

1896.

NEW ZEALAND.

PUBLIC ACCOUNTS COMMITTEE.

REPORT ON THE PETITION OF THE NEW ZEALAND MIDLAND RAILWAY COMPANY (LIMITED)
TOGETHER WITH PETITION, MINUTES OF PROCEEDINGS AND EVIDENCE, AND APPENDIX.

Report brought up on the 29th September, 1896, and ordered to be printed.

REPORT.

PETITIONERS pray for compensation in respect of the loss they have sustained through their being prevented from fulfilling their contract by the seizure of the railway, or that such assistance may be given them as will enable them to make arrangements for the carrying-out of the said or any other contract for the completion of the said railway.

Your Committee has the honour to report that, inasmuch as the Midland Railway Company does not regard its contractual rights as being at an end, but, on the contrary, expresses its intention of paying the account already rendered to it by the Government up to 29th February last, in pursuance of section 123 of "The Railways Construction and Land Act, 1881," on or before the expiry of the notice served upon its representative in July last under section 125 of the said Act, and as the Midland Railway Company claims that upon such payment being made all its rights in the matter of land-selection and otherwise under the contract of the 3rd August, 1888, are and will be fully preserved, the Committee is unable to make any recommendation on the company's petition.

W. J. M. LARNACH,
Chairman.

29th September, 1896.

PETITION.

To the Honourable the Speaker and Members of the House of Representatives in Parliament assembled.

THE humble petition of the New Zealand Midland Railway Company (Limited), by Norman Howard Maxwell Dalston, its attorney, sheweth,—

1. In the year 1884 the Parliament of New Zealand passed "The East and West Coast (Middle Island) and Nelson Railway and Railways Construction Act, 1884." By that Act several advantages were proposed and offered by the colony to such company as should undertake the construction of the railways therein specified. By section 7 of that Act it was provided that the Governor should cause an area of Crown land, for a distance not exceeding fifteen miles on each side of the proposed line, to be withdrawn from sale, that such lands should be surveyed into rectangular blocks, and that the company, by alternate choice, should obtain land having one-half the frontage to its line. By section 8 it was provided that, should there not be sufficient Crown land adjoining the line, then other land should be set aside in places which would be specially benefited by the construction of the railway; and by the same section (subsection 5) it was provided that the company should be entitled to any coal found upon the land comprised in its grants. By subsections (8) and (9) of section 8, lands described in the schedule to "The Westland and Nelson Coalfields' Administration Act, 1877," and lands then used for mining purposes on which were known gold-workings, were excepted and declared not to be Crown lands for the purposes of the Act.

2. A contract under the Act of 1884 was, on the 17th day of January, 1885, entered into between Her Majesty of the one part and several gentlemen therein named of the other part, and was laid before the General Assembly in the session of 1885.

3. On the 14th day of May, 1886, this original contract was, with the consent of the Governor of the colony, assigned to the New Zealand Midland Railway Company, your now petitioner.

4. The Amendment Act of 1886 was then passed, authorising the Governor to enter into a new contract with the company. In the third section of the Act of 1886 maps were referred to as defining the part of the colony within which the company was entitled to select lands to be granted to it.

5. In the year 1887 "The Midland Railway Contract Act, 1887," was passed, authorising the Governor to enter into a contract with the company, and providing by statute for the provisions of such contract, and declaring that such contract should operate as a substitute for the original contract. Pursuant to this Act, a contract was duly executed, bearing date the 3rd day of August, 1888, between the company and Her Majesty.

6. That on or about the 25th day of May, 1895, the Governor, purporting to act under the powers conferred upon him by section 123 of "The Railways Construction and Land Act, 1881," took possession and assumed the management of the railway which had been constructed by the company under the said contract.

7. The actual amount of money expended by the company on the railway, the equipment thereof, rolling-stock, and cost of administration in the colony was, in round figures, the sum of one million one hundred thousand pounds (£1,100,000).

8. The capital subscribed by the shareholders of the company amounted to the sum of two hundred and fifty thousand pounds (£250,000); and, in order to construct and equip the said railway, a further sum of eight hundred and fifty thousand pounds (£850,000) was raised by the issue of 5-per-cent. first-mortgage debenture stock, which are still in existence.

9. The company does not desire to repeat in detail in this petition the grievances mentioned and referred to in the petitions of the company which have from time to time been presented to your honourable House and in the course of the arbitration proceedings recently held under clause 47 of "The Midland Railway Contract, 1888."

10. The company nevertheless asserts that, for the mutual benefit of the colony and the company, the company was induced by the Government for the time being of the colony, by representations and promises of profit and of support, to accept an assignment of the contract for the construction of the said railway.

The following is a true copy of the share-capital prospectus issued by the company in the month of April, 1886 :—

THE NEW ZEALAND MIDLAND RAILWAY COMPANY (LIMITED),
(Incorporated under the Companies Acts, 1862 to 1882).

Share Capital £500,000, of which £250,000 is now offered for Subscription, to be converted into Stock on payment of the final call.

THE balance of the cost of construction to be defrayed either by the issue of debentures secured upon the line constructed and upon the valuable lands which will be granted to the company by the New Zealand Government as mentioned below, or in such other manner provided for by the memorandum of association as may hereafter be deemed desirable.

Directors.—Thomas Salt, Esq., Chairman (Chairman of the North Staffordshire Railway Company); Sir Charles Clifford (Chairman of the New Zealand Trust and Loan Company, Limited); H. V. Hart-Davis, Esq. (Messrs. Hoare, Wilson, and Co., London); C. Shirreff; B. Hilton, Esq. (Messrs. Miles Brothers and Co., London, also Christchurch and Timaru, New Zealand); E. Brodie Hoare, Esq. (Chairman of the National Bank of New Zealand, Limited, and Director of Lloyd's, Barnett's, and Bosanquet's Bank, Limited).

Bankers.—Lloyd's, Barnett's, and Bosanquet's Bank (Limited), 62, Lombard Street, E.C., and all branches; the Clydesdale Bank (Limited), St. Vincent Place, Glasgow, and branches in Scotland; the National Bank of New Zealand (Limited), New Zealand.

Solicitors.—Messrs. Burchell and Co., 5, The Sanctuary, Westminster; Messrs. Harper and Co., Christchurch, New Zealand; Messrs. Fell and Atkinson, Nelson, New Zealand.

Engineers.—John Carruthers, Esq. (late Resident Engineer-in-Chief to the New Zealand Government, now joint Consulting Engineer to the Colony), 7, Westminster Chambers, S.W.; Robert Wilson, Esq., 7, Westminster Chambers, S.W.; Chief Resident Engineer, C. Napier Bell, Esq.

Secretary (pro. tem.).—F. O. Stow, Esq.

Lloyd's, Barnett's, and Bosanquet's Bank (Limited), are instructed to receive applications at par for 25,000 shares of £10 each, payable as follows: 10s. on application; 30s. on allotment; the balance in calls not exceeding £2 each at intervals of not less than three months. Interest at 5 per cent. per annum on the amounts paid up will be payable during the construction of the railway. Payment in full may be made upon any of the days when an instalment becomes due, and interest at that rate on the amounts paid up will accrue from the date of such payment.

The company has been incorporated for the purpose of constructing the above-mentioned railway under a contract, dated 17th January, 1885, which has been assigned to the company, and which was entered into by the Governor of New Zealand, under Acts of the New Zealand Parliament, intitled "The Railways Construction and Land Act, 1881," and "The East and West Coast (Middle Island) and Nelson Railway Act, 1884."

This railway will form a trunk line connecting the east and west coast of the Southern Island, by the shortest and most direct route from the City of Christchurch, and also afford through communication between that town and the Port of Nelson, as shown by the map, and will unite agricultural and pastoral districts with others abounding in minerals and timber. It will also enable a saving of about two days to be made out of the journey between Melbourne and the central ports of New Zealand.

Recognising the importance of the line to the colony, the New Zealand Government have agreed to make a free grant to the company of lands to the nominal value of £1,250,000. The directors are fully persuaded of the substantial character of this grant, as the value is to be arrived at by arbitrators to be nominated by either party, and they are only to take into consideration the estimated market value of the lands immediately prior to the making of the original contract, without reference to any prospective value that will be given to such lands by the railway. It is a matter of common knowledge that in New Zealand, as in other new countries, the making of a railway rapidly increases the value of the lands served by it. It appears, therefore, to be a moderate estimate to assume that lands which have been thus valued at, say, 10s. per acre will, on the making of the line, realise at least 20s. per acre, thus making the company's estate worth at least £2,500,000 for the purposes of realisation.

The company will as soon as possible select from the Crown land lying within the large area now withdrawn from sale (the boundaries of which are shown on the map) the actual blocks which they may decide to take, the Government having a right of alternate selection, but only in the case of blocks which adjoin the line.

As soon as each section (i.e., about seven miles) is completed and open for traffic, the full proportion of land-grant will be transferred to the company as their absolute freehold, including with the land all timber thereon and minerals thereunder. The Government, however, have the right, upon paying compensation, to resume the possession of lands for the purposes of gold- and silver-mining only under "The Resumption of Land for Mining Purposes Act, 1882."

The length of line to be constructed is about 235 miles, divided for the purposes of the land-grant before referred to into thirty-five sections, and the estimated cost, with rolling-stock, does not exceed £2,755,000. As at present advised, the directors intend commencing with the line from Brunerton to Reefton, a distance of about forty miles.

The Government are desirous of assisting the company in every way, and have consented to give the most favoured running powers and facilities for interchange of traffic, so that the company will get access to the natural termini of the line over existing railways.

In the country traversed by the line are large and valuable deposits of gold, coal, iron, and other minerals, with abundance of timber, and hard and soft building-stone of excellent quality. From these sources alone a valuable traffic should come upon the railway. The export of gold from the western districts during the year 1884 (as shown in the Government returns) was of the value of £454,519, which may be taken to be about the average. The coal from its excellent bituminous properties is valuable not only for local consumption, but for export, and from this source alone considerable traffic may be expected. The demand for timber is already great, not only on the treeless plains of Canterbury, but also in most parts of New Zealand and Australia.

The railways in the South Island, as shown by the official returns, earned on the average 4 per cent. per annum, during the five years ending in 1885, on the capital invested in them, by traffic alone.

The Government of New Zealand have the right to purchase the railway at any time after ten years from the date of completion at cost price, in which will be included the interest on the present issue of capital.

The Government of New Zealand have undertaken, through the Agent-General, to introduce an Act of Parliament relating to running-powers, regulations for the selection of land, and certain other matters that may be found desirable on behalf of the company, and may require confirmation under the law of New Zealand.

The contract has (with the assent of the Agent-General) been transferred to the company without any charge except the repayment of expenses, to be vouched for as actually incurred, and not exceeding £6,000. For this payment the company also acquires copies of the detailed plans, sections, and estimates which were made for the New Zealand Government, the accuracy of which are fully confirmed by the company's engineers.

It may fairly be anticipated that, in addition to the revenue to be earned by the railway, a very considerable income will be obtained from the large estate which the company will possess; and it is very difficult, if not impossible, to fix any limit to the growth of the dividends.

Investors in the undertaking have (apart from the dividends) a twofold prospect: (1) Either the Government will purchase the line, in which case it is anticipated that the whole of the capital will be returned, with a considerable bonus to the shareholders from the proceeds of the land-grant; or (2) On the assumption that the land when realised will produce at the least £2,500,000, all borrowed moneys will be paid off, and the shareholders will have the railway of 235 miles, with a developed traffic, as an asset for their capital.

The only contract entered into by the company is the one above referred to, dated the 30th day of April, 1886, and made between William Chrystall, John Tucker Ford, George Hart, John Thomas Matson, Thomas Shailer Weston, John Honeycomb Cock, Charles Yates Fell, Henry Douglas Jackson, Albert Pitt, and James Sclanders, of the first part; Sir Francis Dillon Bell, K.C.M.G., Agent-General for New Zealand, of the second part; and the New Zealand Midland Railway Company (Limited) of the third part,—whereby the original contract with the Governor of New Zealand above referred to has been assigned to the company.

Copies of the New Zealand Acts of Parliament, of the agreement with the New Zealand Government, and of the assignment thereof, may be seen at the offices of the solicitors, or of the company.

Applications in the form accompanying the prospectus, together with a deposit of 5 per cent. on the amount applied for, must be forwarded to Lloyd's, Barnett's, and Bosanquet's Bank (Limited), 62, Lombard Street, E.C., or to the Clydesdale Bank (Limited), St. Vincent Lane, Glasgow.

Prospectuses and forms of application can be obtained from the bankers, or at the temporary offices of the company, No. 24, Throgmorton Street, E.C.

Dated this 30th day of April, 1886.

F. O. Stow, Secretary *pro tem*.

11. In consequence of the company being prevented from fulfilling the contract within the time in that behalf limited by it, and of the seizure of the railway as aforesaid, the company has lost the money subscribed as aforesaid, and also the money raised by it by the issue of the before-mentioned debenture stock.

12. The company desires respectfully to ask your honourable House to take into its favourable consideration the great loss which the company and its shareholders have sustained by reason of the matters aforesaid, and request that compensation may be made either pecuniarily or by such assistance as will enable your petitioner to make arrangements for the carrying out of the said or any other contract for the completion of the said railway as originally undertaken by your petitioner.

13. The company, while submitting with all respect the subject-matter of the petition to your honourable House, is advised that it is necessary to state in express terms that it does not thereby abandon the legal rights which it has in respect of the matters above referred to in the event of a settlement of the same not being arrived at through the action of your honourable House.

Wherefore your petitioner humbly prays that your honourable House will be pleased to appoint a Special Committee to consider the matter of this petition, and to report to your honourable House thereon. And your petitioner, as in duty bound, will ever pray.

THE NEW ZEALAND MIDLAND RAILWAY COMPANY (LIMITED),
By its Attorney, NORMAN H. M. DALSTON.

MINUTES OF PROCEEDINGS.

[NOTE.—The proceedings of the Committee referring to other business are omitted.]

WEDNESDAY, 15TH JULY, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Guinness, Mr. McGowan, Mr. Millar, Mr. Montgomery, and Hon. Sir R. Stout.

The minutes of the previous meeting were read and confirmed.

The Clerk having read Petition No. 139 from the Midland Railway Company, Mr. Guinness moved, That the petition be printed and circulated and sent to the Public Works Department for report, upon which Mr. Montgomery moved, by way of amendment, to strike out the words "and sent to the Public Works Department for report." Upon the question being put, That the words proposed to be struck out stand part of the question, it passed in the negative, and, the question as amended being put, it was resolved in the affirmative.

The Committee then adjourned till Wednesday next, at 10.30 a.m.

WEDNESDAY, 22ND JULY, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Guinness, Mr. Hogg, Mr. Lang, Mr. Lewis, and Mr. Millar.

The minutes of the previous meeting were read and confirmed.

Resolved, on the motion of Mr. Guinness, That consideration of Petition No. 139 be postponed *sine die*.

Resolved, on the motion of Mr. Hogg, That Petition No. 139 be sent to the Under-Secretary for Public Works, and that he be asked to furnish a report thereon by to-morrow morning.

The Committee then adjourned till 10 a.m. to-morrow.

THURSDAY, 20TH AUGUST, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Button, Mr. Guinness, Mr. Hogg, Mr. Lewis, Mr. Millar, and Dr. Newman.

The minutes of the previous meeting were read and confirmed.

The Clerk read the report of the Public Works Department on Petition No. 139 of the New Zealand Midland Railway Company.

A reporter was in attendance.

Mr. Blow, Mr. Parker, and Mr. Dalston were present.

Mr. Harris, of Christchurch, appeared for the petitioners, and addressed the Committee in support of the petition.

