

Enclosure 5 in No. 119.

The Earl of SELBORNE to the Marquis of TWEEDDALE.

MY LORD,—

Colonial Office, Downing Street, S.W., 15th August, 1899.

I am directed by Mr. Secretary Chamberlain to acknowledge the receipt of your letter of the 19th ultimo, replying to the letter from this department of the 10th July, dealing with the action of Her Majesty's Government in regard to the proposed Pacific cable.

2. I am to observe, in reply, that your letter is practically a repetition of arguments which have already been replied to, and as Her Majesty's Government have come to a final decision on the question of the cable it appears unnecessary to repeat their reasons. They remain of opinion that it is a work of Imperial concern, and that as a pecuniary question it may be expected to pay its way without interfering materially with the present traffic of the companies.

3. As regards the offers now made on behalf of the companies to construct a cable to connect the Cape with Australia, and at the same time to reduce the tariff to 4s. per word, you do not say whether any terms and conditions are attached to this offer, and Mr. Chamberlain will be glad to have full particulars—which he will be happy to communicate to the colonies concerned. He is unable at this stage to say what view the colonies may take of it. He observes that the companies are now prepared to do for nothing what two years ago they asked a subsidy of £32,400 a year for from the colonies, in addition to £5,000 a year from Her Majesty's Government (£25,000 having been asked for as a subsidy towards an all-British cable to the Cape and Australia, as compared with the subsequent offer to accept £20,000 for the line to the Cape only), and are further prepared to give at once a substantial reduction of rates.

4. It may fairly be inferred, therefore, that the business of the companies is such as to enable them to utilise an additional cable, and to this extent, therefore, it justifies the hope that the anticipated increase of business, coupled with the development of practically new business between America and Australasia, will give sufficient employment to the Pacific cable without trenching on the traffic now carried by the companies, and shows that the claim of the colonies for a reduction of rates was fully warranted.

5. In regard to the claim in paragraph 16 of your letter, that the companies should have the right to collect and deliver their international messages in Australasia in the same manner as prevails in this country, I am to observe that the Australasian Colonies are parties to the International Telegraph Convention, and are therefore bound to send any telegrams marked to go by the companies' route by that route. Whether they will go further, and allow the establishment of special collecting-agencies for the companies within their own limits, is a matter in which, of course, the decision must rest with them, and it is not possible for Mr. Chamberlain to give any undertaking on their behalf.

6. In conclusion I am to call attention to an instance in which your Lordship has apparently misunderstood the language of the letter from this department of the 10th ultimo. In paragraph 18 you ask, "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 to telegraph experience, appears to consider superfluous, and, at all events, which the Government seems to ignore?"

7. The propriety of a sufficient reserve fund was certainly not called in question; it was only pointed out that the opening of an alternative route would to some extent relieve the companies of the necessity of making as large drafts on revenues as at present for purposes of capital expenditure or reserve.

8. What these amount to at present your Lordship is no doubt fully aware, and I need only say that in the twenty-six years of its existence the Eastern Extension has, besides accumulating reserves amounting to more than a million sterling, expended out of revenue on new cables and extensions sums which, in 1894, had amounted (page 138, C. 7553) to £1,100,685, and probably now amount to at least a million and a half.

9. Its paid-up capital is two and a half millions, of which £470,000 is due to "watering"; and on this watered capital it has for many years paid a dividend of 7 per cent., which, but for the "watering" referred to, would have been approximately 9 per cent., and while so doing and maintaining its lines in a high state of efficiency has created out of revenue new works or extensions and reserves at least equal to the amount of its paid-up capital. Mr. Chamberlain presumes that the affairs of the Eastern Company have been managed with equal prudence, and that, like the younger company, it has by this time at least doubled out of revenue the capital-value of its estate.

10. Taking into consideration the relief which will be afforded to the companies by the Pacific cable in this respect, and the fact that by the time it can be in operation the traffic may be expected to have increased by one-third, according to your Lordship's account of past experience given to the Committee (questions 1860-63), and that the companies have already found it to their interest to offer voluntarily so large a reduction of rates and so expensive an extension of their system without cost to the public, the conclusion of Her Majesty's Government that there will be ample remunerative work for the companies' cables as well as the Pacific cable appears abundantly justified.

As regards any claim for compensation that the companies may be disposed to put forward, Her Majesty's Government cannot admit that the case of the acquisition by the Government of the Channel cables in 1870 and 1889 affords any ground for the contention that compensation would be due to the Eastern Telegraph Company and its allies in the event of a reduction of their profits resulting from the laying of a Pacific or any other competing cable. No guarantee against competition in the Australian traffic, by the State or otherwise, has ever been given to the Eastern or any other Telegraph Company, and it would be practically impossible now to lay any new cable, however urgently it might be needed on strategic as well as commercial grounds, without in