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# The Politics of Newsprint: The Newfoundland Pulp and Paper Industry, 1915-1939

IN THE EARLY 20TH CENTURY FOREST products accounted for approximately two per cent of Newfoundland's exports by value. The newly-completed railway ran through a largely uninhabited interior, as if to mock the prophecies of its builders, who had so confidently predicted industrial growth. By the early 1930s, however, the forest sector provided over 50 per cent of exports by value (Table 1), and the economic basis for a string of new settlements on or near the railway, among them Bishop's Falls, Grand Falls, Badger, Millertown, Howley, Deer Lake and Corner Brook. The forest sector accounted for 60 per cent of Newfoundland's real output growth in the period 1911-39, and paid out 25 per cent of all earnings in the economy by 1935.[1] Though such figures are impressive, they do not tell the whole story. In the 1930s the industry employed no more than 10 per cent of the labour force, and even less — perhaps half — on a full-time basis.[2] It was dominated by two major pulp and paper companies with mills at Grand Falls and Corner Brook, which together held leases to almost all the island's productive forest on generous terms. And since neither firm was indigenous to Newfoundland, profits were largely exported. Thus what had occurred was the development of an enclave industry at very considerable cost in terms of control over resources and obtaining an adequate governmental return.

The period between 1915 and 1939, saw the successful promotion of a mill at Corner Brook and the failure of an attempt to establish another major development on the Gander River. Earlier agreements of 1905 and 1908, which governed the Grand Falls and Bishop's Falls mills, set the pattern for what was to occur.[3] By 1915 both these mills were controlled by the Anglo-Newfoundland Development Corporation (AND), a subsidiary of the London-based Harmsworth publishing empire. It held 99-year leases over 3,670 square miles of timber land at a rental of only $2 per square mile, and was exempt from paying stumpage on

1 D.G. Alexander, "Economic Growth in the Atlantic Region, 1880-1940", in Alexander, *Atlantic Canada and Confederation. Essays in Canadian Political Economy* (Toronto, 1983), pp. 62, 24.

2 J.D. Sutherland, "A Social History of Pulpwood Logging in Newfoundland during the Great Depression", M.A. thesis, Memorial University, 1988, pp. 2-4, 29.

3 See J. K. Hiller, "The Origins of the Pulp and Paper Industry in Newfoundland", *Acadiensis*, XI, 2 (Spring 1982), pp. 42-68.

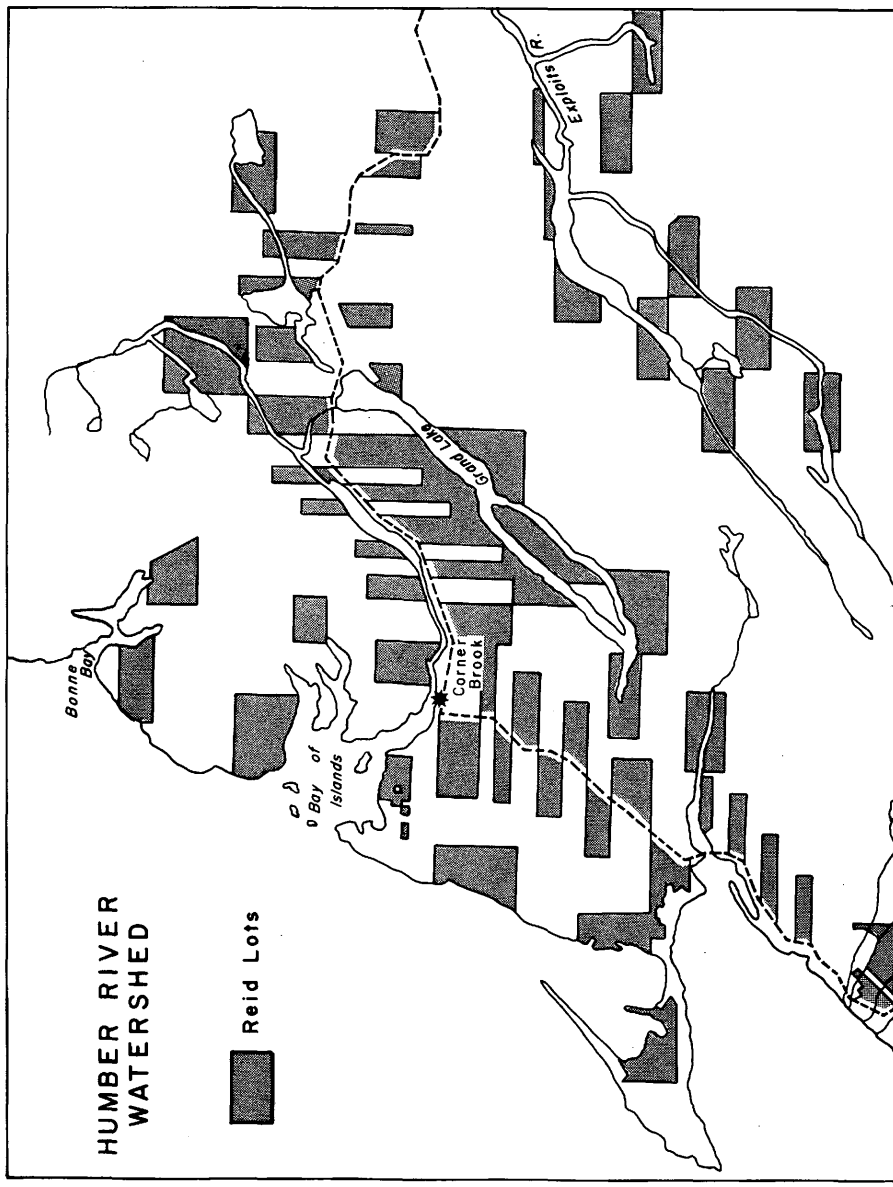
pulpwood. Promoters active in the colony in the second phase of the development of the Newfoundland pulp and paper industry expected equally favourable treatment. Indeed, they expected rather more, since the new proposals were invariably contingent upon government financial assistance. As a result newsprint politics became much more complex, involving not only the colonial government and the promoters in question, but also the powerful forces of the banks, and ultimately the imperial government. In such a situation, Newfoundland interests were usually overridden, and colonial governments were forced into unexpected acts of generosity to support and expand the industry.

The central player was the Reid Newfoundland Company. Chartered in 1901, the company held contracts with the Newfoundland government to operate the railway until 1951, a coastal steamship service, and the Gulf ferry. In addition, the company supplied St. John's with electricity, ran the streetcar system, and owned the dry dock. More importantly, the company held fee simple land grants totalling some 4,000 square miles, payment for operating the railway which had been largely built by the founder, R.G. Reid, between 1890 and 1897. The Reids had always considered that their lands were their most valuable asset, and had been planning since at least 1900 to develop an industrial complex on the island's west coast based on the hydro-electric and timber potential of their holdings in and near the Humber River watershed (Map 1). They had intended at first to develop a pulp and paper mill independently, but revisions to the railway operating contract forced on the company in 1901 by a hostile government led by Robert Bond had prevented them from raising the capital without assistance. Though Bond was deposed in 1909 by Edward Morris, a Reid ally, it was not until 1914-15 that the Reid company came forward with a specific proposal.

This proposal rested on an agreement between a specially formed Reid subsidiary, the Newfoundland Products Corporation (NPC), and Thomas L. "Carbide" Wilson, the inventor of a method of mass-producing calcium carbide and acetylene gas. Wilson had become involved in a scheme to manufacture superphosphate fertiliser on the Saguenay River, but in 1913 lost both his investments and his Canadian patents. In Newfoundland, however, he still had valid patents, and hence his interest in the potential of the Humber.[4] In 1915 Morris introduced a mammoth scheme to the legislature which even he, a skilled spinner of economic dreams, found "staggering".[5] At Corner Brook on the Bay of Islands, to be renamed Reidport, NPC would build an industrial complex producing fertiliser, ammonia, cement, wood pulp and lumber. The power would come from a complex hydro development involving ten dams on the

4 C. Precious, *Thomas Carbide Wilson* (Toronto, 1980).

5 "Speech of the Rt. Hon. Sir E.P. Morris, 15 April 1915", *Journal of the House of Assembly* (*JHA*), 1915, Appendix.




Map 1. Reid Newfoundland Company lots, Humber River area.

Humber River and Junction Brook. Wilson would provide the necessary expertise and find $18 million. The Reids would put in forest areas and water-powers. The government would lease — free of royalty — the other water-powers to be used, and give generous tax concessions. On top of this, NPC was given privileged rights in Labrador. The ensuing debate was similar to that on the AND agreement ten years previously. The opposition parties argued that Morris was creating a huge monopoly, abdicating control over resources for short-term gain, inflating the power of the Reids, and harming the interests of other companies.[6] But as it turned out, they had no cause for immediate concern. The project was effectively killed by Wilson's death in 1917 and the impossibility of raising large amounts of capital in wartime. Moreover, the Reid brothers, who had managed the company since their father's death in 1908, became embroiled in a family feud which led to the ousting of the eldest brother, W.D. Reid, as President, and his replacement by Harry D. Reid.[7] But they managed to hang on to the NPC legislation. Due to expire in April 1917, unless work started, the Reids persuaded the government to take account of wartime conditions and agree to an extension.[8]

The position of the Reid Newfoundland Company in 1919 was difficult. The railway was in poor condition as a result of heavy wartime traffic and inadequate maintenance, and needed renovations which would cost an estimated $5.5 million. In addition the company faced the prospect of sustained losses on railway operation. It had lost $3.3 million in this way since 1900, just under half of it since 1914.[9] With increased costs there was little likelihood of significant improvement. The company owed about $1 million to an increasingly nervous Bank of Montreal, and Harry Reid, and no doubt other members of the family, had substantial personal overdrafts.[10] The company's policy was to revive its fortunes by renegotiating the railway operating contract or getting rid of it altogether, and by actively developing its lands and other assets. Harry Reid understood that if he was to achieve these aims, he would have to find reliable business partners and obtain government cooperation and assistance.

6 *Proceedings of the House of Assembly* (*PHA*), 1915, pp. 244-58, 585-742, 857-69.

7 I.D.H. McDonald, "*To Each His Own." William Coaker and the Fishermen's Protective Union in Newfoundland Politics, 1908-1925* (St. John's, 1987), p. 67.

8 H.D. Reid to C. Conroy, 5 January 1917; Conroy to Reid, 14 January 1917, Reid Newfoundland Company Papers (RNCP), second series, Miscellaneous, Box 6 (2/6), Public Archives of Newfoundland and Labrador (PANL). The Reid Papers in PANL were donated at different times in two sections, each of which is organised separately. They are cited in this paper as RNCP 1 and RNCP 2.

9 Memorandum, 30 June 1920, RNCP 2/ Trust Case File (TCF).

10 J.A. Paddon (Bank of Montreal) to Reid Newfoundland Co., 9 April 1921; Paddon to H.D. Reid, 16 March 1921, RNCP 2/9.

Neither task would prove to be easy. Morris had departed in 1917 for England and a seat in the House of Lords. The National Government which had succeeded Morris collapsed in May 1919, and the November election returned Richard Squires as the leader of a government which was, in effect, a coalition between his Liberal Reform party and the political arm of the Fishermen's Protective Union, led by William Coaker. Both men had whipped the Reids throughout the election campaign,[11] and Squires was deeply mistrustful of both the family and the company. "As you know", he wrote to his Minister of Justice, "I am exceedingly suspicious of the Reid Newfoundland Company or anyone connected with them".[12] Explicitly, "Not one of the directors of the...Company is a practical railroad man of any experience, nor has the...Company upon its directorate any financier of any importance or experience".[13] There were grounds for this antipathy, given some of W.D. Reid's activities,[14] and it took some time for both Squires and Coaker to understand that under Harry Reid the company was charting a different course, though it is improbable that Squires ever lost his ingrained hostility. Apart from these considerations, the government was preoccupied with the severe impact of the post-war recession, which brought rising unemployment, higher relief payments, and increasing pressures on an inadequate revenue already burdened with a high public debt. Thus it was unlikely that the Squires government would react with enthusiasm to Reid proposals, even if they promised employment. Harry Reid realised that he would have to impress the government with constructive activity, and tempt it with plans for the future — "a pulp mill or two arranged for" — while at the same time working towards a solution of the railway problem.[15]

To arrange for "a pulp mill or two" Reid needed the advice and assistance of people with the right business and financial contacts, particularly in London, where he had decided to look for investors interested in the company's assets.[16] In August 1918, he had met in St. John's Henry B. Thomson, a British Columbian businessman and politician, at that time chairman of the Canadian Food Board. Thomson helped Reid dispose of a large amount of frozen fish held in storage by the latter's Newfoundland Atlantic Fisheries Ltd., and the two kept in touch.[17]

11 McDonald, "*To Each His Own*", pp. 78-83.

12 Squires to W.R. Warren, 16 January 1923, GN 2/5/254 (c), PANL.

13 Squires to H.J. Crowe, 5 March 1921, GN 8/2/73.2, PANL.

14 See McDonald, "*To Each His Own*", pp. 52-8, 63-4, 67-8, 82-3.

15 Reid to Conroy, 22 January 1920. RNCP 1/(file) 84.

16 Reid to Conroy, 15 January 1917, RNCP 2/6.

17 *The Canadian Who's Who*, vol. III (Toronto, 1939), p. 657. Much of the information in this paper concerning the activities of Thomson and his associates on the Reids' behalf is taken from the judgments of Kent J. in Newfoundland Banking and Trust Co. Ltd. vs. Reid Newfoundland Co. and Others, 1925, *Decisions of the Supreme Court of Newfoundland, 1921-1926* (St.

