

The condition of the "Moses Taylor" made necessary her withdrawal, temporarily, from the service, after only one trip to Honolulu, for repairs, and the employment in her stead of such other steamers as could be obtained at the moment. Here arose the cause, in the very outset of the enterprise, of differences between my associate and myself, which continued to embarrass my management, and the service, until our transfer of the steamers and property to the company formed to purchase the same.

You will remember that during the negotiations, and when concluding the contract, persistent objections were made by me to the requirement, that the large steamers necessary to perform the service between San Francisco and New Zealand, should be obliged to traverse the coast of New Zealand twice in each voyage.

It was feared by the contractors that the running of the mail steamers would interfere to so great a degree with the business of the established lines of steamers running on the coast, and belonging to the residents of New Zealand, as to create an antagonism prejudicial to the best interests of all the parties interested.

In addition to this, it was very problematical, when considering the steamers would run only monthly trips, whether sufficient traffic could be withdrawn from other steamers to be relied upon to meet the expenses of such large steamers in the coast service, and the result has proved that the traffic was not sufficient in this respect.

These and other like objections were met by your referring to the Act of Parliament for the establishment of the San Francisco Mail Service, which Act included the coast service, and, as you represented, precluded the exercise of any discretion in this particular on your part, and presented the alternative of accepting the contract with that provision, or abandoning further negotiations.

Both Mr. Holladay and myself, being anxious to become the medium of bringing the Colonies of Australasia into more intimate relations with the United States, and believing no subsidy could be obtained in advance from any other of the Colonies, ventured upon the experiment, and reluctantly agreed to the contract, with some slight modifications, as then offered by you.

In accepting the contract we trusted (though without promise or encouragement from you, either official or personal) that upon trial Parliament would see the impracticability of requiring the performance of the coast service in such large steamers, and allow them to stop only at Auckland, and thence proceed to a port in some one or more of the adjacent Colonies, which would pay subsidies, and where coals could be obtained at a so much less rate than in New Zealand, as in itself to equal a moderate subsidy.

Clinging to the hope that the large steamers might be relieved in future from the performance of the coast service upon some terms, you will recollect I continued to remind the Post Office Department of the great desire of Mr. Holladay and myself to be relieved from this portion of the service; and during my visit to New Zealand in the latter part of the year 1871, I made strenuous efforts to have the contract modified in this respect, but without success; and the contractors were thus obliged to continue performing the service with a certainty of continuous loss, without prospect of change for the better.

When the contract was concluded, it was fully understood by all parties, that more than one other Colony would, at an early day, contribute towards maintaining the mail service, by granting subsidies in aid of the same, and the contract contains several provisions looking to that result, and shows what was the expectation of yourself and the contractors.

None of the understandings and expectations have been realized, notwithstanding the efforts in the past of the New Zealand Government with the Governments of the other Colonies, and those of the contractors with the Congress of the United States; and the contractors were obliged to continue the service, relying entirely upon the subsidy paid by New Zealand, which, though liberal to a high degree, was never expected to afford all the aid needed, and which proved greatly inadequate for the successful maintenance of the service, entailing upon the contractors enormous losses, amounting already to over three-quarters of a million of dollars to them and their successors, and yet to be increased.

Notwithstanding the disappointment caused by the failure of Congress to vote aid to our enterprise, and the determination of the Governments of New South Wales and Queensland not to contribute towards sustaining the service, as we all confidently expected and relied they would do at an early day after the inauguration of the service by New Zealand, and also the refusal on the part of the Government of Victoria to ratify the contract made between that Government and the Government of New Zealand jointly, and the contractors, the latter persevered, in the face of all those serious difficulties and drawbacks, to perform the service, in the full hope that the Postmaster-General of New Zealand, who alone had the power (the contract expressly withholding from the contractors the right even to negotiate with other Colonies for mail service), would make some arrangement for additional mail pay with the other Colonies.

The failure to ratify the joint contract for mail service made by the Postmaster-General of New Zealand and Victoria, gave the death blow to the enterprise, causing Congress to doubt the good intentions of the Australian Colonies towards it, and at the same time causing the loss of public confidence in the permanent establishment of the service.

Among the many drawbacks which have occurred to the service, I feel I am justified in mentioning the course pursued by the Government in detaining the "Nebraska" at Auckland, and again at Wellington in the month of July, 1872, against the protest of her captain, on the assumption that she was infected with small-pox, which, upon full official investigation, proved groundless.

These acts of the Government, whatever may be said regarding their necessity, not only prevented the contractors from carrying out the contract, and caused them loss in this respect, but inflicted a much more serious loss by the publicity of those acts, which prevented merchants and travellers from patronizing the mail steamers.

Immediately after the conclusion of the contract, the Peninsular and Oriental Steamship Company reduced their rates for passage very largely, which action was unexpected, and not anti-