

12. With regard to the 15th paragraph, the same official stated that competition between Government Telegraph Departments was contrary to the terms of the International Telegraph Convention, and that "it might afford another ground for complaint on the part of the existing companies that the Government would be acting contrary to the terms of the spirit of the International Telegraph Convention."

13. I learn, however, from the 10th and 11th paragraphs of Your Lordship's letter, that, whether or not the grounds urged by the colonies are adequate or justifiable, Her Majesty's Government have decided to support the project, "as providing an alternative route wholly under British control to the Australasian Colonies, and also, in case of emergency, to the East." It is, however, admitted by your letter "that another route *via* the Cape would offer greater advantages from a purely strategic point of view," and that route would certainly offer greater commercial advantages, since the traffic between the Cape and Australasia is four times larger than that between Canada and Australasia.

14. The inducement to Her Majesty's Government to adopt the less advantageous route by the Pacific appears to be that the representatives of Canada prefer, and to offer to contribute to, that scheme. I have already pointed out the insignificance of the Canadian-Australasian traffic. Your Lordship, however, appears to be labouring under a misapprehension in stating that "the colonies interested decline to lend any support to a cable by the Cape route," as some of the Australasian Colonies have already indicated preference for that route, and others would, I believe, be willing to support it if coupled with a reduction of rates. The companies have already intimated their willingness to make such a reduction on fair terms, even before the expiration of the subsisting tariff agreement. It appears, therefore, premature, at least, for Her Majesty's Government to favour the least advantageous route on the assumption that a Cape cable would receive no support from the Australasian Colonies; but, in order to meet this difficulty, the companies are now prepared to provide cable communication between the Cape and Australia without requiring any pecuniary assistance from either the colonies or Her Majesty's Government; and, as you are aware, proposals by the companies for laying an additional cable between this country and the Cape have been for more than two years under the consideration of Her Majesty's Government.

15. In estimating the cost of the Pacific scheme, Her Majesty's Government must, I respectfully submit, take into consideration the fact that if that scheme is carried out claims for compensation will undoubtedly be made both on behalf of the South Australian Government and of the companies. The ground on which the companies' claim will be based is precisely that which was acknowledged by Her Majesty's Government in the case of the acquisition of the inland telegraphs and Channel cables above referred to.

16. I am glad to observe in paragraph 19 of Your Lordship's letter that the duty of the Government is recognised to avoid unnecessary injury to the interests of the shareholders of the telegraph companies by the working of the Pacific cable, should it ever be laid. A first element of such duty would be to secure to the companies the power of equal competition for the European-Australasian traffic, and this would necessarily comprise the right to collect and deliver their international messages in Australasia in the same manner as prevails in this country, otherwise the companies would be entirely dependent upon the offices of their competitors for the collection and delivery of their international traffic in Australasia.

17. With regard to the 20th paragraph of Your Lordship's letter, I have already pointed out the fallacy of supposing that there will be a large development of revenue arising from the traffic between Canada and the United States and Australasia, or that the lowering of rates will immediately increase the general revenue arising from the Australasian traffic. I am at a loss to understand the statement in this paragraph that "it is from these sources" (really non-existent) "rather than by any diversion of business from the Eastern Extension Company that the new cable will look for employment, and that there is no intention of working the new cable on other than commercial lines, and at remunerative rates." If Her Majesty's Government really imagines that the traffic between Canada and the United States of America and Australasia, together with the increased volume of business which a reasonable lowering of rates is expected to produce, can give remunerative employment to a Pacific cable, this is an absolute delusion; for the report of the Committee avows that, even with the diversion of between one-third and one-half of the companies' European-Australasian traffic, and the estimated—and, indeed, overestimated—annual increase of 10 per cent. (which my former letter showed to be greatly exaggerated), no profit, taking into consideration the necessity for a duplicate cable, can be expected from the scheme for at least ten years—even with the aid of Her Majesty's Government in raising the money at $2\frac{1}{2}$ or $2\frac{3}{4}$ per cent. Such a scheme, I submit, is not framed on commercial lines.

18. If the Pacific-cable scheme is carried out as now threatened by Government capital regardless of profit or loss, and so as to deprive the companies (as the promoters and Committee avow it is intended to do) of from one-third to one-half of their European-Australasian traffic; and if beyond this a large reduction of tariff is forced upon them, inflicting a further loss; and if with all this loss the working-expenses are not reduced, but, on the contrary, augmented by the increased volume of traffic—what prospect is there of the companies being able long to withstand a competition carried on on such unequal and unpredecended terms? How, moreover, could the companies then form and maintain a reserve fund necessary for the maintenance and renewal of their lines, or for the necessary extensions required by commerce; which reserve fund, however, the last paragraph of Your Lordship's letter, in disregard of telegraph experience, appears to consider superfluous, and, at all events, which the Government seems to ignore? Further, it would be difficult, if the principle of Government-owned cables were once adopted for Australia, for future Governments to refuse similar facilities to other colonies and dependencies of the British Empire. I cannot conceal from myself the grave danger to the companies which these proposals entail, and I am convinced it will be little for the benefit either of Her Majesty's Government or of the Empire if, by this unprecedented and, as I submit, unfair competition, one of the most widely beneficial enterprises this century has seen should be unjustly crushed.