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CANADA'S ATLANTIC NEIGHBOR - NEWFOUNDLAND

The island of Newfoundland virtually spans the mouth of the Gulf of St. Lawrence at the entrance to the inland waterway which extends some 2,000 miles from the Atlantic to the head of the Great Lakes. On the north, the island is separated from the mainland by the Strait of Belle Isle, nine miles wide at its narrowest point. On the south, Cabot Strait is about sixty miles wide at its narrowest point.

Geologically, Newfoundland is an integral part of North America. It consists of the unsubmerged highlands of a now foundered extension of the Appalachian mountain system; the lowlands form part of the "banks" of the North Atlantic which lie off Newfoundland. The general topography of the island is rough and broken. Fertile soil is limited, and the forested area, though extensive, in general bears only small trees. The coast is heavily indented with large bays and fiords.

The area of the island is about 42,000 square miles--larger than Ireland's and about 84% that of the combined area of Canada's three Maritime provinces. The sovereignty of Newfoundland also extends to some 110,000 square miles of Labrador on the mainland.

The population, which has been increasing relatively quickly, is about 315,000, with an additional 5,500 in Labrador. Close to 90% of Newfoundland's people live on the coast, in some 1,300 communities scattered along the 6,000 miles of shoreline. About 45% of the population are on the Avalon Peninsula in the south-east, with some 60,000 in St. John's, the capital, and its suburbs. The mining community of Bell Island and the pulp and paper communities of Grand Falls and Corner Brook are the only other settlements with a population over 5,000.

With little immigration into Newfoundland during the past century, about 98.5% of the population are native-born and possess a distinctive national character. (In Canada, the percentage of native-born is 82.4%). The principal racial groups are English (about 60%), Irish (25%), French and Scottish. The principal religious groups are Roman Catholic (32.5%), Church of England (32%), United Church of Canada (26.3%) and Salvation Army (6.2%).

Historical Survey

Soon after John Cabot's report of the abundant fishery in 1497, European fishermen began making annual voyages to the rich cod-banks off Newfoundland. The island was formally claimed for England by Sir Humphrey Gilbert in 1583, but British sovereignty was not clearly established until the Treaty of Utrecht in 1713, when France renounced her claims in return for exclusive fishing rights on the western and northern coasts.

Settlement was at first discouraged by the prohibition of land ownership and by other restrictive measures: the Newfoundland fishery was regarded as a "nursery for seamen"--with the annual voyages from England

providing ideal training for future naval recruits. Despite official opposition, however, there were more than 10,000 residents on the island by 1785.

The inevitability of permanent settlement was finally recognized. Private ownership of land was legalized after 1811, and the first resident Governor was appointed in 1817. By 1830, the population had risen to between 40,000 and 50,000. A representative assembly was established in 1832, and after prolonged agitation, responsible government was granted in 1855.

Among the key issues faced by the government during the following half-century was the revision of rights previously granted by England to foreign fishermen in Newfoundland territory. Thus, the "French Shore", on the western and northern coast, was considered an impediment to settlement and a source of serious competition to native fishermen in Mediterranean markets (due to the subsidies granted to their industry by the French government). The dispute was finally settled by the Anglo-French Convention of 1904: France gave up her claims in Newfoundland in return for concessions in Africa.

The rights of United States fishermen in Newfoundland waters posed a similar problem. The situation was clarified in 1910 by the Hague Tribunal, which defined the American fishing rights and ruled that the government of Newfoundland had rights of reasonable regulation.

The Confederation Issue

Two delegates from Newfoundland took an active part in the second pre-confederation conference at Quebec in 1864, and terms for the entry of Newfoundland into the proposed union were drafted. The government at St. John's, however, took no immediate decision and Newfoundland (like Prince Edward Island) was not represented at Westminster in 1866 when the British North America Act, creating the Dominion of Canada, was drawn up.

The B.N.A. Act provided for the admission of Newfoundland, should it later decide to enter the Canadian federation. When the issue was put to vote in Newfoundland in 1869, the pro-Confederation government was overwhelmingly defeated.

The Confederation issue was revived in 1894, following a serious financial crisis in Newfoundland. The failure of the two commercial banks, one of which was the government's financial agent, contributed to the jeopardy of the public credit, which had been greatly extended for purposes of railway development. Also, St. John's had not yet recovered from the effects of a disastrous fire two years earlier. Faced with the danger of possible default on its financial obligations, the government of Newfoundland sent a delegation to Ottawa in 1895 to investigate the possibility of confederation.

