or not canned meat was included in the target figure.<sup>(60)</sup> Britain wanted it to be included as that made it less likely she would have to finance a surplus of frozen meat. New Zealand for the exact opposite reason wanted it excluded. She argued that Britain wanted as much canned meat as she could get and it should not, therefore, be seen as an alternative way of dealing with the surplus but purchased on its merits.<sup>(61)</sup> As New Zealand was envisaging a total seasonal output of 335 000 tons this was a particularly important point to make. It was all too easy otherwise to imagine a situation where

... liftings of frozen meat were say 200 000 tons then canned meat at 22 000 tons [= 75 000 tons of carcase meat] would complete the United Kingdom liability under the surpluses agreement thus excluding ... 50 000 tons or more .... (62)

As an alternative, and in recognition that she did want canned meat, Britain worked out separate targets. This did not mean a frozen meat target of 275 000 tons though. It seemed reasonable to pitch it closer to what might be shipped. In exchanges between the Ministries

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60. DPM E4/3, Meetings 14/15 Jul 1941, 22 Jul 1941.

61. MAF 88/202, 24 Sep 1941, 14 Oct 1941.

62. DMk - NZHCL, 17 Oct 1941, Miller and Rowley, *History*, p. 352.



of Food and Economic Warfare figures of 220 000 tons for frozen meat and 37 150 (carcase equivalent 111 500) for canned meat were agreed to. Meat not canned over and above to this figure would be dealt with under the Surpluses Agreement. The two Ministries did not want to go below 220 000 tons for frozen meat because they hoped that at least that amount would be lifted and they did not want it to go into canning if it could be avoided. Treasury and the Surpluses Department of the Ministry of Economic Warfare, were reluctant to see such a high figure. They argued that Fraser had accepted 275 000 tons and that to ask for an increase in New Zealand production would be courting disaster in the fourth and subsequent years of the war when refrigerated shipping possibilities might almost become negligible. Moreover, it was thought New Zealand had stores of around 120 000 tons (actually 78 000 tons at 1 October 1941) which could be drawn on if shipping improved.<sup>(63)</sup> Accordingly, New Zealand was offered, and agreed to, a firm purchase of 190 000 tons of frozen meat, shipped or unshipped, and 37 150 tons of canned meat. If that quantity wasn't canned the balance would be dealt with under the surpluses agreement. Thus, in effect, Britain's responsibility had been expanded from 275 000 to 301 500 tons of carcase meat. By contrast with the butter agreement though, this more precise arrangement was only for 1941/42 not for the whole war period.<sup>(64)</sup>

As for 1940/41, meat export figures for New Zealand were set in relation to Australian quantities.<sup>(65)</sup> The relationship which

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63. MAF 88/202, 24 Oct 1941, 8 Nov 1941.

64. *AJHR*, 1943, H30, p. 10.

65. So were butter export figures: Australia protested at, but eventually accepted, a quota of 57 000 tons for 1941/42, Butlin, *War Economy 1939-42*, p. 70.

Britain had used (and which New Zealand had criticised) gave a 5:4 advantage to New Zealand, based on pre-war liftings. Shifting to separate targets for canned and frozen meat raised serious difficulties, as if the established ratio were preserved solely for frozen meat New Zealand would be disadvantaged overall as Australia was able to produce much larger quantities of canned meat. Alternatively the 5:4 ratio could be transferred to carcass meat as a whole. Eventually Australia's overall target figure was quite close to New Zealand's - 280 000 as against 301 500. To New Zealand it was pointed out that the United Kingdom would take more meat from New Zealand if canning capacity was greater. Even so, the United Kingdom had responsibility for a total quantity well above pre-war figures.<sup>(66)</sup>

#### 4. Prices for the 1941/42 Season

As in the 1940/41 negotiations, prices were not a major issue for 1941/42, at least not for butter and frozen meat. Initially New Zealand had proposed that prices be adjusted to take account of increased costs incurred in adaptations to meet the shipping shortage. This was really a covert way of financing surpluses and was recognised as such by the Ministry of Food, which did not see why New Zealand should "have it both ways", i.e. seek higher prices, but also financial assistance under the surpluses agreement itself.<sup>(67)</sup>

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66. MAF 88/202, 14 Oct 1941, 6 Jan 1942.

67. MAF 83/257, 22 Jun 1941.

In the meat negotiations, New Zealand made a more specific case. In 1940, prices for some of the lower grades of offal had been reduced, whilst for the forthcoming season certain grades were to be excluded from shipment. The result of these changes was that the net return to the producer was below average 1938 prices, the agreed baseline. It was, therefore, suggested by New Zealand that equivalent compensation should be given by upward revision of certain remaining items in the schedule. The claim was linked to production costs and British export price increases, which also underpinned a reiterated claim for an increase in the butter price. (68)

In the discussions of July 1941 New Zealand accepted that there would be no price changes for frozen meat or butter, on the grounds of cost increases, while the terms of trade argument was loaded on to cheese. (69) In September, Britain made new contracts with Argentina and conceded meat price increases across the board. New Zealand and Australia would learn of these increases: it was argued that it was in Britain's interests to "look gracious about it" and make the corresponding adjustments in their prices, without being asked. From 1 October 1941, the beginning of the new season, purchase prices were increased by  $\frac{3}{8}$ d. per pound sterling for beef and lamb products, and baconers, and by  $\frac{1}{4}$ d. per pound sterling for mutton and pork products. (70)

These increases helped ease relations between the New Zealand Government and the meat industry. The arrangement made with the

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68. DPM E4/3, notes for PMNZ's talk with MnF.

69. DPM E4/3, talks 14/15 Jul 1941, 6 Aug 1941.

70. MAF 88/236, 3, 10 Oct 1941; Miller and Rowley, *History*, p. 355.

industry to purchase the exportable surplus expired on 30 September 1941. In the discussions between the industry and the Government on its continuation, the Government had been seeking to ensure that the export value of live mutton (export of which was prohibited) be maintained by subsidising its purchases from other receipts. The agreement reached with the Board provided that the additional prices would be used to fund a Meat Pool Account. This would then be used to maintain storage and insurance charges on meat and to provide for the capital liability on emergency cannery plant, buildings and cool stores. Any surplus in the account at the end of the emergency period would be utilised for the benefit of the industry: a deficit would be absorbed by the Government. This agreement also enabled the Government to meet the freezing companies' request for a renewal of the agreement covering the 1940/41 season: although New Zealand had failed to settle the question of how much Britain would pay towards storage, the Meat Pool Account would provide a buffer. In fact in the new agreement freezing companies enjoyed improved conditions - full payment for stock thirteen weeks after killing (formerly twenty-six) and payment of storage charges after seventeen (also formerly twenty-six) weeks. (71)

Both with meat and dairy produce, New Zealand concentrated its case for price increases on those products which were in demand, i.e. canned meat and cheese. Under the existing price regime, New Zealand was losing money on canned meat: £412 000 on 18 000 tons of corned beef, £1 000 000 on 10 000 tons of canned mutton. Moreover, she was

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71. Miller and Rowley, *History*, pp. 355, 357; Hayward, *Golden Jubilee*, pp. 77-78.

now intending to can higher quality meat than before. Britain explained that no increase could be paid, since claims for corresponding increases by other suppliers would follow and would be difficult to resist. This consideration also prevented her from paying more for higher quality meat as South American countries were planning to can it too. Meat was canned because there was a surplus, and Britain felt it should be dealt with under the surpluses agreement. New Zealand accepted the principle but submitted that both Governments should contribute to subsidising the costs of canned meat production. Britain argued that the White Paper provided for canning to be undertaken by New Zealand, but New Zealand argued that this did not imply that she should undertake canning solely at her own expense. (72)

In the interim, the matter was left unresolved. New Zealand placed on record her reservation of the right

to state a claim for a subsidy to help cover the cost of canning carcase meat, and undertook to submit figures of costs

Britain

undertook to examine these figures without any commitment on the principle of such subsidy. It was pointed out, however, that at the meeting of 22 July the United Kingdom had expressed themselves as unwilling to pay an increased price on canned meat. (73)

Despite discussions at ministerial level, involving the Prime Minister, no further progress was made. Britain now argued that lend-lease might solve some of New Zealand's difficulties. (74) Subsequently, her outlook changed. The contract with Argentina settled, she was

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72. DPM E4/3, talks 14/15 and 22/23 Jul, 6 Aug 1941.

73. DPM E4/3, 6 Aug 1941.

74. MAF 88/202, talks, 19 Aug 1941.

prepared to offer New Zealand increases of 9d. per dozen for 12 oz canned corned beef, which sharply diminished the cases for a subsidy. Her relative generosity about production targets probably helped secure this agreement. (75)

In recognition of the reduced demand for meat and butter, New Zealand loaded most of her case for increased remuneration on to cheese. There were two aspects to the claim. On the one hand, New Zealand sought to cover increases in costs and, in particular, the increases incurred in the changeover from butter to cheese. Equally she was interested in obtaining some recognition of the deterioration in the terms of trade which she had experienced since the outbreak of the war.

In his discussions with Lord Woolton, Fraser had explained that achieving an output of 160 000 tons of cheese would cost New Zealand £1.25 million and he urged that the Ministry of Food should take this expenditure into account. In particular, there were costs attendant on carrying whole milk instead of cream by truck, and higher factory costs. In discussions with Ministry of Food officials at Colwyn Bay one week later, Duncan proposed a price of 75s. Britain was not unresponsive to the demand for an increase, and proposed to make the price up to 70s. from 64s.3d. on the basis of 3s.6d. for increased cost of materials, and 2s.3d. to cover capital costs incurred in the changeover from butter to cheese - figures far below the calculations made by the New Zealanders - which added up to 11s. (Cairns in the Ministry of Food pointed out to Campbell that there was some incentive

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75. *AJHR*, 1942, H30, p. 14; MAF 88/202, Benthall-Chilver, 14 Oct 1941.

for New Zealand to shift to cheese, quite apart from Britain's needs, because of the butter situation.) Broadley, of the Ministry of Food explained that the Ministry had had difficulty in getting authorisation for 70s. and stated that that price had been calculated on the basis of the Ministry's own estimate of increased costs. Later, New Zealand officials were told that 70s. would apply to all cheese, and not merely for that cheese which was now to be produced, in excess of that in the second year of the war, by diversion from butter production.<sup>(76)</sup> A statistical battle did not follow. As early as 3 July, Fraser had sought Nash's approval for 70s. He had discussed the matter thoroughly with Duncan, and had learnt that Australia had accepted 67s. which meant that if New Zealand accepted 70s. the traditional premium was preserved. Nash agreed, whilst the British explained that any proved increases in costs in the third year of the war would be taken into account in fixing the price for the 1942/43 season.<sup>(77)</sup> Although Treasury had wanted a rider in the contract to allow for price revision if cheese became a surplus commodity, this eventuality was only covered by the omnibus clause which recorded that "in the event of unexpected shipping difficulties" the contract would be reviewed.<sup>(78)</sup>

Given this resistance to any major increase, it was not surprising that New Zealand made no headway in her claim for a price adjustment to take account of the shift in the terms of trade. In discussions in May, Campbell had mooted a possible price of 100s. per cwt which would add £4.8 million to New Zealand's sterling income.

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76. DPM E4/3, *passim*, MAF 83/1158, 10 May 1941, 27 May 1941; Miller and Rowley, *History*, p. 243.  
77. DPM M1/2, Fraser-Nash, 3 Jul 1941; Nash-Fraser, 8 Jul 1941, Miller and Rowley, *History*, p. 245.  
78. DPM E4/3, talks, 9 Jul 1941; MAF 83/257, meeting, 18 Jul 1941.

At the Colwyn Bay meeting he presented a memorandum submitting that the 54 per cent increase in the Board of Trade index between August 1939 and July 1941 justified some increase (not necessarily 54 per cent) in the prices to be paid for New Zealand's exports. The submission was underpinned by Fraser invoking his understanding reached with W.S. Morrison, the then Minister of Food, in November 1939. But at the Anglo/New Zealand officials meeting held toward the end of July, the Treasury made it clear that they could not meet this request. Acceptance of the principle would be very embarrassing to the United Kingdom and might have repercussions on United Kingdom import prices. True there had been a movement of the terms of trade in Britain's favour, but it seemed likely that New Zealand's balance of payments would improve over the next twelve months. Moreover, in terms of volume and price, New Zealand exports over the third year of the war would be in sight of pre-war levels. In general, the effects of the war on New Zealand export industries seemed likely in the near future to be less adverse than on those of Britain and Australia. Rather ingenuously, in that it ignored the balance of payments benefits, it was also contended that any increase in price would not in fact improve New Zealand's ability to import during the war. Despite further representations at ministerial level, New Zealand did not meet with any success.<sup>(79)</sup>

Although New Zealand had discussed - and secured - a price increase for cheese primarily in terms of the costs of the switch in production, it was not until after the increase had been granted that arrangements

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79. MAF 83/1158, 27 May 1941, MAF 83/257, 18 Jul 1941, DPM E4/3, 9 Jul and 22/23 Jul 1941.



were made with dairy producers. A Special Account (Cheese Changeover Account) was established from the proceeds of the price increase against which the costs incurred by the industry in the changeover would be debited. The interest and storage charges on butter as well as cheese, after two months in store, would also be a charge on the account. As with meat storage charges, this commitment was made in the absence of any final agreement with Britain on this issue. Undoubtedly, the establishment of the account had eased the way for the Government to make the commitment. The working out of the details of this agreement dominated relations with the industry in 1941. An increase in the guaranteed price was turned down yet again.<sup>(80)</sup>

When the price of Canadian cheese was increased, New Zealand made a further approach to the United Kingdom for an adjustment. Britain recognised that, in principle, such a criterion, i.e. comparability, was reasonable, and in fact she was applying it to the meat price schedule. But there were situations, and this was one of them, where such a course of action did not seem desirable: the price increases were part of a complicated package with the one particular supplier<sup>(81)</sup> (New Zealand herself would be the beneficiary of such an arrangement in 1944).

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80. Miller and Rowley, *History*, pp. 261-264.

81. MAF 83/1158, 25 Sep, 30 Sep, 1 Oct 1941.

5. Wool 1940-41

However secure New Zealand's wool trade may have looked, compared to meat and dairy produce, it too remained subject to shifting circumstances. The German occupation of France ended shipments to that country, but during 1940/41 shipments to Canada, Australia and India increased, mostly for military requirements. Shipments to the United Kingdom actually decreased slightly because of shipping problems. Because of the nature of the contract, this did not raise difficulties about responsibilities and ownership - Britain bought the wool at appraisal point, and even if it stayed in New Zealand, it was unequivocally her responsibility. Yet at 30 June 1941 it did mean that 315 704 bales were either unshipped or held for scouring. If the wool trade had been purely an Anglo-New Zealand affair this would not have been too serious a problem. But the predominant wool supplier was Australia, and her difficulties were much greater by 1941. Whereas demand for New Zealand crossbreds remained fairly buoyant, Australia's predominantly merino clip was not so much in demand and Britain faced the prospect of accumulating larger quantities of unsaleable wool, which it would have to try and offload at the end of the war. (82)

At interdepartmental discussions in Whitehall through 1941, the possibility of seeking some revision of the wool agreements was argued out, proponents of change being found in Treasury and to a lesser extent the Ministry of Economic Warfare, with the Ministry of

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82. Miller and Rowley, *History*, p. 429; T161 S45511/1, draft note, 7 May 1941.

Supply and the Dominions Office favouring the *status quo*.

Although, in the end, no specific approach was made to the Dominions, the discussions are revelatory of the extent to which Britain was prepared to negotiate in the face of changing circumstances.

Moreover some of the proposals became antecedents of plans for a post-war Joint Organisation.<sup>(83)</sup>

One of the two main courses of action which was proposed - it seems initially by Lord Keynes - was to take advantage of the provision for annual revision of prices in the contract, and reduce the price on the basis that demand had fallen. Keynes does not seem to have realised that the 30 per cent increase from the 1938/39 average was not a very useful way of measuring the current payout, which was only about 5 per cent above the 1936/39 average. Moreover the market price was still above the contract price. It was also possible that the Dominions could claim that production costs had increased since the beginning of the war. In a broader political sense any such move seemed ill advised. The Dominions had just learnt of the full extent of the shipping crisis and its implications for their butter and meat exports; the wool contracts had great political significance in Australia and New Zealand - and even more so in South Africa. The crucial objection related to Britain's role as seller rather than buyer and there the contention was that she would have to reduce her own prices. Quite apart from the fact that this would mean that her margin in these sales would remain the same, there would be great resentment in the United States which had only recently made very heavy

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83. T161 S45511/1, *passim*.

purchases at current prices.<sup>(84)</sup>

With such strong opposition, the idea of a price reduction was dropped, but discussion continued on another proposal which was that surplus wool should be a joint responsibility, and any ultimate losses should be shared on a 50/50 basis rather than absorbed entirely by the United Kingdom. Keynes felt that as such arrangements were being accepted by the United Kingdom for butter and meat stocks, it was only reasonable that they be accepted for wool as well, particularly as the alternative might be to face a battle of interests after the war with Britain trying to offload her wartime stocks and the Dominions putting new seasons' clips on the market. The fact of the situation seemed compelling: the Ministry of Supply estimated that Wool Control could be holding a surplus of 2.5 million bales on 1 September 1941, and from 4.5 to 5 million bales on 1 September 1942. If the surplus continued to increase at the rate of 2 to 2.5 million bales per year, the post-war liquidation of the supplies would present formidable political and economic difficulties.<sup>(85)</sup>

Obtaining the Dominions' agreement was another matter and after much discussion the proposal was not followed up. Applying the surpluses principle to wool involved revising an existing agreement - a much more difficult exercise than that faced in the butter and meat talks. The Dominions' Office argued that the political repercussions would be disproportionate to the financial benefits: New Zealand did not have a substantial surplus anyway, whilst Australia would probably

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84. *Ibid.*, memo, Mar 1941, Keynes-Dunnett, 31 Mar 1941, meeting 2 May 1941.

85. *Ibid.*, 31 Mar, 2 May, 7 May 1941.

have to borrow to make up for lost sterling earnings, and might never repay.<sup>(86)</sup> The possibility of offering the Dominions a fully-fledged partnership was mooted, but this seemed to run the risk of limiting Britain's own freedom of action and was not followed up at this time.<sup>(87)</sup>

#### 6. The 1941/42 and 1942/43 Seasons

Even before the 1941/42 season got underway, it was apparent that New Zealand might survive the shipping crisis without too much dislocation to its trade and finances. In the House of Representatives, at the end of July, while the Prime Minister was negotiating in Britain, J.G. Barclay, the Minister of Marketing, was making reassuring statements about storage capacity in New Zealand and the meat industry's ability to conserve shipping space by the various techniques which it employed. More importantly, the shipping situation itself did not bear out the most conservative estimates. Over the 1941/42 season, 297 000 tons of meat was shipped which left a carryover of just 40 000 tons. For butter the situation was similar, with stores by 31 August 1942 actually below normal peacetime levels.<sup>(88)</sup>

Naturally the improvement was welcome to New Zealand. Not all of the strategies planned to cope with the crisis were successful. Attempts to establish markets in the United States and Canada for

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86. *Ibid.*, May/Jun 1941. DO argument is recorded on paper of 27 May 1941.

87. BT11/1697, *passim*.

88. *Evening Post*, 24 Jul 1941, Miller and Rowley, *History*, p. 354.

butter and meat came up against the same shortage of refrigerated shipping that was hampering trade with the United Kingdom. Over the 1941/42 season New Zealand managed to produce only 21 500 tons of canned meat rather than the 37 150 tons for which Britain had contracted.<sup>(89)</sup> Plans for dry butterfat production, an alternative to the conversion of butter into cheese, made only slow progress as facilities had to be set up and tested: it was not until March 1942 that a contract was made with the Ministry of Food. Drought in Australia affected exports from that country. Shipping difficulties recurred in 1942, but the United States Joint Purchasing Board started buying New Zealand meat in June 1942 and this eased anxieties about surplus output. From then until 1945 the United States took up to one quarter of New Zealand's exportable surplus, but increased output in 1942/43 and 1944/45 and the introduction of rationing in New Zealand in 1944, allowed exports to Britain to be maintained.<sup>(90)</sup>

Evidence accumulated through the 1941/42 season that the worst of the shipping crisis might be over. The surpluses agreement did not become operative. 373 000 tons of meat was shipped over the course of the season. Despite the fact that the production target of 301 500 tons had been exceeded the carryover, at 40 507 tons, was considerably less than the nearly 78 000 tons carried over at the beginning of the season.<sup>(91)</sup> There were parallel developments in respect of butter. Drought reduced cheese output in Australia to only 57 000 tons. And the entry of the United States into the war sharply altered the supply position with respect to cheese, with

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89. Miller and Rowley, *History*, pp. 258, 353.

90. Baker, *War Economy*, pp. 204, 205, 206, 209; Butlin and Schedvin, *War Economy 1939-42*, pp. 511-512.

91. Miller and Rowley, *History*, p. 334.

consequent favourable effects on Britain's need for New Zealand butter.<sup>(92)</sup> These changes had their effects on negotiations for the 1942/43 season. At the time the negotiations started, the British Food Mission in Washington was subject to strong pressure from the Americans and at very short notice had to accept 156 000 tons of American cheese.<sup>(93)</sup> (This circumstance was presented to New Zealand as "unexpectedly heavy quantities of cheese are now available on short haul from North America".)<sup>(94)</sup> If supplies from Australia and New Zealand had been maintained at their anticipated level, i.e. 160 000 tons from New Zealand and up to 20 000 tons from Australia, these quantities, together with the supplies from America, would have produced a volume of cheese imports in excess of total British consumption. Accordingly Britain asked New Zealand whether it might be possible for the latter to decrease her cheese supplies. Fortunately Britain did not have to request an absolute reduction in milk products. Australia having had such a very bad season, it became clear that over 1942-43, on the existing plan, not enough butter would be lifted from Australia and New Zealand to maintain the 2 oz ration. Accordingly, Britain was happy for New Zealand to increase its butter production, by perhaps 20 000 - 30 000 tons and envisaged a reduction in cheese supplies by 40 000 to 60 000 tons.<sup>(95)</sup>

New Zealand agreed to the proposed changes, but asked for a price adjustment to meet the difficulties arising from the second change in production policy in such a short period. Britain agreed to

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92. Miller and Rowley, *History*, p. 256.

93. MAF 83/1158, memo 30 Jul 1942.

94. Miller and Rowley, *History*, p. 256.

95. MAF 83/1158, 30 Jul 1942.

purchase butter at 117s. per cwt and cheese at 73s. per cwt. No firm quantities were fixed: the term of the contract merely set out that New Zealand was to readjust production to secure as far as possible from 115 000 - 120 000 tons of butter and 90 000 tons of cheese.<sup>(96)</sup> The price change set off a protracted dispute between Australia and the United Kingdom over butter and cheese prices, with the Australians seeking parity with New Zealand. Although this was not traditional, the issue was politically delicate.<sup>(97)</sup> The principle of Britain accepting New Zealand's exportable surplus was not spelt out, but the volumes agreed on were generous considering that New Zealand's energies through the preceding season had been devoted to increasing cheese and decreasing butter output.

In January 1943, when Britain learnt that New Zealand was exploring butter markets in North America, she affirmed her wish that New Zealand produce as much butter for Britain as possible. Britain also urged New Zealand to maintain cheese production as shipments from the United States were below expected levels. Provided New Zealand produced at least 115 000 tons of butter she would take all the cheese.<sup>(98)</sup>

With frozen meat, circumstances were rather different, principally because the United Kingdom continued to be concerned about possible shortages in refrigerated shipping. In the lead-up to making decisions on the contract for 1943 (the terms of the 1941/42 meat contract were extended by three months, so as to place contracts

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96. Miller and Rowley, *History*, p. 268.

97. MAF 83/1158, *passim*, including minute, Mar 1943.

98. DPM Summary of cables 1942-46, NZHCL-NZG, 13 Jan 1943, 23 Feb 1943.



on a calendar year basis thereafter) Britain discussed with the United States a plan to cope with the shipping shortage by directing Australian and New Zealand meat to North America and supplying Britain from across the Atlantic. Depending on the availability of supplies from the United States, Australian and New Zealand shipments to Britain could be cut by 50 per cent. (99)

Australia and New Zealand were doubly concerned at the implications of such discussions. Firstly, the principle of consultation was being ignored - and unfortunately for Britain, Fraser had first heard of the plan informally in Washington. (100) Australia and New Zealand already had anxieties about the extent to which the new streamlined Combined Boards in Washington were aware of their interests. As Clutterbuck, of the Dominions Office, observed

there was justification for [Mr Fraser's] protest directed as it was against the procedure followed in a matter of vital interest to New Zealand. (101)

To assuage the anxieties that the plan aroused, the Ministry of Food got interdepartmental agreement to informing Australia and New Zealand that Britain would purchase the same quantity in 1943 as in 1942 - for New Zealand this was estimated at 328 000 tons of frozen meat. She would also take as much canned and dried meat as New Zealand could produce. Canned meat contracts were made for 24 900 tons - only slightly more, that is, than the total shipped in 1941/42. (102)

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99. MAF 83/1180, 1 Oct 1942, 6 Oct 1942.

100. *Ibid.*, PMNZ-SSD, 1 Oct 1942.

101. *Ibid.*, 10 Oct 1942.

102. Miller and Rowley, *History*, pp. 362, 371.

Nonetheless, New Zealand and Australia continued to be concerned about the implication for shipping to which the diversion proposals had drawn attention. In particular, the status of meat that was not shipped, but stored, the object of so much discussion in 1941 again came under scrutiny. The Surpluses Agreement had established that the United Kingdom would only pay for what it ~~supplied~~. New Zealand now wished to move away from this f.o.b. basis for payment. In December Jordan proposed to the Ministry of Food that it make payment to New Zealand thirteen weeks after killing, regardless of whether the production had been shipped or not, and absorb storage and insurance charges after seventeen weeks in store. (103) A month later, after discussions in Whitehall, the Ministry agreed to some departure from f.o.b. purchase. Although not as substantial a change as was proposed by Jordan, the offer was not made in detail - Britain wanted to leave further consideration until the position with respect to supplies from the United States had been cleared up: moreover such a sweeping departure from the basis on which Britain purchased worldwide would be bound to raise a clamour for similar concessions in other parts of the world. (104)

Apart from shipping, another difficulty which persisted from 1941/42 was the demand that United States forces might make on New Zealand production under reverse lend-lease. Accordingly New Zealand sought from the United Kingdom a change in the terms agreed on in October. New Zealand proposed that instead of committing herself to 328 000 tons, Britain take New Zealand's exportable

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103. MAF 83/1180, 9 Jan 1943.

104. *Ibid.*, 5 Apr 1943.

supplies, having authorised the diversion of specific quantities to United States forces. The Ministry approved the procedure for supply to United States forces immediately, but took a little longer to decide on the matter of the exportable surplus. (105)

That Britain could absorb the production was undoubted, but shipping was still a problem. However other factors were pushing her forward to acceptance of the principle of the exportable surplus. Although the United States had promised Britain meat at the rate of 468 000 tons per annum, it seemed that it was going to be a real effort to get even 150 000 tons per annum. Moreover United States forces purchases from Australia and New Zealand and United States and Russian purchases from South America were making a big dent in world resources. The United States expected Britain to minimise her purchases under lend-lease which involved taking all available meat from elsewhere. This meant trying to stop Australia and New Zealand from sending meat supplies to the United States, even although Britain had not undertaken to buy all the meat herself. (106) Wilson, in the Ministry of Food, was convinced, as were others, that Britain should 'cut the knot and go for the whole surplus', even if this raised difficulties with regard to payment or from Argentina, with whom Britain wanted to trade such a guarantee against increased production. (107)

Agreement was reached in Whitehall therefore, and at the end of April Lord Woolton, the Minister of Food, informed Jordan that

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105. Miller and Rowley, *History*, pp. 362-363.

106. And shipping difficulties in the early part of the 1942/43 season meant that storage facilities in some districts became very tight as the season progressed. Miller and Rowley, *History*, p. 371.

107. MAF 83/1180, *passim*, Mar/Apr 1943.

Britain was

prepared to buy the whole of the New Zealand exportable surplus (of meat) without any sort of limitation as to quantity. In fact, if anything could be done to increase this surplus by control of consumption in New Zealand, it would be very welcome to us. (108)

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New Zealand accepted the bulk purchase system in large part because it promised to protect the interests of the primary producers better than any free marketing alternative. In particular it was hoped that New Zealand would be "insured" against any dislocations consequent on shipping shortages. There were times in the 1940-43 period when the trade-off seemed very inequitable. But arguably, the fact that Britain had incurred some obligations, however ill-defined, was a benefit.

New Zealand's acceptance of the dislocations reminds us that the contracts were at odds with New Zealand's interests in particular respects, rather than in general. As in the 1930s, there were not many other markets open to New Zealand products. And the shipping shortage would have created almost as many difficulties in supplying other markets as it did in supplying Britain. New Zealand had little choice but to endure what could not be avoided.

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108. *Ibid.*, 29 Apr 1943.

APPENDIXTHE SURPLUSES AGREEMENT, 26 JUNE 1941

' His Majesty's Governments in the United Kingdom and New Zealand, in consultation, have agreed upon the following statement of principles for dealing, on a basis of co-operation, with the surplus produce of New Zealand for the period of the war.

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' His Majesty's Government in the United Kingdom fully recognise the grave difficulties created for New Zealand industries by the shortage of shipping. They are anxious to continue taking all the New Zealand produce that can be shipped. They also appreciate the serious effect upon New Zealand's economic and financial structure which these difficulties are causing. With a view to minimising these effects and preventing the impairment of New Zealand's war effort, the United Kingdom Government are prepared to join with the New Zealand Government in co-operative arrangements to ease the burden falling on New Zealand during the war, framed on lines that will not prejudice the post-war position.

' The two Governments have agreed that the following principles should be applied as a basis for such co-operation:

1. The United Kingdom Government to purchase the New Zealand produce that can be shipped and to pay for such produce at the price and upon such terms and conditions as are from time to time agreed with the Ministry of Food.
2. The New Zealand industries to make every effort to adapt their production to shipping possibilities, e.g., deboning, canning or pressing meat.
3. Alternative markets to be developed wherever possible.
4. Reserve stocks of storable foodstuffs to be created up to certain quantities to be agreed.
5. The quantities to be stored to be determined in relation (a) to probable demand during or after the war; (b) to the importance of the industry to New Zealand.
6. The financial burden of acquiring and holding these reserve stocks, pending their disposal, to be shared equally between the two Governments.
7. The payments to be made for produce acquired for the reserve stocks to be agreed between the two Governments. While it will be necessary to take due account of such matters as costs of storage, depreciation, etc., it is intended that the payments shall be fixed on such a basis as will so far as practicable achieve the

objective of keeping the industry operating efficiently while avoiding the creation of unmanageable surpluses.

8. The detailed application of the above principles to be referred to competent representatives from the two countries.

' The New Zealand Government will be ready to collaborate in any discussions which may be convened within the British Commonwealth or internationally to consider marketing or related problems.

Miller and Rowley, *History*, pp. 240-241

## CHAPTER FIVE

### The Fruits of War

1. Prelude 1942-1943
2. Negotiations in March and April 1944
3. Interlude: April and May 1944
4. The negotiations in June 1944
5. Finalising the contracts
6. Wool: the establishment of the Joint Organisation 1944-1945

1. Prelude: 1942-1943

From 1940 until 1943, the export industries had to a considerable extent operated under crisis conditions. The improvement in shipping conditions eased this problem. At the same time it became clear that there were severe world shortages of both butter and frozen meat, and to a lesser extent, cheese. Under these circumstances the producers would ordinarily have expected to see their returns rise. The system of bulk purchase provided a buffer to the transformation of the shortages into price increases. But the awareness was there and it was a background influence determining the course of the contract negotiations in 1944.

These negotiations were complex, in large part because of the interests which the New Zealand Government brought to bear on them. By 1944 Government and producers had distinct ideas on the appropriate thrust of New Zealand's trade diplomacy. The Government had elaborated a stabilisation policy which it wanted to protect against any undue pressure. This meant that it was less than sympathetic to any proposals for substantial price increases - even although a stabilisation system existed to absorb them. The political costs of indefinitely withholding substantial payouts were judged to be very high. Additionally, the Government remained anxious about the possibility of postwar price falls. Accepting limited price increases was thought to be a good way of ensuring sympathetic treatment when the depression came. To set against all this, the Government welcomed the additional sterling which high prices represented. Overseas indebtedness was a danger - overseas earnings helped avert it.



The result of these strands of thinking was that the Government sought increased sterling payments formally separate from any price adjustments, but in fact paid in lieu of them. Producers on the other hand recognised that there might be some long-term gain in not riding the market. But if any payments were made they should be made to producers as per unit increases or be lodged in the stabilisation accounts.

The different components of the Government's strategy can all be detected in the 1939 negotiations, but the evolution of the strategy itself is most usefully traced back to developments in 1942 and 1943. In 1942 New Zealand sought a guarantee of its sterling reserves in case of a loss of export earnings. In the same year the Government paid out a large price increase to woolgrowers. Subsequently it implemented its comprehensive stabilisation scheme.

With the movement of American forces into the Pacific in 1942 a system of "reverse" lend-lease was organised (and given formal status in an exchange of notes between New Zealand and the United States in September 1942). Under this system, many of the requirements of American forces in the Pacific - food, clothing, medical needs and services, were supplied by New Zealand on a non-monetary basis, as with lend-lease itself.<sup>(1)</sup> New Zealand was anxious about the effect of these transactions, especially the food supplies, on her sterling earnings. Moreover, Britain would be receiving exports from the United States in substitution for the goods ordinarily procured from New Zealand<sup>(2)</sup> - a shift which might have serious long-term effects. Coupled with New Zealand's existing anxiety about the

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1. M.P. Lissington, *New Zealand and the United States 1840-1944*, p. 70.  
2. Sayers, *Financial Policy*, p. 304.

likely fall in its sterling earnings with the end of the war, these concerns were sufficient to provoke an approach to Britain in 1942 in order to seek some increased guarantee of its sterling reserves.<sup>(3)</sup>

Australia raised similar issues with Britain at this time. The latter offered in response to alter the system by which Australian and New Zealand war expenditure would be financed. Under the Memorandum of Security, Britain had made interest-bearing advances. Now it was agreed that in conformity with other inter-allied loans, no interest would be charged. For Australia the sum of £40 million was fixed as a threshold - advances would be made if her sterling balances fell below that level.<sup>(4)</sup>

The New Zealand Government did not regard this amendment as sufficient. It sought clarification of the postwar debt situation - in effect a commitment from Britain that debts incurred in connection with the prosecution of the war would be wiped out at the end of the war. It had always been Britain's philosophy that

the war should not leave behind it any monetary indebtedness as between those who have been partners in the common war effort. <sup>(5)</sup>

But this was a little different from making an ironclad commitment at a time when the outcome of the conflict was still in doubt. Keynes in particular was adamant that Britain should not unnecessarily hamper herself by making piecemeal settlements. If Britain agreed to wipe out her debts she would lose some of her power, especially with her creditors, to influence the outcome of any postwar financial settlement.<sup>(6)</sup>

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3. MAF 83/1149, 15 May, 6 Jul 1942; Baker, *War Economy*, pp 320-321.
  4. T160 F12715/8, S.D. Waley, 27 Jul 1942.
  5. *Ibid.*, 27 Jul 1942.
  6. *Ibid.*, 10 May, 27 Jul 1942.

A letter from the Chancellor of the Exchequer to Nash conveyed the sense of Britain's offer in the terms outlined above. No particular figure was stated - there was simply a reference to Britain's preparedness to "safeguard New Zealand as regards her sterling position". Waley had pointed out to Nash that it could be rather controversial if a particular figure were chosen. This was presumably a way of saying that any figure Nash was likely to suggest would be too high for Britain to accept. The assurance did take into account New Zealand's anxieties about the impact of reciprocal lend-lease on New Zealand's sterling earnings,<sup>(7)</sup> but no commitments were made. Food shipments were not very seriously affected by diversion to American troops who in any case spent considerable sums in New Zealand on items not covered by reciprocal aid.<sup>(8)</sup>

In his discussions with Treasury officials and the Chancellor in July 1942 Nash went rather further than seeking - unsuccessfully - a firm commitment to erase all war debt. As has been noted, New Zealand was anxious about forthcoming maturities and the sterling and foreign exchange requirements that would result from her need to reconstruct and restock after the war.<sup>(9)</sup> Nash did not make specific proposals - e.g. that New Zealand's contract prices for its primary products be increased - but asked for British suggestions. It seemed to Waley that Nash's aim was simply to increase New Zealand's sterling reserves:

to put it brutally, Mr Nash wishes New Zealand  
to be enriched during the war... (10)

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7. *Ibid.*, 15 Aug, 31 Jul, 1942.
  8. Sayers, *Financial Policy*, p. 305.
  9. T160 F12715/8, 31 Jul 1942.
  10. *Ibid.*, note on 30 Jul 1942 talks.

On both requests Britain declined assistance, feeling that in neither case was the issue directly related to the war. The question of assistance with commercial maturities had been debated in 1939/1940. Treasury was still unwilling to get involved in New Zealand's commercial debts, certainly to the extent of lending New Zealand the money which would convert them into a Government-to-Government debt:

it would be most undesirable, for Government-to-Government debts become a political question and all-too-often have to be remitted. (11)

Both Keynes and Lord Catto stressed that Britain should not acquiesce in allowing New Zealand to build up sterling for meeting maturities - assistance was in terms of maintaining a balance suitable for current needs.<sup>(12)</sup> The most the British Treasury was prepared to do was to assist a conversion issue, if at the appropriate time, New Zealand preferred to convert rather than repay - this again was essentially similar to the assurance given in 1939/1940. In the letter to Nash it was spelt out that loans maturing in wartime would fall into the category of "exceptional issues" on which there would be consultation between the New Zealand Government and the Treasury, whilst the latter would cooperate in every possible way to assist the New Zealand Government in successfully dealing with loans which fell due in the early post-hostilities period.<sup>(13)</sup> Although this commitment was a little more strongly worded than had been intended, at least one official, H. Wilson, did not think it would make much difference.<sup>(14)</sup> Keynes's and Catto's reservations applied even more forcibly to Britain assisting the build-up of New Zealand's sterling reserves to enable her to meet postwar costs of reconstruction and restocking.

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11. *Ibid.*

12. *Ibid.*, 5 & 6 Aug 1942.

13. *Ibid.*, 15 Aug 1942

14. *Ibid.*, Cobbold, 17 Aug 1942.

Undoubtedly the war will impoverish New Zealand to the extent that stocks are run down, repairs and capital works suspended, etc; but we shall be impoverished to a much greater extent and there seems some reason to hope that New Zealand will be less impoverished than most countries. (15)

Moreover if New Zealand did build up balances for such purposes it would have an impact on Britain's own postwar prospects. New Zealand would be exercising a claim on Britain's current resources but this would be derived from funds accumulated in the past. (16)

In 1943 New Zealand suggested that she did not have enough sterling because of the operations of reciprocal aid - a contention which Treasury officials rejected. (17) New Zealand rather gave to the lie to her claim by repaying substantial amounts of debt later in the year. (18) But the following year the claim for additional sterling would be presented in a more potent context.

During the same period that these sterling negotiations were being conducted, stabilisation policy was also being formulated and implemented.

In 1942, Australia took the initiative in seeking a price increase for wool on the grounds that costs had increased since the outbreak of war. She received a 15 per cent increase (having asked for 22.5 per cent) despite the fact that it was now very likely that there would be a postwar wool surplus. Financial and political considerations similar to those which influenced policy in the previous year contributed to this decision. (19)

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15. *Ibid.*, Note on 20 Jul 1942 talks.

16. *Ibid.*

17. T160 F12715/8, Jan-Mar 1943, *passim*.

18. *Ibid.*

19. Sayers, *Financial Policy*, p. 295.

New Zealand received the increase, but it created difficulties between Government and producers. At the outbreak of war there had been complete accord between the two sides. But while the Government still wanted increased receipts because they built up the country's sterling reserves, it was committed to an anti-inflation strategy: if the woolgrowers received the 15 per cent increase this would represent a substantial growth in domestic money supply, as well as being seen as inequitable by other sections of the community. Overall, stabilisation would be undermined.<sup>(20)</sup>

At a conference with representatives of the Sheepowners Federation and other organisations in June 1942 the Minister of Marketing, J.G. Barclay, set out these points. The Government presented a Treasury plan for paying producers only the 6.8 per cent allowable on grounds of increased costs. Most of the balance of the increases should be paid into a pool account. Producers were vehement in their rejection of the proposals, so Government proceeded on its own acting more generously than Ashwin had wanted, but not as generously as producers would have wished. Owners of greasy wool were to be paid 5 per cent of the total increased price in Government bonds or stocks, in other words their increase in the hand was slightly less than 10 per cent. Owners of slipe wool would also receive a 10 per cent increase, and the balance would accrue to the Meat Pool Account.<sup>(21)</sup>

The vigour of the producers' response emphasised that the Government could not rely on the industry to cooperate willingly in any long-term stabilisation schemes such as had already been constituted for dairy produce, and to a lesser extent, for meat. It was perhaps fortunate that

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20. T27/9 4 Jun 1942 memo ST - Acting MFn.

21. Miller & Rowley, *History*, pp 432-438.

the 1942 increase was the only one made by Britain in the course of the war. For the 1943/1944 season the Government paid out the five per cent in stocks and bonds, but in 1944/1945 the full increase was paid out in cash. (22)

In the meantime, the Government had nonetheless implemented an all-embracing stabilisation policy. With Ashwin appointed as Director of a new department, the Economic Stabilisation Commission, the commitment to the new policy was clearly total. Two powerful representatives - F.P. Walsh, representing labour and W. Marshall, the Chairman of the New Zealand Cooperative Dairy Company representing the employers, ensured that the policy would be effective. On 15 December 1942 it was announced that wages and salaries and all other forms of remuneration would be stabilised at the rates ruling on that day. Farm prices would not be increased, but neither would costs. The operations of the Dairy Industry Account, the Cheese Changeover Account and the Meat Pool Account had made producers familiar with this policy. Now it was to become comprehensive. Agreement with the Farmers' Federation on the implementation of these measures was reached in June 1943.

Three months earlier the Government learnt that Australia was determined to seek increased returns for its dairy produce. Nash was quick to suggest joint ministerial discussions on the matter. (23) Talks took place in May, at which New Zealand learnt that, although Australia did seek increased returns, she was opposed to increased prices per unit of output. Australia was facing up to having to pay out major subsidies to its dairy producers, and hoped to secure a contribution

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22. *Ibid.*, pp 442-444.

23. DPM, Summary of cables 1942-1946, 11 Apr 1943, also MAF 83/1158 Bankes Amery - MF 17 May 1943.

to those subsidies.<sup>(24)</sup> This certainly accorded with one of New Zealand's concerns. As Nash had pointed out in April, New Zealand's stabilisation policy

involved Government in considerable expenditure in subsidising farmers costs of production and we have already agreed to meet such increased costs. This may necessitate approach to United Kingdom for increased payments to cover accumulating debits in war expenses and stabilisation accounts on account of subsidies to primary producers. (25)

However, the identity of interest between the two countries was incomplete. British officials were rather puzzled when they learnt informally that both Australia and New Zealand wanted a contribution to subsidies, as New Zealand was not paying subsidies direct to producers. Harry Davis explained that New Zealand wanted "an indirect subsidy for general production purpose not necessarily related specifically to dairy production".<sup>(26)</sup>

This strategy was not necessarily unwelcome to the Ministry of Food. Its dual aims in food procurement were stability of supply and prices. Paying contributions to subsidies was more advantageous, particularly in terms of dealings with other suppliers, than paying higher prices. Moreover, such schemes dovetailed with Britain's plan to offer New Zealand and Australia long-term contracts as a way of securing increased production. The pros and cons of such contracts were discussed in Whitehall in 1943.

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24. *Ibid.*, 5 May 1943. DPM B3/2, 14 May 1943.  
25. DPM Summary of cables 1942-1946, 11 Apr 1943.  
26. MAF 83/1158, Interdepartmental talks, 10 Jun 1943.



If Britain wanted increased output, she had to contemplate some sort of long-term planning because of the lead-time between taking a decision to increase production and result. For beef four to five years was the minimum; for sheep and pig meats, rather less. Even if the interaction of supply and demand would in due course bring the necessary production, Britain's situation was too alarming to take such a risk. Rather she hoped both to secure supplies and avoid rapid price rises by coming to arrangements with suppliers.

The proposal for long-term contracts was first mooted in connection with Argentina, a much more unpredictable supplier than Commonwealth countries, with whom Britain's bilateral relations were most fragile. Nevertheless it was recognised that it would be inappropriate to make any proposal to Argentina without having first approached the Dominions<sup>(27)</sup> and at least assured them that they would not be treated less favourably. Also, timing was important. If Britain acted in the middle of the year then it could expect to influence killing rates over the 1943/1944 season - e.g. could encourage retention of a greater number of lambs for breeding purposes. Although the decision-making was not as speedy as that - for one thing there were arguments with the Department of Agriculture about likely postwar production levels in the United Kingdom and about the status of home versus overseas producers<sup>(28)</sup> - progress was made.

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27. MAF 83/1180, 8 Feb 1943.

