

EAST AFR. PROT

C. J.
6239

6239

21 FEB

erson, W.F.

1913

st February

KENIA FOREST CONCESSION

Ventures to emphasize the doubt as to possibility of profitable working under conditions in C.O. memo. Submits proposals.

Last previous Paper.

2/3338

~~Mr. Read~~ Mr. Bottomley Mr. G. Fielder

This will have to await the receipt of proposal from the other applicants. We have promised the Kenya Forest Dept to postpone the grant of the concession until we receive from office, provided he submit his proposals within before the end of April 1913. (vide 3338/1913).

acknowledging receipt?

but

As to the remarks re rent - I suppose his lesson means that at the best - i.e. when royalties exceed rent - a 10c. per cf. royalty is excessive. I fancy it is right. This royalty is Rs. 10 per 100 cf., while Capt. Gordon for the Eldama Forest is taking Rs. 2 per 100 cf. according to what

Copy forwarded to Mr. Bottomley 24 Feb

68,131, W.L. 29 897-55
41,000, 11/12, A.R.E.W.

Next subsequent Paper.

2/6845

the timber is milled or not.

Clearly Mr. Deane regards the railway as more important than the forest, but it is useless to discuss it until the forest is cleared. As proposed & is now only to
for. for w/ LF.

G.A.S. 25/12

J. J. R.

25/12

This is a remarkable financing. If I understand him, he will build the line, pay interest out of capital for 7 years, sweep up an unincurred triple of £90,000, work the line at a loss for 7 years, and come out with a balance 5th fund of £11,000.

? Tell him at once that his proposals do not appear to offer a basis for discussion.

Answer per to Gov. L.F.

Mr. 27.2
as proposed by Mr. E. Fiddes.

Mr. 27.2.13

Yes, certainly

Mr. 27.2.13

But how much
land will be to
him to pay for
supp of timber
Ch.

Mr. G. Fiddes

Mr. Deane called on Tuesday and urged further consideration of his proposals for the West African Forest and Railway concession. Lord Cranworth is now associated with him and he told me that he expected to be able to secure the support of the others who have approached us on the subject.

He asked for an interview with the S.M. I said I did not see how this could be arranged, but he would like to be able, with Lord Cranworth, to see some ~~one~~ senior to me.

He emphasized the fact that under his scheme the Government ran no risk of loss if the railway is worth building at all, and that there is no question of a Government guarantee of interest. It is true that after the first five years (during which interest is to be paid out of capital) any deficits would have to be made good by the Govt, but any such payments would be repaid out of subsequent profits. He pointed out that the Govt would, unless any

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any capital liability, get half the net
profits or the railway ^{and} half the net
profits on the development of the
railway zone, a condition to having
the work developed. As regards the
railway zone, he insisted that it
was very much better for the Govt to
get half the profits than a mere rent. It
appeared however that the zone could
be developed by letting out the land to
settle, ^{at a rent,} and I could not see how the
Govt would benefit unless the rents
charged were double the normal, while
in any case the Govt would lose the
stand premiums which, for land
adjoining a railway, would be high.

I told him that as I understood
the matter the view taken of the
proposal was that it was far too
good a bargain for the investor to be
accepted at once on the best possible
bargain for the Protectorate. The investor
would have all the benefits which the Govt
had over and above a safe return on his money,
which Mr Leeson said must now be more
than 3 1/2% - probably 4.

I have been in some difficulty in
dealing

* James G. ...
whether the first share
applies to the ...
from 1530 of ...

dealing with his lesson owing to the other
arrangements in view for building this
line, and I should be glad if his desire for
an interview could be completed well before
matter has gone further. If not, I
should prefer to tell him definitely that
his terms are considered too profitable
to the investor to be the basis of an
agreement acceptable to the Government.

W. Robertson

I have understood

to his release still that proposed
in 6229?

23.9.13

Mr J. Anderson

He had better be referred to
our letter of 6229, & has lost the other
no object in an interview.

24.9.13
L. J. ...

25.9.13

RECITAL LONDON.
 LAND TELEGRAMS:
 WESTRAND LONDON.
 NO. 5637 GERRARD.



ROYAL COLONIAL INSTITUTE,
 NORTHUMBERLAND AVENUE,
 LONDON, W.C.

21st February 1913

The Under Secretary of State
 for the Colonies

C. O.
 6239
 21 FEB 1913

Sir, I beg to return herewith, now
 signed, my letter of 18th inst and its
 enclosure with many apologies for
 the trouble caused by the omission of
 my signature, which I greatly regret.
 Sir John Anderson's letter only
 reached me this morning.

