

The proposals to modify the service may be briefly summarized as follows:—That the calling at Kandavau shall be abandoned, and the Contractors relieved from performing the coastal service. The route to be San Francisco, Auckland, and Sydney, and *vice versa*, this department undertaking at its own expense to collect and distribute the mails along the New Zealand coast. The time between San Francisco and Auckland and Sydney to be 550 hours and 674 hours respectively. The Contractors to receive a gross subsidy of £72,500 a year, of which New South Wales agrees to pay £40,000, and New Zealand £32,500. To the payment made by this colony should be added the cost of the coastal service, at present carried out for £5,000 per annum, which increases the colony's annual liability on account of the San Francisco Service to £37,500, as against £44,975 paid when the coastal service was carried out by the Contractors with the main boats.

The coastal service as at present arranged provides for the outward mails being conveyed to Auckland by way of Napier, and the steamers appointed to distribute the inward mails take their departure from the Manukau.

The adoption of the altered route admits of the mails from London being delivered in New Zealand two days earlier than the dates given in the time-table, while the outward mails are enabled to be despatched from Auckland two days, and from all other ports one day, later than was the case when the steamers were required to call at Kandavau. This late departure does not disarrange the dates fixed for the arrival of the mails at San Francisco and London.

The San Francisco Service has been performed satisfactorily, and generally the mails have been delivered within contract time. An accident which befel the "City of Sydney" at Honolulu, in April last, compelling her to prosecute her voyage to Auckland and Sydney with the aid of one engine only, caused the mails to be delivered six days late; but this was the only serious delay.

A reference to Tables Nos. 1 and 2 will show the times within which mails have been delivered in London, Melbourne, Sydney, and New Zealand by the San Francisco and Galle Services. The quickest delivery of mails between New Zealand and London by the San Francisco Service was made in thirty-nine days, but it is believed that even this time may be shortened. The Contractors contemplate making arrangements which would admit of the Australian and New Zealand mails being conveyed between New York and San Francisco in five days, and they are also disposed to agree to despatch their steamers from San Francisco for Auckland and Sydney immediately on the arrival of the London mails from New York. Should these arrangements be carried out, the time between Auckland and London could be reduced to thirty-seven days.

On the 31st December last the Imperial Post Office terminated all contracts providing for the carriage of mails from Great Britain to the United States, and did not make any permanent arrangement for the carriage of the colonial mails to New York. This had the effect of disarranging the San Francisco Service, and otherwise had a prejudicial effect on the line. To what extent this was the case will be better understood when it is stated that it became the practice for the London Post Office to advertise the dates for closing mails by the San Francisco route from month to month only, while the day of despatch was altered from Thursday to Saturday, in order to avoid forwarding the mails by slow steamer. This unsatisfactory state of affairs was forcibly brought under the notice of the Colonial Office and the London Post Office by the Agents-General for New South Wales and this colony, since which the original days of despatch have been reverted to, and the mails forwarded by powerful steamers. Although it is now understood that the mails will be despatched from London every fourth Thursday by the fast steamers of the Inman line, no permanent provision has been made for a continuous service, the present despatch being still a month-to-month arrangement. A permanent service, it is hoped, may soon be arranged.

The result of the proceedings against Messrs. Hall and Forbes and their sureties, for failure to carry out their contracts, has terminated in Mr. Cunningham, one of the sureties, agreeing to pay a sum of £10,000 as a full release to all parties concerned, which has been accepted. A further small sum on account of costs has also been recovered. Full information in connection with this matter, as well as with regard to the San Francisco Mail Service generally, will be found in the printed papers which have been submitted to Parliament.

The payments made, and the estimated postages and recoveries, on account of the San Francisco and Galle Mail services for the year 1876, may be gathered from the following statement:—

SAN FRANCISCO SERVICE.

Dr.	£	s.	d.	£	s.	d.
Subsidy to main line	43,939	4	3			
Bonus	2,559	5	8			
Inter-provincial services, Mail Agents, &c. ...	2,630	10	2			
				49,129	0	1
Cr.						
Postages from London	11,469	8	9			
Postages collected in the colony	12,428	3	8			
Recoveries from non-contracting colonies ...	1,489	14	1			
				25,887	6	6
Net cost to the colony				£23,741	13	7

684,568 letters, 105,479 book packets and pattern parcels, and 1,135,757 newspapers were received from, and despatched to, the United Kingdom by the steamers of the San Francisco Service.