28. MAF 83/2905, *passim*.

In September 1943 Treasury concurred in the Ministry of Food taking steps to approach Australia and New Zealand, where questions of foreign exchange did not arise. In December the Lord President's Committee added its support: this applied to dairy products as well as meat.<sup>(29)</sup> From the time the matter had first been raised in mid-1943 it had been recognised that as Britain was likely to face a shortage of dairy products as well as meat after the war, both commodities should be included. Formal approaches were made to New Zealand at the beginning of January and the beginning of March offering long-term contracts for frozen meat and dairy products respectively. The text of one sets out the motives behind both:

As you know world supply position for milk products is causing us some anxiety and I believe your Government views with some concern the steady decline in exports from New Zealand to the United Kingdom and allied nations. You may consider a long-term contract for a period similar to that suggested for meat about which I wrote you on 31 December last. It may not only help stem this decline but may well stimulate production to an extent that would enable exporting to be resumed on a scale more nearly approaching that of immediate pre-war years. (30)

That Britain had determined to seek long-term contracts did not mean that New Zealand would necessarily find the proposals acceptable. C.R. Price at the Dominions Office, wondered whether the Dominions would be attracted by the stability of demand which Britain was offering when produce was in such short supply.<sup>(31)</sup> They would be concerned that if they did accept, other exporting countries like Argentina would be able to secure the benefits of the shortages.

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29. T161 S51255/1, Wilson-Holland, 18 Sep 1943, Treasury memo 27 Jan 1944.

30. DPM Summary of cables 1942-1946, 3 Mar 1944.

31. T161 S51255/1, Price-Blagburn, 17 Nov 1943.

It was important for Britain to make a contract with South American states as well, whilst continuation of centralised control of shipping and food distribution would help. (32)

In fact, as officials in the Ministry of Food were aware, (33) New Zealand had looked on the proposal for long-term contracts very favourably when the first contract was made in 1939. The New Zealand Government reasoning had been partly that stability was preferable to violent fluctuations in price. In agreeing to discussions on a contract for meat it was argued that it was

in our best interests to follow up immediately this first concrete approach for postwar bulk contract arrangements. A secure outlet for all our exportable surplus of meat will not only assist rehabilitation and stability but should give farmers confidence to plan for the increased production asked for by the Ministry of Food. (34)

This was the straightforward response. The complexities of New Zealand's judgment of the value of long-term contracts became evident over the next few months.

## 2. Negotiations in March and April 1944

Agreement in principle to the long-term contracts coincided with Nash's arrival in London for the Commonwealth Economic Conference and

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32. MAF 83/1037, Brief for Prime Ministers' Conference, 5 May 1944.  
33. DPM B2, DMk-Davis, 18 Oct 1943.  
34. DPM B2, MEA-NZHCL, 11 Jan 1944.

financial talks with the Treasury. British officials learnt that New Zealand's claim was much more substantial than could have been inferred from comments made in mid-1943. Linked to the costs of domestic stabilisation was the need to supplement overseas reserves which had been depleted because import prices had risen sharply over the period since 1939 whilst export prices had been relatively stable. In total New Zealand was asking for around £100 million sterling which would be used to meet urgent postwar needs - the replacement of imports foregone, reconstruction, and debt maturities. It was suggested that compensatory payments for past years be made in the form of a postwar credit with lump sum cash payments for current and future years. (35)

British reactions were two-fold. Firstly, whatever the realities of New Zealand's need for sterling, she could not accept that such need was to be determined by reference to relative movements in import and export prices. It was <sup>argued that it was</sup> inevitable in wartime that terms of trade should move against primary products since war made industrial products scarce as compared with agricultural products. And although it might be possible for New Zealand, which did 90 per cent of its trade with one other country, to argue for compensating price movements, the same simplicity did not exist for Britain, which traded all round the world. Britain did not consider that in rejecting the terms of trade argument she was going back on her word as she had never, at any stage accepted the main terms of the argument - Morrison's observation in November 1939, which New Zealand had invoked, certainly could not be construed so precisely. (36)

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35. DPM B2 MEA - Nash, 10 Feb 1944.

36. T160 F12715/8, 11 Feb 1944; MAF 83/1476, 22 Mar 1944. See above, p. 85.

But in any case, leaving aside the particular form in which New Zealand couched her request for more sterling, British officials weren't at all sure that New Zealand was so badly off as she claimed, either in the present or in terms of future prospects. One Treasury official argued that the greatest reduction in imports was probably in non-essentials rather than capital goods - there would therefore be no need for 'replacement'. Moreover, it was understood that New Zealand had current sterling holdings of £30 million. Admittedly she owed Britain £12.5 million, but by 1945, if this was paid off, her balances would again be up to about £28 million.<sup>(37)</sup> New Zealand, for her part, had derived some benefit from lend-lease which had to be taken into account, whilst the costs Britain was herself incurring in financing the war from India were a real contribution to New Zealand's security.<sup>(38)</sup> Accordingly, Britain was not only unprepared to accept New Zealand's case for payments along the lines Nash had presented, but was not keen to make any assurance about postwar sterling balances.

Mr Nash is a very skilful negotiator and if we offer him any sort of assurance he will not be happy until he has turned it into a promise of a free gift in sterling in case New Zealand should run short....<sup>(39)</sup>

The Chancellor of the Exchequer accordingly informed Nash that although "New Zealand could count upon us helping her through any postwar difficulties which were within our means, we do not commit ourselves at this stage to any definite promises." Nash was "a long way going off with £100 million in his pocket."<sup>(40)</sup>

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37. T160 F12715/8, 1 Mar 1944, 25 Mar 1944.  
38. T160 F12715/9, 30 Mar 1944.  
39. T160 F12715/8, 3 Mar 1944 (S.D. Waley).  
40. MAF 83/1476, 23 Mar, 22 Mar 1943.

Britain's diffidence was confined to the principle on which New Zealand's claim was based and the substantial sum involved. It did not mean that she was opposed to any adjustment at all. She was happy to grant quite substantial price increases in some form or other on the understanding that prices would thereafter remain fairly stable for the duration of the contracts that were being proposed. As New Zealand did not want product prices increased, the obvious way of assisting was to parallel the arrangement being made with Australia and pay New Zealand a contribution to her subsidies - even although the subsidies were general ones rather than specifically tied to products. Over and above this some sort of payment which would help improve New Zealand's sterling position was envisaged.<sup>(41)</sup>

Ministry of Food officials set to work to calculate the sums that would be involved. On a *pro rata* basis with Australia, New Zealand would get £3.5 million *per annum* as a contribution to her subsidies. This worked out at approximately 15 per cent above what Britain was currently paying for imports of butter and cheese. The idea was to present to New Zealand a proposal for making collateral payments of an amount rather greater than this - say £4 million or £5 million - and wrap the whole up as a recognition that repair of New Zealand's productive capacity had been deferred, and that United Kingdom export prices were unlikely to fall. Additionally it was expected that these payments would protect Britain against New Zealand seeking major price increases during the four years of the contracts other than "in the case of necessity".<sup>(42)</sup>

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41. MAF 83/1476, Dunnett (T) - Knight (MF). 11 Mar 1944. Note that the discussion revolved around food products and not wool for which no offer of a long-term contract had been made.
42. MAF 83/1976, Dunnett, 17 Mar 1944.

The plan was put to the New Zealanders at an official level meeting on 22 March. Campbell, of the New Zealand High Commission, said the increase was not sufficient compensation for the difficulties of the past few years. Britain's proposals may have seemed satisfactory in terms of the needs of New Zealand's farming industry, but they went no distance to meeting New Zealand's need for sterling. Dunnett explained that the officials could not go any further on this - the Chancellor's statement to Nash set a limit.<sup>(43)</sup>

At this time, however, Nash established that New Zealand's current sterling obligations were rather greater than he had originally thought. New Zealand owed at least £25 million in connection with war expenses and beyond that there were other charges still coming to hand. From Wellington he also learnt that over and above these amounts there was another £4.4 million owed to Australia which would have to be settled in sterling.<sup>(44)</sup> Nash brought these figures to the attention of the United Kingdom Treasury, and in due course he was informed that the Treasury would advise the Chancellor of the Exchequer that, as New Zealand's sterling position was not as satisfactory as had been understood when the talks had started, New Zealand should be able to carry forward £12 million for settlement at a later date, in addition to the arrangement already made for collateral payments.<sup>(45)</sup>

Further pressure from New Zealand produced a minor adjustment on this offer. The collateral payment was upped to £6 million *per annum* and an additional £6 million was to be immediately credited to New Zealand as evidence of Britain's willingness to build up New Zealand's financial position in the United Kingdom so that she would be able to import

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43. *Ibid.*, Notes of meeting, 22 Mar 1944.

44. DPM B3/2, 18 Mar 1944, 20 Mar 1944.

45. T160 F12715/9, Eady, 28 Mar 1944.

capital equipment in the postwar period.<sup>(46)</sup>

Quite apart from her own priorities, any greater generosity than this would have created difficulties with Australia. Dunnett thought that even as the offer stood there might be some danger of this, but Britain had already told Australia it would be giving New Zealand some additional help. The Ministry of Food, although worried about the repercussions on the long-term contracts if New Zealand did not find the offer acceptable, went along with it.<sup>(47)</sup>

Nash cabled Fraser:

if we ultimately decide to use every avenue to obtain a larger sum then I believe we can do so... If the sum offered was nearer to £10 million then we could consider acceptance but ... the present offer is inadequate. (48)

Fraser was less complacent. As well as telling Nash that £10 million was not enough, he wrote directly to the Dominions Secretary, arguing that

to continue on anything like the present basis would not only leave us without the overseas funds essential for postwar reconstruction but would involve a lower standard of living for our people - to expect us to write off about £80 million sterling of overseas purchasing power merely because we refrained from pressing our claim while the United Kingdom was menaced would be most inequitable. (49)

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46. *Ibid.*, memo to Chancellor of the Exchequer, 30 Mar 1944.

47. *Ibid.*, meeting 30 Mar 1944.

48. DPM B3/2, 1 Apr 1944.

49. *Ibid.*, 3 Apr 1944.



Fraser also harangued Bankes Amery about the 'unfriendly attitude' of the Chancellor of the Exchequer to Nash's proposals connected with postwar trade; and his expectation of the public indignation that would erupt in New Zealand when the country learnt that its economic future was being sacrificed by Treasury attitudes.<sup>(50)</sup> But having vented his spleen, Fraser did not take any drastic action. Rather he suggested to Nash that the matter be adjourned for resumption at a later date - it was something he could discuss with Nash personally in Washington.<sup>(51)</sup>

### 3. Interlude: April and May 1944

Prior to the 'adjournment' the Ministry of Food had been anxious about the fate of the long-term contracts if no financial agreement was reached. Although New Zealand was committed in principle to the contracts, there was a detectable difference in her attitude towards them compared with say 1939, promoted, no doubt, by her awareness of the current state of world food supplies. The Government wanted to supplement its sterling reserves and envisaged doing this through payments which would be compatible with a fairly stable price regime such as would obtain with the contracts. But at the margin New Zealand would be prepared to secure the finance she considered she needed through the market.

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50. MAF 83/1149, 5 Apr 1944.

51. DPM B2, 3 Apr 1944.

A distinction can be drawn between Nash and Fraser. While Nash was terrier-like in his defence of New Zealand interests, long-term arrangements and stabilisation were at the heart of his definition of those interests. Fraser was less involved in day to day economic issues, more aggressive in negotiating style, and carried more explicitly than did Nash the status of representative of an ally. All in all, he was more prepared to go out on a limb on this issue.

Before Fraser arrived in London, official level meetings were held at which Heads of Agreement for meat, butter and cheese contracts were worked out: nothing was gained by stalling on such preliminary work. The commitment to exportable surplus remained - there would be no limitation stemming from any shipping problems or for other reasons. (52)

The exception to this was pigmeat. Inclusion of it in the meat contract would create difficulties with home producers. In any case it was essentially a short-term commodity which did not require lengthy advance notification of any wish to increase output. New Zealand did not like this complete exclusion. A compromise proposal was accepted. Britain would take the exportable surplus for two years and look at the situation again in 1946. As at this time American soldiers were eating all New Zealand's surplus pork, this commitment wasn't too burdensome. (53)

How long would the contracts last? Britain proposed four years. This would cover the period of shortages - but what about the expected period of over-supply thereafter (at this time it was not thought the

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52. DPM B2, Apr 1944, *passim*.

53. T161 S51255/1, memo to G.S. Dunnett, 19 Apr 1944.

Pacific war would end before 1946)? Britain initially made provision for consideration of future arrangements six months before the end of the contract. For the moment this was left aside.<sup>(54)</sup>

On this tentative basis, the New Zealand Government was able to secure the assent of the Dairy and Meat Boards to the principle of the contracts. Both made reservations about prices but price details were not resolved at this time, nor could they be until some progress had been made on the financial talks.<sup>(55)</sup>

Fraser was in London from May, at the Prime Ministers' Conference, but he found time only for one meeting with the Chancellor, at which he re-stated New Zealand's position, stressing that all she asked was to "come out of her financial relations with the United Kingdom as well as any other member of the Commonwealth". Further detailed discussions was postponed until Ashwin arrived in the middle of June.<sup>(56)</sup>

#### 4. The negotiations in June 1944

When Ashwin arrived it was decided not to pick up where discussion had been adjourned in April, but to work on a different tack. There would be two parallel sets of talks. One would decide "the proper price for the United Kingdom to pay for New Zealand exports"<sup>(57)</sup> - this would

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54. T161 S51255/1, 11 Apr 1944; MAF 83/1037, notes of talks 17 Apr 1944; brief for Prime Ministers' Conference talks, 5 May 1944.  
55. DPM B2, MEA-NZHCL, 12 May 1944, 1 Jun 1944.  
56. MAF 83/1037, memo 25 May 1944; *ibid.*, Tout-Dunnett, 30 May 1944.  
57. MAF 83/1037, Dunnett-Tout, 13 Jun 1944.

entail working out increases in costs of production since the beginning of the war which had not been met by Britain. Ashwin wanted to interpret production costs in such a way as to produce a fairly generous result, but the British established that any wide-ranging items should be left for further general talks.<sup>(58)</sup> Although this separation went against the grain of New Zealand's stabilisation policy, it was not incompatible with it.

New Zealand's case on the narrower ground was presented in terms of the costs of dairy production: because of the introduction of the guaranteed price in 1936, there was much more detailed information available about production costs of butter and cheese than there was for meat. George Duncan, the chief negotiator for this segment of the talks, demonstrated that there had been a 37 per cent increase in costs since the beginning of the war, compared with a 7 per cent increase in price.<sup>(59)</sup> British officials found this discrepancy rather hard to swallow. As they understood it, Britain was currently paying prices 25 per cent above the prewar price - which left a 12 per cent, not a 30 per cent difference. The New Zealanders reacted in a fairly hostile way to this analysis. They pointed out that prices in the dairy industry in the 1938 season were not enough to cover costs: the Government had had to pay £2.5 million from the Dairy Industry Account to meet the guaranteed price. In other words, the correct starting point for price was the 1939 contract price which almost exactly covered costs, rather than average 1938 realisations. Although the Ministry of Food reserved the right to look further at New Zealand's figures it was thenceforth recognised that the contention that costs had increased 37 per cent since 1938 was one which it was difficult to challenge.

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58. *Ibid.*

59. T160 F12715/10, 19 Jun 1944.

Moreover, if it was contested, it seemed more than likely that New Zealand would simply increase its demands in the general financial talks. (60)

Accepting therefore the calculations presented by the New Zealanders, a butter price of 152s. 7d. was reached. Taking this figure, Britain thought it worthwhile to try and match the price against that which they expected the Australians to ask for - 147s. 2d. It would be embarrassing to concede an increase to New Zealand which would prompt an Australian claim on the grounds of preserving the traditional differential. Accordingly it was decided to suggest to the New Zealanders that there were one or two items mentioned in their costs statement which the Ministry of Food should not have to take fully into account. These might be assumed to amount to 2s. thus bringing the New Zealand price to a level which would not promote repercussions with Australia. The New Zealanders were quite happy with this provided the 2s. would be taken into account in the talks between Ashwin and the United Kingdom Treasury. (61)

At this point though a difficulty arose. Duncan said that the Dairy Board was not sure that it wanted a long-term contract at all - "it was in their interest to take what profit they could while the going was good". (62) If this were the case, it did not put the British in a very easy position but their immediate response was to point out that Britain's financial assistance both through price increases and Treasury assistance was conditional on price being fixed for two years

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60. *Ibid.*, meeting 20 Jun 1944.

61. T161 F12715/10, Wilson note 20 Jun 1944.

62. *Ibid.*

- in other words an agreement to the contracts. Whether Britain would have pushed this argument to the limit is open to question - certainly the tenor of the general financial discussions suggested the boot was on the other foot - that Britain might have had to pay market prices if she did not meet New Zealand's request for supplementary payments. As it was, Rodden (one of the New Zealanders with the Ministry of Food) was fairly convinced that New Zealand dairy farmers weren't as hostile to the contract as Duncan had suggested, but that the source of the trouble was Goodfellow, the representative of the Dairy Board. Goodfellow's strength of personality and status in the dairy industry were unquestioned and his relations with Government correspondingly fragile, and it was a fair judgement that if Britain made "a show of firmness" the difficulty would be removed.<sup>(63)</sup>

Without any similarly unsettling influence on the meat side, the price talks proceeded rather more smoothly. New Zealand argued that costs were broadly similar to those for dairying, but the British were inclined to think that they were rather lower, and in the upshot a  $33\frac{1}{3}$  per cent increase was agreed to.<sup>(64)</sup> While agreeing to keep these prices fixed for two years, the New Zealanders were keen on a floor price for the third and fourth years. This was left over for later decision.<sup>(65)</sup>

As might have been expected, the two parties brought to the general financial discussions very different conceptions of what further adjustments were required over and above the price increases agreed to. When the financial talks had adjourned in April, the British position

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63. *Ibid.*

64. MAF 83/1037, meeting 24 Jun 1944.

65. *Ibid.*, Turner - Broadley, 24 Jun 1944.

was that:

- (a) they were prepared to postpone settlement of £12 million of New Zealand's debt
- (b) they were prepared to make collateral annual payments of £6 million per annum in lieu of price increases
- (c) they were prepared to make an additional cash payment of £6 million per annum plus an additional £6 million lump sum for 1943/1944.

The proposal which Ashwin now made, although not based explicitly on the terms of trade criterion, was still much more generous to New Zealand than this. He argued that in the price discussions with the Ministry of Food two elements were not taken into account - an allowance for excess depreciation, and a contribution towards general cost of living subsidies. Depreciation on the dairy industry alone was put at £14 million. Whilst cost of living subsidies were not specifically applicable to the agricultural exporting industry there was no doubt that New Zealand's export prices would have been higher if subsidies had not been paid out and the £5.8 million given earlier as a figure was not in fact the full cost. Accordingly, in addition to the price increases, estimated at £7 million per annum, Ashwin asked for an additional £6 million per annum to cover these items to be spent only on capital goods in the United Kingdom, even if this involved waiting several years. In effect Ashwin was asking for the price increases plus the lump sums promised in March. He was prepared to forego the retrospective cash payment (in fact about a third of it would be paid out as price increases). (66)

Rather than have £12 million of debt deferred, Ashwin requested cancellation of £30 million of debt. This, it was observed by the British, would put New Zealand in a "very strong position". Ashwin agreed, but pointed out that New Zealand had to face £15 million - £17 million worth of maturities in 1945 and something like another £15 million over the next 5-6 years. And although it was true that they would not need any help over this, assessments in New Zealand estimated the country's sterling needs at £100 million, as against the £52 million which New Zealand would earn through the price increases and collateral payments (as proposed by her.)<sup>(67)</sup>

As one British official pointed out "there is a plausible argument for Mr Ashwin's case, and it is difficult ... to point to any one bit of it as being unjustifiable."<sup>(68)</sup> But this did not mean that Britain was about to accept the proposal without qualification. To Waley, the whole approach was yet another example of the New Zealand Government's desire

to be enriched during the war at our expense  
enough to cover postwar reconstruction needs  
and to pay off ... New Zealand's market loans. <sup>(69)</sup>

Waley particularly stressed that although the United Kingdom had never fixed any precise level below which it would be reasonable that New Zealand's balances not be allowed to fall, a figure somewhere between £15 million and £30 million seemed reasonable. New Zealand currently had balances of £34 million against which there were claims of at least £25 million. But with half this debt postponed and a

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67. *Ibid.*

68. *Ibid.*

69. MAF 83/1476, memorandum 22 Jun 1944.



£12 million cash payment under her belt (as Britain had offered),  
balances would remain at over £30 million. (70)

Payments to cover increased costs was another vexed issue. New Zealand had assumed that it was quite reasonable to seek supplementary payments to cover various "unascertainables" given that price increases were to cover only ascertained current costs. Britain had initially offered supplementary payments tied to current food prices, and did not intend that the former should remain unaltered if food prices were increased - as they had been. (71) On Britain's initial calculation, ascertained cost increases to have been reimbursed would have amounted to £3.15 million per annum, leaving plenty of room for unascertainables to be paid out of the original £6 million per annum offer. (72) But in the end price increases of £7 million per annum (not £3.15 million) had been agreed to and the idea of accepting any additional claims seemed unattractive, particularly as Britain herself was paying out subsidies to stabilise the cost of living (which helped keep British export prices down).

while it is reasonable enough [Waley commented] for New Zealand to hope that some fairy godmother will provide her with funds to cover her reconstruction needs, the suggestion that we should be fairy godmother overlooks the fact that we shall also have great reconstruction needs but so far from having been enriched by the war we have gone into the red to an extent of some £2.5 thousand million. (73)

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70. *Ibid.*

71. T160 F1275/10, SSD-CE, 27 Jun 1944.

72. MAF 83/1476, 19 Jun 1944.

73. *Ibid.*, S.D. Waley, 22 Jun 1944.

The Chancellor agreed with Waley in reacting very unfavourably to Ashwin's proposals and did not depart from the original offer (although agreeing that proposed annual payments of £6 million per annum be replaced by the price increases estimated at £7 million per annum). (74) When this decision was communicated to Fraser, who was still in London, a major diplomatic row immediately threatened. Fraser put his reaction on paper in terms reminiscent of his response nearly three months earlier. He reiterated New Zealand's case, and suggested that New Zealand had been misled by Treasury officials over the matter of the relationship between price increases and supplementary payments. Having covered such specific points Fraser dilated at length on his feeling that the response was contrary to the spirit of the wartime alliance:

In unity with the United Kingdom New Zealand pledged herself to contribute all available resources to the common war effort. We have gone forward in the faith that a helpfully co-operative approach would govern our postwar as well as our wartime relations. We have no wish to pass on to other shoulders our fair share of the cost of our war efforts. But to be asked on top of them to bear the burden of great uncorrected disparities in prices is a proposition to which no Government of New Zealand could agree ....

New Zealand has undertaken to produce more food particularly dairy produce, for the United Kingdom, and for United Nations forces in the Pacific. Plans involving much organisation, sacrifice and devoted effort for the next few years have been laid towards this end.

I frankly fear the consequences on this part of our war effort and on the fine morale and spirit of the New Zealand people when it may be inevitable for me to admit that all our efforts to get that friendly and comradely co-operation in the economic field, which has meant so much to both our countries on the battle field and in our general war effort, have failed. (75)

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74. *Ibid.*,

75. T160 F12715/10, PMNZ-CE, 23 Jun 1944.

This was strong stuff, but the most potent part of the appeals was not spelt out. In a departmental memorandum for the Minister of Food, it was pointed out that

New Zealand knows we attach considerable importance to the contracts and no doubt Mr Ashwin is going to suggest to you that those contracts will be prejudiced unless the Chancellor takes a more reasonable view on the financial arrangements. (76)

Four days later Lord Cranborne, the Dominions Secretary presented Britain's dilemma to the Chancellor in similar terms. His officials had talked with the New Zealanders and an impasse seemed likely:

If you feel unable to meet them [on the financial matters] then there would be no alternative for them but to agree to a contract for one year only, with a view to demanding greatly increased prices next year and subsequently when their products will be in even greater demand than now. They realise that this may involve the abandonment of their price stabilisation policy: on the other hand they feel that they cannot possibly afford to continue the latter if this means in effect that they get underpaid for their exports. They would be very loth to contemplate any such development, but it is clear that they feel their position to be so serious that they would inevitably be driven to this course. (77)

This set out New Zealand's priorities clearly. Her preference was to have the money and the contracts - but if necessary she would get the money in the way that dairy producers had suggested - by taking what profit she could. The New Zealanders may have been bluffing, but Britain preferred not to test that. Even if the Dominion's arguments were less than convincing, it seemed wise to pay. Additionally, Cranborne told the Chancellor, he was greatly disturbed

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76. MAF 83/1476, memorandum 22 Jun 1944.  
77. T160 F12715/10, SSD-CE, 27 Jun 1944. See also MAF 83/1037, DO-UKHCW 12 Jul 1944, for similar account.

not only by the difficulties disclosed but at  
at the sense of injustice which rightly or wrongly,  
the New Zealanders evidently felt ... it would  
be most unfortunate if Fraser were to leave tomorrow  
feeling that we had not given him a fair deal. I  
very much hope that you will be able to stretch a  
point to meet him. (78)

This pressure had its effect - in fact it was anticipated by Treasury,  
which was prepared to accept supplementary payments of £3 million per  
annum over and above the price increases: there was no financial  
justification, but they could be approved on the grounds of imperial  
policy if it meant that the New Zealand Government would be satisfied. (79)  
In the upshot, a supplementary payment of £4 million was offered.  
Additionally the £12 million retrospective cash payment would be over  
and above the price increases conceded for the 1943-1944 season which  
would bring in an extra £4 million. And the amount of debt deferred  
(not cancelled) would be increased to £18 million - "not really an  
expensive concession as New Zealand pays off the debt as and when she  
can so that in effect she can obtain a postponement by simply not making  
any payment". (80)

This proposal proved acceptable to New Zealand and so a crisis was  
averted. In the words of one historian, New Zealand "took the cash and  
let the doctrine go". (81) There was no allusion to terms of trade  
arguments. But quite apart from the payments to cover those years  
New Zealand had received substantial retrospective payments, and its  
sterling position was greatly improved. Cranborne let Anderson know

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78. T160 F12715/10, SSD-CE, 27 Jun 1944.

79. *Ibid.*, 26 Jun 1944.

80. *Ibid.*, Waley, 27 Jun 1944.

81. Sayers, *Financial Policy*, p. 303.

how grateful I am for all you did to smooth out the difficulties with Fraser about the terms of trade. I was so afraid that if we reached an impasse it would have undone much of the good achieved at the Conference. As it is, I think the New Zealanders have gone away feeling quite satisfied that we have done all we could to meet them .... (82)

And Britain for her part, although she had parted with a lot of money, had at least kept some stability in her trading relations with an important food supplier.

#### 5. Finalising the Contracts

While the settlement removed financial questions from the agenda, many contract details remained to be resolved. New Zealand's approach now followed more conventional channels. On the one hand, although prices were settled, she still had some interests related to trading conditions for the forthcoming season. On the other hand, she sought to make the long-term contracts more secure than had been possible at a time when they were still under discussion.

Before leaving England, Fraser had written to the Chancellor setting out the basis for an agreement. As well as incorporating the last minute financial concessions made by the Treasury, the letter spelt out New Zealand's wish that prices for the third and fourth years of the contract "be subject to review upwards on submission of a case for such

revision by the New Zealand Government".<sup>(83)</sup> Fraser pointed out that as producers were pushing for annual revision, a compromise of setting the 1944/1945 price as the minimum for the contract period should be acceptable.

In his reply the Chancellor stood firm on this, not least because such a commitment would be more generous than Britain's commitment to its own farmers.

In our view the review must be one in which either side can argue for a change in prices. This seems to us the only fair method of doing business. <sup>(84)</sup>

It seems that New Zealand felt obliged to promote the argument on account of her producers. Following the Chancellor's reply both Ashwin and Nash agreed to accept that in the third and fourth years prices could go either way depending on changes in costs.<sup>(85)</sup> Changes in export prices in other significant supplying countries would also be invoked as a reason for adjustment.<sup>(86)</sup>

That may not have been all that likely within the duration of the contract. But what about the longer term? In communicating his Government's agreement to the contracts, the New Zealand High Commissioner also pointed out that

even at this time a main concern ... must be continuing market for our produce - particularly as present plans are calculated to increase

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83. DPM B2 Fraser-MEA, 28 Jun 1944.

84. DPM B2 CE-NZHCL in NZHCL-MEA, 14 Jul 1944.

85. DPM B2 Nash-MEA, 20 Jul 1944.

86. *AJHR* 1945 H30, pp 6, 18.

production for export. We hope that tonnage will be greater in 1948 than today, and it would be a most serious matter if having increased our production ... the principal market were then to be curtailed. (87)

The Minister of Food in his reply evaded the issue by gracefully giving a Delphic assurance that Britain would not

forget all that New Zealand has done at our side throughout the war. (88)

At one meeting Campbell asked his British counterparts what would happen if the two countries could not agree on prices for the third and fourth years of the contract. (89) He was told that contracts between governments could not be enforced in the normal way and amounted to no more than a declaration of intention. The observation was really very significant, because it emphasised that New Zealand had no permanent claim on Britain's benevolence - nor could a contract secure such a claim.

This situation is thrown into relief by considering the influence of the negotiations for postwar international commercial order on the Anglo-New Zealand discussions. There was a general concern about the future of imperial preference under any new regime and at the Prime Ministers' Conference in May 1944, Fraser reiterated New Zealand's support for the continuation of imperial preference. (90) But the more substantive issue at this time was the future of inter-governmental

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- 87. DPM B2 NZHCL-MnF in NZHCL-MEA, 31 Jul 1944.
  - 88. DPM B2 MnF-NZHCL in NZHCL-MEA, 31 Jul 1944.
  - 89. MAF 83/1037 Knight-Rodden, 18 Jul 1944.
  - 90. EA104/4/1, 8 May 1944

contracts. At Commonwealth talks in October/November 1942 and June 1943, the New Zealand Government stressed that it favoured the continuation into peacetime of the wartime contract system.<sup>(91)</sup> The Anglo-American draft proposals in circulation in 1944 had, at the insistence of the United Kingdom, preserved the right of State trading organisations to enter into long-term contracts - an outcome welcomed by Fraser at the Prime Ministers' Conference. Bulk purchase was:

The greatest security that we and the U.K. could have for our produce. (92)

Nonetheless, in July 1944 a letter from the State Department communicated disquiet to the Foreign Office.<sup>(93)</sup> The Foreign Office's reply stressed that the aim of the contracts was to secure food supplies and prevent violent fluctuations in price - these were objectives of United Nations food policy agreed on at the Hot Springs Conference.<sup>(94)</sup> It denied that the contracts could be seen as an aspect of a Commonwealth economic policy, pointing out that it was coincidence that major supplying countries happened also to be Commonwealth members. The State Department also initiated talks with the New Zealand Embassy in Washington. The Department recognised that New Zealand could legitimately welcome long-term contracts in the short-term: New Zealand's products were designed for high income markets, and in the years after the war she could not be expected to face the gamble involved if she refrained from securing even one market. But 1948 was felt to be definitely postwar, and in the

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91. EA104/4/1.

92. EA104/4/1, 8 May 1944.

93. T161 S51255/1, 17 Jul 1944.

94. Reference to the United Nations in the covering letters to the contracts emphasised this point.



eyes of other countries would look more like the foundations of a permanent system than a transitional arrangement.<sup>(95)</sup>

New Zealand producers remained much more exposed to the market than did other producers because the New Zealand Government's resources were too limited to allow it to make the sort of commitment to its farmers that other Governments made to theirs. Nor would another Government - such as Britain - make up the difference. American pressure, as mediated through the international negotiations, like Britain's own outlook, expressed the reality of the competitive environment in which New Zealand's export trade had to thrive.

With prices settled, the attention New Zealand paid to current trading condition centred mostly on putting an end to wartime restrictions where they disadvantaged her.

Meat producers were interested in the chilled beef trade, which had only just got under way in the 1930s, with Argentina taking the initiative. New Zealand was not a significant beef exporter in any form, but both she and Australia had secured the right to make experimental shipments, and there seemed to be scope for expansion, until the war put an end to such developments. Thus, New Zealand welcomed a clause in the contract which provided for a resumption of the chilled beef trade as soon as shipping space became available. New Zealand was to be given "an equal and coincident opportunity (which did not in fact arise until 1951) for resuming and increasing shipments of chilled beef". Whether the two criteria - shipping space and equal opportunity - were compatible was left to further discussion.<sup>(96)</sup> Other wartime requirements were looked at. Britain agreed to lift the requirement that carcasses be

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95. DPM F1/8, 18 Oct 1944

96. MAF 88/405 *passim*, DPM B2 NZHCL-MEA, 18 Aug 1944, MEA-NZHCL, 9 Aug 1944

telescoped as soon as shipping permitted. The export of dehydrated meat would cease at the end of 1944. Canned meat production would continue on a contract basis, but with quantities and price negotiated annually.<sup>(97)</sup> Dairy producers were concerned about the future of butter in relation to margarine. Though margarine was a cheaper product, it was generally considered to be an inferior one. But if it were de-regulated before butter, the availability of an unrestricted supply might turn the British consumer permanently away from butter. New Zealand was assured that butter and margarine would be treated identically (it was assumed that consumers would express a preference for branded products on the grounds that they were likely to be of a more uniform and therefore higher quality).<sup>(98)</sup>

The other main concern of the dairy trade was the question of diversion of production to markets other than Britain. In 1939 some diversion had been agreed to in principle as a way of enabling New Zealand to retain a toehold in the small markets she had laboriously established prior to the war. While the argument was reiterated in 1944 it seems likely that short-term market prospects increased the appeal of diversion. New Zealand suggested five per cent of her exportable surplus should be withheld from Britain. The latter resisted on the grounds that she would have to extend the preference to other suppliers. Moreover it was undesirable, at a time when New Zealand production was "so far below pre-war level". This was not quite fair - New Zealand's production had fallen, but from the wartime peak, not from pre-war levels. Nonetheless she accepted that the maximum she could divert would be two and a half per cent.<sup>(99)</sup> This followed logically enough from acceptance of the contracts earlier in the year. But if the market remained buoyant and

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97. DPM B2 NZHCL-MEA, 9 Aug 1944, MEA-NZHCL, 17 Aug 1944.

98. DPM B2 MEA-UKHCW, 1 Jun 1944, UKHCW-MEA, 6 Oct 1944.

99. DPM B2 NZHCL-MEA, 6 Oct 1944. Also, MEA-NZHCL, 20 Oct 1944, NZHCL reply, 25 Oct 1944.

was certain the issue would reappear.

Consistent with this stance, Britain was prepared to allay New Zealand's anxieties about compulsory diversion. The contract, although substantively an Anglo-New Zealand agreement, was formally a part of the food allocation system of the Combined Food Board of the United Nations. New Zealand wanted to ensure that if supplies were diverted away from Britain, supplying countries would be equally treated - New Zealand did not want only such diversion to become a back door method of undermining her position on the British market. Britain confirmed that any allocation would have to have New Zealand's approval. (100

The new contract prices were not publicised. Britain had negotiated with New Zealand and Australia first partly so as to "get them out of the way". But, having reached agreement, she did not want to be too restricted in her bargaining with Argentina, by the latter having knowledge of what she had conceded to New Zealand. Accordingly it was agreed between New Zealand and Britain that the meat prices recorded in the schedule and paid out to the producers would be those set for the 1943-1944 season. The balance of the  $33\frac{1}{3}$  per cent increase would be paid over in a lump sum. In this way that increase would be hidden from Argentina. The New Zealand Government went along with this part of the way, but at the end of October felt obliged to pass on full details of the agreement to the Meat Producers' Board and the House of Representatives, because of strong pressure from both quarters and the suspicion which continued secrecy was generating. Publicly, however, it still seemed that New Zealand prices had not been increased above the 1943-1944 level and this remained the case until after the Argentinian negotiations were

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100. DPM B2 MEA-NZHCL, 20 Oct 1944, NZHCL-MEA, 26 Jul 1944 (Llewellyn's letter). MAF 83/1037, 27 Oct 1944, 6 Nov 1944.

concluded.<sup>(101)</sup> Only in November 1945 were details of the contracts made public.<sup>(102)</sup>

Britain also wanted New Zealand to forego publicising the new contract prices for butter and cheese but this placed the New Zealand Government in an embarrassing position as it had already promised to pass these details on to the Dairy Board. The information was not supposed to be transmitted out of the country but a few days later Australian newspapers carried the details.<sup>(103)</sup>

A further difficulty attending the finalising of the price schedule for butter and cheese arose when it became plain that Australia would not be content with the 147s. 2d. per cwt butter which the Ministry of Food had envisaged her settling for. Rather, the Australians sought 161s. 1d. - well above New Zealand's 150s. 6d. It was possible that the problem could have been resolved by extending the Australian price increases to New Zealand but New Zealand wasn't happy with this idea. On meat, Australia had asked for smaller increases than New Zealand had received. There would be problems between meat and dairy producers if relative prices were adjusted and it was estimated that New Zealand would end up with less sterling. Nor did New Zealand seek to preserve the differential at the higher level, *viz.* claiming 163s. 10d. as against Australia's 161s. 1d. This would have gone against the grain of the Government's wish to minimise per unit price increases. Moreover it would have almost certainly entailed a reduction in the lump sum payments.

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101. DPM B2 NZHCL-MEA, 1 Aug 1944; NZHCL-MEA, 11 Aug 1944; MEA-NZHCL, 30 Oct 1944.  
102. EA58/2/2/1, EP 7 Nov 1945.  
103. DPM B2 MEA-NZHCL, 1 Aug 1944; MAF 83/1037 Bankes Amery-Knight, 10 Aug 1944.

At the beginning of September the United Kingdom proposed to Australia that it accept a per cwt price of 147s. 6d. and have the balance to the agreed 161s. 1d. made up in a lump sum payment. Britain considered it important that the differential be preserved otherwise the whole argument would simply be transferred back to New Zealand. The Australians were not at all happy with this proposal, and while they made up their minds, New Zealand withheld the final initialling of its own agreement. But in March 1945 Australia accepted Britain's terms and New Zealand's own contract was finalised. (104)

In the meantime there had been a major dispute in New Zealand about the fate of the new payments agreed to by Britain. The Government had been successful in keeping the bulk of the increased payments out of the hands of the producers: the lump sums were not paid in respect of particular products and did not therefore go into the stabilisation amounts. There was thus a double barrier to the inflationary impact of the increased receipts: firstly, in that the per unit increases would go into the producers' stabilisation account, secondly, in that the lump sum would remain out of the hands of the producers altogether, and at the disposal of the Government.

Producers were vocal in laying claim to ownership of the lump sum payments. The Government had no intention of abandoning stabilisation policy, nor of foregoing the special status of the lump sum payments, but it exhibited a sense of diplomacy in inviting consultation with the

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104. MAF 83/1037 memo, 20 Jul 1944; DPM B2 MEA-NZHCL, 17 Aug 1944; NZHCL-MEA, 31 Oct 1944; MEA-NZHCL, 11 Nov 1944; MAF 83/1038, 13 Feb 1945, 2 Mar 1945. See also Butlin & Schedvin, *War Economy 1942-1945*, pp 508-509.

dairy and meat industries for the purpose of deciding how to deal with the increased export income in the light of the stabilisation policy. In response the Meat and Dairy Boards constituted a Joint Committee which negotiated with the Economic Stabilisation Commission, representing the Government. (105)

In so acting, the producers clearly repudiated the more extreme criticism of stabilisation, and the discussion revolved substantively on just how much money the producers would end up with in their stabilisation accounts. After several successive meetings with representatives of both boards, the latter came to accept that the lump sum payments were not paid in respect of costs accruing to the farmer. They agreed rather that they had been paid to protect New Zealand's overseas sterling situation, and to meet part of general stabilisation costs. There was no possibility, in other words, that prices would have been increased if the lump sum payments had been reduced in size. (106)

The fact that the producers had been "deprived" of the lump sum payments made them all the more determined to ensure that only the bare minimum of subsidies be debited against the stabilisation accounts in which the increased returns were to be lodged. Debate revolved around both the exact implications of the Farmers Union - Government agreement of June 1943, which had supposedly covered all such contingencies, and the particular costs the British Government had taken into account in agreeing to a price increase. If certain costs were not provided for at either of these times then the producers did not see why they should

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105. Miller & Rowley, *History*, p. 304; NZPD Nordmeyer, 8 Aug 1944 (p. 218),  
106. DPM B4/2, 1 Mar 1945, 16 Mar 1945. | Fraser 8 Sep 1944, (p. 231).

be debited to the stabilisation account. (107)

It is not appropriate to scrutinise the details of these discussions here as they involved a matter of domestic policy, and as well as coming to terms on past charges, attempted to lay down guidelines for the future. Agreement was reached at the end of March, with the exception of one item - the cost of the subsidies paid in respect of butter and cheese produced for the local market. This went to arbitration and a majority decision found in favour of the Government. Nonetheless it was considered politic to reimburse the Dairy Board Stabilisation Account from the Consolidated Fund, for the cost of the subsidies. (108)

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The 1944 settlement was very favourable to New Zealand. She strengthened her sterling position and also secured price increases for her food exports.

Underlying this success was Britain's need for food. Although New Zealand wanted long-term stability the fact that she could consider bargaining it against a satisfactory financial settlement emphasised how much more urgent was Britain's need compared to hers. (109) Britain hoped for increases in New Zealand's food output, whilst it was noted optimistically that the Dominion expected to get most of its imports from Britain. Yet in neither respect did New Zealand enter into firm commitments. (110)

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107. DPM B4/2 *passim*.

108. See Miller & Rowley, *History*, pp 305ff for details.

109. MAF 83/1476 memo for MnF, 23 Jun 1944. MAF 83/1037 DO-UKHCW, 19 Aug 1944.

110. T160 S1255/1 Dunnett-Price, 19 Aug 1944.

Although New Zealand made a sharp distinction between the price increases and the rest of the monetary settlement, Ashwin for one agreed with the British official who told him that:

on our side we should treat any increased payment to New Zealand as, in effect a price increase ... I think that whatever settlement there is will have to be borne on the Ministry of Foods vote, except insofar as it involves postponement of payment by the New Zealanders of their indebtedness to the United Kingdom. (111)

The fact that any price increases on account of wool were considered out of the question also emphasised the fact that the New Zealand case derived its strength from the food shortage, even if she did not want all payments to be translated into primary product price increases. (112)

In November 1944 there was some discussion of the settlement in the British financial press after the Chancellor had announced details to the House of Commons. It was difficult, thought *The Economist*

to avoid the impression that this is another evidence of that single-minded mood of unlimited liability in which Britain has been waging the war. When the overseas war debt, excluding lend-lease already totals £3000 million, what does an additional £46 million matter? (113)

To meet this sort of criticism the Chancellor held an informal talk with twenty-one city and financial editors. He stressed the fact that

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111. 83/1037 Dunnett-Gardner, 13 Jun 1944.

112. DPM B2 Ashwin-MEA, 6 Jul 1944. And see below section (6).

113. *The Economist*, 18 Nov 1944.



the payments to New Zealand were intertwined with New Zealand's stabilisation policy and could be justified on costs grounds, even although it suited both parties to keep them separate. (114)

New Zealand secured a major improvement in her sterling position in 1944, and she did it within the framework of long-term trade arrangements. But while these arrangements provided some predictability they did not obligate Britain to bale New Zealand out of a postwar depression. New Zealand might gain Britain's assent to protecting her against the full consequences of high prices - on guarantees against price falls Britain was much more elusive.

Why then did New Zealand agree to the contracts? Political and emotional loyalties may have played a part. And for Nash, at least, an arrangement which underpinned stabilisation was better than one which did not. For others in the Government, and for the producers, the primary concern was still postwar trading conditions. Even if the contracts were not watertight, they could be expected to provide New Zealand with more security than the vagaries of the open market.

6. Wool: The establishment of the Joint Organisation 1944-1946

While wartime dislocation ensured a buoyant demand for New Zealand's meat and dairy produce once the shipping crisis had been overcome, the same dislocation meant that the wool consumption had dropped. Combined with the expectation that post-war trading conditions would be depressed

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114. T160 F12715/10 memo of informal talk, 27 Nov 1944; MAF 83/1049 UKHCW-DO, 27 Nov 1944; EA58/2/2/1 NZHCL-PM, 6 Dec 1944.

the outlook was gloomy. From June 1940, with France no longer in the war, Britain had been accumulating wool far in excess of her requirements. In 1944 it was expected that by 30 June 1945 British owned stocks would stand at 3 550 million lbs.<sup>(115)</sup>

New Zealand, like the other Dominions,<sup>(116)</sup> was unaware of the magnitude of the probable surplus which Britain would face. Nonetheless, the Government was concerned enough about the prospect of a depressed market to express interest in a long-term contract which would parallel those offered for food products - an interest which Britain did not reciprocate.<sup>(117)</sup>

Britain's existing obligations were onerous enough: clearly she had to take the initiative. One possibility was a price reduction - perhaps back to the level obtaining before July 1942. Certainly wool control felt that the vast accumulation truly justified a downward revision - but it was an undesirable approach, in view of the sensibilities of the Dominions. The preferred strategy was to make forthcoming and accumulated wool output a joint rather than a solely British responsibility. Losses anticipated in disposing of the wool would be shared equally between Britain and the Dominions, rather than incurred solely by the former. The problem of the post-war life of the contracts would be resolved as the new system would override Britain's obligation to purchase entire wool clips.<sup>(118)</sup>

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115. T161 S45511/2 memo, 1 May 1944.