I have the honor to be,

Sir,

Yours obedient servant,

W. F. Lester

6239

c/o Royal Colonial Institute,
Northumberland Avenue, W.C.

998

15th February, 1913.

6239
RECO
21 FEB

The Under Secretary of State,
Colonial Office,
Downing Street, S.W.

Sir,

With reference to letter No. 1539/1913 of 21st ult., receipt
of which was acknowledged by mine of 25th ult., I beg to remark as
follows:-

Assuming that it is the wish of the Colonial Office and the local
Legislature to open up the country, and by developing its resources to
increase the wealth and importance of the East Africa Protectorate as a
British Colony, I venture to emphasize the doubt expressed in the above-
mentioned letter of 21st ult., as to the profitable working of the Conces-
sion under the circumstances set forth in the Memorandum accompanying
the said letter.

The rent to be paid for the area of Forest Land is not stated, but
I understand that practically the cost would work out at a price per acre
about 50 per cent. higher than the current price of Forest Land adjoin-
ing or near the Uganda Railway, and to reach the area the Concessionaires
are required, at their sole cost, to construct a Railway which, when com-
pleted, is to be handed over to the Railway Administration apparently
without compensation.

* No.

-15152-20

concessions

(2)

It appears to me to be more than doubtful whether capital can be obtained under these conditions, and I further venture to suggest that the assumed end in view might be attained with a greater probability of increasing revenue to the Government, and of remunerative return upon the capital employed, by the adoption of the scheme outlined in my letter of 13th ultimo. †

With respect to the Railway, I beg to enclose herewith, a draft proposal for its construction and working, under conditions which would safeguard the Government against any expense connected with it, certainly for seven years, and probably for all future time.

This draft proposal is generally based upon the terms of an offer made to the Natal Government to construct certain Branch Railways, which had the approval of the Minister of Railways and Harbours, and of various leading Members of the Natal Legislature, but through a change in the Ministry, and the near approach of Union, it was not adopted.

It will be observed that on some points this proposal is in touch with the terms on which the Government of India are prepared to consider offers for the construction of Branch lines forming feeders either to State Lines worked by the State, or to Railways worked by Companies, for example, in the granting of land, for the purposes of the Railway, free of charge; in giving a guarantee of interest of 3½ per cent. on the capital expenditure on the Railway; in a division of surplus profits between the Government and the Company; and the terms of expropriation.

† No 1530

✓

(3)

The scheme embraces the concession of a large area of land in the Mt. Kenia Forest, as also a belt of land on either side of the Railway free of charge to the Concessionaires, but under suitable restrictions as to the felling of timber, the utilisation of cleared land &c. A sum, estimated to be sufficient for the exploitation of these areas, to be provided by the Concessionaires, or the Company to be organised by them, and to be dealt with generally in the same manner (with such modifications as may be necessary) as the funds provided for the construction of the Railway, including the division between the Government and the Company of the net profits on the exploitation of the areas. Such exploitation to be carried on under the supervision of Officers appointed by the Government for this purpose, and the Government to have the right of representation in the Directorate of the Company.

I beg to submit the foregoing to your consideration, and if the proposals and suggestions commend themselves to your judgment, I shall be pleased to enter more fully into details.

I have the honour to be,

Sir,

Your obedient Servant,

W. F. Leeson

Encl in No

6238



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DRAFT PROPOSAL TO CONSTRUCT RAILWAY

24 FEB 2

1. The Concessionaires, or a Company organised by them, hereinafter called the Company, to provide the necessary funds and to build and equip a Railway of 1 metre gauge, starting from a point on the Uganda Railway, and terminating at a point in the Mount Kenia Forest, both as determined by the Government.

The necessary surveys for the Railway to be carried out as may be mutually agreed between the Government and the Company.

2. The Railway or sections thereof, as above, shall be built, equipped and worked for five years without any cost to the Government for construction, working or payment of interest on capital, the Government giving a guarantee of 3 1/2 per cent. per annum, on the amount of capital to be agreed between the Government and the Company. If there should be any surplus remaining after paying interest on capital and working expenses during the first five years of working, it shall be equally divided between the Government and the Company, and after the first five years of working the result of the working of the Railway shall be dealt with as provided by Clause 2 hereof.

All expenses of supervision by Engineers and other Officers of the Government during construction and the said first five years of working shall be paid by the Company as part of the guaranteed capital.

3. The capital cost of the Railway shall be arrived at in the following manner, subject to the approval of the Government:-

(a) In all matters connected with the raising of funds for the purposes of the Railway, and expenses of the Company's Administration in London, the Company shall arrange with the Department or Officer of the Government appointed by the Colonial Office for this purpose.

