

PACIFIC CABLE.

PART I.

THE IMPERIAL GOVERNMENT (POSITION OF) AND THE COLONIES.

APPOINTMENT OF COMMITTEE TO CONSIDER SCHEME.

Following on correspondence referred to in last Report, taken from a letter dated London, 9th May, 1899, from the High Commissioner for Canada and the Agents-General of New South Wales, Victoria, New Zealand, and Queensland to the Colonial Office, a further letter, dated London, 18th May, 1899, was addressed by the above to the Colonial Office, in which it is pointed out that—

The abstention of the United Kingdom would inevitably add greatly to the cost of raising the capital required for the work, and consequently to the annual interest payment; and the suggestion to contribute for 20 years a proportion, not to exceed £20,000 annually, of any deficiency that might arise, cannot be regarded as adequately meeting the requirements of the case. The loss, part of which Her Majesty's Government are prepared to meet, can only be large (according to the estimates placed before the Committee after full inquiry) if the credit of England is withheld when the capital is being raised. Otherwise the obligations Her Majesty's Government are ready to assume must be considered as in the nature of a contingent liability; and any adverse balance in the first few years would need to be very much greater than has been estimated to require the payment of a sum such as that mentioned—even spread over a period of years. It can scarcely be considered by the Colonies as satisfactory that the Imperial Government should in effect first create a deficiency much larger than has been contemplated as probable, by increasing the annual cost of the requisite capital, and then offer to defray a certain proportion of the loss. It certainly seems to us more desirable that the object to be kept in view should be to reduce, as far as possible, both the initial and the subsequent cost of the undertaking to the taxpayers of England and the Colonies.

Therefore, on commercial grounds it would not, in our opinion, be possible to accept the scheme as submitted, apart from the fact that the offer of the subsidy carries with it conditions virtually placing the construction and working of the cable under the control of the Treasury. Amongst the terms, we would draw special attention to the veto reserved upon rates to be charged for messages, a condition which we venture to think would meet with the strongest objection in the Colonies.

But there is an aspect of the question, other, and even more important, than the commercial. It is, undoubtedly, the feeling in Canada and the Colonies concerned, that the proposed cable is an Imperial work, and that its success cannot fail—as stated in your letter—to promote Imperial unity. Indeed, the desire of the Colonies for the cable has been in no small degree based on the belief that the enterprise would be an Imperial undertaking. The Colonies concerned have relied on the co-operation of the Mother Country, and it will be a great disappointment if the Imperial Government do not accept the share of the responsibility, which we venture to think properly attaches to the Mother Country in the matter, in virtue of her position as the head of the Empire.

The cable, as already mentioned, is destined to provide an alternative route to the East, entirely through British territory, and under British control. It will be important for commercial and for political reasons, apart altogether from its value as bringing Australasia and Canada into closer connection, and it is not necessary to dwell at any length on the advantages that must accrue to the Empire from the fact of the first cable across the Pacific being in British hands. These facts are fully recognised in the outlying parts of the Empire, which take the warmest possible interest in the question of Imperial unity; and it will cause widespread regret and disappointment if anything should be allowed to occur to prevent the scheme being carried to a satisfactory conclusion in the near future. We are gratified to notice that similar views, according to the Press, appear to be entertained very largely in the United Kingdom.

It is for these reasons, as well as for those that have been referred to in our previous letter, that we earnestly commend the matter to the attention of Her Majesty's Government; and we feel every confidence that they will, on re-consideration, adopt the recommendations made by the Pacific Cable Committee after a very thorough and exhaustive inquiry into the whole question.

To the above the Colonial Office replied on the 6th June, 1899:—

Mr. Chamberlain desires me to point out, in reply, that though the proposal that the construction and operation of the cable should be under the joint control of the Mother Country and the Colonies concerned was advocated by the Committee of 1897, and was adopted by the Colonies, Her Majesty's Government had distinctly stated that they were not in any way committed to that or any of the other recommendations of the Committee.

In approaching the question of what assistance they should render to the project, Her Majesty's Government had to consider, as was pointed out by the Secretary of State at the Conference with the Premiers in 1897, that it was not one which the Imperial Government regarded as urgent, or in which, apart from their desire to afford the support and assistance of the Mother Country to the Colonies, they would have been anxious to take part.

They had also to bear in mind that the cable will be remote from this country, with one of its terminals in Canada and the others in Australasia, and that it must be worked by the Postal Administrations of the Colonies where it is landed.