Later that year Thomson became chairman of the Canadian trade missions in Ottawa and London. Before leaving Canada he met Reid in Montreal, and agreed to try to find investment capital in London. Since Thomson could not devote all his time to Reid matters, he was joined by a Canadian associate, W.H. Greenwood, who had potentially valuable English contacts through his brother, Sir Hamar Greenwood, a Conservative MP and Undersecretary of State for Home Affairs. Greenwood in turn involved an old Canadian friend, Major J.A. MacDonald, who had considerable financial experience in London. At MacDonald's suggestion the three formed the Home and Overseas Trading Trust, later the Newfoundland Banking and Trust Company, in October 1919. Its primary purpose was to represent the Reid company in London, and to promote various propositions connected with Reid interests.

The major items to be dealt with were the Humber project, and approximately 480 square miles of timber lands on the Gander River, where the Reid company also controlled potential water-power sites, and was seeking to extend its area by buying up Crown land timber licenses. In addition, the Trust was asked to look into the development of an import business in Newfoundland fish; to assist in the promotion of mineral rights held by the Reids on their fee simple lots and over copper deposits in Notre Dame Bay; to arrange financing for an expansion of the electricity business; and to find capitalists who might be willing either to invest in the railway or take it off Reid hands altogether.[18] Faced with this agenda, and knowing that the Reids were debating the future of the railway with an unsympathetic government that might take hostile action, the Trust recommended that the Reid company transfer its non-railway assets to subsidiary companies where they would be protected from possible legal actions based on alleged breaches of the operating contracts.[19] The issue was made more urgent by pressure from the Bank of Montreal for a mortgage on four Reid steamers.

The Company's charter required that any such reorganization, or the conclusion of the mortgage, be approved by shareholders representing two-thirds of the issued capital. If such a majority was to be obtained, then the support of the embittered W.D. Reid was vital — and he, as Harry Reid said, had adopted a "Rule or Ruin" policy since his deposition.[20] The upshot of a tangle of extremely complex moves was that in 1920 the government amended the Companies Act to

John's, 1947), pp. 416-501; and in Thomson and Others vs. Reid Newfoundland Co. and Mines and Forests Ltd., 1929, *Decisions of the Supreme Court of Newfoundland, 1927-1931* (St. John's, 1948), pp. 286-305.

18 Trust to H.D. Reid, 20 September 1920; "Memorandum. London Organization for the Development of H.D. Reid's Newfoundland Interests; progress to date", n.d.; MacDonald to H.D. Reid, 4 September 1920, RNCP 2/TCF.

19 Kent judgement, Trust case, p. 440.

20 *Ibid.*, and H.D. Reid to Sir V. Meredith (Bank of Montreal), 29 October 1920, RNCP 2/10.

allow companies incorporated by charter to register under the act and conduct their affairs by majority vote. This amendment enabled the Reid company to become the Reid Newfoundland Company Ltd., whose directors doubled as the directors of each subsidiary. Mines and Forests (Newfoundland) Ltd. took over the company's lands and mineral rights; the St. John's Light and Power Co. Ltd. took over the electricity business and the street railway; and Newfoundland Dockyards Ltd. took over the dry dock and machine shops. The Reid Newfoundland Company now controlled directly only the railway and steamship operations.[21] That the government acquiesced in these moves may be linked to the fact that in June 1920, over Squires' opposition, it agreed to cooperate with the Reids in running the railway through a joint commission, lending them $1.5 million for capital expenditures and agreeing to meet net losses over $100,000.[22] Negotiated by Thomson, this was a stop-gap arrangement pending final settlement of the difficulty.

While these manoeuvres were going on in Newfoundland, the Trust in London was active on the Reids' behalf. In January 1920, discussions opened with Lord Rothermere concerning a possible sale of the Gander properties, which he wished to use as a reserve wood supply for the AND mills at Grand Falls and Bishop's Falls.[23] Though he also expressed interest in the Humber properties, envisaging a pulp mill there, his representatives settled in June for an option on the Gander only. This option was not exercised, since Rothermere's lawyers concluded that Reid title to some of the properties was defective.[24] The question of title is of some importance to the subsequent history of the Gander proposition. There was no disputing the Reid company's (after December 1920 Mines and Forests') title to the fee simple blocks. The problem lay with lands covered by timber licenses, which ran for periods of 21 to 50 years and were conditional on rent payments and the erection of sawmills. Although this last condition had been invariably ignored, it was open to the government to sue for forfeiture on grounds of non-compliance. The Squires party had advocated forfeiture in the 1919 election campaign, and the whole situation gave lawyers pause. Nevertheless, Charles Conroy (the Reid lawyer) thought that it would be possible to obtain replacement licenses for 99 years conditional on the areas being operated within a given period.[25] Having failed to obtain Reid agreement to a sale of the

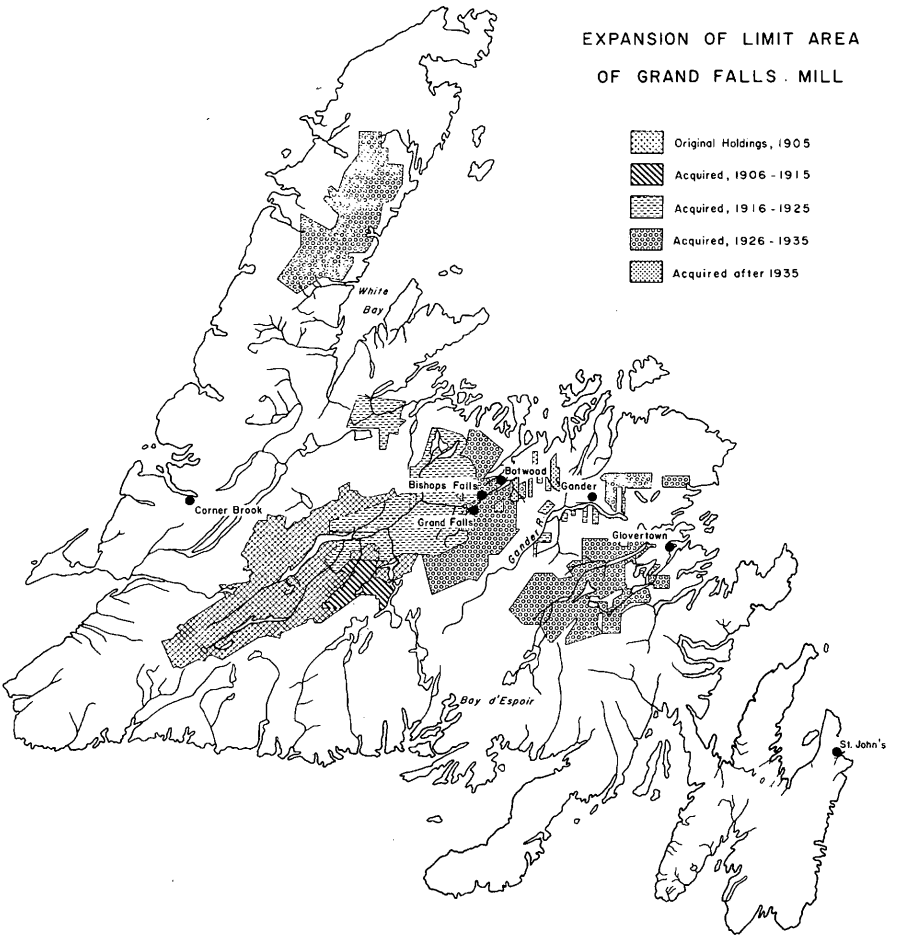
21 Kent judgments, Trust case, pp. 441-2; Thomson case, p. 288. Trust to J.F. Grant, 15 May 1920, RNCP 2/TCF. H.J. Elliott to Conroy, 4 August 1920; Reid to Meredith, 29 October 1920, RNCP 2/10. Conroy to Paddon, 12 August 1920, RNCP 2/9.

22 McDonald, *"To Each His Own"*, pp. 109-10.

23 Rothermere to H.D. Reid, 16 February 1920, RNCP 1/425; MacDonald to H.D. Reid, 27 March 1920, RNCP 2/TCF; Kent judgement, Trust case, pp. 447-8.

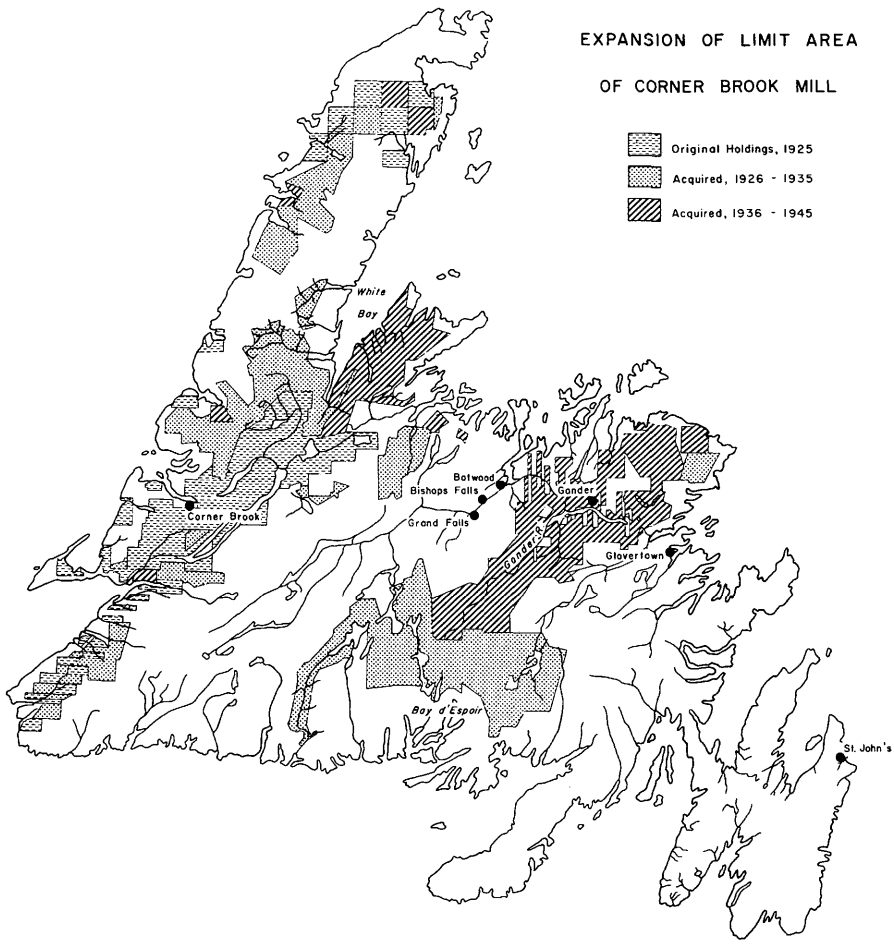
24 Wood and Kelly to Budd, Johnson, 26 June 1920, RNCP 2/TCF.

25 Conroy to MacDonald, 12 August 1920, RNCP 2/TCF.




Map 2. Limit Areas, Anglo-Newfoundland Development Co.

Source: J.A. Munro, "Public Timber Allocation Policy in Newfoundland" (Ph.D. thesis, UBC, 1978).




Map 3. Limit Areas, Corner Brook Mill.