The conference soon broke down, however, over the question of financial terms. Although concessions were made by both sides, and despite an appeal to the British government to take over a portion of the Newfoundland debt in order to bridge the gap, no final agreement could be reached. The Canadian government felt unable to go much beyond the terms on which existing provinces had entered federation, lest they in turn demand upward revision of their terms to correspond with those granted to Newfoundland. The Newfoundland government, on the other hand, concluded that the terms offered by Canada were insufficient for Newfoundland to carry on as a province.

The failure to reach agreement created much bitterness in Newfoundland, where Canada's opposition to the proposed Blaine-Bond Convention of 1891, (which would have permitted Newfoundland fish to enter the United

States free of duty), had not yet been forgotten. The financial crisis was finally averted through the successful placement of a long-term loan in London by Sir Robert Bond, Newfoundland's Colonial Secretary (who had earlier saved the Savings Bank by pledging his personal credit for a temporary loan of \$150,000). Rising world prices and the effects of railway construction produced a gradual revival of prosperity in Newfoundland.

The First World War

Newfoundland's economic fortunes had greatly improved by 1914. With increasing development of forest and mineral resources, and with growing outlets for fish products, the total value of exports had nearly tripled since 1894. War brought increasing prosperity, due to a rapid rise in the price of fish and freedom from competition in the Mediterranean markets. Filled with confidence, the people of Newfoundland gave unstinting aid to England: about 8,500 were enlisted (of whom some 2,900 were casualties, including nearly 1,500 dead) and the government undertook financial responsibility for Newfoundland's troops overseas.

The total military costs during the war were about \$13 million, of which \$10 million was added to the public debt. The provision of pensions was a continuing burden: by 1940, the total war cost, excluding interest on war debt, exceeded \$27 million--equal to about one-third of Newfoundland's total debt.

Boom and Collapse

In the decade following the war, when the value of Newfoundland's exports were more than doubled (from \$19.1 million in 1922 to over \$39 million in 1930), the government, reflecting the prevailing economic confidence and finding it easy to raise funds in the money markets of London and New York, greatly increased its financial obligations. The railway, taken over by the government in 1923, cost an average of \$1 million annually. A highway development program was financed by further government borrowing. During the period 1920-30, the average budget deficit on current account was \$2 million. By 1932, 56% of the average annual revenue was required for interest payments.

With all its major industries dependent upon foreign markets, and with credit resources exhausted, Newfoundland was exceptionally hard hit by the world depression after 1929. The value of exports fell sharply, and by the winter of 1932-33, one-quarter of the population was on relief. Government revenue, derived largely from customs and excise, fell off rapidly with the decline of domestic purchasing power. By 1933, the deficit on current account was nearly \$3.5 million. Faced with imminent default, the government requested that a Royal Commission be appointed to investigate the situation and to recommend a course of action.

Two principal recommendations were made by the Amulree Commission: first, that the United Kingdom assume financial responsibility for Newfoundland until it might again become self-supporting; second, that powers of government be vested in the Governor and a commission of six--three from Newfoundland and three from the U.K.--appointed by the Dominions Office. Newfoundland's government and legislature, as well as the Parliament of the United Kingdom, approved the findings: the Newfoundland constitution was accordingly suspended, and the Commission of Government took office in 1934.

The Second World War and After

Upon the outbreak of war in 1939, Newfoundland, because of its highly strategic position on the sea and air-lanes from North America to Great Britain, became a key point in the continental defence system.

From the beginning of hostilities, the island's air facilities were made available to the Royal Canadian Air Force. Following the military collapse in western Europe, Canadian troops were despatched to Newfoundland, with the full approval of its government, in June, 1940, to garrison strategic points.

After the establishment of the Permanent Joint Board on Defence in 1940, both Canada and the United States constructed extensive bases in Newfoundland and Labrador. Canada constructed an air base at Goose Bay in Labrador (leased to Canada for 99 years in an agreement between the two governments in 1944) and another air base at Torbay, near St. John's. By agreement with Newfoundland, Canada assumed control of the bases at Gander and Botwood for the duration of the war, and made large extensions to both. Canada also constructed a large naval escort base at St. John's for the British Admiralty; the base was under control of the Royal Canadian Navy throughout the war.

The United Kingdom granted the United States 99-year leases to three bases in Newfoundland (an army garrison base near St. John's, a naval and air base at Argentia, on the west of the Avalon Peninsula, and an air base at Stephenville, on the west coast). Both Canada and the United States maintained coast artillery and other defence units at strategic points in Newfoundland. The total cost of Canadian and United States bases in Newfoundland was of the order of \$300 to 400 million.