Mr. Norman H. M. Dalston, general manager of the company, was sworn and examined.

The Committee then adjourned till Friday, the 21st August, at 10.30 a.m.

FRIDAY, 21ST AUGUST, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Button, Mr. Hogg, Mr. Montgomery, Hon. Mr. Seddon, and Hon. Mr. Ward.

The minutes of the previous meeting were read and confirmed.

A shorthand reporter was in attendance.

The examination of Mr. Dalston was continued.

Mr. Blow addressed the Committee, and Mr. Harris replied.

Mr. G. B. Parker was present.

The Committee then adjourned till Saturday, the 22nd August, at 10 a.m..

SATURDAY, 22ND AUGUST, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Button, Mr. Hogg, Mr. McGowan, Mr. Millar, Dr. Newman, and Mr. Tanner.

The minutes of the previous meeting were read and confirmed.

A shorthand reporter was in attendance.

Messrs. Blow, Parker, and Dalston were present.

Mr. F. H. Labatt was sworn and examined, and his evidence was taken down in shorthand.

The Committee then adjourned *sine die*.

SATURDAY, 19TH SEPTEMBER, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Button, Mr. Guinness, Mr. Hogg, Mr. Lang, Mr. McGowan, Mr. Montgomery, Hon. Mr. Seddon, and Hon. Mr. Ward.

The minutes of the previous meeting were read and confirmed.

The following notice of motion for Saturday, the 26th September, was given:—

Mr. Button to move, That, inasmuch as the Midland Railway Company does not regard its contractual rights as being at an end, but, on the contrary, expresses its intention of paying the account already rendered to it by the Government up to the 29th February last, in pursuance of section 123 of "The Railways Construction and Land Act, 1881," on or before the expiry of the notice served upon its representative in July last under section 125 of the same Act, and the Midland Railway Company claims that upon such payment being made all its rights in the matter of land-selection and otherwise under the contract of the 3rd August, 1888, are and will be fully preserved, the Committee therefore is unable to make any recommendation on the company's petition.

The Committee then adjourned till Saturday, the 26th September, at 11 a.m.

SATURDAY, 26TH SEPTEMBER, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Button, Mr. Hogg, Mr. Lewis, Mr. T. Mackenzie, Mr. Millar, Mr. Montgomery, Dr. Newman, and Hon. Mr. Seddon.

The minutes of the previous meeting were read and confirmed.

In accordance with notice given, Mr. Button moved, That, inasmuch as the Midland Railway Company does not regard its contractual rights as being at an end, but, on the contrary, expresses its intention of paying the account already rendered to it by the Government up to the 29th February last, in pursuance of section 123 of "The Railways Construction and Land Act, 1881," on or before the expiry of the notice served upon its representative in July last under section 125 of the same Act, and the Midland Railway Company claims that upon such payment being made all its rights in the matter of land-selection and otherwise under the contract of the 3rd August, 1888, are and will be fully preserved, the Committee therefore is unable to make any recommendation on the company's petition.

Upon which Mr. Hogg moved, by way of amendment, to insert the word "as," in the fifth line, after the words "the same Act"; and, also, to strike out the word "therefore" at the commencement of the last line. Resolved accordingly.

Mr. T. Mackenzie then moved, by way of further amendment, to strike out all the words after the word "that," with a view of inserting in lieu thereof the following: "The Government shall proceed without delay to ascertain by some equitable process,—(1) The value at the present date to the colony of the railway-works, rolling-stock, and plant taken possession of by the colony in pursuance of the agreement made with the Midland Railway Company; (2) the total value, computed on schedule rates, of all lands granted to the said company under the said agreement; (3) all sums in excess of receipts expended by the Government on the said railway-works, rolling-stock, and plant from the date of taking possession to the present time. Thereafter from the sum arrived at in paragraph (1) there shall be deducted the sum arrived at in paragraphs (2) and (3), and the residue (if any) shall be paid to the holders of the debentures issued by the said Midland Railway Company on receipt from the said debenture-holders and the accredited representatives of the said company of an absolutely unconditional release from all future claim in regard to the said railway-works, rolling-stock, and plant."

The Chairman having put Mr. Mackenzie's amendment, it was lost on the voices, and the original motion as amended was carried.

The Committee then adjourned till Tuesday, the 29th September, at 11 a.m.

TUESDAY, 29TH SEPTEMBER, 1896.

Present: Hon. Mr. Larnach (Chairman), Mr. Hogg, Mr. Lang, Mr. Lewis, and Mr. T. Mackenzie.

The minutes of the previous meeting were read and confirmed.

The Committee then adjourned.

MINUTES OF EVIDENCE.

THURSDAY, 20TH AUGUST, 1896.—(Hon. Mr. LARNACH, Chairman.)

The Clerk read the report of the Public Works Department :—

Public Works Department, Wellington, 23rd July, 1896.

SIR,—

Re Petition of New Zealand Midland Railway Company.

In reply to your memorandum of yesterday's date, asking for a report on the above-mentioned Petition, I have the honour to state that the allegations contained therein, so far as the facts are within the knowledge of this department, are generally correct.

As the prayer of the petition involves a large question of policy, which, if concurred in, will require special legislation, the department has no report to make thereon.

I have, &c.,

The Chairman, Public Accounts Committee,
House of Representatives.

H. J. H. BLOW, Under-Secretary.

Mr. G. HARRIS, Counsel for Petitioners, was heard in support of the company's proposals and examined.

1. *Hon. the Chairman.*] Before proceeding I might ask Mr. Harris whether the Government has received any communication from the company in reference to this matter?—A communication was sent to the Premier, and I believe it was referred to the Cabinet for consideration. I understand it was referred by the Cabinet to this Committee. I have not seen it.

2. Then you know nothing further than that it was referred to the Cabinet?—No; nothing further.

Mr. Harris : I appear on behalf of the New Zealand Midland Railway Company (Limited), in support of the petition now before the Committee; also in support of the proposal forwarded by the general manager of the company to the Hon. the Premier within the last fortnight, and in respect of which the Hon. the Premier has informed the general manager that the proposal has been referred to the Public Accounts Committee. I am now only able to produce a copy of the proposal. [See Exhibit D.] I am not certain as to the date, but the letter was to this effect :—

SIR,—

New Zealand Midland Railway Company (Limited).

Wellington.

I have the honour to lay before you the company's proposals for a new contract, which I trust will receive favourable consideration and the support of the Government. The proposals are based somewhat upon the lines of the Bill introduced by you in 1894, and are briefly as follows :—

1. The company to release, within three months from the date of signing the new contract, all the land reserved from sale within the authorised area as defined in the existing contract, excepting so much as shall have been selected by the company, and also that which it is still entitled to select.

2. The new contract to be for a period of five years.

3. Provision shall be made in the new contract that the company shall be called upon to complete the construction of the line from Patterson's Creek to Jackson's only.

4. Government to issue New Zealand Government 3½-per-cent. debentures amounting to £618,250, being the B1 value of land to which the company would be entitled by the construction of the line from Patterson's Creek to Jackson's. Such debentures to be issued to the company in parcels of twenty equal continuous half-yearly instalments. The first of such issue to be made within six months of the signing of the new contract.

I have, &c.,

NORMAN H. M. DALSTON,
General Manager New Zealand Midland Railway Company (Limited).

I will not refer to the proposals of the company at any length at present, but will refer to them later on in the course of my address. I was quite ready to bring them into my address as I was under the impression that proposals were already before the Committee. It will not be necessary for me to go deeply into the history of the Midland Railway contract for the purposes of the present petition. The history of the contract between the Midland Railway Company and the Government of the colony has been preserved in parliamentary papers and has been fully dealt with by Mr. Bell in his address before the Committee in 1892; by counsel in the arbitration proceedings of last year, and by counsel before this Committee in connection with the petition of the debenture-holders recently heard. What I propose to do this morning is to address myself particularly to the connection which has always existed between the Government of the colony and the company, and, if possible, to satisfy you that so much so is it the case, that the company's proposals are deserving of your favourable consideration and are such as should be recommended in your report to Parliament. The company's position now is one in which it feels that it has been, by force of circumstances, unable to carry out its original contract. It believes also that to a certain extent the honour of the colony is mixed up with the undertaking and the ultimate success of the Midland Railway Company, and with this in view it has put before you what, in the opinion of the company and its advisers, has been deemed an equitable compromise that will settle all the disputes which have been now for such a long time proceeding. The circumstances under which the Midland Railway contract was entered into have been set out in the company's petition which is before you. But I would like to refer briefly to them, and so, if possible, to connect the leading facts that you may follow my argument and the evidence I shall adduce to show that the Government of New Zealand is bound, to

some extent at all events, to the Midland Railway Company?—Early in the year 1885 a syndicate of New Zealand gentlemen of Canterbury and Nelson, who had been induced to take up the contract in 1881, sent Home to England Messrs. Scott, Fell, and Dobson with full powers to negotiate for the transfer of their contract to some person or company that would be satisfactory to the Agent-General of the colony acting for the Government. These gentlemen were accredited by the New Zealand Government. On their arrival in London they forwarded to the representatives of the Midland Railway Company in London a memorandum in which they set out that the Legislature of New Zealand had determined to supplement the means for construction of railways in the colony by the adoption of a system of land-grants to capitalists who would undertake the construction of such railways. This was virtually the Act of 1881. But these gentlemen went further: they pointed out that by the Act of 1884 the New Zealand Government had been induced to give further concessions, as the concessions granted by the Act of 1881 were not considered suitable to this particular line. The further concession granted under the Act of 1884 was 1,250,000 acres: the value to be waste-lands-value calculated before the contract was entered into. The promoters also offered several inducements, such as the following:—

On the whole, having regard to the increase in value which will certainly take place as population spreads, minerals are worked, and fresh townships judiciously laid out, it may be fairly assumed that the contractors will ultimately receive from the land-grant alone more than the whole cost of the line, leaving the railway a valuable asset in their hands.

This is a clause taken from the memorandum issued by the representatives of the syndicate.

3. Are you now referring to the prospectus calling for shareholders, in substitution of debenture-holders?—No; I am referring to the initial proceedings by the representatives of the gentlemen in New Zealand who had taken up the contract with the view of transferring it to some company in England. The promoters also stated that they were authorised to transfer their contract only to such person or company as the Agent-General of the colony had approved of, the Agent-General, of course, acting on behalf of the Government. It will thus be seen that the company was, from its first inception, brought into touch, so to speak, with the Government of the colony. Before the Agent-General could give his approval he must have been satisfied of the stability of the company, and also of its character. So far as the importance of the work was considered at that time, I would refer the Committee to the four extracts following:—

1. From the Public Works Statement of 1885: "There now, however, seems some difficulty in obtaining the construction of the lines under the Act of last year, and it remains for the House to consider what should be done. The Government are of opinion that the lines are of immense importance. They will tend to increase the mining population, and to develop a large amount of mineral traffic, and commerce generally. There are also considerable tracts of land which will be profitably occupied by settlers, whilst the bringing of the produce of the eastern side of the Middle Island to the western at a cheap rate will tend to promote the welfare of the West Coast settlers, and open a new market for the agriculturists on the eastern side."

2. From a speech of the Colonial Treasurer—Sir J. Vogel—delivered in October, 1885: "But lately, as I stated the other evening, I am beginning to think that the railway is so desirable that it may be better that the colony should make and own it rather than procure its construction by even a small guarantee, which would involve in the end a heavier cost if the colony purchased the railway, because of its having given the lands in addition. What I am now considering is the treatment you were subjected to when it appeared that, by some extra concessions, the railway might be made. From one end of the districts concerned to the other, men of large properties came forward and were ready to see themselves burdened with a liability for part of the guarantee, rather than that the arrangement should not be made. This railway virtually brings to useful purposes a new territory to the colony, and a new population. I believe that it will ultimately prove one of the best paying lines in the colony."

3. From a speech of Mr. Richardson, Minister for Public Works, delivered in February, 1886: "And, in addition to that, the population is at the two ends of the line, and the traffic would nearly all be that which pays best of all to a railway—namely, with long carriage. And there is no need to anticipate having those continuous stoppages and large number of intermediate stations which make our railways so expensive to work. I estimated last session that the traffic would return a net profit from the opening of the line of at least 2 per cent., and I feel sure that I am within the mark."

4. From the speech of the Colonial Treasurer, delivered in February, 1886: "Now, the population which would be directly benefited by this railway amounts to one-third of the whole colony. It will unite several great districts, and enable them to exchange, on the one hand, agricultural productions for gold and coal, and enable the large plains of Canterbury to be supplied with that great agency of human manufacture—coal—which so abundantly exists on the West Coast. I shall conclude by quoting a few observations made by the Hon. Mr. Bowen, in which he aptly epitomizes the arguments in favour of this railway: 'Briefly, those who advocate the immediate prosecution of the East and West Coast and Nelson Railway do so because they are satisfied that it will pay better than any other railway now projected in New Zealand; because it is a part of the trunk line connecting all parts of the Island together; because it will practically add a new territory to the colony—a territory teeming with all sorts of minerals—with large, undeveloped wealth hitherto cut off.'"

Thus, upon the opinion of the prominent political men of the time as to the value to the Government of the colony of the construction of this East and West Coast Railway, the negotiations, based on the memorandum to which I have just briefly referred, resulted in the formation of the Midland Railway Company, and subsequently in the transfer to it of the contract known as Chrystall's contract; and the Agent-General was a consenting party to that transfer. The prospectus of the company was first of all submitted to, and approved by, the Agent-General on behalf of the colony. The first issue of share capital was £250,000, being a part of £500,000. I mention this to show that at the time the capital was issued the Government of the colony or the Agent-General, or both, were aware that the undertaking was to proceed upon a capital which must, in the opinion of everybody, have been absolutely inadequate. But the reasons for making the issue of the share capital so small were the following:—

4. You do not blame the Government for the inadequacy and smallness of the capital?—No; but at the same time I wish to show the connection between the Government and the company. The reasons for making it so small were: First of all, the fact that the position of the company was explained, and well known to the Agent-General; and it was well known generally that the issue of capital was to be small. Second, it was known that modifications in the contract were absolutely necessary, and these would take some consideration and some time to work out. Third, the

value of the land-grant was made so prospectively large that it appeared to the representatives of the company as if it would not be necessary for them to have any large amount of share capital, as they would be able to finance from time to time on their land-grant. Soon after the floating of the company negotiations for a new contract were proceeded with between the company and the Government; and in the meantime contracts for the construction were let, payments for contracts being provided for by the issue of share capital which I have just mentioned. At that time the company believed they would have the cordial assistance of the Government of the colony, and not only that, but such assistance as would enable it to finance from time to time. I would refer you to a speech or memorandum by Sir Julius Vogel to his successor in October, 1889, as showing the relation of the parties at that time, and the feeling which existed between the Government and the Midland Railway Company:—

To my Successor,—

THE board is composed of high-charactered, influential men. The enterprise could not be in better hands, and there is no room to doubt that they wish to proceed with the railway, and will be content with any equitable arrangement that will enable them to obtain the necessary capital. Negotiations have been continuously proceeding during many months. The Agent-General has acted for the Government on the basis of endeavouring to manage within the four corners of the powers given by the Legislature. . . . The matter, therefore, must be left to our successors. In referring to it, I wish to express the opinion (and Mr. Richardson concurs) that there should be no difficulty now in putting the last proposals of the company into a shape that will be satisfactory alike to the colony and to the company.

JULIUS VOGEL.

7th October, 1887.