Source: J.A. Munro, "Public Timber Allocation Policy in Newfoundland" (Ph.D. thesis, UBC, 1978).

fee simple lots only,[26] and perhaps fortified by Conroy's advice, Rothermere purchased another option in October. This was dropped because his cruisers found much less timber than had been claimed, and his lawyers remained dubious about title.[27] There were to be no more Gander negotiations for some time, as the parties became absorbed in the Humber project. In March 1920 the Trust had made contact with Ragnvald Blakstad, a Norwegian industrialist and water-power engineer with considerable experience in forest industries.[28] Attracted by NPC's Humber properties, he arranged to have them inspected, and in the spring of 1921 came to an agreement with H.D. Reid. The basis of the arrangement was that Blakstad would purchase control of NPC, which in turn would purchase from the Reid interests 3,125 square miles of timber lands and their water-powers. These transactions, and the erection of the pulp and paper mill, would be financed by a £5 million bond issue which, it was hoped, would be guaranteed by the Newfoundland government. The guarantee was vital to the project. Soundings in the City carried out by the Trust and by the giant engineering firm of Sir W.G. Armstrong, Whitworth and Company, which had agreed to assist in raising capital in return for the construction contract, made it clear that without a guarantee the bond issue would be difficult if not impossible to sell.[29] Thus in May 1921, Blakstad and Greenwood opened negotiations with the Squires government.

They arrived in St. John's at a bad time from the political point of view. The government's cohesion was dissolving as Coaker and W.R. Warren, the Minister of Justice, became increasingly disillusioned with Squires. Sensing this, the opposition's attacks had reached such a pitch that the 1921 legislative session became known as "the rough house session".[30] And though Coaker had lost much of his hostility to the Reids as a result of his experience on the Railway Commission, and like Warren was enthusiastic about the Humber proposals,[31] Squires remained hostile and unpredictable. The end result was an offer by the government to guarantee no more than half the amount needed ($12.5 million) so long as the funds were spent in Newfoundland on construction only.[32] The

26 Kent judgement, Trust case, p. 449.

27 Radcliffe and Head to Parker and Hammond, 26 November 1920, RNCP 2/TCF.

28 Undated memorandum concerning Blakstad, GN 8/2/4, PANL. R.G. Dunn and Co., "Assessment of Ragnvald Blakstad", 13 February 1921, RNCP 2/TCF.

29 Kent judgement, Thomson case, pp. 293-4.

30 McDonald, "*To Each His Own*", pp. 110-2.

31 McDonald, "*To Each His Own*", pp. 114-5. W.F. Coaker, *Past, Present and Future* (1932), Article 5. W.F. Coaker, "Presidential Address, 1922" and "Notes of a Trip to Europe" (1921), in W.F. Coaker, ed., *Twenty Years of the Fishermen's Protective Union of Newfoundland* (1930, reprinted St. John's, 1984), pp. 210-2, 286.

32 Blakstad to Squires, 3 and 28 May 1921, GN 8/5/17(vi), PANL; Greenwood to Trust, 2 May 1921, RNCP 2/TCF.

government's reasons appear to have been the alleged vagueness of the proposals, worry about the country's financial position, and a reluctance to allow any of the proceeds of the bond issue to find its way into Reid pockets.[33] In addition the governor, Sir Charles Harris, was opposed to government guarantees in principle. At this point the Reids suddenly and unexpectedly severed their relationship with Blakstad and the Trust, alleging that Blakstad was trying to drive the price down and obtain an unfair bargain, and that he and the Trust had colluded to obtain extra commissions and payments.[34]

Having parted with Blakstad, the Reids asked H.S. Waite, a consulting engineer appointed by Armstrongs to investigate the Humber scheme, whether Armstrongs might be interested in participating in the project. His principals proved interested, though prepared only to discuss the matter in terms of engineering work and assistance in obtaining capital.[35] H.D. Reid was delighted: "Our experience hitherto has unfortunately lain chiefly with promoters, and we have long been seeking to become associated with strong, practical, enterprising English people who would join us for mutual advantage by exploiting the rich natural resources of this country".[36] In October 1921, Reid went to London and negotiated with Armstrongs a draft construction contract and a firm offer to find capital subject to a government guarantee. In addition, Armstrongs agreed to become the Reids' London agents, and to assist in raising money for the railway and the St. John's Light and Power Co.[37]

Armstrong, Whitworth, which was involved in the manufacture of arms, ships and heavy machinery, as well as in large-scale civil engineering contracts, had emerged from the war with expanded capacity, expanded share capital, and a large overdraft at the Bank of England, of which it was an old customer. After a brief post-war boom which kept its works busy until the spring of 1920, Armstrongs faced serious difficulties. The demand for armaments and naval ships had disappeared, and that for merchant shipping had contracted. The obvious solution was to find peace-time enterprises which would take up the slack. This it began to do under a new chairman, Sir Glynn West, a man of considerable energy and ambition, but apparently autocratic and lacking in financial experience.[38] The Humber project promised loan commissions, contracts for machin-

33 Squires to Greenwood, 28 May 1921, GN 8/5/17 (vi), PANL; Reid Newfoundland Co. to Paddon, 18 May 1921, RNCP 2/TCF.

34 Reid Newfoundland Co. to Paddon, 18 May 1921; H.D. Reid to MacDonald, 23 August 1921 (not sent); Conroy to T.E. Cusens and T. Hudson, 16 August 1921, RNCP 2/TCF.

35 Kent judgement, Trust case, pp. 478, 481. A. Whiteley to Sir G. West, 26 May 1924, RNCP 2/ Corner Brook Material, Box 1 (CB 1). Spencer to H.D. Reid, 28 June 1921; Spencer to Reid Newfoundland Co., 1 July 1921, RNCP 1/25.

36 Reid to Spencer, 13 July 1921, RNCP 1/25.

37 Kent judgement, Trust case, p. 481; Preston to Reid, 17 November 1921, RNCP 1/22.

38 J.D. Scott, *Vickers. A History* (London, 1962), pp. 152-3. R.S. Sayers, *The Bank of England,*

ery and ships, and profits on the construction contract. Once more, however, everything hung on the question of a government guarantee.

There was reason for cautious optimism. Squires had hinted that a proposal involving Armstrongs would receive assistance, and more formally had stated his preference for British capital investment.[39] Coaker and Warren were both in favour of the guarantee, principally because the project would create a large number of desperately needed jobs and thus reduce expenditures on relief projects, which were becoming an expensive drain on public funds.[40] Moreover, the promoters reckoned that with a 400 ton per day (tpd) mill, they would be able to manufacture newsprint at a profit of $25 per ton — a figure which would make the guarantee extremely safe.[41] Waite (for Armstrongs) and Reid requested a guarantee on a $15 million bond issue, $10 million less than that advanced by Blakstad.[42] But Squires proved hostile both to the guarantee and the project. He was apparently unable to overcome his antipathy to the Reids, an attitude no doubt reinforced by a gathering crisis over the future of the railway, and was sensitive to mounting criticism of the proposed guarantee from the opposition press and the Board of Trade. He eventually managed to persuade the government to reject the proposal by allying with Governor Harris, who made no secret of his opposition to guarantees and his view that the promoters, already in "an extraordinary privileged position" as a result of the 1915 NPC legislation, should not be further subsidised unless there were an election on the issue.[43]

The final rejection came in February 1922, whereupon Armstrongs and Reids renewed an alternative plan to obtain a joint guarantee from both the Newfoundland and British governments. The participation of the latter was made possible by the 1921 Trade Facilities Act, which authorised the Treasury to guarantee loans within the Empire whose proceeds were to be spent on British industrial products. The legislation was designed more to reduce domestic unemployment than to encourage economic development abroad, and was framed in such a way

*1891-1944* (Cambridge, 1976), I, p. 315. H. Clay, *Lord Norman* (London, 1957), pp. 130, 168, 275, 318-9.

39 Reid to M.E. Macdonald, 30 May 1921, RNCP 1/22; Squires to Reid, 30 August 1921, RNCP 1/447.

40 McDonald, "*To Each His Own*", pp. 115-6. Memorandum of a meeting of NPC in London, 11 November 1921, RNCP 2/10.

41 "Draft Memorandum re The Newfoundland Products Corporation Ltd.", 8 November 1921, RNCP 2/10.

42 Reid to Squires, 12 December 1921, RNCP 1/447. Noble to Warren, 26, 28 January 1922, RNCP 1/24.

43 McDonald, "*To Each His Own*", pp. 115-6. Board of Trade to Squires, 9, #16 January 1922, GN 2/5/254(c) PANL. Harris to Churchill, 10 February 1922; confidential, 11 February 1922; secret, 30 March 1922, CO 194/303, pp. 32, 47, 117, Public Record Office (PRO).

as to allow the backing only of those projects judged to be so safe that the guarantee would never be called. It is not surprising that there were few customers, and the scheme died, unlamented, in 1927.[44] An initial approach had been made to the Trades Facilities Act Advisory Committee (TFAAC) in 1921, and by late March 1922, it had decided in principle to recommend a guarantee on half the amount required (£2 million), provided that the Newfoundland government agreed to guarantee the balance.[45] There were other conditions, which substantially changed Armstrongs' role in the enterprise. The TFAAC insisted not only that Armstrongs channel the resulting work to its factories, but also that it acquire majority control and assume full responsibility for the completion and operation of the development. Further, the promoters had to agree to a lump sum construction contract, rather than cost-plus (or "time and lime"), and to submit estimates by October.[46] Confident of the soundness of the Humber scheme, Armstrongs and Reids accepted the conditions. But the former was taking a risk, since the engineer sent to survey the work in the winter of 1921-22 had been unable to complete his task, and for the most part estimates had to be derived from information and surveys supplied by Reid officials.[47]

As for the Newfoundland guarantee, the initial reaction was negative; but attitudes changed. Harris now understood that he could not veto guarantee legislation,[48] and no doubt realized that his opposition had been undermined by the passage of the Trade Facilities Act. Squires had to face the voters in 1923, and badly needed a sure-fire election issue. He was probably comforted by the fact that the new arrangement removed the Reids from a dominant position in the enterprise; provided for a shared risk; and enabled him, in reply to critics, to argue that what was good enough for the British Treasury was surely good enough for Newfoundland. In late June he suddenly dashed off to London to assist in the negotiations, a new convert to the Humber development. "It is suggested by other Ministers", sniffed Harris, "that he has in mind the attempt to displace Mr. Coaker in any credit with the promoters, and to use the issue for partisan political purposes.... This is not the spirit in which to approach an important proposal affecting the whole life and finance of the Colony".[49]

44 W.K. Hancock, *Survey of British Commonwealth Affairs*, II, Part I, *Problems of Economic Policy, 1918-1939* (Oxford, 1940), p. 184; S. Constantine, *The Making of British Colonial Development Policy, 1914-1940* (London, 1984), ch. V; I.M. Drummond, *British Economic Policy and the Empire, 1919-1939* (London, 1972), pp. 43-5.

45 Draft letter, TFAAC to Armstrongs, 22 March 1922, CO 194/303, p. 470A.

46 A. Whiteley to Sir G. West, 26 May 1924, RNCP 2/CB 1.

47 *Ibid.*

48 Colonial Office to Harris, telegram, 12 April 1922, CO 194/303, p. 474.

49 Harris to Churchill, secret, 10 July 1922, CO 194/303, p. 474.

After some further delays caused by protest from the Paper Makers' Association of Great Britain and Ireland, which urged that it was unfair to give what was in effect a subsidy to a new Newfoundland mill when its members' mills were working below full capacity,[50] the final agreements were concluded during the autumn of 1922. The Treasury would guarantee £2 million 5 per cent 'A' debentures secured by a first mortgage, a sum which was meant to represent the cost of materials to be purchased in Britain, plus interest during the construction period. The Newfoundland government would guarantee £2 million 5½ per cent 'B' debentures to be secured by a second mortgage, and both governments would be represented on the NPC board.[51] NPC's name was changed to the Newfoundland Power and Paper Co. Ltd. (NPPC), and the share capital was reorganised to give Armstrongs 52 per cent of the ordinary shares and 10 per cent of the preferred.[52] The Reid Newfoundland Company was to receive $1.5 million from Armstrongs on completion of the deal, and royalties, ranking after share dividends, on developed water-power and newsprint, once it had transferred a total of 2,600 square miles of timber lands.[53] The agreements were, of course, contingent on the Newfoundland legislature's approving the guarantee, and a final settlement of the railway dispute: neither the Treasury nor Armstrongs were prepared to enter into binding agreements with partners who might become embroiled in lengthy court battles.