It appeared to them, therefore, that it was preferable, as likely to avoid any possible friction in the management, that Her Majesty's Government should refrain from seeking any active participation in the construction and control of the cable, and should give their support to the scheme, untrammelled by any conditions except such regulations of a general nature as are generally considered advisable in connection with any cable project to which they give assistance.

The arrangement submitted on behalf of the Colonies was for the joint ownership and control of the cable, the Imperial Government guaranteeing five-eighteenthths of any loss on the working and receiving the same proportion of any profits, the Colonies guaranteeing the remaining thirteen-eighteenthths and taking a similar proportion of profits.

Her Majesty's Government accepted without hesitation the estimate of the Colonial Governments of the proportion of the annual cost of the undertaking to be allotted to them as their share, and in offering therefore to guarantee the proportion asked for of any deficiency on the working and payment of interest and sinking fund, while foregoing any share in possible profits and any active control over the cable, Her Majesty's Government considered that they were proposing an arrangement which might be more acceptable to the Colonies, as leaving them a free hand in the management of an enterprise more intimately affecting their interests, and which was at least as favourable to them from a pecuniary point of view as that which had been submitted on their behalf.

If the original outlay would have been (as you anticipate) considerably increased by this arrangement, it must be remembered that, while the United Kingdom would have had to bear its full share of any deficiency so created, the whole of any profits would have been left to the Colonies immediately interested and responsible for the efficient working of the cable, which, subject to the general conditions laid down, they would have been entirely free to work in the manner which appeared to them to serve their own interests best.

But although Her Majesty's Government are unable to admit that their previous offer was other than fair, and even generous, they feel the force of the considerations based upon higher grounds than mere commercial expediency which are emphasised in your letter of the 18th ultimo. You point out that it is the feeling in Canada

and the Colonies concerned that the proposed cable is an Imperial work, and that its success cannot fail to promote Imperial unity, in the furtherance of which the Colonies are warmly interested; you say, further, that the desire of the Colonies for the cable has been in no small degree based on the belief that the enterprise would be an Imperial undertaking, that the co-operation of the Mother Country has been relied upon, and that great disappointment would be felt if Her Majesty's Government do not accept the share of the responsibility which attaches to the Mother Country in virtue of her position as head of the Empire.

Her Majesty's Government highly appreciate the sentiments which have prompted the Colonies concerned to urge the close co-operation of the Mother Country with themselves in a work of great importance to the Empire. They are therefore willing, in order to meet the wishes of the Colonies, to consider the matter on the basis of utilising the credit of the United Kingdom in the provision of the capital necessary for the undertaking. But as the adoption of this principle must involve the previous discussion of many questions relating to the mode of raising the capital and to the construction and control of the cable, I am to suggest that for this purpose the Colonial Governments should appoint delegates to meet the Chancellor of the Exchequer and Mr. Chamberlain.

On the 13th June, 1899, the Association of Chambers of Commerce, representing eighty-eight Chambers of Commerce in the United Kingdom, addressed a memorial to the Secretary of State for the Colonies "expressing its hearty approval of the resolutions adopted by the Intercolonial Congress recently held at Ottawa in favour of Inter-Imperial Postal and Telegraph routes between this country and the Colonies, and between the Colonies themselves respectively, without such routes passing through other countries."

This Association, having always looked upon the Pacific submarine cable as the most important link in the establishment of a system of Inter-Imperial telegraph routes, has noticed with considerable interest the reports that have appeared from time to time as to the negotiations respecting the carrying out of this project.

It has been a matter of regret to your memorialists that so long a delay has taken place in bringing the negotiations to a practical issue, and at the annual meeting of the Association held in March last, the following resolution was unanimously adopted:—

"That this Association would again impress on Her Majesty's Government the necessity of aiding as far as possible in the establishment of telegraph routes between this country and the Colonies and between the Colonies themselves respectively, without such routes passing through other countries, and with this object in view, would respectfully urge the Government to at once join Canada, the Australian and other Colonies, in carrying out a Pacific submarine telegraph cable, as being a material portion of the complete scheme."

During the course of the proceedings of the Association in connection with this matter, expression has been given to the opinion that it was in the broad sense of the term more an Imperial question than a Colonial one; one in which the Government of this country might properly have taken the initiative, but if not, should, at any rate, have, in a spirit of great liberality, encouraged and supported the Colonies in their desire to carry out so admirable a project.

On the 16th June, 1899, the Agents-General of the Colonies of New South Wales, Victoria, New Zealand, and Queensland, in acknowledging the receipt of the letter of 6th June, 1899, said—

Replies have now reached us with reference to the suggestion contained in the concluding paragraph of your letter that delegates should be appointed by the Colonial Governments, and we have been formally requested to confer with the Chancellor of the Exchequer and yourself on the subject as desired.

