

- (5.) The restriction in the December draft against deviating from the surveyed line is struck out, and, while the line is still to go by Arthur's Pass, the existing surveys are not to be binding:
- (6.) It is assumed that a contract containing the May amendments and the new alterations can be entered into without fresh legislation; but, if any be necessary, then it is to be obtained before the end of 1890.

It is obvious, therefore, that the whole character of the original contract of 1885, as well as of the arrangement between the company and myself last year, is fundamentally changed; and of course such a contract as is now proposed by the company is impossible without an entirely new Act.

I carefully considered whether I should telegraph to you the nature of the new provisions in the August draft; but it seemed to me that the central point in the whole matter was the same as in the May amendments—namely, a demand for a guarantee of the value of the land, which was a condition I did not believe the Government would agree to; and on hearing from you that such a guarantee was declined I informed the company to that effect.

In the meanwhile, however, Mr. Avigdor, one of the contractors for the section now being built, had returned from the colony, and had informed the directors of a scheme which he had submitted to yourself and the Minister for Public Works. I therefore asked the company whether they and their financial friends would be prepared to entertain that scheme in substitution for the May amendments and the new provisions in the August draft. I am in communication with the directors on the matter, and shall soon be able to inform you of the result; but I may say at once that I do not think there is any prospect of their entertaining the scheme, as they have been so long in negotiation with financiers on the basis of the land-value being guaranteed.

I had hoped that on receiving the May amendments you would have been able to send me a telegram intimating the decision of the Government as to guaranteeing the value of the land, because in that case financial negotiations on the basis of the guarantee would have been immediately stopped. It will be much more difficult now for the company to induce their friends to entertain any new proposals. The directors would have sent out a cablegram to their agents saying that, if the August draft was accepted, their finance was arranged, and the Belgrove and Springfield sections would be commenced, but such a message would of course be futile now.

Copies of the correspondence that has passed are annexed.

The Hon. the Colonial Treasurer, Wellington.

I have, &c.,  
F. D. BELL.

#### Enclosure 1 in No. 4.

The SECRETARY, New Zealand Midland Railway Company (Limited), to the AGENT-GENERAL.

The New Zealand Midland Railway Company (Limited),

77, Gracechurch Street, E.C., 19th August, 1887.

DEAR SIR,—

I am instructed by my directors to inform you that they propose to send the following telegram to Mr. Scott, if you see no objection to it. They think you might like to send a similar telegram to the New Zealand Government, so that they should not learn its contents only from Mr. Scott: "If Cabinet approve contract, finance satisfactory, and Springfield and Belgrove lines will proceed."

My directors conclude that you have to a great extent informed the New Zealand Government of the terms of the contract as now sent out.

I have, &c.,

ÆNEAS R. McDONELL,  
Secretary.

The Agent-General for New Zealand.

#### Enclosure 2 in No. 4.

The SECRETARY, Agent-General's Department, to the SECRETARY, New Zealand Midland Railway Company (Limited).

SIR,—

7, Westminster Chambers, S.W., 21st August, 1887.

I am now directed by the Agent-General to acknowledge the receipt of your letter of the 6th instant, informing him that your directors had that day settled the form of contract they wished to substitute for the one drawn up by the New Zealand Government last December, and that the same was being sent out by the San Francisco mail to the company's representative in the colony. He would have replied to your letter sooner, but was desirous of first communicating with the Government on the subject.

The Agent-General could not but regret that it should have been deemed necessary to send out the new draft in its present shape, because it involved even greater difficulties than those which attended the amendments suggested by the company's solicitors last May. In all the communications which took place between your chairman and himself the essential point always kept in view by both was, that whatever amendments were wanted in the December draft should be made within the lines of the existing legislation. It was obvious that there was no legal power in the Government, without a fresh Act, to enter into a contract containing the amendments proposed by the company in May, and notably the one for guaranteeing the value of the land. Moreover, no one could imagine that, even if an application were made to the New Zealand Parliament for power to give such a guarantee, the Legislature would hand over the land to the company to dispose of at its pleasure, while the colony was to be responsible to the company for the land realising a given sum. It was abundantly clear that, in any such case, the colony must retain an absolute control over the