Shortly after the memorandum was drawn up a new Ministry was returned. The Midland Railway Contract Act of 1887 was passed in December of that year. This Act provided for the substitution of a new contract with the company, and a contract was subsequently entered into; but it is not necessary, for the purpose of my present address, to refer further to it. Shortly after entering into this new contract the company met with very considerable financial difficulties. From the company's point of view these were principally owing to rumours which were circulated that the land-grant was not anything like the value that was placed on it at the time the company was formed, and particularly to the reservation of the mining reserves by the proclamation known as Larnach's proclamation. The effect of that proclamation was, however, subsequently got over; but from the middle of 1891 down to the beginning of 1895 reservations of these mining reserves were made persistently, the effect of which was that the company's credit at Home was practically stopped. I say this: that, whether these reservations were made rightly or wrongly (and at that time it was not known), the effect was that the company was crippled. Subsequently the arbitration proceedings brought on by the company proved that the action of the Government was right—that the reserves were properly made; but whether they were rightly made or not does not affect the present position of the company in coming before you with their petition. The effect on the company's finance was identically the same whether they were made legally or not. Now, I think I can come to the proposal of the company, which I have just read. Shortly put, it is that the company asks the Government, in return for a re-lease of the land-grant, to give six hundred and eighteen thousand two hundred and fifty pounds' worth of $3\frac{1}{2}$ -per-cent. debenture stock, payable by equal half-yearly instalments, covering a period of ten years. In return for this, the company will undertake to float a new company. This would settle all difficulties which have arisen or may arise between the company and the Government, or between the debenture-holders and the Government; and the company will construct the line from the East to the West Coast within a period of five years.

5. That is, you mean, from Christchurch to the West Coast?—Yes. I wish now to point out the advantages to be gained by the Government and the colony in accepting the present proposal by the Midland Railway Company. By some people it is considered that the arbitration proceedings of last year have effectually settled the Midland Railway question. But I wish to point out most strongly, and, if possible, to convince you, that is not at all the case. Notwithstanding the result of the arbitration, the company still owns a railway-line of a hundred miles in length. Very few people know what that line is really like. I do not know whether any members of this Committee have been there. I have been over the line, and I have met other men who have been over it, and from all people who have travelled over the line I have heard but one opinion—that it is the best constructed line on this side of the world. The company have also their claim on the land-grant. I wish to put the position clearly as to what will happen if the present condition of things remains for any length of time. At the present time the Government, having possession of the railway, is in the position of a trustee for the company; and, while it runs the railway on that part of the line that is constructed, it has also to construct another portion of the railway in terms of the Midland Railway contract. If the Government were to continue the construction of the line as they have been doing during the last year, then, should the company pay the balances of account that are owing by it on the usual stated accounts as they fall due, the company will be from time to time entitled to selection from the land-grant as each section is completed. Thus an enormous area, known as the Midland Railway Company's authorised area, must be locked up until such time as the Government shall have completed the railway not only east and west, but also north and south. That is one of the legal difficulties; but there are several others—for instance, the debenture-holders. I am at a loss to understand why the debenture-holders have done—what I observe they have done—in stating that they have no direct legal redress against the Crown, while they carefully reserve all their rights against the Government. In my opinion, they have some legal redress against the Crown; and it may be, at some future time, if this proposal is not carried out, that the debenture-holders may be found commencing an action against the Government of the colony. But the greatest legal difficulty which presents itself to my mind is the difficulty involved in the position of trust which the Government has taken upon itself by the seizure of the Midland Railway line. Undoubtedly the colony is a trustee for the company; and, while there may be many advantages to the Government in

having the control of a line of railway of 100 miles—a line as big, if not bigger, than that of the Manawatu Company—it is obvious there must be many disadvantages when, coupled with the control of the constructed line, comes the absolute necessity of completing the construction of a line of railway some 60 or 70 miles east and west and the same north and south, not to be constructed as the Government might wish, but in terms of the Midland Railway contract, and just as the company under its contract would have been compelled to construct it. The company has the absolute right to see that the terms of its contract are carried out to the full extent by the Government in its mode of constructing the company's line. And we need not look far to see how difficulties may arise, for there is one that may very probably come up shortly. I refer to the system upon which the Government has been carrying out the works of the railway by co-operative labour. I think you will remember that, when addressing you upon the debenture-holders' petition, Mr. Blow referred in very strong terms to the manner in which the Midland Railway Company had let contracts in London, privately, at very high prices. It may have been right to draw attention to the fact, if it has been a fact; but there was not then existing the position of trust which would entitle him to draw attention to the manner of construction of the line by the company, and which now lies on the Government in its relation with the company. If it is true that the directors of the company, had they let contracts at Home privately, would have been very much to blame; how much more is it true that the Government trustee—when it lets contracts to co-operative labour instead of putting them up to public tender—is greatly to blame. This is one of the difficulties, among many, which I feel certain will arise in the management of the Midland Railway by the Government. But apart from the manifest advantages which, I think, must be derived from the amicable settlement of this matter and from the acceptance of the present proposals of the company, I confidently assert that there is an absolute necessity for the construction of this railway. The necessity of the railway is made more prominent every day, owing to the interest that is taken in the development of the mining industry on the West Coast. Mr. Ziman, in an interview with a reporter, stated that it was sheer waste of time to remain in Johannesburg, or in South Africa, so long as there was Reef-ton to go to; and I believe he is not far from the truth. If this be so, the fields of the West Coast have an enormous amount of gold in them. To convince you of that, I need only refer you to the evidence given by a large number of witnesses called by the Government, who were examined in the arbitration proceedings as to the nature of the country through which the Midland Railway would have to run. That the Government admit the necessity of better communication between the east and west coasts of the Middle Island is shown by the fact that very recently two new lines of telegraph have been put up between Reef-ton and Christchurch. On the other hand, I do not think there has been any great demand for the construction of the line north and south. But, should the present proposals of the company be accepted, it will lead to a large increase of settlement on the West Coast, and this must eventually lead to settlement on the line mapped out from Reef-ton to Nelson. While the company regrets that at the present time it cannot make any proposal for the immediate construction of the north and south line, it feels that the present proposal, if accepted, is a step in that direction. There can be no doubt that ultimately there would be so much settlement and so many inducements to build the line, that the company would be in a position to come forward and make an offer to carry out its original contract. I can assure you that the company has every wish to carry out not only its present proposal, but also the proposal in the original contract; but from the force of circumstances and the difficulties that have arisen, rightly or wrongly, the company has not been able to complete what originally it thought it could complete. I wish briefly to refer to the fact that a very prominent politician in New Zealand has stated that the proposals of 1894 would have redounded to the credit and honour of the colony if they had been carried into effect. Then, if that were so for the proposals of 1894, how much more is it so for the proposals we are now placing before you? A reasonable treatment of the company by the colony must improve the credit of the colony at Home, and would remove the feeling which, rightly or wrongly, prevails in London among financial people, and is indicated by leaders, and letters, and paragraphs which appear from time to time in financial papers in England. I do not think I have anything more to say in support of the present proposals. I wish, however, to refer to one or two points in reference to the petition of the debenture-holders. First of all, the impression appears to have been created in the minds of some people outside that the Midland Railway Company expended enormous sums on its own personality (if I may so speak), or practically that the directors let high-priced contracts to their colleagues, and generally behaved in a way in which directors should not behave. I wish to give to that statement an absolute denial. Mr. D'Avigdor, of the firm of McKeone and D'Avigdor, was a contractor for a portion of the company's line. He was also a director of the company; but he gave up his contract three years before he became a director. That is the only instance of any connection between the directors of the company and the undertaking from a personal and financial point of view. Secondly, as to the condition of the rolling-stock, I would refer you to the report of Mr. Rotherham in the Government railways statement of this year. In the statement he says that the rolling-stock generally is in good order, and fulfils the requirements of the traffic, the greatest want being timber and wagons. If any further information is desired by the Committee, I may say that the general manager of the company, when the line was seized, sent the resident engineer of the company over the line to inspect the rolling-stock and the permanent-way. He has made his report, in which he sets out fully the condition of the rolling-stock and permanent-way at that time, and his report is at the disposal of the Committee. Thirdly, the actual cost of the line was stated to be £760,000. I wish to point out that that does not represent the whole of the actual cost. It is the actual cost without interest. The actual amount of interest paid is £265,000. That was paid to the debenture-holders in the way of interest, so that it can be called interest during construction. This may fairly be added to actual cost, as it is provided in the Midland Railway contract that, in the event of purchase by the Government, it has to add to the actual cost a sum not exceeding £400,000 as interest during construction. I will examine Mr. Dalston on this point.

6. You have been speaking about the "personality" of the board of directors: what about the enormous commission paid to the chief engineer in New Zealand? Can you tell us anything about that? I think, perhaps, you would like to explain that?—I think you have a statement before you as to that matter, in which the total amount paid to Mr. Wilson is shown. In order to get that sum he was obliged to expend considerable sums in maintaining the engineering staff. The whole of the engineering staff he undertook to provide. I do not think it would be right to state exactly what it cost him. It is a private matter. To find a capable engineering staff for such a work would be a very expensive matter; but the total amount received by him did not come to anything like what is usually paid to engineers in charge of works of this magnitude, which meant an expenditure of a million of money. It did not come up to what the Government would have to pay—5 per cent.

7. I think it might be necessary to learn what the engineering staff cost Mr. Wilson. Will you state it, or shall I try to discover it in the course of evidence?—It is not a matter, I think, that should be stated, for it is absolutely private matter. If it affects the question in the minds of the Committee I will confer with Mr. Dalston, who is Mr. Wilson's attorney in New Zealand. From the company's point of view we have not the slightest objection to its being stated or given in evidence.

8. There are certain people concerned with the cost of this railway, therefore we should have before us all the collateral circumstances to guide us as to whether it has cost too high a figure, or whether the cost has been moderate, and, to arrive at a true estimate of the cost, I think that will be necessary?—On behalf of the Midland Railway Company, I do not object.

9. I am only mentioning this matter from the point of view of your clients, who might wish to explain this if considered necessary?—I admit that in the interest of the company it should be stated. But it is a private matter; it is a part of Mr. Wilson's private affairs, and the information can only be obtained from his private books. I should have to ask Mr. Dalston, as Mr. Wilson's attorney, whether he is prepared to divulge.

10. *Mr. Button.*] I would like to ask whether the company is prepared to find the necessary capital, and reconstruct the line, in the event of the Government accepting these proposals. There is no other line?—It is our wish to satisfy the Committee on this point.

11. *Mr. Guinness.*] Would you be prepared, on behalf of the company, to call any expert evidence to show what is likely to be the earning-power of the section of railway between Patterson's Creek and Jackson's, which, according to these present proposals, the company intends to construct?—I am prepared to do so; but I had not thought of bringing with me any evidence of that sort. I have referred the Committee to all the parliamentary papers which have reference to the Midland Railway, and they include statements of that kind.

Dr. Newman: We had the whole of this before us some three years ago.

Hon. the Chairman: More recent and more reliable evidence was given by expert authorities before the Arbitration Court, all of which is available.

Mr. Button: I thought Mr. Harris would give us some sketch of the comparative cost of the railway, or set out in some short way the relative position of parties concerned: How far the Government would be affected by what he proposes; if the land is to be released; what is to be given to the debenture-holders; we ought to have it before us how we will stand; what the Government position would be on obtaining the land and giving the debentures; what is the Government to receive; will the railway still belong to the company, and what will be the cost of completing it.

12. *Hon. the Chairman.*] I think we have the cost of completing the line. Then, the relative position of the parties would perhaps admit of further explanation?—If this comes about the Government would have the land that would be released, and the company would have the railway. If necessary, I am quite prepared to speak for several days, and to go through the whole case. But I have purposely confined my remarks to a narrow limit, as I thought such a course would better suit the convenience of the Committee.

13. *Mr. Button.*] I do not want it in such full detail, but it appeared to me to be an advantage to get over certain legal difficulties, some of which have been enumerated. First, as regards the land-grant: Suppose the Committee recommended that we should take back the railway, more particularly as to the value to Government of retaining these lands instead of the debenture-holders?—There are 5,000,000 acres locked up.

13A. At what value?—About 10s. an acre all round. I did not wish to weary the members of the Committee with my address. I had reason to think that all these facts and arguments were as well known to all the members of the Committee as they are to me. I am so full of the case, having gone through the whole of the particulars, that I might not see what other people could perceive to be weak points. I can only say that any information the Committee desire shall be furnished.

14. *Dr. Newman.*] This proposal, I understand, is practically the same proposal that the House rejected. What is it that has led to the renewal of the offer?—Yes, it is practically the same; but I think the conditions have considerably altered since then. The debenture-holders and shareholders working together have made the offer. This is practically a suggestion or a proposal by both, for if you accept our present proposal we get rid of the debenture-holders for you.

15. *Mr. Millar.*] The land-grant is to be released at 12s. 6d. to complete the construction?—We are simply asking the colony to give us in cash what they would be obliged to give us in land. The area is very large that will be locked up if these proposals are not accepted. We propose to unlock the land. The colony will have the benefit of the money expended in completing the line.

16. *Mr. Blow.*] You say that if these proposals are accepted you will get rid of the debenture-holders for us. Do you mean that the company, if they get £618,000, will pay to the debenture-holders £745,000?—That is a matter of arrangement between the debenture-holders and the company. We undertake to pay out the debenture-holders.

17. Then, where will the money come from to construct the line?—We propose to form a company with a capital of £2,000,000, which will provide for the construction.

18. Upon getting a concession of £618,000?—Yes, that is it.

19. *Dr. Newman.*] What is the latest estimate of the cost of completing the line?—£973,000—a million in round numbers.

20. Without rolling-stock?—£973,000.

21. *Hon. the Chairman.*] I observe that the proposal made to the Government by the company is to accept $3\frac{1}{2}$ -per-cent. debentures?—Yes.

22. But why $3\frac{1}{2}$ -per-cent. debentures? Do you consider them fair value for 20s. in the pound in the company's estimate? And why should the interest be $3\frac{1}{2}$ per cent., when the colony's 3-per-cent. stocks are now over par?—I do not know that there was any particular object in making it $3\frac{1}{2}$ per cent; it was a reduction of $\frac{1}{2}$ per cent. on the percentage asked for in 1894.

23. To be sure of being on the right side, I presume?—Yes.

24. You have referred to certain statements which you call misrepresentations. I do not know whether I was clear in understanding you to blame the colony as to the land-values?—No, I referred to persistent rumours in London. I do not say whether these rumours came from Government officials or from other sources; as a matter of fact, I think they were to some extent owing to Government officials.

25. Were not the representatives of the company chiefly responsible for the representations made with reference to land-values in the company's prospectus calling for capital?—Undoubtedly they were through the representations made to them by the representatives of the syndicate from the colony. But at the same time the interviews between the representatives of the company and the Agent-General were of such a nature that the company was led to believe that the statements made by those representatives were correct.

26. Is it not the fact that one of your principal representatives visited this colony before the company's original shareholders were asked to subscribe?—Yes; Mr. Hoare.

27. Not before the issue of the first share capital, I think?—I cannot answer that question, but I think the company was formed before.

28. You made reference to the present system upon which the Government was carrying on the extra work in the continuation of the construction of the railway—to wit, paying under the co-operative system. Is that system more expensive than the contract system previously adopted by the company in paying large percentages of commission on contracts as well as large salaries?—I do not know. That is outside the present position. The present position as between the Government and the company is one of trust. Therefore it is that the company has the right to see that certain things are done.

29. Was it not a position of trust as between the company's directors and its shareholders?—Yes, that may be, though not of the same nature as the colony's trust; but I do not admit that enormous commissions have been paid.