116. Britain had contracted to buy South African wool as well in 1940.

117. BT11/1737 minute, 1 Apr 1944, also DPM B2 NZHCL-MEA, 5 Apr 1944.

118. T161/S45511/2 memo, 1 May 1944 & addendum, 3 May 1944.

A paper prepared by Wool Control provided the basis for interdepartmental discussion in Whitehall aimed at formulating a proposal to be presented to the Dominions. The main point at issue was the allocation of financial responsibility. Draft heads of discussion presented in July 1944 suggested that the Dominions would be entirely responsible for purchasing unsold new wool. Britain would transfer its stocks to the organisation and would be credited with a sum equal to their cost, which would be liquidated as sales proceeded. In effect, once the new organisation was under way, Britain would have no obligation to purchase, but would "until such time as its capital commitment has been substantially reduced" receive all the proceeds from sale.<sup>(119)</sup>

The assumption underlying this plan was that the Dominions had healthy sterling balances and that therefore they should be responsible for the current financing. Britain, for its part, was anxious not to increase its sterling liabilities.<sup>(120)</sup> Clutterbuck of the Dominions Office was convinced though that the Dominions would not find such "onerous terms" acceptable. Fforde, in Treasury, tried to convince Clutterbuck that Britain could not play "Lady Bountiful".<sup>(121)</sup> Waley recognised that the negotiations would be difficult because "the Dominions are very good at asking and very bad at giving", also because it was important for Britain to stick to Keynes' point that she was no longer able to afford "to make concessions which have no justification on merits".<sup>(122)</sup>

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119. *Ibid*, draft heads of discussion, Jul 1944.

120. *Ibid*, 18 Jul 1944, talks.

121. *Ibid*.

122. T161 S45511/2, 3 Aug 1944.

The scheme presented to the Dominions in October still envisaged them taking full responsibility for new wool, but it invited discussion. The New Zealand Government responded favourably to Britain's suggestion for a conference, agreeing that "some plan of co-ordinated disposal seemed imperative".<sup>(123)</sup> An extension of the contract was not an option - co-ordination provided more protection than free trading against a price collapse. Wool growers in New Zealand also welcomed the Conference. This was not surprising. The operations of B.A.W.R.A. after World War I had benefitted producers and the stockpile of wool was now much greater than at that time. The only disagreement was a brief one over the extent of producer representation.<sup>(124)</sup> Appropriately, given his status as head of the Marketing Department, George Duncan led the delegation. Other Marketing Department officials attended, as did a Treasury Official. Producers were represented by N.R. Jameson and W. Horrobin. They were respectively chairman and deputy of the newly-constituted Wool Board, which provided for the industry an organisation parallel to the Meat Producers' and Dairy Board. Representatives of wool buyers and scourers completed the delegation.<sup>(125)</sup> The Conference was chaired, with the agreement of all the delegations, by H.J. Hutchinson of the Ministry of Supply, a typically skilful senior Whitehall man. He claimed to have prepared for the Conference by reading Ngaio Marsh's "Died in the Wool".<sup>(126)</sup>

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123. Miller & Rowley, *History*, pp 445-450.

124. EA 104/6/31/4, *EP* 15 Nov 1944; *Dom.*, 17 Nov 1944.

125. Greensmith, *NZ Wool Commission*, p. 9, *NZPD* vol. 267 *passim*.

126. Greensmith, *NZ Wool Commission*, p. 10; E.L. Greensmith, interview, 11 Feb 1981.

The delegation left New Zealand for the start of the Conference in April 1945, convinced that the plan for a Joint Organisation was the best way of dealing with the problem. Nevertheless there was some discussion of the alternative of allowing the existing contract to run its course and then discussing joint plans. One reason for this was that total profits on sales outside Britain, estimated at £7 000 000 at 30 June 1945, could possibly be £8 500 000 two or three years later, whilst stocks might not have increased significantly. However Britain pointed out that if the contracts were continued she would wish to liquidate her liability as quickly as possible: the implication was that profits might not increase. Moreover she refused to accept that the Dominions could withdraw existing profits on the grounds, firstly, that they might still disappear, and secondly, that the Dominions had no contractual right to the money until the agreements were ended, and thirdly, that she would have to borrow to pay them out.<sup>(127)</sup> Unsurprisingly then, the Conference stuck with the plan to establish a partnership before the contracts expired.

In the early stages of the Conference, Britain had agreed to find 25 per cent of the cost of purchasing wool from current clips. But other dimensions to the plan seemed to New Zealand to be unfair to the Dominions.<sup>(128)</sup> Britain wanted 3 per cent interest to be paid on capital invested in the Organisation. As in the initial stages she was providing most of the capital - in the form of the bales of Dominion wool she owned, (valued at £32 500 000 in New Zealand's case) this seemed unreasonable - an opinion the Dominions gave form to by contending

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127. EA104/6/31/4 DMk-MMk, 24 May 1945, cable no. 1188.

128. EA104/6/31/4 3 May 1945.

129. *Ibid.*, 24 May 1945, no. 1188.

that such charges should be contingent on the final profit/loss outcome of the Organisation's trading activities. Britain also proposed that although operating costs should be shared equally, three-quarters of the levy imposed on sales to meet these costs should be met by New Zealand. New Zealand contended that the effect of this arrangement would be to allocate money to Britain to which she was not entitled, because it was provided by growers (New Zealand) not purchasers. Further, Britain proposed that 60 per cent of sales should be from current clips in the first year, and 70 per cent thereafter. New Zealand argued that it might be more economic to sell more new wool. (130)

Solving the question of the proportions in which old and new wool should be sold indicated a route to a more satisfactory overall agreement. Britain had been concerned about possible deterioration of old wool - and clearly it was important that a given amount of accumulated stocks be disposed of each year if she was not to be saddled with large stocks of unsaleable wool. It having been established that no deterioration had or would take place, it became impossible to maintain an unequal division of financial responsibility between old and new wool, as it would result in constant and unresolvable pressures from both sides to sell the stocks for which they were responsible. (131)

Accordingly a system of joint ownership was proposed and accepted. The new scheme meant that the Dominions would in effect buy back 50 per cent of the wool held by Britain, whereas Britain would take a 50 per cent share in new wool. (132) This plan sidestepped the problems associated with the draft scheme: the two sides were no longer divided over the issue of what proportions of old and new wool were to be sold.

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130. *Ibid.*, 24 May 1945, no. 1188.

131. BT11/2760 Habakkuk, 22 May 1945.

132. EA104/6/21/4 DMk-MMk, 24 May 1945, no. 1188.

The difficult question of interest on British capital was avoided because half of the capital would be coming from the Dominions. Thus there was no question in this respect of Britain being penalised. With the plan for equal responsibility, allocation of revenue from the levy also fell into place. Operating costs were apportioned 50/50 between the industry and the Joint Organisation itself. The levies would pay the industry's share and the Joint Organisation would tax before sale to raise its funds. (133)

Although final agreement was reached at the Conference, publication of the details was withheld until the end of August, in part to give Britain time to consult the United States and secure the latter's approval. There had been some anxiety - unnecessary as it transpired - about how the Americans would react to a "producers' cartel". (134)

The Wool Board accepted the conclusions reached at the Conference, helped by the fact that its delegate could explain details to growers. (135) The electoral college of the Board recorded its opposition to any setting of a guaranteed price, as long-term government intervention in the industry. (136) But this was not an issue. Quite apart from the memory of the row in 1942, no one thought it very likely that prices would rise in the near future: there was no point in trying to elaborate a stabilisation scheme against producer opposition, to cover such a contingency. Equally there was little incentive for the Government to maintain wartime compulsory purchase when the market outlook was so gloomy.

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133. *Ibid.*

134. T161 S45511/4 memo, 15 Mar 1945; DO-NZG, 17 Aug 1945.

135. E.L. Greensmith, interview, 11 Feb 1981.

136. EA104/6/31/4 MEA-NZHCL, 10 Sept 1945.

From 1 January 1946, the New Zealand Wool Disposals Commission, the New Zealand subsidiary of the Joint Organisation, commenced operations with George Duncan as the Chairman but with producer representation. For the first six months of the year it administered wool marketing as the successor to the Marketing Department, but from 1 July 1946 the sale of wool by public auction resumed, thus ending the Government's wartime intervention in the trade. (137)

Negotiations over wool in 1945 possessed a different character from the meat and dairy produce negotiations of the previous year, primarily because of the different circumstances of the market. Agreement between Britain and the Dominions was expressive of the wartime cooperative spirit. But it also helped that by virtue of the stocks she had accumulated, Britain was a seller, as well as a buyer, and therefore shared a perspective on the problem with her allies. If Britain had only had a buyer's interest in the trade, her sympathies for Australia, New Zealand and South Africa might have been less evident.

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137. Miller & Rowley, *History*, pp 454-455.



A HUMOUROUS INTERLUDE

New Zealand was not slow to point out to Britain how the Dominion was affected by rising costs, but the real bargaining started at the end of 1943 and early in 1944 when it was obvious that the Allies were winning the war.

New Zealand wanted some lump sum payments for her meat, and other foodstuffs to compensate for the higher price of British goods. Much of the bargaining was done on New Zealand's behalf by Mr. (later Sir Bernard) Ashwin, secretary to the Treasury.

On one occasion when he was involved in a wrangle with British officials as to how much New Zealand should be paid for meat, he pointed out that steel fencing wire was essential on New Zealand farms, but this had to be bought on the open market, and the wartime cost had sky-rocketed.

Sir Bernard produced a New Zealand newspaper describing how a sheepfarmer had been prosecuted for stealing wire from a cemetery fence. Sir Bernard quoted the meat producer's defence - in which he argued that the people in the cemetery would "stay put" without a fence but that his sheep would not!

This piece of rural philosophy may have had its effect on British Government officials, and helped to win a higher payment.

On another occasion the sum to be paid to New Zealand farmers was being finalised at the time the doodlebug bombs were making life unpleasant for London. On one single day, while the negotiations were going on, doodlebugs came over early in the morning, before lunch, before dinner and again in the evening. Each time a spotter on the roof of New Zealand House in the Strand, where the talks were being held, reported a doodlebug getting close, the staid sombre-suited Government officials dived under their respective sides of the table.

As they went down for the third time in less than half an hour, Sir Bernard was saying that he would not accept the British offer without another percentage increase. A few moments later, the chief British negotiator (a titled gentleman) popped his head above the table, and with the two men still on the floor, with only their heads visible, declared "Done!"

It was these price discussions which led to a famous snooker match the story of which has been recounted at many after-dinner functions in both Whitehall and Wellington during the twenty-seven years that have since passed.

Britain had agreed to pay an increase based on a percentage of the original contract. This was finally settled, after much hard bargaining, just before negotiations broke up for dinner.

During the dinner break, Norman McClumpha, the Board's London manager, started to work out the new prices for the whole range of meat commodities. He discovered that the percentage arrangement resulted in unwieldy cumbersome fractions. The new price for beef, for example went to more than four decimal points of a penny. This would obviously mean much tedious calculation, and unnecessary work, for those who had to work out the new prices and payments.

The obvious solution was to adjust the fractions to the nearest halfpenny. But the question was whether the adjustment should be up or down.

The New Zealanders argued that the adjustments should be up. Naturally the British officials wanted it to be down. For a few moments it looked as though negotiations would have to be resumed all over again. Then Sir Bernard reminded his British hosts that a snooker match had been arranged after dinner. Why not let the results of the match decide?

The British agreed with this sporting suggestion, and after dinner the snooker match was held at the famous Carlton Club.

The game was even, with first Britain, and then New Zealand, taking the lead. The result was in doubt right until the end when only the black ball remained to be played. It was Ashwin's shot. The black was sitting right on the edge of a pocket. The white ball, with which he had to shoot was also sitting on the edge of a pocket diagonally across the table.

If he hit a straight ball he would certainly sink the black, but also equally certain the white ball would follow it into the pocket for a penalty against him.

Ashwin decided his best hope was for a cushion shot. He aimed the white ball against the side of the table intending it to ricochet back, and send the black into the pocket with a glancing blow. It missed. Britain had won. The fractions were adjusted downward.

The story of the snooker match went round Whitehall like wildfire. New Zealand had pressed its case hard in these negotiations, and had become a little unpopular. This sporting gesture immediately restored its popularity.

As a leading trade official said a few months later: "It was good public relations. It did us a lot of good at very little cost as the difference in the fractions represented only a few thousand pounds out of a payment of several million."

## CHAPTER SIX

### "Aid to Britain" 1945-1949

1. Introduction
2. The sterling gift 1945-1949
3. Supply problems and the dollar shortage  
1945-1949
4. New Zealand and the post-war food shortage

Illustrations

## 1. Introduction

The pattern of wartime economic relations between Britain and her Dominion allies such as New Zealand continued into the peace. Indeed, Britain's political and economic circumstances enhanced her awareness of their value. With the end of the war it became clear that the United States did not expect the American alliance, which had overshadowed the Commonwealth relationships from 1941-1945, to continue. It was important for Britain, if she were to retain a position of influence in international affairs, to maintain a close liaison with the Commonwealth states. She had welcomed the Canberra Pact of January 1944 because it had spelt out the willingness of Australia and New Zealand to accept more responsibility for security in the South Pacific. Moreover, it was seen as enhancing the Commonwealth - and therefore the British position in the face of overwhelming American strength. At the Prime Ministers' meetings held in April and May 1946, British ministers in the new Labour Government sought a greater Australian and New Zealand commitment to defence spending, a commitment which would be discharged in a Commonwealth context.

In September 1945 the United States abruptly terminated lend-lease. Britain now had to find the hard currency to pay for goods and services already ordered from the United States, and the likely very large orders which would continue to come forward. The shortage of hard currency reinforced the significance of Commonwealth food supplies, including those from New Zealand. Coupled with the reconstruction needs of the British economy it also made it important for Britain to seek Dominion cooperation in limiting their claims on British resources, especially

of foreign exchange. Despite the end of the war, Britain's circumstances resembled those she faced in 1939-41, rather than the last years of peace.

New Zealand's Labour Government, in office until 1949, responded very positively to the continued calls for sacrifice and restraint, for the Commonwealth was still its natural political home. Fraser and Nash wanted Britain to play an effective part in world affairs because they believed that this benefitted the Commonwealth as a whole. Furthermore they wanted Britain to continue to play an active role in the Pacific. Sentiment also played a part - shared experiences in World War II and multitudinous ties of kinship ensured that at the popular level there would be a warm and substantial response to any appeal to help Britain. Above all, it was believed that New Zealand's economic health would be threatened if Britain did not recover her economic strength.

As had been the case throughout the war, New Zealand's narrower economic interests conformed to British needs. As long as Labour remained the Government, Nash's determination to refrain from overseas borrowing, to maintain a healthy level of reserves by controlling imports, and to restrain inflation, remained cardinal principles of policy. They dovetailed with Britain's own priorities, ensuring that pressure from New Zealand to consume Britain's own resources would be limited.

But in some respects the accordance was not complete. As had become evident during the contract negotiations in 1944, the Government's reconstruction needs, and in particular its ambitious rehabilitation programme entailed a major capital demand which could be met in part

only by importing goods from overseas - housing materials, fencing wire, fertiliser, water piping and motor vehicles for instance.<sup>(1)</sup> Thus there was at times pressure from the New Zealand Government to have access to more British resources than Britain was prepared to countenance. New Zealand's consumption of its own food resources was still occasionally a contentious issue too.

## 2. The Sterling Gift 1945-1947

The cessation of lend-lease did not mean the end of American assistance to Britain, but it placed it in a different context - that of a loan. Through the latter part of 1945 British and American officials engaged in difficult negotiations aimed at settling on the terms under which the loan would be extended to Britain. The latter sought American assistance in the reconstruction of her economic life even though this might involve for a time policies discriminatory to American commerce. The United States on its side was prepared to be generous to Britain, but took exception to the large reserves of sterling accumulated through a double process - payment by Britain to the countries concerned for goods and services including many required for war purposes, and the direction of the British economy towards the war effort which meant that the reserves were not expended on current consumption. With the war over, it could not be expected that sterling holders would wish to maintain such restraints. But the collective extent of the claims which they represented on the British economy was

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1. Rehabilitation Board, "War History of Rehabilitation in New Zealand", *passim*.

far out of keeping with the resources of that economy. If Britain was to recover it needed to be able to draw on the resources of others and there would be no point in doing that if the resultant production was to be dissipated in satisfaction of the claims of sterling holders rather than in making provision for the reconstruction of the economy and for earning, through sales to hard currency countries, the wherewithal to repay them.<sup>(2)</sup> This at least was the view of the United States and accordingly it wished to see sterling balances either cancelled or severely written down. However much the British authorities might have welcomed such a decisive action they could not practically contemplate it. The post World War I experience made some cautious - another postwar slump would mean that the purchasing power represented by the sterling balances would be very welcome. But of greater current significance was the effect that such a move would have on Britain's role as the political and financial centre of the Commonwealth association.<sup>(3)</sup> Britain would in effect be defaulting which would put an end to her role as a banker. Trading patterns, and political alliances might also shift to her disadvantage.

The British bargained hard in their financial negotiations with the United States. The United States wrote off wartime lendlease aid to Britain and funded through its loan the flow of certain goods to the United Kingdom since the end of the war. Article 10 of the Loan Agreement [Cmnd 6708 *Financial Agreement between the United Kingdom and the United States*, December 1945] set out the basis of settlement that

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2. Judd Polk, *Sterling. Its Meaning in World Finance*, p. 57. Polk points out that the Americans did not concern themselves with the direction of domestic consumption and investment pattern "no doubt due to the traditional diplomatic convention under which no country would be rude enough to suggest changes in the ways in which friendly neighbours ran their households."
  3. *Ibid.*, p. 67; Susan Strange, *Sterling and British Policy*, pp. 60-61.

Britain would seek to reach with sterling holders. Balances would be divided into three categories:

- (a) to be released immediately and made convertible into any currency for current transactions
- (b) to be similarly released by instalments over a period of years beginning 1951
- (c) to be written off.

Despite their concern about the political and financial consequences of too rapid an attack on sterling balances, the British could see that they had a case in equity - not just to receive money from the United States and Canada but also to limit claims by others. (4)

For a hundred good reasons we have had to accept during the war a postwar burden entirely disproportionate to what is fair .... we did it in the interests of getting on with the war .... As a result, we, and we only, end up owing vast sums, not to neutrals and bystanders, but to our own Allies, Dominions and Associates who ought to figure in the eyes of history as our mercenaries, unless the balance is redressed. (5)

In his 1946 budget statement Nash pointed out that as New Zealand relied on the United Kingdom for dollar funds, the loan would be of benefit to New Zealand, and more generally, would enable a quicker restoration of international trade. But over the more specific question of adjustments to sterling reserves a note of caution crept in.

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- 4. J.M. Keynes, *Collected Writings*, vol. 24, p. 491.
  - 5. Sayers, *Financial Policy*, p. 484, quoting Keynes. See also D035 WT662/3/28 draft, 26 Jun 1946.



Throughout the war period, Nash explained, the prices New Zealand received for its exports were governed by bulk contracts and there was therefore no question of profiteering at Britain's expense. Under such circumstances it did not seem fair that New Zealand's reserves, which had accumulated to a healthy level particularly since the 1944 settlement, should have to fall again. Not only were there the demands of rehabilitation and reconstruction and the still-present fear of a postwar slump; Nash was also determined to pay off overseas debts, a reflection of his experiences in 1939. In early 1946 three large debt repayments totalling £141 million sterling were made. One was the £18 million outstanding under the Memorandum of Security: the other two debts were normal public issues to the London market.<sup>(6)</sup> This had the effect of making capital available for other purposes in Great Britain, and may have seemed to Nash to have been a sufficient contribution. In discussions with Britain on the application of Article 10, New Zealand concentrated principally on the need to nurture reserves in the event of unfavourable movements in export prices and the demand for imported goods for reconstruction purposes. In a reversal of 1944 New Zealand used the same arguments but to protect the sterling she had, rather than to secure more.

The first talk took place in February 1946 between Fraser and the Chancellor of the Exchequer. The fate of a total sum of £42 million was at issue. (This excluded the £18 million under the Memorandum of Security which Fraser thought had been written off and was in fact shortly to be paid back). It was proposed by the Chancellor that the

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6. T series 23 25, 21 Dec 1949.

£42 million would be dealt with in general conformity with the Washington Agreement, that is, half would be liquidated and half would be made available in agreed instalments. Current earnings from a set date, e.g. 1 March 1946 would be freely available for current transactions worldwide.<sup>(7)</sup>

Fraser's reaction was very cautious. Although he said that "his Government would want to co-operate even to the point of sacrifice", he was very doubtful whether New Zealand could get through on only half its present balances, particularly, as, being a predominantly agricultural country, her economy lacked the elasticity of the United Kingdom.<sup>(8)</sup> There the matter was left until Nash went to England in May. Fraser's comments suggested that some hard negotiations lay ahead, a supposition that was strengthened when he wrote to Dalton - again in an echo of 1944 - that he felt that what was suggested by Britain would not be possible "without striking a severe, if not nearly fatal, blow at the economy of this country."<sup>(9)</sup> The British High Commission in New Zealand reported back to London in similar vein - it thought that although New Zealand had expected some approach the very drastic nature of the Treasury proposals would come as a great shock. The implications the proposals might have on commercial relations between the two countries was pointed out. New Zealand's determination to retain her current importing policy would be increased, as a way of protecting her remaining reserves. And she might be tempted to seek major price increases for her exported commodities for the same reason even although this would go against the

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7. D035 WT662/3/28, 19 Feb 1946.

8. *Ibid.*

9. D035 WT662/3/28, PMNZ-CE, 20 Mar 1946.

grain of her stabilisation policy.<sup>(10)</sup>

In a detailed British Treasury memorandum on New Zealand's external finances, A.T.K. Grant nonetheless concluded that New Zealand "could well afford to pay something." He outlined a situation already familiar to the latter's authorities. At the end of 1945 New Zealand's reserves stood at £75 million. Since then she had paid back large amounts of debt but her balance of payments remained strongly positive, and it looked as if reserves might reach £80 million by the end of 1946. This healthy situation derived straightforwardly from the buoyant demand for New Zealand's major exports, a demand that Grant thought would continue at least until 1948. If New Zealand was going to be pressed to make a contribution, it should not extend beyond that date.<sup>(11)</sup>

Grant was ignoring the extent to which New Zealand's healthy balance of payments reflected under-importing, which New Zealand did not want to continue. In talking to Nash in May 1946, British officials did not dwell too overtly on these figures: they did however stress the significance of New Zealand - a country "close to the United Kingdom" as it was put - setting a precedent. With both major sterling holders, Egypt and India, there were major political difficulties: if principles could be worked out for Australia and New Zealand it would be easier to negotiate with major holders.<sup>(12)</sup>

Nash did not respond to this softening-up, but talked instead about New Zealand's own situation. Without saying so directly, he

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10. *Ibid.*, UKHCW-DO, 16 Apr 1946.

11. *Ibid.*, 17 Apr 1946.

12. *Ibid.*, 7 May 1946.

conveyed the impression that New Zealand had done quite a lot for Britain already. He pointed out that the £18 million had been repaid, although "he had been urged very strongly not to," and interest had been added, although New Zealand was not strictly liable for it. New Zealand was endeavouring to direct its import needs towards Britain, whilst on the export side it had kept prices down despite the fact that this had led to a deterioration in the terms of trade. The settlement in 1944 had not fully met this disparity. The inference which could be drawn from these observations was that New Zealand would be much tougher in its commercial dealings with the United Kingdom if it was expected to make financial sacrifices.<sup>(13)</sup>

Although in a purely Anglo-New Zealand context this sort of reaction might not have carried too much weight, the importance of getting something out of New Zealand in terms of negotiations with other sterling holders made the Treasury responsive. The idea was mooted of making all sterling that was not written off available at once, if New Zealand would agree to write something off. New Zealand's subsequent manoeuvres lessened Treasury's interest in extending favourable treatment to her. At one meeting, Ashwin produced estimates of New Zealand's balance of payments to 1950, designed as one British official put it:

to prove that she will become destitute without any writing down of balances. In fact he has seriously overshot the mark .... he assumes a rate of import into New Zealand vastly in excess of what the United Kingdom will be able to afford, .... even after running into debt to the Americans and Canadians. (14)

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13. *Ibid.*, also DO-UKHCW, 29 May 1946.

14. *Ibid.*, minute 28 Jun 1946.

Treasury regarded these estimates as "so preposterous" that they wished to apply Article 10 to New Zealand in its full rigour. In a draft memorandum, it was mooted that those balances which were released would only be made available subject to an agreed limitation on the rate at which they were expended.<sup>(15)</sup> The Dominions Office was able to ensure that this proposal did not preclude Britain from reverting to the May proposal if Nash proved cooperative. At the subsequent talks, just before Nash left for New Zealand, he would not commit himself. However, he agreed to take a brief to discuss with his colleagues.<sup>(16)</sup> The British Treasury at this stage was holding out on dairy prices but it did not maintain this position. New Zealand's attitude was still ostensibly open. Indeed, the Treasury deemed it unwise to jeopardise a satisfactory solution by refusing to pay out to cover costs. Nor did New Zealand seek to link the two issues for bargaining purposes: there was still room for manoeuvre.<sup>(17)</sup> Nonetheless, New Zealanders were not too pleased at the relatively favourable terms Argentina extracted from Britain over its sterling balances, in connection with the conclusion of a meat contract.<sup>(18)</sup>

In New Zealand it was reported that London correspondents saw little prospect of Australia and New Zealand acquiescing in the scaling down of sterling balances. Official opinion had always recognised that because their balances had arisen from commercial transactions rather than from military expenditure as in the cases of Egypt and India, the two countries would not be pressed so hard. Also the

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15. *Ibid.*, draft memo, 26 Jun 1946.

16. MAF 83/1668, DO-UKHCW, 15 Jul 1946.

17. *Ibid.*, 16 Apr 1946, 28 Jun 1946, 4 Jul 1946.

18. *Ibid.*, UKHCW-DO, 20 Sep 1946.

absolute sums were not so large. But politically some contribution would be welcome.<sup>(19)</sup> With an election imminent in New Zealand the issue languished.

One course of action canvassed in Whitehall was to follow up New Zealand's expression of preparedness to contribute more to the Commonwealth defence.<sup>(20)</sup> Nash alluded to this in his 1946 budget and a British interdepartmental committee decided to take it further. On the other hand, with political difficulties in India increasingly the forefront of British thinking, the need to negotiate with New Zealand lost some of its urgency.

Early in 1947 New Zealand fairly abruptly made a "gift" of £10 million sterling. The American loan was being expended more rapidly than expected. On the New Zealand side it would seem that Ashwin convinced Nash that it was better to give something voluntarily if a contribution would have to be made at some time.<sup>(21)</sup> In making the announcement of the gift, Fraser said that it was

in recognition of the magnificent and unprecedented effort of the United Kingdom and her people in maintaining freedom and making possible its expansion in years to come. It recognises the enormous burden that the United Kingdom has carried and is bearing during the post-war period. <sup>(22)</sup>

The gift was warmly applauded in financial and other circles in Wellington.

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19. EA58/2/2/1, *EP*, 8 Aug 1946.  
20. D035 WT662/3/28, 4 Jul 1946.  
21. Comment by Gary Hawke.  
22. *NZH*, 6 Mar 1947.

### 3. Supply Problems and the Dollar Shortage 1945-1949

The expectation of victory in Europe led British industry to start thinking about production for non-military use whilst New Zealanders were happy enough to have the opportunity of resuming traditional contacts.

At the end of 1944, Dan Sullivan visited Britain on a supply mission. However, G.W. Clinkard, the London representative of the Ministry of Supply informed Wellington in April that there was a continuing conflict between the desire to ease up and develop export business, and the necessity to continue the war effort at the necessary high rhythm.<sup>(23)</sup> Similarly, in February, the New Zealand High Commissioner in London had informed Wellington that the textile and in particular the cotton position was likely to be very difficult - mainly as a result of very large demands from Southeast Asia which for political reasons Britain had to do its best to meet. Jordan told his superiors that they

should neglect no opportunity of securing any textiles available ... and ... should not lightly part ... with any textiles particularly cotton which may be available and which could be held against future use .... (24)

On the other hand, Jordan instanced some kinds of semi-manufactures, raw materials, many consumer goods and engineering products, for which the Board of Trade reckoned the supply position would improve fairly rapidly.<sup>(25)</sup>

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23. IC series 32 33, Clinkard-Marshall, 6 Apr 1945.

24. EA58/2/2/1, NZHCL-MEA, 10 Feb 1945.

25. EA58/2/2/1, EP, 3 Feb 1945.

In the middle of 1945 Clinkard returned to New Zealand on a visit and used the occasion to emphasise the cooperation displayed by manufacturers and officials in Britain in dealing with New Zealand's requests. He reckoned that the principal problem Britain faced was not so much machine capacity or even raw materials but labour power - both in numbers and quality. Clinkard spent six weeks in New Zealand having discussions with Ministry of Supply officials and the industrial and commercial community in New Zealand about the prospects for obtaining goods in the United Kingdom, and the necessary procedures to be followed. (26)

At this time though there was no expectation that the war in Japan would end so quickly, nor that the return to peace would be accompanied by the ending of lend-lease. That sudden termination - effective from 2 September 1945, the date of the Japanese surrender - placed Britain and other sterling area countries back in the situation they had known up until 1942 - confronting a scarcity of goods which was partly a scarcity of dollars. Britain's need to reconstruct her economy and earn foreign exchange through exports, as in 1939-1941, meant that New Zealand's supply needs slipped even further down the list.

In March 1946 Frank Picot, the Commissioner of Supply, went to Britain on a supply mission, looking especially for tinsplate for packing foodstuffs and for transport needs. These were items which a year before New Zealand might have expected to obtain from the United States. Whereas before the war Britain produced around 1 000 000 tons of tinsplate

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26. *Ibid.*, EP, 16 Jun 1945.



annually, by 1945/46 it was only producing half of that amount - an extreme expression of the situation in the steel industry as a whole. Although production was increasing, the backlog of demand from both domestic and overseas users was so great that centralised allocation had to continue. (27)

In December 1946, Fraser himself took the trouble to communicate with the British authorities about the steel shortage. He pointed out that despite the fact that Nash had made representations to the President of the Board of Trade, Sir Stafford Cripps, some months before, there was still no sign of increased supplies. How could New Zealand be expected to increase food exports if it could not secure goods essential to production? Cripps was not encouraging:

We are fully alive to importance of doing anything we can to maintain supplies of steel to New Zealand from this country especially as these supplies are essential to maintenance of food production. Unfortunately we have ourselves suffered a serious short fall of our imported supplies of semi-manufactured steel and we have been unable to supplement our own production sufficiently to enable us to use to the full our finishing capacity. (28)

Cripps promised nonetheless that he and the Board of Trade would do their best especially where a specific order would help maintain food production. And it was true that, generally speaking, New Zealand did over the next months receive some priority in the supply of inputs for primary production. But for items for civilian use, for example cotton goods, she was obliged to take her place in a long queue. (29)

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27. EA58/2/2/1, *Southern Cross*, 16 Mar 1946.

28. *Ibid.*, NZHCL-MEA, 7 Jan 1947, enclosing text of PBT-NZHCL.

29. *Ibid.*, *Dominion*, 11 Apr 1947.

On his visit to London in March and April 1947, supply questions were at times uppermost in Nash's mind. He and Cripps met with their officials and Nash presented his "enormous dossier" of all New Zealand's overseas supply requirements which he went through item by item.<sup>(30)</sup> He stressed items which were essential to agricultural production - meat wraps, dairy cloths, alkalis (for example, caustic soda and soda ash) and jute wrappers for wool bales. He hoped that a small supply of textiles could be found for the New Zealand Girl Guides - a supply had been provided in 1946 following representations from Fraser. Other clothing and textile items, for example, worsted and woollens, yarns and knitting machinery - featured on Nash's lists. On the matter of jute wrappers, Nash pointed out that unless Britain could assist, New Zealand would have to divert 10 000 tons of butter to India. Nash was not above pressuring the British, but in this case Cripps suggested that the best thing would be to recycle old jute wrappers.<sup>(31)</sup>

The Board of Trade could not always be very helpful in respect of New Zealand needs, particularly as it was trying to disengage itself from direct control of exports. It tried to adhere to the policy of limiting dollar imports, and this meant helping New Zealand if by so doing dollar expenditure could be limited. At the same time the Board suggested to New Zealand that some of its requirements were non-essential and could be dispensed with.<sup>(32)</sup> Progress was made on some products though. By August 1947 what was expected to be sufficient quantities of cotton goods for New Zealand's immediate needs had been found, whilst the outlook for jute was also promising. But metal goods - particularly wire - remained a difficult area.<sup>(33)</sup>

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30. BT11/3711, 31 Mar 1947.

31. BT11/3716, *passim*.

32. BT11/3717, memos 19 May, 10 May 1947.

33. BT11/3716, 2 Aug 1947.

Although supply problems were partly a reflection of war-created shortages, they were mostly connected to balance of payments problems. With dollars in short supply, all sterling area countries were encouraged to minimise dollar expenditure.

At the beginning of 1947, the New Zealand Government had learnt from the Dominions Secretary of the "disquieting weakness of the United Kingdom dollar position" and the need to take steps to adjust the balance or face a restriction in the "United Kingdom's means of payment in the Western hemisphere" - with a consequent curtailment of Britain's "liability to furnish dollars as required by the rest of the sterling area". New Zealand, like other sterling area countries, was asked to try and conserve dollar resources "without weakening your economic efficiency", but, "at the expense of a temporary postponement on relaxation in consumption", if possible. (34)

Part of the price of the United States loan agreed to in December 1945 was that within twelve months of the agreement coming into force (15 July 1946) the United Kingdom would allow a large measure of convertibility of sterling into other currencies - a move which accorded with America's reluctance to let impediments to trade and payments to persist any longer than necessary.

With the rapid deterioration of the payments situation after the introduction of convertibility in July, Attlee sought New Zealand's cooperation in more substantial measures to restrain the use of dollars and of British resources generally. (35) In New Zealand the Government

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34. EA58/2/2/1, SSD-PMNZ, 3 Feb 1947.

35. *Ibid.*, PMUK-PMNZ, 12 Aug 1947.

convened an "Aid to Britain" Conference at Parliament to discuss ways and means by which New Zealand could help the United Kingdom, in line with Attlee's suggestions and following this, an Aid for Britain Council was established. In London a Sterling Area Conference took place between Britain and other sterling area countries on future plans and expectations for dollar expenditure and income. At a meeting on 23 September, New Zealand officials, led by Leicester Webb of the Economic Stabilisation Commission, met British Treasury and Bank of England officials to discuss the former's estimates of New Zealand's balance of payments situation and her import trade with the United States. New Zealand's speedy reaction was not entirely altruistic: the promptness with which New Zealand had responded to the request for dollar economies and the detail in the estimates impressed the British officials. (36)

In the first instance Britain was interested in the nine months from October 1947 through to June 1948. Over this time it was agreed that New Zealand's net demand should be no more than 25 million United States dollars and 18 million Canadian dollars. It was hoped that these figures would be regarded as an absolute maximum:

anything further that could be done to  
reduce dollar requirements would be a  
very real construction towards relieving  
the burden on the reserves of the sterling  
area during a very grave period. (37)

The New Zealand High Commissioner accepted this target but emphasised that the figures supplied were

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36. IC106/1, Webb-Nash, 24 Sep 1947.

37. IC106/1/1, NZHCL-MEA, 13 Oct 1947.

tentative estimates and might be upset  
by such factors as substantial price changes  
or a failure to secure essential requirements  
on order from sterling sources. (38)

In pursuit of the objectives discussed in London, New Zealand froze the unspent portion of current licences to import goods from the dollar area, and reviewed them on the grounds of essentiality. The strictest economy was to be exercised over other remittances to the dollar area as well as payments. It was planned to cut United States dollar licences in 1948 to around one third of their 1947 level. Early in 1948 petrol rationing was introduced again - after having first been proposed by Britain in August.<sup>(39)</sup> Wheat production was promoted in part to conserve dollars spent on shipping wheat to New Zealand.

The crisis in the sterling area's reserves did not only affect commerce with the dollar area. Britain had made arrangements with certain European countries which meant that accumulations of sterling above certain levels would oblige the United Kingdom to settle the balance in gold or dollars. New Zealand was therefore expected to keep imports from some such countries to a minimum, depending on which ones were accumulating too much sterling - Sweden, Switzerland and Belgium all had to be watched at this time. In all three it seemed likely that settlement would have to be in gold.<sup>(40)</sup> Moreover, New Zealand was also asked to cut back on imports from Britain, so that they could be directed to dollar markets. Britain wanted New Zealand to keep imports

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38. *Ibid.*

39. IC106/1, MEA-SECRO, 27 Jan 1948.

40. IC106/1/1, NZHCL-MEA, 13 Oct 1947; T61/1/1, 31 Oct 1947.

at least within the limits of current income. During the immediately critical situation it is important for us that you should avoid any necessity for draining down your sterling balances and we should hope that you would be prepared to hold further sterling if there should be any possibility of building up your assets. (41)

In response the New Zealand Government recalled import licences for 1948 and re-issued them on the basis that imports for that year would not exceed exported current income. This action created some problems as importers were quick to invoke Board of Trade statements suggesting that the United Kingdom did not wish New Zealand to limit sterling imports. (42)

It was clear that the Government's readiness to accept Attlee's request reflected its own predisposition and concern about the balance of payments. At the meeting of the newly established interdepartmental balance of payments committee on 31 October 1947 Ashwin argued that directives from the United Kingdom to 'live within our income' would be helpful

since in any case we would have to put restrictions on at this end sufficient to keep our payments in balance. It was a fallacy to suppose that our London funds were plentiful. (43)

Despite the restrictive policies, New Zealand did not feel precluded from doing what it could to secure essential supplies. The Board of Trade was approached in September 1947, and New Zealand managed to secure her requirements of steel and tinsplate for some months. But to set against this, the Board of Trade's role was more limited than it had been in wartime. It was no longer directly controlling exports. New Zealand needed to be able to approach manufacturers as well.

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41. EA58/2/2/1, PMUK-PMNZ, 12 Aug 1947.

42. BT11/3758, *passim*, see below p. 224-226.

43. T61/1/1.

The Board was not always able to give any clear idea of what goods could be supplied from Britain.<sup>(44)</sup>

Moreover, New Zealand discovered that as well as goods being diverted to North America, they were being made available to particular countries which would not accept sterling as payment and would not provide Britain with essential items unless they received necessities in exchange. When Fraser learnt of this constraint he immediately informed the Commonwealth Secretary, Lord Addison (at that time in New Zealand) of his dissatisfaction.

... it appears to me unsound that a country such as Argentine [sic] should have any priority since the supply to New Zealand of these items, which we must obtain from any source, will not only save dollars on our part but will enable us to supply to the United Kingdom essential foodstuffs which can otherwise only be acquired from dollar sources. (45)

British officials did their best to explain to Fraser, that while Britain was obliged to make arrangements with countries like Argentina, there was no intention of interfering with supplies to New Zealand.<sup>(46)</sup> But New Zealand was anxious.

Clinkard, now the Secretary of the Department of Industries and Commerce, drew up a report on the procurement of essential supplies and listed classes of goods on which some action was necessary:

If we do not press for United Kingdom supply and secure official goodwill and backing and at the same time arrange hereafter to continue to press our authenticated claims both in the

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44. T61/1/1, 31 Oct 1947; T61/1, NZHCL-MEA, 24 Sep 1947.  
45. BT11/3758, 30 Sep 1947.  
46. *Ibid.*, Oct 1947, *passim*.

official and commercial fields in the United Kingdom we shall find ourselves ineffectively in competition with many other suppliants who, like ourselves, are short of hard currency but who, at the moment, may not be as well organised as we are to prove their needs. (47)

On the basis of the report Cabinet approved the despatch of a supply mission to Britain. It would approach the Board of Trade, individual manufacturers and also the Export Groups into which the exporters were organised. Although the Board of Trade did not have complete information, private sources were not always reliable either. Dunlop had recently stated that there were no truck tyres available from Britain but this had proven not to be the case. (48)

The Mission visited Britain in February and March 1948. Clinkard reckoned that as a result of the efforts and subsequent representations, the flow of more important commodities had improved considerably, at least to the point where vital needs could be met. There were two important exceptions however - heavy chemicals, and steel, in almost all its forms. Clinkard made these judgments in June 1948. At that time he expected there to be some more progress on chemicals but steel looked very difficult. (49)

Did this mean New Zealand had been hurt by Britain's bilateral deals? Clinkard reported in June that officials in the United Kingdom had given a definite denial to the Supply Mission's suggestion that

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47. T61/1/1, 10 Nov 1947 (Report on T61/1, 7 Nov 1947).

48. IC106/1, 10 Nov 1947; T61/1/1, 6 Feb 1948; IC106/1, *EP* n.d., Jan 1948.

49. IC106/1/1 SIC-MIC, 9 Jun 1948.



New Zealand's steel allocation had suffered because of the deals. But important steel groups, for example the sheet makers and wire drawers stated that New Zealand's share of the export quota was being curtailed because of directions from the Board of Trade to supply definite tonnages to other countries. Clinkard thought the situation was not representative of commodities other than steel, but that was not much consolation.<sup>(50)</sup>

At the balance of payments committee meeting in February 1948, Ashwin had expressed the view that if New Zealand's difficulties in obtaining essential supplies became acute, New Zealand might eventually have to attach conditions to the export of its produce to Britain.<sup>(51)</sup> In June, the President of Federated Farmers made the same point publicly.<sup>(52)</sup> In London for the contract negotiations, Ashwin took up "rather vigorously" as one Board of Trade official put it - the shortage of fencing wire. Given its link to food output, it was recognised that the 5000 tons New Zealand had asked for

are essential if the New Zealand farmers  
are to increase their food production and  
their food supplies ....<sup>(53)</sup>

But there were real problems in finding such a volume, quite apart from the 20 000 tons New Zealand sought for 1949. Unsatisfied home demand had priority: Britain's current plan allocated 5000 tons overall to New Zealand in 1948 of which only 1000 tons was fencing wire.<sup>(54)</sup> To get more either Britain or New Zealand would have to spend hard currency - the problem was partly that of "getting a quart out of a pint pot".<sup>(55)</sup>

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50. IC106/1/1, 9 Jun 1948.

51. T61/1/1, 6 Feb 1948.

52. EA58/2/2/1, *EP*, 3 Jun 1948.

53. BT11/4082, W.G. Onslow, minute 1 Jul 1948.

54. *Ibid.*, *passim*, Jul-Sep 1948.

55. *Ibid.*, S.L. Holmes, 5 Jul 1948.

Would Ashwin put his strategy into practice? The Ministry of Food hoped not.

We have so far avoided any bilateral deal with New Zealand such as those we have had to adopt with other countries, whereby supplies of food for this country are offset against manufactured goods needed by suppliers. I hope we should not be driven to such an expedient in the case of New Zealand and I think if we could give reasonable assurances about the supply of manufactured commodities which we need, such a situation need not arise. (56)

Ironically, while the British were worried about New Zealand's determination and what it might cost, there was dissension in the New Zealand camp. Back in Wellington, F.P. Walsh, a member of the Dairy Products Marketing Commission, wondered whether Ashwin and Marshall had made full provision for safeguarding the supply of essential goods before concluding the contract.<sup>(57)</sup> But before his cable arrived, Marshall had informed Wellington that while every possible effort had been made, the Commission could not negotiate a bilateral agreement and the contract had been settled without one. Walsh vented his anger by cabling an admonitory message. He found it "most difficult to understand" Marshall's action in

closing deal without authority of colleagues on [D.P.M.C.]. While admitting you are not empowered to negotiate bilateral agreements your action in closing deal has ? [sic] the bargaining power in securing supplies of essential commodities for farmers and country. (58)

Marshall and Ashwin were also strong-minded and Ashwin was quick to reply pointing out that

matters were much more likely to be hindered than helped if Dairy Products Marketing Commission compromises its position by going beyond statutory scope. (59)

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56. BT11/4082, MnF-PBT, 24 Mar 1948.

57. DPM MP, 12 Jun 1948.

58. *Ibid.*, 3 Jul 1948.

59. DPM MP, 14 Jul 1948.

In fact the final text of this contract did include reference to the provision of supplies in connection with Britain's wish that New Zealand increase production. And the Ministry of Food thought the New Zealanders had made their point "with the utmost insistence".<sup>(60)</sup> At the end of July New Zealand was seeking from the Board of Trade some assurance of progress on the fencing wire issue. By September, the Board had managed to find an extra 1500 tons of which 500 tons was suitable for fencing<sup>(61)</sup> - not to be compared with what New Zealand wanted, but better than nothing. In 1949 Britain was able to meet all of New Zealand's current needs, but not make up wartime arrears;<sup>(62)</sup> all rehabilitation orders were satisfied.

Figures for dollar imports also bespoke the fact that New Zealand's stance remained cooperative. From £23 million in 1947, imports from the United States fell to £14 million in 1948. And imports from Canada fell from £12 million in 1947 to £7 million in 1948.<sup>(63)</sup>

Through 1948 the balance of payments of the sterling area had improved and this was also reflected in some easing of supply difficulties. But by the middle of 1949 another crisis was in full swing. In July the Commonwealth Finance Ministers met in similar circumstances to those in which the Sterling Area Conference of September 1947 was held. Britain proposed that all sterling area countries cut their dollar imports to 75 per cent of their 1948 figure. For New Zealand, Nash pointed out that imports from the dollar area had

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60. BT11/4082, 22 Jul 1948.

61. BT11/4082, 22 Sep 1948.

62. T61/3/5, 21 Jul 1949.

63. F.W. Holmes, "New Zealand in the World Economy 1938-56", p. 11.

totalled \$117 million in 1947 but just under \$75 million in 1948, and this had meant a reduction to bare essentials.

