

principle of capital cost, the railway earning 20 per cent. pays in taxation only one-fifth of the amount of tax the other does, earning 1 per cent. I think the application of this principle to a railway company is unjust; it would be fair to tax on its income or the returns of profit made. I may point out further, to show how inapplicable this principle of taxation is, if you have a railway on level country you would simply have ballast, sleepers, rails, rolling-stock, and station-buildings, these would be all that would be required for purposes of carriage. While, if you go over a rough country, every pound you spend over and above your rails, sleepers, ballast, and stations, is an expenditure to overcome difficulties which arise in the country itself, and which you would rather not have anywhere near your railway. That appears to me to be a strong argument for the modification of taxation on this railway. The next clause is the one relative to purchasing the railway in ten years. I have gone carefully into this, and have made out an estimate showing how £2,500,000 is made up. This is the sum at which the company propose to sell, if the Government wish to purchase. In the event of the company asking the Government to purchase, I have proposed a further concession. In that case the company's price is £2,000,000. In fact, it simply means this: if we are compelled to sell, and ask the Government to buy, we sell our railway for the debenture debt alone. I have made a fixed figure here to overcome the difficulties in the old contract, of certain allowances for interest during construction. I thought it better and simpler to have a definite figure fixed: In the case of the Government asking to buy, the price to be £2,500,000; and in the case of the company asking the Government to buy, the price to be £2,000,000. As to clause 21, relating to the purchase of the Belgrove Section, I have there suggested modifications. The Commissioners seem to take the view I have always held, that the country is not one likely to be productive of very heavy traffic, and they do not see their way to recommend the Government to purchase this section in the present form of the offer. I have, therefore, proposed modifications. The first proposal was to sell the Belgrove and Motueka line, six months after its completion, for £100,000. This I have modified in my letter to the Government, viz.: that we should take £100,000 for this line, spread over ten years; or, that we should sell this line for half its cost now, without completing it into the Motueka Valley, *i.e.*, for £30,000; or, that the Government should maintain and work the line and pay the company the net profits. I should suggest an amendment to this offer: that the Government purchase the line after ten years at a valuation. Clause 8 has a slight modification. It gave the Government power not only to call upon the company to make any alterations, additions, or repairs that the Government engineers may consider necessary. I have modified that, giving power of arbitration in the case of dispute as to necessary alterations. No material change has been made. Clause 41, page 21, refers to alterations of haulage-rates. I have made a suggestion, to get over a difficulty there is in accepting the clause in the old contract. This empowers the Minister for Public Works to reduce haulage-rates if any of them are considered excessive. We suggest now that we should take the Government present schedule rates of the Wellington-Masterton Railway, *plus* 25 per cent.; that that should be fixed as our maximum, and that we should be allowed to regulate our rates, not having power to increase them beyond that. That is simply to guard the company from any extraordinary or abnormal differences of charging rates, which might suit the Government but not suit the company. One clause, No. 21, Mr. Blow points out, we have omitted. It was omitted in error, and relates to the rights of miners to carry their works over or under the railway, with certain restrictions and regulations. That was struck out inadvertently, from the fact of its having been in amongst the old land clauses, which have disappeared from the present contract. These, I think, are the only points of any moment in the contract, or in the amendments, which have been submitted to the Committee by Mr. Blow. The points, then, are really of no great moment, it being really a matter of adjustment where required.

90. Mr. Blow here estimates the cost of the line when completed will be £1,775,500. You want £2,500,000?—Mr. Blow, in the first place, I must point out, has taken the old original estimate of the section of line in question; he has not added to that, or taken into account the amended estimate which was submitted last year to the Committee, and which I explained was due to the addition of iron bridges as against wood, and the lining of tunnels, which were omitted in the old Government estimate made from a 5-chain survey, as compared with our completed survey and quantities, and which were discussed in Mr. Hay's report. Moreover, Mr. Blow has taken the estimated works cost. The company must take its capital cost. There is not only the cost of the works, but others, such as the cost of raising the money, and interest during construction.

91. *Hon. Sir J. Hall.*] He takes interest during construction?—He does, but it does not work out as he puts it. I have here a brief estimate, which I will put in, showing how that cost is made up. This estimate shows how it does work out. It shows that in asking for £2,500,000 there is only about £30,000 more than the actual cost to the company; that, if the company ask the Government to purchase, it will have to sacrifice the whole of its share capital, and that it is only taking its interest on the construction over the three years and a half for the new works. I think if you examine these figures you will see that it is necessary. Mr. Blow has given you the bare cost of the works, made from the old estimates of the Government.

92. *The Chairman.*] Are these proposals the best offer you are instructed to make?—With the permission of the Committee I will read my letter of instructions, and thus prevent any misconception on this point:—

“The New Zealand Midland Railway Company (Limited),

“DEAR SIR,—

61 and 62, Leadenhall Street, London, E.C., 13th May, 1893.

I am instructed by my directors to forward to you the following instructions with regard to the negotiations upon which you are about to enter with the New Zealand Government, with reference to the new contract for the construction of the line from Springfield to Jackson's, and the completion of the Belgrove extension.