The temporary agreement between the Newfoundland government and the Reid company on railway operation had, in fact, broken down in May 1922. With Squires unwilling to advance further funds, and under pressure from the Bank of Montreal, Reid closed the railway, blamed the government for inadequate assistance, and filed a $6 million claim. It is entirely possible, since both Reid and Squires must have understood that the future of the railway and the Humber deal were linked, that the former was trying to force a decision not just on the railway, but also on the guarantee. Certainly, from this point both sets of negotiations moved on together, once the government had accepted the political impossibility and legal uncertainty of closing the line and sueing the Reids for breach of contract. In summary, by the end of the year it had been agreed that each side would drop all claims against the other, and that the government would

50 Paper Makers' Association to TFAAC, 8, 20 September 1922, CO 194/303, pp. 574, 578.

51 TFAAC to Board of Trade, 22 September 1922, CO 194/303, p. 581.

52 "Scheme for the Issue of Share Certificates in the Capital of Newfoundland Power and Paper Co. Ltd. as Reorganised", 12 July 1923, RNCP 2/11. Roney and Co. to Conroy, 10 April 1923, RNCP 2/CB 1. 75 per cent of the preferred shares and all the deferred ordinary shares were to be held by the Treasury and Newfoundland government directors. The Reid company held the balance of the preferred and ordinary shares.

53 H.D. Reid to D. Jennings, 5 July 1922; agreement of 12 October 1922, RNCP 2/10.

buy out the Reid company's interest in the railway, the coastal steam service, the Gulf ferry and the dry dock for $2 million.[54]

Wishing to make the maximum political capital out of the Humber agreement, Squires decided — to the dismay of the Reids — to hold a spring election on "the one great issue" and then place both the Humber and railway bills before the House.[55] Promising to put the "Hum on the Humber", the government was returned with an unchanged majority in May, and in June debate began on the guarantee legislation. The agreement with the government provided also that there would be an export tax of $1 per ton on newsprint, and a water-power royalty. Otherwise the 1915 NPC legislation applied.[56] As with the AND agreement, all licences were to run for 99 years with a $2 per square mile rental, and no stumpage on pulpwood. There were criticisms of the deal, and resentment expressed at being faced with a *fait accompli*, but no attempt to have it defeated. Given Newfoundland's bleak economic situation in the 1920s, there was a pervasive mood of pessimism and quiet desperation which did not allow for the long discussions of principle that had characterised the 1905 and 1915 debates. "The most lucky Company in the world is the Armstrong Whitworth Company", complained one member; "the most generous country in the world is poor old Newfoundland; and the most pur-blind government in the world is the one we have now".[57] But as another member pointed out, the condition of the people being what it was, the legislature had no option but to pass the bill.[58] The railway agreement was also approved.

What, then, had been achieved? The government and the promoters had apparently gained a major industrial development whose success seemed assured. NPPC held extensive lands — 2,641 square miles by the end of 1925, 60 per cent of it on Reid blocks[59] — on such favourable terms that it was estimated that wood could be delivered at the projected 400 tpd mill for no more than $8-9 per cord, as against Québec and Ontario figures (for 1923) of over $16.[60] The cost of hydro development was estimated to be much less than the Canadian average.[61]

54 Memorandum of basis of settlement, 1 November 1922, GN 1/3A, 1922-29, PANL. See also McDonald, *"To Each His Own"*, pp. 116-8; and S.J.R. Noel, *Politics in Newfoundland* (Toronto, 1971), pp. 153-5.

55 Conroy to Roney and Co., 12 January 1923, RNCP 2/CB1.

56 14 Geo.V c.1.

57 Fox, *PHA*, 1923, p. 211.

58 Sullivan, *PHA*, 1923, p. 170.

59 J.A. Munro, "Public Timber Allocation Policy in Newfoundland", Ph.D. thesis, University of British Columbia, 1978, Table VII, p. 99 and Table VIII, p. 102.

60 Squires, *PHA*, 1923, pp. 78-80; Sullivan, *PHA*, 1923, p. 173. "Answer to Memorandum Criticizing Humber Development", 1923, RNCP 1/204. J.A. Guthrie, *The Newsprint Paper Industry. An Economic Analysis* (Cambridge, Mass., 1941), p. 142.

61 The "Answer to Memorandum ...", 1923, RNCP 1/204, put the maximum cost at $150 per hp,

Overall, the NPPC expected to be able to manufacture newsprint relatively cheaply and to sell it profitably on the United States market. Though prices there had fallen from an abnormally high peak in 1920-21, it was assumed that expanding demand would prevent them falling very much further. This was a not unreasonable supposition, since the promoters could hardly have anticipated the overexpansion in the Canadian industry that was to occur during the 1920s, and which was a major factor in the price slide of 16 per cent between 1923 and 1929.[62] Had those concerned with the enterprise been more familiar with the North American paper trade, however, it is possible that their optimism might not have been quite so unbounded.

Not surprisingly, the Reids were prepared to give up their other interests in the expectation of substantial returns from the Humber. The millstone of the railway was handed back to the government, and the electricity and streetcar businesses sold as well. The Reid empire had shrunk to a land development operation, which suited both the Reids and the government, and no doubt the Bank of Montreal as well. As for Squires, he had managed to associate himself with a major economic development which would provide hundreds of jobs and considerable political kudos for himself and his associates. Indeed, traditionally Squires has received most of the credit for the new mill. This view was challenged by Ian McDonald, who held that most of the praise should go to the Reids and to Coaker, whom Squires had manipulated into the background.[63] While there is much truth in this view, as the preceding narrative has shown, Squires should not be denigrated too much. His reputation has been blasted by the shabby scandals which drove him from office in 1923 and 1932,[64] and it is too easy to assume that he was no more than a small-time political crook. For all his deviousness and opportunism, Squires played a significant and positive role in the evolution of the Humber deal by insisting on limits to the country's financial involvement. Against the strenuous opposition of Coaker and Warren he refused to countenance

as against a Canadian average of $217; see also Squires, *PHA*, 1923, pp. 78-80. Earlier estimates had been much lower.

62 C.R. Coughlin, "The Newsprint Industry in Canada", M. Comm. thesis, McGill University, 1939, pp. 93, 98. L.E. Ellis, *Print Paper Pendulum* ...., 1948, reprinted as appendix to Ellis, *Newsprint: Producers, Publishers and Political Pressures* (New Brunswick, N.J., 1960), pp. 123, 126. R.E. Ankli, "The Canadian Newsprint Industry, 1900-1940", in B.R. Dalgaard and R.K. Vedder, eds., *Variations in Business and Economic History: Essays in Honor of Donald L. Kemmerer* (Greenwich, Conn., 1982), pp. 1-30.

63 McDonald, *"To Each His Own"*, pp. 114-8. The christening of the provincial government tower in Corner Brook as "The Sir Richard Squires Building" is evidence of the traditional view.

64 R.M. Elliott, "Newfoundland Politics in the 1920s: the Genesis and Significance of the Hollis Walker Enquiry", in J.K. Hiller and P.F. Neary, eds., *Newfoundland in the 19th and 20th Centuries. Essays in Interpretation* (Toronto, 1980), pp. 181-204; Noel, *Politics*, pp. 158-70, 197-203.

Newfoundland giving the sole guarantee. That insistence was wise, given his government's financial position, and was amply justified by subsequent events — though the very issue of guaranteed debentures and the subordinate position of the Newfoundland government was to prove problematic when the project ran into troubled times. Squires also ended the running dispute over the railway. It might be argued that the Reids got off lightly, but litigation was avoided, and a sensible solution effected which ended the position of the Reid Newfoundland Company as a major force in the country's affairs.

Work on the Humber project began in the winter of 1922-23, before the legislation passed, funded by government advances against the proceeds of the 'B' debentures. It seemed at the time as though the forest industry held the greatest promise of all the country's economic sectors, not only because of the Humber, but also because of the interest shown by other promoters attracted to Newfoundland by the availability of timber and water-power, and the strong markets and high prices then prevailing. Indeed, Newfoundland developments were part of the great forest industry boom of the 1920s.[65] P.T. McGrath, for instance, thought it certain that the day would come when it would be unnecessary for any Newfoundlander "to even catch a cod fish or a seal again".[66] Harry Crowe, a Nova Scotian long associated with the island's forest industry, continued to tout a proposal for a railway from Bishop's Falls to Bay d'Espoir on the south coast, where he planned pulp and paper mills and an iron smelter. He also bought and worked timber limits in the White Bay region, hoping to demonstrate the feasibility of shipping pulpwood to his proposed mills.[67] Near Glovertown in Bonavista Bay, a Norwegian enterprise known as Terra Nova Sulphite began work on a pulp mill in 1920, only to cease operations in 1922 when the fall of the kroner against the dollar made further investment impossible, and the Squires government refused, in the face of a shower of letters and petitions from the desperately poor people of the area, to guarantee a dollar loan.[68] But the government's willingness to continue to allow the export of raw wood, originally introduced as a temporary waiver of the normal rules in 1914, created alternative jobs. An average of 44,000 cords of pit props and 20,000 cords of pulpwood was exported annually in the first half of the 1920s, by such operators as Crowe, the

65 Michael Bliss, *Northern Enterprise* (Toronto, 1987), pp. 400-1.

66 McGrath, *Proceedings of the Legislative Council*, 1923, p. 35.

67 For Crowe, see Hiller, "Origins", pp. 51, 54. For his Bay d'Espoir scheme see GN 2/5/196A; correspondence with Lloyd in GN 8/3/3; and with Squires in GN 8/2/73(2), PANL. For White Bay, see GN 2/5/196B, PANL; Allardyce to Devonshire, secret, 3 October 1923, CO 537/237, p. 215; and Allardyce to Amery, secret, 1 April 1926, DO 35/3, p. 484, PRO. Crowe's 1923 White Bay agreement was confirmed by 14 Geo. V c.8.

68 There is circumstantial evidence that Blakstad was connected with Terra Nova Sulphite. For correspondence dealing with the company, see GN 2/5/357 and GN 8/2/67, PANL.

TABLE 1

Newfoundland Newsprint and Pulp Exports
1910/11-1914/15 (average) to 1944/5[a]

| | NEWSPRINT | | PULP | | Total Value all Forest Products Exported[b] | Percentage of Value of total Exports |
|---|---|---|---|---|---|---|
| | Tons | Value $ | Tons | Value $ | $ | (%) |
| 1910/11-1914/15[c] | 38,588 | 1,503,195 | 44,164 | 365,236 | 1,934,785 | 2.82 |
| 1915/16 | 62,527 | 2,801,769 | 22,892 | 197,608 | 3,439,115 | 18.23 |
| 1916/17 | 33,389 | 1,510,440 | 27,413 | 351,072 | 2,356,626 | 10.53 |
| 1917/18 | 34,060 | 2,302,243 | 14,153 | 404,449 | 2,707,705 | 8.98 |
| 1918/19 | 22,819 | 1,545,344 | 7,151 | 475,178 | 2,059,449 | 5.6 |
| 1919/20 | 80,717 | 4,725,660 | 19,864 | 334,276 | 5,185,606 | 14.87 |
| 1920/21 | 62,311 | 4,646,582 | 26,838 | 246,009 | 4,987,149 | 22.22 |
| 1921/22 | 34,512 | 3,088,260 | 19,932 | 364,514 | 3,623,544 | 18.6 |
| 1922/23 | 56,386 | 5,052,141 | 21,686 | 364,289 | 5,863,608 | 27.98 |
| 1923/24 | 60,537 | 5,423,892 | 31,674 | 531,674 | 6,797,090 | 32.26 |
| 1924/25 | 70,330 | 6,272,886 | 12,711 | 215,896 | 6,987,212 | 29.62 |
| 1925/26 | 106,284 | 8,383,322 | 11,147 | 175,325 | 8,815,176 | 31.98 |
| 1926/27 | 171,212 | 12,517,665 | 3,689 | 56,801 | 12,713,349 | 41.22 |
| 1927/28 | 184,952 | 13,580,606 | N/A | N/A | N/A | N/A |
| 1928/29 | 217,789 | 14,884,032 | | 956 | 15,282,902 | 41.53 |
| 1929/30 | 249,537 | 15,957,752 | | 6 | 16,298,096 | 40.69 |
| 1930/31 | 267,420 | 17,134,801 | - | - | 17,448,254 | 52.03 |
| 1931/32 | 248,843 | 15,376,398 | - | - | 15,383,731 | 57.64 |
| 1932/33 | 217,114 | 12,659,619 | - | - | 12,737,946 | 52.05 |
| 1933/34 | 258,902 | 11,580,345 | - | - | 11,841,495 | 44.2 |
| 1934/35 | 276,036 | 12,496,662 | - | - | 12,825,094 | 47.1 |
| 1935/36 | 312,879 | 13,950,079 | - | - | 14,212,085 | 49.24 |
| 1936/37 | 298,406 | 13,202,114 | - | - | 13,723,375 | 48.91 |
| 1937/38 | 323,724 | 13,874,461 | 4,334 | 182,618 | 15,300,843 | 43.79 |
| 1938/39 | 282,172 | 12,664,469 | - | - | 14,061,766 | 43.96 |
| 1939/40 | 346,124 | 15,303,958 | 11,111 | 398,378 | 16,934,719 | 50.71 |
| 1940/41 | 351,897 | 14,119,921 | 29,835 | 1,713,783 | 18,127,564 | 48.56 |
| 1941/42 | 307,138 | 12,634,205 | 75,748 | 3,976,813 | 16,972,374 | |
| 1942/43 | 183,762 | 7,250,635 | 50,432 | 2,514,066 | 10,335,897 | 33.42 |
| 1943/44 | 251,536 | 11,049,719 | 34,721 | 1,635,990 | 12,951,692 | 29.14 |
| 1944/45 | 253,311 | 12,642,913 | 43,330 | 2,449,413 | 16,930,077 | 34.76 |

[a]Source: Newfoundland Customs Returns; 1927-28, Report of the Forestry Committee, Newfoundland National Convention.