In the meantime we desire to express our appreciation of the decision of Her Majesty's Government, and of the terms in which it has been communicated to us—which we feel sure will also cause much gratification in the portions of the Empire we have the honour to represent.

CONFERENCE held at the room of the First Lord of the Treasury, in the House of Commons, on Tuesday evening, the 4th July, 1899.

Present:

MR. CHAMBERLAIN.	
THE CHANCELLOR OF THE EXCHEQUER.	
LORD STRATHCONA,	representing Canada.
SIR JULIAN SALOMONS,	" New South Wales.
SIR ANDREW CLARKE,	" Victoria.
SIR HORACE TOZER,	" Queensland.
MR. W. P. REEVES,	" New Zealand.
LORD SELBORNE, MR. ANDERSON, and MR. GLEADOWE.	

1. Mr. Chamberlain proposed that the elaboration of the scheme and the management of any line that might be decided on should be entrusted to a Board of eight members, sitting in London; of these members he proposed that three, including the chairman, should be representatives of the Home Government, while Canada should be represented by two members, the Australian Colonies taking part in the scheme by two, and New Zealand by one.

No objection was raised to this proposal so far as the place of meeting and representation of the Home Government upon the Board were concerned, it being generally recognised that the Home Government, as guaranteeing the capital, was entitled to a larger representation than her contribution of 5/18ths of any loss on working and maintenance would by itself indicate. Sir Julian Salomons objected to only two representatives being allotted to Australia, and urged that three should be allowed. Lord Strathecona pointed out that this would give four members to Australasia, and only two to Canada, and it was suggested as a compromise that instead of specifically allotting one representative to New Zealand, three should be given to Australasia, leaving the local authorities to settle the apportionment between the different colonies. Mr. Reeves acquiesced in this suggestion, which was adopted.

The Board will therefore consist of:—

3 members (including the chairman) representing the Home Government.
3 for Australasia, and
2 for Canada.

2. The Chancellor of the Exchequer said that the mode of raising the capital should be left entirely under the control of the Home Government.

No objection was raised to this.

3. Mr. Chamberlain then proposed that the first step to be taken should be the constitution of the Board. When constituted it should take measures for obtaining tenders for such a cable as was specified in the report of the Committee of 1896, and should ascertain how far the estimates framed by the Committee of cost and traffic were trustworthy in view of the enhanced cost at the present time of copper and gutta-percha. The Board should report the result of the tendering to the Governments concerned, which would then have to decide unanimously—

- (1.) Whether to proceed on the lines recommended by the Committee or not.
- (2.) What rates were to be fixed in the first instance for traffic.

No objection was raised to the proposals.

4. Mr. Chamberlain next adverted to the question of claims for compensation from interests affected by the establishment of a Pacific Cable. He intimated that the Home Government was prepared to deal with and settle any claim preferred by the Eastern Telegraph Company, or its allies, provided that the Australasian

Colonies concerned would deal with and settle any claim preferred by South Australia or any other Australasian interest, and that if any Canadian interests were affected, Canada should deal with and settle any claims preferred by them. Lord Strathcona intimated that no Canadian interest would be injured, and the proposal was agreed to.

5. Mr. Chamberlain laid it down as a provision upon which the Home Government must insist that the route between this country and Australia should be *all British*. This would apply to the lines across the Atlantic and America as well as to the Pacific Cable.

This stipulation was agreed to. Lord Strathcona intimated that it could easily be arranged that the land service should be entirely British. The Canadian Pacific Railway was prepared to arrange its lines so as to exclude Maine.

6. The question of the rates to be charged was next discussed. Lord Strathcona proposed that the initial rates should be 2s. a word for messages transmitted between Vancouver and Australasia, with a rate of 1s. a word between Vancouver and Great Britain.

The decision upon this question was deferred.

7. Mr. Chamberlain proposed that more than a bare majority of votes should be required for any alteration of the rates after they were first fixed.

Mr. Reeves suggested that there might be a stipulation that the cable should not be worked at a loss. He was not averse to the end aimed at by Mr. Chamberlain, but he did not like any proposal which would give a veto to any one party to the scheme.

The Chancellor of the Exchequer agreed with Mr. Reeves that the cable should not be worked at a loss, but he thought that this could be best secured by providing that no alteration of rates should be made except by a majority so large that it must include not less than one of the representatives of the Imperial Government.

The matter was left open for further discussion, with the general understanding that something more than a bare majority of votes should be required for an alteration of the rates fixed in the first instance.

