

Enclosure.

The POSTMASTER-GENERAL, New Zealand, to the POSTMASTER-GENERAL, Victoria.

SIR,—

Wellington, 20th January, 1887.

Through our Agent-General I have received a printed copy of the telegrams, &c., relating to the late dispute about rates on the Australian-New Zealand cable, drawn up by the Eastern Extension Company. They show the way in which the various agents of the company managed to work up the agitation, and reveal, to my mind, the dangerous power which access to and freedom of the cable lines may give.

Amongst the telegrams, the following is a copy of one on the 29th October. After stating that a conference of Postmasters-General was to be held in Melbourne, it proceeds: "Derham promises to bring the New Zealand cable subsidy under discussion. He regrets Vogel being so unreasonable, and admits that company have tried every means to deal liberally with him."

I feel very doubtful whether anything you said justified the statement made in the above telegram; but, in any case, I think it only right to place you in possession of information of the whole subject, when I hope you will see reason to form a different opinion. It might have been better, perhaps, that, from the beginning, I should have put you in possession of all that was passing, but it did not occur to me that you would take any more than an indirect interest in the subject, and I thought that New South Wales would sufficiently inform you of what was going on.

As briefly as I can relate it the position is as follows: Before the lapse of the subsidy which New South Wales and New Zealand were paying the Eastern Extension Company, the Government asked authority from the House of Representatives to continue it for a further period on the condition of certain tariff reductions. With a considerable amount of reluctance the House gave the authority with limit of time to five years, and conditional on certain specified reductions. Negotiations ensued between the company and the two Governments, which ended in an ultimatum from the company to me, in which they said that they would not make any reduction for less than a ten-years' subsidy, and that they would raise the rates unless we gave them a five-years' subsidy. I at once closed communication with the company and instructed the Agent-General to ask for tenders for a new cable. The result—which occasioned me a great deal of surprise—was that the new cable could be made and laid for less than £160,000. The Eastern Extension Company then reopened negotiations, with the view of inducing the colony to entertain proposals by which the subsidy given on the European lines might be prolonged, and subsequently a system of guarantee was suggested. These proposals I brought before the Cabinet, and found that they were unacceptable. The company then indicated that they would be willing to accept the terms authorized by the House, which they had previously definitely refused. My Government considered the question very carefully. It was quite clear that the renewal of our previous offer was optional. The company had absolutely refused it, and in the meanwhile inquiry into the subject had shown how cheaply a new line could be constructed, and how large were the returns on the existing line independent of the subsidy.

The Government now came to the conclusion that the advantages proposed to be rendered in return for the subsidy were not of an extent or nature which made it desirable to give the subsidy even for five years. Intimation was given to the company that the Government would be willing to agree not to construct a new line without notice being given if the company adhered to the present rates. The company intimated their determination to raise the rates. The Government of New South Wales and our Government informed the company that they did not consider that they were legally entitled to adopt that course, and that if they did so they would render themselves liable to reprisals. When the rates were raised we adopted the step of imposing a terminal charge—a suggestion which, I may say, came to us from New South Wales, and which I thought the Government of that colony would follow.

The following is the cablegram from the Postmaster-General of New South Wales which contained the suggestion to which I allude: "The Hon. F. B. Suttor to the Hon. the Postmaster-General, Wellington. Sydney, 24th September, 1886.—Company apparently have not considered the consequence of raising the New Zealand tariff as intimated. Governments, under clause eight, can cease to provide company with accommodation at termini if tariff raised; and, under clause thirteen, Governments can charge anything they please for use of land lines if tariff raised. Propose that you and I reply in foregoing terms, expressing hope that, to prevent inconvenience to public and future trouble, their proposal will be withdrawn.—F. B. SUTTOR."

Much to our surprise the various Governments in Australia began by collecting for the company our terminal rates, for which they (the company) were liable. It was not considered desirable that I should intimate to the Governments that we did not expect that they would collect the terminal rates. There was legal reason for not making the intimation. But it really ought to have been evident to the various Governments that we wished nothing of the kind, or that we should have asked for it. The various Governments in a very few days desisted from collecting our terminal rates. The users of the cable on this side suffered no inconvenience. There was no delay of a single message, and we continued to collect the same rates for messages as before, trusting to the terminal charges yielding us sufficient to cover the extra charge made by the company, the company being liable to us for the terminal charges.

There was not, I think, any doubt that we were justified in adopting this course, and we were surprised the other Governments did not adopt a similar one. The Postmaster-General of New South Wales telegraphed to the company on the 30th October: "Consider company acting illegally in raising tariff." He also on the same day telegraphed "cannot see how matter could be determined by arbitration." The agent of the company in Sydney also telegraphed to the Secretary of the company in London on 24th September as follows: "Informed Sydney Postmaster, who regrets publication Chairman's telegram. Contends company no power to raise rates beyond figure in clause eleven. Attorney-General of same opinion, and the Government threaten retaliate under clause