[b]This figure includes the value of paper, pulp, lumber, pitprops, pulpwood, and other minor items.

[c]Annual average.

St. Lawrence Timber, Pulp and Steamship Co. in Bonne Bay,[69] and M.J. Mooney on the Northern Peninsula.[70] Further, the Reids now let it be known that they intended to promote a large pulp and paper development based on their Gander properties, through a subsidiary formed in 1924, the Gander Valley Power and Paper Co. Ltd., which they hoped would equal their apparent success with the Humber. An agreement with the government provided the company with the now usual concessions, on condition that it start work on a 200 tpd mill within three years, and complete it within six.[71]

Yet for all the prevailing optimism concerning forest industries, which he shared to a degree, Crowe pointed out that Newfoundland suffered a number of serious disadvantages. It was relatively remote from major North American markets, and ice and snow made matters worse by disrupting railway and shipping schedules. The labour force consisted for the most part of part-time loggers who fished for a significant portion of year, and were often poorly nourished. The tariff was heavy for both employer and employee. And the forest, with its small trees, its stands often interspersed with tracts of bog and barren, was less economic to work than forests on the mainland. Generous treatment by the government provided some compensation, but these factors in Crowe's view created such difficulties that success could be expected only from large, experienced and cautious companies, among which he explicitly did not include NPPC; after all, what could one expect from battleship builders like Armstrongs?[72]

It was not long, in fact, before Armstrongs ran into trouble because their estimate of the costs of the development had been far too low. A decision late in 1922 to build the mill on tidewater at Corner Brook rather than next to the power development at Deer Lake, though sensible, added the cost of a transmission line, and the company rather late in the day woke up to the fact that it would have to build a proper townsite, having estimated only for temporary dwellings.[73] It also decided that the mill would be of the most modern design. Armstrongs' engineers found, once they arrived on site, that Reid plans for the power development and

69 See GN 2/5/315, PANL, and 11 Geo. V c.6 (1920). This company built a sawmill and planned a pulp mill, but was primarily interested in the export of pit props to the English collieries owned by its directors.

70 Mooney, a Quebec entrepreneur, operated at Harbour Deep between 1924 and 1927. See 14 Geo. V c.4 (1923), and *Encyclopedia of Newfoundland and Labrador*, II (St. John's, 1984), p. 718.

71 The formal decision to proceed with the project was made in 1923. The agreement with the government was approved by 15 Geo. V c.2.

72 Crowe to McGrath, 2 April 1926, P 4/17/2, PANL.

73 Minutes of meetings of the NPPC provisional board of directors, 31 October, 17 November, 29 December 1922, RNCP 2/11.

railway diversion were inadequate, and that winter work was very expensive. By the spring of 1924 it was estimated that, without including a profit margin, the works would cost about $4 million over the estimate.[74] To raise some of the additional funds, Armstrongs created the Newfoundland Power and Paper Utilities Corporation Ltd., which issued bonds to pay for the transmission line, the townsite, warehouses, two ships, machinery, interest during construction, and working capital. NPPC would repay the Utilities Corporation over 25 years.[75] The Reids did not like the way things were going. "When you come to consider", wrote Conroy, "that Armstrongs control the Paper Company, will control the Utilities Corporation, are contracting with the Paper Company for the building of the plant and with the Corporation for the provision of the utilities, and that the Paper Company is further contracting with the Utilities Corporation the whole thing savours too much of Gilbert and Sullivan for me to have much patience with the way in which the scheme is being worked out".[76]

In London officials of the Bank of England were becoming similarly concerned. By the fall of 1924 the Bank's advances to Armstrongs had reached £2.2 million, and although a £2.5 million debenture issue later in the year steadied the situation, Bank officials reckoned that Armstrongs' affairs were "somewhat out of hand...in particular it was the Newfoundland Contract which was the real cause of their present rather tangled position".[77] The Bank decided to investigate, and appointed as its representative J. A. Frater Taylor, an Aberdonian who had been involved with a variety of Canadian industries since 1909, and had the reputation of being a competent "company doctor".[78] Taylor went to Newfoundland in the summer of 1925, and was not impressed. He found that the development had been "on rather a lavish scale throughout" — "I am writing from the Glynmill Inn, a hotel which if near London would solve my housing problems" — and reported a "very formidable opening ceremony" at a cost of £10,000.[79] More formally, he estimated that another £1 million would be needed to bring the mill into full production. He found there had been a lack of planning and study, much extravagance and bad management, and undue haste in completing the project. He criticised the formation of the Utilities Corporation, and NPPC's sales

74 A. Whiteley to Sir G. West, 26 May 1924, RNCP 2/CB 1.

75 Agreement, NPPC and NPP Utilities Corporation, 12 June 1924, RNCP 2/CB1; "The Newfoundland Power and Paper Utilities Corporation Ltd.", Bank of England memorandum, 25 June 1925, Bank of England Archives (BE), SMT 8/1.

76 Conroy to T.S. Howard, 18 February 1924, RNCP 2/CB 1.

77 "Memorandum concerning Mr. E.R. Peacock's call on the Governor on the 30th March, 1925"; "Notes on a visit from Sir Glynn West", 24 April 1925, SMT 8/1, BE.

78 W.K. Whigham to West, 28 April 1925, SMT 8/1, BE; Clay, *Norman*, p. 319; Scott, *Vickers*, p. 161.

79 Taylor to Peacock, 13 July 1925, SMT 8/3, BE.

agreement with the Bowater Paper Co., which at that time had no North American experience. On the face of it, the undertaking was bankrupt.[80]

Faced with this bombshell the Bank and the Treasury decided against a receivership, and in favour of a reorganisation of both NPPC and Armstrongs. The settlement eventually arrived at late in 1925, after lengthy and complicated negotiations, provided for additional capital, the separation of Armstrongs and NPPC, the latter's purchase of the Utilities Corporation, and the provision of security to the Bank of England for its advances. These arrangements involved the issue of an additional $15.4 million in bonds and debentures, and gave the Bank of England (now an NPPC shareholder) a seat on the NPPC board of directors, which was thoroughly reorganised.[81] Armstrongs was placed under strict control, and its board reorganised to include Taylor and exclude West.[82] The Newfoundland government, now controlled by Walter Monroe, accepted these changes without serious objection, since the disruptions attendant upon receivership would have caused serious political and social difficulties. It had no option but to accept, in fact, and a TFAAC official was sent to St. John's to ensure that there were no problems.

In his report, the official mentioned that Harry Reid was "very sore" about the whole business:

> His entry into the enterprise was brought about by his ownership of the land, for which Armstrongs had to put up £100,000 to release it from a mortgage held by the Bank of Montreal. Reid's payment was made to him in the shape of shares, which are practically worthless and his grievance is based on the fact that he was given to understand that the cost of the enterprise would be so much, whereas events have proved that it was vastly underestimated.[83]

80 Taylor, "Confidential Memorandum Re the Newfoundland Power and Paper Co.", 15 September 1925, SMT 8/3, BE. On the Bowater involvement, see W.J. Reader, *Bowater. A History* (Cambridge, 1981), pp. 32-7. Bowater and Armstrongs had formed Bowater's Paper Mills Ltd. in 1923 to build a mill at Northfleet, and West placed Bowater on the NPPC board. The Bowater Paper Co. was a New York sales subsidiary, started in 1923 solely to handle NPPC products.

81 W.H. Leese to H.D. Reid, 4 December 1925, 28 January 1920; Freshfields, Leese and Munns, "Summary. Newfoundland Power and Paper Company Ltd. Reorganisation", February 1926; "NP&P Co. Ltd. Proposed Capital Scheme", n.d., RNCP 2/CB2. "Newfoundland Power and Paper Company Ltd.", n.d., RNCP 2/10. "Interview with Mr. Frater Taylor, 28 September 1925"; Leese to H.D. Reid, 11 October 1925, SMT 9/3, BE. Memorandum, 24 December 1925, SMT 8/4, BE. E.P. Carter (TFAAC) to Monroe, confidential, 27 October 1925, GN 8/5/17 (i); Minute of Council, 27 October 1925, GN 1/3A/21, PANL.

82 Clay, *Norman*, p. 319; Scott, *Vickers*, pp. 1612, 163-6. Armstrong, Whitworth merged with Vickers in 1927 to form Vickers Armstrong.

83 Report by E.P. Carter on his visit to Newfoundland, 24 December 1915, SMT 8/4, BE.

It is clear that the first priority in London was to deal with the Bank's concerns, and the various debts owed to Armstrongs by its subsidiaries. The interests of the Newfoundland partners in the project were entirely secondary. Harry Reid compounded the problem by relying for advice on Sir William Leese, a lawyer who was also acting for the Bank. Resentful that others were better protected, Reid tried in vain to arrange a sale of his interest in NPPC, or at least to receive a share of the debenture issues and a higher priority for his royalty payments, which were now to be buried under a mound of additional debt. He argued forcefully that Reid interests would be better protected by a receivership, and prepared to launch a court action to obtain an injunction to stop the reorganisation.[84] His efforts were fruitless. As J.P. Powell, a Reid director, pointed out, there was little to be done against the combined forces in London, where there was also concern about the impact of a receivership on Newfoundland finances, and the credibility of future projects.[85] The Reids were left with their shares and their royalties, neither of which were of any immediate value. The Humber project had proved to be a disaster for the company, rather than its salvation.

Under its new management the performance of the Corner Brook mill was sufficiently good to satisfy even so harsh a critic as Taylor,[86] but it was unable to make a profit, and its survival was by no means certain. Though the cost of production was reasonable ($44 per ton in 1926), problems were caused by heavy fixed charges and inadequate sales volume. Moreover, the mill had come on stream as prices began to slip in the face of declining demand combined with overexpansion in the Canadian industry, which created a buyers' market and fierce competition.[87] The Bowater sales contract therefore presented a serious difficulty: "The N.P. and P. Co. started a *new* mill with a *new* sales agency. In the failing markets, the old established sales agencies have the prior claim on the orders of their old customers".[88] Taylor represented the Bank of England on the NPPC board. Surveying the state of the concern, and its need to acquire more timber limits, increase production and market more efficiently, he concluded — following Crowe's prescription — that it might be best to sell NPPC to a strong, established newsprint company. The most likely candidate was the International Power and Paper Co. of New York.

84 H.D. Reid to J.P. Powell, telegram, 13 March 1926; to Leese, telegram, 17 March 1926; draft statement of claim, 1926; Hammerschlag to Powell, 15 February 1926; memorandum by Conroy, n.d., RNCP 2/CB2.

85 Powell to Reid, telegrams, 11 March 1926, 15 March 1926, RNCP 2/CB2.

86 Taylor, "Confidential Memorandum as to the Newfoundland Power and Paper Co. Ltd., 24 January, 1927", SMT 8/26, BE.

87 Ankli, "The Canadian Newsprint Industry"; A.E. Safarian, *The Canadian Economy in the Great Depression* (Toronto, 1959), pp. 27, 121-2.