(b) In all matters connected with the purchase in Europe of materials, plant, machinery and appliances required for the Railway, the Company, or its Consulting Engineer or Agent, will arrange with the Crown Agents for the Colonies.

(c). In all matters connected with the actual construction and maintenance of the Railway, and the purchases of material &c. in the East Africa Protectorate, the Company, by its Agent or Agents, will arrange with the General Manager and/or the Engineer-in-Chief of the Uganda Railway, or other Officer appointed for this purpose.

(d). In all matters connected with the working of the Railway, fixing of rates for passengers, goods &c., and with the expenses of the Company's Administration in the East Africa Protectorate, the Company, by its Agent or Agents, will arrange with the General Manager of the Uganda Railway.

(e). All accounts resulting from these arrangements shall be certified by the respective duly authorized Officers and Representatives of the Government, and the sum total of such accounts, and of any other amounts that may be directly authorized by the Government, together with the amount of a fixed percentage to be mutually arranged between the Government and the Company as representing the profit of the Company, will constitute the capital cost of the Railway.

The Company will undertake that there shall be no secret commissions, and no discounts, abatements or allowances of any kind whatsoever, other than those which appear in the certified accounts.

4. In order to protect the Government against any claim under the guarantee of $3\frac{1}{2}$ per cent. during construction and the first five years of working of the Railway, of the amount raised for the purposes of the Railway, as referred to in Clauses 2 and 3 hereof, there shall be deposited with the Crown Agents for the Colonies such amounts as may be mutually agreed between the Government and the Company, subject to interest at the rate of $3\frac{1}{2}$ per cent. per annum being credited to the Company on the monthly balances remaining after payment to the Company of such amounts as may be required month by month for the purposes of the Railway upon duly certified accounts.

(3)

If, on the completion of the said first five years of working, any balance of the said deposit shall remain in the hands of the Crown Agents for the Colonies, it shall be equally divided between the Government and the Company, or be otherwise dealt with, as may be mutually arranged.

5. All lands required for the purposes of the Railway are to be placed at the disposal of the Company free of charge, together with a zone on the axis of the Railway, of such width as may be mutually arranged between the Government and the Company. This zone to be exploited under conditions mutually agreed between the Government and the Company, and the net profits to be equally divided between the Government and the Company.

6. When the Railway, or any section thereof, is completed ready for traffic, it is to be worked as a part of the Uganda Railway, or separately by the Company, as may be mutually agreed. In the former case, all accounts relating to the Branch Railway shall be kept distinct, and the duly authorised representatives of the Company shall have access thereto for the purposes of examination and audit of the Company's accounts.

7. The Tariff of Rates for the conveyance of passengers, goods &c. to be fixed by mutual agreement with the Government, with a view to the working of the Railway without loss.

8. After the first five years of working, the net earnings of the Railway in each half-year shall be such earnings as remain after providing for the payment of interest on capital, maintenance, working expenses, the Company's Administration expenses, and any approved current expenditure which may not be chargeable to capital account. Any deficiency to be made up by the Government, to be refunded out of the subsequent earnings of the Railway with interest at $3\frac{1}{2}$ per cent. per annum added. Any surplus profit in any half year, after making good such deficiency, if any, with interest added, shall be equally divided between the Government and the Company.

9. The Railway to be exempt from all Duties, Rates, Taxes and Imposts of whatever kind or description now or hereafter made or imposed. 65

All materials, plant, stores, or other things required for the construction and working of the Railway to be carried over the Uganda Railway, or other railways in the East Africa Protectorate, at lowest current rates, and by the granting of free passes over such lines to duly authorised persons in the employ of or connected with the Railway, and by all other practicable means, the Government shall, as much as possible, facilitate the construction and working of the Railway, and the carrying on of the business of the Company.

10. The Company is not to be required to make any deviations, extensions, sidings, warehouses &c., after completion of the Railway, except as may be mutually agreed.

No competing Railway to be authorised to approach within ... miles of this Company's Railway, except as may be mutually agreed between the Government and the Company.

11. The Company shall establish a Sinking Fund upon such terms and conditions as may be mutually agreed with the Government, as soon as the net traffic earnings of the Railway shall equal the amount of interest at 3 1/2 per cent per annum payable upon the capital cost of the Railway under the Government guarantee.

12. The Government, upon giving twelve months' notice, may expropriate the Railway, unless the agreement is terminated earlier by mutual consent, at the expiry of 30 years from the date when it is declared open for traffic, or at subsequent intervals of 10 years, upon payment of 25 times the average net earnings (excluding payments on account of guarantee) during the three years preceding the purchase, or 115 per cent. of the capital expenditure on the Railway, whichever may be the greater.