Newfoundland was probably the most heavily defended area of North America during the war. The air bases at Goose Bay and Gander played an important part in the ferrying of combat aircraft to Britain. The naval bases at St. John's and Argentia, and the air bases at Torbay and Gander were of the first importance in the Battle of the Atlantic.

The people of Newfoundland, as in 1914-18, made significant contributions to the common effort: some 10,000 went overseas, to the United Kingdom forces and in a Forestry Unit, and about 1,500 men and 525 women served in the Canadian forces, there was a heavy loss in Newfoundland shipping, and over \$12 million were loaned to the United Kingdom, interest free.

After the outbreak of war, a measure of prosperity returned to Newfoundland. In the years after 1934, despite the slow recovery of export returns and the annual saving of some \$2 million through the re-financing of the funded debt by the Commission, there was a continued annual deficit on current account: the total deficit for the six years to 1940 was about \$18 million--met in the main by U.K. grants of \$11.3 million, by British government loans of \$4.5 million and by an internal loan of \$1.5 million.

Under the stimulus of wartime developments (principally the large defence expenditures in Newfoundland by Canada and the United States, and later, the increased prices of fishery exports) there was a rapid rise in national income and government revenue after 1940. For the first time since 1919, Newfoundland enjoyed a budget surplus in 1941 - which has since continued. A cumulative surplus of \$32 million, including \$12.3 million loaned to the United Kingdom, was available by the end of 1945. The Commission of Government has announced that this surplus is to be used as a reserve for post-war reconstruction, and not for any large-scale retirement of the funded debt, estimated at about \$72 million.

The National Convention

In December, 1945, the United Kingdom government announced that a National Convention would be elected by the people of Newfoundland to assist them in coming to a free and informed decision regarding their future form of government. The Convention's terms of reference would be: "To

consider and discuss among themselves as elected representatives of the Newfoundland people, the changes that have taken place in the financial and economic situation of the island since 1934, and bearing in mind the extent to which the high revenues of recent years have been due to war-time conditions, to examine the position of the country, and to make recommendations to His Majesty's Government as to possible forms of future government to be put before the people in a national referendum."

The Convention was elected in June, 1946, and its 45 members met in September. Since that time it has devoted itself largely to a detailed study of the economic and financial situation of Newfoundland. In recent months, it has also given consideration to possible forms of future government. In April, 1947, a resolution that the Convention send a delegation to Washington to ascertain the terms upon which federal union with the United States might be effected, was defeated by a large majority. In May, a delegation went to London to discuss with the U.K. government the fiscal relationships which might be expected to exist between the United Kingdom and Newfoundland under various possible forms of government.

The forms specifically mentioned were the Commission of Government as presently constituted, a modified form of the Commission, and Responsible Government. The delegation returned to St. John's on May 12, and reported to the Convention on its discussions.

Another delegation from the Convention is to be received in Ottawa on June 24. Its purpose will be to ascertain from the Canadian government what equitable basis may exist for federal union of Canada and Newfoundland. In announcing the forthcoming arrival of the delegation from the National Convention, the Secretary of State for External Affairs said in the Canadian House of Commons on April 2, 1947: "We said that the Canadian government is of the opinion that the questions to be discussed with the delegation are of such complexity and of such significance for both countries that it is essential to have a complete and comprehensive exchange of information and a full and careful exploration by both parties of all the issues involved, so that an accurate appreciation of the position may be gained on each side."

Economic Survey

The natural resources of Newfoundland are limited, and its population is small. Extensive agricultural development has not been possible due to the generally unfavorable soil and climatic conditions: Newfoundland, twenty times as large as Prince Edward Island, has only one-fifth of the croplands of Canada's smallest province. Industrialization on a wide scale has also not been possible due to the very restricted nature of the home market. Thus, for the bulk of its food and consumer goods, Newfoundland depends upon imports--chiefly from Canada and the United States, with Canada at present supplying almost two-thirds of Newfoundland's imports.

Trade between Canada and Newfoundland is facilitated by the fact that there is a common currency and the same banks operate in both countries. The Canadian dollar has been the accepted currency in Newfoundland since 1894. The transportation systems of the two countries are also closely linked. Total trade between Canada and Newfoundland has increased substantially in recent years--from \$11,650,860 in 1938-39 to \$51,146,754 in 1945-46.

