

had for some years made of an annual subsidy of \$25,000 for fifteen years, and of an exclusive right of landing to any company which would establish a telegraphic connection with North America, and we stated that, in the first place, we would not ask for any exclusive right, and that, in the second, if they would give a reasonable subsidy we would recommend that they should be granted an exceedingly low tariff for telegrams—namely, 1s. per word for private, 9d. for Government, and 6d. for Press messages. We explained that we were not authorised to accept any offer, as the financial feasibility of the project could only be determined when all the proposals or offers of the interested countries, as well as of cable-manufacturers, could be considered together, but that we desired to arrive at as definite an understanding as possible under the circumstances, and we would therefore suggest £7,000 as a moderate sum which they might offer, and which we on our part would recommend for acceptance in the event of the undertaking being determined on. The Ministers admitted that the proposed rates were very low. They said that they were then endeavouring to economize, but it was pointed out that the subsidy would not be payable for two or three years to come.

At the next interview Mr Hatch began by inquiring whether we would take the sovereignty of Necker Island, and in consideration for this concession waive the subsidy. We replied that, as Her Majesty's Government had definitely and expressly instructed us not to ask for the sovereignty of any island, we could not entertain such a proposal ourselves, but would communicate the inquiry to our Governments. We need only observe here that the acceptance of such an offer may be contrary to the policy of Her Majesty's Government for the same reasons which precluded the proposition from being made on our part, and, further, from a business point of view, the cession of a mere rock, of no value in itself, would be an inadequate consideration for the benefits conferred on the Hawaiian Islands by telegraphic connection. Mr Hatch then referred to Article IV of the treaty of reciprocity between the United States and the Hawaiian Kingdom, concluded in 1876, extended in 1884, and now subject to twelve months' notice by either side. That article contains an engagement on the part of the Hawaiian King that, "so long as this treaty shall remain in force, he will not lease or otherwise dispose of, or create any lien upon any port, harbour, or other territory in his dominions, or grant any special privilege or rights of use therein to any other Power, State, or Government." He observed that this engagement made it impossible for the Hawaiian Government to make any grant or lease of land as proposed without the consent of the United States. We suggested that the lease might be granted to a company or person (to be named hereafter by us), so as to take the case out of the terms of this engagement. The Ministers, however, stated that they would feel bound to obtain the consent of the United States, as, whatever form the lease might take, it would be substantially to a foreign Government. We recognised the force of this view, and agreed that the proper course would be to seek the consent of the United States, but we suggested that perhaps it would be easier for such consent to be granted if the lease did not in terms infringe the treaty engagement. Eventually it was suggested and agreed that we should put our proposals into a formal written shape, for convenience of discussion.

At the next interview we produced and read a "memorandum of agreement" which embodied our propositions. This was gone over and partly altered in the course of discussion. But the Hawaiian Ministers were very decidedly of opinion that they were precluded by the treaty from entering into any formal agreement until the United States had consented to waive the treaty engagement. It will be observed that the engagement is on the face of it an absolute one, and, though it is open to the United States to waive it, the contingency of their doing so is not referred to. It was therefore put with much force by the Ministers that it would be improper for them to anticipate in any degree that the engagement would be waived, and that they were therefore bound to obtain the consent of the United States before proceeding further in the direction of an agreement for a lease. Their attitude on this point will be better appreciated if it is borne in mind that they regard the continuance of the treaty as of the greatest consequence to them and to the interests of the Hawaiian Republic, and that they would take no step which might strengthen the hands of that party in the United States which desires its abrogation. In view of these considerations, we did not press the conclusion of a formal agreement, but suggested an interchange of notes stating our respective positions and the understanding between us, so far as it could be recorded at present.

In pursuance of this proposition, we addressed to Mr Hatch a letter, dated 17th October, purporting to enclose the "memorandum of agreement," which had been discussed at our interviews, as recording our propositions. In this document the proposed lease is "to the British Government," the suggestion as to a company or person having been withdrawn in deference to the views of the Ministers. In reply we received a letter from Mr Hatch of the same date, enclosing a statement of the position of the Hawaiian Cabinet. It will be observed that this document states, after explaining the treaty engagement and its effect, that "the matter will be at once submitted to the United States Government. Upon obtaining the approval of the United States, and a waiver in this instance of the article above quoted, reference will be made to the Hawaiian Legislature of the propositions submitted by Messrs. Mercer and Fleming, which are embodied in the draft memorandum hereto annexed." This statement is followed by a paragraph favourable in general terms to the propositions in question. Copies of these documents are enclosed.

It appears to us that these assurances are, under the special circumstances of the case, as adequate as could be reasonably asked for. We think we are justified in saying that, after very full and frank discussions, a very cordial understanding was established between the Hawaiian Ministers and ourselves, and we may conclude by joining in the hope expressed by Mr Hatch "that the speedy settlement of all difficulties of a diplomatic nature may lead to the early consummation of this so long desired project."

We have, &c.,

SANDFORD FLEMING.
W. HEFORTH MERCER.