

The sum required for the purpose from year to year cannot, of course, be accurately foreseen. Accidents which it is impossible to forecast, such as the fouling of the cable by an anchor, its friction on some rough bottom or shelving rock, or even some submarine volcanic disturbance, may at any time involve interruptions necessitating more or less costly repairs; while, apart from these causes, the deterioration which inevitably results from constant wear-and-tear may necessitate the renewal of the cable at some reasonably proximate period.

To provide against these contingencies it is the custom of telegraph companies to set aside out of the annual profits a sum which they carry to a reserve account, and I believe it is the custom—at any rate, it was the custom of the company with which I was personally connected—to debit the cost of all repairs to this reserve fund. If I may illustrate what I mean by the example of that company—the Direct United States—I may say that, with a capital of about £1,200,000, it has gradually accumulated a reserve of more than £400,000, that it annually sets aside out of its profits a sum of £20,000, which it carries to this reserve, but that it debits the cost of all repairs to the cable, whether small or large, to this fund.

It appears to me that the Pacific Cable Board should follow a similar course and carry annually a specific sum to a renewal and maintenance fund, and this course seems to have been contemplated both by the Pacific Cable Committee which reported in 1897 (see page 10 of the report) [page 5, F.—8a, 1899] and the later Committee which reported in 1900 (see page 1 of this report) [not printed]. The former Committee, indeed, considered that the maintenance or reserve fund should be placed at £40,000; the latter Committee thought it might be reduced to £25,000. I am not, however, at the present moment concerned with the amount of the fund; I am anxious rather to obtain the views of His Majesty's Treasury on the principle of instituting it.

There are, indeed, two circumstances connected with the Pacific Cable Board which differentiate it (1) from any ordinary company, and (2) from such a company as the Direct United States. In the first place, in the case of the Pacific cable it is proposed that the capital sunk in the undertaking should be gradually extinguished by the operation of a terminable annuity, and the extinction of the capital seems to be attended with the same effects as the institution of a renewal fund. The Committee of 1897, however (page 14 of report), contemplated and recommended this double sinking or maintenance fund. And, in the next place, the Board will maintain, and a comparatively small company like the Direct United States does not maintain, its own repairing-ship; and it will be readily understood that the expense of such a ship forms a very large item in the cost of these repairs.

These two circumstances undoubtedly point to the conclusion that the reserve which the Pacific Cable Board should maintain need not be so large as that which would be required by an ordinary cable company. But they do not remove the necessity for some reserve. Unless such a reserve, to which all repairs should be debited, is instituted, it seems impossible to equalise the charges for repairs; and the Governments interested in the cable, after perhaps enjoying some years of immunity, will probably be sooner or later confronted with some unexpectedly large demand for some very heavy repairs, a contingency to which all deep-sea cables are liable.

Experience can alone determine what the reserve fund should be. But I suggest for the consideration of the Treasury that it should in the first instance be fixed at £25,000 a year (the amount named for repairs by Sir F. Mowatt's Committee). If this sum should prove too large it will be easy to reduce it in later years; but if the sum fixed were too small it would not be equally easy to increase it.

I am, &c.,

S. WALPOLE, Chairman.

Enclosure 2 in No. 43.

The CHAIRMAN, Pacific Cable Board, London, to the UNDER-SECRETARY of STATE, Colonial Office.

The Pacific Cable Board, 24, Queen Anne's Gate, S.W.,
7th January, 1902.

SIR,—

The Pacific Cable Board has recently had under its consideration the fact that the Commercial Cable Company, acting, it is understood, in conjunction with an American Pacific Cable Company, and with the authority of the United States Government, has ordered of a British company a new submarine cable, to be laid from San Francisco to Honolulu, and thence by Midway Island and Guam to the Philippines. From the Philippines telegraphic communication can be obtained to all parts of the East.

It appeared to the Board that it was its duty to consider the effect which the construction of this cable would have on the enterprise which it has been charged to control, and specially on the question whether it was desirable to unite the new American cable at Honolulu with the British cable at Fanning Island. It seems to the Board, indeed, that the question is one which must be settled by the Governments interested in the British Pacific cable, and not by itself; but at the same time it considered that it would probably be convenient to these Governments if it stated clearly the reasons which could be urged for or against the connection. They appear to be as follows:—

1. So far as traffic is concerned, a good deal may be urged on both sides of the question. On the one hand, if the American cable were linked with the British cable, it is probable, or perhaps certain, that messages from the United States to Australia would be sent *via* Honolulu to Fanning, instead of *via* Vancouver, and that a portion of the profit of these messages would be diverted to the American cable. On the other hand, it seems certain that messages from India, China, and Japan to Canada, and possibly some messages from the East to Europe, would be sent *via* Honolulu and Fanning to Vancouver. Whether the traffic thus acquired would compensate or more