

This Government has delayed the dealing with your proposals and those of Messrs. Gilchrist, Watt, and Co. until now, in consequence of its reluctance to comply with the conditions which you seek to make imperative at the peril of the total discontinuance of the service.

We are unwilling to assent to the extra delay to the mail service of this colony that would be involved in the making of Auckland the port of call in New Zealand, and we fear that the conditions which you seek to impose on the Company, if the Bay of Islands be made the place of call, are such as will lead to the breaking up of the service; for the agents assure us that the Company will not undertake the service either for £70,000 to Auckland, or £65,000 to the Bay of Islands.

The only solution which appears to us to be open is this: That the Company receive £75,000 for the route by way of the Bay of Islands; that this colony pay £40,000 of that subsidy, and New Zealand £35,000; the reason for allotting to New South Wales the larger share being that it is this colony that chiefly uses the service for the extra distance from New Zealand to Sydney.

New South Wales would thus save £5,000 on its present share of subsidy in consideration of the prolonging of its mail service, and New Zealand would obtain a quicker service by reason of the not calling at Fiji, and would have £10,000 applicable to the performance of its coasting service, the cost of which would probably not be more than £5,000, or at most £6,000.

This plan would leave New Zealand free to make any arrangement that might suit for her own coasting service, and quite untrammelled by having to submit her negotiations to this colony.

In submitting this proposition, we must be understood to do so subject to the approval of our Parliament, which meets next month.

I have, &c.,

JOHN ROBERTSON.

The Hon. the Colonial Secretary, Wellington.

Enclosure in No. 120.

Messrs. GILCHRIST, WATT, and Co. to the Hon. the COLONIAL SECRETARY, Sydney.

SIR,—

Sydney, 22nd November, 1876.

With reference to our respects dated 10th instant, addressed to the Colonial Secretary, we have the honor to advise having received the following telegram from the Pacific Mail Steamship Company, New York, dated 6th November, and we respectfully beg your favourable consideration of the same:—

“Advantage New Zealand business and local traffic Auckland to Sydney make Auckland preferable, induce Government to yield. Utmost importance commence direct service December. Have calling Honolulu left optional. Hawaiian Government acting unfairly. Answer.”

We have also the honor to advise that by the last mail we received advices from Mr. Watt, in London, and he states that he had had several communications with Mr. Russell, of New Zealand, and other colonists much interested in the question, on the subject of the proposed change of route, and it appears to be the general opinion that the simplest settlement of the contract would be as follows:—New Zealand to receive her mails at Auckland, and from that port take all cost and risk of their distribution in that colony by coastal service, and the mails of this contract to be brought on here; and “in consideration of the extra distance travelled on account of New South Wales, besides the expense New Zealand will be put to for her coastal service,” that the New South Wales share of the subsidy paid to Contractors should be some £5,000 in excess of New Zealand contribution.

We venture to offer this suggestion, as it appears to us fair as between the Governments, and it will relieve this Government of any responsibility in settlement with New Zealand for coastal service, and each Government thus contributes a fair proportion for the services respectively rendered to it.

We have, &c.,

GILCHRIST, WATT, AND CO.,

General Agents for the Contractors, San Francisco Mail Service.

The Hon. the Colonial Secretary, Sydney.

No. 121.

The Hon. H. A. ATKINSON to the Hon. the COLONIAL SECRETARY, Sydney.

SIR,—

Colonial Secretary's Office, Wellington, 19th October, 1876.

I have the honor to acknowledge the receipt of your letter of November 29th, respecting the San Francisco Service, and of the enclosed copy of a letter dated November 22nd, addressed to you by Messrs. Gilchrist, Watt, and Co.

In reply, I have to state that, whilst desirous to meet as far as possible the wishes of your Government, this Government cannot consent to any payment on account of the service which is in excess of the authority given, after very careful consideration of the whole subject, by the House of Representatives.

The details of that authority, as stated in Mr. Whitaker's telegrams of October 28th, November 1st, and November 2nd, are—

1st. That the C service, as tendered for by the Contractors, may be adopted, calling at Honolulu being omitted if the Contractors so desire,

2nd. That the boats run from San Francisco to the Bay of Islands or to Auckland, and from the New Zealand port of call to Sydney; the Contractors to decide the port of call; to perform the coastal service; and to receive £75,000 per annum subsidy.

3rd. The boats to run as in No. 2, but the coastal service to be arranged for by the two colonies. If Auckland be the port of call, £5,000 to be deducted from the subsidy of £75,000; if the Bay of Islands, £10,000 to be deducted. Any saving on the present contract to be divided equally between the colonies, and each to pay half the actual cost of the coastal service.

This Government reciprocates the desire expressed by you not to do anything which “will lead to