The Australasian Colonies, after consultation, wired through the Government of Victoria to their Agent-General on the 15th August, 1899 —

“*Pacific Cable Board*.—It would be very inconvenient for four Colonies to choose three representatives, but rather than delay matters we will accept proposed number. Would be glad to know however what are objections to increase of representatives from eight to eleven.” The Agent-General for Queensland on the same date communicated with the Colonial Office in similar terms.

After further correspondence, the Australasian Colonies agreed to be represented by three delegates.

Subsequently the Secretary of State issued the following Instrument appointing a committee to consider the scheme suggested by the committee of 1896:—

I hereby appoint

The Right Honourable William Waldegrave, Earl of Selborne, Under Secretary of State for the Colonies,

Sir Francis Mowatt, K.C.B., Permanent Secretary to the Treasury,

Sir George Herbert Murray, K.C.B., Secretary to the Post Office,

The Right Honourable John Campbell, Earl of Aberdeen, G.C.M.G.,

The Right Honourable Donald Alexander, Baron Strathcona and Mount Royal, G.C.M.G., High Commissioner for Canada,

Sir Julian Emanuel Salomons, Q.C., Agent-General for New South Wales,

Lieutenant-General the Honourable Sir Andrew Clarke, R.E., G.C.M.G., C.B., C.I.E., Agent-General for Victoria, and

The Honourable William Pember Reeves, Agent-General for New Zealand, to be a Committee to further examine and elaborate the scheme for laying a telegraph cable between British North America and the Colonies of Australia, which was submitted by the Pacific Cable Committee which reported in 1896.

Sir Francis Mowatt will act as Chairman.

The first duty of the Committee will be to consider the following points:—

(1.) The cost of (a) laying and (b) maintaining the line, and whether as a single or duplicated cable. In order to arrive at a conclusion on this point the Committee will be at liberty, if they think proper, to advertise for tenders, on the understanding, however, that no tender can be accepted without reference to the several Governments concerned.

(2.) The rates to be charged for messages, and the revenue which the cable may be expected to earn therefrom.

(3.) The steps which should be taken in order to secure that all messages between this country and Australasia should be sent solely through British territory or through cables owned and worked by British Companies.

(4.) The framing of a scheme for the permanent administration and working of the cable when laid.

The conclusions arrived at by the Committee on these points will be laid before the several Governments concerned, who will then decide what further steps should be taken.

All questions as to the mode of raising the capital necessary for the undertaking are reserved for the Imperial Government alone.

J. CHAMBERLAIN.

November 25, 1899.

In connection with the above, as Queensland is not directly represented on the Committee, it has been arranged that the Agents-General for the other Colonies in London shall consult with the Agent-General for Queensland on matters affecting the Pacific cable.

PART II.

REMONSTRANCE OF EASTERN AND EASTERN EXTENSION COMPANIES AGAINST THE PROPOSED ATTITUDE OF THE IMPERIAL GOVERNMENT.

The letter from the Colonial Office, in which the Imperial Government offered an annual subsidy of £20,000 towards the Pacific cable project, brought out a strong remonstrance, addressed to the Marquis of Salisbury, dated the 17th May, 1899, from the Eastern and Eastern Extension Telegraph Companies on the ground of its serious interference with private enterprise.

After referring to the question of tariff from their own standpoint, the companies through their chairman said:—

Your Lordship will doubtless have considered, in connection with this subject, the advantages which the Empire might secure by an alternative cable route between Great Britain and Australia, but, I think, I am well founded in the belief that the naval, military, and other technical advisers of the Government consider that the route suggested by the Companies for an all-British cable, *via* the Cape of Good Hope, would be far better both for strategic and commercial purposes than the all-British Pacific project. The Cape route is a practicable one adapted to Imperial requirements, and the Companies some two years ago submitted to Her Majesty's Government a proposal for providing this alternative communication on very moderate terms.

I would respectfully urge on the part of the Companies that Her Majesty's Government ought not to give their sanction and preference to a less advantageous project on any such inadequate grounds as those to which I have adverted. Moreover, it was stated by the Committee that the Pacific scheme would not be an entirely all-British route because the communication from Great Britain to Canada would be either by an American cable in connection with Canadian land-lines, or by an English cable connected with American land-lines.

If, however, for reasons unknown to me, Her Majesty's Government ultimately decide to support the Pacific scheme, the Companies would, as they stated to the Committee, be quite willing to undertake to establish a Pacific cable on reasonable terms, provided that the cable can be laid *viâ* Honolulu. The objection that such route would not be all-British is, I submit, more sentimental than real, inasmuch as the Vancouver-Great Britain section would, as has been pointed out by the Committee, not be an all-British route.

