northern end of our system. When the scheme for the Pacific cable was being perfected, it was arranged through the good offices of the High Commissioner for Canada that the Canadian Pacific Railway and its ally, the Commercial Cable Company, should concede our traffic a preferential rate of 1s. per word between the United Kingdom and Bamfield, as against the rate of 1s. 6d. per word payable by the public. The Anglo Company were compelled to make a similar concession as the price for obtaining a share of the traffic, but they did so grudgingly, and have hitherto always regarded it as a grievance. But for this concession it would have been impossible for the rate by the Pacific route to have been fixed as low as 3s. a word (the rate already in operation on the Eastern route) without incurring a loss that would have been almost prohibitive of the scheme. The contrast between the treatment of our traffic at one end of our system by companies trading for profit, and that which it receives at the other end from one of the associated States is certainly remarkable. But in regard to it there are, I think, two things that must be said in extenuation: (i) That circumstances connected with the history of the establishment of cable communication with Australia (more especially the heavy cost incurred in making land-line connections with the cables) explain, and, at any rate as regards the past, go far to justify a somewhat high terminal charge; and (ii) that in any case Australia is the proper judge of the charge that circumstances require her to make on the admission and transmission of telegraphic traffic, just as she must be of the duties to be charged on imported goods. The Pacific-cable partnership gives her associates no title to interfere in such matters.

6. But while it is unquestionable that each of the States associated in the enterprise must be left free to determine the conditions on which it will handle the traffic arising from the cables that land on its shores, it may not unreasonably be asked whether, in settling the accounts of the partnership, the revenue that each may derive from the Pacific-cable traffic for its own separate use should not be brought into the calculation. Whether the revenue to be brought in should be gross or net would be a point for consideration. But to leave it altogether out of account when the charges made by the several States are not fixed on any common basis certainly leads to very anomalous results.

7. That this would be the case was foreseen from the first, and a warm discussion on the subject took place in 1902–3. It resulted in the drawing-up of a memorandum by the then Chairman of the Pacific Cable Board (Sir Spencer Walpole), in which it was suggested that, in calculating the liability of the several partners in respect of deficiency of revenue from the cable, each Government should be debited with a sum equal to the amount, if any, by which its receipts from terminal charges on Pacific-cable traffic exceeded the amount it would have received if its terminal charges had been at the same rate as its internal urgent rate of charge. This memorandum was circulated to the several Governments, and considerable correspondence took place upon it. Eventually, no agreement having been reached, further consideration was adjourned pending the meeting of the Conference, to which another even more important issue—the Australian contracts of January, 1901, and June, 1903, with the Eastern Extension Company—was to be referred. The Conference met in 1905; but its attention was so much engrossed with this latter issue, and others arising out of it, that comparatively little discussion took place on the question of terminal rates; and all that the report said on it was contained in a single paragraph, as follows: "(9.) It has been suggested that the Commonwealth Government should reduce their terminal rate to the level of the rate for urgent internal messages. The majority of us are of opinion that the rate of 5d. per word is excessive, and we trust that the Government will see their way to reduce it." This expression of opinion did not lead to any result, and the question was tacitly allowed to drop.

8. Now the New Zealand Government revives the question. The lapse of time has aggravated, and will continue to aggravate, the defect in the existing arrangement, of which complaint is made. Growth of traffic, while diminishing on one hand the amount to be made good annually by the associated Governments, increases on the other the separate receipts of the States charging terminal rates; and already the point has been reached at which the separate revenue derived by the Commonwealth from Pacific-cable traffic exceeds the amount which it has to contribute towards the shortage on the Board's accounts, so that Australia is making a profit out of the cable, while her three partners are still making a loss. It is easy to see that from their point of view this may be regarded as not an equitable position.

9. The New Zealand Government appears to suggest that the through rate between Europe and New Zealand should be reduced by at least some portion of the 4d. by which the Australian terminal rate exceeds the New Zealand terminal rate. This, no doubt, would redress the balance as between these two States, but it would do nothing to meet the similar claims that the United Kingdom and Canada might advance; on the contrary, it would increase the force of such claims, because it would lead to a loss of revenue from the Pacific cable as a whole, and increase the deficiency which the partners have to make good. Moreover, it conflicts with a principle that is universally observed in connection with ocean cable rates, and that for many reasons it is desirable to maintain—the principle that rates should be fixed not in minute correspondence with distance, but by reference to zones of considerable area, within which rates should be uniform. There are, however, alternatives which might be considered.

10. One that would have advantages from an Imperial point of view, though at some cost, at any rate at first, to the cable revenue, would be that Australia should reduce her terminal rate by 3d. or 4d., so as to allow of reduction of the 3s. through-rate to Australasia to 2s. 9d. or 2s. 8d., and thus to make a step towards the much-desired result of cheapening cable communication between the several States of the Empire. But this would be very costly to the Commonwealth, because she would lose not only on our traffic, but also on traffic via Eastern, which is double that via Pacific, and possibly she could not afford it at present.

11. Another possible alternative would be that the four Governments should leave existing terminal rates as they are, but should agree that in calculating the distribution, between the partners, of loss, as it is now (or of profit, as we hope it soon may be), the amount of the gross revenue of each State from Pacific-cable traffic should be brought into the account, and added to the revenue shown