88 E.B. Smith to Taylor, 18 April 1927, SMT 8/27, BE.

International had built its first Canadian mill at Trois Rivières in 1921 and in 1924, with A.R. Graustein as the new chairman, began a policy of aggressive expansion which included the purchase, expansion and building of mills in Ontario, Québec and New Brunswick.[89] Harry Crowe persuaded Graustein to look at Newfoundland. In 1926 International purchased his White Bay limits,[90] and at the same time began to investigate the Reid holdings on the Gander, where by this time they claimed to control a total of 3,340 square miles of timber lands, 56 per cent under Crown licences purchased at considerable expense.[91] While International purchased an option on the property in March 1927 — a development which seriously concerned NPPC management[92] — it had also become aware of the possibility of buying Corner Brook. So far as the Reids were concerned, this represented an opportunity to sell their shares and royalty rights in NPPC, as well as the Gander company — a consummation devoutly to be wished, since 1926 figures indicated that on current account the company was earning about half its expenses, and that its net assets, apart from land, were worth only $353,000.[93] However, Graustein was much more interested in NPPC than he was in the Gander proposition. He was, in the first place, doubtful whether it would be possible to build anything larger than a 200 tpd mill on the Gander limits, and was primarily interested in these limits as a source of unprocessed wood.[94] NPPC, for all its problems, was a proven and efficient operation in many respects, and apparently available on attractive terms. The company was in a fragile condition — so much so that in May 1927 it gave notice of possible default on the 'B' debentures.[95] Its sale was being pushed by the Bank and the Treasury, and the Newfoundland government was in no position to resist demands for further concessions. Being in so strong a negotiating position, Graustein made it clear that any action on the Gander would be contingent on a satisfactory takeover of NPPC, which he proceeded to arrange.[96]

89 V.W. Bladen, *An Introduction to Political Economy* (Toronto, 1951), pp. 181-5. Guthrie, *Newsprint Industry*, pp. 59-60.

90 *PHA*, 1926, p. 304.

91 Conroy to V.S. Bennett, 16 November 1926, RNCP 2/14. During the 1920s the Reids augmented their Gander area holdings by acquiring Crown licences to vacant lands, and by purchasing licences from others. By the end of 1932 they had spent approximately $3 million in this way, including interest, but excluding the costs of surveys, legal services, etc. See "Memorandum Respecting the proposed Gander Enterprise Submitted for the information of the Royal Commission on Newfoundland affairs", 1933, RNCP 2/12.

92 Smith to Taylor, 17 April 1927, SMT 8/27, BE.

93 "An estimate of Cash Requirements...for April 1926 and each month to December, 1926"; Statement of investments, 1926, RNCP 2/13.

94 Donald to H.D. Reid, telegram, 26 June 1927; Donald to Connolly, 28 May 1927, RNCP 2/14.

95 Smith to Taylor, 18 April 1927, BE; Smith to Monroe, 8 May 1927, GN 8/5/17 (iii), PANL.

96 Donald to H.D. Reid, telegram, 26 June 1927; Donald to Connolly, 25 May 1927; Connolly to Conroy, 14 May 1927, RNCP 2/14.

International drove a hard bargain, which upset both the Newfoundland government and the Reids. It would purchase NPPC and double the mill's capacity, provided that the debt load was reduced and the government provided additional concessions. A series of complicated financial provisions reduced the outstanding debt to $25 million, and International received permission to issue another £3 million prior lien bonds to pay for expansion. The Bank of England received £500,000 cash and £2 million in preference shares in the International Paper Company of Newfoundland. The government was to allow the import of construction materials duty free for 20 years, and settle a scale of maximum duties on other imports for 40 years. The export duty and hydro royalty stipulated in the 1923 legislation were cancelled, and replaced by a flat annual tax of $75,000 until 1931, and $150,000 thereafter. If International installed two machines by 1933, it would be allowed to export a half cord of pulpwood for each ton of paper produced in excess of existing capacity, paying a duty of $1 per cord.[97] Monroe was understandably indignant at being presented with a virtually settled deal and at the concessions being demanded: "It would appear to us that the International Paper Company are looking for the earth with a ring round it".[98] Since he had little choice but to accept the inevitable, he put the best face on it when steering the necessary legislation through the House. A.E. Hickman, leader of the Liberal opposition, rightly stated that Newfoundland was making "a poor man's bargain with all the odds against him", and expressed a widely shared resentment when he asked rhetorically whether it was necessary for the country "to concede terms to the International Company that would hardly be demanded of a South American Republic in the throes of perpetual revolution".[99] None liked the deal, but few were prepared to face the consequences of refusing it. The Newfoundland government was in effect a shareholder as well as a debenture guarantor; as such, like other investors, it had to make the best bargain it could.

As for the Reids, they had to give up their royalties and other rights under the 1922 NPPC agreement, and transferred most of their shares to International.[100] "The course adopted by the financial interests in London, however necessary it may be to them", wrote Harry Reid, "comes as a very severe blow to us".[101] Some

97 "Memorandum of Principal Terms of Proposed Option", 13 May 1927, SMT 8/27, BE; International option documents in DO 35/38, pp. 254-62, PRO. Monroe, *PHA*, 1927, pp. 1002-11.

98 Monroe to Smith, 31 May 1927, GN 8/5/17 (iii), PANL.

99 *PHA*, 1927, pp. 1056, 1509.

100 Connolly to Reid Newfoundland Co., 1 September 1927; Reid Newfoundland Co. to Trust, 10 October 1927, RNCP 2/14; "Memorandum Respecting the proposed Gander Enterprise ...", RNCP 2/12.

101 H.D. Reid to Leese, 3 June 1927, GN 8/5/17 (iii), PANL.

hope remained of a Gander deal. Graustein offered to purchase the area, but on condition that the government agreed to the wood being used mostly at Corner Brook, a small pulp mill being built on the Gander River. The government in turn insisted that any variance in the original scheme would have to go before the legislature, and was in any case unsympathetic to the proposal in an election year. Thus the negotiations collapsed, and the Reids were left to look for another investor.[102]

The next negotiations were with the Hearst publishing interests, which professed to be interested in manufacturing their own newsprint, even though with the end of the newsprint boom, the open market was now favourable. Lengthy talks resulted in an agreement in March 1930 between the Reids and the Hearst-controlled Dominion Newsprint Company. It envisaged a 1,000 tpd mill, almost double the size of Corner Brook, at a cost of $58.5 million to be raised by $45 million first mortgage bonds, $15 million second mortgage bonds to be guaranteed by the Newfoundland government, and the sale of preference shares. The pulpwood was to come in part from the Gander limits, and in part from Labrador. Dominion Newsprint would purchase the mill's output for 15 years, and the whole deal would be guaranteed by the Newspaper and Magazine Corporation of New York.[103] Though rumors abounded that Hearsts were not in earnest, and were playing an elaborate game in order to obtain lower prices on purchase contracts with Canadian suppliers,[104] International was sufficiently alarmed to revive its own bid, offering to buy the Gander company and lands for $10 million.[105] The British directors on the International board — Taylor representing the Bank and Sir George Barnes the Treasury — recognised the threat posed by the Hearst agreement, but believed that in the midst of a depression, International could not afford the price. In their view, pressure would have to be placed on the Newfoundland government to reject the deal.[106]

They need not have worried. In 1928 Sir Richard Squires had returned to

102 Head to Monroe, 27, 30 December 1927, in *PHA*, 1928, pp. 27-8; Reid Newfoundland Co. to Donald, 26 April 1928; H.D. Reid to A.S. Butler, 11 January 1929, RNCP 2/14. Transcript of Conroy's evidence, and particulars filed, in Reid Newfoundland Co. vs. Government of Newfoundland, 1931, GN 8/2/74(i), PANL.

103 Brian Dunfield, "Preliminary Notes on the Gander Contract on First Reading", 1930, GN 8/2/98 (ii), PANL. The agreement can be found in RNCP 2/15.

104 P.J. Cashin (Minister of Finance, 1928-32), speech in the National Convention, 28 October 1946, GN 10, PANL.

105 Conroy's evidence, 1931, GN 8/2/74(i), PANL.

106 Taylor to Travers, 26 February 1930; Taylor to Norman, 29 March 1930; memorandum by Barnes, 28 March 1930, SMT 8/30; Graustein to Taylor, 10 April 1930; Taylor to Graustein, 25 April 1930, SMT 2/219. Norman to Hopkins, 9 April 1930; Barnes to Bramford, 8 April 1930, SMT 4/39, BE.

power. In his election campaign he had made great play with the Gander scheme, promising to put "the Gang on the Gander" in the same way as he had put the "Hum on the Humber", and the Reids had every reason to expect that he would be supportive, even enthusiastic.[107] But Squires and his ally Brian Dunfield, Deputy Minister at the Department of Justice, were antagonistic to the Hearst agreement, and opposed a sale to International. The Hearst agreement they thought overly generous to the promoters while involving the government, whose financial position was precarious, in a risky guarantee. Squires was, moreover, suspicious of the Hearsts, whom he thought anti-British, and it can be supposed that he realised that a new development might cause problems for International, whose 'B' debentures were still outstanding.[108] A sale to International, on the other hand, would probably kill any chance of a mill on the Gander, since the company had already demonstrated its reluctance to build there. However, Squires feared that the Reids might try to complete such a sale because of their financial difficulties.[109]

In order to stop negotiations and to give the government a role in any future settlement, in May 1930 the Attorney General issued writs against 22 licences held by the Gander Valley company, claiming forfeiture by reason of non-compliance with the condition that sawmills be built within a specified time. At the time of issue, the Supreme Court was formulating its judgement in a test case involving a Labrador license, which the government clearly expected that it would win. The Court held in this case (vs. Jardine and Martin) that so long as rentals were accepted by the government, the condition was waived; but that once rentals were refused, it applied. Therefore in this case the government was entitled to forfeiture.[110] Having accepted rentals on the Gander licences until the end of November 1930, the government cancelled the writs and issued new ones in December, refusing the rental payment for 1930-31.[111] International was immediately concerned, and withdrew its offer in late May. The Reids argued that International could proceed with the sale in spite of the writs, since there was a clause in the Corner Brook legislation specifying that if the company purchased further Crown licences, its mill would satisfy the condition whose breach was alleged by the government. But the company refused to defy the writs, on the grounds that it would be sharp practice and invite reprisals.[112]

107 Squires to R.G. Reid, 13 July 1929, GN 8/2/74(i), PANL.

108 Dunfield, "Preliminary Notes ...", GN 8/2/74(i), PANL.

109 Cashin speech, 28 October 1946, GN 10, PANL.

110 Attorney General and Minister of Agriculture and Mines vs. Jardine and Martin, 1930, *Decisions of the Supreme Court of Newfoundland, 1927-1931*, pp. 446-84.

111 Judgement of Kent J. in Attorney General and Minister of Agriculture and Mines vs. Mines and Forests (Newfoundland) Ltd. *et al.*, July 1931, *ibid.*, pp. 522-4.

112 Memorandum, 1930, RNCP 2/15. Conroy to V.S. Bennett, 26 July 1930, RNCP 2/14.

Having achieved this much, Squires suggested to the Reids early in 1931 that discussions begin on the future of the Gander proposition.[113] In spite of the writs, it is clear that he wanted the development to go ahead if at all possible, but on terms which he could accept, and which he no doubt thought he could obtain through the leverage of the pending forfeiture actions and the Reid company's dire financial position. Evidence for this assumption is provided by his agreement in 1930, after the issue of the writs, to continue the Gander Valley company's charter for another year, though with one change. The section which, in summary, gave the company until 1933 to complete the building of a paper mill was repealed, but an Order in Council substituted by which the government undertook to regularise and protect all licences should a start be made on a 500 tpd mill.[114] There was, then, both a carrot and a stick. The Reid interests were anxious to make a settlement, since they were by this time virtually insolvent. Their largest creditor was Alan S. Butler, a wealthy Englishman married to W.D. Reid's daughter, who had lent the company some $1,725,000 secured by a bond issue.[115] After Harry Reid's death in 1929, Butler had assumed virtually total control of Reid affairs, represented in St. John's by a business associate, Victor S. Bennett. Anxious to get his money back, Butler responded to Squire's suggestion by travelling to Newfoundland to open negotiations.

The ensuing discussions cannot be described here in any detail. Suffice it to say that Squires found Butler to be a tough negotiator, and Butler found Squires to be a slippery one. The atmosphere was not improved when, in March, Butler placed the Reid company in receivership and approved an action against the government claiming damages as a result of the forfeiture writs. The two men haggled over the value of the properties, and on what basis the government might buy some or all of them back, to no avail; and in late March the talks collapsed.[116] Squires' reasons for rejecting Butler's not unreasonable proposals are obscure,[117] and one can only speculate that he was uncertain of party support

113 Squires to A.S. Butler, telegram, 31 January 1931, RNCP 2/15.

114 Kent judgement, Mines and Forests case, pp. 528-30; T.P. Mills to Bennett, 29 January 1931, RNCP 2/15.

115 A keen aviator, Butler had financed Sidney Cotton's aerial seal-spotting operations in 1922, a business with which V.S. Bennett had also been associated. Chairman of the board of de Havillands, Butler acquired two other businesses in Newfoundland which Bennett ran for him. He began lending money to the Reids in 1927.