The acceptance of this proposal would avoid claims for compensation which the Pacific scheme, if carried out, would necessarily give rise to, and would also avoid the imputation of unfairness on the part of the British Government in contravention of all precedents.

In this country, whose prosperity has been built up by the energy of private enterprise, I venture to hope that Your Lordship will not sanction any deviation from the important principle of non-competition by the State with private enterprise. Such competition is, moreover, opposed to the whole spirit of the International Telegraph Convention.

I need not advert to the efficient manner in which the Companies' service is conducted (their cables having been duplicated throughout, and in places triplicated and quadruplicated) since this was admitted before the Committee, nor need I refer to the important services which the Companies have at various times and on critical occasions been able to render to Her Majesty's Government, as this was also admitted by the witnesses and by the Committee. If the Companies do not claim favour on this account they are at least entitled to justice, and it is an appeal to justice I make to your Lordship.

On the 16th June, 1899, no reply having been received from the Government, the Chairman wrote to the Colonial Office requesting that Lord Salisbury, in conjunction with the Chancellor of the Exchequer, would receive a deputation on the subject, and a reply in the affirmative was sent fixing the date 29th June, 1899.

Before the receipt of the letter a memorial from the two combined companies dated 19th June, 1899, was addressed to the Secretary of State and the Chancellor of the Exchequer in terms similar to those contained in their letter of the 17th May above referred to.

In this memorial the Companies assert that—"The Australasian Governments are by no means unanimous in favour of the Pacific scheme, and South Australia protests against it and requires compensation should it be carried out. The main motive with these Australasian Colonies who support the scheme is an expected reduction in tariff, but this they are not entitled to claim.

"The Eastern and Eastern Extension Companies have expended millions of British capital in providing telegraphic communication between this country and Australia."

The capital was raised and the cables laid with considerable difficulty and risk without any aid from the British Government. Having regard to this outlay, the tariff was in 1886 fixed at 9s. 4d. per word, but when the traffic had somewhat developed, certain of the Australasian Governments negotiated with the Companies for a reduction of tariff to 4s. per word. The Companies agreed to the reduction on condition that they were partially guaranteed against excessive loss arising from it, and the Australasian Governments entered into a guarantee to make good to the Companies one-half of any loss in consideration of the tariff being reduced to 4s. per word. The reduced tariff was brought into operation on 1st May, 1891, but the loss from the reduction was found to be so great that the Australasian Governments very soon requested the Companies to raise the tariff to its present amount of 4s. 9d. per word in order to reduce the sum payable under their guarantee. The Companies were quite willing to try the experiment for a longer period, and indeed endeavoured to induce the Colonies to maintain the 4s. rate, but the Colonies insisted upon the tariff being raised and the Companies had no option but to reluctantly acquiesce in that course.

The agreement under which the tariff was fixed at 4s. 9d. per word has another year to run before the arrangement comes to an end, but even at this figure of 4s. 9d. the tariff is one of the cheapest in the world in proportion to distance.

The Australian Colonies are not, therefore, entitled to appeal to the Imperial Government to assist them in forcing down the present tariff, which has been raised to its present amount by their own action.

It should be mentioned that at this time Queensland was not a party to the agreement relating to the reduction in rates, and consequently was not concerned in this arrangement. On the 1st January, 1893, the rate was raised from 4s. to 4s. 9d., chiefly at the instigation of Victoria, who objected to having to continue to make up the annual deficiency in the guarantee. Queensland did not participate in the reduced rate until July, 1897.

On the 10th July, 1899, the Colonial Office wrote to the Chairman of the E. and E.E. Telegraph Companies dealing with their letter dated the 17th May, 1899. Referring to statements of the Companies that "the grounds upon which the proposals are based appear to be a departure from the principles hitherto acted upon by Her Majesty's Government, and that the reasons by which that departure has been sought to be justified are wholly inadequate," and further that "Her Majesty's Postal and Telegraph Department has hitherto acted upon the principle of alliance and not interference with private enterprise,

Mr. Chamberlain is unable to accept this statement as a complete or accurate record of the practice of Her Majesty's Government, or of the principles which have guided and ought to guide them in dealing with such matters. He cannot admit that there is any rule or formula of universal and permanent application such as you suppose, limiting the functions of the State in regard to services of public utility.

