142. Copra-production on the main plantations for the past three years was:—

	Mulifanua. Tons.	Vaitele. Tons.	Vailele. Tons.
1925–26	1,566	549½	521
1926–27	1,342	497	537
1927–28	1,271¾	411¾	412

The first two showed a profit in Production Account for the year, and the third showed a loss.

143. A system of bonuses to plantation managers and overseers is in operation. The bonus is calculated on what are considered the net profits. In the case of copra it is calculated at 1 per cent., and on cocoa or rubber at 10 per cent. The evils of this system are quite apparent in—

(1) The absence of any depreciation charge for the wasting in the decreasing life of the trees;
(2) The absence of any rental charge for the use of the land;
(3) The tendency to neglect necessary and legitimate maintenance work;
(4) The possibility of charging maintenance costs to capital.

144. The intention of the bonus system was doubtless to encourage a maximum production at a minimum cost, but (apart from the special omissions referred to above) the results obtained indicate that the object sought is not being equitably obtained. For example, the bonus paid last year to the manager of a cocoa and rubber plantation amounted to no less than £228. The total overall cost of the rubber produced (which represented three-fourths of the Production Account) and landed in Apia was 9·64d. per pound, which if sold at the then market rate would have realized a loss. A considerable profit, however, resulted, due entirely to the Central Estates Office having entered into a profitable forward sales contract earlier in the year.

145. The bonus system as at present operating should be cancelled in the meantime, and the matter held over until a complete reorganization has taken place.

146. On plantations devoted solely to rubber-production the financial results to date are distressing. Included in these results is a reflection of the world-wide depression in rubber prices. On the Solaua Plantation (with 1,025 acres under cultivation), which stands at a capital value in the balance-sheet of £42,915, the Rubber-production Account for the year showed a loss of £2,708, and this amount would be materially increased by the addition of depreciation and interest charges. Rubber operations on this property were, we were informed, abandoned for the time being.

147. In the case of the Aleisa Plantation, which was recently purchased for £5,000 by the Reparation Estates, and on which further capital expenditure amounting to £5,115 has since been incurred, an annual loss, based on current market prices, seems probable. The average production cost of rubber from this plantation landed in Apia for the period April to September, 1928, was 10·1d. per pound, which represented about 2d. per pound in excess of the market rate. This result is in striking contrast to the Board's view at the time of purchase that the cost would be recouped in two years.

148. The first item in the capital expenditure referred to above reads, "Repairs and extending Manager's bungalow, £956." Another item is, "Rough-weeding and cleaning up land, £370." The latter, we think, should have been more correctly charged to Working Account.

149. With the fluctuation of results that has already occurred and the changes in the management and control of the Estates since taken over by New Zealand, it is not considered by us advisable at this stage to come to any conclusion in respect of the book values of the Estates, and we recommend that this question remain open until further experience has been gained under new management.

150. A serious aspect of the financial administration of the Estates is the extent to which they have become interlocked with the financial operations of the Mandated Territory. Numerous assets on charge to the Reparation Estates are in the hands of the Samoan Administration, and operations which have no real connection with the Estates are being conducted and financed out of Estate funds. The reflection of this irregular state of affairs is found in the necessity for a large bank overdraft in the Estate accounts, which at the 31st March last stood at £39,431, the interest charge being at 6 per cent. Apart from the question of legal or constitutional authority, the intermingling of Reparation Estates assets with those of the Administration is wrong in principle, and the procedure adopted has in effect amounted to a free loan or subsidy to the Administration of New Zealand funds which is not reflected in the Administration accounts.

151. The Engineering and Transport Department of the Samoan Administration Services is a typical case in point. The functions of this Department embrace—(*a*) The provision of motor transport and motor-repair shop for the Estates and the Administration; (*b*) the manufacture and sale of ice and the provision of cool storage; (*c*) the development and sale of electricity.

152. These undertakings are in no sense a direct responsibility or proper function to be assumed by the Reparation Estates.

153. The Department is under separate control, responsible to the Administration, but the finance both for working and for capital is drawn by requisition on the Reparation Estates. For the year ended 31st March last the loss on working was £357, and the capital value of assets employed was some £15,000. In addition, fresh development works in the nature of a hydro-electric installation were in course of construction, which at the 31st March had cost to date £12,991. The final cost of this latter development will probably be in the vicinity of £18,000. The use of Reparation Estate funds for this purpose was approved by Cabinet, but apart from the question of validity the use of such funds for so obvious a function of the Administration appears wrong in principle. It is another instance of a loan not reflected in the accounts of the Administration.

154. We have grave doubts as to whether the expenditure of some £18,000 upon the institution of a hydro-electric scheme was justified from the financial point of view. The opinion has been expressed by a competent observer that the existing electric-light plants would have been entirely