

terms of the resolution of the House of Representatives, it very nearly does so. To have insisted upon the terms of that resolution, in the chance which had presented itself of a partnership arrangement, would have placed the Government in a very much worse position for negotiating; and I submit that the House cannot fairly complain of the departure from the terms of its resolution, since the contract as drawn contains a stipulation that it shall be of no effect unless ratified by the Victorian Legislative Assembly and the New Zealand House of Representatives. I desire to explain that, the question having arisen whether the required ratification should be of the two Houses in each Colony or only of one, it was agreed to follow the precedent supplied by the contract of the Imperial Government with the P. and O. Company, in which it is provided only that the approval of the House of Commons shall be obtained.

The provision by which such a vessel as the "City of Adelaide" or the "Albion" is to be allowed to be temporarily used, was inserted in consideration of Mr. Webb's proposal to build a boat comprising all the most recent improvements; and we were of opinion that, should he do so, a result would be secured for which it would be well worth while to submit to three or four voyages being made by an inferior, although good, vessel.

A very few days remained after an agreement as to terms had been come to, before it was necessary for Mr. Webb to leave Melbourne on his way to the United States; and it was with very great difficulty that the contract was prepared and signed before that gentleman left.

It was necessary that I should remain a considerable time subsequently, in order to complete and exchange the correspondence with the Victorian Government, as well as to settle a time table, and to decide what steps should be taken to enlist the co-operation of the Imperial Government.

A duplicate of the joint contract, and a copy of the correspondence, are forwarded to you herewith. No. 27.
Also, No. 14 to
No. 26.

I believe that Mr. Webb is very well satisfied with the arrangement; and he has assured me that if he obtains, as he expects to do, a subsidy from the United States, he will replace the "Nevada," "Nebraska," and "Dacota," by new boats, in the construction of which he will introduce all modern improvements for securing comfort and speed.

I have left with the Victorian Government authority on the part of New Zealand to negotiate, in our joint interest, with the other Colonies for subsidies. No. 23.

It became necessary, after concluding an arrangement with Victoria, that an end should be put to the agreement between Mr. Webb and the A.S.N. Company, as far as related to the Victorian branch of the local service which that Company had undertaken to perform. It had been arranged that the contract between Victoria and New Zealand and Mr. Webb should not come into operation for six months: that being the period of notice required to be given under the agreement between Mr. Webb and the Company.

Mr. Webb intended, while at Sydney—on his way from Melbourne to Auckland and San Francisco—to have arranged with the Company for omitting the Melbourne and Auckland service from the agreement; but he found that he could stay but a few hours in Sydney, and he telegraphed to me that he was unable to come to any decision with the Company. He also begged that I would endeavour to aid his solicitor in completing the arrangement. In addition, I received an urgent telegram from Mr. Roxburgh—of Messrs. Roxburgh, Slade, and Spain, who for some time had acted as our solicitors as well as the solicitors for Mr. Webb—asking me to come to Sydney. Feeling the desirability of arrangements being made by which New South Wales and Queensland would be included in the service, I resolved that, instead of returning to New Zealand *via* the Southern Ports, I had better again visit Sydney, and return thence *via* Auckland. I came to this decision reluctantly, and not until I had consulted with Mr. Duffy, who, agreeing with me as to the great importance of placing ourselves in a position to negotiate with New South Wales and Queensland, was anxious that I should comply with Mr. Roxburgh's request. In Sydney, I had very great difficulty in dealing with the Company; and it was only at the very last moment before the departure of the mail that an agreement was assented to by the Company and forwarded to Mr. Webb for his approval. That agreement contains provisions to which I believe Mr. Webb will very much object; and it is possible he may refuse to sign it. Those provisions affect, not the New Zealand Government, but Mr. Webb.

The agreement, as sent to Mr. Webb, will enable Victoria and New Zealand to arrange with New South Wales and Queensland, for direct connection with the San Francisco Line, by boats running between Sydney and Auckland and Brisbane and Auckland. I believe that there is in Sydney a very strong feeling that the Californian service should be, in part, performed by the fine fleet of boats owned by the A.S.N. Company; and I see no reason why that laudable feeling should not be gratified. The arrangement between Mr. Webb and the Company will enable an agreement for a subsidy to be made with the New South Wales Government, whenever that Government are prepared to deal with the question. When I returned to Sydney, I found that the complications to which I have referred as existing during my first visit, had not ended. The general election had just been concluded; but Sir James Martin's tenure of office was uncertain, the Parliament not having met. I believe that in the course of two or three months, negotiations with New South Wales may be resumed, with a fair probability of a successful issue.

With respect to Queensland, I am strongly of opinion that the advantage to New Zealand of direct communication with such a Colony, owing to the trade which would result, would be so great, that it would be wise for New Zealand to contribute, for a year or two, in reduction of

E.—No. 5.—No. 2
and Enclosure.