30. Are you aware that somewhere about £70,000 were paid to Mr. Wilson by commissions and salary, apart from what he received in London?—I believe that something like £57,000 was paid to him.

31. There was a sum of £12,000 given away for some other purposes?—That was paid to McKeone and Robinson.

32. *Mr. Button.*] With reference to the co-operative system: I presume you mean that, if the Government had called for tenders instead of doing the work upon the co-operative system, the beneficiaries would have a guarantee, or some guarantee, that the cheapest way of doing it had been adopted?—A position of trust now exists; not the position of contracting parties. In the case of contracting parties there is no right to compel accounts; but as between the *cestui que trust* and his trustee there is such a right. The company has now the right to know whatever is done by the Government, and to see that it is done in terms of the contract.

33. Are you aware that £43,748 was paid as commission to Mr. Wilson?—Yes.

34. That another sum of £14,048 was paid, making nearly £58,000? That besides these sums he received commissions in London in connection with the company?—No. I have consulted Mr. Dalston, as Mr. Wilson's attorney, with regard to all these payments, and with his consent I am prepared to state, if necessary, the sums which Mr. Wilson had to pay so as to get this £58,000.

35. You spoke of the line north and south. I presume you alluded to the extension to Nelson?—Yes.

36. *Dr. Newman.*] You have been talking of the position being now a trust. Does that imply that unless something is done the company will go into liquidation?—Not if the company finds the money to pay its balance.

37. At the end of the year the Government was in the position to give three months' notice to the company to pay up the balance. They have given that notice?—The company propose to pay that.

38. When?—Before it is due.

39. How much is it?—£4,500.

40. Will that keep their question alive?—Yes.

41. How long?—That is a question of law upon which I have not formed any conclusive opinion. I do not think you can expect me to give my opinion.

Mr. DALSTON sworn and examined.

42. *Hon. the Chairman.*] You are now the general manager for the company in New Zealand?—Yes.

43. Are you an engineer?—No.

44. You are the attorney for the company, and in that capacity you signed this petition to the House?—Yes.

45. You also forwarded to the Premier the letter which was read here this morning?—Yes.

46. You had received instructions from Home, before sending that letter, to put in a proposal?—Yes.

47. Can you confidently say that, if the Government accepts this proposal, the company will be in a position to carry it out?—Yes.

48. That you can raise the necessary capital, pay off the debenture-holders, and complete the east and west line?—Yes.

49. Now, with regard to Mr. Wilson: Will you give us the exact amounts received by Mr. Wilson, and the amounts he paid in order to keep up his engineering staff?—I have a return here [Exhibit C] showing salary and engineering fees received by Mr. Wilson from 1889 to 1895 inclusive—viz.: Salary, £14,440; commission and engineering fees, £43,754, or a total of £58,194. In terms of the agreement between the company and Mr. Wilson he had to provide and maintain an engineering staff; he also had to pay a certain proportion of the office expenses of the various departments—viz.: Working railways department, land department, timber department, and audit or general department. The total proportion of these expenses from 1889 to 1895 inclusive was £16,513, leaving a net return to Mr. Wilson for salary and commission of £41,681. With reference to this question, I should like further to be allowed to say that Mr. Wilson is a gentleman who had a large business connection in London, and I think he was managing director of the firm of Nasmyth, Wilson, and Co. Naturally the directors had to take into consideration, when making an agreement with Mr. Wilson, that he was practically severing his connection with his city friends when he came out here.

50. That is a matter between him and the company?—Yes; but I think it is a matter for consideration by the Committee when told that he has received enormous sums in fees.

50A. What would you suppose his salary in London was with the emoluments proper belonging to the business?—I should say between £3,000 and £4,000 a year.

51. *Mr. Harris.*] The total amount received, exclusive of salary, was nothing like 5 per cent. on the capital expended?—About 5 per cent.

52. *Mr. Blow.*] Rather more, was it not?—On invoices it would be 2½ per cent. There was a small amount paid in London; I cannot give it you.

52A. Is it known in the colony?—I think not. It was, I think, 2½ per cent. on freight notes.

53. *Mr. Guinness.*] In the event of the Committee not being inclined to recommend your present proposal, I wish to know whether you would be prepared to make, or has any one any authority to make, any alternative proposal on behalf of the company?—

Mr. Button: Or to accept one?

Mr. Guinness: Or to accept one.

54. *Hon. the Chairman.*] What effect would it have with your principals if the Committee came to the conclusion that they cannot accept these proposals? You could let us know what they would consider an alternative proposal, and you could have the answer we would make to it?—The company has every desire to come to some arrangement, in order that the work may be proceeded with. I will let you know whether the present proposals can be amended.

55. You can make representations as to that to your principals?—Yes.

56. Referring to Mr. Wilson and the present company, you pointed out that he was a man who held an important position in London as an engineer; that he had a large and valuable business. Was it necessary, in the interests of the company, that so expensive an engineer should have been sent out here?—He was then Consulting Engineer to the New Zealand Government, had been in New Zealand in 1887, and was a man who was *au fait* with the country through which the proposed railway was to be constructed. I suppose, for these reasons, the directors thought he would be a suitable gentleman to engage.

57. Is it not the fact that the material part of railway-work of this sort can be equally well done by a subordinate engineer?—Detail work might no doubt be done; but it would all be subject to Mr. Wilson's approval.

57A. So that if he had not been in the colony there would have been engineers already here sufficiently qualified to carry on the work?—That may be so; but this is an English company, and the directors no doubt thought they ought to have some one whom they knew to supervise the work in the colony.

58. *Mr. Blow.*] As regards Mr. Wilson's connection with Nasmyth and Co., are you aware that firm has been extinct for some time?—No, I am not aware of it; so far as I know, it does exist.

59. Are you aware that Mr. Wilson had a partner in London?—Yes.

60. His partner would be able to conduct the business in Mr. Wilson's absence?—That may be so.

Mr. Harris: I do not think, Mr. Chairman, that I have anything to reply to unless the department has anything to say.

Mr. Blow: If it is considered necessary that I should refute the statements of Mr. Harris given in support of this proposal, I shall be happy to do so.

Mr. Button: I assume we would have the assistance of Mr. Blow in considering these proposals.

Hon. the Chairman: Certainly.

FRIDAY, 21ST AUGUST, 1896.

Mr. DALSTON further examined.

1. *Mr. Button.*] You have told us that if the Government accept your suggestion or proposal, issuing debentures to this amount (£618,250), that the company will release all the land and arrange with the debenture-holders.

2. *Hon. the Chairman.*] Is that so?—That is so.

3. *Mr. Button.*] Suppose the Government were prepared to hand you back the line, upon your paying them the money the Government have expended—that they put you back into the same position as when the Government first took possession. . . Would your company be able to go on with the work—they keeping the land, handing you back the line, and giving you five years to go on with the making of the line?—Do I understand you that the present contract should be extended for five years?

4. Yes?—No; I do not think it is possible to raise the money on those conditions.

5. *Mr. Hogg.*] Do I understand you that a new company would be floated if this proposition were accepted?—Yes, that is so.

6. In that case, what would be the estimated capital?—£2,200,000.

7. Is the colony under the proposed arrangement to issue debentures?—Yes.

8. Under the existing contract, if the company made the line between Patterson's Creek and Jackson's, they would be entitled to select land to the value of £618,250?—We want the Government to issue debentures to the value of £618,250 in twenty half-yearly instalments, which would practically provide interest on the new capital for ten years.

9. How did Mr. Wilson come to be appointed engineer? Was he appointed in London?—Yes, in London, under an agreement with the board in May, 1889.

10. Who had the management of the company in London?—Mr. Salt is chairman of directors.

11. Who fixed the salary of Mr. Wilson, and his commission?—I presume it was done by board minute; I cannot say for certain. I should imagine it was resolved at a meeting of the board of directors, and on that resolution an agreement was prepared.

12. Could you not be a little more definite about it?—No.

13. How was the commission fixed?—That I cannot say.

14. Do you think the shareholders had any knowledge at any time of the terms on which Mr. Wilson's services were obtained?—I do not know.

15. Is it a usual thing for the directors of a company to make an agreement with the members of the staff for the general administration of its affairs?—Most undoubtedly it is usual.

16. What was the salary per annum? Over £2,000, was it not?—

17. *Hon. the Chairman.*] £2,600, we have been told?—£2,000 a year in 1889, rising to a maximum of £2,600 at the rate of £100 per annum.

18. *Mr. Hogg.*] In the balance-sheets published from time to time did anything appear to indicate the amount he was receiving?—No; balance-sheets do not usually set forth such items as these. They are included under the general heading of "Construction, rolling-stock, engineering, &c." He got about £6,412 a year, out of which £4,192 appears as commission, irrespective of any commission earned in London.

Hon. the Chairman: The evidence showed that the sum received in salary and commission for about five years was £58,194. It is estimated that £16,513 was for expenses—net, £41,681.

Mr. Hogg: That was in five years and a half.

Hon. the Chairman: It is about £7,000 a year. If the sum were £42,000, it would be £7,000 a year.

Mr. Hogg: At all events, he must have received more than £4,000 a year for commissions in the colony, irrespective of any commissions that were earned in England.

Hon. the Chairman: He must have "netted": put it that way.

19. *Mr. Hogg.*] Yes, he must have "netted." Can you say the board of directors were aware of these large earnings on the part of their engineer?—Yes; I should think they were quite well aware of them.

20. Had they the accounts before them in such a way that there could be no misapprehension?—I think there could be no misapprehension; the accounts are audited yearly in New Zealand. These audited accounts go to London; the London accounts are audited, and the balance-sheets are presented annually to the general meeting of shareholders in proper form.

21. But the shareholders would have no opportunity of ascertaining these facts?—Oh, certainly, they would have every opportunity.

22. *Hon. the Chairman.*] If they thought proper to inquire?—Yes.

23. *Mr. Hogg.*] But it was never presented to them by the directors themselves, or through the medium of the balance-sheet?—Oh, yes. Take the balance-sheet of June, 1891. The expenditure under the heading "Cost of construction, rolling-stock, engineering fees, compensation, &c.," is £188,000. The balance-sheets are distributed to the shareholders fourteen days before the annual general meeting. If a shareholder asks for any particulars he gets them. They may have been asked for in this case for what I know. If they had been asked, the directors would no doubt have answered the question.

24. That is, provided the question had been asked?—It may have been asked for what I know.

24A. Is it reasonable to suppose that it could have presented itself to the mind of the shareholders that this officer of the company was earning as much or more than the whole of the colonial Cabinet?—I do not know whether that would be so; but if the shareholders were well satisfied with the directors, probably no questions would be asked. I have no doubt that the directors did the best they could in the interest of the shareholders; they had an exceedingly clever man for their engineer.

25. *Hon. the Chairman.*] And, apparently, a good financier?—I think it is generally admitted that the work done by Mr. Wilson in the colony is excellent, and is superior to the standard required by the Government. Mr. Young told you that, and I know that it is true.

26. *Mr. Hogg.*] Do you know the rate at which the engineers of the colony are paid?—No, I do not know at all.

27. Would you be surprised to learn that the amount earned by Mr. Wilson in six years was as much as an Engineer-in-Chief in the colony gets for his lifetime?—In answer to that I can only

say that I consider your engineers do not get sufficiently paid. The Government could have inspected the books of the company; there was no secret about it. These payments are in the books.

28. Is it a usual thing to pay commission to engineers?—Undoubtedly.

29. How much money was subscribed by the debenture-holders?—£745,000 was the amount of the first issue; then there was an issue of £93,000, I think, to cover interest up to 1897. It is already in evidence.

30. You said interest was paid to the debenture-holders?—

31. *Hon. the Chairman.*] £265,000?—I could not here separate this item between shareholders and debenture-holders. The interest due to debenture-holders has been covered by the subsequent issue of ninety-three thousand pounds' worth of debentures.

32. *Mr. Hogg.*] The interest due has been covered by debentures?—Yes.

33. So there is nothing owing?—That, I think, is a legal question.

34. *Hon. the Chairman.*] I understand you to say that if the company were placed *in statu quo ante* they could not even then raise sufficient money to go on with their original contract?—That is so.

35. Why, may I ask, with the large security that is at its back, and with all the extensive acreage of land?—I can only say that the evidence which has been given by the officers of the company has been to the effect that the company cannot raise money in England on the security of the land-grant, which has been so seriously damaged.

36. In other words, you say that the company's position has been damaged by all that has occurred recently in connection with the difficulties with the colony?—Most undoubtedly.

37. Suppose the Government were prepared to release the company from all other responsibility in connection with the original contract, save and except the construction and completion of the line between Patterson's Creek and Jackson's, would that help them to go on with their contract?—In what way?

38. Would the company then be able to raise the money to complete the line between Patterson's Creek and Jackson's if relieved of all other portions of its contract?—Yes, if we received Government debentures in lieu of land-grant.

39. *Mr. Button.*] I ask as to the whole?—We cannot complete either the whole or the part between Patterson's Creek and Jackson's on the security of the land-grant; that is why we ask for Government bonds in lieu of a guarantee of land-grant.

40. *Hon. the Chairman.*] Then, am I to understand that the reason you ask for Government bonds is to make it an assured fact that the company will be able to go on with its contract?—That is so; the directors may then say, "We have, practically, a Government guarantee of interest for, say, ten years."

41. You stated just now that it is a usual thing to pay engineers by commission?—Yes.

42. Have you had any experience in that respect?—None, except what I have learned in conversations with Mr. Wilson on this subject.

43. Did you allude to the custom appertaining to this colony?—No; I was alluding to the custom in England.

44. Mr. Wilson was associated in London with a former engineer-in-chief of the colony—Mr. Carruthers?—Yes.

45. Do you know how Mr. Carruthers became connected with this company?—I do not know.

46. You say that one engineer is paid by commission, another partly by commission and salary?—I understood Mr. Blow to say that the commission paid to engineers in the colony did not exceed 5 per cent.

Mr. Blow: I did not say so.

47. *Hon. the Chairman.*] Mr. Wilson's commission was in the direction of 10 per cent?—Indirectly in the direction of 10 per cent.; it was practically an agreement that he should have 5 per cent. if the company paid all the engineering expenses, but he received 10 per cent. and took all the engineering expenses upon his own shoulders.

48. Is it not the fact that he received 10 per cent. on the amount of the contracts let in New Zealand?—That is so.

49. Was not that paying him commission directly?—Yes; but I might remind you again that the company was relieved of maintaining a large engineering staff.

50. So that on all those moneys in which the company was concerned, and on which Mr. Wilson received commission—of the major portion of all such moneys, at all events, which were paid on account of the company, Mr. Wilson received 10 per cent.?—That is so.

51. So that the shareholders and debenture-holders could only have learned that such an arrangement was made with the principal engineer by getting the details of expenditure in connection with engineering expenses?—They might have asked the question at any general meeting, or at any other time, for the details of the agreement with Mr. Wilson.

52. I do not know—it is for you to consider how far you should be expected to answer this question: Do you think that if it was asked that full details should be given of the moneys paid, such details would be given at the meeting?—I think the directors would have given that information. They had no reason to keep it secret.

53. Do you think it was an unusual arrangement the company had made with Mr. Wilson?—I do not think it was an unusual agreement.

54. *Mr. Blow.*] With regard to the 5-per-cent. commission paid by Government, you have no knowledge how the Government pays its engineers, whether by salary or commission?—I have not.

55. Your statement that they paid 5 per cent. was based on my remark that the engineering cost 5 per cent.?—Exactly.

2—I. 7A.

56. If I explain to you that the 5 per cent. it costs the Government includes the salary of every engineer, every draftsman, and every inspector from the Engineer-in-Chief downwards, will you admit that your statement was quite inaccurate?—I will not admit that at all.