With the progressive development of society, the tendency is to enlarge the functions and widen the sphere of action of the central Government, as well as of the local authorities, and to claim for them the more or less exclusive use of powers and the performance of services, where the desired end is difficult to attain through private enterprise or where the result of entrusting such powers or services to private enterprise would be detrimental to the public interest, through their being in that event necessarily conducted primarily for the benefit of the undertakers rather than of the public. This tendency is specially manifested in cases where from the magnitude or other conditions of the enterprise the public is deprived of the important safeguard of unrestricted competition, and in many cases, as Your Lordship is aware, where it has been considered inexpedient or impracticable for the State to foster or enter itself upon competition, the Legislature has deemed it necessary to step in and impose conditions and restrictions for the protection of the public interests.

It is only by public expediency and advantage that the question whether a service should or should not be undertaken or assisted by the State can be finally decided, and any rules or formulae which may be adopted at one time as a general expression of opinion as to the limits within which the action of the State should be confined may be wholly insufficient and inapplicable at another.

That the action of the Postal Department, to which you specially refer, has been limited by any such rule as you allege appears to be a complete misapprehension; for many years in the matters of life assurance and annuities, banking, carriage and distribution of parcels, &c., the Postal Department has been in active competition with private enterprise. In the case of inland telegraphs and of cable communication with the Continent of

Europe, it has entirely superseded the private companies. Closely analogous to the action of the State in the cases referred to is the action taken by municipal authorities with the authority of the Legislature in competing with or superseding private companies for the supply of electric light, gas, water, tramways, and other public services.

These instances may be sufficient to show that there is no such general or final rule as you suppose. Your Lordship's main case, however, appears to rest upon what you describe as "the absolute inadequacy of the grounds upon which this serious interference with private enterprise is based." I am to point out that you do not attempt to show in what way the project is an interference with private enterprise.

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But though the establishment of the proposed cable will have the effect of bringing Canada and Australasia nearer together, it is primarily as supplying a link in a telegraphic system connecting this country with its possessions in Australasia that the project must be judged, and as providing an alternative route wholly under British control to those possessions, and also, in case of emergency, to the East.

It is primarily because they consider the possession of such an alternative route desirable that Her Majesty's Government have decided to support the project, and though it is the case that another route *via* the Cape would offer greater advantages from a purely strategic point of view, the Colonies interested decline to lend any support to a cable by that route, and in a matter in which they are so vitally interested and in which their co-operation is desired, it is the duty of Her Majesty's Government to respect Colonial feeling, the more so as it is the first time in the history of the Empire that two great Colonial groups have approached Her Majesty's Government with a view to a joint undertaking for the furtherance of commercial, political, and social relations.

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You allege that the British Government has never granted subsidies for the purpose of reducing rates, and that in this instance, especially, it would be unfair to do so. In the paragraph immediately preceding, however, you mention the fact that subsidies for that purpose had been granted by the Australasian Governments, and a reduction of rates was made a condition of the subsidies secured to the Eastern and South African Telegraph Company in respect of the lines down the east coast of Africa by the agreements of 9th and 10th July, 1895, between that Company and Her Majesty's Government. Apparently your objection is not to the grant of a subsidy with the object of reducing rates, but to its being granted to aid a project which may to some extent compete with the system of the Eastern Extension Telegraph Company.

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In regard to the concluding portion of your letter, in which you appear to urge that the decision of Her Majesty's Government to support the Pacific Cable scheme will give rise to a claim for compensation on the part of the Company which you represent, Mr. Chamberlain is unable to see on what grounds such a claim can be based. He has already shown that where the performance of a public service is in question there is no such general principle of non-competition by the State with private enterprise as you allege, and in the present instance the primary object is not competition, but the establishment of a new service required in the public interest, traversing a route which is practically not served at present.

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The service which Her Majesty's Government and the Colonies desire is one which neither the Eastern Telegraph Company nor any other private enterprise is prepared to undertake on terms which can be considered in comparison with the terms upon which it can be provided by the associated Governments. It is a public service as much as the carriage of parcels, the provision of life assurance, the building of light railways or of ships of war, and Her Majesty's Government cannot find any reason why in the one case a private enterprise with which the Government work may compete should be considered entitled to compensation and not in the others.

I am to remind you, moreover, that by the time the existing subsidies to the Eastern Extension Company expire it will have received in direct payments from the Governments of Australasia a sum of nearly one million sterling, which must be sufficient to have covered a large part of the capital outlay incurred in opening communication with that country, so that it can have little cause for complaint if it is now exposed to competition.

If the competition arose from another private company, there would obviously be no claim for compensation, and Mr. Chamberlain is unable to see why, so long as the project is conducted on commercial principles, fair competition by the State should give rise to a claim for compensation, which would not be suggested for a moment if the competitor were a private person or company, however wealthy or influential.

