

16 per cent., was contributed by New Zealand, the balance being paid by the other partners in equal shares. Interest and repayments of capital were to be paid on an annuity basis over a period of fifty years, and surplus profits have been invested in the business to avoid further capital contributions. Payments under the agreement were received until 1941, when enemy occupation of the Islands caused the Commission to lose its main source of revenue. New Zealand's outstanding capital had by then been reduced to £483,899.

When the Islands were reoccupied it was found that the plant had been extensively damaged, and as the fixed annuity rate was considered to place too great a burden on the Commission's finances during reconstruction the Governments agreed to accept repayments on the basis of a royalty of 7s. per ton of phosphates shipped. This royalty is being divided in proportion to the capital contributions, and the arrangement is to be reviewed in 1950. Certificates from the Commission's Auditors as to the tonnage of phosphates shipped have been sighted by the Audit Office.

In 1947-48 New Zealand received royalties amounting to £14,911 7s. 4d. and in 1948-49 to £32,384 13s. 9d., and these have been applied to interest accrued on loan liability for the years 1941-47 and part of 1948.

The rate of interest on outstanding capital was fixed in 1920 at 6 per cent. which is much higher than comparable rates now paid, and discussions between the Governments as to a reduction have been proceeding for some time.

Statements of account in connection with New Zealand's investment in the Commission have not been submitted since 1941, and the Audit Office has taken up with Treasury the question of their preparation to 1949.

*Christmas Island.*—This island contains considerable deposits of high-grade phosphates which have been worked since 1897 by the Christmas Island Phosphate Co., Ltd. With a view to increasing the supply of phosphates available to their respective countries the Governments of Australia and New Zealand entered into negotiations for the purchase of the company's assets on the island and the right to mine phosphates there.

A contract for purchase was signed in London on the 31st December, 1948, and the price—£2,750,000—was borne equally by the Governments. It is anticipated that a further sum of £250,000 will be required for working capital.

The purchase-price is subject to increase by the amount of capital expenditure made by the company subsequent to the 30th June, 1948, and by the extent to which stocks on hand have increased from that date to the date of handing over.

The concession, which was originally granted in 1891, will expire in 1990, and carries no right of renewal.

Section 2 of the Finance Act (No. 2), 1948, provided statutory authority for New Zealand to enter into the agreement, and in terms of that section £1,375,000 was paid from Public Works Account, vote, "Christmas Island Phosphate Rights."

Discussions are at present proceeding between the Governments for the setting-up of a suitable authority to work the concession. Although it is anticipated that most of the phosphates will be used in West Australia because of its proximity to the source of production, New Zealand will benefit by the consequent availability of increased supplies coming from Nauru and Ocean Islands.