57. If I tell the Committee that the Government pays no commission to any of its engineers in the colony, you will not dispute that?—I have no desire to dispute that statement.

58. Mr. Wilson was engineer to the company before 1889, was he not?—I do not know that he was their engineer. I think Mr. Napier Bell was their engineer before 1889; I mean their engineer in the colony.

59. Mr. Wilson was one of their engineers in London before 1889?—He was, I believe, consulting engineer to the directors before 1889.

60. Was any one else associated with him in that capacity?—I did not join the company until June, 1889. I know nothing much about that except from hearsay.

61. Was Mr. Wilson engineer to the company prior to 1889?—I understand he first entered the service of the company in 1886.

62. In what capacity?—I cannot say.

63. Have you any idea what remuneration was paid to Mr. Wilson between 1886 and 1889?—Not the remotest.

64. May we take it that an equally substantial salary was paid to him then as paid subsequently?—I really know nothing about this matter. The statement made begins in 1889, whereas his services commenced in 1886.

Mr. Button : Are you thinking of the syndicate?

Mr. Harris : The contract was taken over in 1887.

Mr. Blow : The 30th April, 1886; Mr. Wilson was in the service of the company at that date, but Mr. Dalston cannot give us any information as to his remuneration.

65. Do you know, Mr. Dalston, whether any other engineer was associated with Mr. Wilson in the service of the company in London?—I do not know.

66. Is this the company's prospectus of April, 1886?—Yes.

67. Does that show that Mr. Carruthers was the engineer?—Yes.

68. I presume you have no idea of the remuneration paid to Mr. Carruthers?—Not the slightest.

69. This same prospectus shows that Mr. Napier Bell was the chief resident engineer? Have you any memoranda of the payments made to him?—That can be found; we can get that from the books of the company here.

70. You say that the shareholders were thoroughly satisfied with the board of directors; do you know whether anything was said at any of the annual meetings as to the directors' fees?—I do not know.

71. Do you know that they were remunerated with what appears to be excessive fees?—I do not know; but I believe for the last two or three years they have drawn no fees.

72. I refer to an earlier period of the company?—I do not know.

73. Was Mr. Wilson a shareholder in the company?—I believe he is a large shareholder.

74. *Re-examined by Mr. Harris.*] I would ask you, Mr. Dalston, whether it is not possible that men—engineers like Mr. Carruthers—are placed in the prospectus simply as consulting-engineers without any definite salary, and for the purpose of showing who the engineers were?—Well, that is a very common occurrence.

75. *Hon. the Chairman* : The drift of your question, Mr. Harris, is whether he was not placed there as one having an interest in the colony who could speak to certain facts?—It is a common thing to have the names of gentlemen on the prospectus who receive a nominal fee for such service.

MR. BLOW'S STATEMENT.

Mr. Blow : Mr. Harris has referred to the sending Home of Messrs. Scott, Bell, and Dobson, and the pamphlet which they brought under the notice of the company in London. The Government gave these gentlemen a letter of introduction to the Agent-General, asking him to render them any reasonable assistance in forwarding their enterprise; but the Government took no responsibility as to the representations these gentlemen might make in London; in fact, it knew nothing of the representations they did make. It was quite likely they would tell the best tale they could, and put the best possible aspect on the project; but, whatever they did, the Government had no information of it, and, even if it had, the Government would have disclaimed all responsibility in connection with it. I think I can show, however, that, even if misrepresentations were made, the directors of the company were in no way deceived by them. In the minutes of evidence taken before the arbitrator—D.-4 of 1896, page 179, question 613—Mr. Salt was asked: "I suppose you would read what was said about the making of this contract before you signed it"? To which he replied: "It was well known there were two opinions about the railway." He had heard there were two sides to the question, and that they could not accept as entirely beyond question the recommendations made by a colonial syndicate. Mr. Harris has further stated that the company's prospectus was approved by the Agent-General, but he brought no evidence in support of this statement. I think I have shown, in dealing with the debenture-holders' petition, that it was extremely unlikely the Agent-General ever expressed any approval. It is a fact that he saw the prospectus; he had to be satisfied that there was a probability of the new company proceeding with the work before he was empowered to agree to the transfer of the contract to the new company, and hence his desire to see what the proposals and prospects of the new company were.

Hon. the Chairman : That is all it comes to, very likely.

Mr. Blow : The Agent-General was informed as to what was being done in the matter so as to obtain his consent to the transfer of the contract. As to the Agent-General being satisfied with the company being "substantial," he was far indeed from being satisfied. He thought, however, that, as the colonial syndicate had no backing at all in the colony, it would be in better hands with a new

company. The Crystal syndicate agreed to transfer, and he agreed to the transfer, but with great misgiving. I have a letter here from the Agent-General of the 21st April, 1886. I believe it is in print as part of D.-2B of 1886; but, as the paper is out of print now, I could not bring a printed copy with me. The portion of the letter to which I wish to refer is as follows:—

When I last wrote to you on the 9th instant, No. 457, I had to telegraph to you that the prospect was rather discouraging, not more than £150,000 of the proposed capital having then been taken up. The promoters of the company had encountered great difficulties in the attempt to bring out their scheme. The political excitement respecting Mr. Gladstone's Bill for the Government of Ireland, the general stagnation of enterprise, the prolonged uncertainties of the Eastern question, the previous failures in forming a syndicate for taking up the original contract, the consequent disparagement of the whole scheme in the market, the bad news continually arriving from the colony, and above all the persistent repetition of the rumour that the Government meant to bring out new loans to the extent of many millions, had all worked against the delegates. Any one of these causes would have sufficed to paralyse a fresh New Zealand enterprise, but coming as they did altogether, no one could be surprised at the apparent responsibility of getting enough subscriptions to warrant a company in taking over the contract. At any rate, the original proposal to call up half a million of share-capital had ceased to be possible; and I had to consider whether I would assent to an assignment of the contract upon only a quarter of a million being now raised out of the million of proposed capital. It appeared to me that there was not an insuperable objection to this, because, if even only a quarter of a million was once planted in the line, a good guarantee would exist for the prosecution of the work; but my own assent was not sufficient, as a quotation could not be got for the shares unless half the nominal capital of a million was subscribed, and it seemed for a time as if the whole business must fall to the ground.

On the 14th instant, however, the directors met, when it was decided to take up the business, a quarter of a million being at once subscribed. The next day (April 15) I had a conference with Mr. Salt and the delegates, when a revised prospectus was brought to me, and we settled, as I thought, the chief points in concert. Hardly, however, had Mr. Salt left the room, when I discovered that the capital had been reduced to half a million, and the rate of interest increased to 5 per cent. A second conference then took place, when Mr. Salt assured me that the absence of any mention by him of these alterations had been purely inadvertent, and that, in fact, the changes had been made only a few hours before. I accepted his explanation, but did not disguise from him how much I regretted the changes. If money was to be got by debentures it was evident that, with so small a margin of uncalled capital, a high rate of interest would have to be paid for it; and, although the company's articles of association provided for an increase of capital hereafter, unless the fact of a prospective increase was declared in the present prospectus, shareholders subscribing now would complain by-and-by of their stock being "watered." If, on the other hand, the money for building the line was to be got by sales of land, it was equally evident that the company would simply be throwing their estate away. At the same time, I told Mr. Salt that, however much I regretted the reduction of share-capital, my objection did not extend to withholding consent to the assignment.

From this letter it would appear that the company was to be formed with a capital of one million, and in terms of the Stock Exchange rules. Half of that capital was to be called up, but the directors, after consulting their friends, came to the conclusion that they could not get more than a quarter of a million, and they resolved to reduce the nominal capital to half a million and call up the quarter. As a further inducement they guaranteed 5 per cent. interest on the shares out of capital. I mention this to show that instead of the Agent-General being satisfied of the "substantiality" of the company he was extremely dissatisfied; but, at the same time, he thought he was acting in the interest of the colony in agreeing to the transfer of the contract. Mr. Harris has given us four reasons why the issue of capital was so small, none of which, I think, was the true one. This letter shows what the real reason was—namely, that they could not get any more. The next contention of Mr. Harris was in respect of the Larnach Proclamation. This Proclamation was issued before the company's contract was signed. The company signed the contract on the 3rd August, 1888. The Larnach Proclamation was issued January, 1887, and withdrawn on the 11th March, 1887. That is to say, it was withdrawn nearly eighteen months before the contract was entered into. At any rate, the company were fully aware of it before they signed the contract. It is, therefore, manifestly absurd to say that the issue of this Proclamation affected the raising of money on debentures in 1889. Furthermore, it is apparent that it could not have had any such effect on the debentures, as the issue was successfully floated. They invited tenders for seven hundred and fifty thousand pounds' worth, and they floated seven hundred and forty-five thousand pounds' worth, so that to talk of the Proclamation injuring the company's credit is simply nonsense. Mr. Harris has not assigned any date when the rumours concerning the land-grant were circulated, but we may presume it was after 1889, for the company floated a large issue of debentures in that year. Neither are we told from whom the rumours emanated. Even if Mr. Harris had been a little more precise on that point, and had given us some more particulars, the Government of the colony could clearly not be held responsible for any rumours circulated in London. Further on in his address Mr. Harris stated that the mining reserves crippled the company. This was clearly not so, however. In the proceedings before the Public Accounts Committee in 1892, Mr. Bell, the counsel for the company, made the following statement (see I.-7A of 1892, page 86):—

Mr. Bell.—I wish to make a statement, and that it be taken down by the reporter. The reason I ask to be reported is that I made the statement on a previous occasion, and it does not appear on the minutes. The company is at the end of its finance. To say that the contract is in existence for two years and a half is, in the sense Mr. Seddon says it, correct; but it is not so in the sense that I should use the words. The company is without funds to complete its contract—the company cannot raise the funds to complete its contract without some modification of the contract. It is true that the company has said that it could not raise the funds without the determination of the question of the incline, and of the question of the extension of time; but the company has not said that the settlement of these two questions alone would enable it to raise the necessary funds. The real question which we have brought, and desire to bring, before Parliament through this Committee is this: Will you make a modification in the contract? because, if not, it is impossible for us to carry it out. We have not the funds, and without some modification we cannot procure the funds. Therefore, if the railway is to be carried out by this company, give us some modification. We have made some suggestions; we are prepared to consider any others that may be offered. But we desire to find a ground where we may meet the Government and ascertain what modifications the Government are willing to consent to, if any. If none, then the matter is disposed of by this: that the company is without the funds to enter into further obligations, and can only provide funds to meet the interest on the debentures for the period of the contract. That was a statement in support of a petition presented on the 9th August, 1892; and at that date comparatively few of the mining reserves had been made.

Mr. Button: Is that so?

Mr. Blow: I will give you the particulars. Up to the 9th August, 1892, the total area reserved for mining purposes was 169,503 acres, out of a total area which the Government was

entitled to reserve of 750,000 acres. Furthermore, the company admitted at the arbitration proceedings that the great bulk of these reserves were properly made. A statement of the portion of reserves, which the company, in their erroneous reading of the contract, took to be improperly reserved, appears in the arbitration proceedings D.-4B, 1896, and may be found on page 16 of the paper. From this it will be seen that the company held that, out of the total area reserved, 216,404 acres were improperly reserved. But the great bulk of that area was reserved under later Proclamations, and the bulk of the area reserved up to 9th August, 1892, is admitted to have been properly reserved. I have a statement here [Exhibit A] which has been put into my hands since I have been sitting in this room, showing the area which the company admitted to be justifiably reserved, and the area which they say was unjustifiably reserved. Out of the total area of 169,503 acres reserved up to 9th August, 1892, they admitted that 101,129 acres were properly reserved.

Mr. Button: Out of?—

Mr. Blow: Out of 169,503; that is leaving 68,374 acres, which they say were improperly reserved. Is it not the height of absurdity to ask this Committee to believe, as they allege, that they have suffered serious damage, when, out of an area available for selection of over five million acres, less than 70,000 acres was reserved. I am sorry that Mr. Harris should have made this statement, as I think his cause is all the weaker from having advanced an argument that is so untenable. I wish to draw the attention of the Committee to the evidence given by Mr. Salt in reference to the alleged injury to the company's finance. On page 180, D.-4, 1896, is Mr. Salt's evidence: Questions from 629 to 642, he is asked:—

629. When did you first learn that you thought these reserves were improperly made?—I can not give the exact date, but I presume our agents reported it.

630. When did you first learn the year?—The notice that Proclamation would be made was, I think, in October, 1890, and I presume we must have heard something of it some time after. I have not got the letter.

631. I want to know did you try to finance in London in 1891?—I do not think we could have done. I do not know. I do not remember.

632. Did you ever make an effort to finance?—We did make a very serious effort before we could push the line up to Reefton.

633. You have tried to finance?—I do not know what is meant by that.

634. I repeat, did you try to finance in London?—It is very possible. I do not remember any serious attempt to finance in London at all in 1891.

635. At any time?—No.

636. Then you have never made any serious attempt to finance in London since 1891?—In 1889.

637. When the debentures were issued?—It is very difficult to answer that question. We knew we should want money in 1891, and there is no doubt that inquiries were made more or less in the London market as to the probabilities of financing, but that is a very different thing.

638. Did you ever seriously try?—I really do not know.

639. You are chairman of the company, and they would not try to finance without letting you know?—In such cases, perhaps, one goes into the most likely offices and says, "So-and-so will be wanting money some day; is that what would suit you?" But all that is purely preliminary.

640. Did you ever issue any other debenture prospectus except the one?—No.

641. Then you never tried seriously to finance since 1888?—We never brought out another prospectus.

642. And you have never tried to finance, then, since 1889?—Not in that sense.

So that the company did not try to float any debentures in London after 1889; and at that date, of course, no mining reserves whatever had been made, and only a comparatively limited area up to the time of the presentation of the company's petition.

Mr. Button: When was that; August, 1892?

Mr. Blow: Yes, 9th August, 1892. Another statement made by Mr. Harris was as to the present legal position of the Government and the company. He contends that the Government will have to maintain the reservation over the whole of the reserved area, until the whole of the railway is finished, including the Nelson extension. I merely say that this is not the view of the Government, and we certainly do not admit that this opinion of Mr. Harris's is a sound one.

Mr. Button: Have you an opinion on it?

Mr. Blow: Yes; we have. Then, as regards Mr. Wilson's remuneration, Mr. Harris has admitted that the total amount of salary and commission paid to Mr. Wilson between November, 1889, and February, 1896, was £58,194, and the maintenance of the engineer's staff cost Mr. Wilson £16,513, leaving him a net profit of £41,681. Mr. Harris then went on to make this curious contention, that this was less than the engineering on public works cost the Government—namely, that the net profit to Mr. Wilson was less than the total expense to the Government, including all its local officers. My contention, in dealing with the debenture-holders' petition, was that the total cost of the Government engineering work—of the whole of the work—is not more than 5 per cent., including all salaries of all engineering officers from the Engineer-in-Chief downwards. In urging this view of the case, I would also ask you to bear this fact in mind, that the percentage which the engineering costs the Government might very reasonably be more than the percentage that a private company would pay; and for this reason, that a private company gets nothing done except what is useful and required, whereas a good deal of the work done for Government by engineers is ultimately useless. I mean that agitations are got up in different parts of the country to construct railways and other works which are not really wanted, and we have to make surveys to show that they are not wanted, whereas a private company need go to no expense except what is useful and what they require. It is also not unusual for local bodies to apply to Government for engineering assistance, and such assistance is frequently given to them. The whole of this cost is put upon the Government, and as there is no construction work to set against it, it simply increases the percentage of the cost of engineering on the Government's own works; so that one would expect that a company's engineering would cost them a great deal less. Our amount put down for engineering covers everything, including surveys. We have it in the evidence of Mr. Young upon the debenture-holders' petition, that the money paid to Mr. Wilson did not cover the whole cost, and that £15,000 in addition was paid for surveys.