Canadian exports to Newfoundland in 1945 were valued at more than \$40 million, making it Canada's seventh largest export market. During the war, the range of Newfoundland's imports from Canada was greatly expanded: in addition to food and feedstuffs, fuel and oil products, Canada now supplies a variety of manufactures, including apparel and textile lines, building materials, electrical appliances and chemicals. Although

the third market normally for Newfoundland exports, Canada enjoys a very favorable trade balance with Newfoundland, because Newfoundland's principal exports are mainly competitive with those of Canada.

The economy of Newfoundland rests primarily upon three industries-- fishing, pulp and paper, and mining--which are based upon its main resources. It is a commercial economy: the production of its basic industries, which is far in excess of domestic requirements, is geared to demand in export markets. The volume of Newfoundland's exports is indicated in the following table, which gives the approximate values:

	<u>1930</u>	<u>1933</u>	<u>1945</u>
Sea Products	\$15,000,000	\$ 7,000,000	\$22,000,000
Forest Products	17,000,000	12,000,000	16,000,000
Mining Products	6,000,000	3,000,000	7,000,000
All others	<u>1,000,000</u>	<u>500,000</u>	<u>1,000,000</u>
Total exports	\$39,000,000	\$22,500,000	\$46,000,000

One of Newfoundland's main trading difficulties is that its principal exports, dried cod, newsprint and iron ore, must be sold at a competitive price in a world market, whereas the bulk of its imports are from the protected markets of Canada and the United States, and are thus less subject to violent price fluctuations. This situation was aggravated during the 1930's by the breakdown of international exchange. In the decade before the war, Newfoundland sold about two-thirds of its exports in countries other than the United States and Canada, and mainly in the sterling area. On the other hand, about 70% (about 90% in 1945-46) of her imports came from Canada and the United States. The difficulty of many of Newfoundland's overseas customers in finding dollars to pay for imports from Newfoundland, has on occasion adversely affected the demand, and hence, price, of its products.

The Fishing Industry

The proximity to the abundant fishery of the North Atlantic is the dominant factor in Newfoundland's economic life. Until little more than fifty years ago, the island's economy was based exclusively upon the fishery. Since then, following the construction of a railway and the opening up of timber and mineral resources, considerable economic diversification has taken place: by 1939, the fishing industry accounted for only one-quarter of total export returns, though in 1945, it was again in first place in exports--accounting for about 45% of their value. The fishing industry retains its key position in the economy, with at least one-half of the population directly dependent upon it for a livelihood.

The cod fishery is of greatest importance; the historic markets for its main product, dried salt cod, have been Spain and Portugal, and Brazil. The demand for dried cod declined during the period between the two wars, due largely to the marketing difficulties in the principal consuming areas, and partly, to the development of other cheap protein foods. The Newfoundland industry had also to meet increasingly strong competition from Iceland and Norway, whose fishing industries are more concentrated and therefore more easily adapted to modern techniques. In consequence, the Newfoundland product began to invade the West Indian market, in competition with Canada's exports of dried cod.

There has been a growing emphasis in Newfoundland on the marketing of frozen fish, especially since 1939. During 1946, over 16% of total fish exports came from the expanded cold storage industry producing fillets. Although the United Kingdom was an important market for the new product during the war, the revival of the British fishing industry, and exchange difficulties, are likely to restrict sales there;

the United States is at present the most important market for this branch of the fishing industry.

Other branches of the Newfoundland fishing industry are herring, salmon, lobster, halibut, seal and whale fisheries. Fish meals and oils are important fishery by-products, and there is a growing canning industry.

The fishing industry declined seriously during the depression years. The Newfoundland Fisheries Board, set up in 1936 by the government, was given wide powers to enforce processing standards, to regulate shipments and to centralize marketing in order to assist the recovery of the industry. Under the Board's direction, there has been considerable improvement in processing methods and marketing. Group marketing has tended to reduce excessive competition, and to spread returns more evenly throughout the industry.

The wartime expansion of the frozen fish and herring trade has reduced the fishing industry's traditional dependence upon a single product, salt cod. The future of the industry, however, with the ending of war-inflated demands and prices, will as ever be determined by the availability of markets and by Newfoundland's ability to keep pace with its competitors in price and quality.

The Pulp and Paper Industry

Pulp and paper is Newfoundland's most important forest industry. Most of the available timber resources of the island (some 11,000 square miles out of an estimated total 15,000) are held by two companies which operate large mills--one at Corner Brook, on the west coast, and one at Grand Falls, about twenty-two miles from the port of Botwood on the east coast. The remainder of the forest area is largely taken up by small companies which operate more than 800 saw mills, chiefly for local use, and by the government-held three-mile coastal strip reserved for the inhabitants.