116 "Memorandum covering interviews between Mr. Alan Butler and Sir Richard Squires...", February-March 1931, GN 8/2/98(i), PANL. Numerous memoranda by Butler dealing with the negotiations can be found in RNCP 2/15.

117 Butler proposed that the government purchase $775,000 of the bonds, agree to set a minimum price on the Gander properties of $4 million, and lift the writs. For his part he would persuade the Reids to drop all counterclaims, and undertake not to sell any of the freehold lands without the government's consent. The two parties would hold further talks about developing the

and political reaction, and fearful of the financial obligations that any deal would involve. Perhaps, too, he expected the forfeiture suits to succeed, in which case he would achieve a far stronger negotiating position.

If this was the case, Squires was disappointed. In July 1931, the court ruled that the Gander licences were protected by the Gander Valley legislation and the Order in Council, and could not be forfeited.[118] The legal position was further altered to the government's disadvantage when, in January 1932, the Privy Council overturned the Newfoundland decision in the Jardine and Martin case, ruling that since the condition requiring the erection of a mill had been broken long before the action commenced there could not be a subsequent breach; moreover, the licence did not say specifically that the area had to be operated continuously. Thus there could be no forfeiture.[119] This was cold comfort for the Gander promoters, however, who had lost their action for damages;[120] and though their licences appeared to be secure, the state of the newsprint industry was such that no major concern was interested.

Indeed, the various negotiations for the sale or development of the Gander area have an air of unreality about them. The newsprint industry as a whole was overbuilt and overcapitalised, and continued to be plagued by falling prices. A period of mergers had produced a far more concentrated structure by the late twenties, which had obvious advantages for the surviving producers. But the Depression ushered in a series of defaults and receiverships affecting many of the larger companies, including Canada Power and Paper, Abitibi, and Price.[121] Squires was right to be sceptical of the Hearst proposal, and Butler of the possibility of developing the Gander for years to come. International faced the same problems as other producers in spite of its dominant position in the market, though it did not undergo so severe a crisis as some of its competitors. Its Newfoundland operation, on which the company had spent well over $5 million on capital account,[122] suffered from a high bonded debt, rather higher wood

properties, though Butler thought the prospect of anything happening for between three and five years was remote. See RNCP 2/15, in particular Butler, "Gander Notes", 22 April 1931.

118 Kent judgement, Mines and Forests case, pp. 520-34.

119 Bennett to Connolly, 18 February 1932, RNCP 2/15.

120 Reid Newfoundland Co. Ltd. *et al.* vs. Government of Newfoundland, 1931, *Decisions of the Supreme Court of Newfoundland, 1927-1931*, pp. 557-563. The Privy Council upheld the decision on appeal in 1933: Conroy to David, Dugas and Webster, 15 June 1933, RNCP 2/12.

121 Bladen, *Political Economy*, pp. 175-88. Guthrie, *Newsprint*, pp. 63-109. Coughlin, "Newsprint Industry". T. Traves, *The State and Enterprise. Canadian Manufacturers and the Federal Government, 1917-1931* (Toronto, 1979), ch. 3.

122 Taylor to Bank of England, 2 December 1930, SMT 4/39, BE. In the period 1929-38 International purchased an additional 5,000 square miles of timber land, bringing the total to 7,724 square miles. Money was also spent on equipment, the hydro plant and the townsite.

TABLE 2

The Corner Brook Mill, 1925-1950

| Date | Rate of Operation | Newsprint Production (tons) | Newsprint Sales (tons) | Manuf. Cost ($) | Total Cost ($) | Average Sale Price ($) | Pulp Sales (Tons) | Average price[a] pulp ($) | Profit ($) | Loss ($) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Newfoundland Power And Paper | | | | | | |
| 1925 | | | | | | | | | | |
| 1926 | | | | | | | | | | |
| 1927 | | | | | | | | | | |
| | | | | International Paper Co. of Newfoundland[b] | | | | | | |
| 1928 | 100 | 126,698 | 116,645 | 47.96 | 57.14 | 63.95 | | | 740,899 | |
| 1929 | 100 | 151,562 | 154,343 | 46.84 | 54.79 | 59.95 | | | 1,012,247 | |
| 1930 | 100 | 168,051 | 145,096 | 43.79 | 54.06 | 60.81 | | | 764,641 | |
| 1931 | 100 | 175,269 | 167,736 | 39.72 | 50.22 | 56.60 | | | 634,680 | |
| 1932 | 84.8 | 144,987 | 144,334 | 39.36 | 48.75 | 49.01 | | | 349,913 | |
| 1933 | 78.85 | 133,060 | 162,394 | 37.61 | 45.27 | 41.61 | | | | 169,046 |
| 1934 | 95 | 161,681 | 165,486 | 34.28 | 41.10 | 38.57 | | | | 263,169 |
| 1935 | 98 | 169,189 | 167,431 | 33.86 | 40.82 | 38.59 | | | | 442,222 |
| 1936 | 98.4 | 166,189 | 183,583 | 36.58 | 43.37 | 38.96 | | | | 364,179 |
| 1937 | 96 | 181,932 | 192,010 | 34.48 | 42.11 | 40.45 | | | | 35,451 |
| 1938 | 70.87 | 131,199 | 113,199 | 38.80 | 47.12 | 45.15 | | | | 482,819 |
| | | | | Bowater's Newfoundland Paper Mills, Ltd.[c] | | | | | | |
| 1939 | | | 151,800 | | | | 2,341 | 35.85 | 342,000 | |
| 1940 | | | 202,800 | | | | 7,870 | 57.44 | 1,010,000 | |
| 1941 | | | 197,200 | | | | 25,143 | 52.50 | 942,000 | |
| 1942 | | | 175,100 | | | | 43,849 | 49.85 | 436,000 | |
| 1943 | | | 138,400 | | | | 26,976 | 47.12 | 249,000 | |
| 1944 | | | 161,000 | | | | 12,411 | 56.63 | 712,000 | |
| 1945 | | | 153,252 | | | | 11,154 | | 1,030,000 | |
| 1946 | | | 195,525 | | | | 13,704 | | 1,778,000 | |
| 1947 | | | 193,315 | | | | 18,130 | | 3,318,000 | |
| 1948 | | | 202,276 | | | | 48,628 | | 3,617,000 | |
| 1949 | | | 248,178 | | | | 39,774 | | 3,086,000 | |
| 1950 | | | 276,768 | | | | 27,700 | | 4,978,000 | |

[a]The average price for pulp has been calculated from the Newfoundland Customs Returns.

[b]The figures for the International Company's operation are derived from memoranda in the Bank of England Archives, SMT 7/7, 91/9, 2/227.

[c]The Bowater figures are derived from Reader, *Bowater*, Tables 19, 20,21, pp. 177, 178, 182.

TABLE 3

Destinations of Newfoundland Newsprint Exports
by Percentage, 1914/15 - 1944/45[a]

| | UK | USA | OTHER |
|---|---|---|---|
| 1914/15 | 100 | | |
| 1915/16 | 98 | 2 | |
| 1916/17 | 100 | | |
| 1917/18 | 19 | 78 | 2 |
| 1918/19 | 34 | 42 | 24 |
| 1919/20 | 86 | 9 | 5 |
| 1920/21 | 99 | 1 | |
| 1921/22 | 100 | | |
| 1922/23 | 100 | | |
| 1923/24 | 100 | | |
| 1924/25 | 89 | 11 | |
| 1925/26 | 58 | 41 | 1 |
| 1926/27 | 42 | 57 | 1 |
| 1927/28 | N/A | | |
| 1928/29 | 38 | 59 | 3 |
| 1929/30 | 40 | 60 | |
| 1930/31 | 45 | 55 | |
| 1931/32 | 45 | 55 | |
| 1932/33 | 58 | 42 | |
| 1933/34 | 61 | 36 | 3 |
| 1934/35 | N/A | | |
| 1935/36 | 66 | 34 | |
| 1936/37 | 65 | 35 | |
| 1937/38 | 67 | 33 | |
| 1938/39 | 72 | 28 | |
| 1939/40 | 43 | 39 | 18 |
| 1940/41 | 26 | 56 | 18 |
| 1941/42 | 15 | 67 | 18 |
| 1942/43 | 8 | 76 | 16 |
| 1943/44 | 41 | 46 | 11 |
| 1944/45 | 40 | 39 | 21 |

[a]Source: Newfoundland Customs Returns.

costs than other International mills, and highly competitive markets situated largely in New York and the southern states, for which other mills were more conveniently located.[123] However, Corner Brook remained profitable until 1932, thereafter showing a persistent loss in spite of aggressive marketing in England — a market for which it was as well placed as any Canadian mill — short-time, wage cuts and a stock conversion in 1937 to lower interest charges.[124] In 1936 Graustein was ousted, an event that concerned the British directors who had found him, in general, cooperative and reliable. Increasingly unhappy with the company's financial management, their relationship with their American colleagues became strained. Once again, Taylor decided that it might be in the best interest of all concerned if the Newfoundland operation were sold, preferably to a British firm. By the end of 1937 he had ascertained that International was prepared to sell on the right terms, and had lined up a potential purchaser.[125]

V.S. Bennett, the Reid company's receiver, continued throughout the thirties to try and interest investors in Gander properties. International proved to be lukewarm, and there seemed no hope of involving that company under its new management.[126] Rothermere was approached, but indicated that AND would not move: "I do not think that any firm should, for fear of political complications, have too large an interest in the Island. The Newfoundlanders are very simple, credulous people, and have always reacted to any agitation that the Island was passing into the hands of the Harmsworths".[127] A more promising customer appeared to be Eric Bowater, who emerged in the mid-thirties as the largest British newsprint manufacturer, and was known to be interested in Newfoundland through his past directorship on NPPC, and his large common shareholding in the Corner Brook company.[128] Bennett first saw him in 1934, and ascertained that Bowater was interested in obtaining pulpwood supplies.[129] In 1937 serious negotiations resulted in Bowater taking an option on the Gander limits, requesting government permission to vary the previous legislation by allowing a small pulp mill instead of a paper mill, and to export pulpwood; and seeking a government option to export wood from Labrador.[130]

123 Guthrie, *Newsprint*, Table 7, p. 239. Report by J.L. Fearing, 2 March 1932, SMT 4/40, BE.

124 Taylor to International (New York), 16 March 1937, RNCP 2/17.

125 Norman to Phillips, 6 March 1936; Notes of a meeting at the Bank, 19 March 1936; Taylor to Skinner, 19 October 1937; Taylor to Norman, 11 January 1938, SMT 132/4, 133/1, BE.

126 Bennett to W.A. Reid, 42 February 1936, RNCP 2/16.

127 Rothermere to E.V. Bowater, 11 June 1937, RNCP 2/17. An extract from this letter can be found in Bowater to Machtig, 3 July 1937, DO 35/746, N271/7, PRO. See also a minute by P.A. Clutterbuck, 10 March 1937, in *ibid.*

128 Reader, *Bowater*, chs. 7-8.

129 Bennett to W.A. Reid, 27 July, 20 August, 3 September 1934, RNCP 2/16.

130 Option agreement with Bennett, 1 June 1937; Machtig to Bowater, confidential, 7 June 1937, RNCP 2/17; Dominions Office (DO) to Newfoundland, telegram, 6 June 1937, DO 35/746,

In 1934 the government of Newfoundland had, following the Reids, gone into what was in effect a form of receivership. Refusing to allow Newfoundland to default on its debt payments, the British government had assumed financial control, suspended responsible government, and instituted government by an appointed Commission of six members chaired by the governor.[131] Like its predecessors, the Commission faced the problems of endemic poverty and unemployment, and naturally favoured a substantial development on the Gander. But it did not like Bowater's proposals, since the long-touted paper mill had disappeared, and the requested tax concessions were found unpalatable.[132] But the Commission accepted that some development was better than none, and by September 1937 had reached a tentative agreement. Bowater would build a 226 tpd pulp mill at a cost of about $6 million (using coal rather than hydro power) and could export up to 120,000 cords of pulpwood annually. The government would build a branch railway to the mill site, using a loan from the Colonial Development Fund, provide a wharf and other facilities, and give tax concessions. In addition, Bowater could cut and export wood from Labrador.[133] Bowater was allowed to begin cutting pulpwood on the Gander limits immediately. At this point the negotiations stalled. While there were problems over the final wording of the agreement, a far more important factor was Taylor's secret proposal to Bowater that he buy the Corner Brook mill.