Mr. Button: In this 5 per cent. do you calculate all the actual work done?

Mr. Blow : In stating that the Government engineering only cost 5 per cent., I am taking the gross salaries paid, and the gross cost of actual construction work done, and allowing nothing for works surveyed but not actually carried out. Mr. Young told the committee that whenever he, or any of the other engineers were engaged in survey work, they were paid by the company and not by Mr. Wilson; so that such portion of these officers salaries so paid by the company was really so much relief to Mr. Wilson.

Mr. Dalston : That £15,000 which the company expended in survey was spent for the survey of the line which we are now asking the Government for assistance to make.

Mr. Blow : Then, again, before the company started, the Government had spent thousands of pounds for surveys of this railway. From Belgrove to Stillwater was a flying survey, but the survey from Springfield to Brunnerton was a detailed survey.

Hon. the Chairman : You say that was a detailed survey.

Mr. Button : Is that the line that was adopted with the exception of this tunnel line?

Mr. Blow : Yes. The Government surveyed the line in detail, and the company has adhered to that line substantially; but, to suit themselves, and to save £400,000, the company has applied to the Government to substitute an Abt incline for the Summit Tunnel at Arthur's Pass. That alteration involved the abandonment of several miles of the surveyed line, but that alteration was made by the company to suit themselves, and to save a considerable sum of money. The company's prospectus, dated April, 1886, shows the names of the following gentlemen as engineers of the company—namely, John Carruthers, Robert Wilson, and Mr. Napier Bell, chief resident engineer. The information supplied by the company as to the cost of engineering begins only towards the end of 1889. These three engineers were in the employment of the company in 1886. As to Mr. Napier Bell, he was wholly employed by them, and the whole of his charges as against engineering is in addition to the amount paid to Mr. Wilson.

Mr. Button : Is that before 1888?—Yes.

Hon. the Chairman : We have only a return from 11th November, 1889, to June, 1895.

Mr. Button : Do you refer to moneys received before 1889?

Mr. Blow : Yes. The engineers referred to were in the service of the company from 1886, but whether they were all exclusively employed by the company I cannot say. We cannot get exact information as to the amounts paid. The company seems to have dealt very liberally with their engineers—if we may take the later payments to Mr. Wilson as a criterion—so I expect the payment made to Messrs. Wilson and Bell for the period between April, 1886, and November, 1889, was substantial. As to what was paid to Mr. Carruthers we have no information, but, as his name appears first on the list, I suppose he was regarded as chief engineer, and paid accordingly. If we could get a return showing not only the total payments to Mr. Wilson for salary and commission from 1889 to 1895, but also the payments from 1886 to 1889, also the payments to Mr. Napier Bell for the same period; and all the payments to Mr. Carruthers; and also the fees drawn by Mr. Wilson's firm in London since 1889; and if we were to add to this the £15,000 spent in surveys, over and above the amounts paid for engineering, it requires no prophet to tell us that it would come to very little short of the £100,000 which I stated, when dealing with the debenture-holders' petition, I believed the company had paid for engineering expenses.

Mr. Button : That increases the percentage and the engineering costs.

Mr. Blow : If we may assume that the cost is anything like £100,000, it is more than 13 per cent. on the cost of the works executed.

Hon. the Chairman : You will find that the commission paid to Mr. Wilson was equal to about 9½ per cent., as nearly as possible.

Mr. Blow : Yes; but that is the payment to Mr. Wilson only. You will find that the total cost of engineering amounted to nearer 13 per cent. on the whole amount expended, or on what the company claims to have spent on the railway. It would amount to a greater percentage on what the Government consider the work ought to have cost, and the same work costs the Government 5 per cent., including everything.

Hon. the Chairman : Then, you say that it should not have cost the Midland Company more?

Mr. Blow : Yes. Now, with regard to the new proposals. I do not propose to go into them in detail, for the reason that they are practically the same as made in 1894, which were rejected by Parliament. In one respect, however, they are less favourable.

Hon. the Chairman : Four per cent. was the debenture interest last year.

Mr. Harris : It was 4 per cent. in 1894.

Mr. Blow : I think not, sir; I think it was 3½ per cent.

Hon. the Chairman : What the Government proposed afterwards, in reply to the company, I think, was 3½ per cent. The company's proposal was 4 per cent.

Mr. Blow : No, sir, it was 3½ per cent.; the rate is set out in clause 12 of the draft contract submitted to the Government in Mr. Wilson's letter of 4th October, 1893—D.-3, of 1894. As I have already stated, in one respect these new proposals are less favourable than the already rejected ones. In 1894 the company proposed to complete the section of the line between Belgrove and Motupeka at a cost of about £30,000, and to hand it over to the colony as a gift; or, practically, as a bonus to the colony, to accept the other terms offered. That forms no part of the present proposal, and the reason is that the Government are constructing that section themselves. There is another important matter which no doubt the Committee will give full weight to: it is that in 1894 we did not know our legal position as well as we know it now. It was asserted by the company, and there were many people in New Zealand who believed it to be true, that the Government had done this company serious injury. Of course, the Government never held this view. But it is possible that many honourable members held that view, and this Bill was brought in to settle all disputes and grievances, supposing that the company really had had any. It was deemed advisable

to make this proposal to settle all disputed matters. But these disputes have now been settled in another way. The incentive that existed in 1894 to make a liberal dealing with the company does not exist now.

Hon. the Chairman : That is the legal contention.

Mr. Blow : Mr. Dalston says the proposal is to float a new company in London with a capital of £2,200,000. He says, " We have every confidence of success," but he does not give any grounds on which he has based his opinion. I should be sorry to say a word to prejudice the position of the company in the event of an arrangement being made under which they would have to go to the London market to float a new company ; but the Committee will doubtless form its own opinion of the prospects of the company being able to raise £2,200,000, to take up the debentures of the old company to the amount of £745,000, and to complete a section of the railway that is to cost something under a million, making the gross total amount required £1,745,000, and on account of which they are to receive assistance to the amount of £618,000, leaving the net amount required at £1,127,000, so that the new company is to have a capital of double the amount of its prospective outlay, which seems again to allow a very liberal margin for substantial engineering, commissions, and directors' fees.

Hon. the Chairman (to Mr. Dalston).] You are aware that the amount on which commission was paid to Mr. Wilson was £461,764 ; from the 11th November, 1889, to the 30th June, 1895.

Mr. Dalston : Is that the statement of Mr. Labatt ?

Hon. the Chairman : Yes.

Mr. Dalston : I will take that as correct.

Hon. the Chairman : £461,764, on which commission was paid £43,748 : the statement you made yesterday was rather different.

Mr. Dalston : That was a later date.

Hon. the Chairman : You will find that is nearly equal to $9\frac{1}{2}$ per cent. ?

Mr. Dalston : Yes.

Hon. the Chairman : The amount expended for construction up to the 25th April, 1896, is £763,958 ; a small part of which, I take it, has been expended by the Government ; then the difference between the amount shown on which Mr. Wilson got equal to $9\frac{1}{2}$ per cent, leaves a balance of £302,194, about which I want to ask you, whether you have any knowledge of commission having been paid on that balance or any part of it ? I am aware that all kinds of charges are therein included.

Mr. Dalston : That would account for the difference.

Hon. the Chairman : Not for the whole of it ; for, you will see, the contract is over half a million. I take it that Mr. Wilson's arrangement, by which he got commission, covered all contracts.

Mr. Dalston : On some of these items he would only get $7\frac{1}{2}$ -per-cent. commission.

Hon. the Chairman : Those cases are very few and far between where he gets less.

Mr. Dalston : He received no commission on any other sums than those stated by Mr. Labatt.

Hon. the Chairman : This statement furnished by Mr. Labatt is from 11th November, 1889 ; we have it that he was in the service of the company very much on the same terms long before that time. From the period when he first joined the company in 1886, the large amount of £302,000 had been expended, on which he may or may not have been paid commission ?

Mr. Dalston : I might say that, practically, the whole of this £763,000 is debenture-holders' money, none of which was expended prior to 1889.

Hon. the Chairman : Had commission been paid on that balance at the same rate it would have amounted to £28,000 ?

Mr. Dalston : He has not received that.

Hon. the Chairman : You think so ?

Mr. Dalston : I am sure of it.

Hon. the Chairman : You have only recently been connected with the company ; you therefore do not know what happened before 1889 ?

Mr. Dalston : My opinion is that he was paid a nominal retaining-fee.

Mr. HARRIS in reply.

Mr. Harris : I thought I had explained in my opening address that I took it as a matter of course that the members of the Committee were seized of all the facts which were preserved in the Government papers. For that reason I have not adduced evidence other than by reference to documents which are obtainable by the members of the Committee. If I go shortly through the remarks made by Mr. Blow, I think I can show you that every statement put before you by me is founded on evidence supplied from time to time by the company. Whether you believe it or not is another matter. I can show you conclusively, from the company's point of view, that the facts are what I have stated them to be. The main object of my address was to establish a connection between the Government and the company ; to impress upon the Committee the consideration that, whether the failure of finance was due to the company or to the force of outside circumstances, there was no doubt that the time had arrived for an equitable compromise between the Government and the company. With regard to the statement that the company's prospectus was not approved by the Agent-General, I will refer you to the evidence of Mr. Salt before the Arbitration Court, 1896, D.-4, page 177 :—

555. This is a copy of the prospectus. [Exhibit No. 121—prospectus dated the 18th April, 1886, put in and handed to witness. Witness identified it.] Was this prospectus submitted to the Agent-General ?—Yes.

556. Was it approved by him as you see it printed ?—Yes.

With regard to the serious question of the mining reserves, Mr. Blow has taken objection to my reference to the action of the Government in 1887 in issuing the Larnach Proclamation. I think the Committee will remember my statement was that the Larnach Proclamation had had some effect

in crippling the finance of the company. But that difficulty was only temporary. It was subsequently got over. It was not until later, when the Proclamation began to operate through the action of a succeeding Government, that the really serious effect came to be felt by the company. I do not think that we should, at this period of the company's existence, have had any dispute as to what were the facts in connection with the mining reserves. I referred generally to the evidence before the Arbitration Court. But I wish to point out that whether the reserves were actually made or not is not material to my case; the fact that the Government gave notice of it was quite sufficient to condemn the company's prospects. It was stated that but few reserves were made up to 1892. As to that, I will refer you to letters and correspondence between the general manager and the Minister for Public Works, which are printed in I.—7A, 1892, used as an exhibit in the arbitration proceedings, page 18, and read as follows:—

The GENERAL MANAGER, Midland Railway Company, to the Hon. the MINISTER for PUBLIC WORKS.

New Zealand Midland Railway Company (Limited), Christchurch, 6th October, 1890.

SIR,—

Re *Mining Reserves*.

I learn that the Government is taking steps to define some of these reserves, and that plans are already prepared, and I have to request that you will cause the company to be furnished with copies of such plans, so that there may be time for inquiring into the proposed reserves, before they are finally decided upon, as already promised by the Minister of Lands in his letter dated 13th August, 1888, and on subsequent occasions.

I have, &c.,

For the New Zealand Midland Railway Company (Limited),

ROBERT WILSON,

The Hon. the Minister for Public Works, Wellington.

Engineer-in-Chief and General Manager.

The ASSISTANT UNDER-SECRETARY for PUBLIC WORKS to the GENERAL MANAGER, Midland Railway Company.

Public Works Office, Wellington, 23rd October, 1890.

SIR,—

Re *Midland Railway. Mining Reserves*.

I am directed by the Minister for Public Works to acknowledge the receipt of your letter of the 6th instant on the above-mentioned subject, and, in reply, to inform you that it is intended to furnish your company with copies of the plans of the reserves proposed to be made before the auriferous areas are definitely decided upon.

I have, &c.,

H. J. H. BLOW,

Robert Wilson, Esq., C. E.,

Assistant Under-Secretary for Public Works.

General Manager, New Zealand Midland Railway Company, Christchurch.

The Hon. the MINISTER for PUBLIC WORKS to the GENERAL MANAGER, Midland Railway Company.

SIR,—

Public Works Office, Wellington, 10th July, 1891.

In accordance with the promise I made at recent interview with you in Christchurch, I now forward description of two blocks of land which it is intended to immediately set apart and define by Proclamation, as provided by clause 16 of the Midland Railway contract as required for *bond fide* mining, and the several purposes connected therewith.

It is proposed to first proclaim the block of 5,250 acres at Kumara Flat, to be followed by a further Proclamation of the block of 9,900 acres at Piper's Flat, Kelly's Terrace, Stafford, and Waimea.

Proclamations defining further blocks will follow from time to time in areas not exceeding 10,000 acres at any one time, as provided by the contract.

I have, &c.,

R. J. SEDDON,

Minister for Public Works.

Robert Wilson, Esq., C.E.,

General Manager, &c., New Zealand Midland Railway Company, Christchurch.

[Further letters intimating intention to reserve other blocks of land for mining-purposes were sent to the company as under: 25th August, 1891; 10th September, 1891; 16th September, 1891; 19th September, 1891; 2nd October, 1891; 6th October, 1891; 14th October, 1891; 24th October, 1891; 27th October, 1891; 4th November, 1891; 14th January, 1892; 31st March, 1892; 6th April, 1892; 26th April, 1892; 3rd May, 1892; 9th May, 1892; 19th May, 1892; 26th May, 1892; 7th June, 1892; 10th August, 1892.]

All these letters, giving notice of the Government's intention to reserve, were written before August, 1892, the date at which, as we have heard from Mr. Blow, the company was in financial difficulties.

Mr. Blow: Were they all reserved?

Mr. Harris: Yes, they were. It was the intention of the Government to make the reserves, not the actual making of the reserves, that frightened the people at Home. I would refer to Mr. Burchell's evidence—page 187, D.—4, 1896—called and examined by Mr. Cooper as follows:—

JAMES WARD BURCHELL recalled.

90. Mr. Cooper.] You say the debentures stood at 96 in 1891. At the beginning of 1892 they dropped to about 88. Can you give any reason for that?—I can only give the reason that was given to me.

91. By whom?—By one of the members of the syndicate who originally subscribed for shares—Mr. Marnham, a member of the London Stock Exchange. He spoke to me on, I think it was, the day of the general meeting, or the next day, in 1891.

92. What month?—November, 1891. He said, "I am very anxious about the position of these debentures. There are very unfavourable rumours going through the City that the Government are not treating the company fairly." He said, "I want you to remove those rumours if you can. Can you give me your assurance that there is no foundation for them?" I said I could not give him such an indefinite assurance as that, as there were difficulties between the Government and the company, but I hoped they would be removed.

93. Can you say whether at that time news of the proposed mining reserves had reached London?—Certainly. He referred to it himself in the course of the conversation.

94. He referred to the reservation?—Yes; he said one thing he had heard was that there was great difficulty about the land-grant, that the Government were making reserves, or were going to make reserves. He asked me whether that was one of the questions on which the difference had arisen with the Government.

95. Can you tell us the names of some members of the syndicate who underwrote those debentures?—He was one, Coleman and May, Sir Samuel Montagu, Schlesinger, Nickison, Bishop, and others. Those were the biggest men.

96. You have referred to Mr. Marnham, Mr. Bishop, and Sir Samuel Montagu—are those gentleman of standing in the London money-market?—Unquestionably; everybody knows them.