... while New Zealand had every wish to cooperate fully in the general problem it would be difficult to cut imports by 25% without grave disruption to the economies [sic]. A further difficulty arose from the fact that commitment had been made under licences issued covering the full year 1949. (64)

Nash suggested that New Zealand could concentrate on increasing dollar earnings but Cripps said that the seriousness of the situation meant that cuts were also necessary - in fact if they were not made it might not be possible to maintain the sterling area - by which Cripps presumably meant that Britain would no longer feel able to make dollars available from its reserves to other sterling area countries. Even if there were increases in dollar earnings it would be preferable if they were not immediately expended on imports as it was necessary to restore reserves. (65)

As in 1947 there was some discussion on prospects of increasing sterling area dollar earnings, but more of the discussion concentrated on cutting back and re-directing imports. Britain assured New Zealand that it could expect increased supplies of steel in 1950 despite the fact that output was being directed towards Canada. (66) Ashwin said New Zealand still needed to get certain kinds of tractors from the United States and also hay baler machines. In both these cases the British authorities promised supplies from the United Kingdom in the near future. Despite these assurances New Zealand was not above keeping an exit route: there could be difficulties in reducing imports

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64. T61/3/5, MnF-MEA, 14 Jul 1949.

65. *Ibid.*, meeting 15 Jul 1949; meeting 16 Jul 1949.

66. T61/3/5, 21 Jul 1949.

particularly as licenses had already been issued and commitments probably made for the first half of the period, we had therefore reserved the right to make our contribution by a reduction of the deficit by other means such as increased receipts from exports. (67)

In fact in 1949 New Zealand managed to reduce its imports from the dollar zone to £16.5 million, compared with £21 million in 1948, and in 1950, despite the caveat quoted above a further reduction was achieved which exceeded the 75 per cent target. (68)

#### 4. New Zealand and the Postwar Food Shortage

Through 1945 and in the early months of 1946 it was very apparent that Britain's need for New Zealand food would continue unabated for some time. Early in 1945 New Zealand learnt from Britain that the meat position in particular for the coming year was expected to be very difficult, and New Zealand was asked to make a 10 per cent cut in current consumption, not so much because it would make a very large contribution to reducing the deficit, but because it would make a good impression on the Americans who were increasingly feeling that other countries were not pulling their weight. (69) Further requests followed later on in the year. At the end of May New Zealand did cut the meat ration from 1s. 9d. per capita to 1s. 6d. The butter ration was also cut from 8 ounces to 6 ounces per capita. Britain welcomed this contribution and expressed the hope that while New Zealand could

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67. T61/1/1, 11 Aug 1949.

68. F.W. Holmes, "New Zealand in the World Economy", p. 12.

69. EA104/3/4, MnF-NZHCL, 9 Feb 1945; SSD-MEA, 25 May 1945.

not be expected to decrease its supplies to the United States forces during 1945, it might be able to alter its allocation in 1946. (70)

The rapid end of the war in the Pacific meant an end to claims from the United States forces, but Britain faced other difficulties in securing food supplies. Demobilisation in the United States meant on balance an increase in domestic claims on American consumption, whilst political and economic difficulties with Argentina made supplies from that country uncertain. In Britain itself, the need to maintain cereal supplies for human consumption meant a cut in supplies to livestock and consequently, an expected decline in meat production. (71) The end of lend-lease meant that sterling area food supplies acquired enhanced importance.

By the early months of 1946, towards the end of the long European winter, the food supply situation had become acute in many parts of Europe including Britain and it was natural for the British government to look to New Zealand for assistance. In his last few weeks with the British Food Mission in Melbourne, Bankes Amery remained zealous in drawing attention to the failure of the New Zealand Government to be as determined in encouraging increased production through incentives to producers and rigorous in limiting consumption, as he thought appropriate. He argued that although production had been at high levels, this had been due to favourable seasons and the desire of farmers to maintain the only permanent market they had rather than to any special encouragement from the Government. The Dominions generally had done little more than offer to increase production, <sup>and</sup> Britain would

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70. DPM London Food Council and Combined Food Board 1942-45, MF-NZHCL, 15 Jun 1945.

71. EA104/3/4, SSD-MEA, 12 Mar 1945.

SECURE / anyway as service demands eased.<sup>(72)</sup> Bankes Amery was not  
an increased output  
being entirely fair. A drought in the North Island severely affected  
production in the 1945/46 season - only 98 000 tons of butter and  
85 000 tons of cheese were produced for export.<sup>(73)</sup> Nevertheless,  
some of the New Zealand Government's actions suggested that it was  
unwilling to take steps which would have entailed conflict with  
domestic policies - in particular now that the war was over, with its  
wish to maintain a reasonable level of consumption amongst the working  
population. Much was made of the gift of 16 000 tons of dehydrated  
vegetables valued at £1 million to Britain in February 1946. But  
not only had the items involved been withdrawn from sale in New Zealand -  
most of them were not any use to Britain because supplies were  
already available there. The gift was diverted to Europe.<sup>(74)</sup>

Nonetheless, with the publicity attending such a gift, it was  
difficult for Britain to put more pressure on New Zealand to tighten  
rationing. Cabled messages in March 1946 made more general requests  
for assistance. The New Zealand Government responded by committing  
itself to taking

every possible step to see that the maximum  
quantities of meat and dairy produce are made  
available for export. <sup>(75)</sup>

which was exactly what it was not doing. Despite pressure from the  
churches and in the editorial columns to cut the ration, the Government  
did not introduce any new compulsory restrictions on consumption. A  
Famine Emergency Committee was established after a meeting at

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72. MAF 83/1567, Bankes Amery to French, 31 Jan 1946. Although the Food Mission continued after Bankes Amery's departure, its activities no longer extended to New Zealand.
73. MAF 83/1567, meeting at D.O., 30 Apr 1946.
74. *Ibid.*, UKHCW-DO, 15 Feb 1946; *Dominion*, 16 Feb 1946; *EP*, 20 Feb, 21 Mar 1946.
75. EA 104/3/4, MEA-SSD, 15 Mar 1946.

Parliament. Plans were worked out, partly through an inter-Church council, for a voluntary surrender of coupons, and this met with a substantial response. The British High Commissioner, Sir Patrick Duff, took to the road, drawing attention in his public speaking engagements to the meagre rations endured by the British. (For instance, only 7 oz of edible fat per person per week - and that included cooking fat and lard). (76)

The sterling crisis of August 1947 saw a renewed effort put into the campaign to supply more food to Britain. In his cable of 12 August 1947 Attlee stressed to Fraser that

the level of distribution of foodstuffs in this country depends primarily upon the degree to which we are able to obtain supplies from other than hard currency sources. .... Any steps which can be taken to increase and accelerate those supplies of meat, dairy products and animal fats would be a contribution of the highest importance in the present crisis. (77)

The Aid to Britain National Council, established after a national conference held about the crisis, set up district committees throughout the country, which in large part took over the work of the Food for Britain committees which had been established in 1946. Individuals were again encouraged to express their support for the cause by handing in coupons and making food gifts available for Britain. (78) As in 1946 the response at this level was overwhelming.

By late in 1948 the crisis atmosphere had ebbed. It was very apparent to British High Commission staff that many New Zealanders got

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76. T series 73, press statements Apr/May 1946; MAF 83/1567, MAF 83/1616, *passim*.

77. EA58/2/2/1, PMUK-PMNZ.

78. Ag 1037, n.d., Aug 1948.



as much meat as they wanted in one way or another.<sup>(79)</sup> Although the Aid for Britain National Council reckoned rationing saved around 30 lb per capita of meat per year, the High Commission thought the figure was more like 3 lb. In late September 1948, moreover, it was decided to end meat rationing. Despite the arguments A.H. Nordmeyer, the Minister of Industries and Commerce presented to the British, it seemed quite apparent to them that the decision had been taken because it would be popular domestically:

References to the Aid for Britain Council as guarantee for assurances that supply to Britain won't fall is disingenuous... I feel that the manner in which this decision, which so directly affects us, has been taken without any attempt at demonstration of its anticipated effect, is in most sharp contrast to consideration and consultation which New Zealand Government claim from ourselves whenever any step affecting their interests is in contemplation by us. <sup>(80)</sup>

Britain (for whose citizens rationing would last another five years) was justifiably annoyed. On being told that the ration controller had informed Nordmeyer that rationing was saving 29 000 tons, Nordmeyer said that the figure was being inflated to justify retention of jobs which would be done away with when the administrative organisation was dismantled.<sup>(81)</sup>

Exchanges between Britain and New Zealand over the latter's consumption of resources, be they of local or overseas origin, should not obscure the basic identity of interest on the two sides. For New Zealand this was partly a case of a clear-headed identification of where the balance of her economic interests lay. The wish to conserve foreign exchange, Nash's determination to limit borrowing,

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79. MAF 88/410, 16 Jul 1948.

80. MAF 88/411, UKHCW-CRO, 24 Sep 1948.

81. *Ibid.*

and the long-term interest in a prosperous Britain, all counselled cooperation. But the identification with Britain also drew on deepseated popular sympathy for that country. The voluntary efforts made in the Food for Britain campaign in 1946 and the Aid for Britain campaign of 1947-50 are a vivid expression of this sympathy and belief in a common fate and destiny.

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# WHO, ME?

Yes! It's up to every  
motorist to play his part

The private motorist in Britain gets  
NO PETROL whatsoever.

To help Britain through  
the crisis, New Zealand  
owners of private and  
business cars are asked to  
reduce their petrol usage  
as much as possible.

**Private Motorists:** reduce your  
speeds and cut down pleasure trips.

**Business Men:** avoid using business  
cars for private purposes—driving to  
and from work.

It's up to you to play your part.  
Remember: it's a case of Ration Your-  
self or Be Rationed.

## SAVE PETROL

- Avoid Rationing
- Help Britain

NOT SO  
OFTEN  
— NOT SO  
MUCH

Aid for BRITAIN CAMPAIGN

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NO 2



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NO. 4

# AID *for* BRITAIN



**HELP BRITAIN  
WIN THE PEACE**

## CHAPTER SEVEN

### Import Policy and Britain's Commercial Interests 1945-1949

1. New Zealand's buy British import policy
2. Bilateral conflicts
3. New Zealand, Britain, and the negotiations for a post-war international economic order

Before the war, Britain's principal economic concerns in New Zealand were to ensure that the country remained accessible to her exporters and that capital investments in or loans to the Dominion were secure. Britain's response to New Zealand's 1938/39 balance of payments crisis made this clear. But within weeks of taking such action Britain was at war and such concerns were overlaid by others: only sporadic attempts were made through the duration of the conflict to challenge New Zealand protectionism, and the massive diversion of New Zealand's import trade to Pacific countries in the latter stages of the war was accepted as a necessary part of alliance strategy.

At the end of the war circumstances changed yet again. New Zealand was encouraged to re-direct its import trade to Britain. This was a necessary part of the sterling area's efforts to conserve foreign exchange. But some of Britain's representations on New Zealand purchasing decisions had a commercial as much as a financial motive. Britain also took a renewed interest in the protectionist potential and reality of New Zealand's system of import and exchange control. Concern at the implication of the system for British interests was particularly evident in the successive rounds of discussions on a postwar international economic order. With eyes on the period after the expected dislocations of the immediate postwar years, it seemed important to Britain to ensure that restrictive practices were prohibited or at least discouraged.



1. New Zealand's Buy British Import Policy

The end of lend-lease made it imperative that sterling area countries like New Zealand direct their orders away from hard currency suppliers. New Zealand was not averse to conforming to this objective. The war had temporarily overridden, rather than eliminated, New Zealand's preference for British imports. That preference was traditional, but it was also grounded in the belief that the maintenance of a commercial policy favouring Britain was a way of protecting New Zealand's access to the British market. Thus there was little opposition to and much active support for, pleas to "buy British". When import licensing had been introduced at the end of 1938 provision had been made for preference to be given to British imports in the issue of licences.

In late 1945, the United States released its proposals for an international conference on trade and employment. The New Zealand Government agreed that it would

carefully consider any proposals that will improve world trade whilst at the same time assisting in the recovery of trade by the United Kingdom. We would wish to maintain preferences for the United Kingdom in New Zealand as well as preference granted to New Zealand commodities by the United Kingdom but we would raise no objection to reciprocal reduction of tariffs and preferences by negotiation and agreement. (1)

More generally:

Public opinion and the natural regard of the people of New Zealand is strongly in favour of preferences for the United Kingdom in this market... if goods are available in the United

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1. EA 104/4/1, MEA-SSD, 13 Nov 1945.

Kingdom and prices and quality are reasonably approximate to prices and quality submitted by other countries, licences have been issued for imports from the United Kingdom. (2)

Thus both the preferential tariff and the licensing system favoured Britain. In talks in 1946 Nash stated that he was doing everything possible to get orders placed in the United Kingdom, working on the basis of the full value of the preferential tariff plus a further 10 per cent.<sup>(3)</sup> Later that same year Nash emphasised that import licences for the United States and other countries would not be granted when it seemed possible for Britain to supply the goods.<sup>(4)</sup>

In February 1947, when her foreign exchange situation was deteriorating Britain expressed the hope that New Zealand would

feel able, with due regard to the limits imposed by United States susceptibilities and until the picture is changed by a general international acceptance of an obligation not to discriminate in import controls, to maintain the differential treatment which United Kingdom and other sterling area imports enjoy under your import controls... (5)

New Zealand was as aware as Britain of American pressure for the establishment of a multilateral trading system and an end to imperial preference. In August 1947, during the sterling crisis, H.E. Blyde, the President of Federated Farmers, argued that one of New Zealand's goals should be to import as much of Britain's production as she could. Nash pointed out though that the United States thought that New Zealand's import licensing policy was "cruel".<sup>(6)</sup>

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2. *Ibid.*

3. DO35 WT662/3/28, 7 May 1946.

4. EA 58/2/2/1, *Dominion*, 17 Oct 1946.

5. EA 58/2/2/1, UKHCW-PMNZ, 3 Feb 1947.

6. *EP*, 20 Aug 1947.

During 1947 tariff and trade negotiations were proceeding in Geneva, and subsequently at Havana, (parallel to the ultimately abortive efforts being made to establish an International Trade Organisation). The seriousness of Britain's crisis blunted American pressure on imperial preference. When he returned to New Zealand in 1948 Nash explained that New Zealand's pro-British tariff was accepted because it would contribute to Britain's and thereby to Europe's recovery. Sixty-three per cent of the preferences Britain enjoyed in the New Zealand market were unaffected by the international negotiations, and only two per cent were eliminated. In 1948, one official stated that, in respect of Government imports into New Zealand  $33\frac{1}{3}$  per cent was used as a rough working rule: official purchases would be made in Britain provided that the prices were no more than a third above those for similar goods available from other sources. (7)

In 1949, when another postwar sterling crisis revived concern about using scarce foreign exchange on imports, Nash said that New Zealand could not give any greater preference to Britain than she had given already. Two countries had already protested that the benefits given by New Zealand to Britain contravened the general agreement on tariffs and trade (G.A.T.T.). (8)

Nash's contention was justified. In September 1949 the Labour newspaper *Southern Cross*, proclaimed that New Zealand was "nearer parity with Britain than ever before", (9) that is, the percentages of imports coming from Britain nearly matched the percentages of New

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7. T61/1/1, 1 Jul 1948.

8. T61/3/5, 16 Jul 1949.

9. EA58/2/2/1, *Southern Cross*, 23 Sep 1949.

Zealand's exports sold them. If this was rather exaggerated, it was nonetheless true that in 1950 Britain's share of New Zealand's imports did reach 60 per cent - considerably higher than the average of around 49 per cent in the years 1934-39.<sup>(10)</sup>

## 2. Bilateral Conflicts

Nonetheless the waters were not entirely untroubled. Disputes over import licensing reflected the fundamentally different perspectives held by New Zealand and Britain. To the former, import control of this kind was a part of her full employment policy, it was a way of ensuring that full employment did not lead to, or was not threatened by, a shortage of foreign exchange. Britain accepted that this argument had some validity - she had after all practised it herself through the war - and the Labour Government which took office in July 1945 was more favourably disposed than was its predecessor. But with the revival of interest in exporting, no British Government could completely ignore complaints by exporters about "unfair" restriction on their trade with New Zealand.

In July 1945 the British Trade Commissioner, R.G. Boulter, met Frank Picot, the Commissioner of Supply, to discuss various communications he had received from the Board of Trade. Boulter stressed that the outlook of British manufacturers and the Board of Trade was one of concern rather than of criticism. The point most at issue was the

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10. Holmes, "New Zealand in the World Economy", p. 10.

complete prohibition of certain imports where local industries had recently been established and British exporters therefore deprived of a "reasonable opportunity of competition", as paragraph 4 of the Nash-Stanley agreement put it. Boulter instanced electric transformers, agricultural tools like shovels, and "bobby pins".<sup>(11)</sup> This was a fairly cautious approach. Although occasional references were made to the good terms New Zealand got from Britain for her products, nothing was made of them, perhaps because the balance of advantage did not lie clearly with New Zealand. Official representations were seconded, but with more vigour, by local pressure groups like the Associated Chambers of Commerce, the Bureau of Importers, and the United Kingdom Manufacturers and New Zealand Representatives Association (UKMNZR). And National Party politicians also drew attention to the issue. S.G. Holland, Leader of the Opposition, visited the United Kingdom early in 1945 and stressed on his return

the very strong and widespread objection, amounting to resentment in many cases, against the decision to lock out a wide variety of British goods, and then deny British manufacturers the right to compete with high tariff protection plus the high exchange and shipping charges. <sup>(12)</sup>

In controversy about New Zealand protectionism, both official and private interests made frequent reference to the Nash-Stanley agreement and in talks with British officials in June 1946, Nash raised the question of its future. He explained that New Zealand felt that the part of the agreement concerned with industrial development was

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11. IC102/2, CSs-MSs, 12 Jul 1945.

12. EA58/2/2/1, *Dominion*, 23 May 1945.

derogatory to national development since it implied - or could be held to imply - that in this matter New Zealand was subordinate to the United Kingdom. Nash did not want to act unilaterally, but the United Kingdom was reluctant to terminate the arrangement at all. Nash obviously thought that it might become an election issue if not ended and the British felt controversy was more likely if it was ended. (13)

Britain was not interested in holding New Zealand to promises which had never been fully adhered to nor in becoming linked in Nash's mind with the National Party's election plank of massive import liberalisation. Yet she did not see why the agreement should go without something being done about the "real" issue - the denial of opportunities to compete with New Zealand industries when the latter could meet all local needs. It was pointed out to New Zealand that the United Kingdom, which had a much severer balance of payments problem than New Zealand (this was arguing by overstatement of course as New Zealand's payments were in surplus at this time) had recently introduced a token import scheme: such a scheme could be implemented by New Zealand, and probably in a way which would meet most complaints about the exclusion of British goods - New Zealand, as one official put it, had "obligations to the United Kingdom export trade". This proposal had the merit of attacking the most obvious transgression of the Nash-Stanley agreement: total prohibition of imports of many products. (14)

Nash returned to New Zealand in the middle of the year without any resolution of the issue. The Customs Department was instructed

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13. BT11/3711, meeting 5 May 1946; DO35 WT662/3/28, DO-UKHCW, 15 Jul 1946.  
14. BT11/3711, 5 May, 28 Jun 1946.

to examine the licensing schedule with a view to selecting items on which there was a complete prohibition on imports from the United Kingdom. On the other hand, it was argued that New Zealand should not make any commitment until it knew what was going to happen at the International Trade Conference.<sup>(15)</sup> In the event, it was not until January 1947, with the election over, that a list of goods which New Zealand was prepared to import to the extent of 20 per cent of the value of 1938 imports, was forwarded to the Board of Trade. In exchange it was expected that the Nash-Stanley agreement would be terminated. This offer, however, only covered about seventy classes of goods out of about 300 or so which were at that time totally prohibited. It included some useful items, but excluded significant products like assembled motor vehicles, most types of clothing, footwear, radios and washing machines. In value the list probably covered 25 per cent of the trade prohibited in 1938 whereas Britain had hoped the whole range of trade would be covered.<sup>(16)</sup>

In return, Britain submitted an expanded list. Nash was not very responsive. He pointed out that

there had already been a great deal of pressure from United States representatives in New Zealand to cease import licensing discrimination in favour of the United Kingdom and he was afraid that in due course the New Zealand Government would have to give in to this. <sup>(17)</sup>

He also argued that some of the items had never been imported into New Zealand or could now be fully supplied domestically: moreover, New Zealand's sterling balances were already fully committed to capital imports and to honouring outstanding import licences. This argument

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15. IC162/1, Customs Dept.-MC, 19 Aug 1946; CSs-MSs, 15 Sep 1946.

16. EA58/2/2/1, MC-PBT, 23 Jan 1947; BT11/3711, notes 31 May 1947.

17. BT11/3711, 31 Mar 1947.

did not impress the British - the total trade under the schemes was not expected on the most generous estimate to amount to more than £1 000 000 - New Zealand's reserves were at least £60 000 000. But by May 1947 Britain wanted New Zealand's cooperation over the international trade talks - in any case at least one official was aware that British industry could hardly be said to be suffering from "the loosely-administered import prohibition".<sup>(18)</sup>

It was decided that Nash would take back to New Zealand a plan for a general token import scheme based on importing 20 per cent by value of all commodities of which there were significant imports before the war: Britain proposed that this should be a general system to which, however, there would be exceptions.<sup>(19)</sup> In the upshot, New Zealand did not adopt this principle, but did expand its original list and introduced the scheme in November 1947. The new President of the Board of Trade, Harold Wilson, spoke approvingly of New Zealand's initiative without alluding to the more generous arrangement Britain had hoped for. In return, Britain agreed that the Nash-Stanley agreement should lapse.<sup>(20)</sup> For Nash the termination of the Agreement must have been especially welcome. It suggested that Britain accepted that New Zealand had the right to pursue a commercial policy of her own, not Britain's choosing - something which had seemed in doubt in 1939. The course of events had taken the two countries a long way away from the circumstances of that year. New Zealand was no longer a mendicant debtor but a creditworthy source of much needed food supplies. It is also important to remember though that import

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18. The British discussion is found on BT11/3711. See also BT11/3669, 22 May 1947.

19. BT11/3669, 22 May 1947.

20. IC162/1, Sep-Nov 1947; EA58/2/2/1, *EP.*, 28 Mar 1949.



control, even of the kind practised by New Zealand, was still favoured and at times actively encouraged, by Britain. Her preparedness to allow the Nash-Stanley Agreement to lapse was grounded in her own current interests as well as in a recognition of New Zealand's changed situation.

In her efforts to combat the 1947 sterling crisis the United Kingdom requested sterling area countries to spend only their current sterling income rather than drain down sterling balances. In this way the ability of the British economy to devote its resources to exporting to hard currency zones and meeting priority domestic needs would be increased. In October 1947 the New Zealand Government recalled and cut the 1948 import licensing schedule with this aim in mind. This move provoked strong protests from traditional interest groups in New Zealand who were able to invoke Board of Trade statements to the effect that Britain did not want Dominions to slash imports for "ultra patriotic reasons".<sup>(21)</sup> The Government in turn successfully secured British endorsement of its policy, the Chancellor of the Exchequer stressing that

if the major cuts already made will not by themselves limit expenditure to current income and further cuts are necessary neither [the President of the Board of Trade] nor I would suggest any further relaxation. It is only after balance has been achieved that relaxation in favour of United Kingdom exports in relatively plentiful supply would be justified. (22)

Despite this statement the issue would not lie down. One particular area of pressure concerned motor vehicle imports. For the

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21. Quoted in BT11/3758, UKHCW-CRO, 28 Oct 1947.

22. *Ibid.*, CE-NZHCW, 2 Dec 1947.

1948 licence period the government doubled the allocation provided for the import of commercial vehicles but provided no additional licences for private motor vehicles. The motor vehicle importers association protested vigorously at this continued restriction: British policy statements were invoked. (23)

The Government accordingly approached the British explaining that it gathered that

the Board of Trade is actually pressing certain manufacturers to export to New Zealand and these manufacturers cannot do so because of our refusal to grant licences in conformity with the apparent wish of the United Kingdom government. It must be explained that strict conformity with Prime Minister's and Chancellor's wishes leave us no alternative but to diminish considerably below 1947 level our imports from United Kingdom. We could only attain 1947 level by departing from formula of keeping demands of Sterling within current earnings. (24)

Despite Board of Trade acceptance of the Chancellor's statement on general policy, criticism continued to come from Chambers of Commerce, Federated Farmers and other organisations and confusion was compounded. Harold Wilson was reported as saying that although the United Kingdom wanted New Zealand to live within its current income

by and large there should be no limitation upon the extent to which British exporters should meet orders from New Zealand within the bounds laid down by New Zealand's own import restrictions. (25)

This statement seriously embarrassed the New Zealand Government, but Wilson did not think it would be wise to issue a further statement as

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23. EA58/2/2/1, *passim*.

24. *Ibid.*, MEA-NZHCL, 30 Jan 1948.

25. *EP.*, 24 Apr 1948.

it might only compound problems. British officials were well aware that New Zealand was exploiting the request to live within its income. On the other hand, while priority was being accorded to the needs of the domestic and hard currency markets Britain could do little about it. As one minute writer put it

... we don't export for the sake of exporting and we must examine the return we get. If all that we get is a reduction in New Zealand's sterling balances, then the exports are not playing their part ... It is true that [our request that New Zealand should live within her income] enables the New Zealand Government to answer criticism by blaming us for the restrictions, and in some cases may enable them to get away with excessive restrictions. But this cannot be helped. (26)

While Britain took exception to New Zealand protectionism, New Zealand sometimes felt that Britain exploited her favoured position in the New Zealand market. In the early postwar years, the commercial issue on which most attention focussed was the import requirements for some of the New Zealand Government's major development projects, notably the hydro-electric schemes at Karapiro and Maraetai on the Waikato River. Tenders had been called for the supply of the generating plant for Maraetai at the beginning of 1945 - business worth approximately £2 000 000, which would open the door to more of the same for the firms who secured it. Britain had earmarked capacity for the Maraetai project in July 1944, before it was known that it would be put out to tender. The tender required that the first two sections of the plant arrive in New Zealand by the end of 1946, and it was feared that the order might be placed outside the United Kingdom, because the capacity of United Kingdom firms to live up to the delivery

date was in doubt. Fraser was approached by the High Commissioner, and Sullivan by the President of the Board of Trade. Both stressed, in similar vein, the United Kingdom's ability to supply the equipment and its serious interest in so doing, and reminded the New Zealanders that United Kingdom firms had always supplied New Zealand needs in this respect. Both went on to the offensive. They explained that they understood that Swedish tenders had been put in at a "dumped" price. Surely favours would not be granted to a neutral who had escaped the burdens of war and was now apparently granting heavy export subsidies? The tenders from other countries were very competitive. Indeed, Sullivan said, on these grounds alone it looked as if the United States and Canada together would get about two-thirds of the contract, and Sweden a quarter with only the balance going to the United Kingdom. Possibly the Swedish and British proportions could be reversed. It had been disturbing that for certain parts of the contract, quotations from British firms were identical - a practice bound to arouse antagonism in New Zealand.<sup>(27)</sup>

In the upshot, most of the large contracts for electrical machinery were given to Canada and the United States. S.G. Holland, Leader of the Opposition, tried to make political capital out of this, suggesting that if New Zealand wanted to maintain her market in the United Kingdom, she had to find ways and means of buying British goods.<sup>(28)</sup> Batterbee, the British High Commissioner in New Zealand, appealed to nobler sentiments:

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27. Discussions are recorded on BT11/2771, *passim*.

28. EA58/2/2/1, *Dominion*, 23 May 1945.

Britain ... was most anxious to secure this business. It is true that deliveries were not so prompt as from other countries, and in some cases the prices higher. But as these delays and prices are the direct result of the war, during which factories were heavily bombed, it is felt that Britain is being further penalised by these much-desired orders being given to other countries at the very time when Britain is struggling hard to recover her lost export trade. (29)

At a later date the UKMNZR Association also expressed disappointment.

In a speech during the Hamilton by-election campaign in May 1945, Nash took the time to stress that

where the question of establishing new industries was involved ... the policy was followed of giving every consideration and preference to the claims for participation in such industries of manufacturers in the United Kingdom who had been important suppliers of the goods concerned to this market.

At the same time, he pointed out,

there had been numerous occasions where orders had been placed through official channels in the United Kingdom, and the United Kingdom through inability to supply had advised that they be directed to another source. (30)

During 1946 there was still some friction over the question of contracts, and the matter was raised by the British at talks with Nash in May 1946. Nash explained the circumstances connected with the Maraetai scheme, and reminded the British of the fact that not only were British prices higher but that there was evidence of collusion - in one instance six firms had tendered the same price. The Chancellor of the Exchequer thought that as a result of action that had been taken, this sort of problem would not arise again. Nonetheless in 1949, Nash

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29. *Ibid.*

30. *Ibid.*, EP, 25 May 1945.

informed the British that there were still indications that New Zealand's policy of encouraging imports from the United Kingdom was being unfairly exploited by some firms and that tenders were being fixed artificially high in consequence.<sup>(31)</sup> Through to the 1950s the problem persisted.

New Zealand's preparedness to support Britain by favouring her as a source of imports ran into two difficulties. Firstly, New Zealand wanted to be able to protect certain industries of her own - and this meant from British as well as other overseas competition. Secondly, New Zealand wanted to be able to buy competitively on the world market - which did not necessarily mean from Britain.

### 3. New Zealand, Britain, and the Negotiations for a Postwar International Economic Order

New Zealand's import and exchange controls became an issue in the many discussions held from 1942 to 1948 on a postwar international economic order. They were promoted by the United States, who sought to establish a pattern of international economic collaboration which would avert a repetition of the economic difficulties faced in the 1930s. Trade between nations would be encouraged in particular by removing restrictions on commerce and stabilising the international monetary system. These aspirations were set out clearly in Article 7

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31. T61/3/5, 16 Jul 1949.

of the United Kingdom - United States Mutual Aid (lendlease) agreement, which provided the starting point for future discussions.

#### ARTICLE VII

The terms and conditions upon which the United Kingdom receives defense aid from the United States of America and the benefits to be received by the United States of America in return therefore, as finally determined, shall be such as not to burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed actions by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundation of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed actions and of seeking the agreed action of other like-minded Governments.

New Zealand was in principle an enthusiastic supporter of any scheme at realising a more satisfactory world economic order. The crucial question was the definition of "more satisfactory". Since 1935 the Labour Government had taken its own steps towards protecting New Zealand's economy from disruption. These steps had enabled the Government to maintain full employment of New Zealand's resources while

avoiding the foreign exchange difficulties which usually put paid to such an objective. New Zealand was reluctant to dismantle this system in the interests of international economic cooperation. It believed that the primary objective of such cooperation was to promote the full employment of all the world's resources of capital and labour. It would therefore be a contradiction in terms for New Zealand to sacrifice its economic system for an international economic order which could hold out no such promise.

Yet it seemed that the United States was envisaging just such an international order. To the United States the controls which New Zealand imposed on the movement of capital and goods were exactly the sort of restrictions which must become illegal under the new regime if it were to have any chance of success. The prosperity, which New Zealand expected would come from the operation of its system on a worldwide scale, would come instead from the economic gains which would result from the unrestricted flow of capital, goods and services. Restrictions might be acceptable to cope with balance of payments difficulties, but not as a permanent part of policy. Unlike New Zealand, the United States did not think full employment as such should be a central objective of economic policy - if it resulted from the workings of an open economic system that was acceptable, but it should not be pursued at the expense of such a system.

This study is not concerned directly with United States-New Zealand relations but with the international economic negotiations insofar as they provided a forum for the expression of Anglo-New Zealand differences. Britain's position was intermediate to New Zealand's and that of the United States. Conscious of its own economic weakness,



Britain could not contemplate complete adherence to the American system. At the same time (and this did not change with the advent of a Labour Government) she was reluctant to give an unqualified endorsement to New Zealand's system - and certainly not an open-ended one. Although New Zealand's controls operated in Britain's favour she believed that in the long term they would have a damaging effect on her trade.

Most Anglo-New Zealand debate took place in the international trade negotiations, but a glance at the international monetary negotiations is desirable. Discussions on an international monetary system started in 1942 and culminated in the agreement to establish the International Monetary Fund (and the World Bank) reached at the Bretton Woods Conference in July 1944. Endeavouring to secure Soviet participation, Britain and the United States tried to be relatively flexible about the sort of controls countries could operate if they wished to become members. Questions of wartime indebtedness were excluded from the I.M.F. discussions. But the recognition that there would be a postwar transitional period when many countries would be operating controls facilitated acceptance of the principle that

there was nothing in the Fund Agreement inconsistent with the maintenance and operation of a complete system of exchange control except and to the extent that such a control was in practice used to prevent the reasonably prompt payment and transfer of commitments which had actually arisen in connection with current transactions. (32)

Additionally, it was consistently stressed by New Zealand that she did not propose to alter in any way her right to select imports.<sup>(33)</sup> Nash

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32. Quoted in *AJHR.*, 1944, A8, p. 6.

33. *Ibid.*

concluded, and Fraser agreed, that New Zealand should join. While she would have to accept some constraints on her freedom of manoeuvre, for example, in respect of any substantial change in the value of her currency, the Fund was an improvement on the pre-war system. Moreover, whilst not challenging New Zealand's controls directly, its resources could possibly help overcome any future exchange shortage.<sup>(34)</sup>

The agreement would enter into force when countries which collectively accounted for 65 per cent of the Fund's allocation, had signed it. If signatures were received prior to 31 December 1945, such countries would have the status of Original Members.<sup>(35)</sup> In late 1945 the United States approached New Zealand to find out whether it intended to sign. New Zealand was in a quandary. Officials had argued that New Zealand should not join if Britain did not.<sup>(36)</sup> Britain however did not make any move until the conclusion of the Anglo-American financial negotiations, and it was only on 15 December 1945 that the bill allowing Britain to join passed through the House of Commons.<sup>(37)</sup> The USSR, by contrast, failed to take up membership.<sup>(38)</sup> New Zealand informed the United States that it intended to join, but that the decision would have to wait until June 1946, when the Government would bring the agreement before Parliament.<sup>(39)</sup> The 1946 session passed however and the agreement was not presented. Although Fraser and Nash had decided that membership did not pose any danger to New Zealand's system of controls, others in the parliamentary Labour

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34. Sinclair, *Walter Nash*, pp. 241-43.

35. EA104/2/5, 24 Oct 1945.

36. *Ibid.*, 10 Oct 1945.

37. EA104/2/5, *EP*, 15 Dec 1945.

38. EA104/2/5, *passim*.

39. EA104/2/5, 20 Dec 1945.

Party disagreed. They argued that IMF membership would lock New Zealand into an international monetary regime which would impose deflationary conditions, transfer wealth to gold holders, and threaten New Zealand's trade with Britain.<sup>(40)</sup> This latter argument was popular with right wing groups too, despite the fact that Britain herself had joined the Fund.<sup>(41)</sup>

In early 1947 Australia decided to join the Fund, and Dalton, the British Chancellor of the Exchequer, urged Nash to bring New Zealand in, and thereby strengthen the Commonwealth position in the organisation. But opposition in the Parliamentary Labour Party led by longstanding credit reformers like, Frank Langstone, meant that New Zealand stayed outside.<sup>(42)</sup>

By this time the international trade negotiations were in full swing. The Fund's major challenge was to exchange controls; it was import licensing which was at issue in the trade talks.

Of no international commercial practice was the United States more suspicious of than quantitative restriction of trade, which was seen as a very blatant way of limiting the legitimate access of foreign traders to a domestic market. The United Kingdom was not as completely opposed to quantitative restriction of trade as was the United States. Contemplating a severe balance of payments problem in the postwar period, the British Government could see some advantage in quantitative restrictions. In Anglo-American discussions in

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40. *EP*, 31 July 1946, 30 Aug 1946.

41. Sinclair, *Walter Nash*, p. 245.

42. Sinclair, *Walter Nash*, pp. 245-46.

September and October 1943 the two countries agreed that quantitative restrictions could be used in the postwar "transition" period and also to combat balance of payment crises. But other cases of quantitative restrictions were considered protectionist and harmful to the collective interest, a view which Britain had made fairly clear to New Zealand as early as October 1942. She

fully recognised the need for new industrial development in primary producing countries, but trade could not expand if artificial development was fostered by excessive barriers and there must be some reasonable limit to the protection of new industries. (43)

In February and March 1944 Commonwealth ministers and officials had met to discuss economic issues including commercial policy. (44)

There was general acceptance of the Anglo-American position that

Quantitative regulation of imports was to be generally permitted during the period of transitional readjustment after the war. Subsequently it was to be banned except for certain recognised cases of which the most important were: first, for the implementation of a recognised international commodity agreement; secondly in order to safeguard a country's balance of payments. (45)

As Nash pointed out in a cable to Fraser

Import licensing would not be permitted for purposes of protecting home industries or industries deemed necessary on grounds of national security. We have made it clear that such prohibition is diametrically opposed to New Zealand policy. There is no doubt however that most governments represented here will insist on ending or severely restricting the right of signatories to impose prohibition of imports. (46)

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43. EA104/4/1 record of Commonwealth postwar economic talks Oct/Nov 1942, p. 11.  
44. It was an officials meeting but Nash attended.  
45. BT11/2351, summary of talks Feb/Mar 1944, p. 10.  
46. EA104/4/1, 13 Mar 1944.

Nash's pessimism was justified by events, although not immediately. The talks on an international monetary system had impinged on import control matters but the Bretton Woods Articles of Agreement did not prohibit, either in the postwar transitional period or thereafter, the use of import control as a policy measure provided that exchange funds were readily available for all licensed imports.<sup>(47)</sup> But in December 1945 when the United States published its "Proposals for Consideration by an International Conference on Trade and Employment", Anglo-New Zealand differences emerged into the open. In this document the section on quantitative trade restriction confined restriction to the sorts of circumstances already agreed on between the United Kingdom and the United States (with the addition of certain circumstances affecting agricultural products). The United Kingdom stated that it was "in full agreement on all important points in these proposals" but New Zealand felt unable to endorse this statement primarily because of the question of import control. In a cable to the British Government, New Zealand set out fully the reasons for its defence of the policy of import selection and denied, in particular, that it was incompatible with the commitment to increase and expand production, employment and trade enjoined in the Mutual Aid Agreement:

[New Zealand] holds that an import licensing policy in no way contravenes the purpose and intention of Article VII if it provides for the maximum aggregate volume of imports consistent with the security of its balance of payments position.

It also claims that it should not be denied the right through import selection to determine what imported goods are most likely to promote the expansion of production both internally and externally and to achieve the same objective of full employment

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47. *Ibid.*, brief for PMNZ, 8 Dec 1945.

.... Your attention is again drawn to the fact that the abnormal sensitivity of New Zealand's economy to external trade conditions is mainly due to it having the highest per capita external trade in the world to the limited range of its exports and to the concentration in one market of the bulk of its exportable surplus.

In view of this position, New Zealand adheres to the opinion that the regulation of imports is the best medium for preventing the development of an exchange crisis .... The policy of licensed selective imports is preferable to that of confining the use of regulation of imports to periods when New Zealand is deemed to be in temporary balance of payment difficulties. (48)

Here New Zealand was seeking to give a broad interpretation to "balance of payment difficulties". But at the same time she was prepared to concede that full employment in New Zealand

was unavoidably associated with some measure of protection for ... secondary industries since full employment cannot be achieved ... on the basis of primary production alone. (49)

(This point related back to the more general one that while the industries were needed for employment purposes they weren't necessarily competitive with mass production or low labour cost imports - hence the need for protection). However convinced some New Zealanders may have been by this reasoning, Britain was less credulous. Britain accepted that

in the special circumstances of New Zealand regulation of imports is best means of avoiding development of exchange difficulties and that New Zealand Government would not wish to be obliged to lift such controls only to be compelled to re-impose it again on the recurrence of balance of payment difficulties.

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48. EA104/4/1, MEA-SSD, 8 Nov 1945.

49. *Ibid.*

But it was also pointed out that

quantitative restriction of imports is an instrument which as a result of experience between the wars is looked upon by many countries ... as having had a very damaging effect on world trade. (50)

At talks between Britain and New Zealand in June 1946, the arguments were run over again. Nash had requested the meeting following the discussion of commercial policy by Prime Ministers in May 1946.<sup>(51)</sup> British officials stressed that quantitative restrictions were acceptable in the postwar period and at a time of a disequilibrium in the balance of payments. It was the permanence of New Zealand's system that was at issue. Nash reiterated New Zealand's by now familiar arguments. Firstly, that New Zealand's balance of payments was too vulnerable to allow any relaxation: he made particular reference to his

vivid recollection of the terrible state in which New Zealand [was] in 1939 when even after restrictions were imposed, the loss of funds increased because of orders already placed. (52)

He stressed that import control would not restrict trade as New Zealand would always use what exchange it had available for imports after other payments had been provided for. This conformed with the argument that New Zealand's industrial policy was expansionary, not restrictive. On this British officials repeated their objections to the use of quantitative regulation for protective purposes. Ashwin failed to see why quantitative restrictions used in order to protect infant industries were destructive of world trade. British officials admitted that the

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50. EA104/4/1, SSD-MEA, 9 Nov 1945.

51. Nash represented New Zealand at the Prime Ministers Conference.

52. BT11/3711, talks, 5 Jun 1946.

system "used, in a single case, by men of goodwill" might not prove restrictive but if it expanded the United Kingdom would be faced with a "permanent and arbitrary restriction of exports". Britain suggested that New Zealand protect its industries by subsidies, or tariffs. New Zealand rejected both of these: neither was such a satisfactory method of restraining imports.<sup>(53)</sup>

No resolution was reached on these questions before the first preparatory session of the Conference on Trade and Employment met in London in October and November 1946. From this point, through the second preparatory session at Geneva (April-August 1947) and the Conference itself at Havana (November 1947 - March 1948) the bilateral element of talks between the United Kingdom and New Zealand became less significant.

New Zealand found Britain sympathetic in a general sense to her difficulty, even although she wasn't prepared to go all the way with her on her demands. Basically, Britain felt that it should be possible to make some special arrangement for New Zealand, but it was important that it not be done in such a way that other countries be able to exploit it. Moreover, Britain considered that even poor countries would not necessarily benefit, as New Zealand had argued, if richer countries could use the system against them, for instance to exclude agricultural imports.<sup>(54)</sup>

New Zealand proceeded on her own to seek an amendment to Article 33 (later Article 31) which she believed would have accommodated her

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53. EA104/4/1, 14 Jun 1946.

54. The record of New Zealand's role in the international trade talks at Geneva and Havana is found on EA104/26/1.



interests. Britain thought that the amendment

would make it only too easy for countries to  
impose quantitative restrictions for  
protective reasons without any effective  
safe-guard against their abuse. (55)

This sentiment was conveyed in a joint message to Nash from the Commonwealth Secretary, the President of the Board of Trade, and the Chancellor of the Exchequer. Nor did New Zealand find much support amongst other countries. Eventually she accepted a redrafting of Article 26, concerned with responses to balance of payments problems, reluctantly accepting that in this way her policies were to some degree legitimised. (56)

During the years 1945-1948, New Zealand's unqualified commitment to a policy of exchange and import control gave her a distinctive position in the international community. Although not a socialist country, she frequently found herself aligned with Czechoslovakia, the only East European country participating in the trade negotiations.

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The end of the war saw a revival in Britain's interest in New Zealand's commercial policy. The need to conserve foreign exchange gave added impact to Britain's representations, but she was also concerned to protect the interests of her exporters. New Zealand was prepared to make special efforts to favour Britain in her trading relations, not just because of the shortage of hard currency, but also because she saw a positive correlation between such preference and the protection of her own position on the British market. Nonetheless

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55. EA104/2/2/1, SECRO, CE, PBT-Nash, 18 Jul 1947.

56. *Ibid.*, 27 Jul 1947.

there were circumstances where her import policies created differences with Britain, for instance the total prohibition on some imports and the direct major purchases to Britain's competitors.

In the international trade talks differences of approach between New Zealand and Britain became more evident. But Britain herself still maintained controls on imports. The liberalisation of trade relations being promoted through the talks was a possibility rather than an actuality, and the differences did not therefore become too acute.

## CHAPTER EIGHT

### Food Exports in the First Years of Peace 1945-1948

1. Introduction
2. The quest for long-term security 1945-1946
3. The 1946 contract negotiations - short-term profitability
4. Long-term security: the international dimension
5. The 1947 negotiations: short-term profitability
6. The 1947 sterling crisis: the lure of dollar markets
7. 1948: the offer of seven year contracts
8. 1948: short-term profitability

## 1. Introduction

New Zealand's expectation of a slump was not borne out in the first postwar years. Food shortages outlasted the war and became exceptionally acute in Europe towards the end of the winter in both 1945/46 and 1946/47 - the latter the worst since the 1880s. Then in August 1947 Britain's severe balance of payments crisis powerfully reinforced her need to direct her overseas food procurement activities to sterling area countries - such as New Zealand - wherever possible.

Britain's wartime need for New Zealand's resources went with the grain of New Zealand export strategy and concerns and this remained true in the 1945-1948 period. The British market was too important for New Zealand not to wish to secure her position in it. But in the final analysis this had to be a profitable position. Constraints of the kind accepted in 1944 were acceptable as a long-term strategy. In the short-term they were less welcome. Because the market was buoyant, short-term and long-term considerations jostled throughout the period. The wish to make a good living had to be set against the wish to secure the future. Differences of emphasis between Government and producers complicated the picture.

Through these early postwar years the Labour administration of Peter Fraser remained in office, with a much reduced majority after the 1946 elections. Although most primary producers could not at this time be regarded as Labour supporters, relations between Government and producers were not unsatisfactory. As in the later years of the

war, the major conflicts were over stabilisation and its effect on producer costs and returns. In respect of overseas trade policy there was much more unanimity. Both sides accepted the need for the continuation of the wartime selling arrangements. Within that framework however producers pressed for changes. State control of the dairy industry had been appealing to producers when it meant an unqualified guarantee of their livelihood. In 1940, when the guaranteed price was held for the third year in a row, it became clear that the Government was taking into account conditions overseas. From that time pressures built up for the industry to have a greater say in marketing and price policy. Nash may have been reluctant to retreat, but Fraser saw the sense of making a change. With the war over, Labour adopted as election policy the transfer of responsibility for dairy marketing and the setting of a guaranteed price to a joint government-industry authority. This policy was implemented in 1947 with the passing of the Dairy Products Marketing Commission Act.<sup>(1)</sup> The Commission took up its responsibilities in August 1947, and prior to the 1948 contract negotiations it succeeded the Marketing Department as the party to the agreement with Britain. The successful conclusion of negotiations in that year emphasised that for the most part Government and producers had the same interests in the external livelihood of the industry.

