does not mean to continue a stream of immigration large enough to guarantee 200 steerage passengers, I ought to guard you from expecting that intending contractors would go into a direct service under any supposition that paying steerage passengers would come up to that number. I have examined the latest results in several of the best established ocean-going steamer enterprises, and they certainly are not very encouraging. The British India Company, it is true, divides 12 per cent.; the Peninsular and Oriental Company, 9 per cent.; the Union Company (Cape), 10 per cent.; the Castle Company (Cape), 7½ per cent.; the Royal Mail Company, 8⅓ per cent.; the Pacific Company, 8⅓ per cent.; the National Company, 8 per cent. preference and 4 per cent. ordinary; but the General Steam Navigation Company only divides 5 per cent.; the Orient Company has divided 5 per cent., after setting apart a reserve of 6 per cent. on the cost of their fleet; the Pacific Company, which made a gross profit of £318,000, carried £198,000 to reserve, and did not divide more than £118,000; while the Cunard Company, though earning a gross revenue of more than a million, brought up their reserves to nearly £300,000, and were content to divide only 3 per cent. The plan I should think the best would be to make the subsidy depend on the profits; but any such proposal would require very skilful management, and I am quite sure there is no chance of any offers of that kind being made first to you. The risks of starting an entirely new enterprise are so great, that they will not be run by really responsible people without the assurance of adequate profit: and, although I have expressed the opinion that the money might be forthcoming on the conditions I named if a dividend of 7½ per cent. were thereby assured, I must guard you against any confident expectation of my turning out to be right, for everything depends not only on the skill and experience, but on the financial power, of those who might be disposed to entertain the scheme. It would be far better not to start a service at all, than to start one unless those who took it up were strong enough to carry it through; and among these I know of some who would certainly not engage in it unless they felt assured of a dividend of 10 per cent.

In order to test the difference in comparing work done with subsidy between a boat of 4,000 tons, such as was designed in 1878, and one of the class described by me, I took the estimates of 1878 and recast them as they would appear if they had been made for a monthly service, counting passengers and freight on the same scale, relative to capacity, as I had assumed for my mercantile steamer. The figures were recomputed on the following basis:—

1. The service was supposed to be one of twelve voyages in the year.
2. The passengers were taken at fifty saloon, forty second-cabin, and 200 steerage; the space saved by reducing the steerage passengers to 200 being added to the cargo space.
3. The rates of cabin passage-money were taken at £70 in the saloon and £35 in the second cabin.
4. The amount of fine goods paying high freight on the outward voyage was taken at 1,000 tons, being as much as I had allowed in the larger mercantile steamer, and leaving only about 750 tons supposed to pay a 20s. rate.
5. The homeward voyages were supposed to be six with wool and six with wheat.
6. The ships were supposed not to cost more than £5,000 above the estimate of 1878, so that the capital wanted should not exceed £600,000.

Every condition in the comparison was therefore favourable to the 4,000-ton boat. But, upon making the same computation as was done for the mercantile steamer in order to bring out the results of the year's work, I found that, while earnings could not be put higher than £201,000, working cost could not be safely taken at less than £222,000; so that there was an initial deficiency of £21,000 without allowing anything for boiler fund, management, or interest on capital. Taking boiler fund at 10 per cent., management at £10,000, and debenture-interest (on £200,000) at £10,000, £80,000 more had to be added to this initial deficiency; and then, assuming shareholders to be satisfied with a dividend of 7½ per cent. on £400,000, that item would require another £30,000; so that the total subsidy was brought up to £131,000. Against this, however, the steamer of 1878 being supposed to have a speed of 12¼ knots, and give a postal time of forty-one days, the postages could be set, whereas in the mercantile steamer they of course could not.

The trade relation, therefore, between subsidy and work done, comparing the steamer of 1878 with the mercantile steamer described by me, may be roughly expressed in this way:—

1. For a subsidy of £10,000 the mercantile steamer would take out 52,000 tons of cargo, and bring home 31,000 tons (measurement) of wool, and 28,000 tons (weight) of wheat.
2. For a subsidy of £122,000, less the postages, the steamer of 1878 running monthly would take out 22,000 tons of cargo, and bring home 15,000 tons (measurement) of wool, and 13,000 tons of wheat.

As to the class of the ships, and the ports they must enter, it is needless to point out that the unfavourable trade-proportion between subsidy and work, to which I have just referred, would be increased if the steamers were reduced below the 4,000 tons, which the Committee of last session fixed as the minimum. I should not be at all surprised if I were blamed for even thinking of ships of such a size as I described in the printed despatch. But the task I had set myself was to find out what class of ship would do most work for the whole colony in proportion to the subsidy which the whole colony would have to pay. It was almost too favourable an estimate for the ship designed in 1878 to put her sea-going speed at 12¼ knots, and she would not have been equal in many things to the steamers now designed by Mr. Denny; while in the light of the present day she must be judged altogether too small for such a service. The greatly-increased size in the postal steamer I described was due to considerably higher speed, and much greater carrying capacity both for weight and measurement; two features which the ship-owning experience between 1878 and now has clearly shown to be necessary.

With regard to ports, the Committee of last session had laid it down that the ships must be at least 4,000 tons, have a sea-going speed of 12½ knots, and be of a draft enabling them to enter "the chief ports." This expression is rather vague: was it meant to include Port Chalmers? Because I cannot see how a first class 12½-knot ocean-going steamer of 4,000 tons can be built to go over the bar; and if going into Port Chalmers is to be a condition it must be the governing factor in any designs, and must have a considerable effect on the proportion of subsidy to work. The