The exports of pulp and paper accounted, in the decade before the war, for about one-half of Newfoundland's total export income, with the U.K. as the main market. During the war, the market in the U.S. was expanded, and new markets opened in Latin America. The competitive position of this industry in Newfoundland is good: it is situated close to water transportation and has an ample supply of timber. Even during the depression, the pulp and paper industry was able to maintain its production, and has since increased its output substantially. It employs some 10,000 in Newfoundland.

The development of thriving new communities connected with the pulp and paper industry has been an important factor in stimulating local manufacturing, agriculture and service industries. The standard of living achieved in these communities is considerably higher than the general average in Newfoundland, which has in the past been adversely affected by the relative instability of the markets for its other basic industries, fishing and mining.

The Mining Industry

Newfoundland has considerable mineral resources, but few of them have to this date proved of commercial value. Mining is nevertheless one of its major industries and provides a significant share of its total exports. The centres of the industry are at Bell Island, on the east coast, and at Buchans, in the interior.

At the Bell Island mines are worked one of the world's largest deposits of red hematite iron ore, of good quality, but relatively costly as a source of high-grade steel, due to its phosphorus content. There is no local processing or smelting, and the principal markets have been the steel industry at Sydney, Nova Scotia and, before the war, Germany. Since the war, substantial quantities have been marketed in the United Kingdom--where long-term prospects for Newfoundland iron remain uncertain, due to exchange difficulties.

The lead-zinc-copper deposits of the Buchans area have contributed to Newfoundland's mineral exports since the opening of the mines in 1927. The ore body now being worked is limited, and failing the discovery of new deposits in the area, will probably be exhausted during the next decade.

Fluorspar and limestone, used by the aluminum and steel industries in Canada and the United States, are produced by smaller mining developments. Much of Newfoundland has yet to be thoroughly explored for mineral deposits, and the future may disclose further important mineral wealth.

Economic Prospects

The high wartime levels of income in Newfoundland have continued into the initial post-war period, due principally to the sustained demand abroad for the basic exports of the fishery, forests and mines. At the same time, however, the increased price of imports has contributed to a steep rise in the cost of living, and has created a considerable measure of inflationary pressure.

Future prosperity, as ever, will depend upon the level of export demand for the products of Newfoundland's basic industries. During recent years, greatly increased government revenues (over one-half of which are derived from customs duties--and thus highly dependent upon the volume of purchasing power) have permitted important advances in the fields of education and social services, particularly in public health. There have also been substantial government expenditures on reconstruction and development schemes: these include extension and improvement of roads, wharves and breakwaters; services to fishermen; housing; improved telecommunications; and agricultural assistance to both full and part-time farmers. These important government expenditures, which make for a higher standard of living and tend to reduce Newfoundland's extreme vulnerability to world trading conditions, can of course be sustained only by the continued prosperity of Newfoundland's economy.

Labrador provides an imponderable factor in any consideration of Newfoundland's economic future. Its resources have not yet been thoroughly surveyed, but there are large deposits of high-grade hematite ore in the area bordering on Northern Quebec, and huge water-power potentialities nearby at Grand Falls (which is much higher than Niagara), and substantial stands of small timber. Commercial development of these resources is still in the exploratory stage; production of iron ore within the predictable future, however, is a distinct possibility. The tourist industry, too, has possibilities of development both in Newfoundland and Labrador, especially with the growing use of air transport into their extensive game and fishing areas.

Though immediate prospects are relatively good, the historic dependence of Newfoundland upon world economic conditions suggests caution in appraising its future economic prospects. Also, the need for further public expenditures remains: especially needed are more roads and continuing measures to improve the average level of public health and education.

Such, in brief outline, is an introduction to Newfoundland. Its long and colorful history, marked both by vicissitude and achievement, has moulded the national character of its people--strongly proud and independent. The traditions of liberty and individualism are deeply rooted: the people of Newfoundland are intensely proud of their historic political autonomy within the British Commonwealth. Their land has not been as abundantly endowed as those of their neighbors on the mainland, and through the years, it has not been easy to wrest a livelihood from a rather unsympathetic, though picturesque, natural environment.

Today, the security of Newfoundland is a key to the security of the North American continent. Today, too, Newfoundland is an essential link in the ever extending network of world airways. The people of Newfoundland are confident that they are entering a period of further national development and progress.

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