In the first years of peace the Government did not encounter many difficulties with the meat producers for whom in any case Government purchase and control was more particularly identified with wartime

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1. Dairy Products Marketing Commission (hereinafter D.P.M.C.) Annual Report 1947/48; interview with Sir Arthur Ward, 21 Apr 1981.

exigencies. In 1948 it was agreed that the Meat Producers Board should become the agent of the Government in respect of the handling of meat for export within the terms of the bulk purchase contracts. This gave it an official role in the trade in New Zealand. Contract negotiations remained a government responsibility, but representatives of the industry would be associated with the Government in the discussions, an extension of the informal consultation which had always taken place.

Fraser had taken an active role in trade policy in 1939 and 1944 because he was in London for War Cabinet and Commonwealth discussions at those times. Such conjunctions did not recur in the postwar years. At the ministerial level Nash's position therefore was just as significant, if not more so, than earlier. Neither of the Ministers of Marketing - Ben Roberts (1943-46) or E.L. Cullen (1946-49) travelled overseas - at the ministerial level only Nash or Fraser were ever involved in substantial negotiations. Ashwin's importance remained unquestioned. The fact that he was Secretary to the Treasury only serves to emphasise the significance to the Government of the financial aspects of trade matters. Both he and Nash attended the 1946 negotiations. The 1947 negotiations were conducted by George Duncan, the former Director of the Export Marketing Department and of equal importance to Ashwin in wartime discussions.<sup>(2)</sup> In 1948 Ashwin was once again in London along with Will Marshall, his former colleague on the Economic Stabilisation Commission and now Chairman of the D.P.M.C.<sup>(3)</sup>

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2. From January 1946 he was Chairman of the New Zealand Wool Disposal Commission.
  3. After the war, Ashwin ceased to be Director of the Economic Stabilisation Commission, the position being filled by L.C. Webb. Marshall resigned from the Commission on taking up his appointment with the D.P.M.C.

The critical decisions were thus still taken by a small group of men who had worked with each other for many years. In Britain they continued to deal with the Ministry of Food, the wartime responsibilities of which continued without modification.

## 2. The Quest for Long-term Security 1945-1946

The continuing food crisis suggested New Zealand had little to worry about in respect of its long-term arrangements with Britain, but this wasn't entirely the case. The food crisis was intense, but it was probably short-term. In October 1945 New Zealand officials sought discussions at ministerial and official level to establish the expectations Britain had about overseas food import policy in the postwar years. The election of a Labour Government in July 1945 was an added incentive. The Dominions Secretary, Lord Addison, and the Minister of Food, Ben Smith, were both fairly vague except about the policy of "averaging out" i.e. the practice of selling any one product e.g. butter, at a standard price, even if it was originally from sources with different cost structures. New Zealand felt that this disadvantaged her, the low-cost producer, in terms of market recognition, but the British were adamant.<sup>(4)</sup> At a later meeting, British officials could not be drawn on prospects for the continuation of the long-term contracts.<sup>(5)</sup>

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4. ESC2/8, summary of informal talks, 10 Oct 1945.

5. MAF 88/406, 31 Oct 1945.

The fact that the new Labour Government in Britain was expected to commit itself to a policy of promoting British agricultural production through a system of guaranteed prices, and assured markets for principal products added another dimension to New Zealand's inquiries.<sup>(6)</sup> At present British agriculture was not a threat. But how far forward could New Zealand look with certainty?

However, in 1946, when the question of revision of the contracts arose, there was more certainty. Britain's expectations about meat and dairy produce differed from each other. Dairy produce was likely to be in short supply in 1950 and Britain was therefore amenable to extending that contract for another two years.<sup>(7)</sup> Amongst the officials in the Meat and Livestock Division of the Ministry of Food some thought the meat shortage might have eased by then. As the United Kingdom was buying on an exportable surplus basis, it could turn out very expensive to extend the contracts if prices fell, especially as Argentina and Australia would have to receive the same treatment as New Zealand. At the very least, it was thought, Britain should wait until late 1947 before making a decision. Could not New Zealand be satisfied with fixed volumes for 1948-1950 rather than the exportable surplus? It was not as if Britain was leaving New Zealand in the lurch - it was most unlikely, given the size of the ration, that British demand for New Zealand meat would actually decrease.<sup>(8)</sup>

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6. DPM, London Food Council *et al.*, 30 Nov 1945.

7. MAF 83/1668, 14 Jun 1946, 20 Jun 1946.

8. MAF 88/409, 31 May 1946, 4 Jul 1946, 5 Jul 1946; MAF 83/1668, 20 Jun, 5 Jul 1946.



Such caution did not take account of New Zealand's determination. At a meeting of British and New Zealand officials,<sup>(9)</sup> the latter argued that if Britain wanted to see New Zealand's production increased, as it seemed she did, then it would be advantageous to extend the contract. It would be unfair if countries which had gained a footing in the British meat market because of war conditions retained this outlet for their supplies. Moreover it would be difficult to explain to producers in New Zealand why one contract had been extended and not the other.<sup>(10)</sup>

Nash took the issue up at ministerial level. He reminded the British that at talks with Sir Ben Smith, the Minister of Food, it had been agreed that extension of the contracts "should be favourably considered". He reiterated the political difficulties which the Government could encounter in accepting differing regimes for meat and dairy produce, and also the importance of a four year contract if producers were to expand output. Without specifically taking note of these points, Smith accepted that it was reasonable to extend the contract. The only reason for not so doing, as far as he could see, was that Britain might be able to obtain other supplies at a lower price. Even so Britain would need what New Zealand had to offer.<sup>(11)</sup> Although agreement was reached to extend the frozen meat contract to 1950, the position of pigmeat remained distinctive. The United Kingdom had agreed to take New Zealand's exportable surplus of pigmeat for the

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9. The negotiations were conducted by Nash on the New Zealand side, with the assistance of officials, but as in 1944 both Meat Board (G.H. Grigg) and Dairy Board (W.E. Hale) representatives were in London.

10. MAF 83/1668, 20 Jun 1946; EA58/2/2/1, NZHCL-MEA, 4 May 1946.

11. MAF 83/1668, 29 Jun 1946, 5 Jul 1946.

1946/47 season and now agreed to do the same for the 1947/48 season, but would not, as New Zealand hoped, extend this commitment to 1949/50.<sup>(12)</sup>

The other element of long-term security was protection against price falls. New Zealand's negotiators in 1946 do not seem to have been too concerned to establish a guaranteed minimum price for the full period of the contract - a major issue in 1944. Probably they recognised that given Britain's reluctance to commit herself wholeheartedly to payment in terms of production costs, (see below p.251) there was not much point in pressing for it. Britain did accept that price reviews should be annual rather than biennial, something she had resisted in 1944. British officials surmised that world prices would rise in 1947 and that Australia and New Zealand would be reluctant to contract ahead for any longer period than one year.<sup>(13)</sup> New Zealand's economic interests were being protected as much by market conditions as by the strength of her long-term arrangements.

### 3. The 1946 Contract Negotiations: Short-term Profitability

As well as an assured market, New Zealand also sought to maintain remunerative prices for its frozen meat and dairy produce. In 1944, she had made a major and successful effort to negotiate a supplement to her sterling balances through payments allied to the food contracts.

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12. MAF 88/406, 16 Nov 1945; MAF 88/409, NZHCL-MF, 1 Jul 1946; MB50/2/6, MF-NZHCL, 19 Jul 1946.

13. MAF 88/409, Turner-Rodden n.d.; MAF 83/1668, 29 Jun 1946.

Given the relative balance of Britain and New Zealand's financial circumstances in 1946 this was not on; nor did Nash attempt it. This did not preclude New Zealand making a conventional application for price increases invoking the disparity between New Zealand's imports and export prices: producers saw the elimination of such a disparity as important to their efforts to maintain a balance between costs and returns whilst the balance of payments benefit to the economy as a whole was self-evident. But British negotiators never had any time for the price disparity argument, and this was as true in 1946 as before or later. When Ashwin pointed out that New Zealand's claim for an increase in meat prices would have been a lot more substantial if it had taken into account the increased prices of British goods, the Ministry of Food's response was unsympathetic:

... the general question of the overall increase of prices on trade between the two countries was a matter for the United Kingdom Treasury ... the Ministry of Food could review prices only on a commercial basis within the terms of the Review Clause of the Meat Agreement which provided for consideration to be given to substantial changes in the costs of meat production in New Zealand. (14)

A case based on rises in farm costs was likely to meet a similar response. These had been the predominant criteria by which prices were adjusted since 1939, given the circumstances that Britain needed the food and therefore had to pay a remunerative price. To New Zealand the advantages of continuing with the system, even although the war was over, were manifest. Farm incomes would never again be threatened as they were in the 1930s, by prices falling below costs.

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14. MAF 83/1668, 20 Jun 1946.

In talks with the Minister of Food, Nash presented New Zealand's case for new contract prices based on present prices plus an allowance in respect of "approved additions to costs during the period since those prices were established".<sup>(15)</sup> The Minister of Food's reaction was rather cautious. It was no longer so clear that it was advantageous to stick with this system, which deprived the purchaser of the opportunity to take advantage of competitive circumstances. To put this case on a rather more principled basis, Smith pointed out that any automatic connection between prices and costs would deprive producers of the incentive to keep costs down. Nash suggested there could be safeguards against this, but the Minister argued this would put the United Kingdom in the position of appearing to veto New Zealand's domestic policies - a rather ironic argument given the pressure Britain had applied to get New Zealand to ration.<sup>(16)</sup> In the upshot Britain did agree that production costs were an admissible criterion, but stressed that this could not be seen as a precedent for future price reviews.<sup>(17)</sup>

The other criterion which was set down in the review clause was the prices offered by other suppliers. This was intended to cover circumstances where the United Kingdom could expect to secure output at lower prices. But it was arguable that New Zealand could also take it into account as a justification for requesting higher prices, a distinct possibility in 1946, particularly in respect of dairy produce. It was very likely that Denmark would be paid a much higher price than Australia and New Zealand (although lower than previously) because its

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15. MAF 88/409, 4 Jun 1946.

16. *Ibid.*

17. MB50/2/6, 19 Jul 1946.

costs were so high.

Nash was not interested in following this argument through. Stabilisation meant that high prices were not an unqualified good, but were seen by the Government partly in terms of their inflationary consequences. He suggested that it was better for the Danish price to be lowered than for the New Zealand and Australian price to be increased "in the interests of general price stability".<sup>(18)</sup> If that could not be arranged, he was happy for the Ministry of Food to pay more elsewhere, provided they armed the New Zealand Government with full information so that it could deal with its own producers.<sup>(19)</sup> "In the long view" too, it seemed doubtful whether New Zealand should seek to obtain the much higher prices that the United Kingdom was paying to foreign suppliers.<sup>(20)</sup>

Another issue involving price-setting on which there was some discussion was the future of the lump-sum payments. The matter arose because New Zealand sought a butter price increase to bring it ahead of the effective price of 16ls. 1d. which Australia was receiving when her lump sum payments were taken into account. New Zealand did not consider that the lump sum payments she received had anything to do with her commodity returns, whereas Australia's did: but British officials were inclined to think that if New Zealand wanted increases to match up with Australia, the supplementary payments would have to go.

The payments after all came out of the Ministry of Food vote, and it was quite evident that they were regarded as a concealed part of the price by other suppliers, such as Denmark.<sup>(21)</sup> New Zealand on her side envisaged upward revision of the payment: in the upshot they were left untouched and the case for a price increase examined independently of them.<sup>(22)</sup>

How then was the new butter price of 175s. arrived at? Nash explained to representatives of the Dairy Board on his return to New Zealand that he had asked for 176s. 6d. on a cost basis - as compared with the current 150s. 6d. But this ran into difficulties. Firstly, on a cost basis Australia was entitled to more than New Zealand - an outcome unacceptable to the latter. Secondly, Britain would only accept 168s. 1d. as valid in terms of increased costs. By her own account, Nash told the British it was imperative that New Zealand should have 175s. "to meet the request of the industry". He went to the Chancellor of the Exchequer and convinced him of this: the Minister of Food, said Nash, had cut the ground from under his feet.<sup>(23)</sup> Australia also received 175s. thus removing the premium traditionally paid to the New Zealand product on quality grounds. It had been obscured by the lump sum payments anyway; Australia had pressed hard for parity and Britain concurred.<sup>(24)</sup>

The industry was particularly anxious to establish that the entire increase was towards covering costs, because of the court decision that

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21. MAF 88/409, Wilson-Rodden, 10 May 1946.

22. MAF 83/1668, DO-UKHCW, 15 Jul 1946.

23. DPM C3/1, 31 Aug 1946, MFN and DB.

24. MAF 83/1668, 5 Jul 1946.

subsidies on local milk be debited to the dairy industry stabilisation account.<sup>(25)</sup> This subsidy would become a major charge on that account if it was increased to take account of the new overseas prices. Under the circumstances, it seemed wise to get as great a proportion of the increased price paid directly to producers as possible, as the remainder, which would go into the stabilisation account, would be eaten up by subsidy payments.<sup>(26)</sup> The case for making a full payout would have been greater if the increase had been made entirely in respect of the increased production costs: hence the importance of establishing this. But whether or not the Dairy Board could prove its case in debate, the Government was not prepared to pay out the whole of the increase, a move which it considered would threaten stabilisation. Nor were the Dairy Board representatives entirely unsympathetic to this. They recognised that the good years could not be expected to go on for ever.<sup>(27)</sup>

On meat, New Zealand argued for an increase of 43.33 per cent over B.P.I. (1939/40) prices for meat, and 48.33 per cent on pigmeat. The British negotiators wanted to know why they should pay out for increased production costs when not all the payments so made went directly to the producer. Ashwin explained that the reserve account into which some of the money was paid had helped stop inflation, which in time would help keep down costs.<sup>(28)</sup> Additionally, the Ministry of Food wondered why an increase of costs of only 26.6 per cent had been

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25. See above, p. 172.

26. The Government absorbed any deficit which might accrue on the account so the fact that charges would continue to mount in it did not worry the industry.

27. DPM C3/1, 31 Aug 1946; MAF 83/1668, UKHCW-DO, 30 Jul 1946.

28. MAF 83/1668, 20 Jun 1946.

reported for wool (1944) when in that year a 33.33 per cent increase in the price of meat had been agreed to. New Zealand replied that costs of wool and meat production were not the same and that it could not therefore be deduced that payments would increase at the same rate. (29) There was also some discussion about pigmeat prices. Britain was not keen on encouraging pigs at the expense of grain production. But in New Zealand pig-raising was a by-product of dairy production. New Zealand argued that pigmeat prices needed to be increased at a greater rate because pig production involved relatively more labour per unit of production on account of the more difficult work and the need for longer hours. Britain accepted New Zealand's assurance that higher pigmeat prices would not result in any increase in the price or in demand for grain of which other countries might take advantage. (30)

The United Kingdom Treasury, for its part, felt that the price increases being demanded for meat were moderate enough. The Ministry of Food's view was that

it was frankly impossible to subject [New Zealand's figures] to real scrutiny, but [that it] did not think the proposals were 'irresponsible'. (31)

However, in the exchange of letters which set out the details of the new contract, the Ministry did include a reference to the fact that part of the increase was being retained by the New Zealand Government for the benefit of the industry. Although this was not inconsistent with the claim for higher prices on the basis of increased production

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29. MAF 88/409, 1 Jul 1946; MAF 83/1668, 4 Jul 1946.

30. MAF 83/1668, 20 Jun 1946.

31. MAF 83/1668, Wilson-Wilson (sic) 22 Jun 1946.



costs, the Ministry reserved the right to reconsider this aspect in the future. (32)

On other conditions of the contract New Zealand also sought revision. The unifying theme was a desire to protect commercial opportunities. In discussion Nash raised the fact of Australia's exploration of Asian butter markets, on which New Zealand was missing out. While wanting New Zealand butter to go to the United Kingdom as long as the United Kingdom wanted it

an increase in the percentage allowed for outside disposal ... would be of considerable political value. (33)

A similar request was made in respect of meat for which no substantial provision at all was currently made. New Zealand now wanted to be able to divert 3000 tons. Within the United Kingdom market, New Zealand pressed for a return to the prewar system of distribution and branding which would help ensure that the New Zealand product retained a positive identification in the eyes of consumers and retailers. Dissatisfaction was expressed with the continuation of restrictions and practices imposed on the meat trade because of the shipping shortages - telescoping, deboning and the embargo on the chilled beef trade. (34)

The extension of the long-term contracts reflected Britain's belief that food shortages would continue and it was in large measure consistent with them, that she declined all of these requests. It was explained that Australian shipments, like New Zealand's were subject

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32. MB50/2/6, MF-NZHCL, 19 Jul 1946.

33. MAF 88/409, 4 Jun 1946.

34. MAF 83/1668, 20 Jun, 30 Jul 1946; MAF 88/409, 3 Jun 1946.

to Combined Food Board allocation - something Britain claimed it could do nothing about. The 2.5 per cent figure agreed on in 1944 was removed, but a larger percentage was not substituted. On meat diversion, Britain did not want to make a concession and then have to extend it to all suppliers. The matter was deferred. On the other issues, New Zealand had to accept that the existing system would be continuing for some time.<sup>(35)</sup>

#### 4. Long-term Security: the International Dimension

Apart from the influence of other countries such as Australia, Denmark and Argentina on the bilateral relations between New Zealand and Britain, there was a multilateral dimension arising from the elaboration of Anglo-American plans for a new international commercial order. New Zealand's concern about the implications of these plans for her trade with Britain was a persistent theme in the first, postwar years. That concern reflected not just the elaboration of plans, but the underlying economic and political supremacy of the United States and its capacity to structure the world's economy to its advantage, but to the possible disadvantage of the export trade of a small country like New Zealand.

At the end of November 1945, New Zealand was acquainted, shortly in advance of their publication, with the official United States "Proposals for a Conference on Trade and Employment", and this produced

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35. *Ibid.*

a surge of concern. In late October, following on communication from London about the progress of American thinking, the New Zealand Government stressed to Britain that it

could not agree, unless adequate safeguards were provided by other means, to reduction of preferences involving reduction in duties to level which might seriously prejudice New Zealand's industries or the market in the United Kingdom for our products. (36)

The Dominions Office assured New Zealand that the United States was no longer, as had once seemed to be the case, seeking to sweep away all preferences. New Zealand was not entirely convinced though that financial or other exigencies might not lead Britain herself to sell imperial preference down the river.<sup>(37)</sup> Britain denied this but its economic weakness and dependence on the United States meant that the issue lingered in the background. In his talks with the Chancellor of the Exchequer in February 1946, Fraser stressed the importance New Zealand attached to her trade with Britain. He then made an unsolicited observation about American dissatisfaction with the preference New Zealand showed for United Kingdom firms in placing import orders. The inference could be taken that Britain needed New Zealand as much as New Zealand needed Britain - maybe more.<sup>(38)</sup>

Practically, though, New Zealand accepted that there was room for reciprocal bargaining regarding her duty preferences in the British market provided her position was safeguarded by other means, e.g. quotas, bulkpurchase arrangements and commodity agreements.<sup>(39)</sup> Since 1939, bulk purchase agreements had far outweighed imperial preference as devices for giving New Zealand favourable access to the British market.

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36. EA104/4/1, MEA-SSD, 24 Oct 1945.

37. EA104/4/1, 17 Oct 1945.

38. D035 WT662/3/28, 19 Feb 1946.

39. EA104/4/1, memo ST-PM, 8 Dec 1945.

But they too were not necessarily compatible with American plans and interests. Fraser told Dalton that New Zealand and the United Kingdom should settle the long-term contracts quickly before the Loan Agreement came into force. Dalton reckoned that there would be no problems. Keynes, who was also at the meeting, added that as New Zealand was a low cost supplier, she need not fear any pressure from the Americans to make contracts conform to commercial principles.<sup>(40)</sup>

This was realised in New Zealand too. A memorandum by G.D.L. White of the Economic Stabilisation Commission, reckoned, on the basis of reports of Anglo-American discussions, that while Americans had misgivings about the contracts, especially if they continued for long periods, they were not about to take issue with them. They were most concerned about Britain's bacon contracts, which did not involve New Zealand.<sup>(41)</sup>

The 1946 round of negotiations on the contracts coincided with the debate in the United States Congress on the British loan, and British officials did not want a favourable decision on that to be jeopardised by having attention focussed on the conclusion of a bilateral contract. Anxiety was not allayed by the presentation of an American *aide-memoire* criticising a wheat contract made between Britain and Canada as contrary to the Conference proposals. Accordingly Britain asked New Zealand to refrain from publishing details of her contracts.<sup>(42)</sup> The loan agreement was approved and the loan became effective as at 15 July, on 25 July. At the same time, New Zealand

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40. DO35 WT662/3/28, 19 Feb 1946.

41. EA104/4/1, memo 6 Feb 1946.

42. MAF 83/1668, draft cable n.d.; MAF 88/409, 14 Jul 1946; MB50/2/6, MF-NZHCL, 19 Jul 1946.

was informed that the *aide-memoire* was no longer a problem, and therefore at the end of the month the details of the agreements were made public.<sup>(43)</sup>

Full international negotiations on the basis of the United States proposals began in October 1946. The fortunes of imperial preference have been discussed in chapter seven, in the context of New Zealand's preferential treatment of British goods. The tariff discussions held at Geneva concurrently with the drafting conference which took place there from April to August 1947 saw much negotiation over preference but no threat to New Zealand's position in the British market materialised. Difficulties over bulk purchase did not arise either, although Nash had anticipated problems. He felt that the draft Charter for an International Trade Organisation did not give a very clear-cut recognition of bulk buying - were Britain's purchases of New Zealand's produce under the contracts "solely in accordance with commercial considerations" as Article 30<sup>(44)</sup> required? Commonwealth delegations agreed that the article as it stood did allow bulk purchases and no progress was made in amending it. Nash's request that New Zealand record a reservation on the articles reached the delegation too late to be effected.<sup>(45)</sup>

Nash himself attended the Conference at Havana and endeavoured to amend Article 30 so as to more fully validate the bulk purchase agreements. But Wellington thought that as "commercial considerations" was not properly explicated at any stage in the article New Zealand should not

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43. EA58/2/2/1, NZHCL-SEA, 25 Jul 1946.

44. As it ultimately became.

45. The record of New Zealand's participation in the conference is found on EA104/26/1.

attempt to define it. By providing a special paragraph for bulk purchase New Zealand would be raising doubts - which might not have previously been very pronounced - about whether bulk purchase was in fact allowed under paragraph 1 of the article. Britain, in particular, wanted to avoid the debate which might ensue if an attempt was made to be more specific. Nash had talks with other Commonwealth delegations and in consequence withdrew the proposed amendments to Article 30. (46)

Reporting on the conference back in Wellington in June 1948, Nash argued that the articles concerned with state trading did not affect bulk purchase. (47) American concern about the contracts, despite the fact that there was now consideration being given to their renewal for seven years, seems to have ebbed, perhaps in the light of Britain's 1947 balance of payments crisis.

During 1948, the first murmurings about closer economic association between Britain and Europe were also heard. The establishment of the O.E.E.C. (Organisation for European Economic Cooperation) to administer the European Recovery Plan through which funds were channelled from the United States to Europe, raised the prospect of attempting an economic integration of European States. The United Kingdom was involved in these discussions some of which took place at Havana. The New Zealand delegation there had talks with the British on the possibility of obtaining from Britain an agreed minute or exchange of letters which would commit Britain to

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46. *Ibid.*

47. *Ibid.*, *Dominion*, 12 Jun 1948.

consulting her Commonwealth partners before accepting any commitment to enter into a customs union.<sup>(48)</sup> Britain was quite adamant that this would be the case - an attitude which was maintained at the economic discussions held in London later in the year. Private conversations held by G.L. Greensmith, Deputy Secretary to the Treasury and New Zealand's representatives at these discussions, indicated that a Customs Union was seen as too disruptive and unjustifiable until defence and finance arrangements were very much more satisfactory.<sup>(49)</sup>

#### 5. 1947 Negotiations: Short-term Profitability

The contract negotiations in 1946 had settled the main outlines of New Zealand's meat and dairy export trades for the succeeding four years. By providing New Zealand with unrestricted access for as much butter, cheese and frozen meat as it wished to export, the agreements made in that year pushed into the middle distance one of the principal concerns of New Zealand's economic diplomacy. This did not mean that New Zealand had nothing to talk to Britain about, though. The prices set in 1946 came up for possible revision after one year and the price movements by which New Zealand judged its need for increases - in the costs of inputs, the terms of trade, and prices paid to other suppliers - suggested to varying degrees the need for revision of the schedules. For Britain, the 1946 agreement did not resolve all issues either. If the supply situation for either meat

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48. EA104/26/1, NZDH-MEA, 17 Mar 1948.

49. T61/3/4, Greensmith-Nash, 27 Sep 1948.

or dairy produce eased, New Zealand would find the price schedules under pressure. Equally though, if the supply situation remained difficult, Britain would be looking to New Zealand to increase its output.

On meat, there was little or no justification for a price increase on the grounds of relativity with other suppliers as the terms enjoyed by Australia and Argentina were much the same as New Zealand's. Australia itself did not think it had a case for an increase in meat prices, except perhaps in some minor respects. The Australians did think a case could be made for some increase based on the relative prices now being paid to Argentina, on the basis that pre-war differentials in market prices should no longer apply, but they did not intend to raise this provided no further increase was granted to Argentina for the year ended 30 September 1948.<sup>(50)</sup> The New Zealand Meat Board did not seek increases either, except in the event of increases for Australia or Argentina. By the time the negotiations started, Britain was deep in the throes of the balance of payments crisis brought on by convertibility and the Board announced publicly that because of this it would not seek price increases.<sup>(51)</sup>

Nor did other significant issues arise in the 1947 meat negotiations. Walter Mulholland, chairman of the Meat Producers Board, suggested to Nash that the lump sum payments be put into prices,<sup>(52)</sup> but Nash disagreed, consistent with his Government's stabilisation policy: nor did the British raise the issue. Britain did agree to bring

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50. EA58/2/2/1, Nash-Fraser, 21 Apr, 20 May 1947.

51. *Ibid.*, DMK-MMk; 14 Aug 1947, reply 23 Aug 1947 *Southern Cross*, 30 Aug 1947.

52. MB50/2/6, Mulholland-MPB, 30 May 1947.



pigmeat prices into line with the rest of the meat contract, i.e. it would take the exportable surplus until mid-1950. And it was agreed that discussions on arrangements to be made after 1950 would commence before the end of 1948. On relaxing the restrictions associated with wartime shipping, New Zealand made little progress except that Britain did agree to allow some beef to be shipped bone-in, a case New Zealand pushed strongly on the grounds of domestic labour shortages. This concession was not publicised as Britain did not want to have to face pressures from major beef exporters, notably Argentina. The matter of meat shipments to secondary export markets was again deferred - New Zealand had in fact done little business in those few destinations to which it was allowed to ship.<sup>(53)</sup>

While the rough approximation of New Zealand meat prices with those paid to other suppliers made for stability, the disparity on butter and cheese prices had the opposite effect. Britain had agreed to pay Denmark 242s. per cwt for butter in 1947 (compared with the current New Zealand price of 175s.) and in May had settled on a price for Canadian cheese, which would justify New Zealand in receiving 125s. compared to the current 102s. 6d.<sup>(54)</sup> The industry could be expected to be in favour of pursuing the relativity argument. As in 1946 the Government was not so sure. It knew that the discrepancies were not entirely real, that in the Danish case, for instance, there was a much higher cost structure: even at 242s. the Danish producer was making a loss and was subsidised by the Government.<sup>(55)</sup> Moreover the effect of

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53. MB50/2/6, 6 Jun 1947, T Series 75 2/8/1, Duncan-MMk, 5 Sep 1947.

54. EA58/2/2/1, Nash-Fraser, 21 Apr, 17 May 1947.

55. T Series 73, Aid for Britain report, 1948.

a substantial increase on New Zealand's own economic policy had to be considered.<sup>(56)</sup> As with meat, the convertibility crisis promoted caution: the Government informed New Zealand's negotiators that it did not

want to embarrass United Kingdom by pressing for prices in line with those paid or likely to be paid to the Danes for butter or Canada for cheese. <sup>(57)</sup>

This suggestion carries Nash's trademark. George Duncan was prepared to be cautious too, but this did not reflect political sensitivity or a commitment to stabilisation so much as a recognition that butter prices had to be kept in a realistic relationship with margarine prices.<sup>(58)</sup>

What about seeking increases to meet costs? Britain had expressed some mild dissatisfaction with this criterion in 1946. The Government did not want to tabulate costs in detail because labour costs were currently under review by the newly-established Dairy Products Marketing Commission. But a claim was made for an increase to 205s., which embraced increased costs and also some allowance for relativity and terms of trade, despite the caveat on the former.<sup>(59)</sup>

Given that New Zealand had received a 24s. 6d. increase in 1946, British negotiators expressed surprise at the request for a further 30s. They did not think New Zealand had made a convincing case on costs and they rejected the terms of trade argument on entirely predictable grounds, stating that they could not accept it as a basis for

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56. EA58/2/2/1, Nash-Fraser, 17 May 1947.

57. EA58/2/2/1, MMk-Duncan, 23 Aug 1947.

58. Interview with Sir Arthur Ward, 21 Apr 1981.

59. *Ibid.*, Duncan-MMk, 27 Aug 1947.

determining the price to be paid for any particular commodity, and adding in typically understated fashion that Britain herself faced very unfavourable terms of trade. In the light of "all relevant circumstances" however Britain was prepared to offer 200s.<sup>(60)</sup>

In reply New Zealand's representatives informed their British counterparts that they were not prepared to recommend to their Government acceptance of any price below 205s. George Duncan, the chief negotiator, was due to leave for New Zealand four days after the last meeting and having regard

to the exhaustive and frank nature of all  
our discussions

he was convinced that New Zealand's argument

would be merely repetitive and would not  
bring any increase in the counter offer  
made by the Ministry of Food. <sup>(61)</sup>

He proposed that any further action be initiated from New Zealand. Thus, for the first time since the meat negotiation in 1940, the mid year negotiating round did not produce a settlement. It is not certain why this was so. The difference between the two offers was not all that great. A.H. Ward, who was a member of the New Zealand delegation, suggests that the British thought that New Zealand's concern for stabilisation would encourage acceptance of the lower figure.<sup>(62)</sup> The United Kingdom Treasury too may have been putting pressure on the Ministry of Food. Almost certainly difficulties in

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60. EA58/2/2/1, Duncan-MMk, 3 Sep 1947.

61. *Ibid.*

62. Ward, *Command of Cooperatives*, p. 134. It also seems that Goodfellow had told the British that New Zealand would settle for 200s. (interview, 21 Apr 1981).

Negotiations with Denmark were another factor: at one point the Danes ceased shipping.<sup>(63)</sup>

It was Britain which eventually conceded. After having made an improved offer of 202s. 6d. at the end of October, which New Zealand also declined, 205s. was agreed to. It is perhaps therefore the New Zealand position which should be examined. Ward calls 205s. a "fair asking price" but the New Zealanders admitted that it was not based solely on costs. This meant that the dairy industry could have remained remunerative even if the full 205s. had not been paid. New Zealand negotiators stressed in their submission that they regarded the determination of prices to be a matter entirely separate from the question of what measures New Zealand might take to assist Britain in her financial difficulties.<sup>(64)</sup> But did New Zealand in fact calculate that Britain's difficulties, and in particular, her need to get as great a proportion of her supplies as possible from sterling area sources, would force her to pay 205s?<sup>(64A)</sup>

If this was the case then it was at odds with the publicly stated attitude of the Government and the response of public opinion to the crisis. The food crisis had not passed away completely in 1946: the European winter of 1946-47 was exceptionally severe and proved to be a major setback to the continent's recovery, and the return of the food supply situation to normal. The food crisis was given an added dimension by the dollar shortage. British officials had realised at the end of the war that their country's financial circumstances made

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63. EA58/2/2/1, 3 Sep, 12 Sep 1947; *Dominion*, 6 Dec 1947.

64. *Ibid.*, 3 Sep 1947.

64A. Speculative question put by Sir Arthur Ward, interview, 21 April 1981.

it imperative for her to secure as much of her supplies as possible from the sterling area, and the abrupt termination of lendlease at the end of the war in the Pacific reinforced this judgement.<sup>(65)</sup> The negotiation of the financial agreement with the United States eased Britain's situation but the convertibility crisis of August 1947 brought it back with full force.

#### 6. The 1947 Crisis: the Lure of Dollar Markets

In Attlee's cabled appeal to Fraser of 12 August 1947 for assistance in the crisis, New Zealand's exports featured prominently

You will have seen that I stated in the House of Commons that the level of distribution of foodstuffs in the country depends primarily upon the degree to which we are able to obtain supplies from other than hard currency sources. Your Government and people have recognised over the past years our need for maximum supplies of staple food stuffs from New Zealand and I know of the efforts which have been made to maintain them. Any steps which can be taken to increase and accelerate these supplies of meat, dairy products and animal fats would be a contribution of the highest importance in the present crisis. (66)

Although the crisis was essentially a financial one, it was Britain's need for New Zealand food which made the biggest impact on public opinion in New Zealand. The propaganda of the Aid for Britain National Council, established in the wake of a parliamentary conference held in August 1947 focussed heavily on the need for New Zealand to

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65. Keynes, *Collected Writings*, vol. 24, p. 335.

66. EA58/2/2/1, 12 Aug 1947.

produce more food and ship it faster ...  
put more materials, capital, labour, energy  
into making more of the things that matter most. (67)

It recognised that

... our main contribution must be in the  
form of increased exports to the United  
Kingdom .... The sound policy is for New Zealand  
to increase our primary production to a maximum  
and at the same time keep down our costs. (68)

The genesis of this rhetoric in wartime propaganda is apparent.

New Zealand would help Britain "win the peace" as she had helped her with the war. Through the district committees of the Aid for Britain Council which in large part took over the work of the Food for Britain committees which had been established in 1946, individuals were able to express their support for the cause by handing in coupons and making food gifts available for Britain. (69)

As was the case during the war, the rhetoric of support for Britain was underpinned by the fact that Britain's need was New Zealand's opportunity. Increased production had always for New Zealand farmers been the preferred solution to economic difficulties: they had resisted quotas in the 1930s and during the shipping crisis in 1941. The Government, for its part, welcomed the increased export receipts which resulted from increased production. (70)

But there were points of divergence between the British and New Zealand positions. While the public response to the crisis was generous and uncritical, both producers and Government sometimes saw

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67. Ag 1037, Sep 1947.

68. *Ibid.*, n.d., Aug 1948.

69. *Ibid.*, *passim*, see above, p. 211.

70. EA58/2/2/1, 12 Aug 1947.

things differently. The difficulties encountered in securing agreement on butter and cheese prices have already been discussed. Perspectives also varied on the matter of promoting New Zealand exports to the dollar area - the first meeting of the balance of payments committee considered this as one way in which New Zealand could respond to Britain's dollar crisis. (71)

The product about which there was most discussion was butter. Producers liked the idea of the high North American prices. New Zealand's own dollar shortage would be eased, whilst the move would fit into the plan for opening - or re-opening - markets in anticipation of an end to the bulk purchase system. This had of course been a persistent if subdued theme in contract negotiations from 1939, and in the 1947 discussions Britain had agreed that in addition to the existing reservation to specified destinations, New Zealand could ship 1500 tons of butter and 1000 tons of cheese to other markets. (72)

The fact that New Zealand had just concluded a trade agreement with the United States made the plan seem practicable as well as desirable. Under the agreement New Zealand had the right to supply the United States market with up to around 25 000 tons of butter between November and February (the off season for production in the United States). (73)

But if for all these reasons the plan was an appealing one, the arguments against it proved much weightier. Any major diversion would

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71. T61/1, 1 Sep 1947.

72. ESC 2/8, NZHCL-MEA, 23 Aug 1947.

73. EA104/26/1, 7 Oct 1947; T61/1/1, 31 Oct 1947.

almost certainly run into problems with New Zealand public opinion, which would see it as entailing a sacrifice of the interests of British consumers. When in mid-1946 Britain had agreed to the diversion of a small amount of butter to United States forces in the Pacific, a storm was created until the New Zealand Government stated that the shipment was being made at the express request of the British Government. The diversion of some butter to Canada at the beginning of 1947 to meet a seasonal shortage was made with the approval of the British Government, but was still done with a minimum of publicity.<sup>(74)</sup> Watersiders created special difficulties. The turn-around in ships at New Zealand ports was a constant source of dissatisfaction in Britain and the object of representations from the British to the New Zealand Government. But no other group exceeded the watersiders in the fervour of their publicly-expressed support for Britain. During the row in 1946 the watersiders had refused to load the butter for a while, and it was thought this response might be repeated.<sup>(75)</sup>

If these domestic considerations were important, it was nevertheless the case that they mirrored Britain's own outlook. Although she needed dollars as well as food, her preference in respect of New Zealand was definitely for food. According to Ashwin,<sup>(76)</sup> token shipments to the United States were acceptable, but nothing more could be considered. In October 1947 Nash was denying that any plan to sell food products to the United States existed: a statement which if not actually incorrect, did not convey an accurate sense of the Government's thinking. In December, reports appeared in the New Zealand

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74. EA58/2/2/1, SSD-MEA, 28 Dec 1946.

75. EA58/2/2/1, 20 Feb 1947, 12 Aug 1947; T61/1/1, 31 Oct 1947.

76. T61/1/1, 31 Oct 1947.



press of Canada's preparedness to import around 5000 tons of butter (at the equivalent of 300s. per cwt). New Zealand officials made it clear that New Zealand's butter was allocated to Britain and that it was most unlikely that the latter would agree to release such quantities.<sup>(77)</sup>

The other commodities over which there was some discussion were hides and pelts. In 1946/47 a considerable proportion of the total export volume of pickled pelts and calfskins had been diverted to the United Kingdom at the cost of some ill-feeling amongst American traders. New Zealand proposed a re-direction back to the United States market as a way of earning more dollars. This idea met with differing responses from the Board of Trade and the Treasury. The former, after some initial hesitation opposed: the latter was in support. The Board of Trade's preference prevailed.<sup>(78)</sup>

These differences were on the periphery rather than at the centre of the development of New Zealand's export trade to Britain. The principal impact of the crisis was undoubtedly that it prolonged for more years the reliance of Britain on production from sterling area countries like New Zealand and therefore its preparedness to enter into long-term arrangements so as to encourage increases in output.

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77. *Evening Post*, 15 Dec 1947.

78. EA58/2/2/1, Sep 1946, *passim*; T61/1/1, 31 Oct 1947.

7. 1948: The Offer of Seven Year Contracts

At the end of 1947 a special food mission visited Australia and New Zealand from Britain. The heads of the meat and livestock, and the dairy produce divisions of the Ministry of Food - Sir Henry Turner and J.W. Rodden respectively were members. The delegation came to New Zealand in December 1947 and again in early 1948 and familiarised itself with the prospects of increased production in New Zealand and the extent to which supply would be increased if contracts were extended - thus was re-made the connection between contracts and increased production.<sup>(79)</sup>

In May, Ministry of Food officials met to discuss the results of the food mission. It was recognised that neither Australia nor New Zealand would be likely to undertake far-reaching developments in food production unless they were given long-term assurances. The feeling in the Ministry of Food was that a report should be prepared on the whole question of increased production in the Southern Dominions. Australia and New Zealand, it was agreed

must be protected against a repetition of the experience they suffered in the inter-war period where their share of the United Kingdom market was arbitrarily limited. If Australia and New Zealand were to be persuaded to incur far-reaching commitments in regard to capital, etc., in long-term development plans they must be given adequate long-term assurances regarding an outlet for their supplies. Something up to ten years undertaking would be necessary. It would not, however, be necessary to conclude ten-year contracts with prices fixed for the whole period. What would be required would be an assurance to Australia and New Zealand that the United Kingdom would be

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79. Ward, *Command of Cooperatives*, p. 143, D.P.M.C., *Annual Report*, 1947/48, p. 23.

prepared to take the whole of their exportable surplus of the foodstuffs in question with prices fixed for the early years of the contract and a plan devised whereby prices for the later years would be determined in relation to current circumstances. (80)

The need to provide an assured market was thus grounded in historical as well as economic realities. However the Ministry of Food's attitude was not one of unqualified generosity. It was felt that the contract should be contingent on New Zealand - and Australia - keeping their side of the bargain. One idea was for the United Kingdom to ask the Dominions to submit detailed plans of the developments they were prepared to undertake to increase food production in return for a long-term assurance of a market. If Australia and New Zealand did not fully implement their commitments, the United Kingdom would then have the opportunity to repudiate the balance of the undertaking: or at least to seek a revision.<sup>(81)</sup> The balance of need between the two sides would be critical in determining whether or not Britain could make this sort of condition.

If the Ministry of Food itself sought to limit its commitments this was even truer elsewhere in Whitehall. Treasury in particular was not very keen on long-term contracts, anxious as it was to limit Britain's long-term commitments as much as possible. It wanted agreements to specify quantities and to be for limited periods only. Apart from the lack of freedom of manoeuvre, Treasury was afraid that New Zealand and Australian currencies would become almost as hard as dollars. However under certain circumstances Treasury would agree to contracts: it was in essence up to the Ministry of Food to fight for

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80. MAF 88/410, 31 May 1948.

81. *Ibid.*

them if it wanted them. Putting some sort of *quid pro quo* into the deal would help. (82)

Amongst the interested parties in New Zealand support for long-term contracts was universal. In November 1947 the Meat Board had agreed to seek a ten-year agreement with the United Kingdom. (83) The Dairy Products Marketing Commission, although prepared to pay close attention to other markets, recognised that the United Kingdom was, for the foreseeable future, the only outlet for the bulk of New Zealand's butter and cheese. (84) The Government's attitude was similar. Ashwin, it is true, thought it would be unwise for New Zealand to accept the long-term proposals without several reservations, but these were related to price, not to the principle of long-term sale to one market. (85) The report of the Aid for Britain National Council emphasised that there was no substitute for the British market - if it should fail the damage would be incomparably greater than any temporary advantage that might have been gained by selling at higher prices elsewhere. (86) Thus the basis for an agreement existed in terms of pre-disposition on both sides.

New Zealand representatives were to arrive in Britain in June to discuss meat and dairy prices and possibly extension of the contracts. Officials in the Ministry of Food were not sure that it would be practicable to get approval for extended contracts so quickly, particularly at Ministerial level, and it was decided

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82. *Ibid.*

83. MB50/2/6.

84. DPMC, A.R., 1947/48, p. 23.

85. T series 75 2/8/1, 2 Apr 1948.

86. Ag 1037.

negotiations should be limited to a determination of prices for the following one to two years. The question of the long-term extension of the existing undertakings could be left until the autumn. (87)

Both Rodden and Turner pointed out, however, that New Zealand (and Australian) negotiators might not be too happy at having this question postponed, consistent with their own interest in long-term contracts. At the talks held on dairy products on 17 June, just after the New Zealand delegation arrived, Britain proposed an extension to 1952, and when New Zealand pressed for a longer period, Britain in due course agreed. With meat, things moved rather more slowly. At the talks at the end of June, Turner stalled, saying that a long-term contract was a matter of high policy involving Australia as well as New Zealand and might well be deferred for consideration until the meeting of Commonwealth Prime Ministers in October (and suggested that in exchange for a long-term understanding, Australia and New Zealand should undertake a definite programme of expanding meat production for export). But with the announcement of the dairy contract, the New Zealand negotiators could not accept this. Ashwin and G.H. Grigg (Mulholland's successor as Chairman of the New Zealand Meat Producers' Board) told the British that they would look foolish unless a similar deal were concluded on meat. Grigg admitted that at the previous meeting they had been prepared to accept a letter of assurance to tide them over the next two months before the long-term contract could be negotiated but that with the

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87. MAF 88/410, 31 May 1948. Details of the 1948 contract negotiations are found on MAF 88/410, *passim*.

butter and cheese announcement they now realised they had made a mistake. New Zealand producers would think there had been a hitch and would slow down plans for increasing production - a threat which constituted a neat reversal of Britain's bargaining strategy. British negotiators pointed out that their fears would be met by a letter from the Ministry of Food, at which point the New Zealand representatives argued that an "irrevocable" letter was very little different from the contract. If it were embarrassing for the United Kingdom *vis à vis* Australia to do one, it would be just as embarrassing to do the other. Ashwin and Grigg did not want to come back in three months' time, and with Feaveryear, representing the Treasury, present, it was agreed to recommend an extension of the contract to 1955.<sup>(88)</sup>

Yet again, the only product over which Britain would not accede to New Zealand's requests in respect of the contract was pigmeat. In 1946 New Zealand had been successful in assimilating pigmeat to the general meat contract. But Britain was not prepared to maintain this parallel treatment over a long time period: over-production of pigmeat could develop much more quickly than could that of other meats. New Zealand representatives replied that any limitation of production would create "a nervous unrest" with producers: therefore pigmeat should not be singled out for different treatment from other meats. At least, there should not be any publication of a possible limit. It was emphasised that as pig production was ancillary to dairy production, and dairy farmers were not all that keen on it, there was unlikely to be any major increase in production. However,

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88. *Ibid.*

the Ministry of Food could not agree to a seven year pigmeat contract with a floor price only 7.5 per cent below existing prices. Despite Ashwin reiterating his point that New Zealand's situation was different from that of other purchasers, it was agreed that the exportable surplus would be purchased only until 1952, but for each of the three remaining years of the principal contract two years' notice would be given as to quantity to be purchased. (89)

How would prices be set under the long-term contract? The norm in the past (1945 was the only exception) was an annual round of negotiation. The criteria used to justify any adjustment were inevitably a shifting combination of costs and returns on the open market. This was in essence an expression of the fact that there were two considerations that could not be ignored - the need for profitability and the pressure of the market. In the 1948 agreements there was no departure from this pattern. Grounds for adjustment were stated to be "substantial changes in the export prices thus current in any other important countries" or "any other substantial changes in conditions". No specific reference was made to production costs, but they were not excluded as a criterion either.

