

10. If the Australian Government finds it impracticable at present to adopt the above suggestion, it has been suggested that the inequity as between the partners might be remedied by taking into account the revenue derived from terminal rates in assessing the proportion in which the deficit should be borne by the various partners.

Various methods for effecting an adjustment on these lines were discussed in Sir Henry Primrose's memorandum of the 19th November, 1912 [see sub-enclosure to enclosure in No. 3, F.—8, 1914], and need not be repeated here.

If this suggestion were accepted in principle the question of detailed application could then be considered. The advantage of this method would be that it would enable the existing injustice to be removed without a reduction of terminal rates and the consequent loss of revenue. The disadvantage would be that there would be no opportunity for a reduction of rates to the public.

11. Another method which has been suggested is the division of Australia into two zones, Queensland, New South Wales, Victoria, and Tasmania forming one zone, and West and South Australia another zone. The terminal and transit rate for each zone might be, say, 2d. per word for ordinary messages, so that traffic entering one zone only would pay 2d., while traffic passing through one zone to the other would pay 4d. If these zone rates were adopted, with proportionate rates for other classes of traffic, the loss to Commonwealth revenues may be estimated at £28,500 out of a total revenue of £73,900 from the traffic by both Eastern and Pacific routes. This is considerably less than the loss of revenue resulting from the reduction of the terminal rate to 2d., which, as stated above, may be estimated at over £44,000.

The International Convention does not offer any obstacle to the creation of zones, which already exist in Egypt and some other countries. Such a system would be satisfactory to the Pacific Cable Board.

THE NEW ZEALAND CASE.

12. It has throughout been admitted that the present arrangements are unsatisfactory for New Zealand. This is all the more to be regretted since from the beginning the Government and public of New Zealand have been the warmest and most effectual supporters of the Pacific cable.

In the early stages of the controversy it was proposed to raise the New Zealand terminal rate to 5d. This was within the power of the New Zealand Administration, and the Pacific Cable Board felt that they could offer no objection. The New Zealand Government, however, refrained from taking action in this direction, because it would have been necessary to raise the terminal rate for the Eastern Company also, and they did not wish to take a step which would appear to be hostile to that enterprise.

At the time of the Conference held in 1905 to discuss various questions which had arisen in connection with the Pacific cable, the New Zealand representative pressed for the reduction of the Australian terminal rate, or, failing that, the payment of a rebate to the New Zealand Government. More recently, finding that there appeared to be little prospect of obtaining such a reduction, New Zealand has claimed that the rate charged to the public for telegrams to and from New Zealand should be lowered by 4d., on the ground of the difference between the Australian and New Zealand terminal rates.

This claim has hitherto not been accepted by the Board on several grounds. It is a recognized principle of the International Telegraph Union that it is undesirable to have differences of rate for places in the same region. Further, although the reduction of the New Zealand rate to 2s. 8d. would meet the injustice of which New Zealand complains, it would not remove the existing inequality between the partners in the Pacific cable. It would, in fact, by increasing the general deficit, make the burden of that inequality heavier. It was also felt that it would be very desirable, if possible, to secure a general reduction of rates of larger amount, and not merely a reduction of 4d. in the rate to New Zealand only.

Moved by these considerations, and also by the disturbance of the year's financial estimates which would be caused by an immediate reduction, the Board unanimously decided, at its meeting of the 7th April, 1914 [see No. 9, F.—8, 1914], not to put in force the resolution adopted on the 10th February, 1914 [see No. 5, F.—8, 1914], for the reduction of the New Zealand rate to 2s. 8d., but to examine whether a more general reduction of rates could not be effected.

It was felt, however, that the removal of the New Zealand grievance could not be indefinitely postponed, and when the case on behalf of New Zealand was further pressed the Board resolved, on the 28th July, 1914 [see No. 24], that if no change could be made in the Australian terminal rate the reduction in the New Zealand tariff from 3s. to 2s. 8d. should come into force on the 1st April, 1915, and that in the meantime further representations should be made to the Australian Government.

13. The Board confidently hope that the Australian Government may recognize the force of the considerations urged above, and that by accepting a reduction of the terminal rate, subject to a corresponding reduction in the rate charged to the public, they may render possible a satisfactory solution of this difficult question. They are encouraged in this hope by the last paragraph of Mr. Oxenham's memorandum of the 1st July, 1913 [see sub-enclosure to enclosure in No. 4, F.—8, 1914], where it is stated that "Should lower charges to the public be decided upon, the Commonwealth will be quite agreeable to reduce its charges proportionately."

18th November, 1914.

H. BABINGTON SMITH.

Enclosure 2 in No. 27.

The SECRETARY TO THE HIGH COMMISSIONER to the CHAIRMAN, Pacific Cable Board, London.

Westminster Chambers, 13 Victoria Street, London S.W.,

SIR,—

30th December, 1914.

Referring to the question of terminal rates, I am directed by the High Commissioner, who is at present in Egypt, to communicate to you the following cablegram which he has received from