

ton and Panama for five years, beginning from the 1st January, 1865; and that certain alterations in the existing services have been agreed upon to take effect from the same date, in the following manner.

All services now performed by the Company are to cease from the commencement of the new agreement, except those provided for in the original contract of May, 1858, the provisions of which are to continue in force until 31st December, 1869.

The Contract of May, 1858, which came into operation in November of the same year, provides for one Inter-Colonial, and one Inter-Provincial service, to continue for ten years at a subsidy now reduced to £22,000 a year. The Inter-Colonial service so provided will be maintained under the new Contract, so as to complete the communication between Australia and Panama, by way of New Zealand. The monthly Inter-Provincial service provided by the original contract will be supplemented by two other similar services to run according to routes and dates hereafter to be settled.

The subsidy agreed to be paid for the whole service between Panama, Wellington, and Sydney is at the rate of £76,000 a year, of which amount £13,000 already represents the cost of the Inter-Colonial part of the service. The subsidy agreed to be paid for the three Inter-Provincial services, is at the rate of £15,000 a year, for a distance of 5,000 miles per month; of this amount £9,000 already represents the cost of one service. Excess of distance, if performed, is to be paid at a fixed rate of 5s. per mile.

The cost, therefore, of the new services, embracing the New Zealand and Panama monthly line and two monthly Provincial services, is at the rate of £69,000 a year.

The ground upon which I have deemed myself justified in entering into the present contract on the part of the Colony is that a very great advantage is thereby secured at inconsiderable cost. Comparing the expenditure thus undertaken with that at present imposed upon the Colony in the maintenance of its mail steam services, and assuming that the opening of the communication with Great Britain by way of Panama will render unnecessary any contribution of consequence to the main line via Suez, or its branches, the result is, I venture to submit, peculiarly satisfactory, as shewn by the following statement:—

*Existing Mail Steam Services.*

Contribution to Suez Line, about	...	...	...	...	£18,000
Melbourne and Otago Services	...	...	...	...	12,000
Second Inter-Colonial	...	...	...	...	7,000
Two Inter-Provincial	...	...	...	...	15,000

£52,000

*Proposed Services.*

Panama and New Zealand Services,	...	...	...	...	£63,000
Three Inter-Provincial,	...	...	...	...	15,000

£78,000

The apparent difference of £16,000 between the above totals is to be reduced by the amount of the Ocean Postage receivable in this Country on Mails forwarded by way of Panama, which by arrangement with H.M.'s Government is to be accounted for to the Colony. After allowing for certain expenses in the transit of the Isthmus of Panama, I am unable to estimate the net yearly revenue to arise from this service, even at the present low postage rates, at less than £10,000. It follows, therefore, that leaving a margin for expenses, arising from the possible conveyance of some correspondence by way of Suez and from other causes, the adoption of the Panama route will not be a real expense to New Zealand of above £10,000 a year, even if the whole subsidy should be defrayed by the Colony alone.

It has not, however, been overlooked that whether by the present or by the proposed route, the cost of Postal subsidies must be a heavy burden on the Colony, and should, if possible, be shared by others. With this view, I have deemed it prudent as well as just to make provision from the first, so far as possible, for the equal accommodation of the Colony of New South Wales, which proffered its assistance from the earliest stages of the negotiations; and I have no doubt that the expense of the undertaking will be shared in the same spirit in which a share of its advantages is offered.

The other conditions of the new Contract are principally the following: The voyage each way between Wellington and Panama is to be completed in thirty clear days under a penalty of £100 a day for delay, and with a bonus at the same rate for short time. Accommodation is to be given on board for a Clerk and Sorter of the Post-Office, and a sorting room is to be provided free of charge.

The Boats are to be of not less than 1,250 tons, builders measurement, and 250 horse-power.

Three are to be ready at the beginning, and a fourth within nine months afterwards.

The Contractors undertake to accept no subsidy from any other Government, or to carry any Mails but those which may be put on board by proper authority. They also enter into a bond for the due performance of the Contract.

With regard to the time fixed for the commencement of the service, I am aware that so long a delay may be deemed objectionable; but it seemed highly inexpedient to commence the service with inferior boats, and, therefore, ample time has been given for the construction of vessels specially adapted to the work. Further, I observe that new Contracts for Inter-Colonial services have been or are about to be entered into to last during the year 1864, which will probably cost a