I refer you to this statement to show you that my address was carefully prepared, and that every statement made by me is borne out by the actual facts as appearing in the parliamentary papers. I do not propose to touch at any great length on the question of the engineering costs to

the company. It does not appear to me that the question of payments to Mr. Wilson has anything to do with the present proposals of the company to take up a new contract. If Mr. Wilson was paid, say, £70,000, he may have been paid £40,000 too much; but that sum came out of the shareholders' pockets. I do not think that can be used as an argument against the present proposals of the company to the Committee.

Hon. the Chairman.] Does it not add to the cost up to date of the railway?

Mr. Harris : It may have; but that has gone by; the money has been spent.

Mr. Button : Is it not an item for consideration if the company were not economical in their methods?

Mr. Harris : That might be so; but there is no reason why there should not be an arrangement made by which the Government would have every power to check it. The Government had the power to check the company's actions under the old contract, but did not avail themselves of it.

Mr. Button : We may presume the Government has not that power; but might not this be an item for consideration in connection with the purchase?

Mr. Harris : That is referring to another part of the petition, with which I am not at present dealing. I think we can say that under the new company—for there will be a new company—it would not follow that the same mode would be adopted.

Mr. Button : As far as the directors are concerned, is there any reason to apprehend that it might be sanctioned by a few directors?

Mr. Harris : I cannot say.

Mr. Button : For it is possible, if there was mismanagement under a former board of directors. There is no guarantee against such mismanagement under another.

Mr. Harris : I do not think it was mismanagement; it was want of knowledge. If there was any blame to be attached to the directors at Home it was from a want of knowledge; they had not the way of doing things which we have out here; they were used to paying larger fees than those paid in this colony.

Hon. the Chairman : I think that the company's directors have shown themselves to be ultra-liberals.

Mr. Hogg : Do you think it may not have been double?

Mr. Harris : If it was so, the loss was the shareholders'.

Mr. Hogg : But would not that imply serious mismanagement?

Mr. Harris : I do not know that it would. The directors were charged with the prosecution of an undertaking of great magnitude, and it was necessary to get the best information to be had at the time from professional engineers and experts; they appointed gentlemen whom they believed to be worth what was to be paid to them. We are now viewing things in the light of after events: If the line had been completed east and west, north and south, would any question ever have been raised as to the amounts paid to the engineers?

Mr. Hogg : If the shareholders knew of it.

Mr. Harris : The shareholders had every opportunity of knowing perfectly well what was paid to Mr. Wilson.

Mr. Blow : Mr. Harris is giving his own opinion; there is no evidence upon the point.

Mr. Harris : With regard to the cost of engineering in the colony, I would point out that it is open to a private company to pay one man for work a sum which it is the custom in the colony to distribute among a number of men; and, though this is so, the work may cost just the same in the two instances. There may be ways of looking at the matter where only one man is employed that will increase the value of the work done. It is a matter of policy for a company and the persons interested in it as to whether they should employ one highly-paid engineer or a number of small-salaried men. I think, if the Committee were satisfied that the cost of constructing the line was no greater than that in other instances of the same class, then no blame could be attached to the directors for paying Mr. Wilson what they have paid him. So far as the engineers and the company are concerned, I do not think it is likely that the fact of Mr. Carruthers' name appearing in the prospectus of the company, in conjunction with that of Mr. Wilson, is evidence of his receiving a salary, any more than the fact of Mr. Burchell's and the other solicitor's names appearing on the prospectus would entitle them to receive payment. They were persons retained by the company to be ready at a moment's notice if they were wanted; but it does not follow necessarily, because their names appear in the prospectus, that they received any remuneration at all. With regard to the statement of the legal position in 1894, so far as I know, the Government is in no better position now than it was then. In 1894 the company was talking about arbitration. It now knows what the result of the arbitration is. The ultimate probable results of the arbitration have not been worked out. No one at the present time is able to say what amount of litigation there may be still in store in connection with the award made by the arbitrator. No mention was made in Mr. Blow's address of the important position of trust which, I assert, the colony has assumed by its seizure of the railway. I do not want to address the Committee upon it, but it is a matter for consideration, when preparing the report you will make upon the question, as to whether the present proposals of the company are worthy of your recommendation. That is a matter about which the Committee would not be inclined to take any statement from me as being absolutely correct. But if I have got the ear of the Committee to this extent, that this question of trust will be looked into, then I have done all that it is my duty to do. I leave it to the Committee. But we now take up a position different from that which, it is generally assumed, we are taking. We come before you to ask for a new contract. I hope the Committee will look upon it in the light that everything that happened in the past is buried. We need only take the fact that two lines of railway exist—one on the west coast of the South Island and one on the east. To connect the two it is necessary to build fifty-seven miles of permanent-way. If these two lines were connected the whole of the South Island would be covered by railways. The advantages to be derived from this connection are fully set out in the papers which

are before the Committee, and I do not think it is necessary for me to add anything to what has been put before previous Committees on this question. The question appears to me now to be, first of all, as to the advisability of that fifty-seven miles of line being completed. If you think it is advisable, the next question is as to what will it pay the colony to give for the completion of the line. In considering this, you should not forget the position of trust in which the colony now stands, and the legal position in which it stands under the contract with the Midland Railway Company of 1888 in relation to the land-grant, and also the award of the arbitrator in pursuance of the terms of that contract. I do not think I need say any more; but, should the Committee require any information which may have escaped me, I shall be happy to supply it.

Hon. the Chairman: Did it ever occur to you to call as a witness the late Agent-General in reference to a portion of your statements. He is in the colony, if not in Wellington.

Mr. Harris: Yes, he is in the colony. If the Committee wish it I will call him, but I think we are prepared to stand by the evidence that is already printed.

76. *Hon. the Chairman.*] Could you tell the Committee, Mr. Dalston, what fees the directors drew; or can the information be got from Mr. Labatt?—I think he could give it to you.

77. Will you be good enough to ask him to make a memorandum of it. You say that if the proposals now before the Committee are accepted, you could carry out and complete the works?—If these proposals are entertained we could raise the necessary funds. Mr. Blow said this was a mere statement. I make the statement because I have received a letter from the chairman of the board of directors, authorising me to make the statement that if these proposals are accepted the necessary funds can be raised.

78. You have no doubt about that?—I have no doubt; I make the statement on the authority of the company.

SATURDAY, 22ND AUGUST, 1896.

Mr. F. H. LABATT sworn and examined.

1. *Hon. the Chairman.*] The last time you were before the Committee in regard to the payments to the chief engineer of the Midland Railway Company, you promised to give the Committee a return of these and other payments?—Yes.

2. That was for the portion of the time that Mr. Wilson served the company? The payments commenced from the 11th November, 1889?—Yes; from the 11th November, 1889.

3. The company had been in existence for some years before?—From the 17th April, 1886.

4. Could you furnish any particulars of such fees paid before that time?—There were certain fees paid in London, and which appear in the company's books. There were other fees charged to construction; but there is nothing to show that these fees were paid to Mr. Wilson.

5. Are you able to supply the particulars to the Committee?—I could supply you with the total amount of engineering fees paid, a portion of which are not included in the statement handed in.

6. Will you do that?—Yes.

7. You furnished a return of fees paid to directors up to the 30th June, 1887; those, I presume, were the first fees paid. On the 30th June, the return furnished by you shows up to that date £4,083 6s. 8d.?—That amount appears in the balance-sheet as part of the expenditure, from the date of the incorporation of the company, 17th April, 1886, to 30th June, 1887.

8. That is, the actual fees paid to the directors?—Yes; the fees to 30th June, 1888, £3,500; to 30th June, 1889, £3,500; to 30th June, 1890, £3,500; to 30th June, 1891, £3,500; to 30th June, 1892, £3,125; to 30th June, 1893, £1,799 4s. 5d.; to 30th June, 1894, £1,750: making a total of £24,757 11s. 1d. paid by way of directors' fees on behalf of the Midland Railway Company. [Exhibit B.]

9. Then, these are all the moneys, to your knowledge, that have been paid in directors' fees?—I have come across other amounts that would come under the heading "Fees"—not directors' fees, but committee fees; there were certain gentlemen in New Zealand who acted for the company in the colony.

10. Not included in the directors' fees paid in England?—Yes.

11. Will you furnish a return of those also? In fact, returns of all fees other than commissions?—Yes; other than those paid to the directors.

Mr. Button: They should be distinguished.

12. *Mr. Hogg.*] There were two other engineers—Messrs. Carruthers and Bell?—Mr. Bell was one of the company's engineers.

13. Will you furnish them separately?—I have no information about Mr. Carruthers in connection with the Midland Railway Company; there is nothing in the company's books to show any transactions between Mr. Carruthers and the company.

14. Mr. Napier Bell was an engineer for the company?—Yes.

15. *Dr. Newman.*] Will you tell us who constituted the New Zealand board: you told us there was a board of advice?—I do not know how many there were on the committee, but the following gentlemen were members: The Hon. C. C. Bowen, Mr. Frederick Banks, of Christchurch, Mr. Sclanders, of Nelson, and, I think, Mr. Fell, of Nelson, was also a member of the committee.

16. *Hon. the Chairman.*] You will furnish the names of all the officers and directors, and the fees paid to each, outside the returns you have already given?—Yes. [See Exhibits F, G, and H.]

Exhibit A.

Public Works Department, Wellington, 26th August, 1896.

SIR,—

Re *Midland Railway Company's Petition.*

I have the honour to forward to you herewith the statement showing the mining reserves proclaimed before 9th August, 1892, and the respective areas objected to and not objected to by the Midland Railway Company, which I referred to in my address before the Committee on Friday last.

The figures in the columns headed "Justifiable" and "Unjustifiable" are not quite the same as those I read to the Committee. You will probably recollect that I stated that the return had been placed in my hands during the sitting of the Committee, and I had not therefore had any opportunity of satisfying myself as to its correctness, and when examining it at the office after the adjournment of the Committee I discovered several inaccuracies. The return now furnished is correct, however, and still shows that only 169,503 acres had been proclaimed as mining reserves up to 9th August, 1892, and that the great bulk of these reserves are admitted by the company to have been justifiably made.

I have, &c.,

The Chairman, Public Accounts Committee,
House of Representatives, Wellington.

H. J. H. Blow, Under-Secretary.

P.S.—When correcting my evidence I will see that the necessary alterations in the figures I specially referred to in my address are duly made.

H. J. H. Blow.

STATEMENT showing MINING RESERVES proclaimed prior to 9th August, 1892, and the respective Areas which the Midland Railway Company regards as having been "justifiably" or "unjustifiably" proclaimed: *vide* Statement submitted by Company's Counsel to Arbitration Court (see page 16 of Parliamentary Paper D.—4B of 1896).

Number.					Area reserved.	"Justifiable."	"Unjustifiable."
					Acres.	Acres.	Acres.
Westland District—							
I.	...	...	...	...	5,250	800	4,450
II.	...	...	...	...	9,900	9,900	...
III.	...	...	...	...	8,250	8,250	...
IV.	...	...	...	...	5,700	5,700	...
V.	...	...	...	...	10,000	5,400	4,600
VI.	...	...	...	...	3,500	370	3,130
VII.	...	...	...	...	10,000	9,000	1,000
VIII.	...	...	...	...	10,000	10,000	...
IX.	...	...	...	...	3,000	1,900	1,100
X.	...	...	...	...	5,000	5,000	...
XI.	...	...	...	...	3,000	130	2,870
XII.	...	...	...	...	2,000	1,336	664
XIII., 8a	...	...	...	...	1,700	200	1,500
XIV.	...	...	...	...	3	3	...
Nelson District—							
81	...	...	...	...	4,500	1,100	3,400
77	...	...	...	...	7,500	1,770	5,730
74	...	...	...	...	8,800	5,500	3,300
70	...	...	...	...	6,500	3,200	3,300
69	...	...	...	...	9,000	3,620	5,380
65	...	...	...	...	10,000	1,270	8,730
62	...	...	...	...	10,000	3,110	6,890
59	...	...	...	...	10,000	7,150	2,850
54	...	...	...	...	7,000	6,620	380
53	...	...	...	...	9,000	4,100	4,900
51	...	...	...	...	9,900	5,700	4,200
Totals					169,503	101,129	68,374

H. J. H. Blow, Under-Secretary.

Public Works Office, Wellington, 26th August, 1896.

Exhibit B.

STATEMENT showing AMOUNT of DIRECTORS' FEES (England) paid to 30th June, 1894.

Year ending	Amount.		
	£	s.	d.
30th June, 1887	4,083	6	8
" 1888	3,500	0	0
" 1889	3,500	0	0
" 1890	3,500	0	0
" 1891	3,500	0	0
" 1892	3,125	0	0
" 1893	1,799	4	5
" 1894	1,750	0	0
Total	£24,757	11	1

Wellington, 21st August, 1896.

F. H. LABATT,
Accountant to Receiver.

Exhibit C.

STATEMENT showing SALARY and ENGINEERING FEES received by Mr. WILSON when Engineer-in-Chief and General Manager, from 1889 to 1895, deducting his Expenditure incurred in Connection with the Same.

The New Zealand Midland Railway Company (Limited),
No. 156, Worcester Street, Christchurch, N.Z., 1st August, 1896.

	£	s.	d.
Salary (1889 to 1895)	14,440	14	10
Commission; engineering fees (1889 to 1895)	43,754	15	5
	58,195	10	3
Less expenditure incurred (1889 to 1895)—			
Engineer's Account, being payments for survey and camp implements	£1,679	0	4
Travelling-expenses	588	4	11
Salaries of assistant engineers, inspectors, &c.	12,652	5	7
Advertising	191	15	8
Postages, printing, and office expenses	1,402	0	9
	16,513	7	3
	£41,682	3	0

THE NEW ZEALAND MIDLAND RAILWAY COMPANY (LIMITED)
(Norman H. M. Dalston, General Manager).

Exhibit D.

Public Works Department, Wellington, N.Z., 20th August, 1896.

SIR,— *Midland Railway: Proposals of Company for a New Contract.*

Certain proposals of the Midland Railway Company for the completion of the portion of their railway between Canterbury and Westland have been under the consideration of the Government recently, and Cabinet has decided to lay the same before your Committee for consideration and recommendation. I have therefore the honour, by direction of the Minister for Public Works, to forward to you herewith copy of the general manager's letter of 5th instant, containing the proposals referred to.

I have, &c.,

H. J. H. BLOW, Under-Secretary.

The Chairman, Public Accounts Committee, House of Representatives, Wellington.

Wellington Club, Wellington, 5th August, 1896.

SIR,— *Midland Railway.*

I have the honour to lay before you the company's proposals for a new contract, which I trust will receive favourable consideration, and the support of Government. The proposals are based somewhat upon the lines of the Bill introduced by you in 1894, and are briefly as follows:—

1. The company to release, within three months from the date of signing the new contract, all the land reserved from sale within the authorised area, as defined in the existing contract, excepting so much as shall have been selected by the company, and also that which it is still entitled to select.

2. The new contract to be for a period of five years.

3. Provision shall be made in the new contract that the company shall be called upon to complete the construction of the line from Patterson's Creek to Jackson's only.

4. Government to issue New Zealand Government $3\frac{1}{2}$ -per-cent. debentures, amounting to £618,250, being the B1 value of land to which the company would be entitled by the construction

SUMMARY of "SUNDRY RECEIPTS and LAND EARNED" to 30th June, 1894, making a Total of £427,604 10s. 1d., as per the Company's Balance-sheet at 30th June, 1894.