The Chairman of the two Companies replied to the above on the 19th July, which was practically a repetition of the arguments previously advanced. The following paragraph, however, foreshadows the later proposals of the Companies:—

Your Lordship, however, appears to be labouring under a misapprehension in stating that "the Colonies interested decline to lend any support to a cable by the Cape route," as some of the Australasian colonies have already indicated preference for that route, and others would, I believe, be willing to support it if coupled with a reduction of rates. The Companies have already intimated their willingness to make such a reduction on fair terms, even before the expiration of the subsisting tariff agreement. It appears, therefore, premature, at least, for Her Majesty's Government to favour the less advantageous route on the assumption that a Cape cable would receive no support from the Australasian colonies; but, in order to meet this difficulty, the Companies are now prepared to provide cable communication between the Cape and Australia without requiring any pecuniary assistance from either the Colonies or Her Majesty's Government; and, as you are aware, proposals by the Companies for laying an additional cable between this country and the Cape have been for more than two years under the consideration of Her Majesty's Government.

In estimating the cost of the Pacific scheme Her Majesty's Government must, I respectfully submit, take into consideration the fact that if that scheme is carried out claims for compensation will undoubtedly be made both on behalf of the South Australian Government and of the Companies. The ground on which the Companies' claim will be based is precisely that which was acknowledged by Her Majesty's Government in the case of the acquisition of the Inland Telegraphs and Channel Cables above referred to.

I am glad to observe in paragraph 19 of Your Lordship's letter that the duty of the Government is recognized to avoid unnecessary injury to the interests of the shareholders of the telegraph companies by the working of the Pacific Cable, should it ever be laid. A first element of such duty would be to secure to the Companies the power of equal competition for the European-Australasian traffic, and this would necessarily comprise the right to collect and deliver their international messages in Australasia in the same manner as prevails in this country, otherwise the Companies would be entirely dependent upon the offices of their competitors for the collection and delivery of their international traffic in Australasia.

Referring to the above, the Colonial Office, in a letter dated 15th August, 1899, said—

As regards the offers now made on behalf of the Companies to construct a cable to connect the Cape with Australia, and at the same time to reduce the tariff to 4s. per word, you do not say whether any terms and conditions are attached to this offer, and Mr. Chamberlain will be glad to have full particulars, which he will be happy to communicate to the Colonies concerned. He is unable at this stage to say what view the Colonies may take of it. He observes that the Companies are now prepared to do for nothing what two years ago they asked a

subsidy of £32,400 a year for from the Colonies, in addition to £5,000 a year from Her Majesty's Government (£25,000 having been asked for as a subsidy towards an all-British cable to the Cape and Australia, as compared with the subsequent offer to accept £20,000 for the line to the Cape only), and are further prepared to give at once a substantial reduction of rates.

It may fairly be inferred, therefore, that the business of the Companies is such as to enable them to utilise an additional cable, and to this extent, therefore, it justifies the hope that the anticipated increase of business, coupled with the development of practically new business between America and Australasia, will give sufficient employment to the Pacific cable without trenching on the traffic now carried by the Companies, and shows that the claim of the Colonies for a reduction of rates was fully warranted.

In regard to the claim in paragraph 16 of your letter that the Companies should have the right to collect and deliver their international messages in Australasia in the same manner as prevails in this country, I am to observe that the Australasian Colonies are parties to the International Telegraph Convention, and are therefore bound to send any telegrams marked to go by the Companies' route by that route. Whether they will go further and allow the establishment of special collecting agencies for the Companies within their own limits is a matter in which, of course, the decision must rest with them, and it is not possible for Mr. Chamberlain to give any undertaking on their behalf.

In conclusion, I am to call attention to an instance in which your Lordship has apparently misunderstood the language of the letter from this department of the 10th ultimo. In paragraph 16 you ask, "How, moreover, could the Companies then form and maintain a reserve fund necessary for the maintenance and renewal of their lines, or for the necessary extensions required by commerce, which reserve fund, however, the last paragraph of your Lordship's letter, in disregard to telegraph experience, appears to consider superfluous, and, at all events, which the Government seems to ignore?"

The propriety of a sufficient reserve fund was certainly not called in question; it was only pointed out that the opening of an alternative route would to some extent relieve the Companies of the necessity of making as large drafts on revenue as at present for purposes of capital expenditure or reserve.

