

ment the 2,500,000*l.* already agreed to, being only a guarantee and not a grant, is certainly not more than an equivalent for the promised grant for armament.

That it would probably be considered both by the Imperial and by the Dominion Parliaments highly inexpedient at the present time, when cordial relations have been established with the United States, to commence military works in Canada.

He, therefore, recommends that the Minister of Militia and Defence be instructed to bring this important subject under the consideration of Her Majesty's Government, and to endeavour to obtain their consent to an increase of the Guarantee to 4,000,000*l.* on condition that the present loan of 1,100,000*l.* be abandoned, and also the undertaking to supply armaments.

The Committee concur in the foregoing Report, and advise that a copy of the present Minute be transmitted by your Excellency to the Earl of Kimberley for the consideration of Her Majesty's Government.

Certified,
(Signed) W. A. HIMSWORTH,
Clerk, Privy Council, Canada.

Approved,
(Signed) DUFFERIN.
October 10, 1872.

No. 7.

The Earl of Kimberley to the Earl of Dufferin.

My Lord,

Downing Street, December 5, 1872.

I HAVE the honour to acknowledge your Lordship's despatch of the 20th of September,* inclosing a minute of the Canadian Privy Council, proposing that the guarantee of 2,500,000*l.* which Her Majesty's Government have agreed to recommend to Parliament on the conditions stated in my despatch of the 18th of March last,† should be increased to 4,000,000*l.* on condition that the present guaranteed loan of 1,100,000*l.* for fortifications be abandoned, and also the promise on the part of Her Majesty's Government to supply armaments.

I have had the advantage of conferring with Sir George Cartier, the Minister of Militia and Defence, on this subject, and I have now to state the course which Her Majesty's Government are prepared to adopt.

Her Majesty's Government observe with satisfaction that the Privy Council declare that if such defensive works should hereafter be required, Canada would not shrink from the responsibility of undertaking them. The questions therefore which have now to be considered are, first whether Canada being desirous of postponing her share of the works which it was agreed in 1865 should be constructed, partly by the Imperial Government at Imperial expense but principally by the Dominion Government by means of a loan under Imperial guarantee, Her Majesty's Government are called upon to object to such postponement; and secondly whether they can properly recommend to Parliament the transfer of the guarantee of 1,100,000*l.* for fortifications to a loan for the construction of the Pacific Railroad and the improvement of the Canadian Canals. A further question remains whether this guarantee should be increased by 400,000*l.* as an equivalent for the promised supply of armaments.

Her Majesty's Government have performed their part of the works planned in 1865 by the improvement of the fortifications of Quebec, and they are not disposed to question the propriety of the Canadian Government choosing the time when they may think fit to commence the important military works which Canada undertook as her share of the projected system of defence. They fully recognize the necessity of providing safe and rapid means of communication through British territory between the older Provinces of the Dominion, and the vast region which has been brought under the control of the Canadian Government by the incorporation with the Dominion of British Columbia and the country formerly governed by the Hudson's Bay Company, and also the urgency in the interests of commerce of improving the Canadian Canals; and although they hold it a salutary rule, not to be lightly departed from, that this country should not incur contingent liabilities for expenditure which naturally falls upon that part of the Empire which is to reap the direct benefit of the outlay, they are willing, looking to the peculiar position of the

* No. 6.

† Vide Command Paper, April, 1872, page 14.