By late January 1938, rumours of what was afoot were circulating in St. John's: "this sounds absolutely crazy to me", wrote W.A. Reid.[134] The Dominions Office had been informed earlier in the month, and its officials taken by surprise. In effect, Bowater was now proposing that he acquire the Gander limits but use the wood at Corner Brook, where he would expand the existing plant. He would not build a third mill. The Secretary of State, Malcolm MacDonald, understood that the employment to be generated was desperately needed, but feared serious political repercussions. "The word 'Gander' ", he commented, "had been used in Newfoundland in such a way that the Gander project was regarded as an Eldorado. The people seemed to be convinced that all sorts of things were possible.... The idea of changing...the project might therefore cause a difficulty".[135] His views

N271/8, PRO; Reader, *Bowater*, p. 133. See also Peter Neary, *Newfoundland in the North Atlantic World, 1929-1949* (Kingston and Montreal, 1988), p.86.

131 Noel, *Politics*, pp. 204-14.

132 Newfoundland to DO, telegram, 6 June 1937, DO 35/746, N271/8, PRO.

133 T.H. Davies to A.R. Smith, 16 October 1937; memorandum, November, 1937, DO 35/746, N271/50. Speech by R.B. Ewbank, 4 November 1937, in Ewbank to Machtig, 4 November 1937, DO 35/746, N271/53, PRO.

134 W.A. Reid to Bennett, 28 January 1938, RNCP 2/17. W.A. Reid was Harry Reid's son, and acted as managing director of the Reid Newfoundland Company in receivership.

135 Minute by Macdonald, 13 January 1938, DO 35/746, N271/76, PRO.

were echoed by P.A. Clutterbuck, who handled Newfoundland affairs in the Dominions Office, and later wrote that "The most exaggerated hopes have been built up and 'a mill on the Gander' has become a slogan for a new Utopia".[136] The 1937 agreement had not been received in Newfoundland with unalloyed praise, and it could be anticipated that the Commission would be subjected to severe criticism if the new proposal were accepted. But it could not be denied that it made sense.

The Gander proposition had never been, like the Humber, a clearly feasible development. The Reids and many others in Newfoundland, the true believers, were convinced that there was sufficient wood and available water-power for a large operation. But from 1920 onwards, engineers and cruisers for potential purchasers had more often than not reported that Reids had over-estimated the amount of timber, and that the development of hydro power would be extremely expensive. Those who had flirted with the area, like AND and International, had been primarily interested in timber supplies for existing mills in Newfoundland or elsewhere, and disliked the obligation imposed by the Gander Valley legislation to build a new mill on the east coast. Bowater was no different. He concluded that the original Gander scheme was neither feasible nor economic, particularly in existing market conditions.[137] The alternative, then, was to use Gander as he suggested, or leave it unexploited. There was nothing any government could do to prevent him buying out International, and he could afford to bide his time.

Bowater first concluded an agreement with International, purchasing its common shares in the Newfoundland company for $5.5 million (US). He then turned his attention to the Reid Newfoundland Company. The 1937 option set a price of $2.5 million cash, plus minimum royalties over 30 years of $4.26 million, for a total of $6.76 million.[138] This Bowater now considered to be far too high, and he set about driving down the price. Bennett was in a difficult position. He wanted a sale, but recognised that if he stood out for what he considered a fair price and refused Bowater's offer, the company could be pilloried for preventing the creation of jobs both on the east coast and at Corner Brook. He was well aware that the sale was being pushed in London, and that the Commission would go a long way to meet Bowater's demands given its anxiety about unemployment.[139] Finally, and with reluctance, he concluded a sale for $1,413,000 in cash and bonds to be issued by Bowater's Newfoundland Pulp and Paper Mills Ltd., and royalties to a maximum of $3.6 million over approximately 40 years, for a

136 Minute by Clutterbuck, 25 February 1939, DO 35/746, N271/1, PRO.

137 Bennett to W.A. Reid, 2 May 1938; statement by H.M. Lewin, 1938, RNCP 2/17.

138 Option, 1 June 1937, RNCP 2/17.

139 W.A. Reid to Bennett, 13 May 1938; Bennett to Reid, 23 May 1938; Bennett to Reid, telegram, 16 June 1938, RNCP 2/17.

total of $5 million:[140] half what International had been prepared to pay eight years previously.

Just as Reids acquiesced, so did the Commission. An agreement concluded in September 1938, and legislated in December, freed Bowaters from the obligation to build a Gander mill, and provided for the expansion of the Corner Brook mill by 30,000 tons per annum (tpa). The company could export up to 70,000 cords annually until 1942, and thereafter two cords per ton of pulp exported, and a half cord per ton of newsprint exported in excess of existing capacity (174,000 tpa). Apart from a 30 cents per cord charge on pulpwood exports, there were to be no royalties. The company was to be free from municipal taxation and from customs duties on coal and various other materials until 1952. Otherwise the 1927 International agreement applied.[141] The Commissioner for Natural Resources, R.B. Ewbank, announced the deal in a broadcast, arguing in effect that the government had no option but to agree, and that the agreement did at least provide work.[142]

As had been predicted, the 1938 Bowater deal proved extremely controversial, and a storm broke around the Commission's head. Its intensity was in part an expression of disappointment and frustration at the evaporation of a dream, but beyond that, the issue focused widespread discontent, especially in St. John's, at the Commission's record and behaviour. The 1933 royal commission report,[143] and the debates surrounding the surrender of responsible government, had encouraged the belief that under Commission rule the country would see the return of prosperity. This had not occurred, and criticism mounted against a government that was perceived to be remote, secretive and apparently ineffective. In approving the Bowater agreements the Commission appeared, like previous governments, to be alienating the country's resources for little return, and what was perhaps worse, without consultation. A.B. Perlin, editor of the *Observer's Weekly*, argued that no government had the right to make such an agreement without the people's approval, and that the government itself should have bought the Gander lands as a forest reserve. As it was, "The deal binds our people down to be hewers of wood and nothing more — for ever. It sacrifices the last remaining hope of a great industrial enterprise on the North East Coast. It disposes of, without reference to the people, a heritage which represents our

140 Agreement, Bennett and Bowater-Lloyd Ltd., 30 September 1938, RNCP 2/17.

141 Bowater's Newfoundland Act, 1938 c.53. Reader, *Bowater*, pp. 144-8. P. Neary, "The Supreme Court of Canada and 'The Bowater Law', 1950", *Dalhousie Law Journal*, 8, 1 (1984), pp. 201-15.

142 The speech is printed in R.B. Ewbank, *Public Affairs in Newfoundland* (Cardiff, 1939), pp. 10-22. See also the speech by J.C. Puddester, broadcast 13 December 1938, in *Daily News* (St. John's), 14 December 1938.

143 *Royal Newfoundland Commission, 1933, Report* (Cmnd 4480, London, 1933).

future".[144] He was supported by J.R. Smallwood, the future provincial premier, who angrily wrote that "Our children will curse us for a spineless, visionless generation" —

> They will curse us for taking away the one thing of all things which could have raised the standard of living in Newfoundland, which could have prevented Newfoundland from slithering inexorably down into the standard something between that of peonage and peasantry — hewers of wood and drawers of water in our own country.[145]

The business community was divided. The *Newfoundland Trade Review*, for instance, called the deal regrettable but realistic,[146] and some prominent speakers at a special meeting of the Board of Trade agreed. Others, the majority, protested the agreement after listening to an indignant speech from J.P. Powell, an engineer long employed by the Reids and widely regarded as the father of the Gander scheme.[147] The protest was supported by the St. John's City Council.[148] But K.M. Brown, president of the Fishermen's Protective Union, which was based on the northeast coast, spoke in favour. His members needed work, and the Gander area had been on the market for a long time. If there was no alternative, then the Bowater deal should be accepted. "There have been trees on the Gander since John Cabot came here. Up to now they have provided money for the speculators and the promoters. The time has come when they should provide labour for the toilers of the north".[149]

"Regrettable but realistic" is probably the best way to describe the Bowater deal. It recognised that, in the context of the technology and infrastructure available in that period, there were only two sites on the island that were suitable for the large-scale manufacture of newsprint, the Exploits and Humber rivers, and that the Gander watershed posed too many difficulties for effective development. It recognised the need to place the existing mills on a sound basis, and to provide as many jobs as possible, albeit at the low end of the income scale. And it recognised what was possible given the state of the international economy in general, and that of the newsprint industry in particular. What was regrettable

144 *Observer's Weekly* (St. John's), 6 December 1938, cutting in RNCP 1/520.

145 Letter to *Daily News*, 12 December 1938, cutting in RNCP 1/520.

146 *Trade Review* (St. John's), 3 December 1938, cutting in RNCP 1/520.

147 Memorandum by Powell, encl. Penson to Harding, 18 November 1938; minute by Clutterback, 1 December 1938, DO 35/747, N271/108, 109, PRO. *Daily News*, 7 December 1938, cutting in RNCP 1/520.

148 Carnell to Macdonald, telegram, 9 December 1938, DO 35/747, N271/112, PRO.

149 Speech of 8 December 1938, in *Fishermen-Workers Tribune*, 9 December 1938, cutting in RNCP 1/520. See Neary, *Newfoundland in the North Atlantic World*, pp. 86-95.

was not only Bowater's rather brutal dismissal of the Gander scheme, a mirage that had given Newfoundlanders some grounds for hope in the dismal interwar years, but the further concessions that had to be granted for fear that Bowater would go elsewhere. Bowater, indeed, was the real winner, since Corner Brook provided him over the years with handsome profits and a bridgehead from which to develop extensive North American operations; and when it no longer served its purpose, his successors sold it in 1984 to Kruger Incorporated, which in turn demanded and received massive financial aid.[150]

The history of the Newfoundland forest industry in the interwar period presents the historian with a question of judgement all too familiar to students of the Atlantic region: were the economic gains worth the price paid? Newfoundland can be said to have gained, in the sense that the rapid expansion of the pulp and paper industry created new and badly-needed jobs, additional revenues, new towns. Yet this expansion did not translate into national prosperity. The industry could not generate enough revenue to prevent the country's bankruptcy in 1933, nor could it create enough permanent jobs to affect significantly the endemic problem of employment. The industry had insisted upon and obtained concessions which severely limited the government's financial return, and which were the envy of newsprint producers elsewhere. And by obtaining control (on easy terms) of over 80 per cent of the island's forests, the companies inhibited both proper forest management and the development of other forest-related industries. Moreover, as foreign concerns, the companies invested in Newfoundland no more than was necessary to sustain profitability, the surplus being invested elsewhere.

In the early 20th century, Robert Bond had calculated — correctly — that without generous concessions the Harmsworths would simply have gone elsewhere. Without those concessions, which created the Grand Falls mill, the island might well have become a gigantic woodlot, exporting logs for processing on the mainland and in Europe.[151] Indeed, it was the availability of raw wood that attracted both International and Bowaters to Newfoundland in the first place. The Reids, however, as well as successive governments, understood that there was far more to be gained from industrial development than from logging alone, and drove the best deals they could to establish newsprint mills. Given the booming US newsprint market of the 1920s, Armstrongs were persuaded that the Humber mill would be viable and profitable. So confident were the promoters that Squires, whose freedom of action was limited by the precedent set by the AND agreement, was able to drive a slightly better bargain than Bond in 1905.

150 Reader, *Bowater*, p. 170 ff. H. Horwood, *Corner Brook, A Social History of a Paper Town* (St. John's, 1986), pp. 172-4.

151 Hiller, "Origins", p. 66.

But the government's position subsequently weakened considerably. The existence of the guaranteed debentures gave the Newfoundland government a vested interest in the stability of the enterprise, and placed it in a subordinate position to the British Treasury. With the entry of the Bank of England after 1925 and the mill's early difficulties, the government found itself helpless to resist what was decided elsewhere — unless it wished to deal with the mill's closure — and from 1934, of course, the Newfoundland government was in effect an extension of the Dominions Office.

It was only with respect to the undeveloped Gander River areas that pre-1934 governments could show some independence, first by insisting on the erection of a mill, second by refusing to agree to financial arrangements that might lead to another Corner Brook fiasco, and third by preventing the Reids from selling out to International. Lessons, it seems, had been learned. But the Commission of Government, though the country's receiver and trustee, was prepared to allow what its much-maligned predecessors had refused. The Commission's decision, pragmatic and understandable though it may have been, was nevertheless the culmination of a long process of alienating the island's forest resources, a process that had been trenchantly criticised by the 1933 royal commission.

It is conceivable that Newfoundland governments could have negotiated more effectively with potential investors, possible that they might have taken the political risk of leaving the forests unexploited until an advantageous proposition emerged. But we cannot deal with what might have been. The fact is that a small, poor and remote country, possessing a forest that by its nature was best suited for newsprint manufacture but which lacked the capital to develop it, turned to foreign capital and expertise. In so doing it obtained development at a stiff price. It is still living with the consequences.