

## No. 1.

Commonwealth of Australia, Department of External Affairs,  
Melbourne, 1st June, 1903.

SIR,—

I have the honour to acknowledge the receipt of your letter of the 11th May, on the subject of the new agreement between the Government of the Commonwealth and the Eastern Extension Company.

May I say at the outset that I am disappointed at the contents of your letter. I hoped that you would attempt to show (1) in what way, other than the one it has adopted, the Commonwealth could have relieved itself of the virtually perpetual obligations of the contracts made with four of its component States which by the Constitution devolved upon the Federal Government; (2) in what way the Pacific cable is likely to be injured by the new agreement. You have, however, done neither of these things.

Your remarks respecting the unfairness of the action of New South Wales in making the agreement with the Eastern Extension Company are observed; but, without expressing any opinion as to the justice of your comments, I trust I may be permitted to say, in all courtesy, that to me they appear quite beside the question. What is done is done. It was impossible for the Commonwealth to repudiate the action already taken by New South Wales, and it must be regulated in its course not by what ought to have been done by individual States before its creation, but by what should be done in the position of affairs which it found in existence and unassailable.

When the Government of the Commonwealth assumed control of the Post Office, agreements were in force between the company and the States of New South Wales, South Australia, Tasmania, and Western Australia. These States, in consequence of the agreements mentioned, enjoyed lower rates than the other two, where similar agreements were not in force. The citizens of Victoria and Queensland were therefore compelled either to pay the additional rates demanded by the company or resort to the inconvenient method of forwarding messages to Sydney or Adelaide for despatch at the cheaper tariff, paying in addition the overland rates.

It was obvious that in the Commonwealth this state of things should not be allowed to exist longer than was absolutely necessary. The Commonwealth was obliged to assume the burden of the contracts then in existence, and the first problem that confronted this Government was how, consistently with its obligations under these contracts, it could secure uniformity of treatment to the citizens of Australia. The contracts could only be rescinded by mutual consent, and it is not to be supposed that the company would surrender its undoubted advantages without receiving some compensation.

The matter then became one for negotiation between the Government of the Commonwealth and the company. The objects of the Government during those negotiations were twofold—(1) to secure uniform treatment; (2) to set, if possible, a reasonable limit to the operation of the agreements which bound us. The negotiations were protracted and difficult, and it is the opinion of this Government that the result will be very satisfactory to the people of the Commonwealth, and of distinct advantage to the partners in the Pacific cable.

Your letter appears throughout to assume that in making these arrangements the Federal Government was ignorant, or, at any rate, unmindful, of the interests of the Pacific cable, and indeed you go so far as to say that any increased loss on that cable will fall upon Great Britain, Canada, and New Zealand. Surely I do not need to remind you that the Commonwealth is the largest shareholder in the Pacific cable, and that our interests are thrice as great as those of your own colony. It might perhaps have been considered that the Government of the Commonwealth were possessed of ordinary business instinct, and that they would not willingly incur responsibilities from which losses would accrue, the greatest portion of which would fall upon their own shoulders.

The Pacific cable is not for a day, but, it is to be hoped, for all time, and it is surely the province of those responsible for the administration of a country not to limit their views to momentary advantages, but rather to look ahead and proceed in such a manner that their actions will be of permanent benefit to the people whose servants they are. There can be no doubt that in reducing the term of the agreement to a reasonable period the Commonwealth has obtained for the Pacific cable a very great advantage, which cannot fail to be of immense and increasing value.

On the other hand, what has the company gained by this new agreement that it did not already have under the agreements with the States? Practically, only the right to open an office in Melbourne, and have the use of a direct wire to Adelaide, for it certainly is not intended by the company to take advantage of its right to open an office in Queensland.

I say nothing in this connection of other advantages which flow from the agreement, such as reduced rates to India and the East.

You state in the course of your letter that after careful inquiry you have ascertained that with the concessions proposed the company would be in a far better position to increase its business. I should have been glad if you had set out the nature of your inquiries and their results more definitely, for this Government is in possession of figures which show that for a period of three months, during which time the company were without offices, or a direct line in Victoria, but had the advantage of those facilities in New South Wales, the amount of business transacted by them was greater in Victoria than New South Wales. It is understood, of course, that the company was canvassing in both places.

It must have been obvious from the inception of the Pacific cable project that that undertaking would have to compete with the Eastern Extension Company for the business of Australia. It was presumed that the Pacific Cable Board would, in this matter of ordinary business competition, employ the methods usually adopted by commercial undertakings to attract the favour of the public,