With a seven year period to consider, both sides could envisage disadvantageous price movements against which the contract could provide a buffer. New Zealand was still worried about a slump, whilst Britain could imagine a prolongation of postwar shortages and high prices. This combination of interests suggested the establishment of

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89. *Ibid.*

a fixed floor and ceiling but this would have been very inflexible over seven years. A 7.5 per cent maximum annual variation was agreed on instead, that is, over any twelve-month period prices could not vary by more than 7.5 per cent. This deal was worked out for butter and cheese. When the matter came up for discussion on the meat contract, the same figure was agreed to, there seeming to be no reason to depart from the precedent. Both sides were satisfied with this result. Whether they would remain so over seven years depended very much on what market prices and costs would do in the interim.<sup>(90)</sup>

A clause in the meat contract spelt out New Zealand's commitment to increasing meat output for export by approximately 50 000 tons per annum by 1955, and dairy production by about 20 per cent. But there was no penalty clause which would become operative if New Zealand failed to deliver. This was the same situation as 1944, and it was hardly surprising. If New Zealand said a contract was necessary to increase production and Britain annulled the contract because production did not increase, where would that leave her? Certainly not with more food and maybe with less. Moreover, because of supply shortages New Zealand was able to make her agreement to these clauses even more contingent - details were to be left for settlement after the necessary consultations had been made with the Ministry of Supply about Britain's undertaking to provide plant and materials.<sup>(91)</sup>

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90. *Ibid.*

91. ESC2/8, MF-UKHCW, 20 Aug 1948.



8. The 1948 Negotiations: Short-term profitability

New Zealand had agreed with Britain on extending the contracts but her own reason for wanting talks in 1948 was to get Britain's agreement to revising prices and other conditions of the contract for the 1948-49 season. For the first time the negotiations on butter and cheese were conducted by the Dairy Products Marketing Commission not the Government. But in terms of the conduct of relations with Britain, the change was not all that substantial. The Commission was bound to take cognisance of Government trade policy where directed (section 12 of the D.P.M.C. Act 1947). Marshall, its Chairman, and the chief negotiator in 1948 had sat with Ashwin on the Economic Stabilisation Commission. Ashwin himself led the team for the meat talks. His negotiation of an end to lump sum payments ensured that a major point at issue between producers and Government was put to rest.

Discussions in Wellington in the early months of 1948 had concerned the case New Zealand would present for price increases. It was not clear how sympathetic the United Kingdom would be to such a request. On the grounds of costs alone, New Zealand could not make out a case for a very large increase. Meat producers could claim on the disparity between their return and imported costs, dairy producers on the grounds of relativity with other suppliers.<sup>(92)</sup> But there was no certainty that Britain would accept either claim. Moreover, the situation was complicated by the fact that the last

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92. T series 75 2/8/1, 14 Apr 1948, memo.

of the annual payments agreed to in 1944 had now been made.

The New Zealand Government wanted to keep the lump sum payments in some form or other, recognising that otherwise it could not sustain the claim that the money was paid to it and not to producers. But if New Zealand asked for major price increases on grounds other than those of increased production costs, then Britain could justifiably terminate the lump sum payments, as the formal reason for paying them was as a contribution towards holding down production costs through stabilisation policies.<sup>(93)</sup> By comparison, both the British Government and producers in New Zealand wanted to do away with the payments. The latter wanted to include them into prices: the former recognised that this would probably have to happen although it might draw a reaction from Australia.<sup>(94)</sup>

The United Kingdom Treasury duly informed the New Zealand negotiators that there would be no more payments and the negotiators - Marshall and Ashwin for dairy produce, Ashwin for meat - proceeded to take account of this in seeking price increases. The Government in Wellington was angry at the course events took. Although it recognised that there was a certain inevitability about the termination of the payments, it did not expect negotiators to accept that compensation could be sought through increased prices. Ever since 1944 it had been stressed by Government spokesmen that the lump sum payments were not paid "in respect of produce sold in the United Kingdom".

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93. *Ibid.*

94. MB50/2/6, 7,9 Apr 1948; DPM MP, 4 Jun 1948; MAF 88/410, 10 Jun 1948.

Now it would look as if they had been. But Wellington could do little. A proposal that Britain subsidise her exports to New Zealand had not succeeded. Britain herself had always regarded the lump sum payments as connected with produce prices. If they went, New Zealand either took price increases or nothing at all. (95)

For butter, Ashwin worked out that incorporating the lump sum payments into the price would bring it up to 219s. (from 205s.): he asked for 246s. The claim was helped most by its relative moderation compared with the prices Britain was currently paying other suppliers - in particular, Denmark. Danish prices were supposed to be steadily reduced as peacetime conditions returned but this plan had broken down and in the forthcoming season Denmark would be paid 321s. 6d. - which still represented a loss to the Danish producer. (96)

At the opening talks, Marshall was able to stress that New Zealand did not want the highest possible prices, certainly nothing like the Danish price, but it did need an increase which would cover recent import price increases. Although Britain did not accept this last argument, she clearly was prepared to accept some increase and a figure of 235s. was agreed on - still well below the Danish price, but an additional 16s. over and above the previous season's price inclusive of the lump sum payment. (97)

Settlement of meat prices was rather more protracted. Ashwin advanced a claim for a 22.5 per cent increase which took into account

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95. MAF 88/410, 18 May 1948; T40/648, NZHCL-MEA, 12 Jul 1948; DPM MP, DPMC/W-DPMC/L, 1 Jul 1948.

96. DPM MP. This file has most details of the price negotiations for butter and cheese.

97. DPM MP, *passim*.

a 7 per cent increase from assimilation of the lump sum payments. The extra 15 per cent was defended on the grounds that a recent survey showed farm costs at 63 per cent above prewar compared with a rise of only 43-44 per cent in meat prices. Compensation for import price increases and maintenance of relativities with Australia and Argentina made up the unspecified balance of the claim. The former point was pushed home by reference to Britain's request that New Zealand "live within her income" - a task which required a reasonable income. (98)

Britain tried to disguise the increase it had paid to Argentina. It had increased the maize rather than the meat price and was paying out a £10 million lump sum. But New Zealand, familiar with such devices from times when they had worked to her advantage, was not going to be so easily misled, as Turner recognised. On the other hand, Turner thought Australia would be unlikely to accept that 'parity' between Australia and New Zealand entailed New Zealand getting an extra 7 per cent because of its lump sum payments (Australia was asking for a 15.5 per cent increase). (99)

The Meat and Livestock Division passed Ashwin on to the Treasury, and Ministry of Food officials themselves had talks with Treasury. The latter was only prepared to give New Zealand the same increase as Australia - not only did this preserve parity, but it met New Zealand's increase in production costs. Treasury recognised the Ministry of

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98. MAF 88/410, *passim*.

99. *Ibid.*

Food's interest in getting increased production but did not want this to be at the cost of committing the United Kingdom to the payment of high prices over a period of years - which would follow given the price stability clause in the contract. Ashwin's vigorous argument failed to shift the British from this position - perhaps because Turner implied that Britain would have to investigate internal arrangements in New Zealand very closely if any further increase were conceded - an allusion to British dissatisfaction with the stabilisation account system. Accordingly the 15 per cent increase was agreed on for the first year of the seven year contract.<sup>(100)</sup> New Zealand may not have got what it had asked for in prices but it had done all right. The revaluation of the New Zealand pound in August certainly suggested that the country could absorb a decline in the domestic value of its overseas earnings.

While New Zealand welcomed the long-term contracts she lobbied, as in 1946, for modifications in the wartime distribution system yet she must have realised that there was a connection between Britain's need for food, her need to ration it, and her preparedness to make long-term agreements. Butter had been identifiable to the consumer by country of origin since October 1947, but New Zealand now wanted an assurance that it could be distributed under its own name and through approved agents. Immediate and complete decontrol was not sought - it was known that whereas butter now retailed at 1s. 4d. per lb compared with margarine at 9d. per lb, with unrestricted trade the respective prices would be 2s. 6d. and 1s. 3d. But for meat, an orderly return to private trading was hoped for, and also an end to

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100. *Ibid.*, T series 75 2/8/1, MEA-NZHCL, 19 Jul 1948.

restrictions related to the shipping shortage. Britain did not feel able to accede to any of these requests or give any commitment to change in the near future.<sup>(101)</sup>

The relatively high prices received for butter and cheese and, to a lesser extent, meat on world markets encouraged New Zealanders to think in terms of increased diversion of production to markets other than Britain. This possibility had arisen in 1947 and had been presented to Britain as a way of earning dollars, an argument that had not found favour with the Ministry of Food. There were other arguments that could be invoked though. The development of alternative markets would be useful "if and when it became necessary to compete with margarine in the United Kingdom",<sup>(102)</sup> and the tariff agreement with the United States now provided an opportunity. More potently, in that it exploited Britain's interest in increased production, there was the argument that increased dollar sales were necessary to finance purchases of essential farming inputs - e.g. fencing wire - which were in short supply - or unobtainable - outside the dollar area. As some shortages became acute through 1948 this possibility was often canvassed.<sup>(103)</sup>

In their respective discussions on dairy and meat matters, both Marshall and Ashwin raised the question of supplies. Marshall linked it to the need to earn dollars only obliquely, but Ashwin explained that

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101. DPMC, *Annual Report*, 1947/48, p. 25; MAF 88/410, *passim*.

102. MAF 88/410, 17 Jun 1948.

103. ESC 2/8 May 1948; DPM MP, 12 Jul 1948. See also chapter 6.

in view of dollar stringency ... his Government might find it necessary to ask the United Kingdom to agree to the shipment of meat to other markets including the U.S.A. to earn dollars for New Zealand. (104)

However he went on to say that "it was not yet clear ... whether this necessarily would in fact arise". New Zealand did not intend to behave like Argentina, diverting production without consulting Britain. Given the public's outlook, it was not likely that the Government or the producers could have got away with such a move.

It was agreed on meat that the matter did not need to be pursued any further as provision existed for New Zealand to raise the question of sales to other markets at any time. For dairy products the 3 per cent ceiling on diversion remained, despite Marshall's arguments.

It should not be assumed that this caused great dissatisfaction: the sense of long-term commitment was strong. In September, the United States approached New Zealand with a proposal to supply approximately 1000 tons of meat (mostly beef) per month to United States forces in the Pacific. Not only the Ministry of Food but the Meat Producers' Board itself was against the idea. (105)

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Through the 1945-48 period, New Zealand's meat and dairy export trades continued to be the beneficiaries of Britain's scarcity of

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104. MAF 88/410, 28/29 Jun 1948.

105. T series 75 3/6, Sep/Oct 1948. For further discussion see above pp. 204-206.

foreign exchange, and world wide food shortages. Both Government and producers were sensitive to Britain's plight, and shared in considerable measure the popular wish to help Britain as much as was possible. But commercial considerations were not banished. For one thing, Britain herself continued to adhere to commercial criteria in her dealings - and behind her was pressures from the international community. And to New Zealand, commitments accepted in anticipation of a depression seemed rather restrictive when markets were buoyant and there was upward pressure on prices.

In 1948 New Zealand again committed most of its dairy and meat production to the British market and accepted a 7.5 per cent restriction on upward price movements in any one year. Was this unbusinesslike behaviour? Against the then current circumstances one must set continuing anxiety about postwar slump, concern (in respect of butter) about competition from margarine, the possibility of a return to conditions of the 1930s, recognition of the difficulties that could be encountered in other markets. Government and producers disagreed about the emphasis but were broadly in accordance. If depressed conditions did return both would be satisfied with the arrangements. But if the market remained buoyant there would be friction.



## CHAPTER NINE

### The End of the Siege Economy 1949-1954

1. Supplies, dollars and sterling
2. Import policy
3. Wool after the war, 1946-1952

1. Sterling, Dollars and Supplies 1949-1954

At the end of 1949 a new Government took office in New Zealand. The National Party, which was to hold power for the next eight years, was committed to a liberalisation of the economy. It wished to turn the country away from some of the directions it had taken under Labour. In the early months of 1950 it ended wartime controls over prices, wages (somewhat ambivalently) and land sales. Petrol and butter - the only two products still rationed - were decontrolled, and licensing of imports was sharply curtailed. A resumption of overseas borrowing for development purposes was considered. The commitment to limit state intervention in primary product marketing was upheld in principle, although the implementation of devolutionary measures was deferred.

How would Britain react to the changes? Since the end of the war Britain had encouraged New Zealand to pursue economic policies which restrained both consumption and investment, thus easing pressure on limited resources. The limitation was most acute in respect of foreign exchange: constant invocations to save dollars and to help Britain save dollars by maintaining supplies to her, were a central part of postwar economic diplomacy.

National's new policies were bound to put a strain on New Zealand's collaboration with British policy. The pressures placed on the bulk purchase contracts by New Zealand's primary producers in 1950-52 will be detailed in the next chapter. There would also be pressure on imports. The Government did not liberalise imports from the dollar

zone but demand for British production which might otherwise have gone to dollar countries would mount.

National did not intend to harm Britain's essential interests. In fact loyalty to Britain was one of the party's catch-cries. This was particularly true in the wider political sphere. Neither S.G. Holland, the new Prime Minister, nor F.W. Doidge, his Minister of External Affairs 1949-51, chose to believe that Britain was a waning influence in the world, and they participated with her in Middle East defence planning. Yet they could not totally ignore the collapse of British power in the Pacific in 1941/42. The solution, in 1951 as in 1942, was to seek to harness American power in the support of British (Commonwealth) interests. To Holland and Doidge this was the appeal of ANZUS: it protected the Commonwealth in the Pacific against aggression from Japan, or any other power, as NATO protected it in Europe. There was some embarrassment that Britain herself was not included in ANZUS - it was on this ground that New Zealand welcomed the establishment of SEATO in 1954.

How then did National reconcile its pro-British stance with its new policies? National saw current British policies in party political terms. A Labour Government held office in Britain, but only just. In the February 1950 election its 1945 majority of 146 had been whittled away to just six. Moreover the British Conservatives were as determined to see an end to "state control" as was the National Party. Thus there was some justification for arguing that its policies were in line with at least some segments of British opinion. In the meantime however, the anxieties of the incumbent British Government had to be faced.

In February 1950 talks were held in Wellington between British and New Zealand officials at which Britain's diffidence about some of New Zealand's proposed changes was made plain. The need to continue discouraging imports from the dollar zone was stressed. The New Zealanders pointed out that this meant paying more for imports, but their British counterparts thought this less likely since devaluation. New Zealand raised the question of a dollar loan. Britain agreed in principle but stressed that the consequent investment should provide for an ultimate increase in dollar earnings.<sup>(1)</sup>

These discussions about dollar earnings took place in novel circumstances - a surplus on New Zealand's dollar account of \$7.3 million, mostly a result of high wool prices. This increased the pressure to spend dollars. The outbreak of the Korean War in June 1950, with the attendant blitz by the United States on all kinds of raw material supplies was driving prices to dizzy heights. It was against this background that New Zealand and other similarly placed Dominions engaged in further dollar discussions with Britain. At informal talks held in September 1950, at which New Zealand was represented by F.W. Doidge, the new Minister of External Affairs, the stringent criteria for dollar expenditure which had been agreed to in July 1949 came under pressure. Britain wanted all sterling countries to maintain the commitment agreed to in 1949 to restrict total dollar imports to a volume not greater than that which corresponded in 1949/50 to 75 per cent of 1948 expenditure.<sup>(1a)</sup> New Zealand supported a rubric

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1. IC162/1, record of talks, Feb 1950.  
1a. IC106/2, *passim*, Sep 1950.

which took account of the fact that it might

not be possible for all of the countries...  
to restrict their expenditure on dollar  
imports to [75 per cent of the 1949 level].  
We recognise that additional expenditure  
may be required for exceptional imports  
notably for stockpiling arising from  
strategic needs.

We agree to continue to limit dollar imports  
according to criteria of essentiality no  
less stringent than those which have guided  
the administration of dollar import policy  
since July 1949. (2)

To agree with Britain meant accepting a policy difficult to  
administer plus the retention of the "inequitable reference back to  
1948" - something New Zealand had disliked when first introduced. (3)  
In upshot the difference of opinion prevented any agreement being  
reached, other than a bland statement of the "need for continuance of  
strict economy in dollar expenditure". (4)

The New Zealand High Commissioner wanted to assure Britain that  
the absence of an agreed mathematical formula would not "in any way  
affect the continued application of the strict criteria of essentiality", (5)  
but Doidge preferred simply to assure the Chancellor of New Zealand's  
agreement to the need for strict economy. (6) Doidge's caution was  
prophetic. The outbreak of war in Korea had led to a great strain  
being placed on the availability of a number of commodities, particularly  
raw materials, because of the requirements of the United States defence  
procurement programme. In the early months of 1951 the question of

- 
2. *Ibid.*, MEA-NZG, 20 Sep 1950.
  3. *Ibid.*
  4. *Ibid.*, NZHCL-MEA, 5 Oct 1950.
  5. *Ibid.*
  6. *Ibid.*, MEA-NZHCL, Oct 1950.

liberalising dollar imports into New Zealand was raised with Britain, and the suggestion was broached again by C.M. Bowden, the Minister of Industries and Commerce, when he visited London for a Supply Conference in mid-1951.<sup>(7)</sup> Bowden made representations to Britain for "the maintenance of supplies essential to the New Zealand economy". He asked that steel, copper and aluminium be exported to New Zealand at least to the same extent as in 1950, and that New Zealand's allocation of tinplate be substantially increased as soon as the new British mill at Margam went into production. He also had a number of requests, covering items such as zinc, newsprint, textiles and textile machinery, and some chemicals.<sup>(8)</sup> Due to its own serious shortage the United Kingdom could not help New Zealand with steel, copper, zinc, or most chemicals. However, New Zealand was told that newsprint would continue to be available at the current rate, as requested, and that the supply of tinplate and aluminium should improve later in the year. New Zealand was also granted a special concession on zinc oxide.

While grateful for the consideration shown New Zealand, Bowden stressed the concern over the supply of essential materials, especially steel - a shortage would affect exports and economic stability. At the Commonwealth Ministerial Conference on Supply and Production, which Bowden also attended United Kingdom representatives explained the difficulties Britain faced in increasing steel and capital goods production particularly because of the shortage of coal, ore and scrap. Britain defended the bilateral agreements which were still current,

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7. T61/4/2, MEA-MIC, 13 Jun 1951.

8. *Ibid.*

explaining that only 20 per cent of total steel exports were so allocated compared with the  $66\frac{2}{3}$  per cent directed to the Commonwealth.<sup>(9)</sup>

By the time that the Commonwealth Conference took place in September 1951, what one observer called the "lunatic phase" of United States stockpiling was over.<sup>(10)</sup> But whilst during that phase the sterling areas balance of payments situation had eased, by September 1951 deterioration had set in again. Commonwealth Ministers at the Conference emphasised that currency difficulties should not be allowed to stand in the way of the procurement of the steel and capital equipment necessary for the expanded production of raw materials.<sup>(11)</sup> On its side Britain explained that it was restricting domestic steel consumption and steel exports to other than Commonwealth countries and those covered by bilateral agreements. This would presumably be meant to assure sterling countries that they could expect to get their supplies from a sterling source.

The deterioration in the sterling area's balance of payments had occurred partly because the United Kingdom could not meet all the increased demands on it for capital goods and many exports were directed to Europe and Japan. In a memorandum in November 1951 it was pointed out that New Zealand would need to confine imports from non-dollar areas to essentials, just as had been the case with the dollar area during a crisis.<sup>(12)</sup> But through the remaining months of the crisis supply issues did not play a significant role,

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9. EA 104/5/1, MIC-MEA, 28 Sep 1951.

10. *Ibid.*, *Dominion*, 29 Jun 1951, also *EP*, 10 Sep 1951.

11. *Ibid.*, 28 Sep 1951.

12. IC 102/2, 30 Nov 1951.

reflecting the continuing underlying improvement in the productive capacity of Britain and other Commonwealth countries.

In October 1951 Britain went to the polls again, and this time the Conservatives did secure a majority. It has been noted they had proclaimed very vigorously their wish to decontrol the British economy. But the balance of payments situation they faced on taking office meant that the focus had to be on emergency measures and this meant seeking the cooperation of sterling holders like New Zealand.

Meanwhile there were murmurings in 1951 about the fate of the sterling area if countries in current account surplus with the dollar area like Australia chose to make individual payments arrangements.<sup>(13)</sup> As the *New Zealand Herald* had pointed out in August 1951 when the crisis first broke, although it would be unfortunate

if Britain's apparent inability to record Commonwealth earnings in dollars were to cause differences of opinion within the sterling area

if Britain asked New Zealand to place further restrictions on dollar spending

... such a request would have to receive every consideration; we are still probably paying for some of the postwar dollar deficits of Mr Nash. (14)

Consistent with this reasoning New Zealand's cooperation was proffered but with some caveats. At the Commonwealth Finance Minister's meeting in January 1952 New Zealand was asked to increase its surplus

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13. T61/4/1, 1951, *passim*.

14. *NZH*, 29 Aug 1951.



with non-sterling countries from an expected £5 million to £12 million. New Zealand expected that it could meet the objective without re-introducing import licensing for all imports.<sup>(15)</sup> However, because of the continued deterioration of the Sterling Area position New Zealand was subsequently asked to raise the target surplus to £25 Million on an annual basis, and within this, a deficit with the dollar area not exceeding £8 million - the expectation that New Zealand would have a deficit with the dollar area reflected the deterioration evident in New Zealand's own payments.

While it was decided that there would be no general re-licensing of imports from sterling area or the European Payments Union (EPU), imports of motor vehicles from all countries were put under licensing control, and all licences for imports from "scheduled countries" - mainly the United States, Canada and Japan - were cancelled.<sup>(16)</sup> Although Britain would have liked New Zealand to impose restrictions on EPU country imports it was pointed out that New Zealand ran surpluses with them, and it was likely therefore that New Zealand could expect retaliatory action if she did limit trade.<sup>(17)</sup>

At the beginning of July 1952, Holland was able to inform the Chancellor of the Exchequer that New Zealand had accumulated a surplus of around £20 million on transactions with the non-sterling area for the year ended June 1952 within which there was expected to be an approximate balance with dollar countries. It was expected that imports from both would fall in the future because of measures already

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15. T61/4/2, CE-MFn, 4 Mar 1952 (licensing had been sharply reduced in 1950)

16. T61/1, 11 Mar 1952, *Dominion*, 13 Mar 1952.

17. T61/1, memo 30 Jun 1952.

taken (in the case of the EPU countries this referred to exchange control ), but Holland stressed that he did not expect to reach the £25 million annual target over the second half of 1952 - because of falling prices for wool, hides and skins, only a £10 million surplus was expected.<sup>(18)</sup> Nonetheless as in 1948-50, New Zealand's performance was better than she predicted. For the June 1952/53 year, the target of a surplus on transactions with the dollar area of £25 million was exceeded.<sup>(19)</sup>

The 1951/52 balance of payments crisis marked a turning point in Britain's postwar economic travails. It was the last such crisis in which the foreign exchange constraint created supply difficulties, both for Britain and for the Commonwealth. Recovery from the crisis meant an end to a dimension of Anglo-New Zealand relations present, with the exception of the lendlease years, since 1939. Dollars were no longer rationed, supplies of manufactured goods, industrial inputs and food were available in sufficient quantities.

New Zealand and Britain still had a common interest in building up the strength of the Commonwealth economies so that sterling could move to full convertibility with all other currencies, including the dollar. But the emphasis now was on measures to promote economic growth and prevent inflation, rather than on the defensive strategies which had dominated the postwar period. From the Finance Ministers' Conference in January 1952, through the Commonwealth Economic Conferences of December 1952 and January 1954 to the meetings later on in the decade,

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18. T61/1, PMNZ-CE, 7 Jul 1952.

19. Holmes, "New Zealand in the World Economy", p. 12.

successive communiqués emphasised the commitment to multilateralism and the need for each country to take measures which would strengthen its balance of payments and thereby the reserves of the sterling area as a whole.<sup>(20)</sup> This low key approach meant that Britain no longer sought to directly influence the economic policies of other Commonwealth states. Rather, she intended that the competitiveness of her own economy would promote confidence in sterling and its continued role as an international trading currency.

While dollars were short, even dollar borrowing was frowned on, unless it produced dollar earnings fairly rapidly or, if over the longer-term, on a substantial scale. New Zealand's particular plan was to establish a plant in the Bay of Plenty to process the timber resources of the Volcanic Plateau. Attempts to involve British interests failed and New Zealand looked to the United States for finance. In 1953 a £16 million loan was negotiated with the Export-Import Bank to provide the necessary funds.<sup>(21)</sup> The approval given to encourage dollar investment at the Commonwealth Economic Conference in December 1952, although directed specifically at equity investment, had given the green light to New Zealand. Moreover Holland was able to point out that the timber processing project would limit the need to import newsprint from North America. Surplus newsprint could be made available to Australia with the same end in view.<sup>(22)</sup>

During 1953, the possibilities of attracting investment capital from the United States were canvassed after the American Ambassador

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20. Polk, *Sterling*, pp. 263 ff; *AJHR*, 1954 A1, 1955 A1.

21. *Ibid.*, p. 13.

22. *NZH*, 4 Jan 1952, 19 Feb 1952.

had raised the question directly with the New Zealand Government.<sup>(23)</sup> In the meantime, Britain herself was no longer restricting the outflow of investment capital to Commonwealth countries. Thus the resumption by New Zealand of a policy of overseas borrowing coincided with the reappearance of conditions which favoured such borrowing.

The sterling area had experienced major payments crises in 1945, 1947, 1949, 1951-52. 1953 passed without any recurrence and it became clear that Britain had made a successful adjustment to postwar conditions. Sterling area balance of payments crises were not banished for ever: they recurred later on in the decade and in the 1960s, and as long as New Zealand held reserves in sterling she was involved. But such crises recurred in conditions sharply different from those which had prevailed in the 1940s and early 1950s. No longer was Britain a nation besieged. The diplomacy of the later sterling crises lacked that foundation in acute political and resource needs which had characterised the earlier episodes.

## 2. Import Policy and British Interests, 1949-1954

Despite the change of Government in New Zealand there was continuity in issues of commercial diplomacy in the early 1950s with the postwar years. Both imperial preference and protectionism were at issue.

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23. EA35/29/6, 14 Dec 1953.

In the first postwar years, New Zealand had used its import licensing system and imperial preference to direct imports towards Britain, away from hard currency sources in particular. It seemed unlikely that the new Government would reverse this policy: its criticisms when in opposition had been aimed at the Government's purported insensitivity to British interests rather than at its care for them. Moreover National intended to - and did - dismantle a large part of the import licensing system, about which British officials had so frequently made representations. A Board of Trade was established in 1950 to administer import policy, although the approval of the Departments of Industries and Commerce and Customs was still required for products which required licenses.

Nonetheless, it could not be assumed that all would be plain sailing. Under a planned regime, Britain's share of New Zealand's import trade had reached historically high levels - liberalisation would probably cause a decrease. Secondly, there was detectably less determination in New Zealand than there had been to protect Britain's favoured position. The idea that preference for British goods and a low tariff would help New Zealand's exports did not carry as much conviction as in past years. Perhaps because there were opportunities in other markets the inclination was rather to see existing preferences as a barrier because they precluded New Zealand from making reciprocal arrangements with other countries. Moreover, whilst New Zealand still gave substantial preference to Britain, it was not clear that she derived any advantage (or would when bulk purchase ended) from the concessions extended to New Zealand in exchange.

In the 1940s Britain had invoked foreign exchange shortages as a response to expressions of dissatisfaction. This became less plausible in the 1950s. As with exports the decade saw a return to a pattern of relations uninfluenced by any substantial collaborative commitments to protect scarce resources and nurture strength.

At the GATT negotiations held in Torquay in 1951, New Zealand sought British approval to "unbind" certain preferential rates, as part of the process by which she negotiated tariff reductions with other parties to the Agreement. Britain agreed to the changes in return for "compensation" which took the form of binding other items. In addition New Zealand gave Britain an undertaking, conveyed in a confidential exchange of letters, that when revising duty rates it would:

- (1) Give British industry an opportunity to put forward its views on the level of duty under the British preferential tariff.
- (2) Give the British government an opportunity to put forward views on the necessary preference margins and allow British industry full opportunity to maintain its places in the New Zealand market in full competition with foreign imports. (24)

Given the similarity of these commitments to those entered into by Nash in 1939, it is not surprising that they remained confidential. But the time was past when New Zealand trade could be locked into a British patteen. While higher prices were making other markets look attractive to exporters, lower prices had the equivalent effect on

importers. Moreover, if New Zealand wanted to negotiate improved access for its exports to new markets, it had to be prepared to make concessions in exchange. In 1954 New Zealand made a further, but unsuccessful, attempt to seek British agreement to changing preferential margins. (25)

Other differences over import policy did not have so much long-term significance, but they did suggest that the National Government was reluctant to allow sentiment a place in commercial life. Criticism about pooling of tenders continued. In September 1950 Holland quoted five instances of tenders at the same price<sup>(26)</sup> - involving respectively 14, 13, 11, 10 and 5 identical tenders. The fact that some tenders from outside Britain were half the British price made this practice particularly galling.<sup>(27)</sup> These complaints recurred later in the decade.<sup>(28)</sup> Additionally, there were complaints about the quality of British goods. One Member of Parliament listed crockery, knives, saws and pliers as instances of British products which were defective in one respect or another.<sup>(29)</sup> This was a time when feeling about the contract prices for meat and dairy products was particularly strong, and it seemed that what New Zealand was losing on the swings it was also losing on the roundabouts.<sup>(30)</sup>

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25. T61/1/8, memo 25 Aug 1954.

26. EA58/2/2/1, *Dominion*, 7 Sep 1950.

27. *Ibid.*, *Dominion.*, 18 Jan 1951.

28. *Ibid.*, *EP*, 14 Feb 1953, *EP*, 1955, *passim*

29. *Ibid.*, *Dominion*, 4 Jul 1952.

30. *Ibid.*, *EP*, Dec 1952, *EP*. 14 Feb 1953.

The liberalisation of New Zealand trade aroused some concern in Britain, and so too did evidence of protectionism. This took two forms. On the one hand, National found itself politically unable to return to the open economy of the pre-1935 period. The idea that the Governments were responsible for maintaining employment and incomes was now widely accepted. This did not create problems in relations with Britain as such because it was accepted that such policies were not of necessity harmful to British interests. But there was particular concern about the protection which continued to be extended to some of the industries which had grown up in the war and postwar periods. The Board of Trade was supposed to look at sensitive areas and ways in which protection could be lessened, but its inquiries proceeded very slowly. Nonetheless, British commercial interests had the opportunity to make representations to the Board of Trade, and however sceptical Britain may have been of New Zealand's intentions in this sphere, the direction of policy was acceptable. This was not so when controls were re-imposed to counter a balance of payments crisis. And the abandonment of direct import control without any commensurate cutback in domestic consumption or investment made it more than likely that New Zealand would in due course face a shortage of foreign exchange. Indeed through the 1950s the pattern of expansion - foreign exchange crisis - contraction matching the pattern of three yearly elections, became one of the most prominent features of the country's political economy.

The consumption of resources which the expansionary phase of the economic cycle entailed was of diminishing concern to Britain in the 1950s. But there was accordingly that much less enthusiasm for any



protectionist by-products of the contractionary phase. The first such episode occurred in 1952, in the wake of the sterling <sup>area's</sup> own crisis. On 1 April the Government introduced a system of exchange allocation for all foreign exchange, including sterling. The system had much the same restrictive effect as licensing, but it was administered through the Reserve Bank, not through Customs and Industries and Commerce, and the fact that it did not restrict imports as such allowed the Government to deny charges that it now accepted the validity of Labour's policy. A basic allocation of 80 per cent of the exchange purchased by private importers in 1950 was to be made available to private importers in 1952 and additional exchange would be made available to cover certain contingencies. Implementation of the exchange control scheme which followed shortly after the Government's decision to cope with the dollar shortage, produced a revival of criticism of New Zealand's import policy on a scale not seen since 1948. At the Commonwealth Finance Ministers' Conference in January 1952 it had been agreed that freedom of trade within the sterling area was one of the fundamental advantages of sterling area cooperation. If any country wanted to ensure that it was in balance on overall account it could act internally rather than through restrictions on imports. In an *aide-memoire*, Britain expressed the hope that New Zealand's measures, which affected imports, would go no further:

Should there however be any question hereafter of the unavoidable imposition of new restrictions, directly affecting imports from the United Kingdom, it would be of very great assistance to the United Kingdom Government if before any such action is taken by any such government concerned, they would be informed of what is intended in adequate time to deal adequately with ... criticism ....

So far as the United Kingdom Government themselves are concerned, they have not hitherto imposed import restrictions on goods from other Commonwealth countries, and they would hope that the need to do so will not arise.... (31)

In the event, the New Zealand Government did not take any further restrictive measures. Presumably this was mainly because there was no need rather than no inclination. The Secretary of External Affairs, A.D. McIntosh, had indeed advised against a written reply to the *aide-memoire* on the grounds that if New Zealand agreed in full with it, it might be embarrassing if the Government later "needed to take some urgent action regarding imports and did not have much time for prior consultation". (32) In a message to the Chancellor of the Exchequer in July 1952, Holland regretted that the need to ensure that New Zealand achieved external balances for the year ended June 1953 had required cuts in imports from the United Kingdom, - it was inevitable given that such a large proportion of imports were bought from the United Kingdom. He expressed the hope that if wool and other exports sold at higher prices in 1953 the severity of the cuts could be mitigated. (33) But the Government did not revoke those measures it had already taken: and through the remaining months of 1952 and into 1953 there was a steady stream of representations from British exporters whose orders had been cancelled by New Zealand importers because exchange was not available. (34)

A particular problem arose because, on 8 May 1952, the Reserve Bank had agreed to make exchange available for goods on firm order

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31. T61/1, 22 Apr 1952.

32. T61/1, 24 Apr 1952.

33. T61/4/2, PM-CE, 7 Jul 1952.

34. IC102/2, MEA-NZHCL, 13 Jun 1952.

before 1 April 1952, but failed to follow through its commitment in this respect. In some cases, difficulties were compounded because some of the firms affected were those with whom New Zealand had taken strong action in the immediately preceding months to obtain essential supplies.<sup>(35)</sup>

Whatever the administrative difficulties, the effective level of exchange approved in 1952 eventually reached the figure of £200 million. The recovery in wool prices made a big difference and the import bill in fact was as high as in 1951.

In April 1953 a substantial deputation from the UKMNZR Association met J. Watts, the Minister of Industries and Commerce. It made representations, particularly over the fact that the basic exchange allocation for 1953 was to be only 40 per cent of the 1950 figure. Watts pointed out that more exchange would be available above that figure on application - indeed it was expected to allocate around £17 million for private imports in 1953, which would allow the same import volume as in 1952, owing to the drop in some material prices, for instance steel, zinc and textiles.<sup>(36)</sup> The improvement in the external situation - for both the sterling area and New Zealand - continued through 1953 into 1954.

From the Chancellor of the Exchequer, Holland received a message which discussed the improvement in sterling area reserves and the link between this and measures taken in New Zealand but added the hope

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35. IC102/2, *passim*, Jun/Jul 1952.

36. IC102/2, meeting 2 Apr 1953.

that you may find it possible in the near future to carry still further the lifting of restrictions on imports from this country ... I need not tell you how welcome we should find it if you felt able to let in imports freely... (37)

Holland's reply allowed the Chancellor to express his pleasure

that your external position has now improved to the point at which you have felt able to terminate the exchange allocation system on imports. Much appreciate your assurance that you have no desire to continue restrictions on imports for any longer than is necessary. (38)

### 3. Wool after the War, 1946-1952.

The concern of both woolgrowers and Government when the first postwar season commenced in July 1946 were straightforward enough. Producers looked forward to a return to *private trading*.

The Government accepted that through the Joint Organisation it had the best chance of protecting the industry and the country's finances from a marketing and financial debacle.

With hindsight, we know that such anxieties were unfounded. Estimates based on pre-war consumption patterns reckoned that it would take at least ten years to dispose of all the accumulated stocks. (39) But the market, contrary to expectation, proved far more buoyant than this calculation envisaged. This was in conformity with the overall

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37. T61/1, 24 Jun 1954.

38. *Ibid.*, 16 Aug 1954.

39. T161 S45511/2 wool paper attached to 18 Jul 1944; T161 S45511/3 Helsley, 29 Sep 1944.

pattern of world economic activity, particularly in the United States, and, with the Marshall Plan, in Europe too. At the end of the 1949/50 season, the fourth of the Joint Organisation's operation, only 484 000 bales were still stockpiled, compared with 13 000 000 at the beginning of the 1945 season (of which around 11 000 000 were owned by Britain).<sup>(40)</sup>

New Zealand's experience paralleled that of the Organisation as a whole, with a few variations. During the wartime period, Britain had been unable to use or sell so much of the coarser or inferior types of wool. This meant that New Zealand stocks were under-represented. Coupled with the leaner weight of New Zealand bales, the slower disposal of New Zealand wool, and the rising trend of prices, this helps explain why average overall sale receipts per bale during the Joint Organisation period were £33 sterling for New Zealand, compared with £30 for Australia and £23 for South Africa.<sup>(41)</sup>

As was to be expected with these conditions, the role of the reserve price was peripheral rather than central to the operation of the trade. Nevertheless there were some periods where conditions were depressed. In 1947/48 the Wool Disposal Commission bought in 108 000 bales, and by its action induced commercial buyers to bid higher, a result which pleased growers and influenced them in favour of a reserve price system.<sup>(42)</sup>

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40. Edwin McCarthy, *Wool Disposals 1945-52: The Joint Organisation*, pp. 15, 105, 110.

41. Greensmith, *Wool Commission*, p. 13.

42. *Ibid.*, p. 15.

Expecting to be supporting prices, the Government found itself anxious about high prices. But neither the Joint Organisation nor the Wool Disposal Commission had been established for anti-inflationary purposes. The Labour Government resisted proposals to raise the reserve price, but this could make little difference: the new Government accepted a 12.5 per cent increase in the reserve for the 1950/51 season but even with that adjustment it was still only around 50 per cent of the value of average current realisations.<sup>(43)</sup> With the boom in the early stages of the 1950/51 season as a result of the Korean War, a wool proceeds retention scheme was introduced under which one-third of the proceeds from current sales were frozen. With the price fall in 1951 the scheme was discontinued.<sup>(44)</sup> In the meantime though, there had been discussion about marketing arrangements after the demise of the Joint Organisation.

It was intended that a review of operations after five years take place, but so successful had the Organisation's trading been that the 1950 London Conference met to discuss plans for the post-Joint Organisation period. At the Conference, the Australian, New Zealand and South African Governments put forward proposals which would use the profit from the Joint Organisation to continue some kind of market support. The major objective of the plan as agreed was "to set a lower limit to major declines in the wool market." Although there was also reference to the sale of bought-in wool so as to regulate upward price movements, there would not be a price ceiling to match the price floor.<sup>(45)</sup> It was natural that Britain, as a consuming country should

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43. T40/721, memo 13 Jun 1950.

44. Greensmith, *Wool Commission*, p. 21.

45. McCarthy, *Joint Organisation*, p. 133.

be rather less enthusiastic about the scheme than the producing countries. It could involve her in the subsidy of producers' incomes on a scale she had never envisaged for food producers. On the other hand the large profits Britain had made from the operations of the Joint Organisation - around £100 000 000 - suggested that she could at some stage benefit from participation. However she postponed a decision by requiring that the plans received general international assent. (46)

In the interim, there was discussion in New Zealand. The new Government, in accordance with the philosophy of producer control, was willing to accede to the wool growers' wishes. The latter had little to lose. The prospect of a postwar depression had meant that all concern was focussed on price support, and although prices had been buoyant, this bias remained.

There was a more specific reason too. Profits from the sale of wartime wool had accrued to Governments and not producers. In August 1946, Nash informed the Wool Board that any profit would be used as the nucleus of a post-Joint Organisation marketing plan or, if such a plan did not eventuate, "would be expended" for purposes "as may be agreed upon between the Wool Board and the Government." In exchange the producers agreed to a similar disposition of the amount which had arisen from their contributory charges to the Joint Organisation's operating expenses. Because of the profits earned, the sums

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46. T40/721. Second Interim Report on the Commonwealth Wool Conference; Greensmith, *Wool Commission*, pp. 29-32; McCarthy, *Joint Organisation*, p. 131.

accumulated (the charges were tied to realisations) were far higher than needed to meet those expenses. But even so, the total of contributory charges was just over £6 000 000 at 30 June 1951, whereas profits accruing to the Government amounted to just on £20 000 000 sterling.<sup>(47)</sup>

This was a substantial sum of money and the change of Government made it even more accessible. In his letter, Nash had stated that:

any post-Joint Organisation marketing plan shall ... be acceptable both to the Government and the Wool Board, that its policy shall be determined by mutual agreement, and that its administration shall be jointly by the Government and the industry through equal representation on any board or controlling authority. (48)

While Holland, in continuing the arrangement, specifically alluded to Nash's letter, the phraseology of his own letter was much looser, simply referring to any plan "which may be hereafter mutually agreed upon ..."<sup>(49)</sup>

Conforming to this outlook, the Government allowed producers to take the decision on whether or not to support the new scheme. Given its bias in favour of price support, and the Government's own attitudes to the disposition of profits, their support for the plan, conveyed to the Government in May 1950, came as no surprise.<sup>(50)</sup>

The International Wool Study Group, which met in October 1950,

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47. Greensmith, *Wool Commission*, pp. 19-23.

48. *Ibid.*, p. 26 quoting Walter Nash, 27 Aug 1948.

49. *Ibid.*, p. 27.

50. *Ibid.*, p. 29.



did not take strong exception to the proposals insofar as it would benefit producers and consumers, whilst given the existing price level, it seemed unlikely that reserve prices as proposed could have a marked effect on the market. However it was agreed that there should be further consultation if buying-in operations assumed substantial proportions.<sup>(51)</sup>

Whether Britain would have resorted to some other device to escape from its commitment to the scheme is not yet known but events disposed of the plan. Australian participation was subject to a referendum of woolgrowers, who turned it down in August 1951. Thus, the abolition of the Wool Disposal Commission on 1 January 1952 and of the Joint Organisation as from 22 January, marked the end of Anglo-New Zealand collaboration in wool marketing. New Zealand however proceeded with its own reserve scheme establishing, with full producer support, a Wool Commission, which came into operation on 1 January 1952.<sup>(52)</sup> Thus one long-term result of the wartime organisation of the wool trade was to involve the Government more permanently in the affairs of that industry than had previously been the case. But the resumption of free market conditions meant that the Government could not expect to enlist the British - or indeed any other - Government in support of its responsibilities and concerns in this sphere.

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51. *Ibid.*, pp. 32-34.

52. T40/721, MEA-NZEW, 12 Sep 1951; McCarthy, *Joint Organisation*, pp. 129, 131-34; CM(50)31, 12 Jun 1950, Greensmith, *Wool Commission*, pp. 35-38.

## CHAPTER TEN

### The Last Years of Bulk Purchase 1949-1954

1. Introduction
2. Meat: the market weakens, 1949-1950
3. Meat: the buoyant market, 1951-1952
4. Meat: producer-government relations and the 1952 negotiations
5. Meat: the weakening market and the end of bulk purchase, 1953-1954
6. Dairy produce: the first post-war difficulties, 1949-1950
7. Dairy produce: boom and after 1950-1953
8. Dairy produce: termination 1953-1954

## 1. Introduction

For both the dairy and meat trades the seven year contracts agreed on in 1948 provide a base point for understanding the experience of the succeeding years. For both trades two important aspects affecting future profitability had been settled. Meat, butter and cheese were all to enjoy unrestricted access to the British market and a modified form of floor price. From the point of view of both Government and producers, this was very satisfactory. Producers believed their livelihood was in good part protected by this guaranteed access to their major market, whilst the Government could expect foreign exchange earnings to be stable over an extended period. For their part, a buoyant market kept woolgrowers happy through the period.

While seeking long-term security, New Zealand had always kept an eye open for short-term opportunities. Tension arose during the period of rising prices 1950-52 when the Ministry of Food tried to hold New Zealand to the contracts. On the other hand, when the markets weakened New Zealand became all too well aware that the protection afforded by the contracts was less than complete. This awareness was underlined by Britain's decision to return the food trades to private hands. There was a surge of anxiety in both the meat and dairy industries. Meat producers received a fifteen year extension of their unrestricted access in 1952, but in future prices would be determined by the market. For butter and cheese producers the prospects were even more uncertain. Supply trends were much more unfavourable than for meat. There would be no guarantee of unrestricted access and it was probable that they might face very low prices or

restricted access or a difficult combination of both.

The National Government, which took office in December 1949, was committed to increasing producer control of the major pastoral industries. This might have been expected to create difficulties at any stage when producer and Government interests diverged: the alternative that the Government would cease altogether to have interests in these industries was hardly realistic, given that they earned such a large proportion of New Zealand's foreign exchange. But for two principal reasons difficulties were avoided. Firstly, in the dairy industry, the establishment of the Dairy Products Marketing Commission in 1947 had met most of the grievances of that sector in respect of producer control without the Government's interests being sacrificed. The Commission's chairman, W. Marshall, was respected by the industry, but also had the confidence of the Labour Government, as demonstrated by his former membership, along with Walsh and Ashwin, of the Economic Stabilisation Commission. This confidence was extended to Marshall by the new Government.