Particulars.	Amount.		
	£	s.	d.
Exchange	302	3	2
Deposit for land sold, royalty and transfer fees	513	2	9
*Land acquired at contract valuation	265,150	0	0
Land rents	7,602	9	5
*Increase in value of land sold	88,336	5	6
Interest	44,445	3	9
Coal royalty	353	18	0
Transfer fees	22	0	0
Traffic receipts	20,879	7	6
	<u>£427,604</u>	<u>10</u>	<u>1</u>

Wellington, 22nd August, 1896.

F. H. LABATT, Accountant to Receiver.

* These amounts are subject to adjustment on account of subsequent alterations made in respect of land selected and land sold.

SUMMARY of SUNDRY EXPENDITURE to 30th June, 1894, making a Total of £1,273,546 15s. 11d., as per the Company's Balance-sheet, at 30th June, 1894.

Particulars.	Amount.		
	£	s.	d.
Purchase of rights under contract dated 17th January, 1885	6,000	0	0
Commission, law charges, and advertising (1887)	21,143	14	4
Commission and expenses <i>re</i> issue of debentures	58,420	1	7
Discount on debentures (7½ per cent.)	55,785	0	0
Trustees' fees (debenture-holders)	1,894	12	6
Committee fees (New Zealand)	4,750	0	0
Directors' fees (England)	24,757	11	1
Law costs (England)	2,435	1	0
Salaries, rent, interest, and other current expenses	35,462	16	9
Land-grant expenses	18,613	16	11
New Zealand rates and taxes	12,201	1	6
Timber department	6,459	5	10
Interest to shareholders	77,162	15	4
Interest to debenture-holders	188,053	0	9
Cost of constructing the line to 30th June, 1894	760,407	18	4
	<u>£1,273,546</u>	<u>15</u>	<u>11</u>

Wellington, 22nd August, 1896.

F. H. LABATT, Accountant to Receiver.

Exhibit F.

STATEMENT showing Amount of FEES paid to the TRUSTEES for the DEBENTURE-HOLDERS to 30th June, 1894.

Year ending	Amount.		
	£	s.	d.
30th June, 1890 (England)	483	6	8
" 1891 "	400	0	0
" 1891 (Messrs. McMillan and Acland, New Zealand)	105	0	0
" 1892 (England)	327	2	6
" 1893 "	279	3	4
" 1894 "	300	0	0
	<u>£1,894</u>	<u>12</u>	<u>6</u>

NOTE.—The company's liability to Messrs. McMillan and Acland amounts to £52 10s.

E. and O. E.

F. H. LABATT, Accountant to Receiver.

Wellington, 22nd August, 1896.

Exhibit G.

STATEMENT showing Amount of FEES paid to the COMMITTEE of ADVICE, NEW ZEALAND (Hon. C. C. Bowen, Messrs. David Hean, James Sclanders, C. Y. Fell, and Frederick Banks), to 30th June, 1894.

Year ending.	Amount.		
	£	s.	d.
30th June, 1887	750	0	0
30th June, 1888	1,000	0	0
30th June, 1889	1,000	0	0
30th June, 1890	1,000	0	0
30th June, 1891	1,000	0	0
	<u>£4,750</u>	<u>0</u>	<u>0</u>

E. and O. E.

Wellington, 22nd August, 1896.

F. H. LABATT, Accountant to Receiver.

Exhibit H.

STATEMENT showing Amount of ENGINEERS' FEES paid in London and included in the Sum of £48,192 15s. 3d. (Engineers' Fees Account) charged to Construction of the Line.

Date.	To whom paid.	Particulars.	Amount.		
			£	s.	d.
Prior to 1st October, 1889	No particulars ...	On contracts Nos. 1, 2, and 3 ...	8,567	4	5
Prior to 1st October, 1889	No particulars ...	On new contracts ...	1,146	8	9
			9,713	13	2
6th February, 1891, to 27th May, 1893	Robert Wilson (per his agent George Wilson)	For preparing reports, drawings, and specifications of railway material shipped to New Zealand, inspecting the manufactures, and certifying the same	1,375	19	7
			<u>£11,089</u>	<u>12</u>	<u>9</u>

Wellington, 22nd August, 1896.

F. H. LABATT, Accountant to Receiver.

Exhibit I.

Public Works Department, Wellington, 7th September, 1896.

SIR,— Re *Midland Railway Company's Proposals for a New Contract.*

I have the honour, by direction of the Minister for Public Works, to forward to you here-with a letter recently received from the Agent-General, covering copy of a memorandum by Mr. Robert Wilson, containing proposals for reconstruction of the New Zealand Midland Railway Company (Limited), and for a new contract with that company for the completion of the portion of the line between Springfield and Brunnerton.

I have, &c.,

The Chairman, Public Accounts Committee,
Wellington.

H. J. H. BLOW, Under-Secretary.

Westminster Chambers, 13, Victoria Street, London, S.W.,
15th July, 1896.

SIR,—

I beg to transmit herewith memorandum in original which Mr. Robert Wilson has handed to me, giving particulars of a proposed method for the reconstruction of the New Zealand Midland Railway Company.

As the Government will probably have under its consideration proposals in connection with this matter, I deem it right to forward Mr. Wilson's proposal, as possibly contributing towards its settlement.

I have, &c.,

The Hon. the Premier, Wellington.

W. P. REEVES.

MEMORANDUM.—1ST JULY, 1896.

A Proposed Method of Reconstruction of the New Zealand Midland Railway Company (Limited).

(a.) Conversion of debenture-capital and part of the ordinary shares into 3-per-cent. guaranteed stock, interest guaranteed by New Zealand Government.

(b.) Issue further guaranteed stock to finish the section to connect the East and West Coasts; all stock to rank alike.

(c.) Land-grant reserves to be thrown open by Government, and the value of land-grant allocated under contract to the unfinished section to connect the East and West Coasts. B value, £618,250, to be given in 3-per-cent. Government bonds, these to be held in trust by Government and credited with the interest the current balance will earn during the trust—say, five years of construction, and until the traffic developes to pay full interest of 3 per cent. on capital.

(d.) The earnings of Reefton Section to go towards administration of company during the period of construction.

(e.) The new issue of stock, £1,250,000, to finish the east and west line to be issued in four yearly instalments: First year the amount of issue to be £400,000; second year, £400,000; third year, £250,000; fourth year, £200,000. This will save about £45,000 in interest.

(f.) Statement of capital, present and new:—

	£
Debenture-capital converted	745,000
Interest on two back years in stock p. r.	75,000
Ordinary shares, £250,000; 50 per cent. in stock	125,000
New issues to finish east and west line section	1,250,000
Total capital	<u>£2,195,500</u>

(g.) Annual interest, 3 per cent., when line completed	£ 65,865
(h.) Total interest to be paid in five years on basis of new issue being divided over four years and paid out of Trust Fund by Government	284,325
(i.) Trust Fund in bonds of New Zealand Government for paying interest each six months	618,250
Interest credited on balances, 3 per cent. over five years, earned during that period	69,082
	<u>£687,332</u>

(j.) After completion and construction interest paid, there is a balance left to meet deficiency in interest over earnings	£ 618,250
	69,082
	<u>687,332</u>
Deduct the interest paid	284,325
Balance on hand	<u>£403,007</u>

(k.) Net traffics towards dividend interest, assuming Government estimate, which is low, and would be exceeded in practice with the prospect of development on this West Coast first year	£ 24,000
Earnings Reefton Section	6,000
	<u>£30,000</u>

(l.) The first year's earnings on these estimates of £30,000 net, a shortage of interest deducted from £65,865 of sum of £35,865, to be paid out of balances, £403,007, Trust Fund.

(m.) To keep within safe limits it is assumed in calculating the annual development of traffic that the increase is only 5 per cent. per annum, and there is probability of a much greater increase. The result is after five years the shortage is reduced to £29,401 from £35,865 first year; in ten years, £19,369 from £35,865 first year; in fifteen years, £6,525 from £35,865 first year. In eighteen years the shortage vanishes, and there is a surplus of £2,224. At the end of twenty-five years this surplus rises to £29,791.

(n.) The total shortage of traffic during the eighteen years paid out of the Trust Fund amounts to the sum of £345,983. Balance in Trust Fund available to meet this is £403,007, and interest earned on the balances left in hand over the eighteen years of payment out is approximately £60,000. Deduct payments on account of interest, £345,983, from £403,007 plus £60,000 = £463,007 = balances in fund, £117,024.

(o.) On completion of the twenty-fifth year of working on same basis of increase—viz., 5 per cent.—the fund, if continued, would be increased by surplus earnings of £121,479, making money in hand, £236,503, and it would be capable in a very few years of repaying the original sum placed in Trust Account by the Government; and after this was done the surplus earnings would much increase the interest on the guaranteed stock of the company.

ROBERT WILSON, F.R.S.E., Mem. Inst., E.C.

Public Works Department, Wellington, 10th September, 1896

SIR,—

Re *Midland Railway Company's Proposals for a New Contract.*

In compliance with the request contained in your letter of the 9th instant, I now have the honour, by direction of the Minister for Public Works, to forward to you herewith a copy of a report which I have already had the honour to address to the Minister on the subject of Mr. Wilson's proposals for reconstructing the Midland Railway Company.

I have, &c.,

H. J. H. BLOW,

Under-Secretary.

The Chairman, Public Accounts Committee, Wellington.

Public Works Office, Wellington, 4th September, 1896.

Re Mr. Wilson's Proposals for Reconstruction of Midland Railway Company.

Hon. the Minister for Public Works.

THESE proposals are on somewhat similar lines to those which Mr. Dalston, the present colonial representative of the company, has submitted to the Government in his letter of 5th ultimo, and which are now under consideration by the Public Accounts Committee. Mr. Dalston, in his evidence before the Committee, stated that the new company would have a capital of £2,200,000, and the capital provided for in Mr. Wilson's proposals is £2,195,500. Mr. Dalston also stated that the proposed new company would arrange with the present debenture- and share-holders, and Mr. Wilson's proposals provide for retiring the present debentures and for giving stock in the new company to the shareholders in the existing company to the amount of half the nominal value of their shares; also, both proposals provide for the issue of Government bonds, in lieu of land-grant, to the new company to the amount of £618,250, but Mr. Wilson fixes the interest on these bonds at 3 per cent. per annum, whereas Mr. Dalston asks for $3\frac{1}{2}$ per cent. Mr. Wilson's proposals, however, provide for a Government guarantee of 3 per cent. on the total capital of the new company, but Mr. Dalston's proposals make no reference to any such guarantee.

Mr. Wilson's memorandum gives details showing how the scheme is intended to be worked. It seems that the £618,250 worth of 3 per cent. bonds, together with the interest accruing thereon, are to be held by the Government as a trust fund, and out of this trust fund the 3 per cent. guaranteed interest on the new capital of £2,200,000 is to be paid until such time as the earnings of the railway will enable the company to pay it themselves.

Mr. Wilson assumes that the railway between Springfield and Brunnerton will earn £24,000 a year directly it is opened, after paying working-expenses, and the section from Brunnerton to Reefton £6,000, making the total net earnings of the line, directly it is completed, £30,000 per annum. He also assumes that these net earnings will increase *ad infinitum* at the rate of 5 per cent. per annum, so that at the end of eighteen years the company would be able to pay the guaranteed interest itself, and at the end of twenty-five years would not only do this but have a margin of £29,791 besides. Assuming Mr. Wilson's basis of calculation to be correct, it is only a question of carrying the figures far enough to enable the company to earn profit sufficient to pay the interest on the national debt. I think, however, neither Mr. Wilson's figures nor his basis of calculating the probable increase of receipts can be accepted as reliable. He states that the estimate of £24,000 per annum as the net traffic receipts from the Brunner-Springfield Section is the Government estimate. This is decidedly incorrect. The estimate he quotes was made by one of the Railway Commissioners in giving evidence before the parliamentary Committee of 1892, but was not concurred in by the Chief Commissioner, whose estimate was only £14,660. The estimate is certainly not concurred in by the Government, nor by the present railway authorities of the Government. The present General Manager of Railways, in giving evidence before the Arbitration Court in December last, estimated that the gross receipts on this portion of the company's railway would be £46,203 per annum, and the working-expenses £39,335, leaving a credit balance of £6,868. The actual receipts from the Reefton line since it has been in the hands of the Government have only been a little over £4,000 a year, so that, instead of the net receipts from traffic being £30,000 per annum, they will probably not be more than £11,000 or £12,000.

Nor can anything like so large a rate of increase as 5 per cent. per annum be looked for in the net earnings. In the case of the Government railways the average increase in the receipts is about $2\frac{1}{2}$ per cent. per annum, and the opening of new extensions accounts for part of this. As there would not be any new extensions to open on the company's railway, it is not likely that their results would be more favourable than this.

If these figures should turn out to be anywhere near the truth, therefore, it would follow that Mr. Wilson's scheme would entirely fail, and a large part of the guaranteed interest (£65,865 per annum) would become a charge on the consolidated revenue of the colony. So far as the company is concerned this would not matter very much, of course, as they would always be sure of their 3 per cent. per annum; but the burden on the taxpayers of the colony would be a serious one, as, in addition to paying the deficiency in the guaranteed interest, there would also be the interest on the £618,250 worth of 3 per cent. bonds to be met, and the railway (the cost of which could to a large extent be defrayed by this issue of bonds) would still belong to the company.

As an illustration of the disadvantageous nature of the proposals, I may mention that the mere placing of the £618,250 worth of 3 per cent. bonds in trust would be sufficient in fifteen and a half years, with accretions of interest, to defray the entire cost of completing the Brunnerton-Springfield Section of the railway, and the line (if constructed by the Government) would belong to the Crown, and the liability to pay 3 per cent. interest on the guaranteed capital of £2,200,000 would be entirely avoided.

H. J. H. BLOW, Under-Secretary.

REGISTER OF EXHIBITS.

Exhibit.	Description of Exhibit.	Page.
A	Statement showing Mining Reserves proclaimed prior to 9th August, 1892	18
B	Statement showing amount of Directors' Fees (England) paid to 30th June, 1894	19
C	Statement showing Salary and engineering Fees received by Mr. Wilson from 1889 to 1895, deducting his expenditure incurred in connection with the same .. .. .	..
D	Proposals of New Zealand Midland Railway Company for a new contract, forwarded to the Hon. the Premier by Mr. Dalston, 5th August, 1896 .. .. .	..
E	The Company's balance-sheet, 30th June, 1894	20
	The Company's New Zealand balance-sheet, 30th June, 1894 .. .. .	..
	Summary of "Sundry Receipts and Land earned" to 30th June, 1894	21
	Summary of "Sundry Expenditure" to 30th June, 1894 .. .. .	..
F	Statement showing amount of Fees paid to the Trustees for Debenture-holders to 30th June, 1894 .. .. .	..
G	Statement showing amount of Fees paid to Committee of Advice, New Zealand, to 30th June, 1894	22
H	Statement showing amount of Engineers' Fees paid in London .. .. .	..
I	Fresh proposals of New Zealand Midland Railway Company, made by Mr. Wilson to the Agent-General, and forwarded by the latter to the Hon. the Premier; also Mr. Blow's report thereon .. .. .	..

LIST OF PAPERS

REFERRED TO IN THE MINUTES OF EVIDENCE, AND PRINTED IN THE APPENDICES TO THE JOURNALS OF THE HOUSE OF REPRESENTATIVES.

1886. D.—2B. Correspondence relating to Midland Railway.
1892. I.—7A. Report on Midland Railway Company's Petition by Public Accounts Committee (see, in particular, page 86).
1894. D.—3. Correspondence relative to the proposals of the Midland Railway Company for a new contract.
1896. D.—4. Midland Railway Arbitration—Minutes of Evidence, &c.
D.—4A. " Addresses of Counsel.
D.—4B. " Preliminary Papers, Statements of Claim, Award, &c.

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