

2. You will see from all that has passed that in making the present contract I have done the only practicable thing under the circumstances consistent with my instructions. The late Government of New South Wales would not consent to a service *viâ* Auckland, the present Government of that colony are in favour of a service *viâ* Auckland, but on the condition of extra payment by New Zealand for her coast services. Both Governments objected to the New Zealand Coast Service. My instructions did not permit of my entertaining a service *viâ* Auckland. If we had not succeeded in getting tenders for the service by Route B within the limit of the Russell-Samuel Agreement, it is quite evident we should have lost the assistance of New South Wales towards the service, or been compelled to pay more than one-half of the subsidy.

I have made the present contract, therefore, because it is in accordance with the instructions of your Government, and under it we secure the assistance of New South Wales to the maintenance of the service. The contractors are prepared to make modifications in it which are manifestly to the advantage of the colonies and the contractors; those modifications are—(1), if the service by Route B is maintained, then to alter the port of junction from Kandavau to the Bay of Islands, reasons in favour of which I will submit presently, and if the course is adopted they will make a deduction from the subsidy; or (2), they will abandon the Route B for Route C, described in the printed conditions, and will do the service by Route C, including the New Zealand Coast Service, for £75,000 per annum.

3. Since April 1873, my attention has been closely given to the questions connected with this San Francisco Service, and having been several times over the route, and knowing all the ports of call, I can speak with a good knowledge of the subject. I submit my views as to the alterations required to make the service effective.

4. Calling at Fiji is a mistake. I always opposed it, but it was forced on us originally by Mr. Hall's contract with the New South Wales Government, which we were obliged to adopt, and afterwards by the same Government in the Russell-Samuel agreement: they would not, as the agreement states, co-operate on any other terms. Assuming that New Zealand will insist on having her share of the main boats on the coast, and making Port Chalmers the terminus as at present arranged, then some point of junction other than Kandavau should be chosen. The objections to Kandavau are—

(a.) That the entrance to it is bad; the covered rock on which the "Macgregor" struck, being in the centre of the channel, renders it at all times a place of danger to enter and leave.

(b.) The necessity for going to or near the Fiji group makes the course of the voyage from thence to Honolulu necessarily through a more dangerous part of the Pacific Ocean, and more directly against the prevailing trade winds, than if the ships shaped a course for Honolulu more to the eastward of Fiji. The Webb boats always took a more easterly direction, and a vessel bound to Honolulu from Sydney or New Zealand would make her course much to the eastward of Fiji. The passage *viâ* Fiji can never be otherwise than dangerous, because of the numerous islands and reefs studding the ocean to the northward and north-eastward of the group through which the course lies, and because of the tendency of strong currents, setting alternatively eastward and westward, to run the vessel out of the proper direction and into danger: witness the accidents to the "Tartar" on both voyages."

The short approach to Kandavau from the north, and exit from it, is through the Nanuku Passage; the land at the entrance of the passage is low, a few feet only above sea level, and it can only be made and passed with safety in daylight; while the whole distance from the passage to Kandavau, through the Goro Sea, also requires more than ordinary care in navigation, because of the numerous rocks and reefs around. Again, the distance from the Nanuku Passage to Kandavau is too short to run in in the daylight left, after entering the passage from the north, and as Kandavau cannot be entered with safety at night, mail steamers approaching Kandavau after dark must remain off the port until daylight the next morning, and thus time is lost.

The same difficulty occurs in leaving Kandavau by the Nanuku Passage; it must be cleared also in daylight with the same loss of time. This difficulty, however, may be avoided by making Kandavau from the eastward or westward of the group, and leaving it in the same way, but this means a detour and increased steaming distance.

This objection to the danger of the route *viâ* Fiji is really a great one. A number of accidents have already happened to the ships employed in the former service; some of them, no doubt, incidental to the opening of any new route, but some are undoubtedly due to the dangerous sea through which the vessel is required to go. It is important that the idea of extra danger should not attach to this service, as such an idea would be fatal to a large passenger trade.

(c.) Shortly after the accidents to the "Macgregor" and "Tartar" became known in England, the insurance companies increased the rate of premiums payable upon the mail steamers employed, because of the special danger of the route; and this was one of the reasons urged by Mr. Forbes why the two Governments should increase the subsidy.

(d.) The distance between Kandavau and the two colonies is a drawback to it as a port of junction: it makes the difficulty of connecting greater and more uncertain; the risk of delay is thereby very much increased. The want of telegraph communication is a serious evil; by the aid of the telegraph to the port of junction many contingencies might be provided for.

(e.) The use of Kandavau is urged because of the benefit the two colonies may derive from commercial relations with the Fiji group, but this service *viâ* Kandavau does not afford the colonies that communication which is essential to the benefit sought to be obtained. Kandavau is isolated, ninety miles from the centre of business and activity in Fiji, and it is not likely to be anything more than a mere point for junction; it is not a place for trade, and does not seem likely to be so. To benefit by connection with Fiji something more is required than a monthly line of such large steamers to Kandavau, or indeed to any part of Fiji. The connection should be maintained by much smaller vessels to Levuka, and by more frequent communication than that afforded by the monthly mail boat to Kandavau.

These appear to be fair considerations against the use of Kandavau as a port of junction, and against a passage *viâ* Fiji, and they point to the choice of a port more to the eastward, if such a place is available. New Caledonia and other western ports are open to great objection for many of the reasons before urged against any port in Fiji. The Samoan group offers an excellent harbour (Pango Pango),