There were also changes in the meat industry. From 1948 the Meat Board acted as the Government's agent in the handling of meat for export<sup>(1)</sup> and this satisfied the Board for the time being. The National Government did not take any further steps to devolve power until a surge of producer criticism in 1952.

There was indeed little pressure to increase the degree of

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1. MB50/2/6, 1948, n.d.

producer control, and more significantly, few major divergences on external policy through the 1949/54 period. The main conflicts between Labour and the producers had come over stabilisation policy and the impact it had on producer returns. The new Government, it is true, tended like the old to be rather less determined to push Britain for higher prices than were the producers both because of concern about inflation and a recognition of the interaction between the different aspects of New Zealand's economic relations with Britain over the longer term. But it was not so concerned as Labour had been to segregate a proportion of any price increases once they had been made - of course the size of the funds already in the stabilisation accounts made this a practicable as well as a politically wise stance. And on other aspects of marketing policy there was very little difference in approach.

During the 1945-48 period the elaboration of plans for a new international commercial order had provoked occasional concern in New Zealand as to the implications of such moves for its trade with Britain. In the 1949-54 period such concerns ebbed. The failure of many countries, notably the United States, to ratify the Charter of the International Trade Organisation meant that the organisation did not become operational. What remained was an Interim Commission established to administer the general agreement on tariffs and trade reached during parallel negotiations. The signatories to G.A.T.T. (as the Interim Commission was known) met several times during 1949-54, in attempts to lower tariff and other trade barriers between them and Commonwealth preferences in Britain occasionally became an issue.

Prior to the fifth G.A.T.T. Conference held at Torquay in September 1950, the United States sought decreases on British preferences on dairy products and some other items. Both New Zealand and Australia made strong representations to Britain, but the United States did not in fact pursue the matter.<sup>(2)</sup> Similarly, prior to the seventh session of G.A.T.T., held in late 1953, Britain stated its intention of maintaining duty free entry of major Commonwealth products.<sup>(3)</sup>

Intra-European cooperation did not materialise as a threat either. In 1949, it was proposed that Britain put a large part of her private import trade on an open general licence to O.E.E.C. countries, but not to the outer sterling area (because of Britain's non-discrimination obligations to the United States). The volume and number of items exported by New Zealand which would have been directly affected was insignificant: for instance, such goods as meat extracts and canned vegetables. But it was seen as a thin edge of the wedge and New Zealand was relieved that the proposal was not followed up. Later in the year there were further general discussions, with continental countries feeling that Britain was not pulling its weight in Europe, and the United States continuing to promote the idea of economic unification. Again, Britain steered a course which avoided any commitment to integrate its economy with Europe in any way which would prejudice the discharge of its Commonwealth responsibilities.<sup>(4)</sup> The subsequent focus of European attention on smaller-scale schemes, which culminated in the formation of the Coal and Steel community in 1950, removed the issue from the agenda of British concerns.

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2. ESC2/11, NZDT-MEA, 17 Sep 1950.
  3. EA35/29/5, 2 Sep 1953.
  4. ESC2/11, 2 Sep, 12 Dec 1949.

2. Meat: The Market Weakens 1949-1950

The meat contract negotiations in 1949, the last under the aegis of the Labour Government, were fairly uneventful. The 1949/50 season was more closely linked to its predecessors than successors. In the postwar years New Zealand meat prices were comparable to those paid other suppliers to Britain<sup>(5)</sup> and there was little dissatisfaction with the bulk purchase arrangements. Nevertheless Walsh, who represented the Government at the meat negotiations, was able to point to evidence that New Zealand prices were well below world levels. Argentina's new (May 1949) price was estimated to be 25 per cent to 30 per cent more than New Zealand's 1948 prices. Walsh sought a 7.5 per cent increase - in terms of the 1948 agreement - which the British agreed to.<sup>(6)</sup> But how acceptable would the price clause be if prices remained buoyant? While in terms of market trends New Zealand's price increase was moderate, ideas of diverting meat to North America were also discouraged because of recognition of Britain's need for meat supplies. Diversion was mooted at the Commonwealth Finance Ministers talks in July but turned down by Britain who wanted meat more than dollars.<sup>(7)</sup> Argentina had failed to supply the additional meat promised under the February 1948 Andes Agreement despite price increases and promises of essential supplies. Australian meat production was also slipping and New Zealand, despite all the efforts of the Aid for Britain Campaign, exported 7000 tons less in 1948/49 than in 1947/48 - and this despite the promise in the 1948 contract to be

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5. Walsh 270, Rowland-Walsh, 19 May 1949.

6. Walsh 267, Jun 1949.

7. T61/1/1, 11 Aug 1949.

producing an additional 50 000 tons per annum by 1955.<sup>(8)</sup> A further approach was made by New Zealand in November but again the Ministry of Food demurred, invoking the same reasons it listed on the earlier occasion.<sup>(9)</sup> The one area of production to which the United Kingdom was not so concerned to give special encouragement was pigmeat and she refused again to extend the contract to 1955.<sup>(10)</sup> On the other hand telescoping came to an end at the beginning of the 1949/50 season despite the continuing shortages.

If on the whole the outcome of the negotiations was satisfactory, there were nevertheless some indications of long-term anxiety. G.H. Grigg expected the price increase to be the last one for some time. It was fortunate that prices could fall by no more than 7.5 per cent in any one year.<sup>(11)</sup> Walsh, for his part, in further discussions with Strachey, the Minister of Food, after the contract negotiations had been concluded, raised unsuccessfully the matter of a fifteen year right of free entry as a way of encouraging New Zealand to increase production.<sup>(12)</sup>

In 1950 signs multiplied that the long period of shortages might be coming to an end. Britain's domestic production of meat particularly of beef, had increased substantially since the war and total meat supplies available in the United Kingdom were only 4 per cent below the 1939 level.<sup>(13)</sup> This favourable situation encouraged Britain to take a strong stand against Argentina. For the new season

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8. ESC2/8, *Dominion*, 17 Oct 1949.
  9. T40/7, UKHCW-NZG, 22 Dec 1949.
  10. Walsh 267, Turner-Walsh, 30 Jun 1949.
  11. Walsh 265, *Dominion*, 3 Sep 1949.
  12. Walsh 256, Walsh-PMNZ, 29 Jun 1949.
  13. ESC2/8, *NZH*, 3 Jul 1950.



Britain proposed to cut the average price for Argentinian meat by over 7.5 per cent whilst Argentina, in reply suggested an increase from £97 to £140 per long ton. Britain, according to the Minister of Food, was determined to show the Argentina Government that "we are not going to be blackmailed any longer."<sup>(14)</sup> At the beginning of July, Argentina suspended all sales.

Britain's strong stand increased awareness in New Zealand that times were changing and that she could not necessarily expect to secure increases on the scale of 1948 and 1949. Nevertheless this did not preclude New Zealand presenting a case for an increase. In late 1949 Australian prices had been increased as an incentive to increase production and New Zealand reckoned it should receive a parallel increase as was usual. There were also increases in costs for which New Zealand sought compensation again, as had been usual.<sup>(15)</sup>

Because of the deadlock with Argentina, the Ministry of Food asked New Zealand to postpone the negotiations for three months: it did not want to be seen to be discussing, and maybe paying out, increases to one trading partner whilst attempting to impose a reduction on another. Moreover, Australia was in the throes of negotiating a fifteen year agreement and it seemed useful to wait until that was sorted out.<sup>(16)</sup>

The postponement caused some uneasiness in New Zealand. It was most unlikely, said Ashwin, who had led the negotiating team in

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14. Ag 2339, quotation from memo, NZHCL-SEA, 3 Apr 1950.

15. ESC2/8, *Press*, 24 Jun 1950.

16. *Ibid.*, NZH., 3 Jul 1950, *Dominion*, 1 Sep 1950.

June, and then returned to New Zealand, that prices would be lowered but that this needed to be said at all was indicative. Producers for their part expressed some dissatisfaction at the fact that they were being paid less than Argentinean exporters.<sup>(17)</sup> At talks with the New Zealand Government in mid-July, Patrick Gordon Walker explained that higher Argentinian prices reflected Argentinian tactics.<sup>(18)</sup> In the press there were reports of and comments on renewed discussion of the need for New Zealand to explore other markets besides Britain, something the dairy producers had been keen on for years. This discussion indicated correctly the fact that while the supply position had improved the world market for meat was far from being a buyer's one.

When negotiations resumed at the end of September, New Zealand returned to its case for a full 7.5 per cent increase, invoking both relativities and cost increases. S.A. Chisholm (the Meat Board's representative in London, and acting as New Zealand's principal negotiator) thought New Zealand's bargaining power would be increased because Britain had still not reached agreement with Argentina. But Britain's strong stand with the latter expressed its determination to hold the line against all suppliers including Australia and New Zealand.<sup>(19)</sup> The Ministry clearly did not think it would be able to impose a price reduction or even a standstill on New Zealand but it attempted to exploit the terms of the contract to hold the New Zealand increase to a minimum. Australia had not yet reached agreement with Britain. Currently, Australia's contract was on an annual basis and

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17. *Ibid.*, NZH., 13 Jul 1950, *Auckland Star*, 10 Jul 1950.

18. CM(50) 48, 20 Jul 1950.

19. MB 50/2/6, Chisholm-ST, 12 Oct 1950; ST-Chisholm, 12 Oct 1950.

there was no floor price. Thus while Australia could negotiate price increases, it was not protected against falls. As New Zealand was, it should no longer expect its prices to move in tandem with Australia's.<sup>(20)</sup> In fact the Ministry proposed removing from the contract that part of the article on price-fixing which allowed either party to invoke the prices paid to other suppliers as grounds for revision<sup>(21)</sup> (in the event, this was not pursued but held over to the next year's negotiations). While the Ministry argued that New Zealand could not both have its cake and eat it, it also reckoned that on cost grounds, New Zealand was only entitled to an average 5.5 per cent increase and this in the end was what she accepted for mutton, lamb and beef.<sup>(22)</sup> The only exception was pigmeat for which a 4s. 3d. per pound increase was agreed - this was a substantial rise which broke the 7.5 per cent barrier, but only over a small part of total production.

Unsurprisingly, in view of the discussion at home and the prices current on the North American market, the question of diversion was raised by the New Zealand delegation. As in 1949, for the same reasons, Britain was unlikely to be receptive: 1948 had been a peak year for meat imports - 1949 had seen a decline. The long-term contract was aimed at encouraging increased production - if this did not occur it was even less acceptable for production to be diverted. And the troubles with Argentina could only confirm this view.

Nevertheless the delay in negotiations allowed the New Zealanders

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20. *Ibid.*, 8 Nov 1950.

21. *Ibid.*

22. *Ibid.*, *Dominion*, 29 Jan 1951.

fruitfully to practise some quick footwork. New Zealand reckoned that in the first round of talks it had been agreed that she could release up to 5000 tons, without any conditions. The Ministry of Food, when the matter was raised subsequently, accepted this interpretation very reluctantly, informing Chisholm that

Our note of the meeting supports our view  
as to the circumstances in which that decision  
was taken. (23)

In other words, the Ministry had intended that under certain circumstances diversion would be restricted or prohibited. More was to come. New Zealand claimed that any meat supplied to British colonies would be over and above the 5000 tons - the Ministry of Food contended that it was "clearly understood" at the meeting on 30 June that such shipments would be included in the quota. But "if Ashwin feels strongly" the point would be conceded. (24) In the final agreement oil company installations and such like were included within the quota, but colonies were left out. A percentage - 2 per cent - rather than a tonnage basis was agreed on - this favoured New Zealand too. (25) Nor, despite the trouble with Argentina, did Ashwin agree with the Meat Board that the proposed shipments to North America should be postponed - they would not go until around April 1951 he informed K.J. Holyoake, the Minister of Marketing and Minister of Agriculture, by which time there would certainly have been a settlement. (26)

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23. MB 50/2/6, MF-Chisholm, 22 Aug 1950.

24. *Ibid.*

25. MB 50/2/6, 20 Oct 1950.

26. T40/7, ST-MMk, 8 Nov 1950.

3. Meat: The Buoyant Market, 1951-1952

Britain's dispute with Argentina dragged on, but with the waterfront strike in New Zealand, the lure of high wool prices which was affecting the sheep kill in both Australia and New Zealand, price had become subordinate in importance to the need for supplies. In April, a settlement was reached between Britain and Argentina which revived the dissatisfaction which producers had felt with the trend of events in 1950. Although not fully apprised of the details of the settlement producers learnt that Britain was reportedly paying more for Argentinian than New Zealand lamb despite the superior quality of the latter. It seemed that Argentina was being rewarded for intransigence, New Zealand penalised for its cooperativeness. The Chairman of the Meat Board complained to Holyoake that

as agents for loyal producers [the Board] had for several years past been influenced by feelings of sentimentality towards its kinfolk in the United Kingdom whereas on the present outlook it appeared to have pursued for far too long such a policy of self-sacrifice. (27)

The Australians successfully induced Britain to abandon the agreement which was to keep their prices fixed until the beginning of the 1952 season. Beef prices were increased and this increase was passed on to New Zealand<sup>(28)</sup> (making for a total increase for New Zealand beef for 1950/51 of around 7.5 per cent). But this hardly satisfied the producers who were now determined to seek what was called "world parity" which meant, in effect, keeping in step with Australia. Through the winter the press was full of comments from producers, often echoed by

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27. MB 50/2/6, MPB-MMk, 9 May 1951.

28. *Ibid.*, McClumpha-ST, 20 Apr 1951.

editorial writers, about the inequities of the bulk purchase system and, in particular, the price clause. That New Zealand had agreed to the 7.5 per cent 'snake' as a way of protecting itself against a slump was largely overlooked - or argued to be irrelevant. For instance the *Manawatu Times* argued that devaluation of sterling had undermined the fairness of the 7.5 per cent clause and remunerative returns were necessary if farmers were to increase production.<sup>(29)</sup>

The knowledge of opportunities in other markets fuelled the dissatisfaction. G.H. Grigg, Chairman of the Meat Producers' Board, said the remaining four years of the contract would be used to explore their potentialities and hopefully to establish a permanent outlet in North America.<sup>(30)</sup> The often outspoken J.D. Ormond, the deputy chairman, was reported to have said it was time New Zealand "twisted the lion's tail and sent some of our meat to the United States".<sup>(31)</sup> In fact the lure of the dollar ignited as much as fuelled dissatisfaction with bulk purchase. As the *Southland Times* pointed out, if there were no American market, producers would not be so keen to leave the system.<sup>(32)</sup>

Although Government disquiet was not expressed so vocally, it too found the existing situation unsatisfactory. In June 1951, the Ministry of Food informed New Zealand that it was prepared to grant the full allowable 7.5 per cent increase for the 1951-52 season.<sup>(33)</sup> The experience of the last few months, in particular the outcome of

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29. 9 Oct 1951.

30. *NZH*, 29 Jun 1951.

31. MB 50/2/6, *Express*, 20 Jul 1951.

32. T series 75 3/6, *Southland Times*, 29 Aug 1951.

33. T40/648/3/51/52, NZHCL-MEA, 11 Jun 1951.

the Argentinian negotiations, made the Government cautious about accepting too quickly what had been sought in vain in 1950. It was decided that as Australia still did not have a long-term contract (the negotiations initiated in 1950 had not yet reached finality) New Zealand would let Australia go first in the hope that if she secured an increase this would enhance New Zealand's chances of breaking the 7.5 per cent barrier. (34)

Sure enough, Australia did secure substantial increases: 7.5 per cent on lamb, 15 per cent on first grade mutton, 10 per cent on other grades, and between 10 per cent and 30 per cent on beef. (35) With this precedent New Zealand presented a strong case for an increase over the 7.5 per cent ceiling. New Zealand had become Britain's largest and most reliable supplier of meat - supplies from Australia, and from Argentina, despite the April settlement, were falling. There were good expectations of substantial increases in output through increased aerial topdressing of pasture, particularly once the sulphur shortage had eased. Low prices would discourage investment and promote pressure for diversion to more lucrative markets. The increases New Zealand was seeking averaged about 18 per cent, compared with around 24 per cent for Australia, it was estimated. It was contended that the 7.5 per cent clause was a clause designed to limit fluctuations between commodity prices and prices generally. If the latter had moved permanently upward then it was not equitable to maintain the former at the old level. (36)

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34. MB 50/2/6, 12 Sep 1951.

35. *Manawatu Times*, 9 Oct 1951.

36. T40/648/3/51/52, NZHCL-MEA, 26 Sep 1951; MEA-NZHCL, 15 Oct 1951.

The Ministry of Food, naturally, did not take all that kindly to this presentation. Vague allusions were made to the fact that New Zealand had decided to wait on the Australian negotiations: now "difficulties" existed. More specifically, it pointed out that New Zealand had to realise that acceptance of the 7.5 per cent clause meant that prices would inevitably diverge from Australia's at some stage. (37)

Having given New Zealand the bad news, Herbert, the Ministry's representative, said that nevertheless, Britain was prepared to make special concessions above the 7.5 per cent ceiling as a special "quality payment" outside the agreement on the understanding that such an arrangement did not set a precedent for future years. New Zealand was hoping that the principle of a special adjustment was recognised but the absolute amounts were not so appealing. Traditionally most New Zealand meats had enjoyed a quality premium over their Australian equivalents. The increase Herbert was offering - around 9 per cent overall - would have wiped out these differences almost completely. This was not good enough. Moreover, it was now known that Australia's fifteen year agreement, the details of which had been finalised, included provision for a floor price. (38)

At this point negotiations were interrupted by the British general election, which saw a Conservative Government returned to office. Subsequently the offer got bogged down in Treasury. Apart from reaching agreement on a 2 per cent diversion (or 7000 tons whichever

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37. *Ibid.*, NZHCL-MEA, 12 Oct 1951.

38. *Ibid.*, NZHCL-MEA, 16 Oct 1951, MEA-NZHCL, 18 Oct 1951.



was the greater) nothing was achieved until the New Year. As in 1940, the delay forced the New Zealand Government to set the fob buying schedules without any firm knowledge of how they would relate to the prices paid by Britain. The new schedules revised prices by an average of 7.5 per cent over 1950/51.<sup>(39)</sup> In January 1952, Britain made a much more satisfactory offer, "out of the blue" as Chisholm put it. The traditional premium over Australian mutton and lamb would be maintained, although not that for beef. Overall, there would be an average increase of around 15 per cent, much closer to what New Zealand had asked for.<sup>(40)</sup> An exchange of letters between Herbert, the chief Ministry of Food negotiator, and Ashwin, conveyed the understanding that the 7.5 per cent increase in the Heads of Agreement had not been invalidated by the settlement:

We would hope that in future years, in the best interests of both parties, inflationary movements or other economic circumstances will not again necessitate a special arrangement for increasing prices by more than 7.5 per cent. (41)

Why had Britain agreed to override the clause on this particular occasion after the initial resistance? In their exchange of letters Ashwin and Herbert recorded the agreement of their two Governments to the "urgent necessity" of increasing still further exports of meat from New Zealand to Britain. As in April 1951, the supply situation had become critical. The volume of exports was declining from all three major overseas producers. On 26 January, S.G. Holland, the Prime Minister and Minister of Finance, in London for the Finance Ministers' Conference, informed Holyoake that stocks of meat - and butter

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39. MB 50/2/6, Chisholm-Evans, 17 Jan 1952; T40/648/3/51/52, 20 Dec 1951.

40. MB 50/2/6, 17 Jan 1952.

41. MB 50/2/6, Herbert, MF-ST, 14 Feb 1952.

and cheese - were so low that the Ministry of Food would have exhausted one or more of these products before new shipments arrived. New Zealand was asked to despatch at least four shiploads of meat as quickly as possible.<sup>(42)</sup> Ormond, who had gone over for the latest stages of the talks thought that, quite apart from 'Britain's extremity', it was

a golden time to enhance New Zealand's reputation. Release of news would please public and arrival of ships would save [U.K.] government most serious embarrassment. <sup>(43)</sup>

The appropriate action was taken in New Zealand, with the new and docile Auckland Waterfront Union agreeing to work two vessels on Auckland Anniversary Day and also the following Saturday and Sunday.<sup>(44)</sup>

Britain's plight did not just advantage New Zealand for the current season. New Zealand was also offered the chance to make an arrangement like that which Australia had agreed on in 1951. Australia's agreement was to run for fifteen years, from 1952 to 1967. It provided for unrestricted duty free entry to the British market for all Australian meat over that period. Additionally, a schedule of minimum prices was agreed on and a provision for price increases to be tied to changes in costs. From Britain's point of view the aim of the agreement was, as with the long-term contract with New Zealand in 1948, to encourage an increase in production. The link between this and the price increases was not spelt out in a contractual form but there was a limit on how much meat Australia could divert to other markets without Britain's agreement.

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42. T40/648/3/51/52, PMNZ-MMk, 26 Jan 1952.

43. *Ibid.*

44. *Ibid.*, MEA-NZHCL, 28 Jan 1952.

New Zealand was agreeable to accepting the fifteen year right of unrestricted entry. This pushed well into the future any prospect of a return to the quantitative restrictions she had faced between 1932 and 1943 and kept the quantitative issue off the agenda of meat producer concerns.<sup>(45)</sup> But she decided not to make the more elaborate arrangements to which Australia had agreed. It is not certain why this was the case. Unlike New Zealand's 1948 price clause, Australia's did not closely limit her ability to secure increases. Possibly there was a general feeling that such intricate arrangements could become traps - for instance over diversion - and that they were better avoided.

#### 4. Meat: Producer-Government Relations and the 1952 Negotiations

The contract negotiations for the 1951/52 season had achieved a much more substantial increase than had originally been expected but a certain amount of dissatisfaction lingered amongst producers who were perhaps less inclined than the Government to see any relationship between meat negotiations and Britain's current financial difficulties other than when it worked to their advantage.

When Ormond left for Britain in mid-January 1952, he was quoted as saying that since the end of the war, Treasury officials in both

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45. *Ibid.*, PMNZ-MMk, 14 Feb 1952.

countries had "pretty well controlled the discussions on commodity prices" but this time farmers would have a say.<sup>(46)</sup> Although the Meat Board accepted the settlement reached, the General Manager, J.J. Evans, for one, thought that anything below the terms accorded Australia was "not only bad business but shabby treatment".<sup>(47)</sup>

Producer dissatisfaction with the conduct of the trade and the role of Governments, New Zealand as well as British, mounted through the year. The Government had got the Meat Board to agree that the new season's schedules would not be altered, regardless of what settlement was made with Britain. It was recognised that it would be unfair to make any alterations to the schedule during the currency of the season and impracticable to make retrospective payments. Nevertheless the discrepancy between the 7.5 per cent increase made in November and the average 15 per cent increases agreed on in January aroused the producers' ire. Meat prices were adjusted in April to meet the fall in wool and hide values but despite Government assertions that the January increases "belonged to the farmers", dissatisfaction lingered into the new season. At that time, the Government announced that the new prices for 1952-53 would be paid out in full. In the meantime, further difficulties had arisen because of the Ministry of Food's wish that the schedules of prices be altered to encourage lighter-weight loads - a move that met with much producer resistance when an attempt at partial implementation was made in March and April.<sup>(48)</sup>

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46. T series 75 3/6, *Dominion*, 15 Jan 1952.

47. MB 50/2/6, 29 Jan 1952.

48. Ag 2339, *passim*.

Although these problems seemed to belie the fact, the National Government was not inclined to go looking for trouble with the industry. Increasing producer control was after all one of its policies. Early in June 1952, Holyoake proposed to Cabinet that the Meat Board be given a more active role in meat markets and price-fixing matters than it had previously enjoyed and that, in particular, the negotiations for 1952/53 be conducted by a delegation in which a nominee of the Meat Board would play a full, rather than a merely advisory role.<sup>(49)</sup> The delegation eventually comprised E.J. Fawcett, the Director-General of Agriculture, Ormond, now Chairman of the Meat Board, and Holyoake himself. Interestingly, the Meat Board made a special plea that Holyoake be included to give political weight to the negotiating team. Holyoake, a farmer, had better relations with the producer interests than Holland, a businessman by background and by his own (private) admission, ill-informed on marketing issues.<sup>(50)</sup> Despite differences that emerged in the 1952 negotiations, Ormond praised Holyoake for the part he played and claimed that at all times mutual understanding had been maintained.<sup>(51)</sup>

Apart from the complicated question of re-arranging the schedules, the 1952 discussions focussed, as negotiations always had since 1948, on the question of price increases. Although the Ministry had stated that the deal made for 1951/52 was exceptional, New Zealand sought another substantial increase for the forthcoming season. She might have been prepared to work within the Heads of Agreement,

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49. *Ibid.*, CP(52)667, 11 Jun 1952.

50. MB 50/2/6, Jan 1952.

51. Ag 2339, *Dominion*, 22 Sep 1952.

but the operations of the new fifteen year Anglo-Australian Agreement, which commenced with the 1952/53 season, had an unsettling effect. The price clauses of this agreement provided for Australia to submit details of production costs as a basis for price increases. In 1952, this secured Australia a 16.6 per cent increase for sheepmeat prices and a more substantial increase for beef. It looked to New Zealand as if the discrepancy which had threatened to open up in 1951/52 between Australian and New Zealand prices was now going to become entrenched because of the differing price regimes under which the two countries were operating. New Zealand's negotiators submitted cost data prepared by the Meat Board and on this basis the Ministry agreed to a 12.5 per cent increase. In so acting, the Ministry was recognising that it had become quite unrealistic to expect New Zealand to stay within the 1948 straitjacket when Australia was being treated so differently. Accordingly, the term of Clause 10 of the Heads of Agreement were revised. A maximum variation of 10 per cent, rather than 7.5 per cent, would be allowed between any two successive seasons. The extent of the increase up to 10 per cent would be determined by the outcome of Australia's negotiations, that is, New Zealand would receive any increase up to 10 per cent paid to Australia. New Zealand could also claim a further increase above that paid to Australia if its own cost movements justified it and this could exceed 10 per cent. If Australia got an increase of more than 10 per cent therefore, New Zealand could only secure it if its own cost structure justified it. Additionally to all this the price schedule for 1950/51 became a floor price for future years. (52)

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52. *Ibid.*, draft press statement for Holyoake, 20 Mar 1953.

The revision of Clause 10(c) of the Heads of Agreement was agreed to by the Meat Board, but not all that body's dissatisfactions, nor those of its members, had been met. Ormond's participation in the 1952 negotiations had not worked out particularly well. He had withdrawn at one point in the proceedings, basically because he wanted to push for a bigger increase than the Government's representatives were prepared to stand out for. Echoing his comments the year before about twisting the lion's tail, he talked of driving a 'tight bargain'. Afterwards he explained that

If Britain was in a tight corner ... he would be the first to advocate that New Zealand should do everything to help the Mother Country. This did not mean ... that the New Zealand producers should be or become the lowest-priced sellers of quality meat on the world's market.

New Zealand was

entitled to at least the same treatment from the United Kingdom as is accorded other countries. If we are expected to take less than the United Kingdom should be prepared to sell its goods to us for less than it does to other countries. (53)

This was, of course, a most unlikely outcome and much of the dissatisfaction about the settlement was expressed in comments, also reminiscent of the previous year, about the inequities of the bulk purchase system and the New Zealand Government's role in it. The *Dominion* argued editorially that the Government should step out of meat marketing, something it had indicated some time ago that it was prepared to do.

Then the meat industry would be separated from politics and there would be little chance of the conflicting and embarrassing developments such as have just been witnessed in London, with the producers' representatives

denouncing as unfair something all other negotiators appear pleased to have obtained. (54)

This was being naive: no doubt deliberately so. What would happen was not that politics would be banished but that a different political interest, producers rather than that of the Government, would be in the ascendant. The Government was concerned about inflation: one of the reasons why it was reluctant to press Britain for bigger increases was that its commitment to pay out all of any increase secured tied its hands in terms of dealing with the inflationary impact of the increases, not to mention the spread effect that any such increase would have on other producers, e.g. wheatgrowers. (55)

Nonetheless, the Government, unlike its predecessor, had some receptivity to the idea of greater producer control. In December 1952 the Board approached the Government with a proposal that it should be given the full responsibility for negotiations. After securing the agreement of the Ministry of Food the Government agreed, subject to two conditions. The contract would remain a Government to Government one. The Board could negotiate within the framework of the contract but any proposals for changes - for instance, to the price formula - would have to be referred back to the Government, as the party to the agreement. This meant too that the future of the contract was also a matter on which the Government would take the final decision. (56)

The transfer of power put an effective end to the activities of the Marketing Department's Export Division. Its responsibilities in

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54. 16 Sep 1952.

55. Ag 2339, *Timaru Herald*, 16 Sep 1952.

56. *Ibid.*, 11 Feb 1953, 25 Feb 1953.



respect of dairy produce had been transferred to the Dairy Producers' Marketing Commission in 1947 and now its role in meat export was also ended. The Department of Agriculture became again, as it had been before 1936, the agency of Government with primary responsibility for relations with producers, although, of course, Treasury played a significant role, particularly in the person of its longstanding Secretary.

5. Meat: The Weakening Market and the End of Bulk Purchase  
1953-1954

Ironically, the change from Government to producer responsibility did not make for any difficulties with Britain of the kind that might have been expected from Ormond's criticisms in 1952. In 1953, with the revised article 10 operative, the negotiators did not feel they needed to wait for the Australians to conclude their talks. They met the Ministry of Food at the beginning of July 1953 and asked for just 10 per cent more for lamb and only 5 per cent for beef - and expected to be cut back on both.<sup>(57)</sup> This was indeed the outcome for lamb on which 7.5 per cent was secured. For beef New Zealand did wait until Australia had finished its discussions and settled on 5.5 per cent with a premium for some particular products.<sup>(58)</sup>

Had power brought responsibility? The *Hawera Star* noted that

Comments made by farmers suggest that they  
are moderately satisfied with the price or

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57. Ag 2339, 2 Jul 1953.

58. *Ibid.*, 2 Oct 1953.

at least that they are not anxious to start a debate on the subject. The chairman of the meat and wool section of the Auckland province of Federated Farmers said "We are very lucky to get it. We should be satisfied with something reasonable .... The delegation over there has done very well and the people of New Zealand should be well satisfied." (59)

The preparedness to be satisfied with a modest increase was matched by the maintenance of the diversion quotas at the existing level. It was the Ministry which suggested that a larger quota could be discussed if the need arose. (60) The days of comparing North America and British prices were over for the time being. And more change was in the air, which may have induced a sense of caution.

The Conservative Government which took office in Britain in October 1951 was committed to ending the wartime procurement system, both because of pressure from domestic trading interests and because of a belief that market forces would produce a more satisfactory supply situation than bulk contracts. It had been unable to act in its first year in office - certainly not in regard to meat. The unsatisfactory level of supplies from Argentina and Australia meant that meat was still scarce through most of 1952 and the financial crisis inhibited Britain yet again from purchasing from hard currency sources. (61)

Improving conditions allowed renewed consideration of the issue in 1953. Paragraph 14 of the 1948 Heads of Agreement provided that the two Governments would discuss the arrangements to apply after the expiry of the contract in 1955, not later than 31 July 1953. When

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59. 24 Jul 1953.

60. MB 50/2/6, 7 Aug 1953.

61. MB 50/2/6, *HC Debs*, 22 May 1952; Ag 2339, *Dominion*, 22 Sep 1952.

the New Zealand Government enquired about this in March 1953 it was informed that British policy was to return the meat trade to private enterprise as soon as possible. The agreement did not, as some producers had reckoned, require two years' notice of termination to be given.<sup>(62)</sup>

The New Zealand Government felt that in terms of conditions prevailing in 1955 termination might be detrimental to New Zealand's economy - it was thinking of the possibility that meat prices on the open market might be depressed. Producers were ambivalent. Whilst some were convinced that the bulk purchase system was limiting their profitability, others recognised that it did provide some security which would not obtain on the open market. The Meat Board informed the Government that it was prepared to agree to a return to private trading but wanted a two year notice of intention to terminate.<sup>(63)</sup> The fact that the Meat Board was solely responsible for the 1953 contract negotiations meant that there was an opportunity for producers' views to be expressed more clearly to the British than might previously have been the case. The subject was not put on the agenda, but there was an informal discussion. The Meat Board representatives put forward two proposals: firstly that two years' notice of intention to terminate be given, and secondly that the transition be staggered with a year of trading through private agencies in Britain before the contracts themselves ended. This presumably was intended to allow the producers to get some idea of

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62. Ag 2339, MEA-NZHCL, 11 Mar 1953; NZHCL-MEA, 1 Apr 1953.

63. Ag 2339, MEA-NZHCL, 11 Mar 1953; MPB-MAg, 28 Apr 1953.

what unrestricted market conditions were like with the cost being borne by the Ministry of Food rather than the producer if conditions were unfavourable. (64)

Unsurprisingly in view of earlier statements, the Ministry declined both proposals. In all the discussions, it emphasised that the British Government wished to terminate as soon as possible - hopefully at the end of the 1953/54 season. It was argued that New Zealand could benefit financially from this, that is, that prices would likely be higher under free trading than under bulk purchase. (65)

In November the British Government published a White Paper, Cmnd 8989 *Decontrol of Food and Marketing of Agricultural Produce* in which plans were announced for a return to private trading on 1 July 1954. The issue was therefore no longer whether or not bulk purchase should continue, but whether it should end in ten or in twenty-two months time. The New Zealand meat contract was the only one which extended beyond July 1954: Britain approached her to see whether she would agree to an early termination. The news of this request was leaked in New Zealand, causing the Government and Meat Board considerable embarrassment as it was clear they had had some knowledge of the possibility since the middle of the year. (66)

The Ministry wanted a decision by Christmas, but New Zealand stalled. The Australians were negotiating their future arrangements

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64. MB 50/2/6, 8 Jul 1953.

65. *Ibid.*, 30 Sep 1953.

66. Ag 2339, MF-NZHCL, 23 Nov 1953, MEA-NZHCL, 25 Nov 1953.

with the United Kingdom, including the question of a floor price. The 1951 agreement provided for the floor price to be the price ruling in 1950/51 or "as modified". It was thought modification in an upward direction was not unlikely and it seemed worth waiting for a settlement to be reached on this. If the floor price was high there would be less anxiety about terminating bulk purchase.<sup>(67)</sup>

It was decided to send a delegation to London to discuss future plans and in January producer interests met Government officials and the Minister of Agriculture to agree on a common policy. A number of points of view surfaced in the meeting. Ashwin felt that the decision should be made entirely with reference to expectations about prices. If prices were expected to rise, the contract should be ended; if not, it should continue. Meat operators, i.e. freezing companies and exporters, wanted termination, but producers were still ambivalent. They realised that if New Zealand was the only country selling under bulk purchases she would be at a disadvantage - presumably they thought the Ministry of Food would not necessarily make the same effort to maximise returns as would a private distributor. A price guarantee would make termination more acceptable. There was also the question, raised by Holyoake, of what would happen to existing stocks of New Zealand and Australian meat. What effect would their unloading have on the market?<sup>(68)</sup>

The general feeling of the meeting was summed up as being a preparedness to terminate early provided there were adequate safeguards

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67. Ag 2339, memo DGAg-MAg, 24 Nov 1953.

68. Ag 2339, 19 Jan 1954.

in respect of price and marketing. As the Cabinet memorandum put it subsequently, New Zealand wanted the best of both worlds - in particular, it wanted to be protected against a price fall but saw no need for protection against a price rise.<sup>(69)</sup>

There were two specific points on which the delegation, led by Fawcett and Ormond, was to seek a favourable outcome before agreeing to termination: floor prices and safeguards about liquidation of stocks being used to influence the market. It can hardly have been a surprise to learn that the United Kingdom refused to consider the first of these. Informal conversations in London in December had made it quite clear that Britain would not agree to a floor price in exchange for New Zealand's agreement to early termination.<sup>(70)</sup> In March it was pointed out, to give a formal cast to a stance which was in full accordance with Britain's own interests, that the 1952 Anglo-New Zealand meat agreement provided that

quantities, prices, and other conditions of  
sales will be determined in the ordinary course  
of trade when bulk purchase is discontinued. <sup>(71)</sup>

However, Britain did agree that adequate safeguards could be available to ensure that "stocks accumulated under the contract would not be used to bear (i.e. depress) the market". In fact the delegation learnt enough to reassure itself that stocks were not substantial enough to have this effect anyway.

For Ormond and the delegation, this information tipped the balance. Although they had no definite information they understood that the

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69. Ag 2339, CM(54)218, 26 Mar 1954.

70. Ag 2339, NZHCL-PMNZ, 8 Dec 1954.

71. Ag 2339, CM(54)218, 26 Mar 1954.

floor prices Australia had been offered were well below the current contract prices. But in any case, Ormond believed that higher prices were likely and would continue for some time. The real issue therefore was

not whether we should carry on the contract. The vital question is whether we can afford, as the largest exporter of meat in the world, to allow other exporting nations to have the opportunity of setting out into world markets and capturing the most desirable avenues of trade in meat. (72)

Ormond's fighting spirit was to the fore: although hardly in a major cause, as whatever happened free trade would return in 1955. The Meat Board and other producer interests accepted the delegation's recommendation and with this acquiescence, Cabinet approved the termination of the contract as of 1 September 1954.<sup>(73)</sup>

#### 6. Dairy Produce: The First Postwar Difficulties, 1949-50

For the dairy, as for the meat industry, the 1948 Agreement provided a satisfactory protection against both market restriction and a sudden fall in price. World milk product production increased, and with that increase came restrictions on market access outside Britain. Inexorably too, derationing of butter and margarine came closer. Under these circumstances the value of the contract arrangements was appreciated by both the industry and the Government. Nevertheless there was an undercurrent of dissatisfaction. The

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72. *Ibid.*

73. *Ibid.*

premium on butter and cheese sold in markets other than Britain remained substantial through to 1952 when it began to contract, and then disappeared. Through the earlier period, despite accumulating signs that the international milk products trade was becoming over supplied, producers were ready to rail against a system which prevented them from taking full advantage of market trends. In the last years of the contract such criticisms were rarely heard.

The first round of negotiations was fairly uneventful. New Zealand put forward a claim for the full allowable 7.5 per cent increase for both butter and cheese. The usual arguments were advanced - cost increases, as well as the higher prices paid other suppliers. It was felt in New Zealand that although revaluation might have been expected to make imported inputs cheaper, increased British export prices had largely wiped out this advantage.<sup>(74)</sup> Britain accepted the claim, albeit reluctantly.

In reporting on the agreement Marshall, chief negotiator once again, was careful to point out to producers that the period of high prices was at an end. Dairy prices had already fallen heavily on the continent and Government price support schemes were operating in both Canada and the United States. More than anything else, the high price paid to Denmark had aggravated New Zealand farmers. But negotiating at the same time as the New Zealanders, the Danes had accepted a reduction from 32ls. 6d. to 27ls. 6d., for butter - the latter only 19s. above New Zealand's new butter price. In return the Danes secured a long-term contract on conditions similar to New

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74. Walsh 270, Rowland-Walsh, 19 May 1949.



Zealand's. (75)

In 1949 these trends were straws in the wind rather than anything more substantial and New Zealand sought an increase from 3 per cent to 7.5 per cent in the proportion of its exportable surplus that could be diverted to other markets in order to take advantage of the current high prices. The issue was not just raised at the negotiations but also at the Commonwealth Finance Ministers' Conference where it was presented as a way of increasing sterling area dollar earnings. (76) The Ministry of Food quite definitely preferred food to dollars and Peter Fraser agreed with them. (77) Diversion had encountered political difficulties in the past. At the Anglo-New Zealand officials talks held in Wellington in February 1950, the point was raised again. The British said New Zealand should divert from its own consumption. This was surely tongue-in-cheek. The butter ration in New Zealand had been increased in October 1949 and was abolished in June 1950.

Through the 1949-50 season evidence accumulated of the oft-predicted end to the sellers' market. In the United Kingdom stocks of edible fats (butter and margarine) were at their highest-ever levels and butter imports were increasing. Denmark, Sweden and Norway were all increasing production. If rationing and subsidies were abolished margarine would probably sell for less than half the price of butter. Prices were falling in North America. Price support systems came into operation in both the United States and

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75. *Evening Post*, 28 Jun, 2 Jul 1949.

76. T61/3/5, 21 Jul 1949.

77. T40/648/3/49, Nov 1949.

Canada and New Zealand lost its small but useful market in Canada to protected domestic producers. There were reports that the United States might have to start giving butter away - or dumping it - although Marshall reckoned that this reflected a seasonal pattern as much as a long-term trend.<sup>(78)</sup>

Despite these signs, as the negotiating season approached the usual comments were heard about the need for increases: observations were made that the Danes were paid more and that the term of trade had moved against New Zealand. Cabinet, attracted by high prices, approved another request to increase the divertable quota. Marshall remained cautious. He pointed out that if market prospects weakened the last thing New Zealand wanted to have done, was to have limited, of its own volition, its access to the British market. New Zealand, he thought, would be unlikely to get good prices outside Britain for much more than 7.5 per cent of its exportable surplus of butter.<sup>(79)</sup>

Whatever Marshall's view may have been about the state of the market, he did not let them affect his presentation of a case to the Ministry of Food for a price adjustment. As in 1949, the full allowable 7.5 per cent increase was sought on the grounds of prices paid to other producers as well as increased costs in New Zealand. Aware perhaps that Britain's negotiating position was rather stronger than in previous years, he emphasised that New Zealand had accepted prices below the market for years and some adjustment was in order.<sup>(80)</sup>

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78. T series 75 3/4/1, press reports Mar and Jun 1950.

79. T40/648/3/50, 9 May, 23 May 1950.

80. DPM MP, 23 Jun 1950.

The Ministry of Food's negotiators must have been as aware as Marshall of trends in the milk products market. They told the New Zealanders that they did not think New Zealand was entitled to an increase at all. There had not been cost increases sufficient to justify a price adjustment: large sums had been paid into the dairy industry account which was in credit - to the tune of £18 500 000 as of 31 July 1950. Moreover the Marketing Commission had talked of costs increasing sharply over the next season which the Ministry said broke the pattern of reimbursement for costs already incurred. Not only did Britain expect to hold prices, it envisaged decreases. It was prepared to forego imposing them on milk powders despite the very weak state of that market but wanted them on second grade butter. (81)

Marshall took vigorous issue with the Ministry's arguments. They took no account of the devaluation of sterling and associated cost increases. These and other increases had taken place over preceding months. Payments into the Dairy Industry Account were entirely a domestic matter, and, in any case, were part of a stabilisation policy which had benefitted the British Government in the past. Despite this rhetoric, the Commission did not present detailed figures for costings and in fact based much of its case on the preservation of relativity with other suppliers. On this Britain made the expected comments about higher cost structures and New Zealand's acceptance of the 7.5 per cent band which other suppliers did not enjoy. (82) Marshall had been aware that the market was

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81. *Ibid.*, MF-DPMC, 7 Jul 1950 (see also Ward, *Command of Cooperatives*, p. 151).

82. *Ibid.*

weakening but he nevertheless found the Ministry's attitude inexplicable. It was clear, he cabled Holyoake

that a predetermined decision (had been) made on an overall policy basis when we cannot get logical consideration of our claim when we are told that we have in past received a price which it was felt was not duly justified, that there was no substance in our claim ... we think that a serious aspect of bulk selling has been revealed....

Marshall was in no doubt

that if we lose this battle, subject only to protection afforded by contracts they will under bulk buying, as a buyers' market develops, pay us just what they think is appropriate and take only such quantities as they think they need. (83)

Marshall's fellow producers reacted more aggressively when news of the deadlock in negotiations reached New Zealand. Unlike the time of the last breakdown - 1947 - there was no financial crisis to induce a dampening of the indignation. Farmers were joined by many newspapers which

broke well established habits to print some angry denunciation of the British government [which] used language oddly reminiscent of that hurled at an unsympathetic colonial office eighty years earlier for it alluded cryptically to conduct which if persisted in might break up the Empire .... (84)

These views came through in talks held in Wellington between the Commonwealth Secretary, Patrick Gordon Walker on the one side, and Holland, Holyoake and F.W. Doidge, the Minister of External Affairs, on the other. Holland said the widespread dissatisfaction in the country was unfortunate at a time when "we should be demonstrating unity in all matters" - presumably a reference to Korea. He

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83. DPM MP, Chairman, DPMC-MMk, 19 Jul 1950.

84. F.L.W. Wood, *This New Zealand*, p. 172, quoted in Ward, *Command of Cooperatives*, p. 154.

wondered whether Britain was discriminating against a new Government - this Gordon Walker rejected out of hand. Holland invoked his predecessor - Nash had always said New Zealand was entitled to claim cost increases. But Gordon Walker would not budge. The most New Zealand could establish was that negotiations had not been concluded. (85)

An exchange of letters between Holland and Attlee followed. Despite threats from Holland there was no further progress:

My Minister of Agriculture and I have had numerous conferences with farmer organisation representatives and there is strong feeling over higher prices being paid to other countries ... The Minister of Agriculture feels that there will be an adverse effect on campaigns to secure greater quantities in accordance with undertakings given when New Zealand's year contract was inaugurated. (86)

The Commission published the correspondence which had passed between the two sides and announced that it would divert up to 7.5 per cent of the exportable surplus to other markets pending an overall agreement

to take advantage of the higher price obtainable ... to help offset the loss we expect to incur this season on shipments to the United Kingdom if we have to supply ... at last season's prices. (87)

New Zealand had proposed the 7.5 per cent diversion at the opening session of talks reminding Britain that it had accepted the 3 per cent quota in 1949 on the understanding that it could raise the issue again in 1950. Although the Minister feigned alarm "at the proposal to vary a recently-concluded agreement" 6 per cent had been proposed as the compromise figure. (88) Learning of the Commission's intention in

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85. T40/648/3/50, 20 Jul 1950.