What these amount to at present Your Lordship is no doubt fully aware, and I need only say that in the twenty-six years of its existence the Eastern Extension Company has, besides accumulating reserves amounting to more than a million sterling, expended out of revenue on new cables and extensions sums which, in 1894, had amounted (page 138, C. 7553) to £1,100,685, and probably now amount to at least a million and a-half.

Its paid-up capital is two and a-half millions, of which £470,000 is due to "watering," and on this watered capital it has for many years paid a dividend of 7 per cent, which, but for the "watering" referred to, would have been approximately 9 per cent, and, while so doing, and maintaining its lines in a high state of efficiency, has created out of revenue new works or extensions and reserves at least equal to the amount of its paid-up capital. Mr. Chamberlain presumes that the affairs of the Eastern Company have been managed with equal prudence, and that, like the younger Company, it has by this time at least doubled out of revenue the capital value of its estate.

Taking into consideration the relief which will be afforded to the Companies by the Pacific cable in this respect, and the fact that by the time it can be in operation the traffic may be expected to have increased by one-third, according to your Lordship's account of past experience given to the Committee (questions 1850-3), and that the Companies have already found it to their interest to offer voluntarily so large a reduction of rates, and so expensive an extension of their system without cost to the public, the conclusion of Her Majesty's Government that there will be ample remunerative work for the Companies' cables, as well as the Pacific cable, appears abundantly justified.

As regards any claim for compensation that the Companies may be disposed to put forward, Her Majesty's Government cannot admit that the case of the acquisition by the Government of the Channel cables in 1870 and 1889 affords any ground for the contention that compensation would be due to the Eastern Telegraph Company and its allies in the event of a reduction of their profits resulting from the laying of a Pacific, or any other competing cable. No guarantee against competition in the Australian traffic by the State or otherwise has ever been given to the Eastern or any other Telegraph Company, and it would be practically impossible now to lay any new cable, however urgently it might be needed on strategic as well as commercial grounds, without in some degree affecting the receipts from existing cables. The same might be said of most railways or steamship lines which Parliament has aided by the grant of special powers, mail subsidies, and in other ways, but in all these cases Parliament has, rightly, held that the public interest must be the first consideration, and that no compensation should be given in cases where competitive undertakings were authorised, except when such competition involved a breach of public faith.

On 28th September, 1899, the Chairman of the Cable Companies wrote:—

The proposal recently submitted to the Australasian Colonies by the Companies, for extending the Cape Cable to Australia, not only provides for an immediate reduction of tariff to 4s. per word, but involves the application to the Australasian traffic of the same sliding scale principle as adopted for the Cape traffic, by means of which the tariff might, without any sacrifice on the part of the Australasian Colonies, be further reduced in 1901 to 3s. 6d. per word, to 3s. in 1902, and to 2s. 6d. in 1903, provided the traffic satisfactorily responds to the proposed reductions.

With regard to the conditions attached to the proposal, the Companies have only asked for the same freedom in collecting and delivering their international telegrams at Perth, Adelaide, and Melbourne as they enjoy in this country, at the Cape, and at Natal. They are, of course, aware that the Australasian Colonies are parties to the International Telegraph Convention, and are, therefore, bound to send any telegrams marked to go by the Company's route, by that route.

But, looking to the general conditions attendant on the despatch of telegrams by the public, and to the fact that before messages could reach the Companies' cable termini at Port Darwin and Roebuck Bay, they would have to pass over at least 2,000 miles of Australian Government landlines, which might not be efficiently maintained when the Governments are in competition with the Companies, it is obvious that it would be impossible for the Companies to carry on their business on equal terms with their competitors in Australia, unless they have the right to establish direct dealings with the public.

The condition was limited to the capitals above enumerated in order to simplify and facilitate the proposed arrangement, but in justice to the Companies it ought to be extended to all the other Australasian capitals; and although Your Lordship states that the decision to grant the concession must rest with the Colonies themselves, it appears to me that, as Her Majesty's Government are actively assisting to bring about this competition, they should use their influence with the Australasian Governments to induce them to give an undertaking that the Companies shall receive equal treatment throughout Australasia, before finally agreeing with those Governments the details of the Pacific scheme. I therefore earnestly hope that Mr. Secretary Chamberlain will secure for the Companies this necessary measure of justice, otherwise the references made by Her Majesty's Ministers, when receiving the Companies' deputation, and in Your Lordship's letter, as to the Government's duty to avoid unnecessarily injuring the interests of the shareholders, will be utterly meaningless.

This was acknowledged by the Colonial Office on 5th October, 1899, in which it was stated that copies of their letter of 28th September and previous correspondence had been sent to the Governments of the Australasian Colonies.