

Enclosure in No. 36.

Steam Postal Communication via Panama.

HAVING carefully perused the various documents connected with the establishment and carrying out of the Panama Mail Service up to the present time, I now beg to submit the following report thereon for the information of the Hon. the Treasurer.

2. In conducting my examination of these papers, I have been particularly careful to note any information having a possible bearing upon the existing state of the account for this service as between the Governments of New Zealand and New South Wales, the more especially as the recent communications between this Government and the Agent of the Panama Mail Company show that some misapprehension exists as to the final and equitable settlement of the liabilities incurred by this Colony for the services performed in connection with the contract.

3. No direct contract ever existed between the New South Wales Government and the Panama Company, and consequently all payments on account of the Mail Service have been made to the Government of New Zealand, who, being the sole contracting party with the Company, are alone in a position to adjudicate upon their claims. The arrangement this Government made with that of New Zealand in respect of the Mail Service *via* Panama was of itself a separate and distinct contract as between the two Colonies, the terms of which were embodied in Articles of Agreement signed by their respective Governors, and dated 9th October, 1867.

4. I find that during the first few months of the contract the New Zealand Government paid the whole of the subsidies to the Panama Company, and were afterwards reimbursed for the New South Wales portion of the same by bills of exchange for the sums claimed by them as per their account dated 17th December, 1866.

5. In Mr. Stafford's letter of same date, he states that the sum of £32,033 6s. 8d., as shown in the account referred to, had been paid to the Company in liquidation of all claims for mail services up to the 23rd November, 1866, and that consequently the half of that sum, viz. £16,016 13s. 4d., was payable by New South Wales. This amount was remitted to New Zealand, as already stated, by bills of exchange for the following sums:—

19th December, 1866	...	...	...	...	£13,750	0	0
25th January, 1867	...	...	...	...	2,266	13	4

All subsequent payments by this Government on account of the contract were made in Sydney to the Union Bank, which holds Mr. Stafford's authority to give receipts on account of his Government. These payments have been made monthly, the first being in January, 1867, for the month ending 23rd December, 1866, and the last in January, 1869, for the month ending 23rd December, 1868.

6. The following is a statement of all payments made by this Colony on account of the Panama Mail Service, with the exception of the payment of £2,291 13s. 4d., made on the 11th instant in consideration of the arrival of a mail from Panama this month, viz.:—

Remittances to New Zealand—

19th December, 1866	...	...	...	...	£13,750	0	0
25th January, 1867	...	...	...	...	2,266	13	4

£16,016 13 4

Total amount of Monthly Subsidies paid into the Union Bank, including the refund of a fine of £25, between 24th November, 1866, and 23rd December, 1868

114,608 6 8

In all ... £130,625 0 0

which is exactly the amount of twenty-eight and a half months' subsidies.

7. If however the first monthly subsidy was due on the 23rd July, 1866, as reported by Mr. Stafford in his letter of the 17th December, 1866, to be so, the number of monthly subsidies due by this Colony up to the 23rd December last would be thirty, which at £4,583 6s. 8d. each, is equal to £137,500. From this sum has to be deducted, as a moiety of one month's subsidy, in consequence of an alteration in the Time Table in 1866, viz., £2,291 13s. 4d. Leaving the amount which apparently should have been paid £135,208 6s. 8d., thereby showing that for services rendered by the Company up to the 23rd December last there appears to be still due a sum of £4,583 6s. 8d., or one month's subsidy.

8. As this error, if error it really be, has occurred in the account rendered by the Government of New Zealand in 1866, it will be necessary, before any further payments are made, to request that Government to furnish a complete statement of the account from the commencement to the termination of the service.

9. In asking the Government of New Zealand for a statement of this nature, it might be advisable to draw their attention to the sixth paragraph of Dr. Featherston's memorandum or letter of 10th March, 1865, to the Colonial Secretary of this Colony, which memorandum or letter, with Mr. Cowper's letter of 22nd April of same year to Dr. Featherston, were to be considered as together constituting the agreement between the Government of New Zealand and New South Wales, wherein he speaks of the probability of the annual subsidy being reduced from £110,000 to £90,000 in consequence of the Imperial Government having agreed not merely to convey the mails from Southampton to Colon free of charge, but also to credit New Zealand with the sea postage of all letters forwarded by the Panama route. As will be seen from the paragraph referred to, Dr. Featherston meant to convey that a moiety of this reduction would be credited to this Colony.

10. Referring to Mr. Hall's letter of 28th January last to the Postmaster-General of this Colony, it will be observed that doubts are expressed by that gentleman as to the power of New Zealand to enforce the penalty of £6,000 specified in clause 28 of the contract, in consequence of said contract (which was sent to London for the purpose) not having, according to latest advices, been executed by the Company. Mr. Hall, however, states that the Company are undoubtedly liable to a penalty of £1,312 10s. for the non-despatch of a vessel to Panama during the month of January last, and to a