

Enclosure 3 in No. 53.

MEMORANDUM.—CHEAPENING OF CABLE RATES.

RESOLUTION of New Zealand Government:—

“That, in view of the social and commercial advantages which would result from increased facilities for intercommunication between her dependencies and Great Britain, it is desirable that all possible means be taken to secure a reduction in cable rates throughout the Empire.”

1. The Postmaster-General is in entire sympathy with this resolution. It is eminently desirable that the rates for cable-communication throughout the Empire should, in the interests of commercial and social intercourse and of the dissemination of news, be as low as is consistent with the adequate maintenance and the financial stability of the system.

2. Among the various methods which have from time to time been advocated for the purpose of bringing about a reduction of rates, the most prominent have been the acquisition of the cable system by the State, competition by the agency of State-owned cables, cables of new companies, land lines, and wireless telegraphy.

The policy of purchase by the State has never been seriously urged. It would be a financial transaction of great magnitude and doubtful profit. It is not likely that the service would be improved under State management. The State would be exposed to urgent demands for the adoption of an unremunerative tariff which it might be difficult to resist. The State could not purchase the cables landed on foreign territory which serve as links in the great lines of commercial communication, or as valuable feeders for the main system. Moreover, wireless telegraphy is making advances which, at the best, would make it a somewhat hazardous speculation to embark a large amount of capital on a submarine-cable system.

Neither can competition by State-owned cables be recommended. Such a measure is open to the same objections as State purchase, while it would in certain cases have the disadvantage of weakening lines which it is important on national grounds to maintain in a sound position.

Competition by new companies which would be formed if rates were excessive would tend to bring these rates to a natural level. But there is no prospect of such companies coming forward under present conditions. The support of new companies by subsidies would involve Government competition in another form. Such competition has arisen in recent years through the successful efforts of foreign countries to provide through the State, or by means of State support, new lines of cable independent of British territory; but this is merely an unmixed disadvantage to British cable interests.

Competition by land lines could only apply to a small portion of the Empire, and the encouragement of a competitive tariff by this agency would tend to transfer the traffic from Imperial lines to foreign Powers.

Competition by wireless telegraphy may one day materially modify the existing situation, and the resolution of the New Zealand Government in favour of the establishment of a State-owned chain of wireless-telegraph stations is receiving the consideration which its great importance and far-reaching issues demand. But, in the only case in which a long-distance shore-to-shore service has actually been established (that of the Marconi Company's service between Ireland and Canada) it has not as yet proved itself a serious competitor with the cable companies for ordinary commercial communication.

3. Assuming that the existing cable system must virtually be dealt with as it stands, the most suitable method of insuring a moderate tariff is regulation by the Government.

The most effective weapon which the State possesses for this purpose is the right of attaching conditions to the grant of landing-rights.

The following resolution of the Cape Government, which was adopted at the Conference of 1907—“That landing licenses should not operate for a longer period than twenty years, and that when subsidies are agreed to be paid they should be arranged on the standing-revenue principle—*i.e.*, half the receipts, after a fixed gross revenue has been earned, to be utilized for the extinguishment of the subsidy, and, by agreement, for the reduction of the rates”—recognizes the importance of this right of the State by providing that grants of landing-rights should not be for a period of more than twenty years, and recommends the adoption of an arrangement for the reduction of rates on a sliding scale which is based not on competition, but on regulation.

Once the State has granted the requisite landing-rights, its power of control under the present form of license would be exhausted until the company are under the necessity of obtaining a renewal.

The Postmaster-General now proposes that, so far as practicable, advantage should be taken of the opportunity of applications for the grant or renewal of landing-rights in the United Kingdom for cables serving the purposes of Imperial communications, to impose a measure of Government control over the companies' rates. The proposal is that whenever such a course appears necessary the rates should be fixed by the Government at whatever amount is found to be reasonable with reference to the company's receipts and necessary expenditure, and that, in the event of difference, the matter should be referred to arbitration.

4. The control of rates will apply to the future rather than to the present, and the Postmaster-General is not in a position to say what rates might be imposed when the desired power of control has been secured.

On the last occasion on which the question of telegraph rates formed the subject of an inquiry, the Inter-Departmental Committee on Cable Communications, which sat under the presidency of Lord Balfour of Burleigh in 1901, reported that they were not prepared to say that the rates then in existence (with one or two minor exceptions) were excessive; and since that date a good many of these rates (including the exceptional rates in question) have been further reduced, while those persons who make use of codes have been enabled to effect a large saving owing to the grant by the International Telegraph Conference of London in 1903 of the privilege of making up artificial words.