13. The Company will undertake to maintain the Railway with all its belongings in an efficient state until the termination of the agreement.

14. The usual Arbitration Clause.

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Re Proposal to construct Railway.

6239
 63 REC'D
 21 FEB

The following shows how the proposal, under Clause 4, works out, making allowance for an average loss on working of £50 per mile in each year for the first five years after the completion of the line.

(On the working of three new railways in South Africa there was an average loss on one year's working of £88 per mile.)

The actual cost of the Railway can only be estimated when the surveys are made, but whatever it may be, the principle of the calculation is the same, and assuming that the actual out-of-pocket cost of the Railway, plus the Company's rate of profit, amounts to £4,000 per mile, the total outgoings may be provided for thus:-

The Government to guarantee interest at 3½% per annum on say £5,500 per mile on say 60 miles.

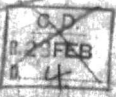
	per mile	60 miles
Guaranteed amount as above	£5,500	or £ 330,000
Say required for construction in 1st year (chiefly for earthworks &c.)	£1,500	
Interest for one year on £5,500 @ 3½%	193	1,803
		3,807
Add 1 year's interest @ 3½% on balance £3,807		133
There would be in hand at end of 1st year	2,540	or 236,400
Say required for construction in 2nd year (including permanent way material, bridge-work, &c.)	2,500	
Interest for one year on £5,500 @ 3½%	193	2,053
		1,247
Add 1 year's interest @ 3½% on balance £1,247		44
In hand at end of 2nd year	1,291	or 77,400
Interest for one year on £5,500 @ 3½%	193	
Allow for loss on working	50	243
		1,048
Add 1 year's interest on balance £1,048		37
In hand at end of 3rd year	1,065	or 65,100

	per mile	80 miles
	1,025	67
Interest, 1 year on £5,500 @ 3 1/2%	192	
Allow for loss on working	50	243
	842	
Add 1 year's interest on balance £842	89	
In hand at end of 4th year	671	52,200
Interest, 1 year on £5,500 @ 3 1/2%	192	
Allow for loss on working	50	243
	411	622
Add 1 year's interest on balance £622	22	
In hand at end of 5th year	659	39,900
Interest, 1 year on £5,500 @ 3 1/2%	192	
Allow for loss on working	50	243
	497	
Add 1 year's interest on balance £497	14	
In hand at end of 6th year	431	25,200
Interest, 1 year on £5,500 @ 3 1/2%	192	
Allow for loss on working	50	243
	178	
Add 1 year's interest on balance £178	8	
In hand at end of 7th year	164	11,040

The balance of £11,040 could be available for contingencies, or for division under Clause 2 of the proposal.

By the foregoing scheme there would be no claim upon the Government under the guarantee, for at least seven years, and by the end of that time the earnings of the Railway should be sufficient to cover the working expenses, the Company's administration charges, and the interest on capital.

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6237 X

DRAFT.

W. F. Leeson Esq.

Handwritten: *Handwritten*

4 March, 1913.

MINUTE.

- Mr. Sturges
- Mr. G. P. ... 28
- Mr. ...
- Sir G. Fiddes
- Sir H. Just
- Sir J. Anderson
- Lord Emmott
- Mr. Harcourt

Sir,

I am directed by her Secretary of State to acknowledge the receipt of your letter of February 18th, 1913, * submitting a scheme for the construction and working of a railway to develop a tract of land in the Mount Kenya forest, in the East Africa Protectorate, and to inform you that your proposals do not appear to offer a basis for discussion.

Handwritten: *Copy sent to...*

* No 6239

Handwritten: *copy sent to...*

I am, Sir, READ.

for the Under Secretary of State

15617-20

L1 6229 Est

69

G.P.
1827 SEP
26

DRAFT

W.F. Leeson Esq

29 Sept 1913.

MINUTE.

hi,

- Mr. ~~Deer~~ 19/1/13
- Mr. ~~Postmaster~~ 26/2/13
- Mr. ~~Reed~~ 27
- Sir G. Fiddes.
- Sir H. Just.
- Sir J. Anderson.
- Lord Emmott.
- Mr. Harcourt.

with ref^{ce} to your interview
in this Dept. on the 18th of Sept.
on the subject of the your
proposals for the construction
owning of a railway to
develop a tract of land
in the Mount Kevier Forest ^{in the E.A.P.}

I am etc. to inform you
that he has ^{regrets that he can} ~~nothing to~~
add to the letter
sent to you on the