86. *Ibid.*, PMNZ-PMUK, 28 Jul 1950.

87. DPMC-MF, 25 Aug 1950.

88. DPM MP, Chairman, DPMC-MF, 23 Jun 1950.

August, however, the Ministry reserved the right to raise the issue again.

7. Dairy Produce: Boom and After 1950-1953

Although the Ministry of Food may have had market forces as well as the contract on its side in June and July 1950, the Korean War boom ensured that this was no longer the case by the end of the year. In December the Commission decided to seek a resumption of talks. It felt that the world-wide increase in commodity prices that had occurred since the outbreak of the war in Korea now justified an increase - a perhaps unintended comment on the validity of the case presented in June.<sup>(89)</sup> More specifically, because of cost increases, New Zealand was now selling at a loss - producers were receiving 254s., the commission only 252s. 6d.<sup>(90)</sup> But the only agreement which was reached was on diversion - 10 per cent - i.e. more than even New Zealand had suggested in June, although with the caveat that quantity of cheese so directed was not to exceed 12 000 tons.

Not until April was the Commission advised of the award of the full 7.5 per cent increase backdated to the beginning of the season. The increase was made on the grounds that production costs had increased

exemplified in the increased prices to producers which the New Zealand authorities have since then found it necessary to pay for butter and cheese. (91)

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89. *Ibid.*, 8 Dec 1950.

90. T series 75 3/4, *NZH*, 19 Jan 1951.

91. DPMC, *Annual Report*, 1950/51.

This was indeed the case. Insofar as it reflected a worldwide, not just a New Zealand situation, Britain had little choice but to pay. In other words, market pressures were exerting their influence.

This situation undoubtedly facilitated a ready settlement in the 1951/52 season when another 7.5 per cent increase was agreed without any difficulty in June. The tenor of the publicised exchanges was in marked contrast to those of the previous year. The Minister of Food, Maurice Webb, wrote to Marshall that he much appreciated his

remarks about the spirit in which the recent discussions have been conducted. In a moving sentence at the end of your speech you said that we should continue to travel the same road together .... Our interests in the long term and yours are indeed complementary in this field. That is to say, we hope that you will continue to send to this market - where the long term contract system gives security to your producers on the one hand and an assurance of supplies to the United Kingdom on the other - a steadily increasing tonnage of butter and cheese. (92)

New Zealand was also able to take advantage of higher prices in other markets because Britain agreed that up to 15 per cent of the exportable surpluses of butter and cheese could be diverted to other markets, although this would include colonies and other territories hitherto supplied out of the Ministry's quantities. But opportunities were becoming limited. The Defense Production Act Amendments of 1951 prohibited imports of butter and skim milk powder and restricted imports of cheese. Cheese exports to Canada fell as Canadian producers were no longer supplying Britain. Nonetheless sales in outside markets

overall fulfilled the major expectation held of them, supplying New Zealand with proceeds £1 517 000 in excess of what the same produce would have earned if sold to Britain. Butter sold at an average price of 363s. (UK 314s.) and cheese at 212s. (UK 176s.).<sup>(93)</sup>

Through 1951/52 world exports of dairy produce declined. Severe drought conditions in Australia, drought and foot and mouth disease in some parts of Europe, and Britain's inability to buy Canadian cheese because of her dollar shortages, all contributed.<sup>(94)</sup> During the year, in response to a special appeal from Britain, the Commission agreed to supply an additional 4000 tons of butter and cheese by reducing the quantity available for sale to other markets. These circumstances were favourable to New Zealand's wish for increased prices and the maximum 7.5 per cent was obtained for the 1952/53 season. The amount reserved for other markets was adjusted downwards slightly from 1951/52 - 12.5 per cent of butter exports and 10 per cent of cheese exports. A total of £115 000 was earned in excess of United Kingdom realisations. This was sold at prices which for butter averaged out below those sustained in 1951/52 - 355s. 5d., (down 7s. 7d.) and were about the same for cheese. Within the British market the long-expected reduction in milk powder prices was made taking them back to the 1951/52 level.<sup>(95)</sup>

The long period of rising prices, which had shown signs of ending in 1949-50, was indeed now closing. Through 1952/53, despite

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93. DPMC, *Annual Report*, 1951/52, p. 24.

94. *Ibid.*, pp. 21-22.

95. DPMC, *Annual Report*, 1952/53, p. 13.



drought in Europe, supplies of most dairy products increased and in the United States additional milk powders were added to the list of prohibited imports. Britain was no longer under financial constraint as she had been in 1951/52. The price increases agreed for the 1953/54 season reflected this easing of the supply situation: butter went up from 314s. to only 326s. and cheese from 176s. to 182s. 6d., - increases of slightly under 5 per cent and under 4 per cent respectively.<sup>(96)</sup> The setting of quotas for sale outside Britain at 10 per cent for butter and 7.5 per cent for cheese reflected more limited opportunities. In 1952/53 larger quantities of butter were sold in Europe (a total of over 15 000 tons to the four largest markets) but the conditions which had allowed this had passed. In 1953/54 the biggest single market was the U.S.S.R., which imported just under 9999 tons and no other market absorbed more than 1000 tons. Similarly there were drops in cheese exports, especially to the United States: over-production brought in its train protection in favour of domestic producers.<sup>(97)</sup>

#### 8. Dairy Produce: Termination, 1953-54

As the signs multiplied that the market for dairy products was taking on once again some of the characteristics last seen on a substantial scale in the 1930s, New Zealand's concern grew about the future of its trade with Britain. Although preferential duties

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96. DPMC, *Annual Report*, 1952/53, pp. 3, 13-14.

97. *Ibid.*, pp. 11-12, DPMC, *Annual Report*, 1952/53, p. 13.

provided some protection the long-term contracts were even more important. Since 1945 New Zealand had enjoyed unrestricted access and since 1948 some protection against downward price movements. But helpful though these arrangements were, it had become evident in 1950 that they would not provide that strong an armour against any persistently unfavourable trends in production and prices. Such trends were clearly undermining Britain's need for a bulk purchase system, a sentiment reinforced by the ideological predispositions of the new Conservative Government.

During the 1952 negotiations, the Commission had raised the matter of arrangements in the period after 1955 and reached a tentative agreement with the Ministry of Food on a continuation of the current contract beyond that date. This brought the Ministry some way towards concurring with the wish of both the Commission and the Board that the contract be extended for a further two years.<sup>(98)</sup>

But by 1953 it was evident that Britain was speeding up plans for decontrol. While New Zealand's contract, like Australia's and Denmark's, ran until 1955, there was nothing to stop Britain ending rationing earlier.<sup>(99)</sup> In a letter of 1 July 1953 the Ministry did agree to give as much notice as possible of any changes which would affect the New Zealand dairy industry, and in particular, of any possibility of the decontrol of milk products.<sup>(100)</sup> In late 1953 it was announced that rationing would end, and that bulk buying would cease in 1955. Significantly, the Ministry could not accept

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98. Ag 2339, 22 Apr 1952; MEA-NZHCL, 11 Mar 1953 (sic).

99. DPMC, *Annual Report*, 1952/53, p. 9.

100. Ward, *Command of Cooperatives*, p. 159.

responsibility for satisfactory marketing conditions in 1954/55. Its marketing personnel would be returning to their own organisations; its administrative staff did not have marketing skills.<sup>(101)</sup>

Whatever New Zealand's decision about 1954/55, it was clearly important for it to consider its long-term marketing strategy and the Commission took steps to acquire United Kingdom companies which would allow it to participate directly in distribution.<sup>(102)</sup> But whereas the meat producers were prepared to trust the open market ahead of time, the Commission thought that the return for butter and cheese might well be less on the open market than under the contract for one of two alternative reasons - a consumer preference for margarine rather than butter and the likelihood of depressed butter prices. Accordingly, the Commission attempted to negotiate prices for the 1954/55 season. The Ministry proposed a 3.75 per cent reduction in the butter price and the full allowable 7.5 per cent reduction for cheese. The Commission thought that these prices were not justified, particularly in the case of butter. Talks then followed to see if the Ministry would agree to share with the Commission any loss - or profit - which would arise from market operations. Neither the Ministry nor the Minister would agree. Assurances about the disposal of stocks <sup>was</sup> given, and also an assurance that United Kingdom purchases of cheap butter in the United States would total less than 10 000 tons.<sup>(103)</sup> (On this latter issue New Zealand feeling was ambivalent - Marshall, for one, was as concerned to keep butter competitive with margarine, which could mean welcoming

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101. *Ibid.*, p. 161.

102. *Ibid.*, pp. 159-60.

103. DPMC, *Annual Report*, 1953/54, *passim*.

imports to hold the price down, as he was to restrict access of other suppliers to the British market).<sup>(104)</sup> A further safeguard for the season was that negotiations could be reopened if either Australia or Denmark secured more advantageous terms than those offered to New Zealand, but this did not eventuate.

With these assurances and after full consultation with Holyoake, the Commission and the Board decided that it would be wise to terminate. They felt there was

a danger of long-term injury to New Zealand and its dairy trade if the contract were continued and the freedom which both trade and consumers are expecting is not realised. The plain fact is, that the British people are heartily tired of control of food in all its related aspects, and that bulk selling of dairy produce generally speaking has reached the end of its acceptability. (105)

So the dairy industry followed the meat industry into a career on the open market which it had foregone, without too much hesitation, fifteen years earlier.

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The period 1949-54 has a certain unity in the history of New Zealand's export diplomacy with Britain, because it covers the last years of the long-term contracts. The security for its trade in meat, butter and cheese which New Zealand had secured in 1948 proved to be almost entirely contingent on Britain's shortages of both food and foreign currencies. As these shortages ebbed -

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104. T40/648, NZHCL-MEA, 8 May 1954.

105. DPMC, *Annual Report*, 1953/54, p. 7.

hesitantly in 1949/50, with increasing momentum from 1952, so did Britain's commitment to the long-term contract system. New Zealand faced the prospect of a return to market conditions and a need to fight as it had in the 1930s for even limited protection of its position in the British market. New Zealand producers and to a more limited extent the Government had found the bulk purchase system restrictive in the years 1950/52 when New Zealand's contract prices were often substantially below world prices. But world butter and cheese prices fell from 1952 and by that date there was a close approximation in meat prices too as there had been before 1950. Such a feeling of restrictiveness was very much therefore the minor theme to the more pronounced feeling that New Zealand, through the contracts, had some security against both a collapse in the price level and restriction in its access to the market.

Although terminated nine years after the end of World War II, the contracts remained at bottom an expression of the dislocation which that conflict had entailed. Over most of that period Britain's shortages of food and foreign exchange meant favourable trading conditions for New Zealand's exports. New Zealand's acceptance of the contracts meant that she did not exploit these conditions as much as at times she might have. This was not because the contracts provided unqualified security - this was never Britain's intention. But New Zealand was anxious about the impact war might have on her economy and controlled trading seemed a better bet than the vagaries of the open market - particularly to a Labour Government. Foreign policy and sentiment both endorsed the choice.

In peacetime, persistently buoyant market pressures might have driven New Zealand out of the system. As it transpired, it was Britain which determined on the restoration of the open market. It was thus with some apprehension that New Zealand's food export trades faced the kind of insecure commercial environment which they had last known in 1939.

## CHAPTER ELEVEN

After 1954

The economic relationship between New Zealand and Britain evolved within the framework of Britain's free trade Empire. New Zealand was self-governing in matters of commercial policy, as in other spheres. At the same time her economic life was closely interlocked with, and dependent on, the British economy.

In the early 1930s New Zealand faced severe economic difficulties, and she sought assistance from Britain. Britain was prepared to make concessions but they fell far short of New Zealand's expectations. Where else could New Zealand turn though? The international economic climate was hostile to attempts to diversify economic relations. Plans to protect New Zealanders' living standards from the unfavourable consequences of external economic fluctuations also ran into difficulties, not least because Britain was reluctant to finance such experimentation.

Against this background Britain's policies in World War II marked a sharp change in direction. Britain sought New Zealand's collaboration in its policy of conserving and mobilising resources for the war effort. New Zealand's dependence on Britain meant that cooperation made sense. A policy of conservation of resources also accorded in many instances with the Government's wish to limit overseas indebtedness and control imports. New Zealand's loyalty to, and political association with Britain - both underlined by her belligerent status - reinforced the commitment to economic collaboration. There were difficulties of course. In the middle years of the war, New Zealand found some of Britain's commitments to her were not as unqualified as she had hoped. On the other hand,



New Zealand herself did not always practice as much restraint as Britain would have wished. In the latter stages of the war, the world food shortage encouraged New Zealand to bargain hard over the terms of her bulk purchase contracts.

Britain's postwar shortage of foreign exchange meant that the period of stringency continued for nearly a decade. New Zealand continued to give Britain her support for much the same reasons which had obtained during the war. Pressures to diversify trade relations were felt in New Zealand, whilst Britain for her part occasionally took issue with New Zealand's overly restrictive import policy, but by and large the consensus held. The National Government which took office at the end of 1949 was particularly committed to liberalisation. Fortunately its first months in power were a relatively buoyant time economically. Later, in 1953, Britain eased foreign exchange restrictions. In 1954 rationing for meat and dairy produce ended. The period of stringency was over.

Did this mean that New Zealand-British economic diplomacy would revert to its pre-World War II character? In the dairy industry in particular there were some familiar signs. In the first year of open market trading the Dairy Products Marketing Commission made a loss of £1 330 000, although this was all on cheese, for which stocks had been particularly high relative to consumption at the end of bulk purchase. In 1955/56 the positions of butter and cheese were reversed: a loss of £1 800 000 on butter which was more than compensated for by a £6 700 000 surplus on cheese. The real difficulties came in the two following seasons. Increased British butter production was matched by a flood of imports. Britain was the only substantial butter market

with unrestricted access, so many countries with butter surpluses offloaded their output in Britain, often at below-cost prices. In April 1957 a joint Government-producer delegation travelled to London to seek action from the British Government on "dumping" as it was known. Britain responded by passing anti-dumping legislation and by allowing New Zealand butter and cheese a right of unrestricted duty-free entry for ten years. This brought dairy produce into line with meat. But these measures could not prevent the industry making a loss of £13.7 million on its trading for the 1956/57 season, an outcome which halved its reserves.

When the new season got under way it quickly became evident that trading conditions would if anything be worse than in the previous year. In February 1958 New Zealand sought the imposition of anti-dumping duties. Britain was reluctant to invoke the legislation because of possible adverse effects on other aspects of her trade relations. But in May 1958, having formally announced that "subsidised imports have caused material damage to the New Zealand Dairy Industry",<sup>(1)</sup> a number of European countries were asked to restrict their exports to the British market. This move in and of itself came too late to ameliorate the outcome of a season even more disastrous than its predecessor, and the Dairy Industry Account went heavily into deficit. As had been the case in the 1930s, the dependence of the dairy industry on the British market was reinforced by the difficulties the industry faced in selling elsewhere. In 1956/57 sales of butter only 2469 tons were sold to non-British markets, a third of the volume so disposed in 1953/54, and miniscule compared with the 149 000 tons New Zealand

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1. Ward, *Command of Cooperatives*, p. 177.

shipped to Britain in the later year.<sup>(2)</sup>

If the dairy industry faced circumstances remarkably like the 1930s, the same was not true of the meat industry. Through the middle and late 1950s supplies and prices held up. In 1956, Argentina, for the first time in a decade, exceeded New Zealand's shipments to Britain but New Zealand secured £70.2 million for its better quality meat compared with Argentina's £56.5 million.<sup>(3)</sup> At the same time, the Meat Board was beginning to look at other markets, particularly North America and Japan. The former proved a particularly lucrative market for beef by comparison with Britain.

The experience of the meat export trade was also reflected in the wool industry which traditionally exported its products to many different markets. Moreover non-traditional exports, especially timber products, were beginning to assume importance in New Zealand's trade. Buoyant international economic conditions were the *sine qua non* of this expansion, which was also matched by an expansion of sources of supply of imports. The collective impact of these developments on the significance of New Zealand's trade with Britain was marked. In 1948/49 that country took 73.4 per cent of New Zealand's exports and supplied 55.1 per cent of its imports. By 1956/57 these figures were down to 58.8 per cent and 51.4 per cent respectively.

Diversification became more than a response to decontrol, and to the buoyancy of international economic trading conditions. In

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2. *Ibid.*, p. 174.

3. Hayward, *Golden Jubilee*, p. 70.

1957, the National Government initiated its most vigorous effort to date to change the structure of New Zealand's commercial policy to favour diversification. New Zealand sought a revision of the Ottawa Trade Agreement she had concluded in 1932. She did not want its preferential provisions intensified. Rather, she sought their modification, the acquisition of the right to reduce British preferences in the event that she might want to negotiate trade agreements with third countries. The request had added validity because inflation had eroded the worth of New Zealand's preferences in the British market whilst Britain's preferences in New Zealand, being set as percentages, were unchanged in value. Britain stalled: she did not want to see her position in the New Zealand market eroded. Discussions at Prime Ministerial level broke the deadlock with Britain conceding most of New Zealand's requests. Again, a healthy world economy facilitated the change. Britain's economic relations with Europe and North America were expanding: New Zealand was not quite as important as in the past.

During 1958-60 the need to reduce New Zealand's vulnerability to overseas economic fluctuations attracted renewed concern. Labour's return to office coincided with the severest balance of payments crisis (precipitated in part by the collapse of dairy product prices) New Zealand had faced since 1939. Both events encouraged discussion about the need for more self-reliance. The appointment of W.B. Sutch as Secretary of the Department of Industries and Commerce gave a further impetus.

But times had moved on since 1939. The experiences of the 1940s and 1950s had revived the conviction - sharply dented in the 1930s - that dependence on overseas trade and finance was compatible with the maintenance of employment and living standards in New Zealand. Prosperity was underpinned by a host of insulating measures which were the substantial inheritance from Labour's prewar strategy: stabilisation accounts, industrial protection, social security. These had been continued, albeit with some modifications, by National. Britain had long since grown accustomed to, if not entirely enamoured of, such devices and programmes.

Independence *per se* therefore did not attract much of a hearing in New Zealand. Moreover the chosen means to the end was import-substituting industrialisation - not a headline grabber when real living standards were higher than ever before. Even the memory of the 1957/58 crisis fast receded, other than as a black mark against the Government. With National's return to office at the end of 1960, the policy lost momentum.

In the meantime, diversification policies were facilitated by bureaucratic changes in New Zealand, and justified by developments in international politics.

The institutions of New Zealand's economic diplomacy had reflected the intimate, non-foreign character of relations between the two countries, and this remained largely unchanged through the 1940s. But it had been implicit in the failure of attempts at closer relations in the 1930s that some more sophisticated and co-ordinated structure might be necessary.

In the 1940s, economic diplomacy had been dominated by men like Nash, Ashwin, Duncan and Marshall. Restrictions on travelling in the war years reinforced this tendency to personalisation. But some institutional evolution occurred. The successive rounds of international economic negotiations from 1942 on placed heavy demands on New Zealand's civil servants, and on Nash, who attended an extraordinary number of conferences. In 1947 two interdepartmental committees were established: a balance of payments committee to handle the impact of the dollar shortage, and a trade policy committee to handle the international trade negotiations. In 1948 G.D.L. White joined the Department of External Affairs from the Economic Stabilisation Commission. After the change of Government in 1949, Foss Shanahan, Deputy Head of the Prime Minister's Department, was instrumental in the establishment of the Cabinet and Official Committees on Economic Policy, which *inter alia* superseded the committees established in 1947. The fact that after 1949 (and until 1957) the Prime Minister no longer held the portfolio of External Affairs must have been a factor promoting these innovations. External Affairs played an active role in the Officials Committee through men like Shanahan and White, reflecting not only their personal capacities, but also the growing recognition that economic issues required an active diplomacy. In this respect, the National Government accepted the importance of the Department, whilst decrying the value of its more purely political work.

How far did these changes impinge on the character of relations with Britain? During and after the war, the need for Commonwealth consultation on defence, political and economic issues had precipitated a flood of conferences of varying kinds, officials level, ministerial

level, including all or some of the Dominions. But the war also accelerated the growth in the international stature of the Dominions. New Zealand in particular, became used to regarding itself, and being so regarded, as an independent state in international affairs. As its connections with other countries multiplied, so did the relationship with Britain lose something of its particular character. It seemed natural that the Department established to handle external relations should provide an input to all aspects of United Kingdom-New Zealand relations, not just those aspects with which it was traditionally concerned. This development was not very pronounced in the early 1950s, but in the successive rounds of discussions with Britain in 1956-1958 External Affairs played a major role. Thus New Zealand became accustomed to seeing its relations with the United Kingdom in terms of relations between two independent Governments - a conception which had been difficult to sustain in the 1930s.

Beyond New Zealand, other more dramatic changes were occurring. Economic collaboration with Britain in World War II had been underpinned by the political association of the two countries. In the 1950s this association was under pressure at its central point - Britain's capacity to deploy power in Asia and the Pacific. Britain had returned to these parts of the world at the end of the war, but it became apparent that she did not have the resources - and/or the political will - to do other than engage in a long retreat. India's commitment to non-alignment dislodged the keystone of any post-imperial strategy: Britain was left with debatable positions in the Middle East and Malaya. At the end of 1956 the Suez débâcle made it difficult for New Zealand to sustain any illusions which she retained about British

power. Suez made painfully clear the limits on Britain's ability to act independently of the United States. No longer could comfortable assumptions about America's preparedness to underpin all aspects of British power be entertained. These developments were bound to affect any judgement of the merits of a policy of continued economic dependence: in another war, New Zealand's economy might be far more severely penalised than in the last one.

Despite all these changes however, dependence as well as diversification remained a ~~stand~~ in New Zealand's policy throughout the 1960s and into the 1970s. As in the 1950s, this was particularly the case with the dairy industry. Despite efforts at diversification, over 80 per cent of New Zealand's dairy exports went to Britain in 1964 and over 62 per cent in 1970. In both years, Britain took more than 90 per cent of New Zealand's butter, and in 1970, three quarters of its cheese, compared with 86 per cent in 1964. The dairy industry's substantial expansion into other markets was in other products besides butter and cheese, such as casein and milk powders.<sup>(4)</sup>

The task of protecting New Zealand's position on the British market operated at two levels - the future of the trade in the event of British entry into the European Economic Community, and year by year dealings with Britain over the current condition of the market. The European Economic Community question first arose in 1961, when Britain decided to apply for membership of the Community. Quite apart from the more general questions which this raised about future relations

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4. Ward, *Command of Cooperatives*, p. 229.



between Britain and other Commonwealth countries, it had specific implications for New Zealand's butter and cheese trades. The Community's common agricultural policy protected the livelihood of farmers within the Community by a system of levies and subsidies which effectively excluded outsiders from a share of the market. The policy already applied to dairy products (but not to meat or wool). In mid-1961 Duncan Sandys, the Commonwealth Secretary, visited New Zealand and gave the Government assurances that

in the course of any ... negotiations [to join the Community] the British Government would seek to secure special arrangements to protect the vital interests of New Zealand and other Commonwealth countries, and ... would not feel able to join the European Economic Community until such arrangements were secured. (5)

In January 1963 de Gaulle vetoed British entry for the time being so the credibility of this assurance was not put to the test. In the meantime the dairy industry had moved into a new phase in its trading relations with Britain. The 1958/59 season had been a buoyant one which had wiped out the deficit built up over the two preceding seasons, but in 1959/60 conditions of over-supply reappeared, for both cheese and butter. Clearly some kind of management of the market was necessary. In the case of cheese this proved relatively straightforward, because it could be achieved through informal collaboration by Australia, New Zealand and Britain, the three principal suppliers. Butter was more difficult, and more sensitive. At the end of 1961 New Zealand accepted a British plan for voluntary restraint by all suppliers - the dreaded quotas of the 1930s.

Resisted so vigorously at that time, they were now seen as the lesser of two evils. Indeed, favourable price movements through the remainder of the 1961/62 season, and in 1962/63, helped soften much of the antipathy to such controls.

Yet even this system was not foolproof. In the latter part of the decade trading conditions deteriorated once again and the industry faced deficits and reductions in the guaranteed price that brought back memories of 1956-1958. In 1968 voluntary restraint was extended to cheese as well as butter and this improved cheese prices but the real recovery came with the 1970/71 season. As in 1958/59 drought in Europe came to New Zealand's aid and by the end of the 1971/72 season the Dairy Industry Account was back in surplus.

New Zealand was not just relying on the weather however. Deteriorating trading conditions in the late 1960s coincided with renewed interest by Britain in joining the European Community. New Zealand recognised that entry was now only a matter of time. The Dairy Board, which had amalgamated with the Dairy Products Marketing Commission in 1961, now became particularly active in seeking alternative markets, and this policy was beginning to bear some fruit, as the figures quoted earlier suggested. In the early 1970s the transformation was even more dramatic, with seventy per cent of milk product sales being made outside Britain by 1974. (But gross receipts were in money terms the same in both years despite substantial inflation over the intervening period).

Diversification did not mean that New Zealand had abandoned the British market, but it reflected the fact that it was now obliged to

see that market in a different light. Negotiations for British entry to the Common Market resumed in 1971. Hard bargaining on New Zealand's part coupled with strong diplomatic support from Britain, secured an agreement which would cut back her butter exports by twenty per cent over five years and her cheese exports by eighty per cent. In quantitative terms this was a much better deal than New Zealand might have expected, and although the pricing clause was harsh, price increases in 1974 and subsequently provided some amelioration. Beyond these arrangements however there was no doubt that the primary challenge to the industry was not to protect its position in Europe, but to find and secure profitable markets elsewhere.

Through the 1960s and 1970s the dairy industry was in a distinctive position: its dependence on the British market more complete, the threat to its position on that market more substantial than that of any other trade. The only other export that could conceivably have faced a similar threat was sheepmeat, which still went overwhelmingly to Britain through the 1960s. In 1971 Britain imposed a levy on sheepmeat imports to bring herself into line with European Economic Community practice but this did not in and of itself significantly affect the profitability of the trade. It was only at the end of the 1970s that the European Economic Community started to talk seriously about a common sheepmeat policy. But the fact that the Community was ordinarily a net importer of sheepmeat, coupled with the substantial diversification of New Zealand's lamb trade which had by then taken place, ensured that the new regime was acceptable to New Zealand.

Through the 1960s and into the 1970s diversification was as much

a matter for the Government as for particular export industries. The threat which British entry into the European Economic Community posed for the dairy industry was seen more generally in terms of the need for New Zealand to reduce its dependence on a Britain which was questioning longstanding dimensions of its economic and political position in the world. And fortunately the 1960s, like the 1950s, provided a benign economic environment in which to pursue such an objective. When the expansion of new exports was added to the diversification of markets for old ones, the effect was quite dramatic. Britain, which took 52.9 per cent of New Zealand's exports in 1959/60, took just 35.5 per cent in 1969/70.

Whilst active steps were being taken to promote New Zealand exports the supply pattern of the country's import trade also continued to become more varied. From 43.4 per cent in 1959/60, Britain supplied only 29.5 per cent of imports in 1969/70. Capital came from other sources as well - the International Monetary Fund, which New Zealand had joined in 1961, the United States, and increasingly from Europe. These declining relative trends reflected in part the fact that Britain's economy was growing more slowly than others in Europe and North America. The cutting edge of this decline was the failure of sterling to securely re-establish itself as a major international trading currency. Britain had to watch its balance of payments continually, and in the mid 1960s restrictions were imposed on the outflow of capital. These caused New Zealand some concern - but not as much as they would have once. New Zealand was now able to finance much of its own development and she also operated on other capital markets. In the years after the devaluation of sterling in

1967, steps were taken to wind down the reserve function of the currency. New Zealand accepted this change, and in effect moved outside the sterling area, a shift facilitated and justified by the changed nature of her trading relations. Britain's decision (later modified, but not completely reversed) to withdraw its military presence from Asia, announced in the aftermath of devaluation, underlined the linkages between the recession of her economic and political power.

In 1973 Britain finally became a full member of the European Economic Community, and the transformation of economic relations between the two countries entered its final phase. The bilateral structure of British-New Zealand commercial relations, dating in some respects from the previous century, and for the most part from 1932, was dismantled. A New Zealand-European Economic Community relationship succeeded it. And while defending its interests in the Community, New Zealand also continued to foster economic relations with other countries. By the beginning of the 1980s, trade with Britain accounted for only fifteen per cent of total trade. The dominant relationship of one era had become one of many in the next.

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### A. Primary Sources

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  - (a) New Zealand
  - (b) United Kingdom
2. Published official records
3. Unpublished unofficial records

### B. Secondary Sources

1. Books
2. Articles
3. Unpublished theses and monographs

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### A. Primary Sources

#### 1. Unpublished official records

The major sources for this thesis were the official records of the New Zealand and British Governments deposited at the National Archives, Wellington, and the Public Record Office, London, respectively.

##### (a) New Zealand

The official records of New Zealand's economic diplomacy in this period are not in good order. The best kept are those from External Affairs, but that Department did not maintain a systematic coverage of supply, marketing and financial matters. The records of Industries and Commerce, the Marketing Department, and Treasury, the principal participants in these areas, are intermittent rather than systematic. The war history narrative for the Marketing Department is invaluable, but there is nothing comparable for supply or financial relations. Now that the Nash papers are accessible it may be possible to fill in some of the lacunae in the official records. Regrettably no senior civil servant - most particularly, neither Bernard Ashwin nor George Duncan, have left collections of papers.

The files listed are all, with a few exceptions annotated accordingly, held at National Archives, Wellington. Permission was secured from the appropriate government department to see those files to which access is restricted.

National Archives classifies the records it receives according to its own system and this is used in this bibliography.

Note: in the footnoting in the text there is a departure from the National Archives system. Most of the files examined are from the registered subject file series for their respective departments. These are catalogued in each instance as series 1, e.g. Ag 1, EA 1. In this study, this enumeration is omitted, and series 1 files are recorded by group code and file number only. Thus: EA1 104/4/1 is referred to as EA104/4/1. Where no series number is provided this system is also followed. Thus: DPM 63/1, Cab 129/5/1. (Similarly, files which are not held at National Archives are recorded by department and file number). Where files are from series other than series 1, they are so recorded. Thus: T series 75 3/4/1. The only exception is T series 72, the records of the Economic Stabilisation Commission. Its files are recorded by the abbreviation ESC plus the file number. Thus: ESC 2/8.

#### Department of Agriculture (Ag)

The extension of the responsibilities of the Primary Products Marketing Department (henceforth Marketing Department) in 1939 effectively ended any major role for the Department of Agriculture in external policy. The Department recovered significance in the early 1950s when those responsibilities of the Marketing Department which were not devolved to producer boards or allied organisations passed back to Agriculture.



A 1 Registered subject files

- 1037 Aid to Britain [1948]
- 1243 Eastern Group Conference 1940-1951
- 1260 International Materials Conference 1951-1953
- 1342 Wool Conference 1939-1960
- 2332 Meat Export Control Act
- 2333 Meat Export, general
- 2339 Meat prices and agreements 1916-
- 21095 Import of meat into the United Kingdom

A 10 Unregistered files

- 5 Marketing Industry in New Zealand 1880-1946: draft of a book

A 15 Miscellaneous

- 7 War History Narrative

Cabinet Office (Cab)

A Cabinet Secretariat was first established in 1948, and with some exceptions there are no records before that date. Detailed records commence with the change of Government at the end of 1949. Most have not yet been transferred to National Archives and are not accessible to historians.

Cab 1 Cabinet meetings 1949-: papers

- CM(49) Papers for meetings December 1949
- CM(50) " " " 1950
- CM(51) " " " 1951
- CM(52) " " " 1952
- CM(53) " " " 1953
- CM(54) " " " 1954

Note: These papers can also be found on the files of the departments which prepared them.

Cab 2 Cabinet minutes 1949-1950 (Prime Minister's copies)

CM(49)1 - CM(50)88

List of files of first National Government (no series no.)

129/5/1 Cabinet committee on external economic affairs 1949

Customs Department (CUS)

Records held at National Archives on import policy for the war and post-war periods would appear to be a very small sample of the records which the Department must have generated. Nonetheless it seems that they are all that survives. For the war, WAI 10/107 provides some further information.

CUS 1 Inward letters and registered files

22/805 Policies and principles of the New Zealand tariff 1948-1958

Dairy Products Marketing Commission (DPM)

The Dairy Products Marketing Commission was established in 1947 and merged with the Dairy Board in 1961. It inherited the responsibilities, and with them the records (coded DPM), of its predecessor, the Marketing Department, in respect of dairy produce. All of the Marketing Department records which the Dairy Products Marketing Commission had in 1957, plus some of its own, were transferred to the National Archives in that year. Together the two lots form the DPM group.

Some files pertaining to the activities of the Marketing Department Export Division in respect of meat and wool were also included, but the

coverage is far from systematic. Where are the rest of the files of the Marketing Department, whether handed on to the Dairy Products Marketing Commission or not? They do not appear to have been inherited by either the Department of Agriculture or the producer boards: presumably they have been destroyed. Information about the Marketing Department's activities has to be supplemented from other sources: Treasury and External Affairs files, or the war history narratives of the department. The bibliography of the narrative of the Export Division gives some indication of the number and coverage of the files which can no longer be located.

The DPM group is not classified into series. For unnumbered files, the box number, in parenthesis in this listing, is a useful finding aid.

14/2/3 Dairy produce negotiations on agreement with Britain  
1939-1942

B2 Long-term contracts, 1942-1946

B2/1 Long-term contracts, meat, 1944

B3/2 Presentation of case for price increase to United Kingdom, 1944

B3/4 Estimates given re claim on United Kingdom for sterling payments,  
1943

B4/2 Stabilisation re Joint Committee 1945

C3/1 Farm and factory adjustment 1946; guaranteed price:  
miscellaneous 1946-1947

C3/5 Payment of extra costs because of war 1941/1942

D1/3 General correspondence 1943

D3/1 1939-1940 negotiations

D3/2 Government and Dairy Board 1939

D3/7 1939 United Kingdom visit

D4/5 Economic Stabilisation Conference

E4/1 Meat miscellaneous, including United Kingdom/New Zealand 1943

E4/3 Talks with Ministry of Food, 1941

F1/8 London Food Council: postwar policy, etc.

H/1 Draft of *AJHR*, 1940 H30B

M1/2 Butter and cheese 1941

M1/3 Dairy, miscellaneous 1941

G.M. Pottinger private files [Boxes 17,18]

Meat, miscellaneous 1941, 1943 )

London Food Council and Combined Food Board 1945- )

1946 )

Fisher and Campbell United Kingdom/New Zealand )

commercial policy 1943-1944 ) [Box 21]

F.A.O. 1946-1947 )

Lendlease, termination, 1945 )

Communications re War Plans etc., 1939 )

Pottinger, summary of cables 1942-1946 )

Duncan, commercial policy 1943-1946 ) [Box 22]

Guaranteed prices and the dairy farmer )

I.E.F.C. food allocation, 1946-1947 ) [Box 23]

Food and other supplies to the United Kingdom )

during the war: draft parliamentary paper )

Marshall papers (MP): dairy products 1948 )

: butter and cheese 1949, 1950 ) [Box 35]

Department of External Affairs (EA)

The Department, which changed its name to the Ministry of Foreign Affairs in 1970, was established in 1943. It inherited the responsibilities and records (coded PM) of the Prime Ministers Department. The two departments were not separated until 1949, were reunited in 1957, and separated again in 1975.

The Department was not active in external economic policy until the 1950s, but kept records of communications between New Zealand's representatives overseas and other branches of Government.

EAL Registered subject files

58/2/2/1	United Kingdom-New Zealand trade relations to 1948
104/1/1	Economic affairs: general
104/2/1	Finance and currency, general 1929-1957
104/2/5	Bretton Woods 1944-1952
104/2/21/1	IMF general 1943-1958
104/6/31/1	Wool: general
104/6/31/4	Joint Organisation
104/26/1	International Trade Organisation 1946-1948
153/17/2	Prime Ministers Conference, London, 1939: minutes of meetings
153/17/3	Prime Ministers Conference, London, 1939: papers issued by Conference
153/20/4	Meeting of Empire Prime Ministers 1944: master set of telegrams exchanged with Prime Minister, April-June 1944
153/20/6	Prime Ministers Conference, London 1944: minutes of meetings
153/23/1	Prime Ministers Conference, April-May 1946: general
153/23/3	Prime Ministers Conference, April-May 1946: minutes

Held at Ministry of Foreign Affairs

35/29/5

58/2/2/1      United Kingdom-New Zealand trade relations, 1948

Department of Industries and Commerce (IC)

Note: (a) many IC files are not dated in the series lists

(b) wartime Ministry of Supply files could be expected to have been retained by the Department but it seems that many were destroyed (see War History entry)

ICI Registered subject files

101/1      Trade, New Zealand policy  
102/1      New Zealand tariff  
102/2      Import licensing: general  
102/1/2      New Zealand tariff reviews: Board of Trade procedure  
IC106/1      New Zealand financial (overseas) policy  
IC106/2      United Kingdom financial: balance of payments  
IC162/1      Trade policy re United Kingdom  
IC162/2      United Kingdom import policy

IC32 London Office 1945-1959

33      G.W. Clinkard, personal correspondence, 1943-1946

Treasury (T)

T1 Registered subject files

27/9      Wool, general  
40/7      Meat Export Control Act 1949  
40/648      Primary Products Marketing Act 1939  
40/648/3      Meat and dairy products, long-term contracts, 1946-1952

40/648/5	History of New Zealand primary products negotiations, 1939-1950
40/721	Wool, including wool marketing; International Wool Study Group 1950-1960
40/835	Economic stabilisation 1930-1940, including report on the Economic Stabilisation Conference 1940
61/1	Balance of payments 1946-1952
61/1/1	Minutes, balance of payments committee, 1947-1952
61/1/8	Cabinet committee on economic policy 1952-1955
61/1/9	Economic policy in New Zealand, general questions, 1952-1958
61/3/3	Commonwealth Liaison Committee 1951-1958
61/3/4	Commonwealth Conference 1948
61/3/4/2	Commonwealth Conference 1948
61/3/21	Review of New Zealand trade policy, 1956-1957
61/4/1	Balance of payments, United Kingdom, general, sterling area, 1949-1959
61/4/2	Balance of payments, United Kingdom, sterling area dollar reserves 1947-1956
61/5/7/5	Raw materials, wool, 1951-1954

T25 Minister of Finance: papers

23	Reports from Secretary to Treasury to Minister of Finance, 1949-1950
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T72 Economic Stabilisation Commission 1942-1950 (ESC)

1/3	Minutes 1943, 1949
2/8	External relations, United Kingdom, 1943-1951
2/11	Commercial Policy, G.A.T.T. 1947-1951
2/11/6	Dollar position, balance of payments - 1950
5/12	Correspondence with Minister's Office 1943-1951

Office papers (no file numbers)

Farm products and stabilisation 1940-1945	[Box 112]
Noted and reports 1943-1948	[Boxes 120-122]
Farm products stabilisation 1943-1948	[Box 127]
Notes on stabilisation policies 1944-1948	[Box 129]
Notes on dairy and meat stabilisation 1944-1948	[Box 130]
Stabilisation in postwar, financial aspects	[Box 131]
Stabilisation agreements with primary producers 1943-1947	[Box 132]
Postwar stabilisation talks 1945	[Box 133]
Stabilisation of farm production	[Box 137]
Notes on stabilisation	[Box 141]
Ministerial memoranda	[Boxes 142-143]

(See also WAI 10/111)

T73 Food for Britain 1946-1947

T75 Marketing Advisory Council (MAC)

2/8/1	New Zealand-United Kingdom trade, long-term contracts 1945-1953
3/4	Dairy industry, general, 1951-1953
3/4/1	Dairy produce, butter, 1941-1950
3/6	Meat, general, 1945-1953
6/5/5	Dairy industry marketing negotiations 1951-1952

Note: These files are all part of MAC 1, the registered subject files under the old classification. MAC 2 - MAC 8, the remainder of the series, occupy one box.

Rehabilitation Board

War History of Rehabilitation in New Zealand 1939-1965.

(Paper in possession of Department of Social Welfare)



World War II: Official Histories (WAI)

WAI 10 Civilian Narratives

59 Marketing Department, Export Division, by K.R. Miller and R. Rowley

Note: This document is cited in the text as Miller and Rowley,  
*History*

75 Notes on the development of the Prime Minister's Department by  
H. Templeton

76 Prime Minister's Department (two volumes of miscellaneous papers)

89 Ministry of Supply

Note: not a continuous history. The writer notes the severe  
lacunae in Ministry of Supply records

107 Customs Department

111 Economic Stabilisation

Note: includes proceedings of Economic Stabilisation Conference  
1940 and draft typescripts on various aspects of domestic economic  
policy, plus a mass of unsorted material

116 Economic background to New Zealand politics by H. Witheford

(b) United Kingdom

I spent a limited period in London in 1979, so time prevented me from examining all the relevant material held at the Public Record Office. Moreover, at that time, files closed after 31 December 1948 were not available for perusal. I took the decision to concentrate on Ministry of Food, Board of Trade and Treasury records rather than to directly tackle the Dominions Office holdings. The "system" for the latter is very complex and difficult to master (for instance, there is no master series of cables exchanged between the High Commission and Whitehall) and it seemed better to spend my time in other ways. I also decided not to work through Ministry of Supply files systematically, after looking quickly at some material. I did find some information on wool on

Board of Trade and Treasury files which was a help.

All the files recorded below are held at the Public Record Office, Kew.

Board of Trade (BT)

BT11 Commercial papers and correspondence

1458	Possible increase in New Zealand's war effort 1940-1941
1697	Negotiations on a postwar wool organisation 1941-1942
1712	Restrictions on cotton exports 1941
1739	Lendlease 1941-1942
2016	Export diversion to New Zealand 1942
2053	Proposals for trade agreements with the United States, 1942
2276	Postwar United Kingdom/New Zealand commercial policy
2351	Conference with Dominion representatives February-March 1944
2771	Commercial and economic relations with the United Kingdom, 1945
3711	Representations to New Zealand on quantitative restrictions, 1946-1947
3716	Walter Nash. Board of Trade visit 1947: correspondence with the Board
3717	Walter Nash. Letter to Board of Trade, New Zealand import requirements
3758	Dollar crisis talks 1947-1948
3767	Dollar crisis talks: draft telegram to Trade Commissioners, 1947
4045-4049	Development of secondary industry in New Zealand 1939-1949 [n.b. chronological order in reverse of file order]
4076	1948 bulk purchase
4077	Effect of GATT non-discrimination on New Zealand
4082	Fencing wire 1948-1949

Dominions Office (DO)

D035: Dominions original correspondence

WT662/3/28      Sterling balances 1946

Ministry of Agriculture and Fisheries (MAF)

MAF inherited all the files of the Ministry of Food, which are accordingly catalogued in the Public Records Office under MAF classifications.

MAF 83 Supply Department and Secretariat, Ministry of Food

164	New Zealand meat negotiations August 1940 - December 1941
257	Imports from New Zealand in the third year of the war, March 1941 - February 1942
1037 ) 1038 )	Long-term contracts with Australia, New Zealand and South Africa, April 1944 - December 1945
1149	Reciprocal trade with New Zealand, July 1940 - April 1945
1158 ) 1159 )	Dairy products from Australia, New Zealand and South Africa, November 1940 - April 1945
1180 ) 1181 ) 1182 )	Meat supplies from the Southern Dominions 1942-1945
1244	Southern Dominions meat, May - December 1942
1363	Meat from the Southern Dominions 1943-1944
1475	Empire Prime Ministers Conference March - June 1944
1476	Long-term contracts, New Zealand, 1944
1566 ) 1567 )	Supplies from the Southern Dominions, 1944-1945
1616	Appeal to Australia and New Zealand for increased exports, March 1946
1623	Prime Ministers' visits, April - May 1946
1668	Revision of long-term contracts with Australia and New Zealand, 1946

- 1672 Bulk purchases, general policy, July 1946
- 1864 Customs Union with Empire [sic: in fact mislabelled, should be Europe] October 1947 - June 1948
- 2905 Long-term contracts, meat, 1943-1945

MAF 88 Meat 1939-1959

- 116 Purchase of meat from New Zealand, April 1940 - December 1941
- 202 Meat supplies Australia and New Zealand, March 1941 - January 1942
- 236 Meat purchase, New Zealand, 1941-1942
- 405-411 Long-term contracts, meat, 1944-1948

Treasury (T)

T160 Finance Division 1887-1948

- F12715 New Zealand's financial position 1939-1944 (parts 1-10)
- F16320/02 Peter Fraser visit 1939

T161 Supply Division

- S45511 Purchases of Australian and New Zealand wool 1939-1946 (parts 1 & 2)
- S51255 Long-term contracts, postwar 1943-1944

2. Published official records

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*Dairy Products Marketing Commission Annual Report, 1947/48 - 1954/55*

*House of Commons Debates*

*New Zealand Official Yearbook, selected volumes*

*New Zealand Parliamentary Debates*

3. Unpublished unofficial records

Meat Producers Board (MB)

50/2/6            Annual United Kingdom/New Zealand agricultural  
                     consultations 1939-1956

Papers of F.P. Walsh [Turnbull Ms 274]

26	Notes on New Zealand's sterling exchange position, February 1949
256	Meat correspondence (unfiled) 1943-1962
260	Meat 1945
265	Meat schedules 1949-1950; Hides, wool meeting, 7 September 1949
267	Meat 1949
268	Meat 1949
270	Meat prices United Kingdom

4. Published unofficial records

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*New Zealand Herald*, 1951-1954

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|                             | <i>Australia</i> , London, 1930   |

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